RITE AID CORP
Form S-1/A
July 23, 2001

As Filed with the Securities and Exchange Commission on July 23, 2001.
Registration No. 333-70777

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Amendment No. 1
to
FORM S-1
REGISTRATION STATEMENT
Under the Securities Act of 1933

RITE AID CORPORATION
(Exact Name of Registrant as Specified in its Charter)

Delaware	5912	23-1614034
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employe Identification Num

30 Hunter Lane
Camp Hill, Pennsylvania 17011
(717) 761-2633
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Elliot S. Gerson, Esq.
Senior Executive Vice President and General Counsel
Rite Aid Corporation
30 Hunter Lane
Camp Hill, Pennsylvania 17011
(717) 761-2633
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copy to:
Stacy J. Kanter, Esq.
Skadden, Arps, Slate, Meagher & Flom LLP
Four Times Square
New York, New York 10036
(212) 735-3000

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. |X|

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. |_|

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. |_|

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. |_|

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. |_|

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount To Be Registered(1)	Propo Offe Per
Common stock, par value $1.00 per share	130,516,017	$8

Title of Each Class of Securities to be Registered	Amount of Registration Fee(3)
Common stock, par value $1.00 per share	$267,641.79

(1) Includes 21,216,770 shares of common stock issuable upon the conversion of 2,121,677 shares of Series C preferred stock, which shares of Series C preferred stock automatically convert into shares of common stock upon the effectiveness of this registration statement.

(2) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(c) under the Securities Act of 1933, as amended, and based upon the average of the high and low prices on the New York Stock Exchange on July 9, 2001 with respect to the 123,059,669 shares specified in our Form S-1 filed on July 12, 2001 and July 17, 2001 with respect to the additional 7,456,348 shares representing the difference between the number of shares specified in the initial filing and the number of shares specified in this amendment, respectively.

(3) $246,255.39 of this filing fee was paid upon the initial filing of this Registration Statement on July 12, 2001. Pursuant to Rule 457(p), the remaining amount of $21,386.40 due with respect to this registration is being paid by applying a portion of the $834,000.00 filing fee paid in connection with our Form S-3 (File No. 333-70777) filed on January 19, 1999 and subsequently withdrawn.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the

Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, dated July 23, 2001

PROSPECTUS

RITE AID CORPORATION
130,516,017 Shares of Common Stock

This prospectus relates to the sale by selling stockholders, including their respective transferors, donees, pledgees, or successors of up to 130,516,017 shares of our common stock that the selling shareholders acquired from us in various private placements and debt-for-equity exchanges. We will not receive any proceeds from the sale of any of the shares.

The shares are being registered to permit the selling stockholders to sell the shares from time to time in the public market. The selling stockholders may sell the shares through ordinary brokerage transactions or through any other means described in the section "Plan of Distribution". We do not know when or in what amounts a selling stockholder may offer shares for sale. The selling stockholders may sell any, all or none of the shares offered by this prospectus.

Our common stock is listed on the NYSE and the Pacific Stock Exchange under the symbol "RAD". The last reported sale price of our common stock on the NYSE on July 19, 2001, was $8.65.

See "Risk Factors" beginning on page 9 for a discussion of risks you should consider before investing in our securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is   , 2001

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CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

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

Factors that could cause 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 credit facilities and other debt agreements;
- our ability to improve the operating performance of our existing stores, and, in particular, our new and relocated stores in accordance with our management's long term strategy;
- the outcomes of pending lawsuits and governmental investigations, both civil and criminal, involving our financial reporting and other matters;
- competitive pricing pressures and continued consolidation of the drugstore industry;
- third party prescription reimbursement levels and regulatory changes governing pharmacy practices;
- general economic conditions, inflation and interest rate movements;
- merchandise supply constraints or disruptions;
- access to capital; and
- our ability to further develop, implement and maintain reliable and adequate internal accounting systems and controls.

We undertake no obligation to revise the forward-looking statements included 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 this prospectus in the sections titled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

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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 and at the SEC's regional offices at 505 West Madison Street, Suite 1400, Chicago, Illinois 60661 and Seven World Trade Center, 13th Floor, New York, New York 10048. 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."

Our common stock is listed on the New York Stock Exchange and the Pacific Stock 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 Stock Exchange, 301 Pine Street, San Francisco, California 94104 and 618 South Spring Street, Los Angeles, California 90014.

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of our common stock offered by this prospectus. This prospectus does not contain all of the information in the registration statement. You will find more information about us and our common stock in the registration statement. Any statements made in this prospectus concerning the provisions of legal documents are not necessarily complete and you should read the documents which are filed as exhibits to the registration statement or otherwise filed with the SEC.

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PROSPECTUS SUMMARY

The following information summarizes the detailed information and financial statements included elsewhere in this prospectus. We encourage you to read this entire prospectus carefully. Unless otherwise indicated or the context otherwise requires, dates in this prospectus that refer to a particular fiscal year (e.g. fiscal 2001) refer to the fiscal year ended on the Saturday closest to February 28 of that year. The fiscal year ended March 3, 2001 included 53 weeks. The fiscal years ended February 26, 2000, February 27, 1999 and February 28, 1998 included 52 weeks.

Rite Aid Corporation

Our Business

We are the second largest retail drugstore chain in the United States, based on number of stores, and the third largest based on revenues. As of June 2, 2001, we operated 3,631 drugstores in 30 states across the country and in the District of Columbia. We have a first or second place market position, based on revenues, in 34 of the 65 major U.S. metropolitan markets in which we operate. During fiscal 2001, we generated $14.5 billion in revenues and we generated $3.7 billion in revenues in our first quarter of fiscal 2002. Since the beginning of fiscal 1997, we have purchased 1,554 stores, relocated 949 stores, opened 469 new stores and remodeled 410 stores. As a result, we believe we have one of the most modern store bases in the industry.

In our stores, we sell prescription drugs and a wide assortment of other merchandise, which we call "front-end" products. In fiscal 2001, our pharmacists filled more than 204 million prescriptions, which accounted for 59.5% of our total revenues. In the first quarter of fiscal 2002, pharmacy sales accounted for 61.6% of our total revenues. 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 24,600 front-end products, including over-the-counter medications, health and beauty aids, personal care items, cosmetics, household items, beverages, convenience foods, greeting cards, photo processing, seasonal merchandise and numerous other everyday and convenience products, which accounted for the remaining 40.5% of our total revenues in fiscal 2001. We distinguish our stores from other national chain drugstores, in part, through our private label brands and our strategic alliance with General Nutrition Companies, Inc. ("GNC"), a leading retailer of vitamin and mineral supplements. We offer over 1,500 products under the Rite Aid private label brand, which contributed approximately 10% of our front-end sales in fiscal 2001.

Background

Under prior management, we were engaged in an aggressive expansion program from 1997 until 1999. During that period, we purchased 1,554 stores, relocated 866 stores, opened 445 new stores, remodeled 308 stores and acquired PCS Health Systems, Inc. These activities had a significant negative impact on our operating results and financial condition, severely strained our liquidity and increased our indebtedness to $6.6 billion as of February 26, 2000, which contributed to our inability to access the financial markets. A resulting decrease in revenue due to inventory shortages, reduction in advertising and uncompetitive prices on front-end products led to a decline in customer traffic, which had a negative impact on our store operations. In October 1999, we announced that we had identified accounting irregularities and our former chairman and chief executive officer resigned. In November 1999, our former auditors resigned and withdrew their previously issued opinions on our financial statements for fiscal 1998 and fiscal 1999. We needed to restate our financial statements and develop accounting systems and controls that would allow us to manage our business and accurately report the results of our operations.

In December 1999, a new management team was hired, and since that time we have been addressing our business, operational and financial challenges. In response to our situation, new management has:

- Reduced our indebtedness from $6.6 billion as of February 26, 2000 to $3.7 billion as of June 30, 2001, after giving effect to the Refinancing (described below);

- Improved front-end same store sales growth from a negative 2.2% in fiscal 2000 to a positive 6.5% in fiscal 2001 by improving store conditions and product pricing and launching a competitive marketing program;

- Improved same store sales growth from 6.2% in the first quarter of fiscal 2001 to 10.0% in the first quarter of fiscal 2002 and front-end same store sales growth from 1.4% in the first quarter of 2001 to 5.9% in the first quarter of 2002;

- Restated our financial statements for fiscal 1998 and fiscal 1999, as well as engaged Deloitte & Touche LLP as our new auditors to audit our fiscal years beginning with fiscal 1998;

- Continued developing and implementing a comprehensive plan, which is ongoing, to address problems with our accounting systems and controls, and also resumed normal financial reporting;

- Significantly reduced the amount of our indebtedness maturing prior to March 2005; and

- Addressed out-of-stock inventory levels and strengthened our vendor relationships.

Refinancing Transactions

On June 27, 2001, we completed a comprehensive $3.2 billion refinancing package (the "Refinancing") that includes a new $1.9 billion senior secured credit facility underwritten by Citicorp North America, Inc., The Chase Manhattan Bank, Credit Suisse First Boston and Fleet Retail Finance, Inc. As a result of the Refinancing, we have significantly reduced our debt and the amount of our debt maturing prior to March 2005.

Simultaneously with or prior to the closing of the new credit facility, we completed the following transactions, which also form part of the Refinancing:

- $552.0 million in private placements of our common stock.

- An exchange with a financial institution of $152.025 million of our 10.5% senior secured notes due 2002 for $152.025 million of new 12.5% senior secured notes due 2006. The 12.5% senior secured notes due 2006 are secured by a second lien on the collateral securing the new credit facility.

- Private exchanges of common stock for $303.5 million of our bank debt and 10.5% senior secured notes due 2002.

- A synthetic lease transaction with respect to two of our distribution centers in the amount of approximately $106.9 million.

- $150 million in a private placement of new 11.25% senior notes due 2008.

- The reclassification of $848.8 million of capital leases as operating leases.

- An operating lease that we entered into with respect to our aircraft for approximately $25.6 million.

- A tender offer whereby we accepted for payment $174.5 million of our 10.5% senior secured notes due 2002 at 103.25% of their principal amount.

With the proceeds of the Refinancing, we repaid our previous senior secured credit facility, our PCS and RCF credit facilities and our secured exchange debt. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Credit Facilities and Refinancing". As a result of the Refinancing, our remaining debt due before March 2005 consists of $152.0 million of our 5.25% convertible subordinated notes due 2002, $107.8 million of our 6.00% dealer remarketable securities due 2003, $21.9 million of our 10.5% senior secured notes due 2002 and amortization of the new credit facility. We expect to

use internally generated funds to retire both the 5.25% notes and the dealer remarketable securities at maturity and to meet the amortization payments under the new credit facility.

Risk Factors

Prospective purchasers of our common stock should carefully consider the information set forth under the heading "Risk Factors", together with all other information in this prospectus, before making an investment in the common stock offered by this prospectus.

Our headquarters are located at 30 Hunter Lane, Camp Hill, Pennsylvania 17011, and our telephone number is (717) 761-2633. The address of our Web site is www.riteaid.com. The information on our Web site is not part of this prospectus. Our common stock is listed on the New York Stock Exchange and the Pacific Stock Exchange under the trading symbol "RAD". We were incorporated in 1968 and are a Delaware corporation.

The Offering

Common stock offered by selling stockholders	130,516,017 shares
Use of proceeds	We will not receive any proceeds from the sale of shares by selling stockholders
New York Stock Exchange/ Pacific Stock Exchange Symbol	RAD

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", the audited consolidated financial statements and related notes appearing on pages F-1 through F-42 and the interim condensed consolidated financial statements and related notes appearing on pages F-43 through F-57. The summary consolidated financial data for the thirteen week periods ended June 2, 2001 and May 27, 2000 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 the Refinancing.

	Year Ended			
	March 3, 2001 (53 weeks)	February 26, 2000 (52 weeks)	February 27, 1999 (52 weeks)	February 28, 1 (52 weeks)(2
		(In thousands, except per share amounts and ot		
Statement of Operations Data:				
REVENUES	$ 14,516,865	$ 13,338,947	$ 12,438,442	$ 11,352,63
COSTS AND EXPENSES:				
Cost of goods sold, including occupancy costs ...	11,151,490	10,213,428	9,406,831	8,419,02
Selling, general and administrative expenses	3,458,307	3,607,810	3,200,563	2,773,56
Goodwill amortization	20,670	24,457	26,055	26,16
Store closing and impairment charges (credits)	388,078	139,448	195,359	155,02
Interest expense....	649,926	542,028	274,826	202,68
Loss on debt conversions and modifications	100,556	--	--	-
Share of loss from equity investments	36,675	15,181	448	1,88
(Gain) loss on sale of fixed assets ...	(6,030)	(80,109)	--	(52,62
Total costs and expenses...........	15,799,672	14,462,243	13,104,082	11,525,72
Loss from continuing operations before income taxes and cumulative effect of accounting change...	(1,282,807)	(1,123,296)	(665,640)	(173,09
INCOME TAX EXPENSE (BENEFIT)..........	148,957	(8,375)	(216,941)	(28,06
Loss from continuing operations before cumulative effect of accounting change.	(1,431,764)	(1,114,921)	(448,699)	(145,02
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net(1)..	11,335	9,178	(12,823)	(20,21
Loss on disposal of				

discontinued operations, net(1)	(168,795)	--	--	-
CUMULATIVE EFFECT OF ACCOUNTING CHANGE, net.................	--	(27,300)	--	-
Net loss	$ (1,589,224)	$ (1,133,043)	$ (461,522)	$ (165,24
BASIC AND DILUTED (LOSS) INCOME PER SHARE:				
Loss from continuing operations	$ (5.15)	$ (4.34)	$ (1.74)	$ (0.5
Income (loss) from discontinued operations	(0.50)	0.04	(0.05)	(0.0
Cumulative effect of accounting change, net	--	(0.11)	--	-
Net loss per share..	$ (5.65)	$ (4.41)	$ (1.79)	$ (0.6
Balance Sheet Data (at end of period):				
Working capital (deficit)	$ 1,955,877	$ 752,657	$ (892,115)	$ 1,258,58
Property, plant and equipment (net) ...	3,041,008	3,445,828	3,328,499	2,460,51
Total assets........	7,913,911	9,845,566	9,778,451	7,392,14
Total debt and capital lease obligations(3)	5,894,548	6,612,868	5,922,504	3,132,89
Redeemable preferred stock	19,457	19,457	23,559	-
Stockholders' equity (deficit)	(354,435)	432,509	1,339,617	1,898,20
Other Data:				
Cash dividends declared per common share	$ 0	$ .3450	$ .4375	$ .407
Basic weighted average shares	314,189,000	259,139,000	258,516,000	250,659,00
Number of retail drugstores	3,648	3,802	3,870	3,97

(1) PCS was acquired on January 22, 1999. On October 2, 2000, we sold PCS. See "Business--PBM Segment." Accordingly, our PBM segment is reported as a discontinued operation for all periods presented. See note 24 of the notes to the audited consolidated financial statements.

(2) K&B, Incorporated and Harco, Inc. were acquired in August 1997.

(3) Total debt includes capital lease obligations of $1.1 billion, as of March 3, 2001, February 26, 2000, February 27, 1999 and June 2, 2001 and $622 million as of February 28, 1998.

RISK FACTORS

You should carefully consider the following factors, in addition to the other information in this prospectus, before investing in our common stock.

Risks Related to an Investment in our Common Stock

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

After giving effect to the Refinancing, we had, as of June 30, 2001 $3.7 billion of outstanding indebtedness (including current maturities but excluding letters of credit) and stockholders' equity of $567.6 million. We also have additional borrowing capacity under our new revolving credit facility of $500.0 million. Our debt obligations will continue to adversely affect our operations in a number of ways and our cash flow is insufficient to service our debt, which may require us to borrow additional funds for that purpose, restructure or otherwise refinance that debt. Our earnings were insufficient to cover our fixed charges for fiscal 2001 by $1.2 billion. After giving effect to the Refinancing on a pro forma basis, we estimate that our earnings would have been insufficient to cover our fixed charges for fiscal 2001.

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 substantially all of our cash flow to service our debt.

In fiscal 2000 we experienced operational and financial difficulties, resulting in disputes with suppliers and vendors. These disputes were based primarily on our level of indebtedness and led to more restrictive vendor contract terms. Although we believe that our prior disputes with suppliers and vendors have been largely resolved, any future material deterioration in our operational or our financial situation could again impact vendors' and suppliers' willingness to do business with us. Our ability to make payments on our debt, depends upon our ability to substantially improve our future 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.

Some of our debt, including borrowings under our new credit facility, is based upon variable rates of interest, which could result in higher interest expense in the event of increases in interest rates.

Approximately $378.0 million of our outstanding indebtedness as of June 30, 2001, following the Refinancing, bears an interest rate that varies depending upon LIBOR and is not covered by interest rate swap contracts that expire in 2002. If we borrow additional amounts under our senior secured 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 are a holding company with no direct operations.

We are a holding company with no direct operations. Our principal assets are the equity interests that we hold in our operating subsidiaries. As a result, we are dependent upon dividends and other payments from our

subsidiaries to generate the funds necessary to meet our financial obligations, including the payment of principal of and interest on our outstanding debt. Our subsidiaries are legally distinct from us and have no obligation to pay amounts due with respect to our debt or to make funds available to us for such payment or for any other reason. As of June 30, 2001, after giving effect to the Refinancing, our subsidiaries had approximately $3.7 billion of indebtedness and liabilities.

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

The covenants in the instruments governing our outstanding indebtedness, including our new credit facility and the instruments governing our new 11.25% notes and 12.5% notes, restrict our ability to incur liens and debt, pay dividends, make redemptions and repurchases of capital stock, make loans, investments and capital expenditures, prepay, redeem or repurchase debt, engage in mergers, consolidations, asset dispositions, sale-leaseback transactions and affiliate transactions, change our business, amend certain debt and other material agreements, issue and sell capital stock of subsidiaries, restrict distributions from subsidiaries and grant negative pledges to other creditors.

Moreover, 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 were required to obtain waivers of defaults, we may incur significant fees and transaction costs. In fiscal 2000, we were required to obtain waivers of compliance with, and modifications to, certain of the covenants contained in our senior credit and loan agreements and public indentures. In connection with obtaining certain of such waivers and modifications, we paid significant fees and transaction costs.

Risks Related to our Operations

Major lawsuits have been brought against us and certain of our subsidiaries, and there are currently pending both civil and criminal investigations by the U.S. Securities and Exchange Commission, the United States Attorney and an investigation by the United States Department of Labor. 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 several major ongoing lawsuits and investigations in which we are involved. These include, in addition to the investigations described below, several class action lawsuits. While some of these lawsuits have been settled, pending court approval, we are unable to predict the outcome of any of these matters at this time. If any of these cases result in a substantial monetary judgment against us or is settled on unfavorable terms, our results of operations, financial condition and cash flows could be materially adversely affected.

There are currently pending both civil and criminal governmental investigations by the SEC and the United States Attorney concerning our financial reporting and other matters. In addition, an investigation has also been commenced by the U.S. Department of Labor concerning our employee benefit plans, including our principal 401(k) plan, which permitted employees to purchase our common stock. Purchases of our common stock under the plan were suspended in October 1999. In January 2001, we appointed an independent trustee to represent the interests of these plans in relation to the company and to investigate possible claims the plans may have against us. Both the independent trustee and the Department of Labor have asserted that the plans may have claims against us. These investigations are ongoing and we cannot predict their outcomes. If we were convicted of any crime, certain licenses and government contracts, such as Medicaid plan reimbursement agreements, that are material to our operations may be revoked, which would have a material adverse effect on our results of operations 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 would have a negative effect on our results of operations, financial condition and cash flows.

We obtain approximately 93% of our pharmaceutical supplies from a single supplier, McKesson HBOC, Inc., pursuant to a long-term contract. Pharmacy sales represented approximately 59.5% of our total revenues during fiscal 2001, 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, and would have a material adverse effect on our results of operations, financial condition and cash flows.

Our auditors have identified numerous "reportable conditions", which relate to our internal accounting systems and controls, which systems and controls may be insufficient. Improvements to our internal accounting systems and controls could require substantial resources.

An audit of our financial statements for fiscal 1998 and fiscal 1999, following a previous restatement, concluded in July 2000 and resulted in an additional restatement of fiscal 1998 and fiscal 1999. Following its review of our books and records, our management concluded that further steps were needed to establish and maintain the adequacy of our internal accounting systems and controls. In connection with the above audits of our financial statements, Deloitte & Touche LLP advised us that it believed there were numerous "reportable conditions" under the standards established by the American Institute of Certified Public Accountants which relate to our accounting systems and controls that could adversely affect our ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. In order to address the reportable conditions identified by Deloitte & Touche LLP, we are developing and implementing comprehensive, adequate and reliable accounting systems and controls. If, however, we determine that our internal accounting systems and controls require additional improvements beyond those identified, or if the changes we are implementing are inadequate, we may need to commit additional substantial resources, including time from our management team, to implement new systems and controls, which could affect the timeliness of our financial or management reporting.

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.

Our operations during fiscal 2000 were adversely affected by a number of factors, including our financial difficulties, inventory shortages, allegations of violations of the law, including drug pricing issues, disputes with suppliers and uncertainties regarding our ability to produce audited financial statements. To improve operations, new management developed and in fiscal 2001 began implementing and continues to implement, a business strategy to improve our stores and enhance our relationships with our customers by improving the pricing of products, providing more consistent advertising through weekly circulars, eliminating inventory shortages and out-dated inventory, resolving issues and disputes with our vendors, and developing programs intended to provide better customer service and purchasing prescription files and other means. If we are not successful in implementing our business strategy, or if our business 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.

We cannot assure you that management will be able to successfully manage our business or successfully implement our strategic plan. This could have a material adverse effect on our business and the results of our operations, financial condition and cash flows.

In December 1999, we hired a new management team to address our business, operational financial and accounting challenges. Our management team has considerable experience in the retail industry. Nonetheless, we cannot assure you that our management will be able successfully to manage our business or successfully implement our strategic business plan. This could have a material adverse effect on our results of operations, financial condition and cash flows.

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 chairman and chief executive officer, Robert G. Miller, and the other members of our management team. The loss of Mr. Miller or other 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.

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 and mail order pharmacies. 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. Because many of our stores are new, their ability to achieve profitability depends on their ability to achieve a critical mass of customers. While customer growth is often achieved through purchases of prescription files from existing pharmacies, our ability to achieve this critical mass through purchases of prescription files could be confined by liquidity constraints. Although in the recent past, our competitiveness has been adversely affected by problems with inventory shortages, uncompetitive pricing and customer service, we have taken steps to address these issues. We believe that the continued consolidation of the drugstore industry will further increase competitive pressures in the industry. As competition increases, a significant increase in general pricing pressures could occur which would require us to increase our sales volume and to sell higher margin products and services in order to remain competitive. We cannot assure you that we will be able to continue effectively to compete in our markets or increase our sales volume in response to further increased competition.

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 revenues, and the percentage of prescription sales reimbursed by third parties, have been increasing and we expect them to continue to increase. In fiscal 2001, sales of prescription drugs represented 59.5% of our revenues and we were reimbursed by third-party payors for approximately 90.3% of all of the prescription drugs that we sold. In the first quarter of fiscal 2002, sales of prescription drugs represented 61.6% of our revenues and we were reimbursed by third-party payors for approximately 91.7% of all of the prescription drugs that we sold. During fiscal 2001, the top five third-party payors accounted for approximately 26.4%

of our total revenues. 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, if Medicare is reformed to include prescription benefits, we may be reimbursed for some prescription drugs at prices lower than our current retail prices. If third-party payors reduce their reimbursement levels or if Medicare covers prescription drugs at reimbursement levels lower than our current retail prices, our margins on these sales would be reduced, and the profitability of our business and our results of operations, financial condition and cash flows could be adversely affected.

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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 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.

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. 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 maintain this insurance on acceptable terms in the future. Our results of operations, financial condition or cash flows may be adversely affected if in the future our insurance coverage proves to be inadequate or unavailable or there is an increase in liability for which we self insure or we suffer reputational harm as a result of an error or omission.

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

There is a nationwide shortage of qualified pharmacists. In response, we have implemented improved 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.

Risks Related to our Common Stock

You may not be able to sell the common stock when you want to and, if you do, you may not be able to receive the price that you want.

Although our common stock has been actively traded on the New York Stock Exchange and the Pacific Exchange, we do not know if an active trading market for the common stock will continue or, if it does, at what prices the common stock may trade. The shares of our common stock offered by this prospectus will significantly increase the number of shares of our common stock registered for sale to the public, and could result in a decline in the market price of our common stock. Therefore, you may not be able to sell the common stock when you want and, if you do, you may not receive the price you want. Additionally, in connection with the settlement of a class action suit brought against us, we may be required to issue 20 million shares of common stock. If the value of our shares of common stock is less than $7.75 per share in February 2002, we may deliver a greater number of shares. We will also issue additional shares of common stock pursuant to outstanding options granted pursuant to our various stock option plans. In addition, as described below, the refinancing of our indebtedness may include additional issuances of equity securities. We cannot predict the extent to which this dilution, the availability of a large amount of shares for sale, and the possibility of additional issuances and sales of our common stock will negatively affect the trading price of our common stock or the liquidity of our common stock.

Our debt restructuring efforts may be dilutive to your shares.

We may undertake additional transactions to simplify and restructure our capital structure, which may include, as part of these efforts, additional issuances of equity securities in exchange for our indebtedness. The issuance of additional shares of common stock may be dilutive to the holders of our common stock, including holders who purchase shares of common stock in this offering.

USE OF PROCEEDS

We will not receive any of the proceeds of sales by the selling stockholders.

PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY

Our common stock is listed on the New York and Pacific Stock Exchanges under the symbol "RAD". On July 9, 2001, we had approximately 11,690 record shareholders. Quarterly high and low stock prices, based on the New York Stock Exchange composite transactions, together with dividend information are shown below:

Fiscal Year	Quarter	High	L
2002 (second quarter through July 19, 2001)	First	9.09	5
	Second	9.99	7

2001	First	8 1/2
	Second	8 1/2
	Third	4 3/8
	Fourth	6 3/32
2000	First	41 3/4
	Second	26 15/16
	Third	20 1/8
	Fourth	13 1/4

We have not declared or paid any cash dividends on our common stock since the third quarter of fiscal 2000 and we do not anticipate paying cash dividends in the foreseeable future. Our credit facilities and the instruments governing our other indebtedness do not allow us to pay cash dividends. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources--Credit Facilities and Refinancing".

DILUTION

This offering is for sales of our common stock by some of our existing stockholders on a continuous or delayed basis. Sales of common stock by selling stockholders pursuant to this prospectus will not result in a change to the net tangible book value per share before and after the distribution of shares by the selling stockholders. There will be no change in net tangible book value per share attributable to cash payments made by purchasers of the shares being offered. Prospective investors should be aware, however, that the market price of our shares may not bear any relationship to net tangible book value per share.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations", our audited consolidated financial statements and related notes appearing on pages F-1 through F-42 and the interim condensed consolidated financial statements and related notes appearing on pages F-43 through F-57. The selected consolidated financial data for the thirteen week periods ended June 2, 2001 and May 27, 2000 are unaudited and not necessarily indicative of the results to be expected for the full year. The unaudited interim selected consolidated financial data reflects all adjustments (consisting primarily of normal recurring adjustments except as described in the footnotes to the interim condensed consolidated financial statements) which are, in the opinion of our management, necessary to present fairly the financial data for the interim periods. Annual selected consolidated financial information is presented for four fiscal years. As previously discussed in our Form 10-K dated May 18, 2001 and our Form 10-K/A dated October 11, 2000, substantial time, effort and expense was required over a six month period to review, assess, reconcile, prepare and audit our financial statements for the 2000, 1999 and 1998 fiscal years. We believe it would require an unreasonable effort and expense to conduct a similar process related to the 1997 fiscal year. The following selected consolidated financial information does not give pro forma effect to the Refinancing.

	Fiscal Year Ended			
	March 3, 2001 (53 Weeks)	February 26, 2000 (52 Weeks)	February 27, 1999 (52 Weeks)	February 28, 1 (52 Weeks)(1
	(Dollars in thousands, except per share amo			
Operations Data:				
Revenues	$ 14,516,865	$ 13,338,947	$ 12,438,442	$ 11,352,63
Costs and expenses:				
Cost of goods sold, including occupancy costs ...	11,151,490	10,213,428	9,406,831	8,419,02
Selling, general and administrative expenses	3,458,307	3,607,810	3,200,563	2,773,56
Goodwill amortization	20,670	24,457	26,055	26,16
Store closing and impairment charges (credits)	388,078	139,448	195,359	155,02
Interest expense....	649,926	542,028	274,826	202,68
Loss on debt conversions and modifications	100,556	--	--	-
Share of loss from equity investments	36,675	15,181	448	1,88
(Gain) loss on sale of fixed assets ...	(6,030)	(80,109)	--	(52,62
Total costs and expenses............	15,799,672	14,462,243	13,104,082	11,525,72
Loss from continuing operations before income taxes and cumulative effect of accounting change	(1,282,807)	(1,123,296)	(665,640)	(173,09
Income tax expense (benefit)...........	148,957	(8,375)	(216,941)	(28,06
Loss from continuing operations before cumulative effect of accounting change(2)	(1,431,764)	(1,114,921)	(448,699)	(145,02
Income (loss) from discontinued operations, net(2)..	11,335	9,178	(12,823)	(20,21
Loss on disposal of discontinued operations, net.....	(168,795)	--	--	-
Cumulative effect of				

accounting change, net.................	--	(27,300)	--	-
Net loss	$ (1,589,224)	$ (1,133,043)	$ (461,522)	$ (165,24
Basic and diluted (loss) income per share:				
Loss from continuing operations	$ (5.15)	$ (4.34)	$ (1.74)	$ (0.5
Income (loss) from discontinued operations	(0.50)	0.04	(0.05)	(0.0
Cumulative effect of accounting change, net	--	(0.11)	--	-
Net loss per share.	$ (5.65)	$ (4.41)	$ (1.79)	$ (0.6
Balance Sheet Data (at end of period):				
Working capital (deficit)	$ 1,955,877	$ 752,657	$ (892,115)	$ 1,258,58
Property, plant and equipment (net) ...	3,041,008	3,445,828	3,328,499	2,460,51
Total assets........	7,913,911	9,845,566	9,778,451	7,392,14
Total debt and capital lease obligations(3)	5,894,548	6,612,868	5,922,504	3,132,89
Redeemable preferred stock	19,457	19,457	23,559	-
Stockholders' equity (deficit)	(354,435)	432,509	1,339,617	1,898,20
Other Data:				
Cash flows from continuing operations provided by (used in):				
Operating activities	$ (704,554)	$ (623,098)	$ 276,855	$ 622,86
Investing activities	677,653	(504,112)	(2,705,043)	(1,050,32
Financing activities	(64,324)	905,091	2,660,341	535,06
Capital expenditures(4) ...	132,504	573,287	1,222,674	716,05
Cash dividends declared per common share	0	.3450	.4375	.407
Basic weighted average shares	314,189,000	259,139,000	258,516,000	250,659,00
Ratio of earnings to fixed charges(5) ..	--	--	--	-
Number of retail drugstores	3,648	3,802	3,870	3,97
Number of employees.	75,500	77,300	89,900	83,00

Pharmacy sales as a percentage of revenues	59.5%	58.4%	54.2%	50.

(Footnotes on n

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(1) Includes the operations of K&B, Incorporated and Harco, Inc. from their acquisition in August 1997.

(2) PCS was acquired on January 22, 1999 and sold on October 2, 2000 and accordingly, reported as a discontinued operation for all periods presented. See note 24 of the notes to the consolidated financial statements.

(3) Total debt includes capital lease obligations of $1.1 billion as of March 3, 2001, February 26, 2000, February 27, 1999 and June 2, 2001 and $0.6 billion as of February 28, 1998.

(4) Capital expenditures represent expenditures for property and equipment.

(5) Calculated by dividing earnings by fixed charges. For this purpose, earnings include loss from continuing operations before income taxes and cumulative effect of accounting change plus fixed charges. Fixed charges include interest, whether expensed or capitalized, amortization of debt incurrence cost, preferred stock dividends and that portion of rental expense which is representative of the interest factor in those rentals. For fiscal 2001, fiscal 2000, fiscal 1999 and fiscal 1998, earnings were insufficient to cover fixed charges by approximately $1,248.0 million, $1,113.4 million, $671.6 million and $175.3 million respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We operate 3,631 retail drugstores in 30 states and in the District of Columbia. We sell prescription drugs, which accounted for approximately 59.5% of our total revenues during fiscal 2001 and 61.6% of our total revenues during our first quarter of fiscal 2002, and other products, which we refer to as front-end products, including non-prescription medications, health and beauty aids and personal care items, cosmetics, photo processing and convenience items. Until October 2, 2000, we operated a pharmacy benefit management services business.

From the beginning of fiscal 1997 until December 1999, we were engaged in an aggressive expansion program. During that period, we purchased 1,554 stores, relocated 866 stores, opened 445 new stores, remodeled 308 stores and acquired PCS. These activities had a significant negative impact on our operating results, severely strained our liquidity and increased our indebtedness to $6.6 billion as of February 26, 2000.

In October 1999, we announced that we had identified accounting irregularities and our former chairman and chief executive officer resigned. In November 1999, our former auditors resigned and withdrew their previously issued opinions on our financial statements for the fiscal years 1998 and 1999. Thereafter, the SEC and the U.S. Attorney for the Middle District of Pennsylvania began investigations into our affairs. In addition, the complaint in a securities class action lawsuit, which had been filed in March 1999, was amended to include allegations based upon the accounting irregularities we disclosed. In December 1999, a new senior management team was hired.

At the time of their arrival, the new management team faced a series of immediate challenges. These included:

o Deteriorating Store Operations. We experienced substantial operational difficulties during fiscal 2000. The principal problem was a decline in customer traffic and revenues due to inventory shortages, reduced advertising and uncompetitive prices on front-end products. By November 1999, our out-of-stock level had reached 29% and many popular products were not available in our stores. This situation resulted from liquidity constraints and concerns, tighter vendor credit terms and a delay in the opening of our distribution center in Perryman, MD, which caused delays in the shipment of seasonal merchandise. During fiscal 2000, we also suspended our practice of circulating regular newspaper advertising supplements. This disrupted customer traffic and adversely affected revenues. In order to offset the effects of these actions, former management raised the prices of front-end products above competitive levels. Customers rejected the higher prices and revenues continued to decline.

o Inability to Access Capital Markets. From March 1995 through February 2000, we substantially increased our level of debt and placed a significant strain on our short-term liquidity. The problems were exacerbated by our inability to complete a planned public offering of equity securities to repay the $1.3 billion short-term credit facility due in October 1999, which had been established to support the commercial paper issuances used to acquire PCS. By June 1999, we had issued the maximum amount of commercial paper that was permitted under our credit facilities. In September 1999, we informed our banks that we anticipated being in default on various covenants under both our $1.3 billion PCS credit facility and our $1.0 billion general credit facility and in October 1999, Standard & Poor's and Moody's downgraded our credit rating. Following these events, we lost access to the commercial paper market.

In response to the situation we faced, we completed the following:

o Reduced our indebtedness from $6.6 billion on February 26, 2000 to $3.7 billion on June 30, 2001 after giving effect to the Refinancing;

o Improved our front-end same store sales growth from a negative 2.2% in fiscal 2000 to a positive 6.5% in fiscal 2001 by improving store conditions and product pricing and launching a competitive marketing program;

o Restated our financial statements for fiscal 1998 and fiscal 1999, engaged new auditors to audit our financial statements for fiscal 1998, fiscal 1999 and fiscal 2000, and resumed normal financial reporting;

o Significantly reduced the amount of our indebtedness maturing prior to

March 2005, including as a result of the Refinancing;

- Pending court approval, settled the securities class action and related lawsuits for $45.0 million to be funded with insurance proceeds and $155.0 million of common stock, cash and/or notes to be issued and paid in January 2002;

- Began implementing an initiative to improve all aspects of our supply chain, including buying practices, category management systems and other inventory issues; and

- Continued developing and implementing a comprehensive plan, which is ongoing, to address problems with our accounting systems and controls, and also resumed normal financial reporting.

Recent Actions Affecting Operating Results. During fiscal 2001 and fiscal 2002, we took a number of actions which had the short term effect of significantly reducing our operating results but which management believes were nevertheless necessary. Among the actions taken during fiscal 2001 were: (i) the sale of PCS which resulted in our recognizing a loss of $168.8 million and an increase in income tax expense of $146.9 million; (ii) the exchange of approximately $597.3 million of our debt for shares of our common stock which resulted in a net loss of $100.6 million; (iii) our decision to close or relocate certain stores which resulted in an approximate $149.2 million charge included in the $388.1 million recorded charges for store closures and impairment; and (iv) the restatement and audit of our fiscal 1998 and fiscal 1999 financial statements and the related investigation conducted by our audit committee of prior accounting irregularities, which resulted in our incurring and recording of $82.1 million of accounting and legal expense. Among the actions taken during the first quarter of fiscal 2002 were additional debt conversions resulting in a loss of $132.7 million and during the second quarter of fiscal 2002 we completed the Refinancing that will result in additional losses of approximately $88 million. We anticipate taking actions in the future similar to those described above that may have a material negative impact upon our operating results for the period in which we take those actions or subsequent periods.

Maturing Store Base. Since the beginning of fiscal 1997, we opened 469 new stores, relocated 949 stores, remodeled 410 stores and closed 1,159 stores. These new, relocated and remodeled stores represented approximately 50% of our total stores at June 2, 2001 and are generally larger, free standing stores and have higher operating expenses than our older stores. New stores generally do not become profitable until a critical mass of customers is developed. Relocated stores also must attract additional customers to achieve comparable profitability to the store that was replaced. We believe that the period of time required for a new store to achieve profitable operations is generally between two and four years. This period can vary significantly based on the location of a particular store and on other factors, including the investments made in purchasing prescription files for the location and advertising. Our recent liquidity constraints have limited our ability to purchase prescription files and make other investments to promote the development of our new and relocated stores. We believe that our relatively high percentage of new and relocated stores is a significant factor in our recent operating results. Management believes that as these newer stores mature they should gain the critical mass of customers needed for profitable operations. We believe this continuing maturation should positively affect our operating performance in future periods. If we are not able to improve the performance of these new and relocated stores, it will have a material adverse effect on our ability to restore the profitability of our operations.

Substantial Accounting, Legal and Investigation Expenses. We have incurred substantial expenses in connection with the process of reviewing and reconciling our books and records, restating our fiscal 1998 and fiscal 1999 financial statements, investigating our prior accounting practices and preparing our financial statements. Included in these expenses are the costs of the Deloitte & Touche LLP audits, the investigation by the law firm of Swidler, Berlin, Shereff, Friedman LLP, assisted by Deloitte & Touche LLP, conducted for our audit committee concerning the accounting irregularities which led to the restatement of our financial statements for fiscal 1998 and fiscal 1999 and the costs of retaining Arthur Andersen LLP to assist management in reviewing and reconciling our books and records. We incurred $82.1 million in fiscal 2001 and $3.4 million in the first quarter of fiscal 2002 and we expect to incur a total of $10.0 million to $15.0 million

in fiscal 2002 for these types of investigations. We anticipate that we will continue to incur significant legal and other expenses in connection with the ongoing litigation and investigations to which we are subject.

Dilutive Equity Issuances. In June 2000, we completed a series of debt restructuring transactions as described in "Liquidity and Capital Resources". In connection with these transactions, an aggregate total of 69,564,434 shares of our common stock were issued in exchange for $462.6 million principal amount of our outstanding indebtedness. In addition, in November 2000, January 2001 and April 2001, we completed numerous privately negotiated transactions, whereby an aggregate total of 18,125,700 shares of our common stock were issued in exchange for approximately $156.6 million principal amount of our outstanding indebtedness. In March 2001, we also exchanged approximately $279.3 million principal amount of outstanding indebtedness for an aggregate of 41,276,335 shares of our common stock upon completion of a public tender offer. As a result of these exchanges, we recorded an aggregate loss on conversion of approximately $100.6 million in fiscal 2001 and will record additional losses in fiscal 2002. In addition, pursuant to the conversion price adjustment and pay-in-kind dividend provisions of the series B convertible preferred stock issued to Green Equity Investors III, L.P. in October 1999, 62,317,123 shares of our common stock were issuable upon the conversion of such preferred stock at July 1, 2001. As a result of the Refinancing, and including the shares issuable upon the conversion of our Series B and our new Series C preferred stock, shares issuable under outstanding stock options and warrants and shares contingently issuable under the shareholder litigation settlement, common shares outstanding increased from 348.1 million on March 3, 2001 to 493.3 million on June 30, 2001.

Accounting Systems. Following a review of our books and records, management concluded that further steps were needed to establish and maintain the adequacy of our internal accounting systems and controls. In connection with the audit of our financial statements, Deloitte & Touche LLP advised us that it believed there were numerous "reportable conditions" under the standards established by the American Institute of Certified Public Accountants which relate to our accounting systems and controls that could adversely affect our ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. We are developing and implementing comprehensive, adequate and reliable accounting systems and controls which are intended to address the reportable conditions identified by Deloitte & Touche LLP.

Sale of PCS. On October 2, 2000, we sold PCS, our PBM segment, to Advance Paradigm (now AdvancePCS). The selling price of PCS consisted of $710.5 million in cash, $200.0 million in principal amount of AdvancePCS's 11% promissory notes and AdvancePCS equity securities. Accordingly, the PBM segment is reported as a discontinued operation for all periods presented in the accompanying financial statements, and the operating income of the PBM segment through October 2, 2000, the date of sale, is reflected separately from the income from continuing operations. The loss on disposal of the PBM segment was $168.8 million. Additionally, we recorded an increase to the tax valuation allowance and income tax expense of $146.9 million in the first quarter of fiscal 2001 in continuing operations.

Working Capital. We generally finance our inventory and capital expenditure requirements with internally generated funds and borrowings. We expect to use borrowings to finance inventories and to support our continued growth. Over 75% of our front-end sales are in cash. Third-party insurance programs, which typically settle in fewer than 30 days, accounted for 90.3% of our pharmacy revenues and 53.7% of our revenues in fiscal 2001.

Seasonality. We experience seasonal fluctuations in our results of operations in the fourth fiscal quarter as the result of Christmas and the flu season. We also tailor certain front-end merchandise to capitalize on holidays and seasons. This leads to an increase in revenues during our fourth fiscal quarter.

Industry Trends. It is anticipated that pharmacy sales in the United States will increase 75% over the next five years. This anticipated growth is expected to be driven by the "baby boom" generation entering their fifties, the increasing life expectancy of the American population and the introduction of several new drugs and inflation. The retail drugstore industry is highly fragmented and has been experiencing consolidation. We believe that the continued consolidation of the drugstore industry will further increase competitive pressures in the industry. We expect to continue to compete on the basis of price and convenience, particularly in front-end products and therefore will continue to focus on programs designed to improve our image with customers. Prescription drug sales continue to represent a greater portion of our

business due to the general aging of the population, the use of pharmaceuticals to treat a growing number of healthcare problems, and the introduction of a number of successful new prescription drugs. In fiscal 2001, we were reimbursed by third-party payors for approximately 90.3% of all of the prescription drugs that we sold and for approximately 91.7% in the first quarter of fiscal 2002. If third-party payors reduce their reimbursement levels or if Medicare covers prescription drugs at reimbursement levels lower than our current retail prices, our margins on these sales would be reduced and the profitability of our business could be adversely affected.

Results of Operations

Revenues and Other Operating Data

	Year Ended		
	March 3, 2001	February 26, 2000	Febru 1

Revenues (dollars in thousands)	$14,516,865	$13,338,947	$12,
Revenue growth	8.8%	7.2%	
Same store sales growth	9.1%	7.9%	
Pharmacy sales growth	8.7%	15.6%	
Same store pharmacy sales growth	10.9%	16.2%	
Pharmacy as a % of total revenues	59.5%	58.4%	
Third-party sales as a % of total pharmacy revenues	90.3%	87.8%	
Front-end sales growth	3.8%	(2.6)%	
Same store front-end sales growth	6.5%	(2.2)%	
Front-end as a % of total revenues	40.5%	41.6%	
Store data:			
Total stores (beginning of period)	3,802	3,870	
New stores	9	77	
Closed stores	(163)	(181)	
Store acquisitions, net	--	36	
Total stores (end of period)	3,648	3,802	
Remodeled stores	98	14	
Relocated stores	63	180	

Revenues

Thirteen Week Period Comparisons

The 7.8% growth in revenues for the thirteen week period ended June 2, 2001 was driven by front end sales growth of 5.7% and pharmacy sales growth of 12.6%. The 2.6% growth in revenues for the thirteen week period ended May 27, 2000 was due to the 7.2% growth in pharmacy sales, which more than offset a decline in our front end store sales. Same store sales growth for the thirteen weeks ended June 2, 2001 was 10.0%. As the prior fiscal year was a 53 week year, same store sales for the thirteen weeks ended June 2, 2001 are calculated by comparing that period with the thirteen weeks ended June 3, 2000.

For the thirteen week period ended June 2, 2001, and for the thirteen week period ended May 27, 2000, pharmacy sales led revenue growth with same-store sales increases of 12.7% and 9.6%, respectively. Contributing to the increases in pharmacy same store sales was our ability to attract and retain managed care customers, our successful pilot markets for reduced cash pricing, our increased focus on pharmacy initiatives such as will call and predictive refill, and favorable industry trends. These trends included an aging American population with many "baby boomers" now in their fifties and consuming a greater number of prescription drugs. The use of pharmaceuticals as the treatment of choice for a growing number of healthcare problems and the introduction of a number of successful new prescription drugs also contributes to the growing demand for pharmaceutical products.

Front end sales, which include all non-prescription sales such as seasonal merchandise, convenience items and food, also had same store sales growth in the thirteen week period ended June 2, 2001, increasing 5.9%. The same store sales increase was primarily a result of increased sales volume due to lowering prices

on key items, distributing a nationwide weekly advertising circular, expanding certain product categories and improving general store conditions.

Fiscal Year Comparisons

The 8.8% growth in revenues in fiscal 2001 was driven by an increase of 3.8% in front-end sales, an increase of 8.7% in pharmacy sales and the additional week in fiscal 2001. Our total revenue growth in fiscal 2000 of 7.2 % was fueled by strong growth in pharmacy sales, offset by a slight decline in front end sales. Same store sales growth for fiscal 2001 was 9.1%. As fiscal 2001 was a 53 week year, same store sales are calculated by comparing the 53 week period ended March 3, 2001 with the 53 week period ended March 4, 2000. The decrease from 15.5% sales growth in fiscal 1999 was due to the deterioration in store operations described above.

For fiscal 2001 and fiscal 2000, pharmacy revenues led sales growth with same store sales increases of 10.9% and 16.2%, respectively. Fiscal 2001 increases were generated by our ability to attract and retain managed care customers, our successful pilot markets for reduced cash pricing, our increased focus on pharmacy initiatives such as will call and predictive refill, and favorable industry trends. These favorable trends include an aging population, the use of pharmaceuticals to treat a growing number of healthcare problems, and the introduction of a number of successful new prescription drugs. Fiscal 2000 pharmacy increases were driven by similar favorable industry trends, as well as the purchase of prescription files from independent pharmacies.

The lower growth in same store pharmacy sales in fiscal 2001 was due primarily to a significant reduction in the number of prescription files we purchased and store relocations we effected. The lower growth in fiscal 2000 was due primarily to a reduction as compared to fiscal 1999 in the number of relocations effected.

Same store front-end sales in fiscal 2001, which includes all non-prescription sales, such as seasonal merchandise, convenience items, and food and other non- prescription sales, increased 6.5% from fiscal 2000. This increase was fueled by the reinstatement of our weekly circular advertising program, and was also driven by strong performance in seasonal businesses, consumables, vitamins, general merchandise and private label brands. Same store front-end sales in fiscal 2000 decreased 2.2% from fiscal 1999 levels. This decrease was due to elevated levels of out-of-stock merchandise in the third and fourth quarters of fiscal 2000, and the decision of former management to suspend the weekly advertising program in fiscal 2000 and to raise front-end prices to levels that were not competitive.

Costs and Expenses

	Year Ended		
	March 3, 2001	February 26, 2000	Febru 1
		(dollars in	
Costs of goods sold..	$11,151,490	$10,213,428	$9,4
Gross margin..	23.2%	23.4%	
Selling, general and administrative expenses.............	$ 3,458,307	$ 3,607,810	$3,2
Selling, general and administrative expenses as a percentage of revenues.................................	23.8%	27.0%	

Goodwill amortization....................................	$ 20,670	$ 24,457	$
Store closing and impairment charges (credits)............	388,078	139,448	1
Interest expense..	649,926	542,028	2
Loss on debt conversions and modifications................	100,556	--	
Share of loss from equity investments.....................	36,675	15,181	
(Gain) loss on sale of fixed assets.......................	(6,030)	(80,109)	

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Cost of Goods Sold

Thirteen Week Period Comparisons

Gross margin was 23.4% for the thirteen week period ended June 2, 2001 compared to 23.5% for the thirteen week period ended May 27, 2000. Although gross margin was relatively flat, it was negatively impacted by the continuing trend of increased third party reimbursed prescription sales as a percent of total prescription sales. The increase in third party prescription sales had a negative impact on gross margin rates because they are paid by a person or entity other than the recipient of the prescribed pharmaceutical, and are generally subject to lower negotiated reimbursement rates in conjunction with a pharmacy benefit plan. Third party sales as a percentage of total pharmacy sales were 91.7% and 89.6% for the thirteen week period ended June 2, 2001 and May 27, 2000, respectively. Offsetting this trend was an improvement in cigarette and liquor margin, a reduction in losses from product returns, and better leveraging of our fixed costs resulting from our higher sales volume.

We use the last-in, first-out (LIFO) method of inventory valuation, which is determined annually when inflation rates and inventory levels are finalized. Therefore, LIFO costs for interim period financial statements are estimated. Cost of sales includes a LIFO provision of $15.0 million for the thirteen week period ended June 2, 2001 versus $5.3 million for the thirteen week period ended May 27, 2000.

Fiscal Year Comparisons

Gross margin was 23.2% for fiscal 2001 compared to 23.4% in fiscal 2000. The slight decline in margin was attributable to a shifting in sales mix to pharmacy from front-end. In fiscal 2001, the percentage of front-end sales to total revenues decreased to 40.5% from 41.6% in 2000. Also contributing to the lower margin in 2001 was an increase in sales of cigarettes and liquor (typically lower margin products) as a percentage of front-end sales. Additionally, we incurred $17.5 million in inventory liquidation losses related to our closed stores. Partially offsetting the items listed above was an improvement in the margin of front-end goods (exclusive of cigarettes and liquor). These increases resulted from a more profitable product mix, and from increases in the levels of one-hour photo and phone card sales.

Gross margin declined to 23.4% in fiscal 2000 from 24.4% in fiscal 1999. The decline in gross margin in fiscal 2000 from fiscal 1999 was a result of a substantial decline in our pharmacy margins. A decline in occupancy costs in fiscal 1999 was largely offset by increased costs related to our distribution facilities. We incurred costs in fiscal 2000 in connection with the shift in certain operations from our distribution facility in Harrisburg, Pennsylvania to a new distribution facility located in Perryman, Maryland, resulting in certain duplicate costs and also in connection with the processing of merchandise received from our stores for shipment back to our vendors. These costs are not expected to be recurring costs. These increased costs were partially offset by a substantial credit to cost of goods sold resulting from the receipt of vendor allowances following a restructuring of the terms of certain vendor contracts. In fiscal 1999, prior to the restructuring of the contracts, these vendor allowances were credited to selling, general and administrative expense. Also partially offsetting the increases in cost of goods sold in fiscal 2000 were improved store level margins for front-end and pharmacy sales.

Also negatively impacting gross margins in the periods presented was the continuing industry trend of rising third-party sales coupled with decreasing margins on third-party reimbursed prescription sales. Third-party prescription sales typically have lower gross margins than other prescription sales because they are paid by a person or entity other than the recipient of the prescribed pharmaceutical and are generally subject to lower negotiated reimbursement rates in conjunction with a pharmacy benefit plan. Pharmacy sales as a percentage of total revenues were 59.5%, 58.4% and 54.2% in fiscal 2001, fiscal 2000 and fiscal 1999, respectively and third-party sales as a percentage of pharmacy sales were 90.3%, 87.8%, and 85.4% in fiscal 2001, fiscal 2000 and fiscal 1999, respectively.

We use the last-in, first-out (LIFO) method of inventory valuation. The LIFO charge was $40.7 million in fiscal 2001, $34.6 million in fiscal 2000 and $36.5 million in fiscal 1999. We have changed our method of accounting for LIFO as of February 26, 2000. See "Accounting Change".

Selling, General and Administrative Expenses

Thirteen Week Period Comparisons

The selling, general and administrative expense ("SG&A") was 23.1% of revenue in the thirteen week period ended June 2, 2001 and 24.7% in the thirteen week period ended May 27, 2000. SG&A for the thirteen week period ended June 2, 2001 includes $43.1 million of non-cash expense related to variable plan accounting on certain management stock options, restricted stock grants and stock appreciation rights, offset by $15.0 million received related to the partial settlement of litigation with certain drug manufactures and a net benefit of $4.2 million in legal expense related to a favorable legal settlement. Excluding these items, our SG&A as a percentage of revenues would have been 22.5% in the thirteen week period ended June 2, 2001. SG&A for the thirteen week period ended May 27, 2000 includes $25.5 million of costs incurred with the restatement of our historical statements. Excluding this item results in an adjusted SG&A as a percentage of revenue of 24.0% in the thirteen week period ended May 27, 2000. SG&A exclusive of these items in the thirteen week period of the current fiscal year of 22.5% compares favorably to the adjusted 24.0% of the prior year's comparable period because of decreased labor charges, and better leveraging of our fixed costs resulting from our higher sales volume.

Fiscal Year Comparisons

SG&A was 23.8% of revenues in fiscal 2001, 27.0% in fiscal 2000 and 25.7% in fiscal 1999. SG&A expenses for fiscal 2001 were favorably impacted by a $20.0 million increase in estimated insurance recovery related to the settlement of the shareholders' class action lawsuit, and by $20.0 million received related to the partial settlement of litigation with certain drug manufacturers. Offsetting these items was $82.1 million incurred in connection with the restatement of our historical financial statements, and the incurrence of $45.9 million in non-cash expense related to variable plan accounting on certain management stock options, and restricted stock grants. If these non-operating and non cash items are excluded, our SG&A as a percentage of revenues would have been 23.2%. SG&A expense for fiscal 2000 was unfavorably impacted by a charge of $232.8 million related to litigation issues, offset by a reversal of stock appreciation rights accruals of $45.5 million. Excluding these non-operating and non cash items results in an adjusted SG&A as a percentage of revenues of 25.6% in fiscal 2000. SG&A on an adjusted basis of 23.2% for fiscal 2001 compares favorably with SG&A on an adjusted basis of 25.6% for fiscal 2000 due to lower depreciation expense resulting from a net reduction in our store count, decreased repair and maintenance and terminated project costs, and the better leveraging of fixed SG&A costs resulting from our higher sales volume.

The increase in SG&A expense as a percent of revenues in fiscal 2000 over fiscal 1999 is predominately attributable to increased accruals for litigation and other contingencies, as described above.

Store Closing and Impairment Charges

Store closing and impairment charges (credits) consist of:

	Year Ended	
	March 3, 2001	February 26, 2000
	(dollar	
Impairment charges	$214,224	$120,593
Store lease exit charges (credits)	57,668	18,855
Impairment of investments	116,186	--
	$388,078	$139,448

Impairment Charges -- Thirteen Week Period and Fiscal Comparisons

These amounts include the write-down of long-lived assets to estimated fair value at stores that were assessed for impairment as part of our on-going review of the performance of our stores or management's intention to relocate or close the store. Impairment charges include non-cash charges of $7.9 million and $8.2 million for the thirteen week periods ended June 2, 2001 and May 27, 2000, respectively, for the impairment of long-lived assets (including allocable goodwill) at 17 and 42 stores, respectively. In fiscal 2001, fiscal 2000

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and fiscal 1999, store closing and impairment charges include non-cash charges of $214.2 million, $120.6 million and $87.7 million, respectively, for the impairment of long-lived assets (including allocable goodwill) of 495 stores, 249 stores and 270 stores, respectively.

Store Lease Exit Costs -- Thirteen Week Period and Fiscal Year Comparisons

Costs incurred to close a store, which principally consist of lease termination costs, are recorded at the time management commits to closing the store, which is the date that the closure is formally approved by senior management, or in the case of a store to be relocated, the date the new property is leased or purchased. We calculate our liability for closed stores on a store-by-store basis. The calculation includes the future minimum lease payments and related ancillary costs, from the date of closure to the end of the remaining lease term, net of estimated cost recoveries that may be achieved through subletting properties or through favorable lease terminations. This liability is discounted using a risk-free rate of interest. We evaluate these assumptions each quarter and adjust the liability accordingly. During the thirteen week periods ended June 2, 2001 and May 27, 2000, we recorded a provision for 7 and 18 stores, respectively, that were designated for closure. The effect of lease terminations and changes in assumptions in interest rates during the thirteen week period ended June 2, 2001, had a positive impact that exceeded the additional provision due to low closure levels and resulted in an expense credit from closed store activity. As a result of focused efforts on cost recoveries for closed stores during fiscal 2001 and 2000, we experienced improved results, which has been reflected in the assumptions about future sublease income.

Impairment of Investments

We have an investment in the common stock of drugstore.com, which is accounted for under the equity method. The initial investment was valued based upon the initial public offering price for drugstore.com. During fiscal 2001, we recorded an impairment of our investment in drugstore.com of $112.1 million. This write-down was based upon a decline in the market value of drugstore.com's stock that we believe to be other than temporary. Additionally, we recorded impairment charges of $4.1 million for other investments.

Interest Expense

Thirteen Week Period Comparisons

Interest expense was $128.7 million for the thirteen week period ended June 2, 2001, compared to $171.4 million in the thirteen week period ended May 27, 2000. The decrease was primarily due to the reduction of debt resulting from the sale of PCS and debt for equity exchanges. The weighted average interest rates, excluding capital leases, on our indebtedness for the thirteen week period ended June 2, 2001 and May 27, 2000 were 8.01% and 8.10%, respectively.

Fiscal Year Comparisons

Interest expense was $649.9 million in fiscal 2001 compared to $542.0 million in fiscal 2000 and $274.8 million in fiscal 1999. The substantial increase in fiscal 2001 and fiscal 2000 were due to higher average levels of indebtedness and higher interest rates on debt. In fiscal 2001, we increased our average outstanding debt with the addition of the $1.1 billion senior secured credit facility, which includes a $600.0 million term loan and a $500.0 million revolving credit facility. We used the term loan to terminate our accounts receivable securitization facility and repurchased $300.0 million of unpaid receivables thereunder and funded $66.4 million of transaction costs related to our debt restructuring. The remainder of the term loan together with the revolving credit facility were used for general corporate purposes, including the costs of reviewing, reconciling and restating our fiscal 1998 and fiscal 1999 financial statements, the cost of the audit of our restated financial statements and investigation costs. These items were partially offset by reductions of indebtedness in the second half of fiscal 2001 resulting from the sale of PCS and debt for equity exchanges. In fiscal 2000, our debt increased as a result of the $1.3 billion borrowed in January 1999 under the PCS credit facility and the $300.0 million of demand note borrowings to supplement cash flows from operating activities. The annual weighted average interest rates on our indebtedness in fiscal 2001, fiscal 2000 and fiscal 1999 were 8.2%, 7.4% and 6.8% respectively.

Income Taxes

Thirteen Week Period Comparisons

We had net losses in the thirteen week periods ended June 2, 2001 and May 27, 2000. The tax benefit for the thirteen week period ended June 2, 2002 is fully offset by a valuation allowance based on management's determination that, based on available evidence, it is more likely than not that certain of the deferred tax assets will not be realized. The income tax provision for the thirteen week period ended May 27, 2000 reflects the effect of the decision to sell PCS and to discontinue the operations of our PBM segment. It is foreseeable that an "ownership change" for statutory purposes will occur during fiscal 2002 as a result of our refinancing efforts, including issuances of equity and exchanges of debt for equity. An "ownership change" would result in a limitation imposed on the future use of net operating losses and any net unrealized built-in losses incurred or existing prior to the "ownership change".

Fiscal Year Comparisons

We had net losses in fiscal 2001, fiscal 2000 and fiscal 1999. Tax expense of $149.0 million and tax benefits of $26.6 million (including the benefit related to cumulative effect of accounting change) and $216.9 million have been reflected for fiscal 2001, fiscal 2000 and fiscal 1999, respectively. The full benefit of the net operating loss carryforwards ("NOLs") generated in each period has been fully offset by a valuation allowance based on management's determination that, based on available evidence, it is more likely than not that some of the deferred tax assets will not be realized. We expect to file amended tax returns and utilize the NOLs against taxable income in prior years to the maximum extent possible. Of the $147.6 million recoverable taxes recorded as of February 26, 2000, we have collected or have offsets of $122.7 million. The remaining $24.9 million has been reclassified to other non current assets since we anticipate collection beyond fiscal 2002.

Other Significant Charges

Thirteen Week Period Comparisons

The net loss from continuing operations for the thirteen week periods ended June 2, 2001 and May 27, 2000 was $211.1 million and $403.4 million, respectively. In addition to the matters discussed above, our results in the thirteen week periods ended June 2, 2001 and May 27, 2000 have been affected by other charges. In the thirteen week period ended June 2, 2001, we recorded a pre-tax loss of $132.7 million on debt conversions and a loss of $5.9 million representing our share of the drugstore.com losses partially offset by a gain of $53.2 million resulting from the sale of AdvancePCS securities. In the thirteen week period ended May 27, 2000, we recorded income tax expense of $144.4 million due primarily to valuation allowances related to the decision to dispose of the PBM segment and a $11.6 million loss from our share of drugstore.com losses.

Fiscal Year Comparisons

In addition to the operational matters discussed above, our results in fiscal 2001 were adversely affected by other significant charges. We recorded a net loss of $168.8 million on the disposal of the PBM segment. As a result of the decision to dispose of the PBM segment, we recognized an increase in the income tax valuation allowance of $146.9 million for fiscal 2001. We also recorded a pre-tax loss of $100.6 million on debt conversions and modifications, and recorded a loss of $36.7 million representing our share of drugstore.com losses.

Discontinued Operations

On July 12, 2000, we announced the sale of the PBM segment, at which time the PBM segment was subjected to discontinued operations accounting. Prior to becoming a discontinued operation on July 12, 2000, the PBM segment generated net income of $11.3 million from February 27, 2000 through July 11, 2000, compared to net income of $9.2 million in fiscal 2000 and a net loss of $12.8 million in fiscal 1999.

Liquidity and Capital Resources

We have two primary sources of liquidity: (i) cash provided by operations and (ii) the revolving credit facility under our senior secured credit facility. We may also generate liquidity from the sale of assets, including sale-leaseback transactions. During fiscal 2000 and fiscal 2001, cash provided by operations was not sufficient to fund our working capital requirements. As a result, we have supplemented our cash from operations with borrowings under our credit facilities. Our principal uses of cash are to provide working capital for operations, service our obligations to pay interest and principal on our debt, and to provide funds for capital expenditures. On June 27, 2001, we completed a comprehensive $3.2 billion refinancing package to refinance a significant proportion of our indebtedness. See "Prospectus Summary--Refinancing Transactions".

Credit Facilities and Refinancing

New Senior Secured Credit Facility. As part of the Refinancing, we entered into a new senior secured credit facility in the aggregate principal amount of $1.9 billion, consisting of term loan facilities in the amount of $1.4 billion, which includes funds sufficient to repay the remaining $22 million aggregate principal amount of outstanding 10.5% senior secured notes due 2002, and a revolving credit facility in the amount of $500.0 million.

Borrowings under the facilities generally bear interest at LIBOR plus a spread of 3.50%, if we choose to make LIBOR borrowings, or the highest of (a) the current base rate of Citibank, N.A., (2) the Federal Funds Effective Rate plus 0.5% and (c) the Base CD Rate plus 0.5%, plus a spread of 2.50%. The facilities will mature on June 27, 2005, provided that to the extent that more than $20 million of our 7.625% senior notes due 2005 remain outstanding on December 31, 2004, the facilities will mature and all lending commitments under the revolving facility will terminate on March 15, 2005.

The senior secured credit facility contains covenants that are customary for facilities of this type, which place restrictions on, among other things, the increase of debt, the payment of distributions in respect of capital stock, the prepayment of debt, investments, capital expenditures, mergers, liens, sale-leaseback transactions and the granting of negative pledges to other creditors, and require us to meet various financial ratios.

The senior secured credit facility is subject to mandatory prepayment with the net cash proceeds of sales of specified assets and sales of capital stock of any of our subsidiaries owning any specified assets (other than sales in the ordinary course of business and other limited exceptions) and the net cash proceeds of certain permitted capital markets transactions. However, provided that we are in compliance with certain requirements under the facility, we may use up to $300 million of proceeds of a permitted capital markets transaction to repay certain outstanding debt and use the balance of the $300 million for general corporate purposes. Any proceeds from a permitted capital markets transaction in excess of $200 million will be split 75% for prepayment of the term loan facilities and 25% for general corporate purposes. The facility also permits the issuance of certain additional debt, the proceeds of which will not be required to be applied to mandatory prepayment, as follows: (a) up to $200 million aggregate principal amount of secured debt, subordinated only to the senior secured credit facility and any remaining 10.5% notes, with terms and conditions satisfactory to lenders under the facility holding more than 66 2/3% of the aggregate amount of the loans and commitments under the senior secured credit facility (of which $107 million has been issued as part of a synthetic lease facility), and (b) an aggregate principal amount of debt (which, among other things, has a maturity date after January 1, 2006 and is limited to a passive second priority lien on the senior secured credit facility or to liens on certain real estate) in an amount not in excess of $450 million.

The senior secured credit facility contains customary event of default provisions including nonpayment, misrepresentation, breach of covenants, bankruptcy and default under other indebtedness.

Substantially all of our wholly-owned subsidiaries guarantee our obligations under the new credit facility. These subsidiary guarantees are secured primarily by a first priority lien on the inventory, accounts receivable, intellectual property and prescription files of the subsidiary guarantors. Our direct obligations under the new credit facility will be unsecured. The $21.9 million aggregate principal amount of outstanding

10.5% senior secured notes are secured on a shared first priority basis with the new credit facility. Our 12.5% senior secured notes due 2006 are secured on a second priority basis. The new senior secured credit facility and our outstanding indebtedness include borrowings that were used to purchase $174.5 million aggregate principal amount of 10.5% senior secured notes due 2002 in the tender offer, which is a part of the Refinancing.

Previous Senior Secured Credit Facility. In June 2000, we entered into a $1.0 billion (which was increased to $1.1 billion in November 2000) senior secured credit facility with a syndicate of banks led by Citibank N.A., as agent. The facility was to mature on August 1, 2002, and consisted of a $600.0 million term loan facility and a $500.0 million revolving credit facility. We used the term facility to terminate our accounts receivable securitization facility and repurchase $300.0 million of unpaid receivables thereunder, to fund $66.4 million of transaction costs relating to our financial restructuring and to provide $133.6 million of cash available for general corporate purposes. The revolving facility provided us with borrowings for working capital requirements, capital expenditures and general corporate purposes. Borrowings under the facilities generally bore interest either at

LIBOR plus 3.0%, if we chose to make LIBOR borrowings, or at Citibank's base rate plus 2%.

Substantially all of our wholly-owned subsidiaries guaranteed our obligations under the previous senior secured credit facility. These subsidiary guarantees were secured by a first priority lien on the inventory, accounts receivable, intellectual property and some of the real estate assets of the subsidiary guarantors. Our direct obligations under the senior credit facility were unsecured.

The previous senior secured credit facility contained customary covenants, which placed restrictions on the assumption of debt, the payment of dividends, mergers, liens and sale-leaseback transactions. The facility required us to meet various financial ratios and limited our capital expenditures.

The previous senior secured credit facility was repaid with the proceeds of the Refinancing.

Other Credit Facilities. In June 2000, we extended to August 2002 the maturity date of our RCF credit facility and our PCS credit facility. Borrowings under the PCS credit facility bore interest at LIBOR plus 3.25% and borrowings under the RCF credit facility bore interest at LIBOR plus 3.75%. These credit facilities contained restrictive covenants which placed restrictions on the assumption of debt, the payment of dividends, mergers, liens and sale-leaseback transactions. They also required us to satisfy financial covenants which were generally slightly less restrictive than the covenants in our previous senior secured credit facility. The facilities also limited the amount of our capital expenditures to $186.0 million for the three quarters ended March 3, 2001, increasing to $243.0 million for the four quarters ending June 1, 2002.

As part of the restructuring of our debt in June 2000, certain affiliates of J.P. Morgan, which had lent us $300.0 million under a demand note in June 1999 and was also a lender under the RCF and PCS credit facilities, together with certain other lenders under the two credit facilities, agreed to exchange a portion of their loans for a new secured exchange debt obligation and shares of our common stock. This resulted in a total of $284.8 million of debt under these facilities, including $200.0 million of the outstanding principal of the demand note, being exchanged for an aggregate of 51,785,434 shares of our common stock at an exchange rate of $5.50 per share. We recorded a gain on this exchange of debt of $5.2 million in the second quarter of fiscal 2001. An additional $274.8 million of borrowings under the facilities were exchanged for the exchange debt, including the entire remaining principal amount of the demand note. The terms of the exchange debt were substantially the same as the terms of our RCF and PCS credit facilities and the interest rate was LIBOR plus 3.25%.

The PCS and RCF credit facilities and the exchange debt were repaid with the proceeds of the Refinancing.

Debt Covenants. We were in compliance with the covenants of the previous senior secured credit facility and our other credit facilities and debt instruments as of March 3, 2001. With continuing improvements in operating performance, we anticipate that we will maintain our compliance with our debt covenants in the new senior secured credit facility. However, variations in our operating performance and unanticipated developments may adversely affect our ability to remain in compliance with the applicable debt covenants.

Commercial Paper. Until September 24, 1999, we issued commercial paper supported by unused credit commitments to supplement cash generated by operations. Since the loss of our investment grade rating in fiscal 2000, we are no longer able to issue commercial paper. Our outstanding commercial paper amounted to $192.0 million at February 26, 2000 and $1,783.1 million at February 27, 1999. All remaining commercial paper obligations were repaid in March 2000.

Exchange Offers. During the period between June 2000 and March 3, 2001 we completed numerous debt for debt and debt for equity exchange offers. In the aggregate, we issued:

- $467.5 million of our 10.5% senior secured notes due 2002; and
- 32.3 million shares of our common stock,

in exchange for an aggregate of:

- $123.0 million of our 5.5% notes due December 2000;
- $342.7 million of our 6.7% notes due December 2001;
- $292.7 million of our 5.25% convertible subordinated notes due 2002;
- $17.8 million of our 6.00% dealer remarketable securities due 2003; and
- $2.0 million of our 7.625% senior notes due 2005.

In connection with these exchanges we recorded an aggregate loss of $100.6 million during fiscal 2001.

Subsequent to March 3, 2001, the holders of approximately $205.3 million principal amount of our 5.25% convertible subordinated notes due 2002 exchanged these notes for an aggregate of 29.7 million shares of our common stock and the holders of approximately $79.9 million principal amount of our 6.0% dealer remarketable securities due 2003 exchanged these notes for an aggregate of 12.4 million shares of our common stock. We also exchanged an aggregate of $303.5 million in our RCF credit facility, PCS credit facility, 10.5% senior secured notes due 2002 and other debt for 44.3 million shares of common stock. In addition, as part of the Refinancing, we consummated a tender offer for $174.5 million of our 10.5% senior secured notes due 2002. See "Summary--Refinancing Transactions".

In connection with the Refinancing, we will incur nonrecurring expense in the first and second quarters of fiscal 2002 of approximately $221.0 million. On a prospective annual basis, the Refinancing reduces depreciation and amortization expense approximately $4.0 million, but increases rent expense approximately $57.0 million. Interest expense is also expected to decrease due to the Refinancing, earlier debt for equity exchanges and the repayment of debt related to the sale of AdvancePCS investments. Prospective annual interest expense is estimated to be $370 million to $390 million, of which $320 million to $340 million is cash interest expense.

Capitalization. The following table sets forth our capitalization at June 30, 2001, following the completion of the refinancing transactions described in "Prospectus Summary--Refinancing Transactions".

	As of June 30, 2001 ($ in millions)
Secured Debt:	
Senior secured credit facility	$1,378
10.50% senior secured notes due 2002	22
12.5% senior secured notes due 2006	143
Other	12
Lease Financing Obligations	227
Unsecured Debt:	
6.7% notes due 2001	7
6.0% dealer remarketable securities due 2003	108
6.0% notes due 2005	195
7.625% notes due 2005	198
7.125% notes due 2007	350
6.125% notes due 2008	150
11.25% senior notes due 2008	150
6.875% senior debentures due 2013	200
7.7% notes due 2027	300
6.875% debentures due 2028	150
Subordinated Debt:	
5.25% convertible subordinated notes due 2002	152
Total debt	3,742
Redeemable preferred stock	19
Stockholders' equity	568
Total capitalization	$4,329

On a prospective annual basis, the refinancing will reduce depreciation and amortization expense approximately $4.0 million but increase rent expense approximately $57.0 million. Interest expense is also expected to decrease due to the refinancing, debt for equity exchanges effected prior to June 3, 2001, and the repayment of debt related to the sale of the AdvancePCS investments. Prospective annual interest expense is estimated to be $370.0 million to $390.0 million of which $320.0 million to $340.0 million is cash interest.

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

Thirteen Week Period Comparisons

Our operating activities provided $45.7 million of cash in the thirteen week period ended June 2, 2001 and used $9.4 million of cash in the thirteen week period ended May 27, 2000. Operating cash flow was negatively impacted by $127.3 million in interest payments and increases in operating assets. This was offset by increased current liabilities.

Cash provided by investing activities was $463.7 million for the thirteen week period ended June 2, 2001, due primarily to the sale of the securities we received in our sale of AdvancePCS. Cash used in investing activities was $20.0 million for the thirteen week period ended May 27, 2000. Cash used for store construction and relocations amounted to $7.1 million and $18.9 million for the thirteen week period ended June 2, 2001 and May 27, 2000, respectively.

Cash used in financing activities was $521.7 million and $72.5 million for the thirteen week periods ended June 2, 2001 and May 27, 2000, respectively. Proceeds from the sale of the securities we received from our sale of AdvancePCS were used to pay down outstanding debt balances, which significantly impacted cash used in financing activities in the thirteen week period ended June 2, 2001.

Fiscal Year Comparisons

We used $704.6 million of cash to fund continuing operations in fiscal 2001. Operating cash flow was negatively impacted by $543.3 million of interest payments. Operating cash flow was also negatively impacted from an increase in current assets, primarily resulting from repurchasing $300.0 million of accounts receivable when we refinanced the accounts receivable securitization facility, and a decrease in accounts payable and other liabilities.

In fiscal 2000, we used $623.1 million of cash to fund continuing operations. Operating cash flow was negatively impacted by $501.8 million of interest payments. Operating cash flow was also negatively impacted from an increase in current assets and a decrease in accounts payable partially offset by an increase in other liabilities.

Cash provided by investing activities was $677.7 million for fiscal 2001. Cash was provided from the sale of our discontinued operations and various other assets, less expenditures for fixed and intangible assets.

Cash used for investing activities was $552.1 million and $2.7 billion for fiscal 2000 and fiscal 1999, respectively. Cash used for store construction and relocations amounted to $573.3 million for fiscal 2000 and $1.2 billion for fiscal 1999. In addition, cash of $1.4 billion was used to acquire PCS in fiscal 1999.

Cash used in financing activities was $64.3 million for fiscal 2001. The cash used consisted of payments of $78.1 million of deferred financing costs partially offset by net debt borrowings of $6.8 million and proceeds from sale-leaseback transactions of $7.0 million. During fiscal 2001, we used the proceeds from the sale of our PBM segment to reduce our borrowings.

Cash provided by financing activities was $905.1 million for fiscal 2000 and $2,660.3 million for fiscal 1999. Increased borrowings under our RCF and PCS credit facilities which replaced our commercial paper program and the sale of $300.0 million of preferred stock were the main financing activities during fiscal 2000. In fiscal 1999, we issued commercial paper to finance the acquisition of PCS. Also during fiscal 1999, net proceeds were received from the issuance of $700.0 million in long-term debt and $200.0 million of dealer remarketable securities. Cash provided by financing activities included proceeds received from store sale-leaseback transactions of $74.9 million and $505.0 million for fiscal 2000 and 1999, respectively.

Capital Expenditures

Thirteen Week Period Comparisons

We plan capital expenditures of approximately $230.0 million to $240.0 million during fiscal 2002, consisting of approximately $82.6 million related to the termination of an operating lease and the corresponding purchase of equipment, $34.7 million related to new store construction, store relocation and other store construction projects. An additional $89.2 million will be dedicated to other store improvement activities and the purchase of prescription files from independent pharmacists. We expect that these capital expenditures will be financed primarily with cash flow from operations and borrowings under the revolving credit facility available under our senior secured facility. During the thirteen week period ended June 2, 2001, the company spent $26.8 million on capital expenditures, consisting of $7.1 million related to new store construction, store relocation and other store construction projects. As additional $19.7 million was related to other store improvement activities and the purchase of prescription files from independent pharmacists.

Fiscal Year Comparisons

We spent approximately $132.5 million, $573.3 million and $1.2 billion in capital expenditures in each of fiscal 2001, fiscal 2000, and fiscal 1999, respectively. In fiscal 2001 our capital expenditures were primarily related to new store construction, store relocation and other store construction projects.

Future Liquidity

We are highly leveraged. Based upon our current levels of operations and expected improvements in our operating performance, management believes that cash flow from operations, together with available borrowings under our new senior secured credit facility and our other sources of liquidity (including asset

sales) will be adequate to meet anticipated requirements for working capital, debt service and capital expenditures for the foreseeable future. However, our ability to meet our obligations will depend in part on our ability to successfully execute our long-term strategy and improve the operating performance of our stores. On June 27, 2001, we closed a series of transactions to refinance a significant portion of our indebtedness, see "Prospectus Summary--Refinancing Transactions". These transactions provide us with additional liquidity and reduce the amount of our indebtedness maturing before 2005. Our indebtedness maturing before 2005 now consists of $152.0 million of our 5.25% convertible subordinated notes due 2002, $107.8 million of 6.00% dealer remarketable securities due 2003 and $21.9 million of our 10.5% senior secured notes due 2002. Funds sufficient to repay the $21.9 million of notes outstanding at maturity are included in our new credit facility.

Accounting Change

In fiscal 2000, we changed our application of the LIFO method of accounting by restructuring our LIFO pool structure through a combination of certain geographic pools. The reduction in the number of LIFO pools was made to more closely align the LIFO pool structure to store merchandise categories. The effect of this change in fiscal 2000 was to decrease our earnings by $6.8 million (net of income tax benefit of $4.6 million) or $.03 per diluted common share. The cumulative effect of the accounting change was a charge of $27.3 million (net of income tax benefit of $18.2 million) or $.11 per diluted common share. The pro forma effect of this accounting change would have been a reduction in net income of $6.4 million, (net of income tax benefit of $4.2 million) or $.02 per diluted common share for fiscal 1999.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS 133 is effective for all fiscal years beginning after June 15, 2000. SFAS 133, as amended by SFAS 138, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives, whether designated in hedging relationships or not, will be required to be recorded on the balance sheet at fair value. If the derivative is designated and effective as a fair value hedge, the changes in the fair value of the derivative and the changes in the hedged item attributable to the hedged risk will be recognized in earnings. If the derivative is designated and effective as a cash-flow hedge, changes in the fair value of the effective portion of the derivative will be recorded in other comprehensive income ("OCI") and will be recognized in the income statement when the hedged item affects earnings. SFAS 133 defines new requirements for designation and documentation of hedging relationships as well as ongoing effectiveness assessments in order to use hedge accounting. For a derivative that does not qualify as a hedge, changes in fair value will be recognized in earnings. On March 4, 2001, in connection with the adoption of the new Statement, we will record a reduction of approximately $29.0 million in OCI as a cumulative transition adjustment for derivatives designated as cash flow-type hedges prior to adopting SFAS 133.

Certain issues currently under consideration by the Derivatives Implementation Group ("DIG") may make it more difficult to qualify for cash flow hedge accounting in the future. Pending the results of the DIG deliberations, changes in the fair value of our interest rate swaps may be recorded as a component of net income.

In June 2001, the Financial Accounting Standards Board ("FASB") issued two new pronouncements: Statement of Financial Accounting Standards ("SFAS") No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS 141 is effective as follows: a) use of the pooling-of-interest method is prohibited for business combinations initiated after June 30, 2001; and b) the provisions of SFAS 141 also apply to all business combinations accounted for by the purchase method that are completed after June 30 2001 (that is, the date of the acquisition is July 2001 or later). There are also transition provisions that apply to business combinations completed before July 1, 2001, that were accounted for by the purchase method. SFAS 142 effective for fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized in an entity's statement of financial position at that date, regardless of when those assets were initially recognized. The Company is currently evaluating the provisions of SFAS 141 and

SFAS 142 and has not adopted such provisions in its June 2, 2001 condensed consolidated financial statements.

Change in Accountants

On November 19, 1999, we filed a Current Report on Form 8-K disclosing the resignation of our former auditors, KPMG LLP and the withdrawal of their report on our financial statements. On December 6, 1999, we amended the Form 8-K dated November 19, 1999 to file a letter by KPMG LLP concerning the disclosure in the Form 8-K. On December 10, 1999, we filed a Current Report on Form 8-K to announce that we had retained Deloitte & Touche LLP as our independent auditors.

Market Risk

Our future earnings, cash flow and fair values relevant to financial instruments are dependent upon prevalent market rates. Market risk is the risk of loss from adverse changes in market prices and interest rates. Our major market risk exposure is changing interest rates. Increases in interest rates would increase our interest expense. Since the end of fiscal 2000, our primary risk exposure has not changed. We enter into debt obligations to support capital expenditures, acquisitions, working capital needs and general corporate purposes. Our policy is to manage interest rates through the use of a combination of variable-rate credit facilities, fixed-rate long-term obligations and derivative transactions.

The table below provides information about our financial instruments that are sensitive to changes in interest rates. The table presents principal payments and the related weighted average interest rates by expected maturity dates as of March 3, 2001.

	2002	2003	2004	2005	2006	Ther
				(dollars in thousands)		
Long-term debt, including current portion						
Fixed rate	$8,353	$1,828,874	$188,533	$197,014	$198,439	$1,1
Average Interest Rate	5.91%	9.41%	6.00%	6.06%	7.62%	
Interest Rate Swap	--	--	--	--	--	
Variable Rate	--	$1,219,785	--	--	--	
Average Interest Rate	--	9.16%	--	--	--	

In June 2000, we entered into an interest rate swap that fixes the LIBOR component of $500.0 million of our variable-rate debt at 7.083% for a two year period. In July 2000, we entered into an additional interest rate swap that fixes the LIBOR component of an additional $500.0 million of variable rate debt at 6.946% for a two year period.

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

The ratings on the senior secured credit facility, the RCF credit facility, the PCS credit facility and the fixed-rate obligations as of March 31, 2001 were B- by Standard & Poor's and by Caa1 by Moody's. The exchange debt facility was not rated. Immediately prior to the Refinancing, the interest rates on the variable-rate borrowings were as follows: $1.1 billion previous senior credit facility: LIBOR plus 3.00%, the RCF facility: LIBOR plus 3.75%, the PCS and the exchange debt facilities: LIBOR plus 3.25%. The interest rate on the new $1.9 billion senior credit facility is LIBOR plus 3.50%.

Downgrades of our credit ratings will not have an impact upon the rate on the borrowings under these credit facilities.

Changes in one month LIBOR affect our cost of borrowings because the interest rate on our variable-rate obligations is based on LIBOR. If the market rates of interest for one month LIBOR change by 10% (approximately 50 basis points), our annual interest expense would change by approximately $1.9 million based upon our variable-rate debt outstanding of approximately $378.0 million as of June 30, 2001.

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

BUSINESS

Overview

We are the second largest retail drugstore chain in the United States based on number of stores and the third largest based on revenues. We operate our drugstores in 30 states across the country and in the District of Columbia. We have a first or second place market position, based on revenues, in 34 of the 65 major U.S. metropolitan markets in which we operate. As of June 2, 2001, we operated 3,631 stores, which generated $14.5 billion in revenues during fiscal 2001. Since the beginning of fiscal 1997, we have purchased 1,554 stores, relocated 949 stores, opened 469 new stores and remodeled 410 stores. As a result, we believe we have one of the most modern store bases in the industry.

In our stores, we sell prescription drugs and a wide assortment of other merchandise which we call "front-end" products. In fiscal 2001, our pharmacists filled more than 204 million prescriptions which accounted for 59.5% of our total revenues. In the first quarter of fiscal 2002, pharmacy sales accounted for 61.6% of our total revenues. 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 24,600 front-end products, including over-the-counter medications, health and beauty aids, personal care items, cosmetics, household items, beverages, convenience foods, greeting cards, photo processing, seasonal merchandise and numerous other everyday and convenience products, which accounted for the remaining 40.5% of our total revenues in fiscal 2001 and the remaining 38.4% of our total revenues in the first quarter of fiscal 2002. We distinguish our stores from other national chain drugstores, in part, through our private label brands and our strategic alliance with GNC, a leading retailer of vitamin and mineral supplements. We offer over 1,500 products under the Rite Aid private label brand, which contributed approximately 10% of our front-end sales in fiscal 2001.

Our stores range in size from approximately 5,000 to 40,000 square feet. The larger stores are concentrated in the western United States. Substantially all of the stores we have opened since 1995 are based on our prototype 12,500 square foot freestanding building and such stores typically include a drive-thru pharmacy and one-hour photo shop and many include a GNC store-within-Rite Aid-store.

Until October 2, 2000, when we sold it to Advance Paradigm, Inc. (now AdvancePCS), we owned PCS Health Systems, Inc., a provider of pharmacy benefit management services to employers, insurance carriers and managed care companies. As a result of the sale, the PBM segment is reported as a discontinued operation for all relevant periods in the financial statements included in this offering memorandum.

Strategy

Our primary long-term operating strategy is to focus on improving the productivity of our existing store base. We believe that improving the sales of existing stores is important to achieving profitability and positive cash flow. We also believe that the substantial investment made in our store base over the last five years has given us one of the most modern stores bases in the industry. However, our store base has not yet achieved a level of sales productivity comparable to our major competitors. We intend to improve the performance of existing stores by continuing to (i) capitalize on the substantial investment in our stores and distribution facilities; (ii) improve the product offerings in our stores; and (iii) enhance our customer and employee relationships. Moreover, it is estimated that pharmacy sales in the United States will increase 75% over the next five years. This anticipated growth is expected to be driven by the "baby boom" generation entering their fifties, the increasing life expectancy of the American population, the introduction of several new successful drugs and inflation. We believe this growth will help increase the sales productivity of our existing store base. To achieve this objective, we are implementing the following strategies:

Capitalize on Investments in Stores and Distribution Facilities. Approximately 50% of our stores have been constructed, relocated or remodeled since the beginning of fiscal 1997. Our new and relocated stores are generally larger and need to develop a critical mass of customers to achieve profitability, which generally takes two to four years. Therefore, attracting more customers is a key component of our long-term operating strategy. We continue to attract new customers to our modern stores through various marketing strategies

including weekly circulars, seasonal merchandising programs and direct marketing efforts. To support our new store base, we improved our distribution network by, among other things, opening two high capacity distribution centers in Perryman, MD and Lancaster, CA.

During fiscal 2001, we undertook several initiatives to increase sales of our Rite Aid brand products and generic prescription drugs. In fiscal 2001, we piloted a program in four markets whereby we reduced pricing of our Rite Aid brand and reduced cash prices of generic pharmacy products which resulted in higher amounts of cash prescriptions being filled.

Improve Product Offerings in Our Stores. We continue to develop ideas for new product departments and have begun to implement plans to expand the categories of our front-end products. We continue to add popular and profitable product departments, such as our GNC stores-within-Rite Aid-stores and one-hour photo development departments. Although we are already an industry leader in dispensing generic drugs, which are generally more profitable than brand name drugs, in fiscal 2001 we took additional steps to further improve our generic efficiency, including adding functionality to our proprietary Rite Aid Dispensing System to aid our pharmacists in dispensing generic prescriptions whenever possible. As private label and generic prescription drugs generate higher margins than branded label, we expect that increases in the sales of these products should enhance our profitability. We continue to improve inventory and product categories to offer more personalized products and services to our customers, including better management of seasonal items. We also continue to strengthen our relationships with our suppliers in order to offer customers a wider selection of products.

Enhance Customer and Employee Relationships. We have implemented programs designed to improve relationships with customers and improve employee morale. Through attention to customers' needs and preferences, we are increasing our efforts to offer more personalized products and services to our customers. We are continuing programs that are designed to build awareness and enhance positive perceptions among customers, including distribution of a weekly circular, weekly sales items, seasonally relevant merchandising and our customer reward program, "Rite Rewards." We are increasing customer loyalty by establishing a strong community presence, increasing promotional themes and exclusive offers and focusing on the attraction and retention of managed care customers. We continue to develop and implement employee training programs to improve customer service and educate our employees about the products we offer. We are also developing employee programs that create compensatory and other incentives for employees to provide customers with quality service, to promote our private label brands and to improve our corporate culture.

Description of our Business

Products and Services. During fiscal 2001, sales of prescription drugs represented approximately 59.5% of our total revenues up from 54.2% in fiscal 1999. Sales of prescription drugs represented approximately 61.6% of our total revenues for our first quarter in fiscal 2002. In fiscal 2001, fiscal 2000 and fiscal 1999, prescription drug revenues were $8.6 billion, $7.8 billion and $6.7 billion, respectively, of our revenues. Prescription drug revenues were $2.27 billion for our first quarter in fiscal 2002. We sell approximately 24,600 different types of non-prescription, or front-end, products. The types and numbers of front-end products in each store vary, and selections are based on available space and customers' needs and preferences. No single front-end product category contributed significantly to our revenues during fiscal 2001 although certain front-end product classes contributed notably to our revenues. Our principal classes of products in fiscal 2001 were the following:

Product Class	Percentage of Revenues
Prescription drugs	59.5%
Over-the-counter and personal care	10.9
Health and beauty aids	5.8
General merchandise and other	23.8

We offer over 1,500 products under the Rite Aid private label brand, which contributed approximately 10.0% of our front-end sales in fiscal 2001. During fiscal 2001, we added 159 products under our private label. We intend to increase the number and the sales of our private label brand products.

We have a strategic alliance with GNC under which we have agreed to open a minimum of 1,000 GNC "stores-within-Rite Aid-stores" across the country by July 2003. GNC is a leading nationwide retailer of vitamin and mineral supplements and personal care, fitness and other health-related products. As of June 2, 2001, we operated 670 GNC stores-within-Rite Aid-stores. We plan to open 220 GNC stores-within-Rite Aid-stores during fiscal 2002.

Store Locations. Part of our strategy is to locate our stores at convenient locations in fast-growing metropolitan areas. As of June 2, 2001, we had a first or second place market position in 34 of the 65 major U.S. metropolitan markets in which we operate. We have significantly reduced our store development program in order to focus our efforts and resources on improving the operations of our existing store base. Consistent with our operating strategy, during fiscal 2001, we opened 9 new stores, relocated 63 stores, remodeled 98 stores and closed 163 stores. Our current plan for fiscal 2002 is to open approximately 6 new stores, relocate 25 stores and remodel 76 stores. Our fiscal 2002 planned store openings and relocations are not concentrated in any specific geographic region.

The table below identifies the number of stores by state as of June 2, 2001:

State	Store Count
Alabama	129
Arizona	3
California	599
Colorado	31
Connecticut	44
Delaware	26
District of Columbia	8
Georgia	52
Idaho	22
Indiana	8
Kentucky	123
Louisiana	96
Maine	82
Maryland	154
Michigan	344
Mississippi	32
Nevada	37
New Hampshire	39
New Jersey	174
New York	404
Ohio	278
Oregon	72
Pennsylvania	368
Tennessee	51
Texas	5
Utah	30
Vermont	13
Virginia	159
Washington	138
West Virginia	109
Wyoming	1
Total	3,631

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Technology. All of our stores are integrated into a common information system, which enables our pharmacists to fill prescriptions more accurately and efficiently with reduced chances of adverse drug interaction and which can be expanded to accommodate new stores. As of June 2, 2001, we had installed ScriptPro automated pharmacy dispensing units which are linked to our pharmacists' computers and fill and label prescription drug orders in 871 stores. The efficiency of the ScriptPro units allows our pharmacists to spend an increased amount of time consulting with customers. In fiscal 2001, we developed and implemented several new technologies and applications, including productivity improvements related to our piece picking and inventory movement management. We also made modifications to our proprietary pharmacy information system in order to improve its user interface and information output. Additionally, each of our stores employs point-of-sale technology that facilitates inventory replenishment, sales analysis and recognition of customer trends. Our customers may also order prescription refills over the Internet through drugstore.com or over the phone through our telephonic rapid automated refill systems.

Suppliers. During fiscal 2001, we purchased approximately 93% of the dollar volume of our prescription drugs from a single supplier, McKesson HBOC, Inc., under a contract which runs until April 2004. Under the contract, McKesson HBOC has agreed to sell to us all of our requirements of branded pharmaceutical products. With limited exceptions, we are required to purchase all of our branded pharmaceutical products from McKesson HBOC. If our relationship with McKesson HBOC was disrupted, we could have difficulty filling prescriptions, which would negatively affect our business. We purchase generic (non-brand name) pharmaceuticals from a variety of sources. We purchase our non-pharmaceutical merchandise from numerous manufacturers and wholesalers. We believe that competitive sources are readily available for substantially all of the non-pharmaceutical merchandise we carry and that the loss of any one supplier would not have a material effect on our business. In fiscal 1999 and fiscal 2000 disputes arose between us and some of our major vendors which weakened our relationships. During fiscal 2001, we made significant efforts to resolve prior issues and disputes and to improve our relationships with our suppliers and vendors and we believe these efforts have been successful.

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

Customers and Third-Party Payors. During fiscal 2001, our stores served an average of 1.9 million customers per day as compared to an average of 1.8 million customers per day in fiscal 2000. The loss of any one customer would not have a material adverse impact on our results of operations. No single customer or health plan contract accounted for more than 10% of our total revenues.

In a typical third-party payment plan, we contract with a third-party payor (such as an insurance company, a prescription benefit management company, a governmental agency, a private employer, a health maintenance organization or other managed care provider) that agrees to pay for all or a portion of a customer's eligible prescription purchases in exchange for reduced prescription rates. During fiscal 2001, the top five third-party payors accounted for approximately 26.4% of our total revenues, the largest of which represented 10.8% of our total revenues. Third party prescription sales represented 91.7% of our pharmacy revenue during our first quarter in fiscal 2002. Any significant loss of third-party payor business could have a material adverse effect on our business and results of operations.

Competition

The retail drugstore industry is highly competitive. We compete with, among others, retail drugstore chains, independently owned drugstores, mass merchandisers, discount stores and mail order pharmacies. We compete on the basis of location and convenient access, customer service, product selection and price. Our store base has not achieved the level of sales productivity our major competitors achieve. Our new and relocated stores are generally larger and need to develop a critical mass of customers to achieve profitability, which generally takes two to four years. Although in the recent past we have had problems with inventory shortages, uncompetitive pricing and customer service, we have taken and are taking steps to address these

issues. Our major competitors among retail drugstore chains are CVS and Walgreens. We believe continued consolidation of the drugstore industry will further increase competitive pressures in the industry.

Marketing and Advertising

In fiscal 2001, marketing and advertising expenditures were $214.9 million, which was spent primarily on newpaper advertising circulars. We have initiated various programs that are designed to improve our image with customers. These include our distribution of weekly circulars to announce vendor promotions, weekly sales items and, in our expanded test market, our customer reward program, "Rite Rewards." We continue to develop and test direct marketing initiatives with a goal of expanding such initiatives to all of our stores. In addition, in fiscal 2001, in order to improve our image, we implemented several consumer events, including our Rite Aid Health and Beauty Expos held in New Orleans, Louisiana and in Seattle, Washington. Our front-end and prescription suppliers were invited to participate in both of these events by displaying, demonstrating and sampling their products and services in exhibit booths. We have also initiated programs that are specifically directed to our pharmacy business. These include reduced cash prices and an increased focus on attracting and retaining managed care customers.

Employees

We believe that our relationships with our employees are good. As of March 3, 2001, we had 75,500 employees, approximately 9,000 of which were pharmacists. Approximately 47% of our employees were part-time and approximately 26,400 were unionized. There is a national shortage of pharmacists. Our management is implementing various employee incentive plans in order to attract and retain qualified pharmacists.

Research and Development

We do not make significant expenditures for research and development.

Licenses, Trademarks and Patents

The Rite Aid name is our most significant trademark and the most important factor in marketing our stores and private label products. We hold licenses to sell beer, wine and liquor, cigarettes and lottery tickets. Additionally, we hold licenses granted to us by the Nevada Gaming Commission that allow us to place slot machines in our Nevada stores. We also hold licenses to operate our pharmacies and our distribution facilities. Together, these licenses are material to our operations.

Regulation

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

Our pharmacies and pharmacists must be licensed by the appropriate state boards of pharmacy. Our pharmacies and distribution centers are also registered with the federal Drug Enforcement Administration and are subject to federal Drug Enforcement Agency regulations relative to its pharmacy operations, including purchasing, storing and dispensing of controlled substances. Applicable licensing and registration regulations require our compliance with various state statutes, rules and/or regulations. Violations of applicable statutes, rules or regulations could result in the suspension or revocation of our licenses and registrations.

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

both federal and state authorities have proposed and have passed new legislation that imposes on healthcare providers, including pharmacies, significant additional obligations concerning the protection of confidential patient medical records and information.

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

In addition, in connection with the ownership and operation of our stores, distribution centers and other sites, we are subject to laws and regulations relating to the protection of the environment and health and safety matters, including those governing the management and disposal of hazardous substances and the cleanup of contaminated sites. Violations of or liabilities under these laws and regulations as a result of our current or former operations or historical activities at our sites, such as gasoline service stations and dry cleaners, could result in significant costs.

PBM Segment

On October 2, 2000, we consummated the sale of PCS to Advance Paradigm (now known as AdvancePCS) for $710.5 million in cash, equity securities of AdvancePCS and AdvancePCS's $200.0 million 11% promissory notes. In March 2001, we sold the AdvancePCS equity securities in an underwritten public offering for a total of $284.1 million (net of selling commissions) and AdvancePCS paid the promissory note in full plus accrued and unpaid interest. We applied $1,093.5 million of the proceeds from the sale of PCS to reduce our debt. We recorded a loss on disposal of $168.8 million in fiscal 2001 as a result of the sale.

Properties

We own our corporate headquarters, which are located in a 205,000 square-foot building at 30 Hunter Lane, Camp Hill, Pennsylvania 17011. We lease a 99,000 square-foot building near Harrisburg, Pennsylvania for use by additional administrative personnel. We lease 3,358 of our drugstore facilities under non-cancelable leases, many of which have original terms of 10 to 22 years. In addition to minimum rental payments, which are set at competitive market rates, certain leases require additional payments based on sales volume, as well as reimbursement for taxes, maintenance and insurance. Most of our leases contain renewal options, some of which involve rent increases.

As of June 2, 2001, we operated 3,631 retail drugstores. The overall average size of each store in our chain is 12,663 square feet. The stores on the east coast average 9,502 square feet per store. The west coast stores average 20,802 square feet per store. The central stores average 10,323 square feet per store.

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

Location	Owned or Leased	Approximate Square Footage
Rome, New York	Owned	291,000
Rome, New York (1)	Leased	71,400
Utica, New York (1)	Leased	115,000
Poca, West Virginia	Owned	264,000
Dunbar, West Virginia (1)	Leased	61,000
South Nitro, West Virginia (1)	Leased	50,000
Perryman, Maryland	Leased	885,000
Tuscaloosa, Alabama	Owned	238,000
Tuscaloosa, Alabama (1)	Leased	27,000
Cottondale, Alabama (1)	Leased	125,000
Pontiac, Michigan	Owned	362,000
Woodland, California	Owned	521,300
Woodland, California (1)	Leased	200,000
Wilsonville, Oregon	Leased	518,000
Lancaster, California	Leased	917,000

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(1) Overflow storage locations.

The original terms of the leases for our distribution centers range from 5 to 22 years. In addition to minimum rental payments, certain distribution centers require tax reimbursement, maintenance and insurance. Most leases contain renewal options, some of which involve rent increases. Although, from time to time, we may be near capacity at some of our distribution facilities, particularly our older facilities, we believe that the capacity of our facilities is adequate. As part of our ongoing efforts to improve our supply chain, we are studying ways to optimize capacity utilization and management of our facilities.

We also own a 52,200 square-foot ice cream manufacturing facility located in El Monte, California.

On a regular basis and as part of our normal business, we evaluate store performance and may reduce in size, close or relocate a store if the store is redundant, under-performing or otherwise deemed unsuitable. When we reduce in size, close or relocate a store, we often continue to have leasing obligations or own the property, but we attempt to sublease the space. As of March 3, 2001, we subleased 5,558,000 square feet of space and an additional 4,019,000 square feet of space in closed or relocated stores was not subleased.

Legal Proceedings

Federal Investigations

There are currently pending federal governmental investigations, both civil and criminal, by the SEC and the United States Attorney, involving our financial reporting and other matters. We are cooperating fully with the SEC and the United States Attorney. We have begun settlement discussions with the United States Attorney for the Middle District of Pennsylvania. The United States Attorney has proposed that the government would not institute any criminal proceeding against the company 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 result of operations.

The U.S. Department of Labor has commenced an investigation of matters relating to our employee benefit plans, including our principal 401(k) plan, which permitted employees to purchase our common stock. Purchases of our common stock under the plan were suspended in October 1999. In January 2001, we appointed an independent trustee to represent the interests of these plans in relation to us and to investigate possible claims the plans may have against us. Both the independent trustee and the Department of Labor have asserted that the plans may have claims against us. The investigations, with which we are cooperating fully, are ongoing and we cannot predict their outcomes. In addition, a purported class action lawsuit on behalf of the plans and their participants has been filed by a participant in the plans in the United States District Court for the Eastern District of Pennsylvania.

These investigations and settlement discussions are ongoing and we cannot predict their outcomes. If we were convicted of any crime, certain licenses and government contracts such as Medicaid plan reimbursement agreements that are material to our operations may be revoked, which would have a material adverse effect on our results of operations and financial condition. In addition, substantial penalties, damages or other monetary remedies assessed against us, including a settlement, could also have a material adverse effect on our results of operations, financial condition and cash flows.

Stockholder Litigation

We, certain of our directors, our former chief executive officer Martin Grass, our former president Timothy Noonan, our former chief financial officer Frank Bergonzi, and our former auditor KPMG LLP, have been sued in a number of actions, most of which purport to be class actions, brought on behalf of stockholders who purchased our securities on the open market between May 2, 1997 and November 10, 1999. Most of the complainus asserted claims under Sections 10 and 20 of the Securities Exchange Act of 1934, based upon the allegation that our financial statements for fiscal 1997, fiscal 1998 and fiscal 1999 fraudulently misrepresented our financial position and results of operation for those periods. All of these cases have been consolidated in the U.S. District Court for the Eastern District of Pennsylvania. On November 9, 2000, we announced that we had reached an agreement to settle the consolidated securities class action lawsuits pending against us in the U.S. District Court for the Eastern District of Pennsylvania and the derivative lawsuits pending there and in the Delaware Court of Chancery. Under the agreement, which has been

submitted to the U.S. District Court for the Eastern District of Pennsylvania for approval, we will pay $45.0 million in cash, which will be fully funded by our officers' and directors' liability insurance, and issue shares of common stock in 2002. The shares will be valued over a 10 day trading period in January 2002. If the value determined is at least $7.75 per share, we will issue 20 million shares. If the value determined is less than $7.75 per share, we have the option to deliver any combination of common stock, cash and short-term notes, with a total value of $155.0 million. As additional consideration for the settlement, we have assigned to the plaintiffs all of our claims against the above named executives and KPMG LLP. Several members of the class have elected to "opt-out" of the class and, as a result, if the settlement is approved by the court, they will be free to individually pursue their claims. Management believes that their claims, individually and in the aggregate, are not material. On June 8, 2001, the court issued a ruling indicating that it was prepared to approve the settlement if certain technical changes were made in the order that the plaintiffs and settling defendants requested be issued by the court. We have worked with the plaintiffs to modify the requested order and resubmitted it for court approval. We anticipate that the nonsettling defendants will appeal any approved order. We cannot predict the outcome of any such appeal or whether, if the settlement does not become final, this litigation would result in a material adverse effect on our results of operations, financial condition or cash flows.

A purported class action has been instituted by a stockholder against us in Delaware state court on behalf of stockholders who purchased shares of our common stock prior to May 2, 1997, and who continued to hold them after November 10, 1999, alleging claims similar to the claims alleged in the consolidated securities class action lawsuits described above. The amount of damages sought was not specified and may be material. We have filed a motion to dismiss this claim which is pending before the court. These claims are ongoing and we cannot predict their outcome.

Drug Pricing and Reimbursement Matters

On October 5, 2000, we settled, for an immaterial amount, and without admitting any violation of the law, the lawsuit filed by the Florida Attorney General alleging that our non-uniform pricing policy for cash prescription purchases was unlawful under Florida law. The filing of the complaint by the Florida Attorney General, and our press release issued in conjunction therewith, precipitated an investigation by the New Jersey Attorney General which is ongoing and the filing of a purported federal class action in California and several purported state class actions, all of which (other than those pending in New York that were filed on October 5, 1999 and those pending in California that were filed on January 3, 2000) have been dismissed. A motion to dismiss the action in New York is currently pending and the plaintiffs in the California action have agreed to a voluntary dismissal of their complaint. On May 30, 2001, a complaint filed in New Jersey in which the plaintiff made similar allegation and which the trial court dismissed for failing to state a claim upon which relief could be based was reinstated by the appellate court. We believe that the remaining lawsuits are without merit under applicable state consumer protection laws. As a result, we intend to continue to vigorously defend against them and we do not anticipate that if fully adjudicated, they will result in an award of damages. However, such outcomes cannot be assured and a ruling against us could have a material adverse effect on the financial position and results of operations of the company as well as necessitate substantial additional expenditures to cover legal costs as we pursue all available defenses.

We are being investigated by multiple state attorneys general for our reimbursement practices relating to partially-filled prescriptions and fully-filled prescriptions that are not picked up by ordering customers. We are supplying similar information with respect to these matters to the Department of Justice. We believe that these investigations are similar to investigations which were, and are being, undertaken with respect to the practices of others in the retail drug industry. We also believe that our existing policies and procedures fully comply with the requirements of applicable law and intend to fully cooperate with these investigations. We cannot, however, predict their outcomes at this time.

An individual acting on behalf of the United States of America, has filed a lawsuit in the United States District Court for the Eastern District of Pennsylvania under the Federal False Claims Act alleging that we defrauded federal healthcare plans by failing to appropriately issue refunds for partially filled prescriptions and prescriptions which were not picked up by customers. The Department of Justice has advised the court

that it intends to join this lawsuit, as is its right under the law; its investigation is continuing. We have filed a motion to dismiss the complaint for failure to state a claim.

These claims are ongoing and we cannot predict their outcome. If any of these cases result in a substantial monetary judgment against us or is settled on unfavorable terms, our results of operations, financial position and cash flows could be materially adversely affected.

Store Management Overtime Litigation

We are a defendant in a class action pending in the California Superior Court in San Diego with three subclasses, comprised of our California store managers, assistant managers and managers-in-training. The plaintiffs seek back pay for overtime not paid to them and injunctive relief to require us to treat our store management as non-exempt. They allege that we decided to minimize labor costs by causing managers, assistant managers and managers-in-training to perform the duties and functions of associates for in excess of forty hours per week without paying them overtime. We believe that in-store management were and are properly classified as exempt from the overtime provisions of California law. On May 21, 2001, we entered into a Memorandum of Agreement with the plaintiffs under which, subject to approval of the court, we will settle this lawsuit for a maximum of $25.0 million, a charge for which was taken in fiscal 2000. The settlement amount is payable in four equal installments of 25%, the first of which is payable upon final court approval of the settlement and the balance is payable 6, 12 and 18 months thereafter. On June 1, 2001, the court entered an order granting preliminary approval of the settlement and authorizing notice to the class.

Other

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

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

MANAGEMENT

The following table sets forth certain information regarding our directors, executive officers and key employees as of June 30, 2001.

Name	Age	Office and Position
Robert G. Miller....................................	57	Chairman and Chief Execut
Mary F. Sammons....................................	54	Director, President and C
David R. Jessick....................................	47	Senior Executive Vice Pre Officer
Elliot S. Gerson....................................	59	Senior Executive Vice Pre
John T. Standley....................................	38	Senior Executive Vice Pre Officer
James P. Mastrian....................................	58	Senior Executive Vice Pre
Christopher Hall....................................	36	Executive Vice President
Mark Panzer....................................	44	Executive Vice President,
Eric Sorkin....................................	52	Executive Vice President
Kevin Twomey....................................	51	Senior Vice President and
Robert B. Sari....................................	45	Senior Vice President, De Secretary
William J. Bratton....................................	53	Director
Alfred M. Gleason....................................	71	Director
Leonard I. Green....................................	67	Director
Nancy A. Lieberman....................................	44	Director
Stuart M. Sloan....................................	57	Director
Jonathan D. Sokoloff....................................	43	Director
Leonard N. Stern....................................	63	Director

Robert G. Miller. Mr. Miller has been our Chairman and Chief Executive Officer since December 5, 1999. Previously, Mr. Miller served as Vice Chairman and Chief Operating Officer of The Kroger Company, a retail food company. Mr. Miller joined Kroger in May 1999, when The Kroger Company acquired Fred Meyer, Inc., a food, drug and general merchandise chain. From 1991 until the acquisition, he served as Chief Executive Officer of Fred Meyer, Inc. Mr. Miller also serves as a director of Harrah Entertainment, Inc., PathMark Stores, Inc. and AdvancePCS.

Mary F. Sammons. Ms. Sammons has been our President and Chief Operating Officer and a member of our Board of Directors since December 5, 1999. From April 1999 to December 1999, Ms. Sammons served as President and Chief Executive Officer of Fred Meyer Stores, Inc., a subsidiary of The Kroger Company. From January 1998 to April 1999, Ms. Sammons served as President and Chief Executive Officer of Fred Meyer Stores, Inc., a subsidiary of Fred Meyer, Inc. From 1985 through 1997, Ms. Sammons held several senior level positions with Fred Meyer Inc., the last being that of Executive Vice President. Ms. Sammons is also a director of drugstore.com and of the National Association of Chain Drugstores.

David R. Jessick. Mr. Jessick has been our Senior Executive Vice President and our Chief Administrative Officer since December 5, 1999. From 1997 to July 1999, Mr. Jessick served as Executive Vice President of Finance and Investor Relations of Fred Meyer, Inc. From 1979 to 1997, Mr. Jessick held several senior management positions at Thrifty PayLess Holdings, Inc., a west coast-based drugstore chain that had annual sales of $5.0 billion before being acquired by Rite Aid in 1996. Mr. Jessick was Executive Vice President and Chief Financial Officer of Thrifty PayLess Holdings, Inc. before Thrifty PayLess was acquired by Rite Aid. Mr. Jessick serves as a Director of AdvancePCS.

Elliot S. Gerson. Mr. Gerson is a Senior Executive Vice President and our General Counsel. He has held those positions since October 1999 and July 1997, respectively. Mr. Gerson also served as our Secretary from July 1997 to May 2000. Mr. Gerson joined Rite Aid in November 1995 as Senior Vice President and

Assistant Chief Legal Counsel. Prior to joining Rite Aid, Mr. Gerson was a partner in the law firm of Bolger, Picker, Hankin & Tannenbaum from May 1993 to November 1995.

John T. Standley. Mr. Standley was appointed as a Senior Executive Vice President and our Chief Financial Officer in September 2000. He had been an Executive Vice President and our Chief Financial Officer since December 5, 1999. Previously, he was Executive Vice President and Chief Financial Officer of Fleming Companies, Inc., a food marketing and distribution company from May 1999 to December 1999. Between July 1998 and May 1999, Mr. Standley was Senior Vice President and Chief Financial Officer of Fred Meyer, Inc. Mr. Standley served as Chief Financial Officer of Ralphs Grocery Company between January 1997 and July 1998 and of Food 4 Less between January 1997 to July 1998. Mr. Standley also served in an executive position at Smith's Food & Drug from May 1996 to February of 1997 and as Chief Financial Officer of Smitty's Supervalue, Inc. from December 1994 to May 1996.

James P. Mastrian. Mr. Mastrian was appointed as our Senior Executive Vice President, Marketing and Logistics in October 2000. He had been our Executive Vice President, Marketing since November 15, 1999. Mr. Mastrian was also our Executive Vice President, Category Management from July 1998 to November 1999. Mr. Mastrian was Senior Executive Vice President, Merchandising and Marketing of OfficeMax from June 1997 to July 1998 and Executive Vice President, Marketing of Revco D.S., Inc. from September 1990 to June 1997.

Christopher Hall. Mr. Hall has been our Executive Vice President Finance and Accounting since January 10, 2001. Prior to that, he served as our Senior Vice President and Chief Accounting Officer from January 25, 2000. From April 1999 to January 2000, Mr. Hall was Executive Vice President and Chief Financial Officer at Golden State Foods. Between July 1998 and March 1999, Mr. Hall served as Senior Vice President of Finance at Ralphs Grocery Company. Mr. Hall joined Ralphs Grocery as Vice President of Accounting in June 1995.

Mark Panzer. Mr. Panzer joined us on June 28, 2001 as Executive Vice President, Store Operations. From 1989 until joining us, Mr. Panzer held several operations and marketing positions of increasing responsibility at Albertson's and predecessor companies acquired by Albertson's. Mr. Panzer was Corporate Vice President of Marketing and Sales, General Merchandise at Albertson's at the time of his departure.

Eric Sorkin. Mr. Sorkin has been our Executive Vice President, Pharmacy Services since February 2001. From February 2000 to February 2001 he served as our Senior Vice President, Pharmacy, and from May 1997 to February 2000 he served as our Vice President, Pharmacy Purchasing. Prior to rejoining Rite Aid in 1997, Mr. Sorkin served in senior positions at Express Scripts, Pathmark, Thrifty Drugs and Pharmacy Direct Network, and as President of Sorkin Consulting. In his first 19 years with Rite Aid, he held executive positions in operations, personnel, third party, information systems and pharmacy services. Mr. Sorkin has served on pharmacy benefit management, H.M.O. and pharmaceutical manufacturer advisory panels, and on national and state healthcare and government affairs committees.

Kevin Twomey. Mr. Twomey has been our Senior Vice President and Chief Accounting Officer since December 2000. From September 1989 to November 2000, Mr. Twomey held several accounting and finance management positions at Fleming Companies, Inc., a food wholesaler and grocery store chain. He was Senior Vice President and Chief Accounting Officer at Fleming when he left. Prior to joining Fleming, he was an audit partner at Deloitte & Touche.

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

William J. Bratton. Mr. Bratton has served as a director since 1997. Prior to August 2000, when Mr. Bratton became President of Bratton Group LLC, which provides criminal justice consulting services, he was a self-employed criminal justice consultant. From January 1998 to March 2000, Mr. Bratton was President and Chief Operating Officer of Carco Group, Inc., a provider of employment background screening services. From April 1996 through 1997, he was Vice Chairman of First Security Services Corporation and President

of its subsidiary, First Security Consulting, Inc. Mr. Bratton was Police Commissioner of the City of New York from 1994 through April 1996.

Alfred M. Gleason. Mr. Gleason has served as a director since January 2000. Mr. Gleason is currently a self-employed consultant. Mr. Gleason served as the President of the Port of Portland Commission in Portland, Oregon, from October 1995 until June 1999. From 1985 until 1995, Mr. Gleason held several positions with PacifiCorp, including Chief Executive Officer, President and Director. Mr. Gleason served as a Director of Fred Meyer, Inc. until June 1999.

Leonard I. Green. Mr. Green has served as a director since 1999. Mr. Green has been an executive officer of Leonard Green & Partners, L.P., an affiliate of Green Equity Investors III, L.P., since its formation in 1994. Mr. Green has also been, individually or through a corporation, a partner in a merchant banking firm affiliated with Leonard Green & Partners, L.P., since its inception in 1989. Mr. Green is also a director of Communications & Power Industries, Inc., Liberty Group Publishing, Inc. and Dollar Financial Group, Inc. Mr. Green was elected as a director pursuant to the October 1999 agreement of Green Equity Investors III, L.P. to purchase 3,000,000 shares of preferred stock of Rite Aid.

Nancy A. Lieberman. Ms. Lieberman has served as a director since 1996. Ms. Lieberman has been a partner in the law firm of Skadden, Arps, Slate, Meagher & Flom LLP since 1987. Skadden, Arps, Slate, Meagher & Flom LLP provides legal services to Rite Aid.

Stuart M. Sloan. Mr. Sloan has served as a director since June 2000. Mr. Sloan has been a principal of Sloan Capital Companies, a private investment company since 1984. Mr. Sloan was also the Chairman of the Board from 1986 to 1998 and the Chief Executive Officer from 1991 to 1996 of Quality Food Centers, Inc., a supermarket chain. He currently serves on the board of directors of Anixter International Inc.

Jonathan D. Sokoloff. Mr. Sokoloff has served as a director since 1999. Mr. Sokoloff has been an executive officer of Leonard Green & Partners, L.P., an affiliate of Green Equity Investors III, L.P. since its formation in 1994. Since 1990, Mr. Sokoloff has also been a partner in a merchant banking firm affiliated with Leonard Green & Partners, L.P. Mr. Sokoloff is also a director of Twinlab Corporation, Diamond Triumph Auto Glass, Inc., Dollar Financial Group, Inc. and Gart Sports Company. Mr. Sokoloff was elected as a director pursuant to the October 1999 agreement of Green Equity Investors III, L.P. to purchase 3,000,000 shares of preferred stock of Rite Aid.

Leonard N. Stern. Mr. Stern has served as a director since 1986. Mr. Stern is Chairman of the Board and Chief Executive Officer of The Hartz Group, Inc. and affiliated companies, a position he has held since 1970. These companies are engaged in the businesses of the manufacture and sale of pet supplies, ownership and operation of hotels, real estate development and investing. Rite Aid purchases pet supplies from The Hartz Mountain Corporation, Inc., which was owned by the Hartz Group, Inc. until December 31, 2000. Mr. Stern is also a director of Homes for the Homeless, a nonprofit organization.

Executive Officer Compensation

The following table provides a summary of compensation paid during the last three fiscal years to our current chief executive officer and the four most highly compensated executive officers who were serving as executive officers at the end of fiscal 2001.

Summary Compensation Table

	Annual Compensation		Long-Te
			S U
Name and		Restricted	

Principal Position	Fiscal Year	Salary (1)	Bonus	Other Annual Compensation	Stock Awards(2)	
Robert G. Miller........ Chairman & Chief	2001	$1,398,654	$1,268,991	$111,100(4)	$6,248,438(5)	8,7
Executive Officer	2000	328,462	--	--	4,950,000(6)	3,0
Mary F. Sammons......... Director, President &	2001	1,013,654	768,930	--	5,092,186(7)	6,5
Chief Operating Officer	2000	203,076	--	--	1,650,000(8)	2,0
David R. Jessick........ Senior Executive Vice	2001	731,538	575,192	--	2,734,946(9)	4,0
President & Chief Administrative Office	2000	158,461	--	--	825,000(10)	1,0
Elliot S. Gerson........ Senior Executive Vice	2001	511,982	341,106	--	128,125(11)	4
President & General Counsel	2000	408,393	100,000	--	--	5
	1999	375,000	--	--	--	
John T. Standley........ Senior Executive Vice	2001	675,769	528,317	--	2,734,946(12)	4,0
President and Chief Financial Officer	2000	135,385	--	--	825,000(13)	1,0

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(1) Mr. Miller, Ms. Sammons, Mr. Jessick and Mr. Standley commenced employment with us on December 5, 1999. Salary amounts for Mr. Miller, Ms. Sammons, Mr. Jessick and Mr. Standley include amounts contributed by us to each such executive officer's account under our special deferred compensation plan.

(2) Each named executive officer has the right to vote the shares of restricted stock and to receive any dividends paid on such shares.

(3) "All Other Compensation" includes the following for 2001: For Ms. Sammons, $1,447 in supplemental life insurance premiums paid by us. For Mr. Jessick, $609 in supplemental life insurance premiums paid by us. For Mr. Gerson, $2,245 in supplemental life insurance premiums paid by us. For Mr. Standley, $85,617 in moving expenses and $91 in supplemental life insurance premiums paid by us.

(4) Includes $100,424 Mr. Miller received as gross up to cover taxes on restricted stock granted to him in December 1999 when he commenced employment.

(5) On June 15, 2000, Mr. Miller was awarded 600,000 shares of restricted common stock; restrictions on 240,000 shares lapse on June 15, 2001, and restrictions on 120,000 shares lapse on each of December 15, 2001, June 15, 2002 and December 15, 2002. On November 29, 2000, Mr. Miller was awarded 75,000 shares of restricted common stock; restrictions on 9,375 shares lapse ratably on a quarterly basis from March 3, 2001 through June 1, 2002, and restrictions on 9,375 shares lapse on each of August 31, 2002 and November 30, 2002. On January 10, 2001, Mr. Miller was awarded 409,091 shares of restricted common stock; restrictions on 163,637 shares will lapse on June 15, 2001, and restrictions on 81,818 shares will lapse on each of December 15, 2001, June 15, 2002 and December 15, 2002. At the end

of fiscal year 2001, Mr. Miller held 1,441,383 restricted shares with an aggregate market value of $8,778,022.

(Footnotes continued from previous page)

(6) On December 5, 1999, pursuant to his employment agreement with us, Mr. Miller was awarded 600,000 shares of restricted common stock. The restrictions on those shares lapse in thirty-six equal monthly installments commencing January 7, 2000, unless accelerated upon a change of control of us.

(7) On June 15, 2000, Ms. Sammons was awarded 600,000 shares of restricted common stock; restrictions on 240,000 shares lapse on June 15, 2001, and restrictions on 120,000 shares lapse on each of December 15, 2001, June 15, 2002 and December 15, 2002. On November 29, 2000, Ms. Sammons was awarded 75,000 shares of restricted common stock; restrictions on 9,375 shares of common stock lapse ratably on a quarterly basis from March 3, 2001 through June 1, 2002 and restrictions on 9,375 shares lapse on each of August 31, 2002 and November 30, 2002. On January 10, 2001, Ms. Sammons was awarded 72,727 shares of restricted common stock; restrictions on 29,091 shares lapse on June 15, 2001, restrictions on 14,546 shares lapse on December 15, 2001 and restrictions on 14,545 shares lapse on each of June 15, 2002 and December 15, 2002. At the end of fiscal 2001, Ms. Sammons held 860,574 restricted shares with an aggregate market value of $5,240,896.

(8) On December 5, 1999, pursuant to her employment agreement with us, Ms. Sammons was awarded 200,000 shares of restricted common stock. The restrictions on those shares lapse in thirty-six equal monthly installments commencing January 7, 2000, unless accelerated upon a change of control of us.

(9) On June 15, 2000, Mr. Jessick was awarded 336,364 shares of restricted common stock; restrictions on 134,546 shares lapse on June 15, 2001, and restrictions on 67,273 shares lapse on each of December 15, 2001, June 15, 2002 and December 15, 2002. On November 29, 2000, Mr. Jessick was awarded 50,000 shares of restricted common stock; restrictions on 6,250 shares of common stock lapse ratably on a quarterly basis from March 3, 2001 through June 1, 2002 and restrictions on 6,250 shares lapse on each of August 31, 2002 and November 30, 2002. At the end of fiscal 2001, Mr. Jessick held 441,225 restricted shares with an aggregate market value of $2,687,060.

(10) On December 5, 1999, pursuant to his employment agreement with us, Mr. Jessick was awarded 100,000 shares of restricted common stock. The restrictions on those shares lapse in thirty-six equal monthly installments January 7, 2000, unless accelerated upon a change of control of us.

(11) On November 29, 2000, Mr. Gerson was awarded 50,000 shares of restricted common stock; restrictions on 6,250 shares of common stock lapse ratably on a quarterly basis from March 3, 2001 through June 1, 2002 and restrictions on 6,250 shares lapse on each of August 31, 2002 and November 30, 2002. At the end of fiscal year 2001, Mr. Gerson held 43,750 restricted shares with an aggregate market value of $266,437.

(12) On June 15, 2000, Mr. Standley was awarded 336,364 shares of restricted

common stock; restrictions on 134,546 shares lapse on June 15, 2001, and restrictions on 67,273 shares lapse on each of December 15, 2001, June 15, 2002 and December 15, 2002. On November 29, 2000, Mr. Standley was awarded 50,000 shares of restricted common stock; restrictions on 6,250 shares of common stock lapse ratably on a quarterly basis from March 3, 2001 through June 1, 2002 and restrictions on 6,250 shares lapse on each of August 31, 2002 and November 30, 2002. At the end of fiscal 2001, Mr. Standley held 441,225 restricted shares with an aggregate market value of $2,687,060.

(13) On December 5, 1999, pursuant to his employment agreement with us, Mr. Standley was awarded 100,000 shares of restricted common stock. The restrictions on those shares lapse in thirty-six equal monthly installments commencing January 7, 2000, unless accelerated upon a change of control of us.

(14) 4,200,000 of these options replace options that were cancelled on November 20, 2000. For more information, refer to the Option Grants in the 2001 Fiscal Year and the 10 Year Option/SAR Repricing tables herein.

(15) These options were cancelled on November 20, 2000.

(16) 3,050,000 of these options replace options that were cancelled on November 20, 2000. For more information, refer to the Option Grants in the 2001 Fiscal Year and the 10 Year Option/SAR Repricing tables herein.

(17) 1,525,000 of these options replace options that were cancelled on November 20, 2000. For more information, refer to the Option Grants in the 2001 Fiscal Year and the 10 Year Option/SAR Repricing tables herein.

(18) 241,278 of these options replace options that were cancelled on November 20, 2000. For more information, refer to the Option Grants in the 2001 Fiscal Year and the 10 Year Option/SAR Repricing tables herein.

(19) 241,278 of these options were cancelled on November 20, 2000.

(20) 1,525,000 of these options replace options that were cancelled on November 20, 2000. For more information, refer to the Option Grants in the 2001 Fiscal Year and the 10 Year Option/SAR Repricing tables herein.

(21) Represents a guaranteed bonus in the amount of $600,000 paid in April 2000 in respect of calendar year 1999 to compensate Mr. Miller for lost bonus opportunities with his prior employer.

(22) Represents a guaranteed bonus in the amount of $200,000 paid in April 2000 in respect of calendar year 1999 to compensate Ms. Sammons for lost bonus opportunities with her prior employer.

(23) Represents a guaranteed bonus in the amount of $150,000 paid in April 2000 in respect of calendar year 1999.

(24) Represents a guaranteed bonus in the amount of $150,000 paid in April 2000 in respect of calendar year 1999.

Option Grants in the 2001 Fiscal Year

The following table sets forth certain information regarding options granted during fiscal year 2001 to the named executive officers, including options that were granted and cancelled during the fiscal year in connection with the repricing of such options on November 20, 2000.

Name	Number of Securities Underlying Options Granted	% of Total Options Granted to Employees in Fiscal Year	Exercise Price (1)
Robert G. Miller	1,200,000(3)	2.5%	$6.50
	1,200,000	2.5%	$2.75
	3,000,000(4)	6.3%	$2.75
	4,500,000	9.4%	$4.05
Mary F. Sammons	2,000,000(4)	4.2%	$2.75
	1,050,000(3)	2.2%	$6.50
	1,050,000	2.2%	$2.75
	3,500,000	7.3%	$4.05
David R. Jessick	525,000(3)	1.1%	$6.50
	525,000	1.1%	$2.75
	1,000,000(4)	2.1%	$2.75
	2,500,000	5.2%	$4.05
Elliot S. Gerson	26,278(3)	0.1%	$8.00
	26,278	0.1%	$2.75
	215,000(3)	0.4%	$6.50
	215,000	0.4%	$2.75
	250,000	0.5%	$4.05
John T. Standley	525,000(3)	1.1%	$6.50
	525,000	1.1%	$2.75
	1,000,000(4)	2.1%	$2.75
	2,500,000	5.2%	$4.05

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(1) All options have an exercise price equal to the fair market value on the date of grant. Mr. Miller's option for 3,000,000 shares, Ms. Sammons' option for 2,000,000 shares, Mr. Jessick's option for 1,000,000 shares and Mr. Standley's option for 1,000,000 shares vest in monthly installments over a 36-month period beginning on January 5, 2000. Mr. Miller's option for 1,200,000 shares, Ms. Sammons' option for 1,050,000 shares, Mr. Jessick's option for 525,000 shares and Mr. Standley's option for 525,000 shares vest in monthly installments over a 29-month period beginning on June 29, 2000. Mr. Miller's option for 4,500,000 shares, Ms. Sammons' option for 3,500,000 shares, Mr. Jessick's option for 2,500,000 shares, Mr. Gerson's option for 250,000 shares and Mr. Standley's option for 2,500,000 shares vest ratably over a three-year period beginning on the first anniversary of the date the option was granted. Mr. Gerson's options for 215,000 shares and 26,278 shares vest ratably over a four-year period beginning on the first anniversary of the date such options were granted.

(2) The hypothetical present values on the grant date were calculated under the Black-Scholes option pricing model, which is a mathematical formula used to value options traded on stock exchanges. The formula considers a number of assumptions in hypothesizing an option's present value. Assumptions used to value the options include the stock's expected volatility rate of 67.17%, projected dividend yield of 0%, a risk-free rate of return of 6.25% and projected time of exercise being one year after vesting. The ultimate realizable value of an option will depend on the actual market value of the common stock on the date of exercise as compared to the exercise price of the option. Consequently, there is no assurance that the hypothetical present value of the stock options reflected in this table will be realized.

(3) These options were cancelled in connection with the repricing of such options on November 20, 2000 and were replaced with a grant for the same number of shares as set forth in the next entry on the table.

(4) These options replace options that were granted on December 5, 1999 with an exercise price of $7.35 that were cancelled in connection with the repricing of such options on November 20, 2000.

Option Exercises and Year-end Value Table

The following table summarizes the value at March 3, 2001 of all shares subject to options granted to the named executive officers. No options were exercised during fiscal year 2001.

Name	Shares Acquired on Exercise	Value Realized	Number of Securiti Underlying Unexerci Options at March 3, Exercisable	Unexerc
Robert G. Miller	0	$0	1,497,701	7,2
Mary F. Sammons	0	0	1,067,433	5,4
David R. Jessick	0	0	533,716	3,4
Elliot S. Gerson	0	0	556,252	6
John T. Standley	0	0	533,716	3,4

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(1) "In-the-Money" options are options with a base (or exercise) price less than the market price of the common stock on March 3, 2001. The value of such options is calculated using a stock price of $6.09, which was the closing price of our common stock on the NYSE on March 2, 2001.

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10-year Option/SAR Repricings

The following table sets forth, for all of our executive officers, all option repricings during the period March 3, 1991 through March 3, 2001. During such period, there was one repricing of options with respect to the options set forth below.

Name(1)	Date	Number of Securities Underlying Options/SARs Repriced or Amended (#)	Market Price of Stock At Time of Repricing Or Amendment ($)	Exercise Price At Time of Repricing or Amendment ($)	New Exercise Price ($)	
Robert G. Miller....	11/20/00	3,000,000	$ 2.75	$ 7.35	$ 2.75	
	11/20/00	1,200,000	$ 2.75	$ 6.50	$ 2.75	9
Mary F. Sammons.....	11/20/00	2,000,000	$ 2.75	$ 7.35	$ 2.75	
	11/20/00	1,050,000	$ 2.75	$ 6.50	$ 2.75	9
David R. Jessick....	11/20/00	1,000,000	$ 2.75	$ 7.35	$ 2.75	
	11/20/00	525,000	$ 2.75	$ 6.50	$ 2.75	9
Elliot S. Gerson....	11/20/00	215,000	$ 2.75	$ 6.50	$ 2.75	9
	11/20/00	26,278	$ 2.75	$ 8.00	$ 2.75	9
John T. Standley....	11/20/00	1,000,000	$ 2.75	$ 7.35	$ 2.75	
	11/20/00	525,000	$ 2.75	$ 6.50	$ 2.75	9
James P. Mastrain...	11/20/00	33,546	$ 2.75	$7.935	$ 2.75	9
	11/20/00	300,000	$ 2.75	$ 6.50	$ 2.75	9
Christopher Hall....	11/20/00	350,000	$ 2.75	$ 7.00	$ 2.75	9
	11/20/00	250,000	$ 2.75	$ 6.50	$ 2.75	9
Eric Sorkin.........	11/20/00	75,000	$ 2.75	$5.625	$ 2.75	9
	11/20/00	235,000	$ 2.75	$ 6.50	$ 2.75	9
Robert B. Sari......	11/20/00	100,000	$ 2.75	$ 7.00	$ 2.75	9
	11/20/00	50,000	$ 2.75	$ 6.50	$ 2.75	9
Alex Grass(2).......	2/7/94	400,000	$18.50	$20.50	$18.50	
Martin Grass(2).....	2/7/94	500,000	$18.50	$20.50	$18.50	
Franklin Brown(2)...	2/7/94	137,500	$18.50	$20.50	$18.50	
Timothy Noonan(2).	2/7/94	137,500	$18.50	$20.50	$18.50	
Alex Schamroth(2)...	2/7/94	137,500	$18.50	$20.50	$18.50	

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(1) See the table of directors, executive officers and key employees for titles of the current executive officers.

(2) In connection with our consummation of a "dutch auction" self tender offer, in which we repurchased from our stockholders an aggregate of 2,077,271 shares of our common stock at a purchase price of $18.50 per share, on February 7, 1994, we repriced outstanding stock options to purchase an aggregate of 2,157,250 shares of our common stock. On the date of such repricing, the closing sale price of our common stock as reported on the NYSE was $18.50. At such time, Alex Grass was the Chairman and Chief Executive Officer; Martin Grass was President and Chief Operating Officer; Franklin Brown was Executive Vice President; Timothy Noonan was Executive Vice President and Alex Schamroth was Executive Vice President. The market and exercise prices in the table have been adjusted to reflect the two-for-one stock split on the Common Stock that occurred on February 3, 1998.

The Executive Retirement Plan

We have established the Non-Qualified Executive Retirement Plan (the "Plan") to provide retirement benefits to long-term employees who hold a position of executive vice president or higher and to select executives who may, pursuant to their employment agreements, be deemed to be long term employees.

Participants generally are entitled to receive benefits upon retirement after age 65 or upon death, in which case any length of service requirement is disregarded.

Generally, eligible participants receive an annual benefit, payable monthly over 15 years, equal to a percentage, ranging from 40% to 60%, of the highest base salaries and highest bonus paid or accrued for each participant within the 10 fiscal years prior to the date of the event giving rise to payment of the benefit.

The Plan provides that benefits will not be paid to employees whose employment is terminated for any reason other than retirement, disability or death. Additionally, if, during the time a benefit is being paid to a former employee, it is determined that the former employee committed an act that could have resulted in a good cause discharge, we will cease paying benefits to the former employee.

Mr. Miller, Ms. Sammons, Mr. Jessick and Mr. Standley were credited with 15 years of service under the Plan effective in December 1999 pursuant to their employment agreements.

Because it is not possible to determine what the individual annual base salary and annual bonus of the named executive officers will be assuming retirement at normal retirement age, we cannot estimate the annual benefits payable at normal retirement age for each of the named executive officers. However, by way of example, if each were to have attained normal retirement age and 20 or more years of credited service under the Plan, based upon last year's annual salary and annual bonus, it is estimated that Mr. Miller would be entitled to receive $1,361,395, Ms. Sammons would be entitled to receive $1,001,358, Mr. Jessick would be entitled to receive $705,115, Mr. Standley would be entitled to receive $676,990 and Mr. Gerson would be entitled to receive $504,664 as annual benefits payable upon retirement.

Executive Employment Agreements

On December 5, 1999, we entered into employment agreements with Robert G. Miller, Mary F. Sammons, David R. Jessick and John T. Standley, and, on November 16, 2000, we entered into an employment agreement with Elliot S. Gerson. Pursuant to their individual employment agreements:

- Mr. Miller was appointed as our Chief Executive Officer and elected as Chairman of our Board of Directors;

- Ms. Sammons was appointed as our President and Chief Operating Officer and was appointed to our Board of Directors;

- Mr. Jessick was appointed as our Senior Executive Vice President and Chief Administrative Officer;

- Mr. Gerson was appointed as our Senior Executive Vice President and General Counsel; and

- Mr. Standley was appointed as our Executive Vice President and Chief Financial Officer and is now our Senior Executive Vice President and Chief Financial Officer.

Term. The term of each executive's employment agreement commenced on the date of his or her employment agreement and, unless terminated earlier, will terminate on the third anniversary (second anniversary in the case of Mr. Gerson), but will automatically renew for an additional year on each anniversary of the effective date of the agreement unless either we or the executive provides the other with notice of non-renewal at least 180 days prior to such an anniversary.

Salary and Incentive Bonus. The respective agreements provide each executive with a base salary and incentive compensation, including, with respect to the 2001 fiscal year:

- Mr. Miller was entitled to receive an annual base salary of not less than $1,250,000, however, Mr. Miller volunteered to receive a base salary of not less than $1,000,000. Mr. Miller received a bonus of $868,991 and a special bonus of $400,000 in recognition of his efforts in connection with our refinancing efforts in the 2001 fiscal year, and he has the opportunity to receive future annual bonuses that shall equal or exceed his annual base salary then in effect if our performance meets certain annual target goals based on the business plan developed by Management and the Board of Directors.

- Ms. Sammons was entitled to receive an annual base salary of not less than $900,000. She received a bonus of $468,930 pursuant to her employment agreement and a special bonus of $300,000 in connection with the refinancing and in the future may, if our performance meets the targets, receive an annual bonus that, if paid, will equal or exceed 75% of her annual base salary then in effect.

- Mr. Jessick was entitled to receive an annual base salary of not less than $600,000. He was awarded a bonus of $275,192 pursuant to his employment agreement and a special bonus of $300,000 in connection with the refinancing. If our performance meets the targets, Mr. Jessick will be paid an annual bonus that will equal or exceed 60% of his annual base salary then in effect.

- Mr. Gerson was entitled to receive an annual base salary of not less than $500,000. He was awarded a bonus of $191,106 pursuant to his employment agreement and a special bonus of $150,000 in connection with the refinancing. If our performance meets the targets, Mr. Gerson will be paid an annual bonus that will equal or exceed 50% of his annual base salary then in effect.

- Mr. Standley was entitled to receive an annual base salary of not less than $600,000. He was awarded a bonus of $228,317 pursuant to his employment agreement and a special bonus of $300,000 in connection with the refinancing. If our performance meets the targets, Mr. Standley will be paid an annual bonus that will equal or exceed 50% of his annual base salary then in effect.

Other Benefits. Pursuant to their employment agreements, each of the executives is also entitled to participate in our fringe benefit and perquisite programs and savings plans.

Restricted Stock and Options. Pursuant to their employment agreements and individual stock option agreements, in December 1999, Mr. Miller, Ms. Sammons, Mr. Jessick and Mr. Standley also received awards of restricted common stock and were granted options to purchase additional shares of our common stock as follows:

- Mr. Miller was granted an option to purchase 3,000,000 shares of common stock and was awarded 600,000 shares of restricted common stock.

- Ms. Sammons was granted an option to purchase 2,000,000 shares of common stock and was awarded 200,000 shares of restricted common stock.

- Mr. Jessick was granted an option to purchase 1,000,000 shares of common stock and was awarded 100,000 shares of restricted common stock.

- Mr. Standley was granted an option to purchase 1,000,000 shares of common stock and was awarded 100,000 shares of restricted common stock.

All of the options granted and restricted common stock awarded to each of such executives listed above vest in thirty-six equal monthly installments commencing January 5, 2000.

Other Provisions. Each of Mr. Miller's and Mr. Jessick's employment agreement provides for him to be based in Portland, Oregon and that he be provided, for our convenience, with an apartment in the vicinity of our corporate headquarters in the Harrisburg, Pennsylvania area.

Pursuant to his employment agreement, Mr. Miller is entitled to recommend two persons to serve on our Board of Directors. Mr. Miller has made two Board of Directors recommendations to date and as a result, Alfred Gleason and Stuart Sloan were appointed to the Board of Directors in January 2000 and June 2000, respectively.

Termination of Employment. Upon written notice, the employment agreement of each of the executives is terminable by either us or the individual executive seeking termination.

If Mr. Miller, Ms. Sammons, Mr. Jessick or Mr. Standley is terminated by us "without cause" or by an executive for "good reason" (in each case, as defined in their employment agreement), then the terminated executive will be entitled to receive:

- an amount equal to three times the sum of the individual executive's annual base salary and target bonus plus any accrued but unpaid salary and bonus, with the maximum bonus that the executive is eligible to earn being pro-rated through the date of termination;

- the deferred compensation amounts that would otherwise have been credited to the executive pursuant to the Special Deferred Compensation Plan referred to below had the executive continued employment

with us through the end of the then-remaining term of the employment agreement and certain medical benefits; and

- all of the executive's stock options will immediately vest and be exercisable for the remainder of their stated terms, the restrictions on the restricted common stock will immediately lapse and any performance or other conditions applicable to any other equity incentive awards will be considered to have been satisfied.

If Mr. Gerson is terminated by us "without cause" or by him for "good reason" (as such terms are defined in his employment agreement), then he will be entitled to receive:

- an amount equal to two times the sum of his annual base salary and target bonus plus any accrued but unpaid salary and bonus, with the maximum bonus that the executive is eligible to earn being pro-rated through the date of termination; and

- all of his stock options will immediately vest and be exercisable, generally, for a period of 90 days following the termination of employment and the restrictions on the restricted common stock will immediately lapse to the extent his options would have vested and restrictions would have lapsed had he remained employed by us for two years following the termination.

If we terminate any of the executives "for cause" (as defined in the employment agreements),

- we will pay him or her all accrued benefits,

- any portion of any then-outstanding stock option grant that was not exercised prior to the date of termination will immediately terminate, and

- any portion of any restricted stock award, or other equity incentive award, as to which the restrictions have not lapsed or as to which any other conditions were not satisfied prior to the date of termination will be forfeited.

Under Mr. Miller's, Ms. Sammons's, Mr. Jessick's and Mr. Standley's employment agreements, any termination of employment by the executive within the six month period commencing on the date of a "change in control" of us will be treated as a termination of employment by the executive for "good reason." Under Mr. Gerson's employment agreement, upon a "change in control" of us, all of his stock options will immediately vest and be exercisable and any restrictions on the restricted stock will immediately lapse. Each employment agreement provides that the executive will receive an additional payment to reimburse the executive for any excise taxes imposed pursuant to Section 4999 of the Internal Revenue Code. Each employment agreement also provides for certain benefits upon termination of the executive by reason of death or disability, by us "for cause" or by the executive other than for "good reason." The employment agreement of each executive prohibits the executive from competing with us during his or her employment and for a period of one year, or with respect to Mr. Gerson, two years, thereafter.

Pursuant to amendments to the employment agreements with Mr. Miller and Ms. Sammons dated May 7, 2001, we have agreed to pay them, as an additional incentive bonus, the difference between the amount called for under their severance agreements with their prior employer and the amount they actually receive from that employer, plus interest at the rate of 9% per annum from December 5, 1999. Mr. Miller and Ms. Sammons were to receive $5,022,685 and $1,624,000, respectively, under those severance agreements, and they each retain control over their claims against their former employer. The amendments to the employment agreements provide generally that we will pay such bonuses within five days after January 1, 2002 if the executive is still employed (or, in Mr. Miller's case, a member of the Board of Directors) on that date. However, the bonuses will be paid within five days after an earlier termination of employment (i) by reason of death or disability, by us without "cause" or by the executive for "good reason," or (ii) for any reason upon or following a "change in control" (all as defined in the executive's employment agreement). Finally, in the case of Mr. Miller, the payment will be made before January 1, 2002 within five days after the date he ceases to be both an employee and a Director (provided he does not cease to be a Director by reason of either a voluntary resignation or simultaneously with or following his termination of employment for cause). No bonus payment will be made if the executive's employment is terminated for cause before January 1, 2002 and before a change in control.

If either executive is paid any of the bonus prior to the final determination of his or her claim against the prior employer, the executive must repay to us any amount that is paid to him or her by the former employer, net of any excess taxes payable by the executive on account of the repayment and any legal expenses not reimbursed by us under the employment agreement. Neither executive is obligated to reimburse us more than the amount of the bonus paid to him or her. If Mr. Miller's employment is terminated by him without good reason or by us for cause between January 1, 2002 and December 5, 2002, there has not been a change in control of us, and Mr. Miller no longer serves as a Director (by reason of a voluntary resignation or a removal simultaneous with an employment termination for cause), Mr. Miller will be entitled to retain only a portion of the bonus that is prorated for the number of days between December 5, 1999 and the date of termination.

Special Deferred Compensation Plan

In addition to the base salary and bonus provisions of the executives' employment agreements, we established the Special Deferred Compensation Plan for the benefit of select members of its management team, including Mr. Miller, Ms. Sammons, Mr. Jessick and Mr. Standley. Under this plan, we credit a specific sum to individual accounts established for each of Mr. Miller, Ms. Sammons, Mr. Jessick and Mr. Standley. The sums are credited on the first day of each month during the term of their employment with us. Each of Mr. Miller, Ms. Sammons, Mr. Jessick and Mr. Standley is fully vested, at all times, in his or her account balance; although, generally they may not receive payments from their accounts until three years after an election to receive a payment. Each month, $20,000 is credited to Mr. Miller's account, $15,000 is credited to Ms. Sammons' account and $10,000 is credited to each of Mr. Jessick's and Mr. Standley's account.

Under this plan, the Executives are able to direct the investment of the amounts credited to their individual accounts by selecting one or more investment vehicles from a group of deemed investments offered pursuant to the plan.

Compensation Committee Interlocks and Insider Participation

None of our executive officers, directors or Compensation Committee members currently serve, or have in the past served, on the compensation committee of any other company whose directors and executive officers have served on our Compensation Committee.

SECURITY OWNERSHIP OF CERTAIN
BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of June 30, 2001, certain information concerning the beneficial shareholdings of (a) each director, (b) each nominee for director, (c) each executive officer named in our summary compensation table appearing elsewhere herein, (d) each holder of more than five percent of our common stock and (e) all directors and executive officers as a group (based on 493,346,010 shares of common stock outstanding as of such date). Each of the persons named below has sole voting power and sole investment power with respect to the shares set forth opposite his or her name, except as otherwise noted.

Beneficial Owners	Number of Common Shares Beneficially Owned (1)	Percentage of Class
Executive Officers and Directors:		
William J. Bratton	14,889(2)	*
Elliot S. Gerson	665,004(3)	*
Alfred M. Gleason	106,189(4)	*
Leonard I. Green	65,429,905(5)	11.7%
David R. Jessick	1,307,498(6)	*
Nancy A. Lieberman	7,000	*
Robert G. Miller	3,940,068(7)	*
Mary F. Sammons	2,565,735(8)	*
Stuart M. Sloan	10,989	*
Jonathan D. Sokoloff	64,941,341(9)	11.6%
John T. Standley	1,295,368(10)	*
Leonard N. Stern	50,989	*
All executive officers and directors (18 persons)	77,133,093	13.8%
5% Stockholders:		
FMR Corporation	45,627,250(11)	9.2%
Green Equity Investors III, L.P.	64,435,905(12)	11.5%(13)
J.P. Morgan Chase & Co.	38,923,836(14)	7.9%

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* Percentage less than 1% of class.

(1) Beneficial ownership has been determined in accordance with Rule 13d-3 under Exchange Act, thereby including options exercisable within 60 days of June 30, 2001.

(2) This amount includes 400 shares owned by Mr. Bratton's wife.

(3) This amount includes 610,002 shares which may be acquired within 60 days by exercising stock options, 1,002 shares in Mr. Gerson's 401(k) account and 43,750 restricted shares.

(4) This amount includes 16,000 shares owned by Mr. Gleason's wife.

(5) This amount includes 64,435,905 shares beneficially owned by Green Equity Investors III, L.P., which is affiliated with Leonard Green & Partners, L.P., of which Mr. Green is an executive officer and equity owner, 990,000 shares owned by Verdi Group, Inc., over which Mr. Green has beneficial ownership.

(6) This amount includes 809,004 shares which may be acquired within 60 days by exercising stock options and 486,364 restricted shares.

(7) This amount includes 2,245,977 shares which may be acquired within 60 days by exercising stock options and 1,684,091 restricted shares.

(8) This amount includes 1,618,008 shares which may be acquired within 60 days by exercising stock options and 947,727 restricted shares.

(9) This amount includes 64,435,905 shares beneficially owned by Green Equity Investors III, L.P., which is affiliated with Leonard Green & Partners, L.P., of which Mr. Sokoloff is an executive officer and equity owner.

(10) This amount includes 809,004 shares which may be acquired within 60 days by exercising stock options and 486,364 restricted shares.

(11) This amount, which is disclosed in a report on Schedule 13G dated June 12, 2001 by FMR Corporation, includes 38,957,260 shares in respect of which Fidelity Management & Research Company holds sole dispositive power and 4,316,090 shares over which Fidelity Management Trust Company holds sole dispositive power (including 1,691,890 shares over which it also holds voting power). Both Fidelity Management Research Company and Fidelity Management Trust Company are wholly-owned subsidiaries of FMR Corporation. This amount also includes 2,353,900 shares over which Fidelity International Limited holds sole voting and dispositive power. A partnership controlled by Edward C. Johnson 3d, who also controls FMR Corporation, has the right to cast 39.89% of the votes cast by holders of Fidelity International Limited voting stock. FMR Corporation and Fidelity International Limited state that the shares held by Fidelity International Limited need not be aggregated for the purposes of Section 13(d) of the Securities Act of 1934, as amended, however, FMR Corporation has voluntarily filed its report as if all the shares were beneficially owned by FMR Corporation. Abigail P. Johnson and Edward C. Johnson 3d, together with members of their family, are the predominant owners of the Class B shares of common stock of FMR Corporation, representing approximately 49% of the voting power of FMR Corporation. Ms. Johnson owns 24.5% of the voting stock and is a director of FMR Corporation. Mr. Johnson owns 12.0% of the voting stock and is Chairman of FMR Corporation. Members of the Johnson family and other Class B Stockholders are parties to a voting agreement under which each party agrees to vote its Class B Shares in accordance with the vote of the majority vote of shares of the parties.

(12) Green Equity Investors III, L.P. beneficially owns 64,435,905 shares of common stock. This number represents the number of shares issuable within 60 days of June 30, 2001 upon the conversion of convertible preferred stock.

(13) Based upon the number of shares outstanding as of June 30, 2001 and assuming conversion of all Class B preferred stock by Green Equity Investors III, L.P.

(14) This amount, as reflected in a report on Schedule 13G/A dated February 14, 2001 and Forms 4 filed on March 12, March 13 and April 10, 2001 filed by J.P. Morgan Chase & Co., consists of 38,923,836 shares of common stock, including 2,500,000 shares where there is a right to acquire, of which the reporting person claims sole voting and dispositive power over 38,923,836 shares.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In fiscal 2001, we paid to J.P. Morgan Chase & Co., ("JPMorganChase") and its affiliates fees and other amounts in connection with our financing activities, including the refinancing in June 2000, of $20.5 million. JPMorganChase is a beneficial owner of more than 5% of our common stock and is the parent company of the Chase Manhattan Bank, one of our lenders. We anticipate paying JPMorganChase and its affiliates additional fees and other amounts for services in connection with the financing activities described under "Prospectus Summary--Refinancing Transactions" and related transactions in the aggregate of approximately $13.7 million and may pay it additional compensation for services in connection therewith in amounts to be determined.

In June 2001, an affiliate of JPMorganChase exchanged $9,825,000 aggregate principal amounts of our 10.5% Notes due 2002 for 1,136,108 shares of our common stock. These shares of common stock are included in this prospectus.

In June 2000, an affiliate of JPMorganChase and another financial institution participated in the refinancing of certain of our debt by agreeing to purchase $93.2 million of 10.50% senior secured notes due September 2002 when the 5.5% notes matured in December 2000.

In June 2000, certain lenders, including J.P. Morgan Ventures Corporation, an affiliate of JPMorganChase, exchanged an aggregate of $284.8 million of their loans outstanding under the PCS credit facility, the RCF credit facility and a $300.0 million demand note into an aggregate of 51,785,434 shares of our common stock at an exchange rate of $5.50 per share.

Leonard Green and Jonathan D. Sokoloff, members of our Board of Directors, are equity owners of Leonard Green & Partners, L.P. During fiscal year 2001, we paid Leonard Green & Partners, L.P. a $3,000,000 fee for services provided in connection with the financial restructuring transactions which we completed in June 2000 and reimbursed its out-of-pocket expenses. We also paid Leonard Green & Partners, L.P. a $2,500,000 fee for services provided in connection with the sale of PCS Health Services, Inc. In October 1999, we agreed to pay Leonard Green & Partners, L.P. an annual fee of $1 million for its consulting services. This fee was increased to $1.5 million at the time of the June 2000 restructuring transactions. The consulting agreement also provides for the reimbursement of out-of-pocket expenses incurred by Leonard Green & Partners, L.P. We have agreed to register the common stock issuable upon conversion of the Series B preferred stock and to pay all expenses and fees (other than underwriting discounts and commission) related to any registration. In addition, we paid Leonard Green & Partners, L.P. a fee of $2.5 million for financial advisory services in connection with the refinancing.

The Hartz Mountain Corporation, which was owned and controlled by Leonard N. Stern, sold merchandise in the ordinary course of business to us and our subsidiaries in the approximate amount of $5,000,000 during the year ended December 31 2000. Mr. Stern sold his interest in The Hartz Mountain Corporation on December 29, 2000.

On June 27, 2001 we sold an aggregate of 28,948,300 shares of our common stock to certain affiliates of FMR Corporation at a purchase price of $7.50 per share. FMR Corporation voluntarily filed a report on Schedule 13d dated June 12, 2001 disclosing that it may be deemed to beneficially own more than 5% of our common stock.

On June 27, 2001, we exchanged an aggregate of $152.025 million principal amount of our 10.5% senior secured notes due 2002 for $152.025 million of new 12.5% notes due 2006 to affiliates of FMR Corporation. In connection with such exchange, we also issued to the exchanging holders common stock purchase warrants to purchase an aggregate of 3.0 million shares of our common stock at an exercise price of $6.00 per share.

The law firm of Skadden, Arps, Slate, Meagher & Flom LLP provides legal services to us. Nancy Lieberman, one of our directors, is a partner of that law firm. Fees paid by us to Skadden, Arps, Slate, Meagher & Flom LLP did not exceed five percent of the law firm's gross revenues for its last fiscal year.

On June 15, 2001, in connection with our grant of certain restricted shares of our common stock to our executive officers and each such officer's agreement not to sell these shares earlier than the expiration of the

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third trading day following the date we announce our earnings for our fiscal year 2002, we have made loans to each of these officers in order to cover the officer's federal and state withholding taxes. Each loan is non-recourse and is secured solely by the shares of common stock to which the loan relates. Each loan bears interest at the rate of 4.25% per annum and is due and payable upon the earlier of June 15, 2002 or the date the officer sells the awarded shares of common stock. As of June 30, 2001, we had outstanding $5.5 million of these loans, including accrued and unpaid interest. The following are loans in excess of $60,000 as of June 30, 2001.

Executive Officer	Loan Amount
Robert G. Miller	$2,092,180
Mary F. Sammons	$1,250,336
David R. Jessick	$ 637,645
John T. Standley	$ 637,645
Christopher Hall	$ 156,547

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DESCRIPTION OF CAPITAL STOCK

Our authorized capital stock consists of 1,000,000,000 shares of common stock and 20,000,000 shares of preferred stock.

Common Stock

As of June 30, 2001, there were 493,346,010 shares of common stock issued and outstanding.

The holders of 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.

Each holder of common stock is entitled to one vote for such share registered in his name on our books on all matters submitted to a vote of stockholders. Except as otherwise provided by law, the holders of common stock vote as one class. The shares of 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 B preferred stock, which may at the time be outstanding, the holders of 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 common stock are duly authorized, validly issued, fully paid and nonassessable.

Preferred Stock

Under the Rite Aid Charter, our Board has the authority, without further stockholder action, to issue from time to time up to a maximum of 20,000,000 shares of preferred stock, in one or more series and for such consideration as may be fixed from time to time by the Board, and to fix before the issuance of any shares of preferred stock of a particular series, the designation of such series, the number of shares to comprise such series, the dividend rate or rates payable with respect to the shares of such series, the redemption price or prices, if any, and the terms and conditions of any redemption, the voting rights, any sinking fund provisions for the redemption or purchase of the shares of such series, the terms and conditions upon which the shares are convertible or exchangeable, if they are convertible or exchangeable, and any other relative rights, preferences and limitations pertaining to such series.

Series B Cumulative Pay-In-Kind Preferred Stock

As of June 30, 2001, there were 3,427,441.7884 shares of Series B cumulative pay-in-kind preferred stock outstanding. As of such date, the outstanding shares of Series B preferred stock were convertible into 62,317,123 shares of our common stock. The outstanding shares of Series B 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 B preferred stock shall be entitled to receive out of our assets legally available for distribution to stockholders, before any distribution of assets is made to holders of common stock or any other class or series of capital stock ranking junior to the Series B 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 B preferred stock and any other shares of preferred stock ranking as to such distribution on a parity with the Series B preferred stock are not paid in full, the holders of Series B 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 B preferred stock is entitled to vote with holders of common stock and each holder of Series B preferred stock is entitled to one vote for each share of common stock issuable upon conversion of such holder's

Series B preferred stock. The holders of Series B preferred stock are entitled to

vote separately as a class to elect two directors to our Board of Directors. Leonard T. Green and Jonathan D. Sokoloff are the directors elected by the holders of Series B preferred stock.

Each share of Series B preferred stock is convertible into the number of shares of our common stock equal to the liquidation preference divided by the conversion price, which is $5.50 per share, subject to certain anti-dilution adjustments. Without the prior consent of the holders of a majority of the Series B preferred stock, we may not authorize, create or issue any securities that are senior or pari passu to the Series B preferred stock, or take certain other actions that would adversely affect the rights, privileges and preferences of the Series B preferred stock.

Each holder of Series B 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 B preferred stock, or a combination thereof. From time to time, on or after October 25, 2004, we may redeem shares of Series B preferred stock at 105% of the liquidation preference plus any unpaid partial dividends to the applicable redemption date. Holders of Series B preferred stock have no preemptive rights to subscribe for any additional securities which we may issue. We have granted the holders of Series B preferred stock certain registration rights with respect to the Series B preferred stock and the common stock into which the Series B preferred stock may be converted.

Series C Convertible Preferred Stock

On June 27, 2001, we issued 2,121,677 shares of Series C convertible preferred stock. The Series C preferred stock is convertible into common stock immediately upon the earlier of (i) the effectiveness of a registration statement registering the shares of common stock into which the Series C preferred stock are convertible for resale under the Securities Act, and (ii) a merger or consolidation of us with or into any other corporation in which we are not the surviving corporation or the sale, lease or conveyance of all or substantially all of our property, assets or business. Each share of Series C preferred stock is convertible into 10 shares of common stock, subject to anti-dilution adjustments to the conversion rate. Accordingly, upon effectiveness of the registration statement of which this prospectus forms a part, the Series C preferred stock will convert into 21,216,770 shares of our common stock.

With respect to dividends and any distributions upon liquidation, the Series C preferred stock ranks senior to our common stock but junior to the Series B preferred stock.

In the event of any voluntary or involuntary liquidation, dissolution or winding up of us, holders of the Series C preferred stock will be entitled to receive, in preference to any payments on our common stock but after payments on the Series B preferred stock, a liquidation preference of $62.52 per share, plus any accrued and unpaid dividends.

Each holder of Series C preferred stock is entitled to receive cumulative dividends at the rate of 8.7455% per annum of the liquidation preference, payable quarterly in arrears. If we declare a distribution in securities of other persons, debt instruments issued by us or any other person or any other assets, holders of the Series C preferred stock will be entitled to participate in the distribution proportionately as though those holders were holders of the common stock into which the Series C preferred stock is convertible as of the record date for the distribution.

Each holder of Series C preferred stock is entitled to vote with the holders of common stock and each holder is entitled to one vote for each whole share of common stock issuable upon conversion of the holder's Series C preferred stock.

Charter and By-Law Provisions

The Rite Aid Charter 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 stockholders. Our By-laws provide that the number of directors on the Board may be fixed by the Board only, or if the number is not fixed, the number will be seven. The number of directors may be increased or decreased by the Board only. In the interim period between annual meetings of stockholders or of special meetings of

stockholders, vacancies and newly created directorships may be filled by the Board. Any directors so elected will hold office until the next election of the class to which such directors have been elected. The Board has been fixed at and currently consists of 9 directors.

The Rite Aid Charter requires that any mergers, consolidations asset dispositions and other transactions involving a beneficial owner of 10% or more 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 voting stock. These special voting requriements do not apply if the transaction is approved by a majority of the Continuing Directors (as defined below) or the consideration offered to our stockholders 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 the Rite Aid Charter means a member of our Board who was not affiliated with a Related Person (as defined below) and was a member of the 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 the Rite Aid Charter, means any Person or affiliate or associate of such Person, which 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.

The Rite Aid Charter also provides that any corporate action either (i) taken at a special meeting of stockholders called by the Board, a majority of whose members are not Continuing Directors, or (ii) approved by written consent of stockholders, shall require the approval of not less than 75% of the then outstanding voting stock.

Change of Control

Section 203 of the DGCL prohibits generally a public Delaware corporation, including Rite Aid, from engaging in a business combination (as defined below) with an interested stockholder (as defined below) for a period of three years after the date of the transaction in which an interested stockholder became such, unless: (i) the board of directors of such corporation approved, prior to the date such interested stockholder became such, either such business combination or such transaction; (ii) upon consummation of such transaction, such interested stockholder owns at least 85% of the voting shares of such corporation (excluding specified shares) outstanding at the time the transaction commenced; or (iii) such business combination is approved by the board of directors of such corporation and authorized by the affirmative vote (at an annual or special meeting and not by written consent) of at least 66 2/3% of the outstanding voting shares of such corporation (excluding shares held by such interested stockholder). A "business combination" includes (i) mergers, consolidations and sales or other dispositions of 10% or more of the assets of a corporation to or with an interested stockholder, (ii) certain transactions resulting in the issuance or transfer to an interested stockholder of any stock of such corporation or its subsidiaries, and (iii) certain other transactions resulting in a financial benefit to an interested stockholder. An "interested stockholder" is a person who owns (or, if such person is an affiliate or associate of the corporation, within a three-year period did own) 15% or more of a corporation's stock entitled to vote generally in the election of directors and, the affiliates and associates of such person.

Indemnification of Officers and Directors

Under Section 145 of the Delaware General Corporation Law ("DGCL"), a corporation may 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, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he or she is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding (i) if such person acted in good faith and in a manner that person reasonably believed to be in or not opposed to the best interests of the corporation and

(ii) with respect to any criminal action or proceeding, if he or she had no reasonable cause to believe such conduct was unlawful. In actions brought by or in the right of the corporation, a corporation may indemnify such person against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner that person reasonable believed to be in or not opposed to the best interests of the corporation, except that no indemnification may be made in respect of any claim, issue or matter as to which that person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery of the State of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all circumstances of the case, such person in fairly and reasonable entitled to indemnification for such expenses which the Court of Chancery or other such court shall deem proper. To the extent that such person has been successful on the merits or otherwise in defending any such action, suit or proceeding referred to above or any claim, issue or matter therein, he or she is entitled to indemnification for expenses (including attorneys' fees) actually and reasonable incurred by such person in connection therewith. The indemnification and advancement of expenses provided for or granted pursuant to Section 145 is not exclusive of any other rights of indemnification or advancement of expenses to which those seeking indemnification or advancement of expenses may be entitled, and a corporation may purchase and maintain insurance against liabilities asserted against any former or current, director, officer, employee or agent of the corporation, or a person who is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, whether or not the power to indemnify is provided by the statute.

Article Tenth of our Certificate of Incorporated and Article VII of our By-laws provide for the indemnification of its directors and officers as authorized by Section 145 of the DGCL.

The directors and officers of us and our subsidiaries are insured (subject to certain exceptions and deductions) against liabilities which they may incur in their capacity as such including liabilities under the Securities Act, under liability insurance policies carried by us.

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SELLING STOCKHOLDERS

The following table sets forth information regarding each selling stockholder and the amount of our common stock that it may offer under this prospectus. When we refer to the "selling stockholders" in this prospectus, we mean those persons listed in the table below, as well as the pledgees, donees, assignees, transferees, successors and others who hold any of the selling securityholders' interest. The shares of our common stock offered by this prospectus were originally sold by us in a number of private placements and privately negotiated debt for equity exchanges.

Since the date that we received the information from the selling stockholders, one or more selling stockholders identified below may have sold, transferred or otherwise disposed of all or a substantial portion of the shares of our common stock held by it in one or a series of transactions exempt from the Securities Act. Information regarding the selling stockholders may change from time to time and any changed information will be set forth in a prospectus supplement to the extent required. Unless set forth below, to the best of our knowledge, none of the selling stockholders has, or within the past three years has had, any material relationship with us, any of our predecessors or affiliates, or beneficially owns in excess of 1% of our outstanding common stock.

J.P. Morgan Securities Inc. is an affiliate of JPMorganChase, a beneficial owner of more than 5% of our common stock and the parent of the Chase Manhattan Bank, one of our lenders.

A selling stockholder may from time to time offer and sell any or all of its securities under this prospectus. Because a selling stockholder is not obligated to sell the shares of our common stock held by it, we cannot estimate the number of shares of our common stock that a selling stockholder will beneficially own after this offering. Beneficial ownership is based upon 493,346,010 shares of common stock outstanding as of June 30, 2001.
*Represents less than one per cent of our outstanding common stock.

Name	Number of shares of common stock owned prior to this offering	Pe outsta
Allmerica Investment Trust Select Growth Fund.................	149,200	
American Century Mutual Funds, Inc...........................	5,025,000	
American Century World Mutual Funds, Inc......................	947,500	
Asset Allocation...	269,900	
AUSA Life Insurance Co.-TIM..................................	1,256,209	
Balanced Investment Growth Fund..............................	85,000	
Bank of America N.A.	1,766,877	
Bessent Global Equity Master Fund............................	2,563,821	
Broadsword Limited...	16,100	
Canadian Balanced Fund.......................................	706,625	
Canadian Balanced GIF..	11,400	
Canadian Equity Fund...	549,800	
Canadian Equity GIF..	6,500	
Chesapeake Partners International Ltd.........................	1,925,000(1)	
Chesapeake Partners Institutional Fund Limited Partnership.....	1,925,000(2)	
Chesapeake Partners Limited Partnership.......................	1,925,000(3)	
Cisalpina/Putnam Global Balanced Fund.........................	14,300	
Cisalpina/Putnam Global Value................................	389,400	
Cisalpina/Putnam USA Equity Fund.............................	89,400	
Cisalpina/Putnam USA Value Fund..............................	63,000	

Name	Number of shares of common stock owned prior to this offering	Pe outsta
Commonwealth of Massachusetts Pension Reserve Investment Management Board(4)..	35,821	
Commonwealth of Puerto Rico State Ins. Corp...................	7,600	
Connecticut General Life Insurance Co.........................	203,000	
Curators Of The University Of Missouri(4).....................	6,000	
Diversified Investment Advisors, Inc..........................	185,100	
EQ Advisors Trust-EQ/Putnam Investors Growth Fund.............	62,500	
Equitable Advisors Trust-FI Mid Cap(4)........................	9,000	
Evergreen Masters Fund.......................................	10,100	
Fidelity Advisor Series I: Fidelity Advisor Asset Allocation Fund(5)...	10,268	
Fidelity Advisor Series I: Fidelity Advisor Balanced Fund(5)...	212,000	
Fidelity Advisor Series I: Fidelity Advisor Dividend Growth Fund(5)...	193,000	
Fidelity Advisor Series I: Fidelity Advisor Dynamic Capital Appreciation Fund(5).......................................	47,000	

Fidelity Advisor Series I: Fidelity Advisor Equity Growth Fund(5)..	1,300,000
Fidelity Advisor Series I: Fidelity Advisor Growth & Income Fund(5)..	240,000
Fidelity Advisor Series I: Fidelity Advisor Growth Opportunities Fund(5)......................................	1,143,000
Fidelity Advisor Series I: Fidelity Advisor Mid Cap Fund(5)....	249,000
Fidelity Advisor Series II: Fidelity Advisor High Income Fund(5)..	3,012
Fidelity Advisor Series II: Fidelity Advisor High Yield Fund(5)	616,472
Fidelity Advisor Series VIII: Fidelity Advisor Global Equity Fund(5)..	2,000
Fidelity American Opportunities Fund(5).......................	5,000
Fidelity Beacon Street Trust: Fidelity Tax Managed Stock Fund(5)..	10,000
Fidelity Canadian Asset Allocation Fund(5)....................	428,000
Fidelity Canadian Balanced Fund(5)............................	1,109
Fidelity Capital Trust: Fidelity Value Fund(5)................	452,000

Name	Number of shares of common stock owned prior to this offering	Per outst
Fidelity Charles Street Trust: Fidelity Asset Manager(5).......	1,249,574	
Fidelity Charles Street Trust: Fidelity Asset Manager: Aggressive(5)...	41,558	
Fidelity Charles Street Trust: Fidelity Asset Manager: Growth(5)...	477,959	
Fidelity Charles Street Trust: Fidelity Asset Manager: Income(5)...	3,821	
Fidelity Commonwealth Trust: Fidelity Mid-Cap Stock Fund(5)....	688,000	
Fidelity Contrafund(5)...	3,366,000	
Fidelity Devonshire Trust: Fidelity Equity-Income Fund(5)......	16,226	
Fidelity Financial Trust: Fidelity Independence Fund(5)........	670,000	
Fidelity Fixed-Income Trust: Fidelity High Income Fund(5)......	68,436	
Fidelity Global Asset Allocation Fund(5)......................	8,019	
Fidelity Hastings Street Trust: Fidelity Fund(5)..............	1,339,000	
Fidelity High Yield Collective Trust(5)........................	17,619	
Fidelity International Portfolio Fund(5)......................	508,000	
Fidelity Investment Trust: Fidelity Worldwide Fund(5)..........	85,000	
Fidelity Magellan Fund(5)......................................	8,621,300	
Fidelity Puritan Trust: Fidelity Balanced Fund(5).............	6,477	
Fidelity Securities Fund: Fidelity Blue Chip Growth Fund(5)....	2,254,000	
Fidelity Securities Fund: Fidelity Dividend Growth Fund(5).....	1,404,000	
Fidelity Summer Street Trust: Fidelity Capital & Income Fund(5)	590,630	
Fidelity Trend Fund(5)...	435,000	
Fidelity Union Street Trust: Fidelity Export and Multinational Fund(5)..	52,000	
Fir Tree Institutional Value Fund, L.P........................	9,459,417	

Fir Tree Recovery Master Fund, L.P............................	2,021,860
Fir Tree Value Fund, L.P......................................	18,710,291
Fir Tree Value Partners LDC...................................	1,825,550
Ford Motor Company Master Trust Fund(4)........................	208,000
Idex Equity Fund..	55,000
I.G. Global Equity Fund-U.S.(4)...............................	2,000
Illinois Wesleyan University..................................	5,700

Name	Number of shares of common stock owned prior to this offering	Pe outsta
ING Select Large Cap(4).......................................	1,000	
International Balanced Fund...................................	100,000	
International Investment Fund: Putnam Global Core Equity Fund..	1,458,667	
International Investment Funds: Putnam Global Core Equity A Fund..	223,100	
International Investment Fund-Putnam Global Growth Equity A Fund..	63,000	
International Investment Funds: Putnam Global Asset Allocation Fund B-2..	32,900	
International Investment Fund-Putnam US Core Growth Equity Fund	14,200	
John Hancock Variable Series I-Health Sciences Fund............	5,530	
JNL Series Trust-JNL/Putnam Growth Series......................	65,000	
J.P. Morgan Securities Inc....................................	1,148,808	
LibertyView Funds, L.P..	4,016,211	
LibertyView Fund, LLC...	721,606	
LibertyView Global Volatility Fund, L.P.......................	1,020,453	
Lincoln National Global Asset Allocation Funds Inc............	42,600	
Manufacturers Investment Trust - Equity Trust Mid Cap Growth Sub Portfolio(4)...	59,000	
Manufacturers Investment Trust - Equity Trust Mid Cap Value Sub Portfolio(4)..	71,000	
Manufacturers Investment Trust................................	542,100	
Marathon Master Fund Ltd......................................	1,473,405	
Marathon Special Opportunity Fund Ltd.........................	785,000	
Marsh & McLennan Companies, Inc. U.S. Retirement Plan..........	43,500	
Mass Mutual Blue Chip Growth Fund(4)..........................	46,000	
MCN Energy Group Employee Benefit Plans Master Trust...........	7,800	
Michigan BAC Pension Fund.....................................	3,000	
Nissay-Putnam Foreign Equity Mother Fund......................	20,800	

Name	Number of shares of common stock owned prior to this offering	Pe outsta
Oddo Putnam U.S. Core Growth Fund.............................	15,100	
Oregon Community Foundation....................................	3,400	
OZF Credit Opportunities Master Fund, Ltd......................	1,479,537	
OZ Master Fund, Ltd..	7,068,097	
Parker-Hannifin Corporation....................................	14,300	
Penn Series Funds Inc Large Cap Value Fund.....................	46,700	
Pension Investment Committee of General Motors for General Motors Employees Domestic Group Pension Trust(4).............	105,525	
Pirelli Tire Corp Master Pension & Retirement Trust............	4,200	
Putnam Advisory Acct #13480....................................	3,500	
Putnam Asset Allocation Funds-Balanced Portfolio...............	415,322	
Putnam Asset Allocation Funds-Conservative Portfolio...........	148,482	
Putnam Asset Allocation Funds-Growth Portfolio.................	144,600	
Putnam Balanced Retirement Fund................................	58,900	
Putnam Canadian Global Trust U.S. Equity Fund..................	29,400	
Putnam Canadian Global Trust Global Core Equity Fund...........	227,600	
Putnam Capital Appreciation Fund...............................	1,923,200	
Putnam Convertible Income-Growth Trust.........................	1,172,900	
Putnam Convertible Opportunities & Income Trust................	17,128	
Putnam Core Growth Equity Fund, LLC............................	60,400	
Putnam Core Growth Trust.......................................	119,800	
Putnam Equity Income Fund......................................	315,100	
Putnam Funds Trust-U.S. Core Fund..............................	20,600	
Putnam Global Core Equity Fund, LLC............................	17,100	
Putnam Global Equity Fund......................................	1,033,800	
Putnam Health Sciences Trust...................................	1,575,150	
Putnam Investment Funds-Putnam Global Growth And Income Fund...	117,000	
Putnam Investment Funds-Putnam VT Capital Opportunities Fund...	1,649,800	

Name	Number of shares of common stock owned prior to this offering	Pe ou
Putnam Investors Fund..	1,956,867	
Putnam Large Cap Value Trust...................................	7,700	
Putnam Tax Smart Funds Trust-Putnam Tax Smart Equity Fund......	227,000	
Putnam Tobacco-Free Core Growth Equity Fund, LLC...............	9,700	
Putnam Variable Trust-Putnam VT Capital Appreciation Fund......	12,361	
Putnam Variable Trust-Putnam VT The George Putnam Fund of		

Boston	25,500
Putnam Variable Trust-Putnam VT Global Asset Allocation Fund	79,100
Putnam Variable Trust-Putnam VT Investors Fund	182,400
Putnam Voyager Fund	5,678,533
Putnam Variable Trust-Putnam VT Health Sciences Fund	121,750
Putnam Variable Trust-Putnam VT Voyager Fund	1,204,900
Putnam World Trust-Putnam Global Core Equity Fund	17,600
Putnam World Trust-Putnam Growth Equity Fund	19,200
Putnam World Trust II-Putnam Global Small-Cap Core Equity Fund (Dublin)	10,883
Putnam World Trust II-Putnam Global Value Equity Fund (Dublin)	1,900
Putnam World Trust II-Putnam Health Sciences Equity Fund (Dublin)	585
Putnam World Trust II-Putnam Investors (U.S. Growth Equity) Fund (Dublin)	17,400
Putnam World Trust II-The George Putnam (U.S. Equity and Bond) Fund	2,300
Quantum Partners Bessent Global	398,979
Roman Catholic Archbishop of Boston	15,600
Salomon Smith Barney Inc	4,681,221
Satellite Fund I, L.P.	76,901
Satellite Fund II, L.P.	1,710,826
Satellite Overseas Fund, Ltd.	2,760,192
Satellite Overseas Fund III, Ltd.	708,013
Sceptre Investment Counsel Limited-Sceptre Global Equity Fund	39,200
Sceptre Investment Counsel Limited-Sceptre Foreign Pool Fund	687,100
Season Series Trust-Asset Allocation: Diversified Growth Portfolio	10,500
Segregated Fund "1"	1,400

Name	Number of shares of common stock owned prior to this offering	Pe outsta
Segregated Fund "A"	6,200	
Society For The Preservation Of New England Antiquities	4,900	
Stichting Pensioenfonds Voor De Woningcorporaties	23,600	
Strategic Global Fund: Global Asset Allocation (Putnam) Fund	9,600	
SunAmerica Series Trust-Putnam Growth Portfolio	111,300	
TALIAC-Corporate	625,668	
TALIAC-Separate Account TBAL	1,225,400	

TALIAC-Separate Account TEF	7,000,000
The George Putnam Fund of Boston	295,900
The Robert Wood Foundation	15,100
TOLIC-Corporate	3,539,433
TOLIC-Separate Account A	5,500,000
TOLIC-Separate Account B	540,000
Transamerica Aggressive Growth Fund	426,000
Transamerica Growsafe US Bal USD	86,800
Transamerica Growsafe US Eq Fd 2	9,354
Transamerica Growsafe US Eq USD	320,000
Transamerica Premier Agg. Growth	720,838
Transamerica Premier Balanced	494,000
Transamerica Premier Equity	950,000
Transamerica Premier Value	112,400
Transamerica Value Fund	675,500
TVIF-Growth Portfolio	1,300,000
University of Missouri Retirement, Disability and Death Benefit Trust Fund(4)	28,000
US Chamber of Commerce Retirement Income Plan	4,700
Variable Insurance Products Fund: Equity-Income Portfolio(5)	8,323
Variable Insurance Products Fund: Growth Portfolio(5)	1,450,000
Variable Insurance Products Fund III: Balanced Portfolio(5)	30,392
Variable Insurance Products Fund II: Contrafund Portfolio(5)	849,000

Name	Number of shares of common stock owned prior to this offering	Pe outsta
Variable Insurance Products Fund III: Dynamic Capital Appreciation Portfolio(5)	1,000	
Variable Insurance Products Fund III: Growth Opportunities Portfolio(5)	108,000	
Variable Insurance Products Fund III: Mid Cap Portfolio(5)	98,000	
Wisconsin Physicians Service Ins Corp	3,300	
Woolworths Group Superannuation Scheme Pty Limited	30,300	

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(1) Beneficial ownership includes shares held by Chesapeake Partners Limited Partnership and Chesapeake Partners Institutional Fund Limited Partnership.
(2) Beneficial ownership includes shares held by Chesapeake Partners Limited Partnership and Chesapeake Partners International Ltd.
(3) Beneficial ownership includes shares held by Cheaspeake Partners International Limited and Chesapeake Partners Institutional Fund Limited Partnership.

(4) Shares indicated as owned by such entity are owned directly by various private investment accounts, primarily employee benefit plans for which Fidelity Management Trust Company ("FMTC") serves as trustee or managing agent. FMTC is a wholly-owned subsidiary of FMR (as defined in footnote 5) and a bank as defined in Section 3(a)(6) of the Securities Exchange Act of 1934, as amended. These holdings are as of July 9, 2001.

(5) The entity is either an investment company or a portfolio of an investment company registered under Section 8 of the Investment Company Act of 1940, as amended, or a private investment account advised by Fidelity Management & Research Company ("FMR Co."). FMR Co. is a Massachusetts corporation and an investment advisor registered under Section 203 of the Investment Advisers Act of 1940, as amended, and provides investment advisory services to each of such Fidelity entities identified above, and to other registered investment companes and to certain other funds which are generally offered to a limited group of investors. FMR Co. is a wholly-owned subsidiry of FMR Corp. ("FMR"), a Massachusetts corporation. These holdings are as of July 9, 2001.

(6) Represents shares of our common stock issuable on conversion of shares of Series C preferred stock. Each share of Series C preferred stock shall automatically convert into ten shares of common stock upon the effectiveness of the registration statement of which this prospectus forms a part.

PLAN OF DISTRIBUTION

The selling stockholders, or their pledgees, donees, transferees, or any of their successors in interest selling shares received from a named selling stockholder as a gift, partnership distribution or other non-sale-related transfer after the date of this prospectus (all of whom may be selling stockholders), may sell the shares of common stock from time to time on any stock exchange or automated interdealer quotation system on which the common stock is listed, in the over-the-counter market, in privately negotiated transactions or otherwise, at fixed prices that may be changed, at market prices prevailing at the time of sale, at prices related to prevailing market prices or at prices otherwise negotiated. The selling stockholders may sell the shares of common stock by one or more of the following methods, without limitation:

(a) block trades in which the broker or dealer so engaged will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

(b) purchases by a broker or dealer as principal and resale by the broker or dealer for its own account pursuant to this prospectus;

(c) an exchange distribution in accordance with the rules of any stock exchange on which the common stock is listed;

(d) ordinary brokerage transactions and transaction in which the broker solicits purchases;

(e) privately negotiated transactions;

(f) short sales;

(g) through the writing of options on the shares, whether or the options are listed on an options exchange;

(h) through the distribution of the shares by any selling stockholder to its partners, members or stockholders;

(i) one or more underwritten offerings on a firm commitment or best efforts basis; and

(j) any combination of any of these methods of sale.

The selling stockholder may also transfer the shares by gift.

We do not know of any arrangements by the selling stockholders for the sale of any of the shares.

The selling stockholders may engage brokers and dealers, and any brokers or dealers may arrange for other brokers or dealers to participate in effecting sales of the shares. These brokers, dealers or underwriters may act as principals, or as an agent of a selling stockholder. Broker-dealers may agree with a selling stockholder to sell a specified number of the shares at a stipulated price per share. If a broker-dealer is unable to sell shares acting as agent for a selling stockholder, it may purchase as principal any unsold shares at the stipulated price. Broker-dealers that acquire shares as principals may thereafter resell the shares from time to time in transactions on any stock exchange or automated interdealer quotation system on which the shares are then listed, at prices and on terms then prevailing at the time of sale, at prices related to the then-current market price or in negotiated transactions. Broker-dealers may use block transactions and sales to and through broker-dealers, including transactions of the nature described above. The selling stockholders may also sell the shares in accordance with Rule 144 under the Securities Act, rather than pursuant to this prospectus, regardless of whether the shares are covered by this prospectus.

From time to time, one or more of the selling stockholders may pledge, hypothecate or grant a security interest in some or all of the shares owned by them. The pledgees, secured parties or persons to whom the shares have been hypothecated will, upon foreclosure in the event of default, be deemed to be selling stockholders. The number of a selling stockholder's shares offered under this prospectus will decrease as and when it takes such actions. The plan of distribution for the selling stockholder's shares will otherwise remain unchanged. In addition, a selling stockholder may, from time to time, sell the shares short, and, in those instances, this prospectus may be delivered in connection with the short sales and the shares offered under this prospectus may be used to cover short sales.

To the extent required under the Securities Act, the aggregate amount of selling stockholders' shares being offered and the terms of the offering, the names of any agents, brokers, dealers or underwriters and any applicable commission with respect to a particular offer will be set forth in an accompanying prospectus supplement. Any underwriters, dealers, brokers or agents participating in the distribution of the shares may received compensation in the form of underwriting discounts, concessions, commissions or fees from a selling stockholder and/or purchasers of selling stockholders' shares of common stock, for whom they may act, which compensation as to a particular broker-dealer might be in excess of customary commissions.

The selling stockholders and any underwriters, broker, dealers or agents that participate in the distribution of the shares may be deemed to be "underwriters" within the meaning of the Securities Act, and any discounts, concessions, commissions or fees received by them and any profit on the resale of the shares sold by them may be deemed to be underwriting discounts and commissions.

A selling stockholder may enter into hedging transactions with broker-dealers and the broker-dealers may engage in short sales of the shares in the course of hedging the positions they assume with the selling stockholder, including, without limitation, in connection with distributions of the shares by those broker-dealers. A selling stockholder may enter into option or other transactions with one or more broker-dealers that involve the delivery of the shares offered hereby to the broker-dealers, who may then resell or otherwise transfer those shares. A selling stockholder may also loan or pledge the shares offered hereby to a broker-dealer and the broker-dealer may sell the shares offered hereby so loaned or upon a default may sell or otherwise transfer the pledged shares offered hereby.

The selling stockholder and other persons participating in the sale or distribution of the shares will be subject to applicable provisions on the Securities Exchange Act, as amended, and the rules and regulations thereunder, including Regulation M. This regulation may limit the timing of purchases and sales of any of the shares by the selling stockholders and any other person. The anti-manipulation rules under the Securities Exchange Act may apply to sales of shares in the market and to the activities of the selling stockholders and their affiliate. Furthermore, Regulation M may restrict the ability of any person engaged in the distribution of the shares to engage in market-making activities with respect to the particular shares being distributed for a period of up to five business days before the distribution. These restrictions may affect the marketability of the shares and the ability of any person or entity to engage in market-making activities with respect to the shares.

In order to comply with the securities laws of certain states, if applicable, the shares must be sold in such jurisdictions only through registered or licensed brokers or dealers. In addition, in certain states the shares may not be sold unless thay have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

We have agreed to indemnify in certain circumstances the selling stockholders and any brokers, dealers and agents who may be deemed to be underwriters, if any, of the shares covered by the registration statement, against certain liabilities, including liabilities under the Securities Act. The selling stockholders have agreed to indemnify us in certain circumstances against certain liabilities, including liabilities under the Securities Act.

The shares of common stock offered hereby originally issued to the selling stockholders pursuant to an exemption from the registration requirements of the Securities Act. We agreed to register the shares under the Securities Act and to keep the registration statement of which this prospectus is a part effective until the earlier of the date on which the selling stockholders have sold all of the shares, the shares covered hereby are no longer outstanding or the holders are entitled to sell their shares under Rule 144 under the Securities Act. We have agreed to pay certain expenses in connection with this offering, including, in certain circumstances, the fees and expenses of counsel to the selling stockholders, but not including underwriting discounts, concessions, commissions or fees of the selling stockholders.

We will not receive any proceeds from sales of any shares by the selling stockholders.

We can not assure you that the selling stockholders will sell all or any portion of the shares offered hereby.

We may suspend the use of this prospectus by the selling stockholder under certain circumstances.

Any common stock sold by a selling stockholder pursuant to a prospectus supplement will be listed on the NYSE, subject to official notice of issuance.

LEGAL MATTERS

Certain legal matters as to the validity of the shares offered by this prospectus will be passed upon for us by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York. Nancy A. Lieberman, a partner of Skadden, Arps, Slate, Meagher & Flom LLP, is a director and stockholder of Rite Aid.

EXPERTS

The consolidated financial statements of the Company and its consolidated subsidiaries, except PCS Holding Corporation and subsidiaries which has been included in discontinued operations in such consolidated financial statements, as of March 3, 2001 and February 26, 2000, and for each of the three years in the period ended March 3, 2001 included in this prospectus and related financial statement schedule included elsewhere in the registration statement have been audited by Deloitte & Touche LLP as stated in their reports appearing herein and elsewhere in the registration statement. The financial statements of PCS Holding Corporation and subsidiaries for the year ended February 26, 2000 and the thirty-six days ended February 27, 1999, not separately included herein or elsewhere in the registration statement have been audited by Ernst & Young LLP, as stated in their report, which is included herein. Such financial statements and related financial statement schedule of the Company and its consolidated subsidiaries are included herein and elsewhere in the registration statement in reliance upon the respective reports of such firms given upon their authority as experts in accounting and auditing. All of the foregoing firms are independent auditors.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Rite Aid Corporation and subsidiaries as of March 3, 2001 and February 26, 2000, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the three years in the period ended March 3, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the consolidated financial statements of PCS Holding Corporation (a consolidated subsidiary of Rite Aid Corporation), which has been included in discontinued operations in the accompanying consolidated financial statements, which statements reflect total assets constituting 17% of consolidated total assets as of February 26, 2000, and revenues of $1,264.7 million and $104.3 million for the years ended February 26, 2000 and February 27, 1999, respectively. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for PCS Holding Corporation, is based solely on the report of such other auditors.

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

In our opinion, based on our audits and the report of the other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of Rite Aid Corporation and subsidiaries at

March 3, 2001, and February 26, 2000, and the results of their operations and their cash flows for each of the three years in the period ended March 3, 2001, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the consolidated financial statements, the Company changed its application of the last-in, first-out ("LIFO") method of accounting for inventory in 2000.

/s/ DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania
May 8, 2001, except for Note 25,
as to which the date is May 16, 2001

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REPORT OF INDEPENDENT AUDITORS

Board of Directors and Shareholder
PCS Holding Corporation

We have audited the consolidated balance sheets of PCS Holding Corporation and Subsidiaries (the Company) as of February 27, 1999 and February 26, 2000, and the related consolidated statements of operations, shareholder's equity, and cash flows for the thirty-six days ended February 27, 1999 and the year ended February 26, 2000 (not presented separately herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PCS Holding Corporation and Subsidiaries at February 27, 1999 and February 26, 2000, and the consolidated results of their operations and their cash flows for the thirty-six days ended February 27, 1999 and the year ended February 26, 2000, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

April 21, 2000

RITE AID CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands of dollars, except share amounts)

	March 3, 2001	February 26, 2000
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 92,290	$ 179,757
Accounts receivable, net	503,527	152,035
Inventories, net	2,444,525	2,472,437
Investment in AdvancePCS	491,198	--
Refundable income taxes	--	147,599
Prepaid expenses and other current assets	85,292	63,659
Total current assets....................	3,616,832	3,015,487
PROPERTY, PLANT AND EQUIPMENT, NET	3,041,008	3,445,828
GOODWILL AND OTHER INTANGIBLES	1,067,339	1,258,108
OTHER ASSETS	188,732	235,398
DEFERRED TAX ASSET	--	146,917
NET NON-CURRENT ASSETS OF DISCONTINUED OPERATIONS..............................	--	1,743,828
Total assets...........................	$ 7,913,911	$ 9,845,566
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Current lease financing obligations	$ 28,603	$ 25,964
Short-term debt and current maturities of long-term debt	8,353	76,086
Accounts payable	896,390	854,062
Sales and other taxes payable	31,562	33,662
Accrued salaries, wages and other current liabilities	696,047	883,003
Net current liabilities of discontinued operations..............................	--	390,053
Total current liabilities...............	1,660,955	2,262,830
CONVERTIBLE SUBORDINATED NOTES	357,324	649,986
LONG-TERM DEBT LESS CURRENT MATURITIES ...	4,428,871	4,738,661
LEASE FINANCING OBLIGATIONS LESS CURRENT MATURITIES..............................	1,071,397	1,122,171
OTHER NONCURRENT LIABILITIES	730,342	619,952
Total liabilities......................	8,248,889	9,393,600
COMMITMENTS AND CONTINGENCIES	--	--
REDEEMABLE PREFERRED STOCK	19,457	19,457
STOCKHOLDERS' EQUITY (DEFICIT):		
Preferred stock, par value $1 per share; liquidation value $100 per share; 20,000,000 shares authorized: shares issued -- 3,340,000		

and 3,083,000..........................	333,974	308,250
Common stock, par value $1 per share; 600,000,000 shares authorized: shares issued and outstanding -- 348,055,000 and 259,927,000.........................	348,055	259,927
Additional paid-in capital	2,065,301	1,292,337
Accumulated deficit	(3,171,956)	(1,421,817)
Deferred compensation	19,782	(6,188)
Accumulated other comprehensive income ...	50,409	--
Total stockholders' equity (deficit)....	(354,435)	432,509
Total liabilities and stockholders' equity (deficit)........................	$ 7,913,911	$ 9,845,566

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

RITE AID CORPORATION AND SUBSIDIARIES

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

	March 2001 (53 wee
REVENUES..	$14,516,
COSTS AND EXPENSES:	
Cost of goods sold, including occupancy costs.......................................	11,151,
Selling, general and administrative expenses..	3,458,
Goodwill amortization...	20,
Store closing and impairment charges..	388,
Interest expense..	649,
Loss on debt conversions and modifications..	100,
Share of loss from equity investments...	36,
Gain on sale of fixed assets..	(6,
	15,799,
Loss from continuing operations before income taxes and cumulative effect of accounting change...	(1,282,
INCOME TAX EXPENSE (BENEFIT)..	148,
Loss from continuing operations before cumulative effect of accounting change...	(1,431,
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, including income tax expense (benefit) of $13,846, $30,903, and $(5,925)..........	11,
LOSS ON DISPOSAL OF DISCONTINUED OPERATIONS,	

net of income tax benefit of $734	(168,
CUMULATIVE EFFECT OF ACCOUNTING CHANGE,	
net of income tax benefit of $18,200	
NET LOSS	$(1,589,
COMPUTATION OF LOSS APPLICABLE TO COMMON STOCKHOLDERS:	
Net loss	$(1,589,
Accretion of redeemable preferred stock	
Preferred stock conversion reset	(160,
Cumulative preferred stock dividends	(25,
Loss applicable to common stockholders	$(1,775,
BASIC AND DILUTED (LOSS) INCOME PER SHARE:	
Loss from continuing operations	$ (5
Income (loss) from discontinued operations	(0
Cumulative effect of accounting change, net	
Net loss per share	$ (5

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

RITE AID CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
For the Years Ended March 3, 2001, February 26, 2000 and February 27, 1999
(In thousands, except per share amounts)

	Preferred Stock			Common Stock		Additi Paid Capi
	Shares	Class A	Class B	Shares	Issued	
BALANCE FEBRUARY 28, 1998	--	--	--	258,214	$258,214	$1,354
Net loss						
Other comprehensive income -- Minimum pension liability adjustment						
Comprehensive loss						
Stock options exercised				633	633	8
Stock option income tax benefit						5
Stock grants				14	14	
Bond conversion						
Cash dividends paid on common stock ($.4375 per share)						
BALANCE FEBRUARY 27, 1999	--	--	--	258,861	258,861	1,370
Net loss						
Other comprehensive income -- Minimum pension liability adjustment						

Comprehensive loss						
Issuance of preferred shares...	3,000	300,000				
Exchange of preferred shares...		(300,000)	300,000			
Stock options exercised........				66	66	
Stock option income tax benefit						
Stock grants...................				1,000	1,000	7
Issuance of common stock warrants.....................						8
Bond conversion................						
Dividends on preferred stock...	83		8,250			(8
Increase resulting from sale of stock by equity method investee....................						2
Cash dividends paid on common stock ($.3450 per share).....						(89
BALANCE FEBRUARY 26, 2000......	3,083	--	308,250	259,927	259,927	1,292
Net loss.......................						
Other comprehensive (loss) --						
Minimum pension liability adjustment..................						
Appreciation of investment in AdvancePCS..................						
Comprehensive loss						
Preferred stock conversion reset.......................			(160,915)			160
Accretion of convertible preferred stock.............			160,915			
Stock grants...................				4,004	4,004	18
Bond conversion................				84,124	84,124	604
Deferred compensation plans....						
Dividends on preferred stock...	257		25,724			(25
Increase resulting from sale of stock by equity method investee....................						14
BALANCE MARCH 3, 2001..........	3,340	$ --	$ 333,974	348,055	$348,055	$2,065

	Deferred Compensation	Accumulated Other Comprehensive Income	Total
BALANCE FEBRUARY 28, 1998......	--	$ (787)	$ 1,898,203
Net loss.......................			(461,522)
Other comprehensive income --			
Minimum pension liability adjustment..................		312	312
Comprehensive loss			(461,210)
Stock options exercised........			9,236
Stock option income tax benefit			5,807
Stock grants...................			683
Bond conversion................			9
Cash dividends paid on common stock ($.4375 per share).....			(113,111)

BALANCE FEBRUARY 27, 1999......	--	(475)	1,339,617
Net loss.......................			(1,133,043)
Other comprehensive income --			
Minimum pension liability adjustment...................		475	475
Comprehensive loss			(1,132,568)
Issuance of preferred shares...			300,000
Exchange of preferred shares...			--
Stock options exercised........			880
Stock option income tax benefit			243
Stock grants...................	(6,188)		2,062
Issuance of common stock warrants.....................			8,500
Bond conversion................			5
Dividends on preferred stock...			--
Increase resulting from sale of stock by equity method investee.....................			2,929
Cash dividends paid on common stock ($.3450 per share).....			(89,159)
BALANCE FEBRUARY 26, 2000......	(6,188)	--	432,509
Net loss.......................			(1,589,224)
Other comprehensive (loss) --			
Minimum pension liability adjustment...................		(622)	(622)
Appreciation of investment in AdvancePCS...................		51,031	51,031
Comprehensive loss			(1,538,815)
Preferred stock conversion reset........................			--
Accretion of convertible preferred stock.............			--
Stock grants...................	(10,410)		12,387
Bond conversion................			688,698
Deferred compensation plans....	36,380		36,380
Dividends on preferred stock...			--
Increase resulting from sale of stock by equity method investee.....................			14,406
BALANCE MARCH 3, 2001..........	$ 19,782	$50,409	$ (354,435)

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

RITE AID CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of dollars)

	March 2001
OPERATING ACTIVITIES:	
Net loss	$(1,589,
Income (loss) from discontinued operations	11,
Loss on disposal of discontinued operations	(168,
Loss from continuing operations	(1,431,
Adjustments to reconcile to net cash (used in) provided by operations:	
Cumulative effect of change in accounting method	
Depreciation and amortization	384,
Store closings and impairment loss	388,
Gain on sale of fixed assets	(6,
Stock based compensation	45,
Write-off of deferred tax asset	146,
Loss on debt conversions and modifications	100,
Changes in operating assets and liabilities, net of acquisitions:	
Accounts receivable	(351,
Inventories	27,
Income taxes receivable/payable	147,
Accounts payable	(66,
Other liabilities	(148,
Other	59,
Net cash (used in) provided by continuing operations	(704,
Net cash provided by (used in) discontinued operations	3,
Net cash (used in) provided by operating activities	(700,
INVESTING ACTIVITIES:	
Expenditures for property, plant and equipment	(132,
Purchases of businesses, net of cash acquired	
Net investment in equity method investee	
Intangible assets acquired	(9,
Proceeds from sale of discontinued operations	710,
Proceeds from dispositions	108,
Net cash provided by (used in) continuing operations	677,
Net cash used in discontinued operations	
Net cash provided by (used in) investing activities	677,
FINANCING ACTIVITIES:	
Net proceeds from the issuance of long-term debt	
Net change in bank credit facilities	324,
Net (payments) proceeds of commercial paper borrowings	(192,
Net proceeds from the issuance of preferred stock	
Net proceeds from the issuance of redeemable preferred stock	
Repurchase of redeemable preferred stock	
Proceeds from leasing obligations	6,
Principal payments on long-term debt	(126,
Cash dividends paid	
Net proceeds from the issuance of common stock	
Deferred financing costs paid	(78,
Other	
Net cash provided by (used in) financing activities	(64,

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(87,
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	179,
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 92,

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

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended March 3, 2001, February 26, 2000 and February 27, 1999
(In thousands of dollars, except per share amounts)

1. Results of Operations and Financing

During fiscal 2001, 2000 and 1999, the Company incurred net losses of $1,589,224, $1,133,043 and $461,522, respectively, and during fiscal 2001 net cash used in operating activities from continuing operations was $704,554.

Since December 1999, management of the Company has taken a series of steps intended to stabilize and improve the operating results of the Company. Management believes that available cash and cash equivalents together with cash flow from operations, available borrowings under the senior credit facility and other sources of liquidity (including asset sales) will be sufficient to fund the Company's operating activities, investing activities and debt maturities for fiscal 2002. In addition, management believes that the Company will be in compliance with its existing debt covenant requirements throughout fiscal 2002. However, a substantial portion of its indebtedness which matures in August and September 2002 will require the Company to refinance the indebtedness at or before that time.

2. Summary of Significant Accounting Policies

Description of Business

The Company is a Delaware corporation and through its wholly-owned subsidiaries, operates retail drugstores in the United States. It is one of the largest retail drugstore chains in the United States, with 3,648 stores in operation as of March 3, 2001. The Company's drugstores' primary business is pharmacy services. It also sells a full selection of health and beauty aids and personal care products, seasonal merchandise and a large private label product line.

The Company's continuing operations consists solely of the retail drug segment. Revenues from its retail drug stores are derived from:

	Year Ended		
	March 3, 2001	February 26, 2000	February 27, 1999
Pharmacy	$ 8,639,288	$ 7,788,404	$ 6,737,710
Front-end	5,877,577	5,550,543	5,700,732

(In thousands of dollars, except per share amounts)

	$14,516,865	$13,338,947	$12,438,442

Discontinued Operations

On October 2, 2000, the Company sold its wholly owned subsidiary PCS Health Systems, Inc. ("PCS"), a pharmacy benefits manager ("PBM"). Accordingly, for financial statement purposes, the assets, liabilities, results of operations and cash flows of this business have been segregated from those of continuing operations and are presented in the Company's financial statements as discontinued operations (see Note 24).

Fiscal Year

The Company's fiscal year ends on the Saturday closest to February 28. The fiscal year ended March 3, 2001 included 53 weeks. The fiscal years ended February 26, 2000 and February 27, 1999 both included 52 weeks.

Reclassifications

Certain reclassifications have been made to prior years' amounts to conform to current year classifications.

Principles of Consolidation

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

2. Summary of Significant Accounting Policies -- (Continued)

Cash and Cash Equivalents

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

Inventories

Inventories are stated at the lower of cost or market. Inventory balances include capitalization of certain costs related to purchasing, freight, and handling costs associated with placing inventory in its location and condition for sale. The Company uses the last-in, first-out ("LIFO") method of accounting for substantially all of its inventories (see Note 3). At March 3, 2001 and February 26, 2000, inventories were $381,466 and $340,740, respectively, lower than the amounts that would have been reported using the first-in, first-out ("FIFO") method. The Company calculates its FIFO inventory valuation using the retail method for store inventories and the cost method for warehouse inventories. The LIFO charge was $40,726, $34,614 and $36,469 for fiscal years 2001, 2000 and 1999, respectively.

Impairment of Long-Lived Assets

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

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

Property, Plant and Equipment

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

Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful life of the asset or the term of the lease. Capitalized lease assets are recorded at the present value of minimum lease payments and amortized over the estimated economic life of the related property or term of the lease.

The Company capitalizes direct internal and external development costs and direct external application development costs associated with internal-use software. Neither preliminary evaluation costs nor costs associated with the software after implementation are capitalized. For fiscal years 2001, 2000 and 1999, the Company capitalized costs of approximately $1,227, $4,595 and $9,667, respectively.

2. Summary of Significant Accounting Policies -- (Continued)

Intangible Assets

Goodwill represents the excess of acquisition cost over the fair value of the net assets of acquired entities and is being amortized on a straight-line basis over 40 years. The value of favorable and unfavorable leases on stores acquired in business combinations are amortized over the terms of the leases on a straight-line basis. Patient prescription files purchased and those acquired in business combinations are amortized over their estimated useful lives of five to fifteen years. The value of assembled workforce acquired is amortized over its useful life of five years.

Investments in Fifty Percent or Less Owned Subsidiaries

Investments in affiliated entities for which the Company has the ability to exercise significant influence, but not control over the investee, and generally an ownership interest of the common stock of between 20% and 50%, are accounted for under the equity method of accounting and are included in other assets. Under the equity method of accounting, the Company's share of the investee's earnings or loss is included in the consolidated statements of operations. The portion of the Company's investment in an equity-method investee that exceeds its share of the underlying net equity of the investee, if any, is amortized over 7 to 30 years.

Revenue Recognition

The Company recognizes revenue from the sale of merchandise at the time the merchandise is sold. The Company records revenue net of an allowance for estimated future returns. Return activity is immaterial to revenues and results of operations in all periods presented.

Vendor Rebates and Allowances

Rebates and allowances received from vendors that are based on future purchases are initially deferred and are recognized as a reduction of cost of goods sold when the related inventory is sold. Rebates and allowances not tied directly to purchases are recognized as a reduction of selling, general and administrative expense on a straight-line basis over the related contract term.

Stock-Based Compensation

The Company accounts for its employee and director stock-based compensation plans under APB Opinion No. 25.

Store Preopening Expenses and Closing Costs

Costs incurred prior to the opening of a new store, associated with a remodeled store or related to the opening of a distribution facility, are charged against earnings as administrative and general expenses when incurred. When a store is closed, the Company expenses unrecoverable costs and accrues a liability equal to the present value of the remaining lease obligations, net of expected sublease income. Other store closing and liquidation costs are expensed when incurred and included in cost of goods sold.

Advertising

Advertising costs are expensed as incurred. Advertising expenses, net of reimbursements, for fiscal 2001, 2000 and 1999 were $214,891, $194,880 and $223,000, respectively.

Insurance

The Company is self-insured for certain general liability and workers' compensation claims. For claims that are self-insured, stop-loss insurance coverage is maintained for workers' compensation occurrences exceeding $250 and general liability occurrences exceeding $1,000. The Company utilizes actuarial studies as the basis for developing reported claims and estimating claims incurred but not reported relating to the Company's self-insurance. Workers' compensation claims are discounted to present value using a risk-free interest rate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
For the Years Ended March 3, 2001, February 26, 2000 and February 27, 1999
(In thousands of dollars, except per share amounts)

2. Summary of Significant Accounting Policies -- (Continued)

The Company is self-insured for all covered employee medical claims.

Income Taxes

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

Use of Estimates

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

Significant Concentrations

During fiscal 2001, the Company purchased approximately 93% of the dollar volume of its prescription drugs from a single supplier, McKesson HBOC, Inc. ("McKesson"), under a contract expiring April 2004. With limited exceptions, the Company is required to purchase all of its branded pharmaceutical products from McKesson. If the Company's relationship with McKesson was disrupted, the Company could have difficulty filling prescriptions, which would negatively impact the business.

Derivatives

The Company enters into interest rate swap agreements to hedge the exposure to increasing rates with respect to its variable rate debt. The differential to be paid or received as a result of these swap agreements is accrued as interest rates change and recognized as an adjustment to interest expense related to the variable rate debt.

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS 133 is effective for all fiscal years beginning after June 15, 2000. SFAS 133, as amended by SFAS 138, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives, whether designated in hedging relationships or not, will be required to be recorded on the balance sheet at fair value. If the derivative is designated and effective as a fair value hedge, the changes in the fair value of the derivative and the changes in the hedged item attributable to the hedged risk will be recognized in earnings. If the derivative is designated and effective as a cash-flow hedge, changes in the fair value of the effective portion of the derivative will be recorded in other comprehensive income ("OCI") and will be recognized in the income statement when the hedged item affects earnings. SFAS 133 defines new requirements for designation and documentation of hedging relationships as well as ongoing effectiveness assessments in order to use hedge accounting. For a derivative that does not qualify as a hedge, changes in fair value will be recognized in earnings. On March 4, 2001, in connection with the adoption of the new Statement, the Company will record a reduction of approximately $29,000 in OCI as a cumulative transition adjustment for derivatives designated as cash flow-type hedges prior to adopting SFAS 133.

Certain issues currently under consideration by the Derivatives Implementation Group ("DIG") may make it more difficult to qualify for cash flow hedge accounting in the future. Pending the results of the DIG deliberations, changes in the fair value of the Company's interest rate swaps may be recorded as a component of net income.

3. Change in Accounting Method

In fiscal 2000, the Company changed its application of the LIFO method of accounting by restructuring its LIFO pool structure through a combination of certain existing geographic pools. The reduction in the number of LIFO pools was made to more closely align the LIFO pool structure to the Company's store merchandise categories. The effect of this change in fiscal 2000 was a charge of $6,840 (net of income tax benefit of $4,560), or $.03 per diluted common share. The cumulative effect of the accounting change on periods prior to fiscal 2000 was a charge of $27,300 (net of income tax benefit of $18,200), or $.11 per diluted common share. The pro forma effect of this accounting change would have been a reduction in income of $6,360 (net of income tax benefit of $4,240) or $.02 per diluted common share for fiscal 1999.

4. Acquisitions and Dispositions

On March 3, 1999, the Company purchased 25 drugstores from Edgehill Drugs, Inc. The purchase price was $24,454, net of cash acquired of $12. This acquisition was accounted for under the purchase method of accounting. The results of operations have been included in these consolidated financial statements since the date of acquisition.

In September 1999, the Company signed a contract to sell 38 drugstores in California to Longs Drug Stores California, Inc. (Longs). During the third quarter of fiscal 2000, 32 stores were transferred to Longs and two stores were transferred in the first quarter of fiscal 2001. The remaining four stores were retained by the Company. A pre-tax gain of $80,109 was recognized in the third quarter of fiscal 2000 for the stores that were sold in that year. The immaterial gain on the sale of the two stores was recognized by the Company in fiscal 2001.

5. Earnings Per Share

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

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
For the Years Ended March 3, 2001, February 26, 2000 and February 27, 1999
(In thousands of dollars, except per share amounts)

5. Earnings Per Share -- (Continued)

	Year Ended		
	March 3, 2001	February 26, 2000	February 27, 1999
Numerator for earnings per share:			
Loss from continuing operations before cumulative effect of accounting change, net of tax	$ (1,431,764)	$ (1,114,921)	$ (448,699)
Accretion of redeemable preferred stock		(97)	--
Preferred stock conversion reset	(160,915)		
Cumulative preferred stock dividends ..	(25,724)	(10,110)	(627)
Loss before cumulative effect of accounting change attributable to common stockholders	(1,618,403)	(1,125,128)	(449,326)
Net income (loss) from discontinued operations, net of tax	11,335	9,178	(12,823)
Loss on disposal of discontinued operations, net of tax	(168,795)	--	--
Total income (loss) from discontinued operations	(157,460)	9,178	(12,823)
Cumulative effect of accounting change	--	(27,300)	--
Net loss attributable to common stockholders...........................	$ (1,775,863)	$ (1,143,250)	$ (462,149)
Denominator:			
Basic weighted average shares	314,189,280	259,139,000	258,516,000
Diluted weighted average shares	314,189,280	259,139,000	258,516,000
Basic and diluted loss per share:			
Loss from continuing operations	$ (5.15)	$ (4.34)	$ (1.74)
Income (loss) from discontinued operations	(0.50)	0.04	(0.05)
Cumulative effect of accounting change, net	--	(0.11)	--
Net loss per share	$ (5.65)	$ (4.41)	$ (1.79)

In fiscal 2001, 2000 and 1999, no potential shares of common stock have been included in the calculation of diluted earnings per share because of the losses reported. At March 3, 2001, an aggregate of 126,526,540 potential common shares related to stock options, convertible preferred stock, convertible notes, warrants, stock appreciation rights and other have been excluded from the computation of diluted earnings per share.

(In thousands of dollars, except per share amounts)

6. Store Closing and Impairment Charges

Store closing and impairment charges consist of:

	Year Ended		
	March 3, 2001	February 26, 2000	February 27, 1999
Impairment charges	$214,224	$120,593	$ 87,666
Store lease exit costs	57,668	18,855	107,693
Impairment of investments	116,186	--	--
	$388,078	$139,448	$195,359

Impairment charges

In fiscal 2001, 2000, and 1999 store closing and impairment charges include non-cash charges of $214,224, $120,593 and $87,666 respectively, for the impairment of long-lived assets (including allocable

6. Store Closing and Impairment Charges -- (Continued)

goodwill) at 495, 249 and 270 stores. These amounts include the write-down of long-lived assets at stores that were assessed for impairment because of management's intention to relocate or close the store or because of changes in circumstances that indicate the carrying value of an asset may not be recoverable.

Store lease exit costs

During fiscal 2001, 2000, and 1999, the Company recorded charges for 144, 224, and 422 stores, respectively, to be closed or relocated that were under long-term leases. Costs incurred to close a store, which principally include lease termination costs, are recorded at the time management commits to closing the store, which is the date the closure is formally approved by senior management, or in the case of a store to be relocated, the date the new property is leased or purchased. The Company calculates its liability for closed stores on a store-by-store basis. The calculation includes future minimum lease payments and related ancillary costs, from the date of closure to the end of the remaining lease term, net of estimated cost recoveries that may be achieved through subletting properties or through favorable lease terminations. As a result of focused efforts on cost recoveries for closed stores during fiscal 2001, the Company has experienced improved results, which has been reflected in the assumptions about future sublease income. This liability is discounted using a risk-free rate of interest. The Company evaluates these assumptions each quarter and adjusts the liability accordingly. The discount rates used to determine the liability were 4.71%, 6.60% and 5.22% at March 3, 2001, February 26, 2000 and February 27, 1999, respectively.

(In thousands of dollars, except per share amounts)

Subsequent to the recording of lease accruals, management determined that certain stores would remain open or would not relocate. Accordingly, the Company reversed charges of $13,232 and $10,490 in fiscal 2001 and 2000, respectively, for lease accruals previously established for those stores.

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

	Year Ended		
	March 3, 2001	February 26, 2000	February 27, 1999
Balance--beginning of year	$212,812	$ 246,805	$ 191,453
Provision for present value of noncancellable lease payments of stores designated to be closed	102,495	58,324	94,404
Changes in assumptions about future sublease income, terminations, etc. and change of interest rate	(31,595)	(28,979)	13,289
Reversals of reserves for stores that management has determined will remain open	(13,232)	(10,490)	--
Interest accretion	11,552	13,251	8,069
Cash payments, net of sublease income	(49,024)	(66,099)	(60,410)
Balance--end of year	$233,008	$212,812	$246,805

In addition to store closings, the Company also closed or relocated certain distribution centers in its efforts to consolidate operations. During the second quarter of fiscal 2000, management approved a plan to close its leased distribution center in Las Vegas, Nevada and terminate all of its employees and, as a result, accrued termination benefit payments of $1,634 in the second quarter of 2000, with the charge included in selling, general and administrative expenses. Severance payments of $1,165 were made during fiscal year 2000 leaving a remaining liability of $469 at February 26, 2000, with remaining payments made during fiscal 2001. The operating lease for the distribution center was terminated in May 2000 at the end of the lease term with no additional liability to the Company.

6. Store Closing and Impairment Charges -- (Continued)

In the third quarter of fiscal 2000, management announced plans to close its South Nitro, West Virginia distribution center in the summer of 2000. As a result of this exit plan, the Company accrued termination benefits of $3,858 in the third quarter of fiscal 2000 for all of the 480 employees with the charge included in selling, general and administrative expenses. In the fourth quarter of fiscal 2000 management decided to not close the facility. However, prior to this decision the Company became obligated to pay $1,040 in severance costs related to 102 employees. The Company paid $540 in the fourth quarter of fiscal 2000 and the remaining $500 was paid in fiscal 2001. The remaining reserve of $2,818 was reversed to selling, general and administrative expenses in the fourth quarter of fiscal 2000.

In the third quarter of fiscal 2000, management approved a plan to close and sell its Ogden, Utah distribution center. As a result of this exit plan, a liability of $2,256 for termination benefits for 500 employees were recorded through selling, general and administrative expenses in the third quarter of fiscal 2000 which were subsequently paid. Additionally, an impairment charge of $7,600 for long-lived assets was recorded in the third quarter of fiscal 2000. The facility was sold in March 2000.

Impairment of investments

The Company has an investment in the common stock of drugstore.com, which is accounted for under the equity method. The initial investment was valued based upon the initial public offering price of drugstore.com. During fiscal 2001, the Company recorded an impairment of its investment in drugstore.com of $112,123. This impairment charge was based upon a decline in the market value of drugstore.com's stock that the Company believes to be other than temporary.

Additionally, the company recorded impairment charges of $4,063 for other investments.

7. Accounts Receivable

During November 1997, the Company and certain of its subsidiaries entered into an agreement to sell, on an ongoing basis, a pool of accounts receivable to a wholly owned bankruptcy-remote special purpose funding subsidiary (the funding subsidiary) of the Company. The funding subsidiary sold an undivided fractional ownership interest in the pool of receivables to a securitization company. The accounts receivable sold to the funding subsidiary were not recognized on the Company's consolidated balance sheet. Under the terms of the agreement, new receivables were added to the pool as collections reduced previously sold accounts receivable. The Company serviced, administered and collected the receivables on behalf of the purchaser. The Company recognized no servicing asset or liability because the benefits of servicing were expected to represent adequate compensation for the services performed.

In connection with the Company's refinancing in June 2000, all borrowings under the securitization program were repaid and the program was terminated. At the date of termination, $300,000 of receivables were recognized on the Company's consolidated balance sheet. Expenses of $7,855 and $18,052 associated with the securitization program through the date of termination were recognized for the years ended March 3, 2001 and February 26, 2000, respectively.

The Company maintains an allowance for doubtful accounts receivable based upon the expected collectibility of accounts receivable. The allowance for uncollectible accounts at March 3, 2001 and February 26, 2000 was $37,050 and $43,371, respectively. The Company's accounts receivable are due primarily from third-party providers (e.g., insurance companies and governmental agencies) under third-party payment plans and are booked net of any allowances provided for under the respective plans. Since payments due from third-party payers are sensitive to payment criteria changes and legislative actions, the allowance is reviewed continually and adjusted for accounts deemed uncollectible by management.

(In thousands of dollars, except per share amounts)

8. Property, Plant and Equipment

Following is a summary of property, plant and equipment, including capital lease assets, at March 3, 2001 and February 26, 2000:

	2001	2000
Land	$ 668,561	$ 733,979
Buildings	932,083	1,010,133
Leasehold improvements	1,192,815	1,262,590
Equipment	1,413,890	1,469,881
Construction in progress	49,182	85,484
	4,256,531	4,562,067
Accumulated depreciation	(1,215,523)	(1,116,239)
Property, plant and equipment, net.............	$ 3,041,008	$ 3,445,828

Depreciation expense, which includes the depreciation of assets recorded under capital leases, was $285,886 in fiscal 2001, $326,873 in fiscal 2000 and $269,184 in fiscal 1999.

Substantially all of the Company's owned properties on which it operates stores are pledged as collateral under the Company's debt agreements. The carrying amount of assets to be disposed of is $64,131 and $113,454 at March 3, 2001 and February 26, 2000, respectively.

9. Investments in Fifty Percent or Less Owned Subsidiaries

In July 1999, the Company purchased 9,334,746 of Series E Convertible Preferred Shares in drugstore.com, an on-line pharmacy, for cash of $8,125, including legal costs, and the Company's agreement to provide access to the Company's networks of pharmacies and third-party providers, advertising commitments and exclusivity agreements. Each of the Series E Convertible Preferred Shares were converted to one share of common stock at the time of drugstore.com's initial public offering late in July 1999 and represented 21.6% of the voting stock immediately after the initial public offering. The investment is recorded in other assets, was initially valued at $168,025, equal to the initial public offering price of $18 per share multiplied by the Company's shares. The Company accounts for the investment on the equity method because the Company has significant influence over drugstore.com resulting from its share of the voting stock, its right to appoint one board member and a number of significant operating agreements. Included in other noncurrent liabilities is the unamortized portion of the fair value of the operating agreements of $133,916 that is being amortized over 10 years, the life of the arrangements described above. As a result of the start-up nature of the drugstore.com, the Company recorded an increase to its investment of $14,406 and $2,929 and corresponding increases to equity in connection with the sale of stock by drugstore.com during fiscal 2001 and 2000, respectively. During fiscal 2001, the Company recorded an impairment of its investment in drugstore.com of $112,123. This impairment charge was based upon a decline in the market value of drugstore.com's stock that the Company believes to be other than temporary.

(In thousands of dollars, except per share amounts)

9. Investments in Fifty Percent or Less Owned Subsidiaries -- (Continued)

In June 1999, the Company sold its investment in Diversified Prescription Delivery LLC, a provider of mail order prescription delivery services. The sales price was $22,860 and resulted in a loss of $811. The investment was accounted for on the equity method with a carrying amount of $23,671 at the date of sale.

In February 2000, the Company sold its investment in Stores Automated Systems, Inc. a manufacturer of integrated point of sale systems. The investment was accounted for on the equity method with a carrying amount of $8,005 at the date of sale. The $8,805 sales price included cash and forgiveness of payables, and resulted in a gain of $800.

10. Goodwill and Other Intangibles

Following is a summary of intangible assets at March 3, 2001 and February 26, 2000:

	2001	2000
Goodwill	$ 848,121	$ 920,241
Lease acquisition costs and favorable leases	670,789	713,970
Prescription files	137,700	136,434
Assembled workforce	47,133	51,021
	1,703,743	1,821,666
Accumulated amortization	(636,404)	(563,558)
	$1,067,339	$1,258,108

11. Accrued Salaries, Wages, and Other Current Liabilities

Accrued salaries wages and other current liabilities consist of the following at March 3, 2001 and February 26, 2000:

(In thousands of dollars, except per share amounts)

	2001	2000
Accrued wages, benefits and other personnel costs	$280,126	$254,738
Accrued legal and other professional fees	67,621	161,143
Accrued taxes payable	2,012	111,805
Accrued interest	85,307	61,427
Accrued lease exit costs	37,042	42,413
Accrued rent and other occupancy costs	79,111	62,087
Deferred income	24,543	19,143
Accrued store expense	30,057	38,443
Accrued property taxes	43,367	44,490
Other	46,861	87,314
	$696,047	$883,003

12. Income Taxes

The provision for income taxes from continuing operations was as follows:

	Year Ended		
	March 3, 2001	February 26, 2000	February 27, 19
Current tax expense (benefit):			
Federal	$ --	$(19,017)	$ 22,163
State	3,078	--	--
	3,078	(19,017)	22,163
Deferred tax (benefit):			
Federal	146,773	20,677	(228,776)
State	(894)	(10,035)	(10,328)
	145,879	10,642	(239,104)
Total income expense (benefit)	$148,957	$ (8,375)	$(216,941)

A reconciliation of the provision for income taxes as presented on the consolidated statements of operations is as follows:

(In thousands of dollars, except per share amounts)

	Year Ended		
	March 3, 2001	February 26, 2000	February 27, 19
Income tax expense (benefit) from continuing operations..................	$148,957	$ (8,375)	$ (216,941)
Income tax expense (benefit) from discontinued operations................	13,846	30,903	(5,925)
Income tax (benefit) from loss on disposal of discontinued operations.....	(734)	--	--
Income tax (benefit) related to cumulative effect of accounting change..	--	(18,200)	--
Total income tax expense (benefit)	$162,069	$ 4,328	$(222,866)

A reconciliation of the statutory federal rate and the effective rate, for continuing operations, is as follows:

	Year Ended		
Percentage	March 3, 2001	February 26, 2000	February 27, 19
Federal statutory rate	(35.0)%	(35.0)%	(35.0)%
Nondeductible expenses	6.0	3.4	3.7
State income taxes, net	(6.8)	(4.1)	(4.5)
Tax credits	--	(.8)	(1.4)
Valuation allowance	47.4	34.9	3.6
Other	--	.9	1.0
Effective tax rate	11.6%	(0.7)%	(32.6)%

The difference between the statutory federal rate and the reported amount of income tax expense attributable to discontinued operations is primarily due to nondeductible goodwill. The effective rate for fiscal 2001 reflects an increase in the valuation allowance due to the elimination of PCS deferred tax liabilities, resulting from its disposition.

12. Income Taxes -- (Continued)

The tax effect of temporary differences that give rise to significant components of deferred tax assets and liabilities consist of the following at

March 3, 2001 and February 26, 2000:

	2001	2000
Deferred tax assets:		
Accounts receivable	$ 31,113	$ 43,762
Accrued expenses	147,427	141,332
Liability for lease exit costs	125,284	113,907
Pension, retirement and other benefits	96,338	69,476
Investment impairment	108,733	59,863
Other	370	--
Credits	58,533	69,840
Net operating losses	724,177	466,451
Total gross deferred tax assets	1,291,975	964,631
Valuation allowance	(1,031,287)	(475,174)
Net deferred tax assets	260,688	489,457
Deferred tax liabilities:		
Inventory	123,584	121,119
Long-lived assets	137,104	218,793
Other	--	2,628
Total gross deferred tax liabilities	260,688	342,540
Net deferred tax assets, all noncurrent	$ --	$ 146,917

Net Operating Losses, Capital Losses and Tax Credits

At March 3, 2001 and February 26, 2000, the Company had federal net operating loss (NOL) carryforwards of $1,572,818 and $841,059, respectively, the majority of which expire between fiscal 2017 and 2021.

At March 3, 2001 and February 26, 2000, the Company had state NOL carryforwards of $1,718,513 and $1,662,602, respectively, the majority of which expire by fiscal 2005 and the remaining balance by fiscal 2015.

At March 3, 2001, due to the disposition of PCS, the Company incurred a $406,220 capital loss which will expire, if not offset by future capital gains, by fiscal 2006.

At March 3, 2001 and February 26, 2000, the Company had federal business tax credit carryforwards of $49,597 and $61,394, the majority of which expire between fiscal 2017 and 2020. In addition to these credits, the Company has alternative minimum tax credit carryforwards of $8,935 and $7,512 at fiscal 2001 and 2000, respectively.

Valuation Allowances

The valuation allowances as of March 3, 2001, and February 26, 2000 were $1,031,287 and $475,174 respectively, and principally apply to NOL and tax credit carryforwards. The Company believes that it is more likely than not that those carryovers will not be realized. As a result of the decision to dispose of PCS, the Company recognized an increase in the valuation allowance of $146,917 in fiscal 2001.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
For the Years Ended March 3, 2001, February 26, 2000 and February 27, 1999
(In thousands of dollars, except per share amounts)

13. Indebtedness and Credit Agreements

Following is a summary of indebtedness and lease financing obligations at March 3, 2001 and February 26, 2000:

	2001	2000
Commercial paper borrowings.	$ --	$ 192,000
Term loan due 2000	--	272,422
5.50% fixed-rate senior notes due 2000	--	200,000
6.70% notes due 2001	7,342	350,000
5.25% convertible subordinated notes due 2002	357,324	649,986
Senior Facility	682,000	--
Revolving Credit facility due 2002 (amended and restated) ("RCF")	730,268	716,073
Term loan due 2002 (amended and restated) ("PCS")	591,391	1,300,000
Exchange Debt	216,126	--
10.50% notes due 2002	467,500	--
6.00% dealer remarketable securities due 2003	187,650	200,000
6.00% fixed-rate senior notes due 2005	194,500	200,000
7.625% senior notes due 2005	198,000	200,000
7.125% notes due 2007	350,000	350,000
6.125% fixed-rate senior notes due 2008	150,000	150,000
6.875% senior debentures due 2013	200,000	200,000
3.50% to 10.475% industrial development bonds due through 2009	4,740	5,196
7.70% notes due 2027	300,000	300,000
6.875% fixed-rate senior notes due 2028	150,000	150,000
Lease financing obligations	1,100,000	1,148,135
Other	7,707	29,056
	5,894,548	6,612,868
Short-term debt, current maturities of long-term debt and lease financing obligations	(36,956)	(102,050)
Long-term debt and lease financing obligations, less current maturities	$5,857,592	$6,510,818

In June 2000, the Company entered into an interest rate swap contract that fixes the LIBOR component of $500,000 of the Company's variable rate debt at 7.083% for a two-year period. In July 2000, the Company entered into an additional interest rate swap that fixes the LIBOR component of an additional $500,000 of variable rate debt at 6.946% for a two-year period. The Company entered into these contracts to hedge its exposure to fluctuations in market interest rates. The differential to be paid or received as a result of these swap agreements was recorded as an adjustment to interest expense. At March 3, 2001, the Company would have had to pay $29,000 if it had terminated these contracts on that date.

Refinancings

On June 14, 2000, the Company obtained a $1,000,000 (increased to $1,100,000 in November 2000) senior secured credit facility (the Senior Facility) from a syndicate of banks. The Senior Facility is guaranteed by substantially all of the Company's wholly-owned subsidiaries, and the banks have a security interest in substantially all of those subsidiaries' accounts receivable, inventory, and intellectual property and a security interest in certain of their real property. Of this amount, $600,000 is in the form of a term loan and $500,000 is in the form of a revolving credit facility both due in August 2002 and both with interest at LIBOR plus 3.00%. Funds drawn under the term loan were used to repay $300,000 of drawings under the accounts receivable securitization program and to pay $200,000 for working capital and transaction expenses which are

13. Indebtedness and Credit Agreements -- (Continued)

being amortized over the term of the Senior Facility. Funds drawn from time to time under the revolving credit facility are used to fund current operations. In connection with the $100,000 term loan in November 6, 2000, the Company incurred fees of $3,528 which are being amortized over the period of the new term loans.

The Senior Facility contains customary covenants, which place restrictions on the assumption of debt, the payment of dividends, mergers, liens and sale and leaseback transactions. The facility requires the Company to meet various financial ratios and limits capital expenditures. The Company was in compliance with its debt covenants as of March 3, 2001. For the three fiscal quarters ended March 3, 2001, those covenants required the company to maintain a minimum interest coverage ratio and a minimum fixed charge coverage ratio of .95:1, increasing to a minimum interest coverage ratio of 1.40:1 and a minimum fixed charge ratio of 1.19:1 for the four quarters ending June 1, 2002. For the three fiscal quarters ended March 3, 2001, the Company was required to have consolidated EBITDA (as defined in the Senior Facility) of no less than $364,000, increasing to $720,000 for the four fiscal quarters ending on June 1, 2002. For the three fiscal quarters ended March 3, 2001, capital expenditures were limited to $186,000, increasing to $243,000 for the four fiscal quarters ending June 1, 2002. As of March 3, 2001, the Company had additional borrowing capacity under the Senior Facility of $394,600.

Also on June 14, 2000, the Company extended the maturity dates of the RCF credit facility and the PCS credit facility to August 2002. Borrowings under the PCS credit facility bear interest at LIBOR plus 3.25% and borrowings under the RCF credit facility bear interest at LIBOR plus 3.75%. These credit facilities contain restrictive covenants that place restrictions on the assumption of debt, the payment of dividends, mergers, liens and sale-leaseback transactions. These credit facilities also require the Company to satisfy financial covenants that are generally slightly less restrictive than the covenants in the Senior Facility. The facilities also limit the amount of our capital expenditures to $186,000 for the three quarters ended March 3, 2001, increasing to $243,000 for the four quarters ending June 1, 2002. Under the terms of these facilities, after giving effect to the $100,000 increase in the term loan, the Company is permitted to incur up to an additional $35,000 of indebtedness under the Senior Facility without the further consent of lenders. The PCS credit facility was originally secured by a first lien on the stock of PCS Health Systems, Inc. and the RCF credit facility was originally secured by a first lien on the stock of drugstore.com and a second lien on the stock of PCS Health Systems, Inc. Any amounts repaid under these facilities with the proceeds of asset sales may not be borrowed.

In addition, on June 14, 2000 certain affiliates of J.P. Morgan Chase, which had lent the Company $300,000 under a demand note in June 1999 and who was also a lender under the RCF and PCS credit facilities, together with certain other lenders under the two credit facilities, agreed to exchange $274,782 of their loans for a new secured exchange debt obligation. The terms of the exchange debt are substantially the same as the terms of our RCF and PCS credit facilities and the interest rate is currently LIBOR plus 3.25%. The lenders of the exchange debt have the same collateral as they did with respect to their loans under the RCF and PCS credit facilities or demand note, as applicable, as well as a first lien on the Company's prescription files. Additionally, the Company issued three-year warrants to purchase 2,500,000 shares of common stock at $11.00 per share. The fair value assigned to the warrants was $8,500 and amortization was completed during fiscal 2001. The Company also paid and expensed $4,000 of advisory fees over a period of one year.

Upon consummation of the sale of PCS on October 2, 2000, $575,000 of the cash portion of the proceeds was applied to reduce the outstanding balances of the PCS credit facility and the PCS exchange debt. In February 2001, the Company also applied $34,504 received from the final settlement of the PCS sale to reduce the PCS facilities. At March 3, 2001, the Company had $1,537,785 of borrowings outstanding under the PCS, RCF and related exchange debt facilities. Subsequent to March 3, 2001, the Company further

13. Indebtedness and Credit Agreements -- (Continued)

reduced the borrowings outstanding under the PCS and related exchange debt facilities by $484,104 utilizing the proceeds from the sale of AdvancePCS stock and repayment of AdvancePCS senior subordinated notes which it had received as part of the consideration for the sale.

The Company also amended its existing guarantees of two synthetic lease transactions to provide substantially the same terms of our RCF and PCS credit facilities.

In connection with modifications to the RCF and PCS credit facilities, the debt exchange for the 10.5% notes due 2002, the guarantee of the Prudential note, the exchange for exchange debt and the guarantee of the synthetic lease transactions, substantially all wholly-owned subsidiaries guaranteed the Company's obligations thereunder on a second priority basis. These subsidiary guarantees are secured by a second priority lien on the inventory, accounts receivable, intellectual property and some of the real estate assets of the subsidiary guarantors. Except to the extent previously secured, the Company's direct obligations under those facilities and guarantees remain unsecured.

Exchange Offers

(In thousands of dollars, except per share amounts)

In connection with the above refinancing on June 14, 2000, the Company exchanged $52,500 of its 5.5% fixed-rate senior notes due in December 2000 and $321,800 of its 6.7% notes due in December 2001 for $374,300 of 10.5% senior secured notes due 2002. The Company arranged with certain financial institutions to refinance $93,200 of the 5.5% notes when they become due with the 10.5% senior secured notes due 2002. These financial institutions purchased $16,710 of the 5.5% notes and $20,390 of the 6.7% notes on July 27, 2000; $53,814 of the 5.5% notes on September 13, 2000; and $476 of the 6.7% notes on December 14, 2000; and exchanged the purchased notes with the Company for the 10.5% senior secured notes due 2002. The remaining 5.5% notes were retired in December 2000 with the Company's general corporate funds and the remaining forward purchase commitment. The Company recognized an aggregate loss of $6,200 in connection with the exchange and refinancing.

Exchange of Debt for Equity

Throughout and subsequent to fiscal 2001, the Company exchanged debt for equity as outlined in the table below:

Debt Exchanged	Carrying Amount Exchanged
Exchanged during the year ended March 3, 2001:	
PCS and RCF facilities and J.P. Morgan demand note	$284,820
5.25% convertible subordinated notes	292,662
6.00% dealer remarketable securities	17,850
7.625% senior notes	2,000
For the year ended March 3, 2001	$597,332
Exchanges (including commitments) subsequent to March 3, 2001 through May 15, 2001 (unaudited):	
5.25% convertible subordinated notes	$205,308
6.00% dealer remarketable securities	79,885
10.5% notes	56,300
PCS facility	5,000
RCF facility	164,858
Subsequent to March 3, 2001	$511,351

13. Indebtedness and Credit Agreements -- (Continued)

Several of the exchanges subsequent to March 3, 2001 have not settled, including the exchanges for the 10.5% notes, the PCS facility and the RCF facility. Accordingly, the data presented in the above table for these exchanges is based on the best available estimates.

Other

In fiscal 2000, the Company was required to obtain waivers of compliance with, and modifications to certain of the covenants contained in its senior credit and loan agreements and public indentures. In connection with obtaining the waivers and modifications, the Company paid fees and transaction costs of $63,332.

On September 10, 1997, the Company completed the sale of $650,000 of 5.25% convertible subordinated notes due September 15, 2002. The notes are convertible into shares of the Company's common stock at any time on or after the 90th day following the last issuance of notes and prior to the close of business on the maturity date, unless previously redeemed or repurchased. The conversion price is $36.14 per share (equivalent to a conversion rate of 27.67 shares per $1 principal amount of notes), subject to adjustment in certain events. Interest on the notes is payable semiannually on March 15 and September 15 of each year, commencing on March 15, 1998. The notes may be redeemed at the option of the Company on or after September 15, 2000, in whole or in part.

On April 20, 1995, the Company issued $200,000 of 7.625% senior notes due April 15, 2005. The notes may not be redeemed prior to maturity and will not be entitled to any sinking fund.

In August 1993, the Company issued 6.875% senior debentures having an aggregate principal amount of $200,000. These debentures are due August 15, 2013, may not be redeemed prior to maturity and are not entitled to any sinking fund.

The Company had outstanding letters of credit of $46,952 at March 3, 2001 and $41,624, at February 26, 2000. Also, the Company had provided permanent financing guarantees to certain of its store construction developers to be effective, if such developers were unable to obtain their own permanent financing upon completion of the store construction. There were no guarantees outstanding at March 3, 2001. Guarantees of $33,774 were outstanding at February 26, 2000.

The annual weighted average interest rate on the Company's indebtedness was 8.2%, 7.4% and 6.8% for fiscal 2001, fiscal 2000 and fiscal 1999, respectively.

The aggregate annual principal payments of long-term debt and capital lease obligations for the five succeeding fiscal years are as follows: 2002, $36,956; 2003, $3,082,829; 2004, $218,355; 2005, $229,038; 2006, $216,398 and $2,110,972 in 2007 and thereafter. The Company is in compliance with restrictions and limitations included in the provisions of various loan and credit agreements.

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

For the Years Ended March 3, 2001, February 26, 2000 and February 27, 1999
(In thousands of dollars, except per share amounts)

14. Leases

The Company leases most of its retail stores and certain distribution facilities under noncancellable operating and capital leases, most of which have initial lease terms ranging from 10 to 22 years. The Company also leases certain of its equipment and other assets under noncancellable operating leases with initial terms ranging from 3 to 10 years. In addition to minimum rental payments, certain store leases require additional payments based on sales volume, as well as reimbursements for taxes, maintenance, and insurance. Most leases contain renewal options, certain of which involve rent increases. Total rental expense, net of sublease income of $10,930, $10,443 and $10,443, was $537,423, $500,782, and $477,537 in 2001, 2000 and 1999, respectively. These amounts include contingent rentals of $26,644, $28,625, and $32,960, in fiscal 2001, 2000 and 1999, respectively.

The Company is a guarantor on certain leases transferred to third parties through sales or assignments.

The Company leases certain facilities through sale-leaseback arrangements accounted for using the financing method. Proceeds from sale-leaseback programs were approximately $6,992 in 2001, $74,898 in 2000 and $504,990 in 1999.

The net book values of assets under capital leases and sale-leasebacks accounted for under the financing method are summarized as follows:

	March 3, 2001	February 26, 2000
Land	$326,304	$ 343,948
Buildings	532,635	570,604
Leasehold improvements	128,122	152,347
Equipment	2,644	757
Accumulated depreciation	(63,097)	(39,809)
	$926,608	$1,027,847

Following is a summary of lease finance obligations at March 3, 2001 and February 26, 2000:

	2001	2000
Sale-leaseback obligations accounted for under the financing method	$ 917,211	$ 944,805
Obligations under capital leases	182,789	203,330
Total	1,100,000	1,148,135
Less current obligation	(28,603)	(25,964)

Long-term lease finance obligations	$1,071,397	$1,122,171

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
For the Years Ended March 3, 2001, February 26, 2000 and February 27, 1999
(In thousands of dollars, except per share amounts)

14. Leases -- (Continued)

Following are the minimum lease payments net of sublease income that will have to be made in each of the years indicated based on non-cancelable leases in effect as of March 3, 2001:

Fiscal year	Lease Financing Obligations	Operating Leases
2002	$ 114,081	$ 511,105
2003	121,463	496,071
2004	113,327	459,983
2005	113,040	417,421
2006	96,382	372,843
Later years	1,321,703	3,325,522
Total minimum lease payments	1,879,996	$5,582,945
Amount representing interest	779,996	
Present value of minimum lease payments	$1,100,000	

15. Redeemable Preferred Stock

In March 1999 and February 1999, Rite Aid Lease Management Company, a wholly owned subsidiary of the Company, issued 63,000 and 150,000 shares of Cumulative Preferred Stock, Class A, par value $100 per share, respectively. The Class A Cumulative Preferred Stock is mandatorily redeemable on April 1, 2019 at a redemption price of $100 per share plus accumulated and unpaid dividends. The Class A Cumulative Preferred Stock pays dividends quarterly at a rate of 7.0% per annum of the par value of $100 per share when, as and if declared by the Board of Directors of Rite Aid Lease Management Company in its sole discretion. The amount of dividends payable in respect of the Class A Cumulative Preferred Stock may be adjusted under certain events. The outstanding shares of the Class A Preferred Stock were recorded at the estimated fair value of $5,695 for the 2000 issuances, which equaled the sale price on the date of issuance. Because the fair value of the Class A Preferred Stock was less than the mandatory redemption amount at issuance, periodic accretions to stockholders' equity using the interest method are made so that the carrying amount equals the redemption amount on the mandatory redemption date. There was no accretion in fiscal 2001; accretion was $97 in 2000.

16. Capital Stock

In October 1999, the Company issued 3,000,000 shares of Series B preferred stock at $100 per share which is the liquidation preference. The Series B preferred stock pays dividends at 8% per year which is payable in cash or additional shares of Series B, at the Company's election. The Series B preferred stock, when issued, was convertible into shares of the Company's common stock at a conversion price of $11.00 per share of common stock. Pursuant to its terms, as a result of the issuance of shares at $5.50 per share on June 14, 2000, the per share conversion price for the Series B preferred stock was adjusted to $5.50. As a result of this adjustment the Company increased its paid in capital, its accumulated deficit, and its loss attributable to common stockholders by $160.9 million in June 2000 (representing the difference between $5.50 and the market price of the Company's common stock on the original date of issuance of the Series B preferred stock).

For the years ended March 3, 2001 and February 26, 2000, the Company recognized an increase to its investment in drugstore.com of $14,406 and $2,929, respectively, and a corresponding increase to paid in capital, in connection with equity transactions of drugstore.com.

16. Capital Stock -- (Continued)

In April 2001, the Board of Directors approved, subject to stockholder approval, an amendment to the Company's Restated Certificate of Incorporation to increase the number of authorized shares of common stock, $1.00 par value, from 600,000,000 to 1,000,000,000. If the stockholders approve the recommendation, the authorized capital stock of the Company will consist of 1,000,000,000 shares of common stock and 20,000,000 shares of preferred stock, both having a par value of $1.00 per share. Preferred stock is issued in series subject to terms established by the Board of Directors. At March 3, 2001, the Company has outstanding warrants to purchase 2,500,000 shares of common stock at $11.00 per share (see Note 13). The Company has no other warrants outstanding.

17. Stock Option and Stock Award Plans

The Company reserved 22,000,000 shares of its common stock for the granting of stock options and other incentive awards to officers and key employees under the 1990 Omnibus Stock Incentive Plan (the 1990 Plan). Options may be granted, with or without SARs, at prices that are not less than the fair market value of a share of common stock on the date of grant. The exercise of either a SAR or option automatically will cancel any related option or SAR. Under the 1990 Plan, the payment for SARs will be made in shares, cash or a combination of cash and shares at the discretion of the Compensation Committee.

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

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

(In thousands of dollars, except per share amounts)

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

All of the plans provide for the Board of Directors (or at its election, the Compensation Committee) to determine both when and in what manner options may be exercised; however, it may not be more than 10 years from the date of grant. All of the plans provide that stock options may be granted at prices that are not less than the fair market value of a share of common stock on the date of grant. The aggregate number of shares reserved for issuance for all plans is 74,000,000 as of March 3, 2001.

17. Stock Option and Stock Award Plans -- (Continued)

Following is a summary of stock option transactions for the fiscal years ended March 3, 2001, February 26, 2000 and February 27, 1999:

	Shares	Weighted Average Price Per Shares
Balance, February 28, 1998	11,491,774	$ 13.96
Granted..................................	4,054,000	32.74
Exercised................................	(633,575)	14.58
Cancelled................................	(241,500)	20.18
Balance, February 27, 1999	14,670,699	19.02
Granted..................................	18,687,562	7.95
Exercised................................	(64,650)	13.61
Cancelled................................	(7,488,707)	14.60
Balance, February 26, 2000	25,804,904	12.30
Granted..................................	47,830,762	4.03
Exercised................................	--	--
Cancelled................................	(20,438,867)(1)	7.57
Balance, March 3, 2001	53,196,799	$ 6.48

(1) Includes 16,683,962 stock options which have been cancelled and reissued.

For various price ranges, weighted average characteristics of outstanding stock options at March 3, 2001 were as follows:

(In thousands of dollars, except per share amounts)

Range of exercise prices	Outstanding Options: Number Outstanding as of March 3, 2001	Outstanding Options: Remaining life (years)	Outstanding Options: Weighted Average Price	Exercisable Optio: Shares	Exercisable Optio: Weigh Avera Pric
$ 2.7500 to $ 2.7500	16,683,962	9.04	$ 2.7500	4,053,041	$ 2.7
$ 3.0000 to $ 3.9375	1,221,500	9.79	$ 3.4217	--	
$ 4.0500 to $ 4.0500	20,142,000	9.95	$ 4.0500	--	
$ 4.0625 to $ 8.9125	6,280,788	8.52	$ 5.6437	1,999,813	$ 5.7
$ 8.9150 to $ 16.9375	5,689,574	4.05	$13.5048	5,689,574	$13.5
$18.2500 to $ 44.6875	2,940,475	7.39	$28.7612	1,518,475	$29.3
$45.5625 to $ 45.5625	3,000	7.76	$45.5625	1,500	$45.5
$47.5000 to $ 47.5000	220,000	7.87	$47.5000	127,500	$47.5
$48.5625 to $ 48.5625	13,000	7.84	$48.5625	6,500	$48.5
$48.8125 to $ 48.8125	2,500	7.85	$48.8125	1,250	$48.8
$2.7500 to $ 48.8125	53,196,799	8.70	$ 6.4824	13,397,653	$11.2

In November 2000, the Company reduced the exercise price of 16,683,962 stock options issued after December 4, 1999 to $2.75 per share, which represents fair market value of a share of common stock on the date of the repricing. In connection with the repricing, the Company recognizes compensation expense for these options using variable plan accounting. Under variable plan accounting, the Company recognizes compensation expense over the option vesting period. In addition, subsequent changes in the market value of the Company's common stock during the option period, or until exercised, will generate changes in the

17. Stock Option and Stock Award Plans -- (Continued)

compensation expense recognized on the repriced options. The Company recognized expense of approximately $33,500 during fiscal 2001 related to the repriced options.

The Company adopted SFAS No.123, "Accounting for Stock-Based Compensation," issued in October 1995. In accordance with the provisions of SFAS No. 123, the Company applies APB Opinion 25 and related interpretations in accounting for its stock option plans and, accordingly, does not recognize compensation cost. The pro forma impact on net loss and per share amounts are reported below as if the Company had elected to recognize compensation cost based upon the fair value of the options granted at the grant date as prescribed by SFAS No. 123 is outlined below:

	March 3,	February 26,	February 27

	2001	2000	1999
Net loss	$(1,589,224)	$(1,133,043)	$(461,522)
Pro forma additional compensation expense under fair value method	(46,842)	(22,464)	(10,463)
Pro forma net loss	(1,636,066)	(1,155,507)	(471,985)
Accretion of redeemable preferred stock	--	(97)	--
Preferred stock conversion reset	(160,915)	--	--
Dividends on preferred stock	(25,724)	(10,110)	(627)
Pro forma net loss attributable to common stockholders	$(1,822,705)	$(1,165,714)	$(472,612)
Pro forma basic and diluted loss per share	$ (5.80)	$ (4.50)	$ (1.83)

The pro forma amounts only take into account the options issued since March 5, 1995. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2001	2000	1999
Expected stock price volatility	67.2%	58.0%	30.7%
Expected dividend yield	0.0%	0.0%	1.0%
Risk-free interest rate	6.25%	6.3%	5.6%
Expected life of options	2.8 years	4.2 years	6.7 years

The average fair value of each option granted during fiscal 2001, 2000 and 1999 was $1.91, $4.09 and $12.36, respectively.

Restricted Stock

In December 1999, certain executive officers received restricted stock grants of 1,000,000 shares. The Company recorded these grants at a fair value on the date of the grant of $8,250. During fiscal 2000, the Company also made tax payments on behalf of the executives to help defray the tax effects of the grants to the executives. Under the restricted stock agreement, the restrictions placed on the shares lapse in equal monthly installments over the period from December 1999 to November 2002. However, in most circumstances the executive would only have to provide one year of service to the Company to earn the total number of shares. Accordingly, the Company is amortizing the cost of the stock grant over one year.

In fiscal 2001, restricted stock grants of 4,004,000 shares were awarded to key employees under plans approved by the stockholders. Shares vest in installments up to three years and unvested shares are forfeited upon termination of employment. The Company recorded the issuances at fair value on the date of grant of $22,797.

17. Stock Option and Stock Award Plans -- (Continued)

Compensation expense related to all restricted stock grants is being recorded over a one to three year vesting period of these grants. For the years ended March 3, 2001 and February 26, 2000, the Company recognized expense of $12,387 and $2,062 related to restricted share awards. The unearned compensation associated with these restricted stock shares was $16,598. This amount is included in stockholders equity as a component of deferred compensation.

Stock Appreciation Units

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

At March 3, 2001 and February 26, 2000, there were 5.7 million and 7.0 million stock appreciation rights units outstanding, respectively. Grant prices for units outstanding at March 3, 2001 ranged from $5.38 to $48.56 per unit. Amounts charged or (credited) to expense relating to the stock appreciation rights units for fiscal 2001, 2000 and 1999 were $(407), $(45,500), $32,200, respectively.

18. Retirement Plans

The Company and its subsidiaries have numerous retirement plans covering salaried employees and certain hourly employees. The retirement plans include a profit sharing retirement plan and other defined contribution plans. Contributions for the profit sharing plan are a discretionary percent of each covered employee's salary, as determined by the Board of Directors based on the Company's profitability. Total expenses recognized for the profit sharing plan were $5,350 in 2001, $9,945 in 2000, and $6,091 in 1999. Employer contributions for other defined contribution plans are generally based upon a percentage of employee contributions or, in the case of certain executive officers, in accordance with employment agreements. The expenses recognized for these plans were $9,141 in 2001, $7,925 in 2000, and $7,779 in 1999. There are also several defined benefit plans that require benefits to be paid to eligible employees based upon years of service with the Company or formulas applied to their compensation. The Company's funding policy is to contribute the minimum required by the Employee Retirement Income Security Act of 1974.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
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(In thousands of dollars, except per share amounts)

18. Retirement Plans -- (Continued)

Net periodic pension cost for the defined benefit plans includes the following components:

	Defined Benefit Pension Plans			Nonqualified Execu Retirement Plan	
	2001	2000	1999	2001	2000
Service cost	$ 4,004	$ 4,441	$ 5,034	$ 908	$ 671
Interest cost	4,248	4,166	3,935	2,642	1,497
Expected return on plan assets	(6,896)	(5,723)	(4,936)	--	--
Amortization of unrecognized net transition (asset)/obligation...........	(160)	(160)	(160)	1,162	1,163
Amortization of unrecognized prior service cost...........................	346	376	473	--	--
Amortization of unrecognized net gain	(2,202)	(226)	(202)	(193)	--
Change due to plan amendment	--	--	--	--	18,891
Net pension (credit) expense	$ (660)	$ 2,874	$ 4,144	$4,519	$22,222

The table below sets forth a reconciliation from the beginning of the year for both the benefit obligation and plan assets of the Company's retirement and health benefits plans, as well as the funded status and amounts recognized in the Company's balance sheet as of March 3, 2001 and February 26, 2000:

18. Retirement Plans -- (Continued)

	Defined Benefit Pension Plans		Nonqualified Executive Retirement Plan	
	2001	2000	2001	2000
Change in benefit obligations:				
Benefit obligation at end of prior year	$58,791	$ 62,885	$ 34,691	$ 21,891
Service cost	4,004	4,441	908	671
Interest cost	4,248	4,166	2,642	1,497
Distributions	(5,349)	(9,728)	(1,429)	(1,224)
Change due to change in assumptions	1,431	(4,580)	1,006	(1,281)

Change due to plan amendment	--	187	--	18,891
Actuarial (gain) or loss	1,794	1,420	(6,179)	(5,754)
Benefit obligation at end of year	$64,919	$ 58,791	$ 31,639	$ 34,691
Change in plan assets:				
Fair value of plan assets at beginning of year	$81,718	$ 71,686	$ --	$ --
Employer contributions	4,211	4,213	1,429	1,224
Actual return on plan assets	(7,959)	18,671	--	--
Adjustment for fair value at 3/1/2000	5,932	--	--	--
Distributions (including assumed expenses)	(6,392)	(10,485)	(1,429)	(1,224)
Fair value of plan assets at end of year	$77,510	$ 84,085	$ --	$ --
Funded status	$12,591	$ 25,294	$ (31,639)	$(34,691)
Unrecognized net gain	(5,723)	(22,493)	(10,952)	(5,972)
Unrecognized prior service cost	1,463	1,808	--	--
Unrecognized net transition (asset) or obligation	(179)	(339)	11,628	12,790
Prepaid or (accrued) pension cost recognized	$ 8,152	$ 4,270	$ (30,963)	$(27,873)
Amounts recognized in consolidated balance sheets consisted of:				
Prepaid (accrued) pension cost	$ 9,009	$ 4,796	$(30,963)	$(27,873)
Adjustment to recognize additional minimum liability	(622)	--	--	--
Accrued pension liability	(857)	(526)	--	--
Accumulated other comprehensive income	622	--	--	--
Net amount recognized	$ 8,152	$ 4,270	$ (30,963)	$(27,873)

The amounts recognized in the accompanying consolidated balance sheets as of March 3, 2001 and February 26, 2000 are as follows:

	Defined Benefit Pension Plans		Nonqualified Executive Retirement Plan	
	2001	2000	2001	2000
Accrued benefit liability	$ (857)	$ (526)	$(30,963)	$(27,87
Prepaid pension cost	9,009	4,796	--	-
Net amount recognized	$8,152	$4,270	$(30,963)	$(27,87

The accumulated benefit obligation and fair value of plan assets for the defined benefit pension plans with plan assets in excess of accumulated benefit obligations were $56,272 and $69,873, respectively, as of March 3, 2001, and $58,791 and $84,085, respectively, as of February 26, 2000.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
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18. Retirement Plans -- (Continued)

The significant actuarial assumptions used for all defined benefit pension plans were as follows:

	Defined Benefit Pension Plans			Nonqualified Executive Retirement Plan		
	2001	2000	1999	2001	2000	1999
Discount rate	7.00	7.25	6.75	7.50	7.83	6.95
Rate of increase in future compensation levels	4.50	4.50	4.75	3.00	3.00	3.00
Expected long-term rate of return on plan assets	9.00	9.00	9.00	9.00	9.00	9.00

19. Commitments, Contingencies and Guarantees

This Company is party to numerous legal proceedings, as discussed below. The Company has charged $232,778 and $7,916 to expense for the years ended February 26, 2000, and February 27, 1999, respectively, for various pending and actual claims, litigation, and assessments based upon its determination of its material, estimable and probable liabilities in regard to the portion of these claims, lawsuits, and assessments not covered by insurance. Based upon changes in estimates in fiscal 2001 relating primarily to resolution of insurance coverage disputes, the Company credited selling, general and administrative expenses by $19,625.

Federal investigations

There are currently pending federal governmental investigations, both civil and criminal, by the SEC and the United States Attorney, involving the Company's financial reporting and other matters. Management is cooperating fully with the SEC and the United States Attorney.

The U.S. Department of Labor has commenced an investigation of matters relating to the Company's employee benefit plans, including the Company's principal 401(k) plan, which permitted employees to purchase the Company's common stock. Purchases of the Company's common stock under the plan were suspended in October 1999. In January 2001, the Company appointed an independent trustee to represent the interests of these plans in relation to the Company and to investigate possible claims the plans may have against the Company. Both the independent trustee and the Department of Labor have asserted that the plans may have claims against the Company. The investigations, with which management is cooperating fully, are ongoing and the Company cannot predict their outcomes. In addition, a purported class action lawsuit on behalf of the plans and their participants has been filed by a participant in the plans in the United States District in the Eastern District of Pennsylvania.

These investigations are ongoing, and the Company cannot predict their outcomes. If the Company were convicted of any crime, certain contracts and licenses that are material to the Company's operations may be revoked, which would have a material adverse effect on the Company's results of operations and financial condition. In addition, substantial penalties, damages or other monetary remedies assessed against the Company could also have a material adverse effect on the Company's results of operations, financial condition and cash flows.

Stockholder litigation

The Company, its former chief executive officer Martin Grass, its former president Timothy Noonan, its former chief financial officer Frank Bergonzi, and its former auditor KPMG LLP, have been sued in a number of actions, most of which purport to be class actions, brought on behalf of stockholders who purchased the Company's securities on the open market between May 2, 1997 and November 10, 1999. All of these cases have been consolidated in the U.S. District Court for the Eastern District of Pennsylvania. On November 9, 2000, the Company announced that it had reached an agreement to settle the consolidated securities class action lawsuits pending against the Company in the U.S. District Court for the Eastern District of Pennsylvania and the derivative lawsuits pending there and in the U.S. District Court of Delaware. Under the agreement, which has been submitted to the U.S. District Court for the Eastern District of Pennsylvania

19. Commitments, Contingencies and Guarantees -- (Continued)

for approval, the Company will pay $45 million in cash, which will be fully funded by the Company's officers' and directors' liability insurance, and issue shares of common stock in 2002. The shares will be valued over a 10 day trading period in January 2002. If the value determined is at least $7.75 per share, the Company will issue 20 million shares. If the value determined is less than $7.75 per share, the Company has the option to deliver any combination of common stock, cash and short-term notes, with a total value of $155 million. As additional consideration for the settlement, the Company has assigned to the plaintiffs all of the Company's claims against the above named executives and KPMG LLP. Several members of the class have elected to "opt-out" of the class and, as a result, if the settlement is approved by the court, they will be free to individually pursue their claims. Management believes that their claims, individually and in the aggregate, are not material.

In fiscal year 2000, the Company recorded a charge of $175,000 for this case. As a result of the agreement to settle reached in fiscal 2001 and resolution of insurance coverage disputes, the Company recorded $20,000 as a credit to selling, general and administrative expense.

Drug pricing and reimbursement matters

On October 5, 2000, the Company settled, for an immaterial amount, and without admitting any violation of the law, the lawsuit filed by the Florida Attorney General alleging that the Company's non-uniform pricing policy for cash prescription purchases was unlawful under Florida law.

The filing of the complaint by the Florida Attorney General, and the Company's press release issued in conjunction therewith, precipitated the filing of a purported federal class action in California and several purported state class actions, all of which (other than those pending in New York that were filed on October 5, 1999 and those pending in California that were filed on January 3, 2000) have been dismissed. A motion to dismiss the action in New York is currently pending. Management believes that the remaining lawsuits are without merit under applicable state consumer protection laws. As a result, the Company intends to continue to vigorously defend them and the Company does not anticipate, that if fully adjudicated, they will result in an award of damages. However, such outcomes cannot be assured and a ruling against the Company could have a material adverse effect on the financial position and results of operations of the Company, as well as necessitate substantial additional expenditures to cover legal costs as the Company pursues all available defenses.

The Company is being investigated by multiple state attorneys general for reimbursement practices relating to partially-filled prescriptions and fully-filled prescriptions that are not picked up by ordering customers. The Company is supplying similar information with respect to these matters to the Department of Justice. Management believes that these investigations are similar to investigations which were, and are being, undertaken with respect to the practices of others in the retail drug industry. Management also believes that existing policies and procedures fully comply with the requirements of applicable law and intend to fully cooperate with these investigations. Management cannot, however, predict their outcomes at this time. An individual, acting on behalf of the United States of America, has filed a lawsuit in the United States District Court for the Eastern District of Pennsylvania under the Federal False Claims Act alleging that the Company defrauded federal health care plans by failing to appropriately issue refunds for partially filled prescriptions and prescriptions which were not picked up by customers. The Department of Justice has not decided whether to join this lawsuit, as is its right under the law; its investigation is continuing. The Company has filed a motion to dismiss the complaint for failure to state a claim.

If any of these cases result in a substantial monetary judgment against the Company or is settled on unfavorable terms, the Company's results of operations, financial position, and cash flows could be materially adversely affected.

19. Commitments, Contingencies and Guarantees -- (Continued)

Store Management Overtime Litigation

The Company is a defendant in a class action pending in the California Superior Court in San Diego with three subclasses, comprised of California store managers, assistant managers and managers-in-training. The plaintiffs seek back pay for overtime not paid to them and injunctive relief to require the Company to treat store management as non-exempt. They allege that the Company decided to minimize labor costs by causing managers, assistant managers and managers-in-training to perform the duties and functions of associates for in excess of forty hours per week without paying them overtime. Management believes that in-store management were and are properly classified as exempt from the overtime provisions of California law. The Company has filed a motion to decertify the class, which is currently pending. The

Company's results of operations and financial position could be materially adversely affected by an adverse judgment in this matter.

Other

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

Vendor Arrangements

As of March 3, 2001, the Company had outstanding commitments to purchase $7,500 of merchandise inventory per year from a vendor for use in the normal course of business through fiscal 2005.

Employment Agreements

Employment agreements with executive officers and others contain change in control provisions that entitle them to receive two or three times the sum of their annual base salary and annual target bonus amount and provide for full vesting in all outstanding stock options and immediate renewal of restrictions on stock awards. In the event of change in control, certain executive officers also receive the total amount of contributions that would have been made to the special deferred compensation plan if they had been employed through the end of their employment contract.

On May 7, 2001, the Company amended the employment agreements of two executive officers to provide for the payment, subject to certain conditions, of bonuses representing the difference between the amount called for under their severance agreements from a former employer and the amount they actually receive up to $6,647. The bonuses are payable on January 5, 2002 and will be reduced, and if fully paid are repayable, to the extent of each executives's recovery of severance due from a former employer.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
For the Years Ended March 3, 2001, February 26, 2000 and February 27, 1999
(In thousands of dollars, except per share amounts)

20. Supplementary Cash Flow Data

	Year Ended		
	March 3, 2001	February 26, 2000	Februa
Cash paid for interest (net of capitalized amounts of $1,836, $5,292 and $7,069)...........	$543,343	$501,813	$2
Cash paid for (refunds from) income taxes.........	$(88,078)	$ 981	$
Notes received in connection with the disposition of discontinued operations.....................	$200,000	$ --	$

Stock received in connection with the disposition of discontinued operations	$231,000	$ --	$
Change in market value of the stock received in connection with the disposition of discontinued operations	$ 51,031	$ --	$
Conversion of debt to common stock	$597,332	$ --	$
10.50% notes due 2002 issued in exchange for 5.50% fixed rate senior notes due 2000 and 6.70% notes due 2001	$467,500	$ --	$
Exchange of preferred shares	$ --	$300,000	$

21. Related Party Transactions

Included in accounts receivable at March 3, 2001 and February 26, 2000 were receivables from related parties of $3,456, and $2,982, respectively, including employee loans. Included in accounts payable of March 3, 2001 and February 26, 2000 were payables from related parties of $421 and $3,475, respectively.

During fiscal 2001, 2000 and 1999, the Company sold merchandise totaling $65,259, $16,280 and $6,225, respectively, to drugstore.com (or drugstore.com customers) and Diversified Prescription Delivery, LLC, equity-method investees. During fiscal 2000 and 1999, the Company purchased equipment totaling $26,115 and $27,119, respectively, from Stores Automated Systems, Inc., an equity-method investee. As of February 26, 2001, the Company had divested of its interest in Store Automated Systems, Inc. Therefore, purchases from Store Automated Systems, Inc. in fiscal 2001 are not considered related party purchases.

In fiscal 2000 and 1999, the Company purchased $8,814 and $9,430, respectively, of product from a manufacturer of private label over the counter medications in which a director held an ownership interest until May 31, 1999. The Company leases for $154 per year a 43,920 square foot storage space in a warehouse in Camp Hill, Pennsylvania, from a partnership in which a former director has a 50% interest.

The Company formerly operated an 8,000 square-foot store in a shopping center in which the former Chairman of the Board and Chief Executive Officer, has a 50% ownership interest. The rent paid by the Company was $96 per year. In February 1999, the lease was cancelled and the Company was released from its obligation to pay over $300 in remaining lease commitments.

Beginning in January 1999, the Company leased for $188 per year a 10,750 square-foot store in Sinking Springs, Pennsylvania, which it leases from a relative of the former Chairman of the Board and Chief Executive Officer. The Company leases a 5,000 square-foot store in Mt. Carmel, Pennsylvania, from a partnership in which the former Chairman of the Board and Chief Executive Officer is or was a partner. The rent is $39 per year.

For the Years Ended March 3, 2001, February 26, 2000 and February 27, 1999
(In thousands of dollars, except per share amounts)

21. Related Party Transactions -- (Continued)

The Company paid Leonard Green & Partners L.P. (a) a $3,000 fee for service provided in connection with its preferred stock investment in October 1999 and reimbursed $240 of its out-of-pocket expenses; (b) a $3,000 fee for services provided in connection with the financial restructuring transactions which the Company completed in June 2000 and reimbursed its out-of-pocket expenses, and (c) a $2,500 fee for services provided in connection with the sale of PCS Health Services, Inc. In October 1999, the Company agreed to pay Leonard Green & Partners L.P. an annual fee of $1,000 for its consulting services. This fee was increased to $1,500 at the time of the June 2000 restructuring transactions. The consulting agreement also provides for the reimbursement of out-of-pocket expenses incurred by Leonard Green & Partners L.P. The Company has agreed to register the common stock issuable upon conversion of the series B preferred stock and to pay all expenses and fees (other than underwriting discounts and commission) related to any registration.

The law firm of Skadden, Arps, Slate, Meagher & Flom LLP provides legal services to the Company. A director of the Company is a partner of that law firm. Fees paid by the Company to Skadden, Arps, Slate, Meagher & Flom LLP did not exceed five percent of the firm's gross revenues for its fiscal year.

22. Interim Financial Results (Unaudited)

	Fiscal Year 2001 (53 Weeks)				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Yea
Revenues	$3,442,186	$3,439,469	$3,531,691	$4,103,519	$14,51
Costs and expenses excluding store closing and impairment charges	3,685,301	3,776,210	3,677,367	4,272,716	15,41
Store closing and impairment charges	15,879	88,292	95,571	188,336	38
Income (loss) from continuing operations before taxes	(258,994)	(425,033)	(241,247)	(357,533)	(1,28
Income tax expense	144,382	--	--	4,575	14
Income (loss) from continuing operations	(403,376)	(425,033)	(241,247)	(362,108)	(1,43
Income (loss) from discontinued operations, net of tax	11,335	--	--	--	1
Loss on disposal of discontinued operations, net of tax	(303,330)	(31,433)	135,534	30,434	(16
Net loss	$ (695,371)	$ (456,466)	$ (105,713)	$ (331,674)	$(1,58
Basic and diluted earnings (loss) per share:					
Loss from continuing operations	$ (1.57)	$ (1.87)	$ (0.74)	$ (1.07)	$
Income (loss) from discontinued operations	(1.12)	(0.10)	0.40	0.09	

Net loss........................	$ (2.69)	$ (1.97)	$ (0.34)	$ (0.98)	$

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
For the Years Ended March 3, 2001, February 26, 2000 and February 27, 1999
(In thousands of dollars, except per share amounts)

22. Interim Financial Results (Unaudited) -- (Continued)

	Fiscal Year 2000 (52 Weeks)				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	
Revenues	$3,354,621	$3,203,964	$3,279,138	$3,501,224	$1
Costs and expenses excluding store closing and impairment charges	3,339,205	3,313,458	3,480,935	4,189,197	1
Store closing and impairment charges .	24,490	53,188	30,601	31,169	
Income (loss) from continuing operations before taxes and cumulative effect of change in accounting method..................	(9,074)	(162,682)	(232,398)	(719,142)	(
Income tax expense (benefit)	(28,959)	(8,280)	17,403	11,461	
Income (loss) from continuing operations before cumulative effect of change in accounting method, net.	19,885	(154,402)	(249,801)	(730,603)	(
Income (loss) from discontinued operations, net of tax.............	3,345	4,247	(4)	1,590	
Cumulative effect of change in accounting method, net of tax.......	(27,300)	--	--	--	
Net loss	$ (4,070)	$ (150,155)	$ (249,805)	$ (729,013)	$(
Basic and diluted earnings (loss) per share:					
Loss from continuing operations	$ 0.08	$ (0.60)	$ (1.00)	$ (2.82)	$
Income (loss) from discontinued operations.........................	0.01	0.02	--	0.01	
Cumulative effect of change in accounting method..................	(0.11)	--	--	--	
Net loss	$ (0.02)	$ (0.58)	$ (1.00)	$ (2.81)	$

Certain reclassifications have been made to the previously issued quarterly amounts to conform to fiscal 2001 year end classifications.

During the third and fourth quarters of fiscal 2000, the Company incurred significant non-recurring charges. These included charges of $232,800 for litigation expenses, $63,300 for debt restructuring, $67,600 for sale of discontinued merchandise, and $49,800 for markdowns at retail stores.

During the third quarter of fiscal 2001, the Company recorded a $20,000 credit for resolution of insurance coverage disputes and $20,000 credit for the reversal of previously amortized cost of issuance related to financings resulting from a contract settlement.

During the fourth quarter of fiscal 2001 (the 14 week quarter), the Company incurred $188,336 of store closing and impairment charges and $33,500 of expense related to stock options under variable accounting plans.

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RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
For the Years Ended March 3, 2001, February 26, 2000 and February 27, 1999
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23. Financial Instruments

The carrying amounts and fair values of financial instruments at March 3, 2001 and February 26, 2000 are listed as follows:

	2001		2000	
	Carrying Amount	Fair Value	Carrying Amount	
Variable rate indebtedness	$1,219,785	$1,219,785	$2,480,495	$2,
Fixed rate indebtedness	3,574,763	2,824,904	2,984,238	1,
Note receivable	37,041	37,962	32,889	
AdvancePCS securities	491,198	491,198	--	
Interest rate swaps	--	(29,000)	--	

Cash, trade receivables and trade payables are carried at market value, which approximates their fair values due to the short-term maturity of these instruments.

The following methods and assumptions were used in estimating fair value disclosures for financial instruments:

Commercial paper and LIBOR-based borrowings under credit facilities:
The carrying amounts for commercial paper indebtedness and interest rate swaps and LIBOR-based borrowings under the credit facilities, term loans and term notes approximate their fair values due to the short-term nature of the obligations and the variable interest rates.

Long-term indebtedness and interest rate swaps:
The fair values of long-term indebtedness and interest rate swaps are estimated based on the quoted market prices of the financial instruments. If

(In thousands of dollars, except per share amounts)

quoted market prices were not available, the Company estimated the fair value based on the quoted market price of a financial instrument with similar characteristics or based on the present value of estimated future cash flows using a discount rate on similar long-term indebtedness issued by the Company.

Note receivable:

The fair value of the fixed-rate note receivable was determined using the present value of projected cash flows, discounted at a market rate of interest for similar instruments.

AdvancePCS Securities:

The fair value of AdvancePCS securities are estimated based on the quoted market prices of the financial instruments.

24. Discontinued Operations

On October 2, 2000, the Company sold its wholly owned subsidiary, PCS Health Systems Inc., to Advance Paradigm, Inc. (now known as AdvancePCS). The proceeds from the sale of PCS consisted of $710,557 in cash, $200,000 in principal amount of AdvancePCS's unsecured 11% senior subordinated notes and equity securities of AdvancePCS.

PCS is reported as a discontinued operation for all periods presented in the accompanying financial statements and the operating results of PCS through October 2, 2000, the date of sale, are reflected separately from the results of continuing operations. The loss on the disposal of PCS is $168,795. This loss includes net operating results of PCS from July 12, 2000 to October 2, 2000, transaction expenses, the final settlement of the purchase price between the Company and AdvancePCS and the fair value of the non-cash consideration received.

As a result of the sale, the Company recorded an increase to the tax valuation allowance and income tax expense of $146,917 for the year ended March 3, 2001.

Summarized operating results and net loss of PCS for thirty-one weeks ended October 2, 2000 and the years ended February 26, 2000, and February 27, 1999 were as follows:

		Year Ended	
	Thirty-One Weeks Ended October 2, 2000	February 26, 2000	Feb
Net sales	$ 779,748	$1,342,495	$
Income (loss) from operations before income tax expense	25,181	40,081	
Income tax expense (benefit)	13,846	30,903	

(In thousands of dollars, except per share amounts)

Income (loss) from discontinued operations	11,335	9,178	
Loss on disposal before income tax benefit	(169,529)	--	
Income tax benefit	734	--	
Loss on disposal	(168,795)	--	
Total income (loss) from discontinued operations	$(157,460)	$ 9,178	$(

	February 26, 2000
Net current liabilities:	
Cash and cash equivalents	$ 4,843
Accounts and other receivables, net	614,432
Other currents assets	42,707
Claims and rebates payable	(924,951)
Other current liabilities	(127,084)
	$ (390,053)
Net non-current assets:	
Property and equipment, net	$ 147,733
Goodwill and intangibles, net	1,816,221
Noncurrent liabilities	(220,126)
	$1,743,828

Acquisition of Discontinued Operations

On January 22, 1999, the Company purchased PCS for $1.5 billion, of which $1.3 billion was financed using commercial paper and $200 million was paid in cash. The PCS acquisition was accounted for using the

24. Discontinued Operations -- (Continued)

purchase method. In accordance with APB Opinion No. 16, the Company recorded the assets and liabilities of PCS at the date of acquisition at their fair values. The excess of the cost of PCS over the fair value of the acquired assets and liabilities of $1,286,089 was recorded as goodwill.

Intangible Assets of Discontinued Operations

February 26, 2000

Goodwill	$1,298,520
Prescription files and customer lists	434,100
Trade name	113,100
Internally developed software	21,900
Assembled workforce	13,400
	1,881,020
Accumulated amortization	(64,799)
	$1,816,221

At acquisition, the Company determined that the estimated useful life of the goodwill recorded with the PCS acquisition was primarily indeterminate and likely exceeded 40 years. This estimate was based upon a review of the anticipated future cash flows and other factors the Company considered in determining the amount that it was willing to incur for the purchase of PCS. Additionally, management found no persuasive evidence that any material portion of these intangible assets would be depleted in less than 40 years. Accordingly, the Company amortized goodwill over the maximum allowable period of 40 years on a straight-line basis.

The value of the PCS trade name was amortized over its estimated useful life of 40 years. The value of the customer base and pharmacy network acquired in the purchase of PCS was amortized over their estimated lives of 30 years. The value of assembled workforce and internally developed software acquired was amortized over their useful lives of six and five years, respectively.

Impairment of Long-Lived Assets

Long-lived assets of PCS consist principally of intangibles. The Company compared the estimates of future undiscounted cash flows of its service lines to which the intangibles relate to the carrying amount of those intangibles to determine if impairment occurred. Long-lived assets and certain identifiable intangibles to be disposed of, whether by sale or abandonment, were reported at the lower of carrying amount or fair value less cost to sell.

Revenue Recognition of Discontinued Operations

Revenues were recognized from claims processing fees when the related claims were adjudicated and approved for payment. Certain of the agreements required the customers to pay a fee per covered member rather than a fee per claim. These fees were recognized monthly based upon member counts provided by the customers. Revenue from manufacturer programs were recognized when claims eligible for rebate were adjudicated by the Company. The customer portion of rebates collected was not included in revenue, and correspondingly payments of rebates to customers were not included in expenses. Mail order program revenue was recognized when prescriptions were shipped.

25. Subsequent Events

In March 2001, the Company reduced the outstanding balances of the PCS credit facility and the PCS exchange debt by $484,104 with the net proceeds from the sale of equity securities of AdvancePCS and the repayment of AdvancePCS senior subordinated notes.

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(In thousands of dollars, except per share amounts)

25. Subsequent Events -- (Continued)

Subsequent to March 3, 2001, the Company committed to issue 77,192,000 shares of its common stock in exchange for $511,351 of debt (see Note 13).

Subsequent to March 3, 2001, the Company committed to $149,600 private placements comprised of 26,500,000 shares of common stock.

On May 15, 2001, the Company entered into a $1,900,000 commitment agreement with a group of banks whereby the Company and the banks would enter into a new senior secured credit facility to replace the existing Senior Credit facility. The closing of the new credit facility is subject to the satisfaction of customary closing conditions and the issuance by the Company of approximately $1,050,000 in new debt or equity securities, of which $527,000 has already been committed or arranged. The Company plans to raise the additional $523,000 by issuing equity and fixed income securities and through real estate mortgage financings. The new credit facility will be secured by inventory, accounts receivable and certain other assets of the Company. While management believes that it will be successful in completing the refinancing, there is no assurance that the refinancing transaction will be consummated.

On May 16, 2001, the Company agreed to issue five year warrants to purchase 3,040,000 shares of common stock at $6.00 per share in connection with the exchange by a holder of $152,000 of 10.5% notes due 2002 for a like principal amount of new 12.5% notes due 2006.

26. Consummation of Refinancing (Unaudited) Subsequent to the Date of the Independent Auditors' Report

On June 27, 2001, the Company completed a major refinancing that extended the maturity dates of the majority of debt to 2005 or beyond, provided additional equity, converted a portion of debt for equity and reclassified capital leases to operating leases. Major components of the refinancing are summarized below:

New Secured Credit Facility: A new $1.9 billion syndicated senior secured credit facility was entered into with a syndicate of banks led by Citicorp USA, Inc. as senior agent. The new facility matures on June 27, 2005 unless more than $20.0 million of our 7.625% senior notes due April 15, 2005 are outstanding on December 31, 2004, then the maturity date becomes March 15, 2005. The new facility consists of a $1.4 billion term loan facility and a $500.0 million revolving credit facility. The term loan was used to prepay various outstanding debt balances.

The Company's ability to borrow under the senior secured credit facility is based on a specified borrowing base consisting of eligible accounts receivable and inventory. At June 30, 2001, the term loan was fully drawn except for $21.9 million available on a delayed draw basis to pay for the remaining outstanding 10.5% senior notes when they mature on September 15, 2002. The Company had no outstanding draws on the revolving credit facility at June 30, 2001 and had $403.6 million in additional available borrowing capacity under the revolving credit facility at June 30, 2001, net of outstanding letters of credit of $96.4 million.

High Yield Notes: $150.0 million of 11.25% notes due July 1, 2008 were issued in a private placement offering. These notes are unsecured, and subordinate to secured debt.

Debt for Debt Exchange: $152.0 million of existing 10.5% notes were exchanged for an equal amount of 12.5% notes due September 15, 2006. These notes are secured by a second priority lien on the collateral of the senior secured credit facility. In addition, holders of these notes received 3.0 million warrants to purchase shares of common stock at $6.00 per share. On June 29, 2001, the warrant holders elected to exercise these warrants.

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RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
For the Years Ended March 3, 2001, February 26, 2000 and February 27, 1999
(In thousands of dollars, except per share amounts)

26. Consummation of Refinancing (Unaudited) Subsequent to the Date of the Independent Auditors' Report -- (Continued)

Tender Offer: In connection with the refinancing, the Company announced a tender offer for the 10.50% Senior Secured Notes due 2002 at a price of 103% of face value on May 24, 2001. The tender offer was closed on June 27, 2001, at which time $174,462 principal was tendered. A tender offer premium of $5,670 was incurred as a result of the transaction. Proceeds from the new senior secured credit facility were used to fund the tender offer.

Debt for Equity Exchanges: $212.5 million of debt was exchanged for 8.9 million shares of common stock and 2.1 million shares of Series C Convertible Preferred Stock.

Sales of Common Stock: The Company sold 80.1 million shares of common stock for net proceeds of $528.2 million

Lease Obligations: The terms of certain real estate leases on property previously sold and leased back were restructured, thereby reducing the outstanding capital lease obligations by $848.8 million.

Impact on Results of Operations in Fiscal 2002: As a result of the refinancing activities in fiscal 2002, the Company will: i) record an extraordinary loss on early extinguishment of debt of approximately $66,000 subject to certain valuations; ii) record an approximate loss of $133,000 on debt for equity exchanges; iii) recognize a loss of $22,000 related to the reclassification of leases; and iv) defer debt issue costs of approximately $74,000.

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RITE AID CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share amounts)
(unaudited)

	June 2, 2001	March 3, 2001
ASSETS		
CURRENT ASSETS:		

Cash and cash equivalents	$ 80,078	$ 92,290
Accounts receivable, net	544,100	503,527
Inventories, net	2,497,829	2,444,525
Investment in AdvancePCS	--	491,198
Prepaid expenses and other current assets	82,437	85,292
Total current assets	3,204,444	3,616,832
PROPERTY, PLANT AND EQUIPMENT, NET	2,992,891	3,041,008
GOODWILL AND OTHER INTANGIBLES, NET	1,042,969	1,067,339
OTHER ASSETS	161,208	188,732
Total assets	$ 7,401,512	$ 7,913,911
LIABILITIES AND STOCKHOLDERS' (DEFICIT)		
CURRENT LIABILITIES:		
Short-term debt and current maturities of long-term debt and lease financing obligations	$ 40,521	$ 36,956
Accounts payable	1,034,330	896,390
Sales and other taxes payable	55,813	31,562
Accrued salaries, wages and other current liabilities	665,455	696,047
Total current liabilities	1,796,119	1,660,955
CONVERTIBLE SUBORDINATED NOTES	152,016	357,324
LONG-TERM DEBT, LESS CURRENT MATURITIES	3,717,511	4,428,871
LEASE FINANCING OBLIGATIONS, LESS CURRENT MATURITIES	1,061,880	1,071,397
OTHER NONCURRENT LIABILITIES	756,270	730,342
Total liabilities	7,483,796	8,248,889
COMMITMENTS AND CONTINGENCIES	--	--
REDEEMABLE PREFERRED STOCK	19,457	19,457
STOCKHOLDERS' (DEFICIT):		
Preferred stock, par value $1 per share	340,654	333,974
Common stock, par value $1 per share	403,762	348,055
Additional paid-in capital	2,509,178	2,065,301
Accumulated deficit	(3,383,058)	(3,171,956)
Stock-based and deferred compensation	59,674	19,782
Accumulated other comprehensive (loss) income	(31,951)	50,409
Total stockholders' (deficit)	(101,741)	(354,435)
Total liabilities and stockholders' (deficit)	$ 7,401,512	$ 7,913,911

See accompanying notes to condensed consolidated financial statements.

RITE AID CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share amounts)
(unaudited)

	Thirteen Week Period Ended	
	June 2, 2001	May 27, 2000
REVENUES	$3,710,133	$3,442,186
COSTS AND EXPENSES:		
Costs of goods sold, including occupancy costs	2,840,740	2,634,453
Selling, general and administrative expenses	858,049	851,883
Goodwill amortization	5,343	6,074
Store closing and impairment charges (credits)	(364)	16,145
Interest expense	128,689	171,375
Loss on debt conversions and modifications, net	132,713	--
Share of loss from equity investment	5,883	11,574
(Gain) loss on sale of assets and investments, net	(49,818)	9,676
	3,921,235	3,701,180
Loss from continuing operations before income taxes	(211,102)	(258,994)
INCOME TAX EXPENSE	--	144,382
Loss from continuing operations	(211,102)	(403,376)
DISCONTINUED OPERATIONS:		
Income from discontinued operations (including income tax expense of $0 and $13,846)	--	11,335
Estimated loss on disposal of the PBM segment (including income tax expense of $0 and $22,750)	--	(303,330)
Net loss	$ (211,102)	$ (695,371)
BASIC AND DILUTED (LOSS) PER SHARE:		
Loss from continuing operations	$ (0.56)	$ (1.57)
Loss from discontinued operations	--	(1.12)
Net loss per share	$ (0.56)	$ (2.69)

See accompanying notes to condensed consolidated financial statements.

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RITE AID CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' (DEFICIT)
For the Thirteen Week Period Ended June 2, 2001
(Dollars and share information in thousands)
(unaudited)

	Preferred Stock		Common Stock		Additional Paid-in	Accumu
	Shares	Class B	Shares	Issued	Capital	Defi

BALANCE MARCH 3, 2001	3,340	$333,974	348,055	$348,055	$2,065,301	$(3,17
Net loss.......................						(21
Other comprehensive loss:						
Sale of investment in AdvancePCS...................						
Cash flow hedge transition liability adjustment.........						
Cash flow hedge market value adjustment..................						
Comprehensive loss						
Bond conversions..............			55,736	55,736	450,393	
Stock-based and deferred compensation.................						
Stock forfeitures.............			(29)	(29)	(53)	
Dividends on preferred stock...	67	6,680			(6,680)	
Increase resulting from sale of stock by equity method investee....................					217	
BALANCE JUNE 2, 2001..........	3,407	$340,654	403,762	$403,762	$2,509,178	$(3,38

	Accumulated Other Comprehensive Income/(Loss)	Total
BALANCE MARCH 3, 2001	$ 50,409	$(354,435)
Net loss......................		(211,102)
Other comprehensive loss:		
Sale of investment in AdvancePCS..................	(51,031)	(51,031)
Cash flow hedge transition liability adjustment.........	(29,010)	(29,010)
Cash flow hedge market value adjustment..................	(2,319)	(2,319)
Comprehensive loss		(293,462)
Bond conversions..............		506,129
Stock-based and deferred compensation.................		39,828
Stock forfeitures.............		(18)
Dividends on preferred stock...		--
Increase resulting from sale of stock by equity method investee....................		217
BALANCE JUNE 2, 2001..........	$(31,951)	$(101,741)

See accompanying notes to condensed consolidated financial statements.

RITE AID CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(unaudited)

	Thirteen Week Period Ended	
	June 2, 2001	May 27, 2000
OPERATING ACTIVITIES:		
Net loss	$(211,102)	$(695,371)
Income from discontinued operations	--	(11,335)
Loss on disposal of discontinued operations	--	303,330
Loss from continuing operations	(211,102)	(403,376)
Depreciation and amortization	90,841	91,684
Stock-based compensation	39,828	2,000
Store closing and impairment charges (credits)	(364)	16,145
Loss on debt conversions and modifications, net	132,713	--
(Gain) loss on sale of assets and investments, net	(49,818)	9,676
Changes in operating assets and liabilities	43,644	274,414
NET CASH PROVIDED BY (USED IN) CONTINUING OPERATIONS	45,742	(9,457)
NET CASH PROVIDED BY DISCONTINUED OPERATIONS	--	37,149
INVESTING ACTIVITIES:		
Expenditures for property, plant and equipment	(23,100)	(18,862)
Proceeds from the repayment/sale of AdvancePCS securities	484,214	--
Intangible assets acquired	(3,700)	(1,131)
Proceeds from dispositions	6,300	--
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	463,714	(19,993)
FINANCING ACTIVITIES:		
Principal payments on long-term debt	(490,180)	(70,407)
Net (payments) of commercial paper borrowings	--	(192,000)
Net change in bank credit facilities	(31,488)	192,000
Proceeds from issuance of stock	--	180
Other financing activities, net	--	(2,312)
NET CASH USED IN FINANCING ACTIVITIES	(521,668)	(72,539)
DECREASE IN CASH AND CASH EQUIVALENTS	(12,212)	(64,840)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	92,290	179,757
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 80,078	$ 114,917
SUPPLEMENTARY CASH FLOW DATA:		
Cash paid for interest (net of capitalized amounts of $205 and $719)	$ 127,305	$ 115,300
Cash refunds of income taxes	$ (5,834)	$ (86,767)

Conversion of debt to common stock	$ 376,193	$ --
	=========	=========

See accompanying notes to condensed consolidated financial statements

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Thirteen Week Periods Ended June 2, 2001, and May 27, 2000
(Dollars and share information in thousands, except per share amounts)
(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and therefore do not include all of the information and footnotes required by generally accepted accounting principles for complete annual financial statements. The accompanying financial information reflects all adjustments (consisting primarily of normal recurring adjustments except as described in these notes) which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods. The results of operations for the thirteen week period ended June 2, 2001 are not necessarily indicative of the results to be expected for the full year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's fiscal 2001 Annual Report on Form 10-K filed with the SEC.

Certain reclassifications have been made to prior years' amounts to conform to current year classifications.

2. Loss Per Share

Following is a summary of the components of the numerator and denominator of the basic loss per share computation:

	Thirteen Week Period Ended	
	June 2, 2001	May 27, 2000
Numerator for earnings per share:		
Loss from continuing operations...............	$(211,102)	$(403,376)
Cumulative preferred stock dividends	(6,680)	(5,961)
	---------	---------
Net loss from continuing operations attributable to common stockholders............	(217,782)	(409,337)
Net income from discontinued operations, net of tax...	--	11,335

(Dollars and share information in thousands, except per share amounts)

Loss on disposal, net of tax	--	(303,330)
Net loss attributable to common stockholders ...	$(217,782)	$(701,332)
Denominator:		
Basic weighted average shares	386,996	260,076

Fully diluted loss per share is not presented as the Company incurred losses for the thirteen week periods ended June 2, 2001 and May 27, 2000, as the amount would be antidilutive. At June 2, 2001, an aggregate of 120,990 potential common shares related to stock options, convertible notes and preferred stock and warrants, have been excluded from the computation of diluted earnings per share.

3. Business Segments

The Company operated in a single business segment during the thirteen week period ended June 2, 2001, the Retail Drug segment. This segment consists of the operation of retail drugstores across the United States. The drugstores' primary business is pharmacy services, with prescription drugs accounting for approximately 61.6% percent and 60.1% percent of total segment sales for the thirteen week periods ended June 2, 2001 and May 27, 2000, respectively. In addition, the Company's drugstores offer a full selection of health and personal care products, seasonal merchandise and a large private label product line.

The Company operated in two business segments in the thirteen week period ended May 27, 2000, the Retail Drug segment and the PBM segment. Through its PBM segment, which consisted primarily of PCS Health Systems, Inc. ("PCS"), the Company offered pharmacy benefit management, mail-order pharmacy

3. Business Segments -- (Continued)

services, marketing prescription plans and other managed health care services to employers, health plans and their members and government-sponsored employee benefit programs. The Company has sold its PBM segment to Advance Paradigm Inc. (now known as "AdvancePCS"). As a result, the PBM segment has been reclassified and is accounted for as a discontinued operation in the accompanying financial statements. The Company's continuing operations consist solely of the Retail Drug segment.

4. Discontinued Operations

On October 2, 2000, the Company sold its wholly owned subsidiary, PCS, to AdvancePCS. The proceeds from the sale of PCS consisted of $710,557 in cash, $200,000 in principal amount of AdvancePCS's unsecured 11% senior subordinated notes and equity securities of AdvancePCS.

During March 2001, the Company sold the AdvancePCS equity securities for $284,214 resulting in a gain of $53,214, which was recognized during the thirteen week period ended June 2, 2001. The recognition resulted in a reduction of other comprehensive income of $51,031, which represented the appreciation in the market value of the equity securities from date of acquisition of the securities through March 3, 2001. Additionally, AdvancePCS repurchased the unsecured 11% senior subordinated notes for $200,000 plus accrued interest.

PCS is reported as a discontinued operation for the thirteen week period ended May 27, 2000, and the operating results of PCS are reflected separately from the results of continuing operations.

As a result of the sale, the Company recorded an increase to the tax valuation allowance and income tax expense of $146,917 in the thirteen week period ended May 27, 2000.

5. Store Closing and Impairment Charges

Store closing and impairment charges (credits) consist of:

	Thirteen Week Period Ended	
	June 2, 2001	May 27, 2000
Impairment charges	$ 7,893	$ 8,169
Store lease exit charges (credits)	(8,568)	7,976
Impairment of other assets	311	--
	$ (364)	$16,145

Impairment Charges

Impairment charges include non-cash charges of $7,893 and $8,169 for the thirteen week periods ended June 2, 2001 and May 27, 2000, respectively, for the impairment of long-lived assets (including allocable goodwill) at 17 and 42 stores, respectively. These amounts include the write-down of long-lived assets at stores that were assessed for impairment because of management's intention to relocate or close the store or because of changes in circumstances that indicate the carrying value of the asset may not be recoverable.

Store Lease Exit Charges (Credits)

Costs incurred to close a store, which principally consist of lease termination costs, are recorded at the time management commits to closing the store, which is the date that the closure is formally approved by senior management, or in the case of a store to be relocated, the date the new property is leased or purchased. The Company calculates its liability for closed stores on a store-by-store basis. The calculation includes the future minimum lease payments and related ancillary costs from the date of closure to the end of the remaining lease term, net of estimated cost recoveries that may be achieved through subletting properties or

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
For the Thirteen Week Periods Ended June 2, 2001, and May 27, 2000
(Dollars and share information in thousands, except per share amounts)
(unaudited)

5. Store Closing and Impairment Charges -- (Continued)

through favorable lease terminations. This liability is discounted using a risk-free rate of interest. The Company evaluates these assumptions each quarter and adjusts the liability accordingly. During the thirteen week periods ended June 2, 2001 and May 27, 2000, the Company recorded a provision for 7 and 18 stores, respectively, that were designated for closure. The effect of lease terminations and changes in assumptions in interest rates during the thirteen week period ended June 2, 2001, had a positive impact that exceeded the additional provision due to low closure levels and resulted in an expense credit from closed store activity.

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

	Thirteen Week Period Ended	
	June 2, 2001	May 27, 2000
Balance -- Beginning of Period	$233,008	$212,812
Provision for present value of noncancellable lease payments of stores designated to be closed.......................................	3,091	19,357
Changes in assumptions about future sublease income, terminations, and changes in interest rates......................................	(8,144)	(7,035)
Reversals of reserves for stores that management has determined will remain open....	(3,515)	(4,346)
Interest accretion	2,333	2,969
Cash payments, net of sublease income	(9,812)	(10,051)
Balance -- End of Period	$216,961	$213,706

6. Indebtedness, Credit Agreements and Lease Financing Obligations

Following is a summary of indebtedness and lease financing obligations at June 2, 2001 and March 3, 2001:

	June 2, 2001	March 3, 2001
6.70% notes due 2001	$ 7,342	$ 7,342
5.25% convertible subordinated notes due 2002 ..	152,016	357,324
Senior Facility	626,000	682,000

(Dollars and share information in thousands, except per share amounts)

Revolving Credit facility due 2002 (amended and restated) ("RCF")	700,268	730,268
Term loan due 2002 (amended and restated) ("PCS")	148,883	591,391
Exchange Debt	169,530	216,126
10.50% notes due 2002	411,500	467,500
6.00% dealer remarketable securities due 2003	107,765	187,650
6.00% fixed-rate senior notes due 2005	194,500	194,500
7.625% senior notes due 2005	198,000	198,000
7.125% notes due 2007	350,000	350,000
6.125% fixed-rate senior notes due 2008	150,000	150,000
6.875% senior debentures due 2013	200,000	200,000
8.00% to 10.375% industrial development bonds due through 2009	4,740	4,740
7.70% notes due 2027	300,000	300,000
6.875% fixed-rate senior notes due 2028	150,000	150,000
Lease financing obligations	1,093,884	1,100,000
Other	7,500	7,707
	4,971,928	5,894,548
Short-term debt, current maturities of long-term debt and lease financing obligations	(40,521)	(36,956)
Long-term debt and lease financing obligations, less current maturities	$4,931,407	$5,857,592

6. Indebtedness, Credit Agreements and Lease Financing Obligations -- (Continued)

On June 27, 2001, the Company completed a refinancing which significantly altered the capital structure. See Note 9 for details.

The Company completed the following debt for equity exchanges during the thirteen week period ended June 2, 2001:

Debt Exchanged	Carrying Amount Exchanged	Common Stock	Additional Paid-In Capital	Gain (Loss)
PCS facility	$ 5,000	$ 715	$ 5,076	$ (791)
RCF facility	30,000	4,347	30,115	(4,462)
5.25% convertible subordinated				

(Dollars and share information in thousands, except per share amounts)

notes........................	205,308	29,750	307,686	(133,437)
6.00% dealer remarketable securities...................	79,885	12,382	55,633	11,427
10.50% notes due 2002	56,000	8,542	51,883	(5,450)
	$376,193	$55,736	$450,393	$(132,713)

In March 2001, the Company sold its investment in AdvancePCS. Proceeds received from the sale were used to pay down $437,508 of borrowings under the PCS loan, and $46,596 of borrowings under the Exchange Debt.

In June 2000, the Company entered into an interest rate swap contract that fixes the LIBOR component of $500,000 of the Company's variable rate debt at 7.083% for a two-year period. In July 2000, the Company entered into an additional interest rate swap that fixes the LIBOR component of an additional $500,000 of variable rate debt at 6.946% for a two-year period.

On March 4, 2001, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 138. In connection with the adoption of the new statement, the Company recorded $29,010 in Other Comprehensive Income ("OCI") as a cumulative change in accounting for derivatives designated as cash flow type hedges prior to adopting SFAS 133. The Company enters into interest rate swap agreements to hedge the exposure to increasing rates with respect to its variable rate debt. The differential to be paid or received as a result of these swap agreements is accrued as interest rates change and recognized as an adjustment to interest expense. These interest rate swaps are accounted for as cash flow hedges. Therefore, the effective portion of the change in fair value of the interest rate swaps is recorded within OCI. Hedge ineffectiveness is recorded as a component of net income. As of June 2, 2001, the market value of these swaps is $31,945, which represents the amount that the Company would have to pay the counter party to terminate these contracts as of that date. This balance is included in other non-current liabilities on the accompanying balance sheet. The Company has recorded a charge to interest expense of $616, which represents the amount of the swaps' ineffectiveness. The remaining offset to the hedge liability is included in other comprehensive income. Treatment of these interest rate swaps as cash flow hedges is based on management's best interpretation of SFAS No. 133. Certain issues currently under consideration by the Derivatives Implementation Group ("DIG") may make it more difficult for the Company's interest rate swaps to qualify for hedge accounting. If the Company's swaps do not qualify for hedge accounting, changes in the fair value of these interest rate swaps will be recorded as a component of net income.

7. Stockholders' Equity

The Company issued 3,000 shares of Series B cumulative pay-in-kind preferred at $100 per share, which is the liquidation preference The Series B Preferred Stock is convertible into shares of the Company's common stock at a conversion price of $5.50 per share.

In November 2000, the Company reduced the exercise price of approximately 16,684 stock options issued after December 4, 1999 to $2.75 per share, which represents fair market value of a share of common stock on the date of the repricing. In connection with the repricing, the Company recognizes compensation expense for these options using variable plan accounting. Under variable plan accounting, the Company recognizes compensation expense over the option vesting period. In addition, subsequent changes in the market value of the Company's common stock during the option period, or until exercised, will generate changes in the compensation expense recognized on the repriced options. The Company recognized expense of $36,903 during the thirteen week period ended June 2, 2001 related to the repriced options.

The stock-based and deferred compensation component of stockholders' equity is comprised of $73,623 related to the repriced options offset by $13,949 of deferred compensation.

On June 15 2001, in connection with the granting of certain restricted shares of common stock, the Company issued approximately $5,500 of loans to plan participants, including officers, in order to cover the participants' federal and state withholding taxes. The loans bear interest at 4.25% per annum and are due and payable upon the earlier of June 15, 2002 or the date the participant sells the underlying shares of common stock.

8. Commitments and Contingencies

The Company is party to numerous legal proceedings, as described below.

Federal investigations

There are currently pending federal governmental investigations, both civil and criminal, by the SEC and the United States Attorney, involving the Company's financial reporting and other matters. Management is cooperating fully with the SEC and the United States Attorney. Settlement discussions have begun with the United States Attorney for the Middle District of Pennsylvania. The United States Attorney has proposed that the government would not institute any criminal proceeding against the Company if the Company enters into a consent judgement providing for a civil penalty payable over a period of years. The amount of the civil penalty has not been agreed to and there can be no assurance that a settlement will be reached or that the amount of such penalty will not have a material adverse effect on the Company's result of operations, financial condition or cash flows.

The U.S. Department of Labor has commenced an investigation of matters relating to the Company's employee benefit plans, including the Company's principal 401(k) plan, which permitted employees to purchase the Company's common stock. Purchases of the Company's common stock under the plan were suspended in October 1999. In January 2001, the Company appointed an independent trustee to represent the interests of these plans in relation to the Company and to investigate possible claims the plans may have against the Company. Both the independent trustee and the Department of Labor have asserted that the plans may have claims against the Company. The investigations, with which the Company is cooperating fully, are ongoing and their outcomes cannot be predicted. In addition, a purported class action lawsuit on behalf of the plans and their participants has been filed by a participant in the plans in the United States District Court for the Eastern District of Pennsylvania.

These investigations and settlement discussions are ongoing and their outcome cannot be predicted. If the Company were convicted of any crime, certain licenses and government contracts such as Medicaid plan

8. Commitments and Contingencies -- (Continued)

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

Stockholder litigation

The Company, certain directors, its former chief executive officer Martin Grass, its former president Timothy Noonan, its former chief financial officer Frank Bergonzi, and its former auditor KPMG LLP, have been sued in a number of actions, most of which purport to be class actions, brought on behalf of stockholders who purchased the Company's securities on the open market between May 2, 1997 and November 10, 1999. Most of the complaints asserted claims under Sections 10 and 20 of the Securities Exchange Act of 1934, based upon the allegation that the Company's financial statements for fiscal 1997, fiscal 1998 and fiscal 1999 fraudulently misrepresented the Company's financial position and results of operation for those periods. All of these cases have been consolidated in the U.S. District Court for the Eastern District of Pennsylvania. On November 9, 2000, the Company announced that it had reached an agreement to settle the consolidated securities class action lawsuits pending against us in the U.S. District Court for the Eastern District of Pennsylvania and the derivative lawsuits pending there and in the Delaware Court of Chancery. Under the agreement, which has been submitted to the U.S. District Court for the Eastern District of Pennsylvania for approval, the Company will pay $45,000 in cash, which will be fully funded by the Company's officers' and directors' liability insurance, and issue shares of common stock in 2002. The shares will be valued over a 10 day trading period in January 2002. If the value determined is at least $7.75 per share, the Company will issue 20,000 shares. If the value determined is less than $7.75 per share, the Company has the option to deliver any combination of common stock, cash and short-term notes, with a total value of $155,000. As additional consideration for the settlement, the Company has assigned to the plaintiffs all of the Company's claims against the above named executives and KPMG LLP. Several members of the class have elected to "opt-out" of the class and, as a result, if the settlement is approved by the court, they will be free to individually pursue their claims. Management believes that their claims, individually and in the aggregate, are not material. On June 8, 2001, the court issued a ruling indicating that it was prepared to approve the settlement if certain technical changes were made in the order that the plaintiffs and settling defendants requested be issued by the court. The Company and the plaintiffs have modified the requested order and resubmitted it for court approval. Management anticipates that the nonsettling defendants will appeal any approved order. The outcome of any such appeal cannot be predicted. If the settlement does not become final, this litigation could result in a material adverse effect on the Company's results of operations, financial condition or cash flows.

A purported class action has been instituted by a stockholder against the Company in Delaware state court on behalf of stockholders who purchased shares of our common stock prior to May 2, 1997, and who continued to hold them after November 10, 1999, alleging claims similar to the claims alleged in the consolidated securities class action lawsuits described above. The amount of damages sought was not specified and may be material. The Company has filed a motion to dismiss this claim which is pending before the court. These claims are ongoing and their outcome cannot be predicted. An unfavorable outcome in this litigation could result in a material adverse effect on the Company's results of operations, financial condition or cash flows.

8. Commitments and Contingencies -- (Continued)

Drug pricing and reimbursement matters

On October 5, 2000, the Company settled, for an immaterial amount, and without admitting any violation of the law, the lawsuit filed by the Florida Attorney General alleging that the Company's non-uniform pricing policy for cash prescription purchases was unlawful under Florida law. The filing of the complaint by the Florida Attorney General, and the Company's press release issued in conjunction therewith, precipitated an investigation by the New Jersey Attorney General which is ongoing and the filing of a purported federal class action in California and several purported state class actions, all of which (other than those pending in New York that were filed on October 5, 1999 and those pending in California that were filed on January 3, 2000) have been dismissed. A motion to dismiss the action in New York is currently pending and the plaintiffs in the California action have agreed to a voluntary dismissal of their complaint. On May 30, 2001, a complaint filed in New Jersey in which the plaintiff made a similar allegation and which the trial court dismissed for failing to state a claim upon which relief could be based was reinstated by the appellate court. Management believes that the remaining lawsuits are without merit under applicable state consumer protection laws. As a result, the Company intends to continue to vigorously defend against them and does not anticipate that if fully adjudicated, they will result in an award of damages. However, such outcomes cannot be assured and a ruling against the Company could have a material adverse effect on the Company's results of operations, financial condition, or cash flows.

The Company is being investigated by multiple state attorneys general for its reimbursement practices relating to partially-filled prescriptions and fully-filled prescriptions that are not picked up by ordering customers. The Company is supplying similar information with respect to these matters to the Department of Justice. Management believes that these investigations are similar to investigations which were, and are being, undertaken with respect to the practices of others in the retail drug industry. Management also believes that the Company's existing policies and procedures fully comply with the requirements of applicable law and intend to fully cooperate with these investigations. The outcome of these investigations cannot be predicted.

An individual acting on behalf of the United States of America has filed a lawsuit in the United States District Court for the Eastern District of Pennsylvania under the Federal False Claims Act alleging that the Company defrauded federal healthcare plans by failing to appropriately issue refunds for partially filled prescriptions and prescriptions which were not picked up by customers. The Department of Justice has advised the court that it intends to join this lawsuit, as is its right under the law; its investigation is continuing. The Company has filed a motion to dismiss the complaint for failure to state a claim.

These claims are ongoing and their outcome cannot be predicted. If any of these cases result in a substantial monetary judgement against the Company or is settled on unfavorable terms, the Company's results of operations, financial condition or cash flows could be materially adversely affected.

Store Management Overtime Litigation

The Company is a defendant in a class action pending in the California Superior Court in San Diego with three subclasses, comprised of its California store managers, assistant managers and managers-in-training. The plaintiffs seek back pay for overtime not paid to them and injunctive relief to require the Company to treat its store management as non-exempt. They allege that the Company decided to minimize labor costs by causing managers, assistant managers and managers-in-training to perform the duties and functions of associates for in excess of forty hours per week without paying them overtime. Management believes that in-store management were and are properly classified as exempt from the overtime provisions of California law. On May 21, 2001, the Company entered into a Memorandum of Agreement with the plaintiffs under which, subject to approval of the court, the Company will settle this lawsuit for a maximum of $25,000, a charge for which was recorded in fiscal 2000. The settlement amount is payable in four equal

8. Commitments and Contingencies -- (Continued)

installments of 25%, the first of which is payable upon final court approval of the settlement and the balance is payable 6, 12 and 18 months thereafter. On June 1, 2001 the court entered an order granting preliminary approval of the settlement and authorizing notice to the class.

Other

The Company, together with a significant number of major U.S. retailers, has been sued by the Lemelson Foundation in a complaint which alleges that portions of the technology included in the Company's point-of-sale system infringe upon a patent held by the plaintiffs. The amount of damages sought is unspecified and may be material. The outcome of this litigation cannot be predicted. An unfavorable outcome could have a material adverse effect on the Company's results of operations, financial condition or cash flows.

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

9. Subsequent Events

Refinancing

On June 27, 2001, the Company completed a major financial restructuring that extended the maturity dates of the majority of its debt to 2005 or beyond, provided additional equity and converted a portion of its debt to equity. These transactions are described below:

New Senior Secured Credit Facility: The Company entered into a new $1,900,000 senior secured credit facility with a syndicate of banks led by Citicorp USA, Inc. as senior agent. The new facility matures on June 27, 2005 unless more than $20,000 of the 7.625% senior notes due April 15, 2005 are outstanding on December 31, 2004, in which event the maturity date is March 15, 2005. The new facility consists of a $1,400,000 term loan facility and a $500,000 revolving credit facility. The term loan was used to repay the outstanding balances of the old senior facility, PCS facility, RCF facility, the Exchange Debt and all but $21,900 of the 10.5% senior secured notes due September 2002. The revolving facility is available for working capital requirements, capital expenditures and general corporate purposes. Borrowings under the facilities generally bear interest either at LIBOR plus 3.5%, if the Company chooses to make LIBOR borrowings, or at Citibank's base rate plus 2.5%. Amortization payments of the term loan begin March 2, 2002 of $5,000, increasing to $7,500 for the quarters ending May 31, 2002 through August 31, 2003 and $15,000 for the quarters ending November 30, 2003 through February 26, 2005.

The Company is required to pay fees of 0.50% per annum on the daily unused amount of the revolving facility. Substantially all of the Company's wholly owned subsidiaries guarantee the obligations under the senior secured credit facility and the 10.50% senior secured notes due 2002. The subsidiary guarantees are secured by a first priority lien on the inventory, accounts receivable, prescription files, intellectual property and some real estate assets of the subsidiary guarantors. The Company's direct obligations under the senior credit facility are unsecured.

The senior secured credit facility contains customary covenants, which place restrictions on the assumption of debt, the payment of dividends, mergers, liens and sale and leaseback transactions. Among the transactions permitted by the facility to increase debt are transactions to finance existing owned real estate not to exceed an aggregate $150,000 and $393,000 of additional debt secured by the facility's collateral on a second priority basis.

9. Subsequent Events -- (Continued)

The senior secured credit facility requires the Company to meet various financial ratios and limits capital expenditures. Beginning with the nine months ending December 1, 2001, the covenants require the Company to maintain a maximum leverage ratio of 8.25:1 decreasing to 3.5:1 for the twelve months ending May 31, 2005. The Company must also maintain a minimum interest coverage ratio of 1.25:1 for the nine months ending December 1, 2001, increasing to 2.8:1 for the twelve months ending May 31, 2005 and a minimum fixed charge coverage ratio of 0.9:1 for the nine months ending December 1, 2001 increasing to 1.25:1 for the twelve months ending May 31, 2005. Capital expenditures are limited to $200,000 annually beginning with the twelve months ending March 2, 2002. These expenditure limits are subject to upward adjustment based upon availability of excess liquidity as defined in the Company's senior secured credit facility.

The senior secured credit facility provides for customary events of default, including nonpayment, misrepresentation, breach of covenants and bankruptcy. It is also an event of default if any event occurs that enables, or which with the giving of notice or the lapse of time would enable, the holder of the Company's debt to accelerate the maturity of debt having a principal amount of $25,000 or more.

The Company's ability to borrow under the senior secured credit facility is based on a specified borrowing base consisting of eligible accounts receivable and inventory. At June 30, 2001, the term loan was fully drawn except for $21,900 which is available and may be drawn to pay the remaining outstanding 10.5% senior secured notes when they mature on September 15, 2002. At June 30, 2001, the Company had no outstanding draws on the revolving credit facility and the Company had additional available borrowing capacity of $403,600, net of outstanding letters of credit of $96,400.

High Yield Notes: The Company issued $150,000 of 11.25% senior notes due July 2008 in a private placement offering. These notes are unsecured and subordinate to the secured debt of the Company. Among the transactions permitted by the 11.25% senior notes to increase debt are transactions to finance existing owned real estate not to exceed an aggregate $150,000 and $400,000 of other debt. The 11.25% senior notes also allow for the senior secured credit facility to be increased up to $2.5 billion.

Debt for Debt Exchange: The Company exchanged $152,025 of its existing 10.5% senior secured notes due 2002 for an equal amount of 12.5% senior notes due September 2006. In addition, holders of these notes received warrants to purchase 3,000 shares of Company common stock at $6.00 per share. On June 29, 2001, the warrant holders exercised these warrants, on a cashless basis, and as a result 1,000 shares of common stock were issued.

Tender Offer: On May 24, 2001, the Company commenced a tender offer for the 10.50% senior secured notes due 2002 at a price of 103.25% of the principal amount of the notes. The tender offer was closed on June 27, 2001, at which time $174,462 principal amount of the notes was tendered. The Company incurred a tender offer premium of $5,670 as a result of the transaction. The Company used proceeds from the new senior secured credit facility to pay for the notes tendered.

Debt for Equity Exchanges and Sales of Capital Stock: On June 27, 2001, the stockholders approved an amendment to the Company's Restated Certificate of Incorporation to increase the number of authorized shares of common stock, $1.00 par value, from 600,000 to 1,000,000.

RITE AID CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
For the Thirteen Week Periods Ended June 2, 2001, and May 27, 2000
(Dollars and share information in thousands, except per share amounts)
(unaudited)

9. Subsequent Events -- (Continued)

The Company completed the following debt for equity exchanges in the period beginning June 3, 2001 and ended June 30, 2001.

Debt Exchanged	Carrying Amount Exchanged	Common Stock	Series C Convertible Preferred Stock	Additional Paid-In Capital	(Loss)
PCS facility.....	$ 9,478	$1,054	--	$ 8,791	$ (367)
RCF facility.....	139,905	806	$2,122	147,368	(10,391)
10.50% notes due 2002..........	63,134	7,573	--	62,340	(8,436)
	$212,517	$9,433	$2,122	$218,499	$(19,194)

In addition to the debt for equity exchange transactions listed above, the Company sold approximately 80,083 shares of its common stock for net proceeds of $528,544 which resulted in an increase to common stock of $80,083 and additional paid in capital of $448,461.

The Company issued approximately 2,122 shares of its Series C Convertible Preferred Stock. The Series C Convertible Preferred Stock has a par value of $1.00 per share and earns dividends at a rate of 8.7455% per annum, payable quarterly in arrears. The Series C Convertible Preferred Stock converts, on a ratio of ten shares of common stock for one share of Series C Convertible Preferred Stock, immediately upon the earlier of (i) the effectiveness of a registration statement pursuant to the Securities Act of 1933, as amended, registering for resale the shares of common stock into which the Series C Convertible Preferred Stock are convertible, or (ii) the Company's merger or consolidation with or into any other corporation whereby the Company is not the surviving corporation. The Series C Convertible Preferred Stock holders vote together with the common stockholders, as a single class, with each share of the Series C Convertible Preferred Stock having 10 votes.

Lease Obligations: The Company rescinded certain renewal options contained in certain real estate leases on property previously sold and leased back to the Company and as a result these leases were afforded sale and leaseback accounting treatment and, accordingly have been reclassified as operating leases. This restructuring resulted in a reduction of outstanding capital lease obligations of $848,847. Accordingly, the Company will recognize a loss of $21,888 in the second quarter of fiscal 2002, and will record a net deferred gain of $171,862, which will be amortized over the remaining noncancellable lease terms. In addition the Company terminated certain capital leases and purchased the related leasehold improvements for $16,467.

(Dollars and share information in thousands, except per share amounts)

Synthetic Leases: The Company terminated existing synthetic lease agreements for certain land, buildings, equipment and aircraft, which were accounted for as operating leases. A wholly owned subsidiary of the Company purchased the equipment for $82,604, and is leasing the land, buildings and aircraft from different parties. The obligations under the new synthetic lease for the land and buildings are secured by a first priority lien on the equipment at the leased buildings owned by the Company's subsidiary. The Company has guaranteed certain of the obligations of the subsidiary. The Company will account for these new leases as operating leases.

Substantially all of the Company's wholly-owned subsidiaries guarantee the Company's obligations under the new credit facility. These subsidiary guarantees are secured primarily by a first priority lien on the inventory, accounts receivable, intellectual property and prescription files of the subsidiary guarantors. The Company's direct obligations under the new credit facility will be unsecured. The $21,879 aggregate principal amount of outstanding 10.5% senior secured notes are secured on a shared first priority basis with the new credit facility. The 12.5% senior secured notes due 2006 are secured on a second priority basis.

9. Subsequent Events -- (Continued)

As a result of the above transactions, the Company will record an extraordinary loss on early extinguishment of debt of approximately $66,000 subject to certain valuations and will defer debt issue costs of approximately $74,000 in the second quarter of 2002.

Capitalization

The following table summarizes the Company's capitalization at June 30, 2001, following the completion of the refinancing transactions described above:

	As of June 30, 2001
Secured Debt:	
Senior secured credit facility	$1,378,462
10.5% senior secured notes due 2002	21,879
12.5% senior secured notes due 2006	143,025
Other	12,320
	1,555,686
Lease Financing Obligations	226,594
Unsecured Debt:	

6.7% notes due 2001	7,342
6.0% dealer remarketable securities due 2003	107,765
6.0% notes due 2005	194,500
7.625% notes due 2005	198,000
7.125% notes due 2007	350,000
6.125% notes due 2008	150,000
11.25% notes due 2008	150,000
6.875% notes due 2013	200,000
7.7% notes due 2027	300,000
6.875% debentures due 2028	150,000
	1,807,607
Subordinated Debt:	
5.25% convertible subordinated notes due 2002	152,016
Total debt	3,741,903
Redeemable preferred stock	19,457
Stockholders' equity	567,518
Total capitalization	$4,328,878

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

The following table sets forth the costs and expenses, other than underwriting discounts and commissions, to be paid in connection with the sale of the common stock being registered, all of which will be paid by the registrant. All amounts are estimates except the registration fee.

SEC registration fee	$246,255.39
Accounting fees and expenses	$ 50,000.00
Legal fees and expenses	$150,000.00
Printing fees	$ 75,000.00
Miscellaneous	$ 25,000.00
Total	$546,255.39

Item 14. Indemnification of Directors and Officers.

Under the Section 145 of the Delaware General Corporation Law ("DGCL"), a corporation may 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, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he or she is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding (i) if such person acted in good faith and in a manner that person reasonably believed to be in or not opposed to the best interests of the corporation and (ii) with respect to any criminal action or proceeding, if he or she had no reasonable cause to believe such conduct was unlawful. In actions brought by or in the right of the corporation, a corporation may indemnify such person against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner that person reasonable believed to be in or not opposed to the best interests of the corporation, except that no indemnification may be made in respect of any claim, issue or matter as to which that person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery of the State of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all circumstances of the case, such person in fairly and reasonable entitled to indemnification for such expenses which the Court of Chancery or other such court shall deem proper. To the extent that such person has been successful on the merits or otherwise in defending any such action, suit or proceeding referred to above or any claim, issue or matter therein, he or she is entitled to indemnification for expenses (including attorneys' fees) actually and reasonable incurred by such person in connection therewith. The indemnification and advancement of expenses provided for or granted pursuant to Section 145 is not exclusive of any other rights of indemnification or advancement of expenses to which those seeking indemnification or advancement of expenses may be entitled, and a corporation may purchase and maintain insurance against liabilities asserted against any former or current, director, officer, employee or agent of the corporation, or a person who is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, whether or not the power to indemnify is provided by the statute.

Article Tenth of the Company's Certificate of Incorporated and Article VII of the Company's By-laws provide for the indemnification of its directors and officers as authorized by Section 145 of the DGCL.

The directors and officers of the Company and its subsidiaries are insured (subject to certain exceptions and deductions) against liabilities which they may incur in their capacity as such including liabilities under the Securities Act, under liability insurance policies carried by the Company.

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Item 15. Recent Sales of Unregistered Securities

- On October 27, 1999, we sold to Green Equity Investors III, L.P. 3,000,000 shares of our series A cumulative convertible pay-in-kind preferred stock at a purchase price of $100.00 per share, for an aggregate purchase price of $300.0 million. The series A preferred stock had an 8% cumulative pay-in-kind dividend paid quarterly. On December 10, 1999, Green Equity Investors III, L.P. exchanged all of its series A preferred stock for 3,000,000 shares of our series B cumulative convertible pay-in-kind preferred stock ("series B preferred stock"). The series B preferred stock has the same terms as the series A preferred stock except that the series B preferred stock votes with the holders of our common stock and each holder of series B preferred stock has one vote for each share of the common stock issuable upon conversion of the holder's series B preferred stock. The holders of our series B preferred stock are also entitled to vote separately as a class to elect two directors to our Board of Directors. Leonard I. Green and Jonathan D. Sokoloff are the series B directors. When issued, the series B preferred stock was convertible into shares of our common stock at a conversion price of $11.00 per share subject to adjustment. As a result of the exchange of our bank debt for shares of our common stock at an exchange rate of $5.50 per share, as discussed below, the conversion price for the series B preferred stock was adjusted to $5.50 per share.

- On October 27, 1999, we issued a warrant to J.P. Morgan Ventures Corporation, an affiliate of J.P. Morgan, to purchase 2,500,000 shares of our common stock. The exercise price for the common stock is $11.00 per share, subject to certain adjustments. The warrant expires on September 23, 2002. The warrant was issued in connection with the extension and restructuring of our PCS and RCF facilities in October 1999.

- On June 14, 2000, certain lenders, including J.P. Morgan Ventures Corporation, exchanged an aggregate of $284.8 million of their loans outstanding under the PCS credit facility, the RCF credit facility and the $300.0 million demand note into an aggregate of 51,785,434 shares of our common stock at an exchange rate of $5.50 per share.

- On June 14, 2000, we issued $374.3 million of our 10.5% senior secured notes due 2002 in exchange for $52.5 million of our outstanding 5.5% notes due December 2000 and $321.8 million of our outstanding 6.7% notes due December 2001. We also entered into an agreement with J.P. Morgan and another financial institution under which they agreed to purchase $93.2 million of the 10.5% senior secured notes due 2002 when the 5.5% notes that remain outstanding mature in December 2000.

The series A preferred stock, the series B preferred stock, the warrant, the 10.5% senior secured notes due 2002 and our common stock issued in exchange for certain of our bank debt were issued in transactions exempt from registration in reliance on Section 4(2) of the Securities Act.

- On June 26, 2000, holders of approximately $177.8 million principal amount of our 5.25% convertible subordinated notes due 2002 exchanged these notes for an aggregate of 17,779,000 shares of our common stock. The common stock was issued in privately negotiated transactions exempt from registration in reliance on Section 3(a)(9) of the Securities Act.

- On November 10, 2000, holders of approximately $79.9 million principal amount of our 5.25% convertible subordinated notes due 2002 and $12.3 million principal amount of our 6.0% dealer remarketable securities due 2003 exchanged these notes for an aggregate of 9,222,200 shares of our common stock. The common stock was issued in privately negotiated transactions exempt from registration in reliance on Section 3(a)(9) of the Securities Act.

- On January 23, 2001, a holder of approximately $5.5 million principal amount of our 6.0% senior notes due 2005 and $2.0 million principal amount of our 7.625% senior notes due 2005 exchanged these notes for an aggregate of 862,500 shares of our common stock. The common stock was issued in a privately negotiated transaction exempt from registration in reliance on Section 3(a)(9) of the Securities Act.

- On January 26, 2001, a holder of approximately $15.0 million principal amount of our 5.25% convertible subordinated notes due 2002 exchanged these notes for an aggregate of 1,875,000 shares of our common stock. The common stock was issued in a privately negotiated transaction exempt from registration in reliance on Section 3(a)(9) of the Securities Act.

- On January 30, 2001, holders of approximately $20.0 million principal amount of our 5.25% convertible subordinated notes due 2002 exchanged these notes for an aggregate of 2,600,000 shares of our common stock. The common stock was issued in privately negotiated transactions exempt from registration in reliance on Section 3(a)(9) of the Securities Act.

- On March 14, 2001, holders of approximately $201.4 million principal amount of our 5.25% convertible subordinated notes due 2002 exchanged these notes for an aggregate of 29,204,160 shares of our common stock. The common stock was issued in an exchange offer exempt from registration in reliance on section 3(a)(9) of the Securities Act.

- On March 14, 2001, holders of approximately $77.9 million principal amount of our 6.0% dealer remarketable securities due 2003 exchanged these notes for an aggregate of 12,072,175 shares of our common stock. The common stock was issued in an exchange offer exempt from registration in reliance on Section 3(a)(9) of the Securities Act.

- On April 6, 2001, holders of approximately $3.9 million principal amount of our 5.25% convertible subordinated notes due 2002 and $2.0 million principal amount of our 6.0% dealer remarketable securities due 2003 exchanged these notes for an aggregate of 856,000 shares of our common stock. The common stock was issued in privately negotiated transactions exempt from registration in reliance on Section 3(a)(9) of the Securities Act.

- On April 25, 2001, holders of approximately $11.0 million principal amount of our 10.5% senior secured notes due 2002 exchanged these notes for an aggregate of 1,925,000 shares of our common stock. The common stock was issued in privately negotiated transactions exempt from registration in reliance on Section 3(a)(9) of the Securities Act.

- On April 25, 2001, holders of approximately $5.0 million principal amount of our 10.5% senior secured notes due 2002 exchanged these notes for an aggregate of 785,000 shares of our common stock. The common stock was issued in a privately negotiated transaction exempt from registration in reliance on Section 3(a)(9) of the Securities Act.

- On May 15, 2001, a holder of $10.0 million principal amount of indebtedness under our RCF credit facility exchanged this indebtedness for an aggregate of 1,473,405 shares of our common stock. The common stock was issued in a transaction exempt from registration in reliance on Section 3(a)(9) of the Securities Act.

- On May 29, 2001, holders of $5.0 million principal amount of indebtedness under our PCS credit facility and $10.0 million principal amount of indebtedness under our RCF credit facility exchanged this indebtedness for an aggregate of 2,144,936 shares of common stock. The common stock was issued in privately negotiated transactions exempt from registration in reliance on Section 3(a)(9) of the Securities Act.

- On May 29, 2001, holders of $40 million principal amount of our 10.5% senior secured notes due 2002 exchanged this indebtedness for an aggregate of 5,831,159 shares of our common stock. The common stock was issued in privately negotiated transactions exempt from registration in reliance on Section 3(a)(9) of the Securities Act.

o On May 31, 2001, holders of $10.0 million principal amount of indebtedness under our RCF credit facility exchanged this indebtedness for an aggregate of 1,443,814 shares of common stock. The common stock was issued in privately negotiated transactions exempt from registration in reliance on Section 3(a)(9) of the Securities Act.

o On June 22, 2001, a holder of $38.004 million principal amount of our 10.5% senior secured notes due 2002 exchanged these notes for an aggregate of 4,681,221 shares of common stock. The common stock was issued in privately negotiated transactions exempt from registration in reliance on Section 3(a)(9) of the Securities Act.

o On June 25, 2001, a holder of $9.825 million principal amount of our 10.5% senior secured notes due 2002 exchanged these notes for an aggregate of 1,136,108 shares of common stock. The common stock was issued in a privately negotiated transaction exempt from registration in reliance on Section 3(a)(9) of the Securities Act.

o On June 26, 2001, holders of $9,477,794 principal amount of our PCS credit facility, $7,247,300 principal amount of indebtedness under our RCF credit facility and $15,305,000 principal amount of our 10.5% senior secured notes due 2002 exchanged this indebtedness for an aggregate of 3,615,693 shares of common stock. The common stock was issued in privately negotiated transactions exempt from registration in reliance on Section 3(a)(9) of the Securities Act.

o On June 27, 2001, holders of $132,658,503.67 principal amount of indebtedness under our RCF credit facility exchanged this indebtedness for an aggregate of 2,121,677 shares of our Series C preferred stock. The preferred stock was issued in privately negotiated transactions exempt from registration in reliance on Section 3(a)(9) of the Securities Act.

o On June 27, 2001, we issued and sold to a group of institutional investors an aggregate of 80,082,727 shares of common stock for aggregate consideration of $551,319,750. The common stock was issued in privately negotiated transactions exempt from registration in reliance on Section 4(2) of the Securities Act.

o On June 27, 2001, holders of $152.025 million principal amount of our 10.5% senior secured notes due 2002 exchanged these notes for $152.025 principal amount of new 12.5% senior secured notes due 2006 and the issuance to such holders of common stock purchase warrants exercisable to purchase 3,000,000 shares of common stock at an exercise price of $6.00 per share. The 12.5% senior secured notes due 2006 and the common stock purchase warrants were issued in a privately negotiated transaction exempt from registration in reliance on Section 3(a)(9) of the Securities Act.

o On June 27, 2001, we issued and sold to a group of institutional investors $150 million aggregate principal amount of new 11.25% senior secured notes due 2008. The 11.25% senior secured notes due 2008 were issued in a privately negotiated transaction exempt from registration in reliance on Section 4(2) of the Securities Act.

Item 16. Exhibits and Financial Statement Schedules.

a. Exhibits

Exhibit Numbers	Description	
3.1	Restated Certificate of Incorporation dated December 12, 1996	Exhibit 3(i) 1999
3.2	Certificate of Amendment to the Restated Certificate of Incorporation dated October 25, 1999	Exhibit 3(ii 1999
3.3	Series C Preferred Stock Certificate of Designation dated June 26, 2001	Exhibit 3.3 S-1, File No 2001
3.4	Certificate of Amendment to Restated Certificate of Incorporation dated June 27, 2001	Exhibit 3.4 S-1, File No 2001
3.5	By-laws, as amended on November 8, 2000	Exhibit 3.1 2000
4.1	Supplemental Indenture, dated as of February 3, 2000, between Rite Aid Corporation and Harris Trust and Savings Bank to the Indenture, dated September 10, 1997, between Rite Aid Corporation and Harris Trust and Savings Bank	Exhibit 4.2 2000
4.2	Supplemental Indenture, dated as of February 3, 2000, between Rite Aid Corporation and Harris Trust and Savings Bank, to the Indenture, dated September 22, 1998, between Rite Aid Corporation and Harris Trust and Savings Bank	Exhibit 4.3 2000
4.3	Supplemental Indenture, dated as of February 3, 2000, between Rite Aid Corporation and Harris Trust and Savings Bank to the Indenture, dated December 21, 1998, between Rite Aid Corporation and Harris Trust and Savings Bank	Exhibit 4.4 2000
4.4	Indenture, dated as of June 14, 2000, among Rite Aid Corporation, as Issuer, each of the Subsidiary Guarantors named therein and State Street Bank and Trust Company, as Trustee	Exhibit 4.1 June 21, 200
4.5	Exchange and Registration Rights Agreement, dated as of June 14, 2000, by and among Rite Aid Corporation, State Street Bank and Trust Company and the Holders of the 10.50% Senior Secured Notes due 2002	Exhibit 4.2 June 21, 200
4.6	Registration Rights Agreement, dated as of June 14, 2000, by and among Rite Aid Corporation and the Lenders listed therein	Exhibit 4.3 June 21, 200

Exhibit Numbers	Description	
4.7	Indenture, dated as of June 27, 2001, between Rite Aid Corporation, as issuer and State Street Bank and Trust Company, as trustee, related to the Company's 12.50% Senior Secured Notes due 2006.	Exhibit 4.7 S-1, File No 2001
4.8	Indenture, dated as of June 27, 2001 between Rite Aid Corporation, as issuer and BNY Midwest Trust Company, as trustee, related to the Company's 11 1/4% Senior Notes due 2008.	Exhibit 4.8 S-1, File No 2001
4.9	Exchange and Registration Rights Agreement, dated as of June 27, 2001, between Rite Aid Corporation and Salomon Smith Barney Inc., Credit Suisse First Boston Corporation, J.P. Morgan Securities Inc. and Fleet Securities, Inc., as initial purchasers, for the benefit of the holders of the Company's 11 1/4% Senior Notes due 2008.	Exhibit 4.9 S-1, File No 2001
5.1	Opinion of Skadden, Arps, Slate, Meagher & Flom LLP	Filed herewi
10.1	1999 Stock Option Plan	Exhibit 10.1 2001
10.2	2000 Omnibus Equity Plan	Included in 2000
10.3	2001 Stock Option Plan	Exhibit 10.3 2001
10.4	Registration Rights Agreement, dated as of October 27, 1999, by and between Rite Aid Corporation and Green Equity Investors III, L.P.	Exhibit 4.1 1999
10.5	Registration Rights Agreement, dated as of October 27, 1999, by and between Rite Aid Corporation and J.P. Morgan Ventures Corporation	Exhibit 4.2 1999
10.6	Warrant to purchase Common Stock, par value $1.00 per share, of Rite Aid Corporation, dated October 27, 1999, issued to J.P. Morgan Ventures Corporation	Exhibit 4.3 1999.
10.7	Employment Agreement by and between Rite Aid Corporation and Robert G. Miller, dated as of December 5, 1999	Exhibit 10.1 2000
10.8	Amendment No. 1 to Employment Agreement by and between Rite Aid Corporation and Robert G. Miller, dated as of May 7, 2001	Exhibit 10.9 2001
10.9	Rite Aid Corporation Restricted Stock and Stock Option Award Agreement, made as of December 5, 1999, by and between Rite Aid Corporation and Robert G. Miller	Exhibit 4.31 2000

Exhibit

Numbers	Description	
10.10	Employment Agreement by and between Rite Aid Corporation and Mary F. Sammons, dated as of December 5, 1999	Exhibit 10.2 2000
10.11	Amendment No. 1 to Employment Agreement by and between Rite Aid Corporation and Mary F. Sammons, dated as of May 7, 2001	Exhibit 10.1 2001
10.12	Rite Aid Corporation Restricted Stock and Stock Option Award Agreement, made as of December 5, 1999, by and between Rite Aid Corporation and Mary F. Sammons	Exhibit 4.32 2000
10.13	Employment Agreement by and between Rite Aid Corporation and David R. Jessick, dated as of December 5, 1999	Exhibit 10.3 2000
10.14	Rite Aid Corporation Restricted Stock and Stock Option Award Agreement, made as of December 5, 1999, by and between Rite Aid Corporation and David R. Jessick	Exhibit 4.33 2000
10.15	Employment Agreement by and between Rite Aid Corporation and John T. Standley, dated as of December 5, 1999	Exhibit 10.4 2000
10.16	Rite Aid Corporation Restricted Stock and Stock Option Award Agreement, made as of December 5, 1999, by and between Rite Aid Corporation and John T. Standley	Exhibit 4.34 2000
10.17	Employment Agreement by and between Rite Aid Corporation and Elliot S. Gerson, dated as of November 16, 2000	Exhibit 10.1 2001
10.18	Employment Agreement by and between Rite Aid Corporation and Eric Sorkin, dated as of April 2, 1999	Exhibit 10.1 2001
10.19	Employment Agreement by and between Rite Aid Corporation and James Mastrain, dated as of September 27, 2000	Exhibit 10.2 2001
10.20	Rite Aid Corporation Special Deferred Compensation Plan	Exhibit 10.2 2000
10.21	Executive Separation Agreement and General Release, dated February 28, 2000, between Rite Aid Corporation and Timothy Noonan	Exhibit 10.4 2000
10.22	Letter Agreement, dated February 28, 2000, between Rite Aid Corporation and Timothy Noonan, amending Executive Separation Agreement and General Release, dated February 28, 2000, between Rite Aid Corporation and Timothy Noonan	Exhibit 10.4 2000

Exhibit Numbers	Description

10.23	Equity for Bank Debt Exchange Agreement between Rite Aid Corporation, Fir Tree Value Fund, L.P., Fir Tree Institutional Value Fund, L.P., Fir Tree Value Partners LDC and Fir Tree Recovery Master Fund, L.P.	Exhibit 10.4 2001
10.24	Side Letter to Equity for Bank Debt Exchange Agreement, dated April 30, 2001, between Rite Aid Corporation, Fir Tree Value Fund, L.P., Fir Tree Institutional Value Fund, L.P., Fir Tree Value Partners LDC and Fir Tree Recovery Master Fund, L.P.	Exhibit 10.4 2001
10.25	Employment Agreement by and between Rite Aid Corporation and Christopher Hall, dated as of January 26, 2001	Exhibit 10.4 2001
10.26	Employment Agreement by and between Rite Aid Corporation and Robert B. Sari, dated as of February 28, 2001	Exhibit 10.4 2001
10.27	Registration Rights Agreement dated as of June 14, 2001 by and between Rite Aid Corporation and Marathon Special Opportunity Fund Ltd. and Marathon Master Fund, Ltd.	Exhibit 10.2 Form S-1, Fi July 12, 200
10.28	Registration Rights Agreement dated as of June 19 2001 by and between Rite Aid Corporation and OZ Master Fund, Ltd. and OZF Credit Opportunities Master Fund, Ltd.	Exhibit 10.2 Form S-1, Fi July 12, 200
10.29	Registration Rights Agreement dated as of May 24, 2001 by and between Rite Aid Corporation and LibertyView Funds, L.P., LibertyView Fund, LLC and LibertyView Global Volatility Fund L.P.	Exhibit 10.2 Form S-1, Fi July 12, 200
10.30	Senior Credit Agreement, dated as of June 27, 2001 among Rite Aid Corporation, the financial institutions party thereto, Citicorp USA, Inc., as senior administrative agent and as senior collateral agent, and The Chase Manhattan Bank, Credit Suisse First Boston and Fleet Retail Finance Inc., as syndication agents	Exhibit 10.3 Form S-1, Fi July 12, 200
10.31	Senior Subsidiary Guarantee Agreement, dated as of June 27, 2001 among the Subsidiary Guarantors (as defined therein) and Citicorp USA, Inc., as senior collateral agent.	Exhibit 10.3 Form S-1, Fi July 12, 200
10.32	Senior Subsidiary Security Agreement, dated as of June 27, 2001 by the Subsidiary Guarantors (as defined therein) in favor of the Citicorp USA (senior collateral agent).	Exhibit 10.3 Form S-1, Fi July 12, 200

Exhibit Numbers	Description	
10.33	Collateral Trust and Intercreditor Agreement, dated as of June 27, 2001 among Rite Aid Corporation, the Subsidiary Guarantors (as defined	Exhibit 10.3 Form S-1, Fi

	therein), Wilmington Trust Company, as collateral trustee for the holders from time to time of the Second Priority Debt Obligations (as defined therein), Citicorp USA, Inc., as collateral agent for the Senior Secured Parties (as defined therein) under the Senior Loan Documents (as defined therein), Citibank USA, Inc., as agent for the Synthetic Lease Parties (as defined therein), State Street Bank and Trust Company, as trustee under the Exchange Note Indenture (as defined therein) for the holders of the Exchange Notes (as defined therein), and each other Second Priority Representative (as defined therein) which from time to time becomes a party thereto.	July 12, 200
10.34	Second Priority Subsidiary Guarantee Agreement, dated as of June 27, 2001 among the Subsidiary Guarantors (as defined therein) and Wilmington Trust Company, as collateral agent.	Exhibit 10.3 Form S-1, Fi July 12, 200
10.35	Second Priority Subsidiary Security Agreement, dated as of June 27, 2001 by the Subsidiary Guarantors (as defined therein) in favor of Wilmington Trust Company, as collateral trustee.	Exhibit 10.3 Form S-1, Fi July 12, 200
10.36	Each of the Mortgages, Deeds of Trust, Assignments of Leases and Rents, Security Agreements, Financing Statements and Fixture Filings, dated June 27, 2001, from the Subsidiary Guarantors (as defined therein) listed therein, to Citicorp USA, Inc. as Senior Collateral Agent.	Exhibit 10.3 Form S-1, Fi July 12, 200
10.37	Each of the Mortgages, Deeds of Trust, Assignments of Leases and Rents, Security Agreements, Financing Statements and Fixture Filings, dated June 27, 2001, from the Subsidiary Guarantor listed therein, to Wilmington Trust Company, as Second Priority Collateral Trustee.	Exhibit 10.3 Form S-1, Fi July 12, 200
10.38	Participation Agreement, dated as of June 27, 2001 among Rite Aid Realty Corp., a Delaware corporation; Rite Aid Corporation, a Delaware corporation; Wells Fargo Northwest, National Association, not in its individual capacity except as expressly set forth therein but solely as trustee of the RAC Distribution Statutory Trust; the persons named therein as note holders and certificate holders; and Citicorp USA, Inc., in its capacity as administrative agent.	Exhibit 10.3 Form S-1, Fi July 12, 200

Exhibit Numbers	Description	
10.39	Lease, dated as of June 27, 2001 between Wells Fargo Northwest, National Association, not in its individual capacity, but solely as trustee of the RAC Distribution Statutory Trust, and Rite Aid Realty Corp., a Delaware corporation.	Exhibit 10.3 Form S-1, Fi July 12, 200
10.40	Ground Lease Agreement dated as of June 27, 2001 between Thrifty Payless, Inc., a California corporation, and Wells Fargo Northwest, National Association, not in its individual capacity, but solely as trustee of the RAC Distribution Statutory Trust.	Exhibit 10.4 Form S-1, Fi July 12, 200

10.41	Security Agreement, dated as of June 27, 2001, made by Rite Aid Realty Corp., a Delaware corporation in favor of Wells Fargo Northwest, National Association, not in its individual capacity, but solely as trustee of the RAC Distribution Statutory Trust.	Exhibit 10.4 Form S-1, Fi July 12, 200
10.42	Parent Guarantee, dated as of June 27, 2001, by Rite Aid Corporation, a Delaware corporation to Wells Fargo Northwest, National Association, not in its individual capacity, but solely as trustee of the RAC Distribution Statutory Trust.	Exhibit 10.4 Form S-1, Fi July 12, 200
10.43	Instrument Guarantee, dated as of June 27, 2001, by Rite Aid Realty Corp., a Delaware corporation, to each of the Note Holders and Certificate Holders (each as defined in Participation Agreement, dated as of June 27, 2001 among Rite Aid Realty Corp., a Delaware corporation; Rite Aid Corporation, a Delaware corporation; Wells Fargo Northwest, National Association, not in its individual capacity, but solely as trustee of the RAC Distribution Statutory Trust; the Persons named therein as note holders and certificate holders; and Citicorp USA, Inc., in its capacity as administrative agent).	Exhibit 10.4 Form S-1, Fi July 12, 200
10.44	Loan Agreement dated as of June 27, 2001 among Wells Fargo Northwest, National Association, not in its individual capacity, but solely as trustee of the RAC Distribution Statutory Trust, the Persons named therein as note holders and/or any assignee thereof.	Exhibit 10.4 Form S-1, Fi July 12, 200
10.45	Assignment and Security Agreement, dated as of June 27, 2001, by Wells Fargo Northwest, National Association, not in its individual capacity, but solely as trustee of the RAC Distribution Statutory Trust, in favor of Citicorp USA, Inc., as Agent.	Exhibit 10.4 Form S-1, Fi July 12, 200
10.46	Amended and Restated Declaration of Trust dated as of June 27, 2001, between Wells Fargo Northwest, National Association and the Certificate Holders as defined therein.	Exhibit 10.4 Form S-1, Fi July 12, 200

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10.47	Stock Purchase Agreement dated June 12, 2001 by and between Rite Aid Corporation, American Century Mutual Funds, Inc. and American Century World Mutual Funds, Inc.	Exhibit 10.4 Form S-1, Fi July 12, 200
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10.49	Stock Purchase Agreement dated June 12, 2001 by and between Rite Aid Corporation and Fidelity.	Exhibit 10.4 Form S-1, Fi July 12, 200

10.50	Stock Purchase Agreement dated June 12, 2001 by and between Rite Aid Corporation; Putnam Investment Management, LLC; The Putnam Advisory Company, LLC; and Putnam Fiduciary Trust Company.	Exhibit 10.5 Form S-1, Fi July 12, 200
10.51	Stock Purchase Agreement dated May 17, 2001 by and between Rite Aid Corporation and Transamerica Investment Management, LLC.	Exhibit 10.5 Form S-1, Fi July 12, 200
10.52	Exchange and Registration Rights Agreement dated as of June 27, 2001 by and between Rite Aid and the Fidelity holders.	Exhibit 10.5 Form S-1, Fi July 12, 200
10.53	Registration Rights Agreement dated June 27, 2001 by and between Rite Aid Corporation and Fidelity holders.	Exhibit 10.5 Form S-1, Fi July 12, 200
10.54	Registration Rights Agreement dated June 27, 2001 by and between Rite Aid Corporation, American Century Mutual Funds, Inc.; American Century World Mutual Funds, Inc.; Bessent Global Equity Master; Quantum Partners Bessent Global; Fidelity; Putnam Investment Management, LLC; The Putnam Advisory Company, LLC; and Putnam Fiduciary Trust Company.	Exhibit 10.5 Form S-1, Fi July 12, 200
10.55	Registration Rights Agreement dated June 27, 2001 by and between Rite Aid Corporation and Transamerica Investment Management, LLC.	Exhibit 10.5 Form S-1, Fi July 12, 200
10.56	Registration Rights Agreement dated May 31, 2001 by and between Rite Aid Corporation; Fir Tree Value Fund, L.P; Fir Tree Institutional Value Fund, L.P.; Fir Tree Value Partners LDC; and Fir Tree Recovery Master Fund, L.P.;	Exhibit 10.5 Form S-1, Fi July 12, 200
10.57	Note Exchange Agreement dated June 27, 2001 by and between Rite Aid Corporation and the Fidelity holders.	Exhibit 10.5 Form S-1, Fi July 12, 200

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21	Subsidiaries of the registrant	Exhibit 19 t 2000
23.1	Independent Auditors' Consent	Filed herewi
23.2	Independent Auditors' Consent	Filed herewi

b. Financial Statement Schedules

Independent Auditors' Report and Schedule II - Valuation and Qualifying Accounts (see pages II-16 and II-17)

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

Financial statements of 50% or less owned companies have been omitted since they do not constitute significant subsidiaries.

Item 17. Undertakings.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the

Registration Statement;

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Camp Hill, State of Pennsylvania, on July 23, 2001.

RITE AID CORPORATION

By: /s/ ROBERT G. MILLER*

Robert G. Miller
Chairman of the Board of Directors
and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title
/s/ ROBERT G. MILLER* Robert G. Miller	Chairman of the Board and Chief Executive Officer
/s/ MARY F. SAMMONS* Mary F. Sammons	President, Chief Operating Officer and Director
/s/ JOHN T. STANDLEY* John T. Standley	Chief Financial Officer and Senior Executive Vice President

/s/ CHRISTOPHER HALL* Christopher Hall	Executive Vice President, Finance and Accounting

Signature	Title
/s/ KEVIN J. TWOMEY Kevin J. Twomey	Chief Accounting Officer and Senior Vice President
/s/ WILLIAM J. BRATTON* William J. Bratton	Director
/s/ ALFRED M. GLEASON* Alfred M. Gleason	Director
/s/ LEONARD I. GREEN* Leonard I. Green	Director
/s/ NANCY A. LIEBERMAN* Nancy A. Lieberman	Director
/s/ STUART M. SLOAN* Stuart M. Sloan	Director
/s/ JONATHAN D. SOKOLOFF* Jonathan D. Sokoloff	Director

/s/ LEONARD N. STERN* ------------------------------------ Leonard N. Stern	Director

By: /s/ KEVIN J. TWOMEY

Attorney-in-fact

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INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of Rite Aid Corporation and subsidiaries as of March 3, 2001 and February 26, 2000, and for each of the three years in the period ended March 3, 2001, and have issued our report thereon dated May 8, 2001, except for Note 25, as to which the date is May 16, 2001 (included elsewhere in this Registration Statement). Our audits also included the financial statement schedule of Rite Aid Corporation, listed in Item 16 of this Registration Statement. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania
May 8, 2001

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RITE AID CORPORATION AND SUBSIDIARIES

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended March 3, 2001, February 26, 2000, and February 27, 1999
(dollars in thousands)

Allowances deducted from accounts receivable for estimated uncollectible amounts:	Balance at Beginning of Period	Ad Cha Co Ex

Year ended March 3, 2001	$43,371	$
Year ended February 26, 2000	30,296	
Year ended February 27, 1999	47,268	

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EXHIBIT INDEX

Exhibit Numbers	Description	
3.1	Restated Certificate of Incorporation dated December 12, 1966	Exhibit 3(i) 1999
3.2	Certificate of Amendment to the Restated Certificate of Incorporation dated October 25, 1999	Exhibit 3(ii 1999
3.3	Series C Preferred Stock Certificate of Designation dated June 26, 2001	Exhibit 3.3 S-1, File No 2001
3.4	Certificate of Amendment to Restated Certificate of Incorporation dated June 27, 2001	Exhibit 3.4 S-1, File No 2001
3.5	By-laws, as amended on November 8, 2000	Exhibit 3.1 2000
4.1	Supplemental Indenture, dated as of February 3, 2000, between Rite Aid Corporation and Harris Trust and Savings Bank to the Indenture, dated September 10, 1997, between Rite Aid Corporation and Harris Trust and Savings Bank	Exhibit 4.2 2000
4.2	Supplemental Indenture, dated as of February 3, 2000, between Rite Aid Corporation and Harris Trust and Savings Bank, to the Indenture, dated September 22, 1998, between Rite Aid Corporation and Harris Trust and Savings Bank	Exhibit 4.3 2000
4.3	Supplemental Indenture, dated as of February 3, 2000, between Rite Aid Corporation and Harris Trust and Savings Bank to the Indenture, dated December 21, 1998, between Rite Aid Corporation and Harris Trust and Savings Bank	Exhibit 4.4 2000
4.4	Indenture, dated as of June 14, 2000, among Rite Aid Corporation, as Issuer, each of the Subsidiary Guarantors named therein and State Street Bank and Trust Company, as Trustee	Exhibit 4.1 June 21, 200
4.5	Exchange and Registration Rights Agreement, dated as of June 14, 2000, by and among Rite Aid Corporation, State Street Bank and Trust Company	Exhibit 4.2 June 21, 200

	and the Holders of the 10.50% Senior Secured Notes due 2002	
4.6	Registration Rights Agreement, dated as of June 14, 2000, by and among Rite Aid Corporation and the Lenders listed therein	Exhibit 4.3 June 21, 200

Exhibit Numbers	Description	
4.7	Indenture, dated as of June 27, 2001, between Rite Aid Corporation, as issuer and State Street Bank and Trust Company, as trustee, related to the Company's 12.50% Senior Secured Notes due 2006.	Exhibit 4.7 S-1, File No 2001
4.8	Indenture, dated as of June 27, 2001 between Rite Aid Corporation, as issuer and BNY Midwest Trust Company, as trustee, related to the Company's 11 1/4% Senior Notes due 2008.	Exhibit 4.8 S-1, File No 2001
4.9	Exchange and Registration Rights Agreement, dated as of June 27, 2001, between Rite Aid Corporation and Salomon Smith Barney Inc., Credit Suisse First Boston Corporation, J.P. Morgan Securities Inc. and Fleet Securities, Inc., as initial purchasers, for the benefit of the holders of the Company's 11 1/4% Senior Notes due 2008.	Exhibit 4.9 S-1, File No 2001
5.1	Opinion of Skadden, Arps, Slate, Meagher & Flom LLP	Filed herewi
10.1	1999 Stock Option Plan	Exhibit 10.1 2001
10.2	2000 Omnibus Equity Plan	Included in 2000
10.3	2001 Stock Option Plan	Exhibit 10.3 2001
10.4	Registration Rights Agreement, dated as of October 27, 1999, by and between Rite Aid Corporation and Green Equity Investors III, L.P.	Exhibit 4.1 1999
10.5	Registration Rights Agreement, dated as of October 27, 1999, by and between Rite Aid Corporation and J.P. Morgan Ventures Corporation	Exhibit 4.2 1999
10.6	Warrant to purchase Common Stock, par value $1.00 per share, of Rite Aid Corporation, dated October 27, 1999, issued to J.P. Morgan Ventures Corporation	Exhibit 4.3 1999.
10.7	Employment Agreement by and between Rite Aid Corporation and Robert G. Miller, dated as of December 5, 1999	Exhibit 10.1 2000
10.8	Amendment No. 1 to Employment Agreement by and between Rite Aid Corporation and Robert G. Miller, dated as of May 7, 2001	Exhibit 10.9 2001
10.9	Rite Aid Corporation Restricted Stock and Stock Option Award Agreement, made as of December 5, 1999, by and between Rite Aid Corporation and Robert G. Miller	Exhibit 4.31 2000

Exhibit Numbers	Description	
10.10	Employment Agreement by and between Rite Aid Corporation and Mary F. Sammons, dated as of December 5, 1999	Exhibit 10.2 2000
10.11	Amendment No. 1 to Employment Agreement by and between Rite Aid Corporation and Mary F. Sammons, dated as of May 7, 2001	Exhibit 10.1 2001
10.12	Rite Aid Corporation Restricted Stock and Stock Option Award Agreement, made as of December 5, 1999, by and between Rite Aid Corporation and Mary F. Sammons	Exhibit 4.32 2000
10.13	Employment Agreement by and between Rite Aid Corporation and David R. Jessick, dated as of December 5, 1999	Exhibit 10.3 2000
10.14	Rite Aid Corporation Restricted Stock and Stock Option Award Agreement, made as of December 5, 1999, by and between Rite Aid Corporation and David R. Jessick	Exhibit 4.33 2000
10.15	Employment Agreement by and between Rite Aid Corporation and John T. Standley, dated as of December 5, 1999	Exhibit 10.4 2000
10.16	Rite Aid Corporation Restricted Stock and Stock Option Award Agreement, made as of December 5, 1999, by and between Rite Aid Corporation and John T. Standley	Exhibit 4.34 2000
10.17	Employment Agreement by and between Rite Aid Corporation and Elliot S. Gerson, dated as of November 16, 2000	Exhibit 10.1 2001
10.18	Employment Agreement by and between Rite Aid Corporation and Eric Sorkin, dated as of April 2, 1999	Exhibit 10.1 2001
10.19	Employment Agreement by and between Rite Aid Corporation and James Mastrain, dated as of September 27, 2000	Exhibit 10.2 2001
10.20	Rite Aid Corporation Special Deferred Compensation Plan	Exhibit 10.2 2000
10.21	Executive Separation Agreement and General Release, dated February 28, 2000, between Rite Aid Corporation and Timothy Noonan	Exhibit 10.4 2000
10.22	Letter Agreement, dated February 28, 2000, between Rite Aid Corporation and Timothy Noonan, amending Executive Separation Agreement and General Release, dated February 28, 2000, between Rite Aid Corporation and Timothy Noonan	Exhibit 10.4 2000

Exhibit Numbers	Description

10.23	Equity for Bank Debt Exchange Agreement between Rite Aid Corporation, Fir Tree Value Fund, L.P., Fir Tree Institutional Value Fund, L.P., Fir Tree Value Partners LDC and Fir Tree Recovery Master Fund, L.P.	Exhibit 10.4 2001
10.24	Side Letter to Equity for Bank Debt Exchange Agreement, dated April 30, 2001, between Rite Aid Corporation, Fir Tree Value Fund, L.P., Fir Tree Institutional Value Fund, L.P., Fir Tree Value Partners LDC and Fir Tree Recovery Master Fund, L.P.	Exhibit 10.4 2001
10.25	Employment Agreement by and between Rite Aid Corporation and Christopher Hall, dated as of January 26, 2001	Exhibit 10.4 2001
10.26	Employment Agreement by and between Rite Aid Corporation and Robert B. Sari, dated as of February 28, 2001	Exhibit 10.4 2001
10.27	Registration Rights Agreement dated as of June 14, 2001 by and between Rite Aid Corporation and Marathon Special Opportunity Fund Ltd. and Marathon Master Fund, Ltd.	Exhibit 10.2 Form S-1, Fi July 12, 200
10.28	Registration Rights Agreement dated as of June 19 2001 by and between Rite Aid Corporation and OZ Master Fund, Ltd. and OZF Credit Opportunities Master Fund, Ltd.	Exhibit 10.2 Form S-1, Fi July 12, 200
10.29	Registration Rights Agreement dated as of May 24, 2001 by and between Rite Aid Corporation and LibertyView Funds, L.P., LibertyView Fund, LLC and LibertyView Global Volatility Fund L.P.p	Exhibit 10.2 Form S-1, Fi July 12, 200
10.30	Senior Credit Agreement, dated as of June 27, 2001 among Rite Aid Corporation, the financial institutions party thereto, Citicorp USA, Inc., as senior administrative agent and as senior collateral agent, and The Chase Manhattan Bank, Credit Suisse First Boston and Fleet Retail Finance Inc., as syndication agents	Exhibit 10.3 Form S-1, Fi July 12, 200
10.31	Senior Subsidiary Guarantee Agreement, dated as of June 27, 2001 among the Subsidiary Guarantors (as defined therein) and Citicorp USA, Inc., as senior collateral agent.	Exhibit 10.3 Form S-1, Fi July 12, 200
10.32	Senior Subsidiary Security Agreement, dated as of June 27, 2001 by the Subsidiary Guarantors (as defined therein) in favor of the Citicorp USA (senior collateral agent).	Exhibit 10.3 Form S-1, Fi July 12, 200

Exhibit Numbers	Description	
10.33	Collateral Trust and Intercreditor Agreement, dated as of June 27, 2001 among Rite Aid Corporation, the Subsidiary Guarantors (as defined therein), Wilmington Trust Company, as collateral trustee for the holders from time to time of the Second Priority Debt Obligations (as defined therein), Citicorp USA, Inc., as collateral agent for the Senior Secured Parties (as defined therein) under the Senior Loan Documents (as defined therein), Citibank USA, Inc., as agent for the	Exhibit 10.3 Form S-1, Fi July 12, 200

	Synthetic Lease Parties (as defined therein), State Street Bank and Trust Company, as trustee under the Exchange Note Indenture (as defined therein) for the holders of the Exchange Notes (as defined therein), and each other Second Priority Representative (as defined therein) which from time to time becomes a party thereto.	
10.34	Second Priority Subsidiary Guarantee Agreement, dated as of June 27, 2001 among the Subsidiary Guarantors (as defined therein) and Wilmington Trust Company, as collateral agent.	Exhibit 10.3 Form S-1, Fi July 12, 200
10.35	Second Priority Subsidiary Security Agreement, dated as of June 27, 2001 by the Subsidiary Guarantors (as defined therein) in favor of Wilmington Trust Company, as collateral trustee.	Exhibit 10.3 Form S-1, Fi July 12, 200
10.36	Each of the Mortgages, Deeds of Trust, Assignments of Leases and Rents, Security Agreements, Financing Statements and Fixture Filings, dated June 27, 2001, from the Subsidiary Guarantors (as defined therein) listed therein, to Citicorp USA, Inc. as Senior Collateral Agent.	Exhibit 10.3 Form S-1, Fi July 12, 200
10.37	Each of the Mortgages, Deeds of Trust, Assignments of Leases and Rents, Security Agreements, Financing Statements and Fixture Filings, dated June 27, 2001, from the Subsidiary Guarantor listed therein, to Wilmington Trust Company, as Second Priority Collateral Trustee.	Exhibit 10.3 Form S-1, Fi July 12, 200
10.38	Participation Agreement, dated as of June 27, 2001 among Rite Aid Realty Corp., a Delaware corporation; Rite Aid Corporation, a Delaware corporation; Wells Fargo Northwest, National Association, not in its individual capacity except as expressly set forth therein but solely as trustee of the RAC Distribution Statutory Trust; the persons named therein as note holders and certificate holders; and Citicorp USA, Inc., in its capacity as administrative agent.	Exhibit 10.3 Form S-1, Fi July 12, 200

Exhibit Numbers	Description	
10.39	Lease, dated as of June 27, 2001 between Wells Fargo Northwest, National Association, not in its individual capacity, but solely as trustee of the RAC Distribution Statutory Trust, and Rite Aid Realty Corp., a Delaware corporation.	Exhibit 10.3 Form S-1, Fi July 12, 200
10.40	Ground Lease Agreement dated as of June 27, 2001 between Thrifty Payless, Inc., a California corporation, and Wells Fargo Northwest, National Association, not in its individual capacity, but solely as trustee of the RAC Distribution Statutory Trust.	Exhibit 10.4 Form S-1, Fi July 12, 200
10.41	Security Agreement, dated as of June 27, 2001, made by Rite Aid Realty Corp., a Delaware corporation in favor of Wells Fargo Northwest, National Association, not in its individual capacity, but solely as trustee of the RAC Distribution Statutory Trust.	Exhibit 10.4 Form S-1, Fi July 12, 200
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	Distribution Statutory Trust.	
10.43	Instrument Guarantee, dated as of June 27, 2001, by Rite Aid Realty Corp., a Delaware corporation, to each of the Note Holders and Certificate Holders (each as defined in Participation Agreement, dated as of June 27, 2001 among Rite Aid Realty Corp., a Delaware corporation; Rite Aid Corporation, a Delaware corporation; Wells Fargo Northwest, National Association, not in its individual capacity, but solely as trustee of the RAC Distribution Statutory Trust; the Persons named therein as note holders and certificate holders; and Citicorp USA, Inc., in its capacity as administrative agent).	Exhibit 10.4 Form S-1, Fi July 12, 200
10.44	Loan Agreement dated as of June 27, 2001 among Wells Fargo Northwest, National Association, not in its individual capacity, but solely as trustee of the RAC Distribution Statutory Trust, the Persons named therein as note holders and/or any assignee thereof.	Exhibit 10.4 Form S-1, Fi July 12, 200
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