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RITE AID CORP
Form 424B3
May 20, 2002

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File No. 333-82872

PROSPECTUS

\$250,000,000

RITE AID CORPORATION

4.75% Convertible Notes due 2006 and
38,461,539 Shares of Common Stock
Issuable upon Conversion of the Notes

This prospectus relates to the offer and sale from time to time by the selling security holders named herein, including their respective transferors, donees, pledgees or successors, of up to \$250,000,000 principal amount of our 4.75% Convertible Notes due 2006 and the shares of our common stock issuable on conversion of the notes.

The prices at which the selling security holders may sell the notes and the shares will be determined by prevailing market prices or through privately negotiated transactions. We will not receive any proceeds from the sale of any of the notes or the shares. We have agreed to bear the expenses of registering the notes and shares covered by this prospectus under federal and state securities laws.

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

Interest on the notes is payable on June 1 and December 1 of each year, beginning on June 1, 2002. The notes are convertible by holders into shares of our common stock at a conversion price of \$6.50 per share (subject to adjustment in certain events) at any time following issuance of the notes, unless we previously have redeemed or repurchased the notes or unless the notes previously have matured. Our common stock is listed on the New York Stock Exchange and the Pacific Exchange under the symbol "RAD." The last reported price of our common stock on the NYSE on May 13, 2002 was \$3.01 per share.

The notes will mature on December 1, 2006. We may redeem some or all of the notes at any time on or after December 5, 2004, at the redemption prices specified under the caption "Description of Notes--Optional Redemption" plus accrued interest and liquidated damages, if any, to the redemption date if the market price of our common stock equals or exceeds 125% of the conversion price for a specified period.

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The notes are unsubordinated, unsecured obligations of Rite Aid Corporation and rank equally in right of payment to all of our other unsubordinated, unsecured indebtedness. Our subsidiaries own substantially all of our operating assets, and the notes are effectively subordinated to all indebtedness of our subsidiaries. Under certain circumstances, holders of the notes have the right to require us to repurchase the notes at the prices described in this prospectus.

See "Risk Factors" beginning on page 10 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 adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is May 17, 2002

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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:

- o our high level of indebtedness;

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- o 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;
- o 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;
- o the outcomes of pending lawsuits and governmental investigations, both civil and criminal, involving our financial reporting and other matters;
- o competitive pricing pressures and continued consolidation of the drugstore industry;
- o third-party prescription reimbursement levels and regulatory changes governing pharmacy practices;
- o general economic conditions, inflation and interest rate movements;
- o merchandise supply constraints or disruptions; and
- o access to capital.

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 section titled "Risk Factors."

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WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Accordingly, we file annual, quarterly and current reports, proxy statements and other information with the SEC. We also furnish to our security holders 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 security holders. 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 office at 505 West Madison Street, Suite 1400, Chicago, Illinois 60661. 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 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 Pacific Exchange's offices at 301 Pine Street, San Francisco, California 94104.

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This is a registration statement on Form S-3 under the Securities Act of 1933, as amended (the "Securities Act") covering our convertible notes due 2006 and the shares of our common stock issuable on conversion of the notes 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. In addition, certain information in the registration statement has been omitted from the prospectus in accordance with the rules of the SEC. 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.

INCORPORATION BY REFERENCE

The SEC allows us to incorporate by reference the information in documents we file with the SEC, which means that we can disclose important information to you by referring to those documents. The information incorporated by reference is considered to be a part of this prospectus, and information that we file later with the SEC will automatically update and supersede the information in this prospectus. We incorporate by reference the documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act until the selling security holders sell all of the securities offered by this prospectus:

- o Our Annual Report on Form 10-K, for the fiscal year ended March 2, 2002, filed on May 7, 2002; and

- o The description of our common stock contained in our Registration Statement on Form 8-A filed under the Exchange Act.

You may request a copy of any of these filings, at no cost, by writing or telephoning us at the following address:

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

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PROSPECTUS SUMMARY

The following information summarizes the detailed information and financial statements included elsewhere or incorporated by reference 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 2002) refer to the fiscal year ended on the Saturday closest to February 29 or March 1 of that year. The fiscal year ended March 3, 2001 included 53 weeks. The fiscal years ended March 2, 2002, February 26, 2000, February 27, 1999 and February 28, 1998 included 52 weeks.

Rite Aid Corporation

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Our Business

We are the third largest retail drugstore chain in the United States. We operate 3,497 drugstores in 28 states and in the District of Columbia. During fiscal 2002, we generated \$15.2 billion in revenues. Since the beginning of fiscal 1997, we have acquired 1,564 stores, relocated 967 stores, built 473 new stores and remodeled 470 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 2002, our pharmacists filled more than 202 million prescriptions, which accounted for 61.3% of our total sales. We believe that our pharmacy operations will continue to represent a significant part of our business due to favorable industry trends, including an aging population, increased life expectancy and the discovery of new and better drug therapies. We offer approximately 24,700 different types of 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 38.7% of our total sales in fiscal 2002. We distinguish our stores from other national chain drugstores, in part, through our private brands and our strategic alliance with General Nutrition Companies, Inc. ("GNC"), a leading retailer of vitamin and mineral supplements. We offer approximately 1,700 products under the Rite Aid private brand, which contributed approximately 10.6% of our front-end sales in fiscal 2002.

Background

Under prior management, we were engaged in an aggressive expansion program from the beginning of fiscal 1997 until December 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, including lease financing obligations, 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:

- o Reduced our indebtedness, including lease financing obligations, from \$6.6 billion as of February 26, 2000 to \$4.1 billion as of March 2, 2002;

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- o Improved our front-end same store sales growth from a negative 2.2% in fiscal 2000 to a positive 3.6% during fiscal 2002 by improving store conditions and product pricing and launching a competitive marketing program;
- o Restated our financial statements for fiscal 1998 and fiscal 1999, as well as engaged Deloitte & Touche LLP as our new auditors to audit our financial statements for fiscal 1998, fiscal 1999 and fiscal 2000;
- o Settled the securities class action and related lawsuits in February 2002 for \$45.0 million funded with insurance proceeds and \$149.5 million of senior secured notes, issued in April 2002 and due March 15, 2006;
- o Addressed out-of-stock inventory levels and strengthened our vendor relationships;
- o Implemented initiatives to improve all aspects of our supply chain, including buying practices, category management systems and other inventory issues;
- o Addressed and corrected problems with our accounting systems and controls, and resumed normal financial reporting; and
- o Completed the refinancing of our indebtedness.

Our Strengths

We believe that we are well-positioned to build on the significant investment in our modern store base by capitalizing on our competitive strengths, including the following:

Strong Brand Name with Leading Shares in Key Markets

- o We are the nation's third largest drugstore chain with 3,497 stores.
- o Our stores are primarily located in convenient locations within fast growing metropolitan markets.
- o We believe that our brand name has helped us establish a large group of loyal customers.

New Management Team Leading Operational Turnaround

- o We improved front-end same store sales growth from a negative 2.2% in fiscal 2000 to a positive 3.6% in fiscal 2002 by improving store conditions and product pricing and launching a competitive marketing program.
- o We curtailed our expansion plans and reduced our capital expenditures from \$573.3 million in fiscal 2000 to \$132.5 million in fiscal 2001 and \$175.2 million in fiscal 2002.

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Modern Store Base

- o Since the beginning of fiscal 1997, we built 473 new stores, relocated 967 stores, remodeled 470 stores and closed 1,307 stores, providing us with what we believe to be one of the most modern store bases in the industry.
- o Most of our new stores are based on our prototype and typically include a drive-thru pharmacy and a one-hour photo shop. Many of our stores include a GNC store-within-Rite Aid-store.
- o To support these new stores, we have improved our distribution network by opening two high capacity distribution centers.

Compelling Industry Fundamentals and Demographic Trends

- o According to IMS Health Incorporated, an independent industry source, the retail prescription drug industry is expected to be one of the fastest growing retail segments in the U.S. over the next ten years.
- o Increasing life expectancy and the "baby boom" generation entering their fifties are expected to drive pharmacy sales which we estimate to increase 75% over the next five years.
- o Several factors will contribute to this continued growth in the pharmacy sector, including a record number of drugs in the FDA approval pipeline.

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Our Business Strategy

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

Capitalize on Investments in Stores and Distribution Facilities

- o Attract new customers to our modern stores through various marketing strategies including weekly circulars, seasonal merchandising programs and direct marketing efforts;
- o Implement programs that are specifically directed towards our pharmacy business, including reducing cash prices and enhancing our proprietary inventory replenishment system; and
- o Leverage our modern distribution facilities by utilizing new category management tools and implementing item level productivity analysis.

Improve Product Offerings in our Stores

- o Continue to add popular product departments, such as our GNC stores-within-Rite Aid-stores and one-hour photo services;

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- o Improve inventory and product categories to offer more personalized products and services to our customers, including better management of seasonal items;
- o Increase both private brand front-end products and generic prescription drugs to improve margins; and
- o Strengthen our relationships with our suppliers in order to offer customers a wider selection of products.

Enhance Customer and Associate Relationships

- o Enhance positive perceptions among customers through vendor promotions and weekly sales items;
- o Improve 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; and
- o Develop associate programs that create compensatory and other incentives for associates to provide customers with quality service and to improve our corporate culture.

Refinancing

On June 27, 2001, we completed a comprehensive refinancing (the "Refinancing") that included 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 formed part of the Refinancing:

- o \$552.0 million in private placements of our common stock.
- o An exchange with a financial institution of \$152.0 million of our 10.5% senior secured notes due 2002 for \$152.0 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.
- o Private exchanges of common stock for \$303.5 million of our bank debt and 10.5% senior secured notes due 2002.

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- o A synthetic lease transaction with respect to two of our distribution centers in the amount of approximately \$106.9 million.
- o \$150 million in a private placement of new 11.25% senior notes due 2008.
- o The reclassification of \$850.8 million of capital leases as operating leases.

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- o An operating lease that we entered into with respect to our aircraft for approximately \$25.6 million.
- o 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. As a result of the Refinancing, as of March 2, 2002, our remaining debt due before March 2005 consists of \$150.5 million of our 5.25% convertible subordinated notes due 2002, \$20.9 million of our 10.5% senior secured notes due 2002, \$83.6 million of our 6% dealer remarketable securities due 2003 and amortization of the new credit facility.

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THE OFFERING

Securities Covered by this..... \$250,000,000 principal amount of 4.75%
Prospectus Convertible Notes due December 1, 2006, with interest payable on June 1 and December 1, commencing on June 1, 2002 and the shares of common stock issuable upon conversion of such notes.

Issuer..... Rite Aid Corporation, a Delaware corporation.

Ranking..... The notes are:

- o unsubordinated, unsecured obligations; and
- o equal in ranking with all of our existing and future unsubordinated, unsecured debt.

Our subsidiaries conduct substantially all our operations and have significant liabilities, including trade payables. The notes are structurally subordinated to our substantial subsidiary liabilities, which include guarantees of our secured debt. In addition, the notes are effectively subordinated to any secured debt of Rite Aid Corporation issued in the future.

As of March 2, 2002:

- o our and our subsidiaries' total outstanding debt was approximately \$4.1 billion;
- o none of our debt, other than an aggregate of \$150.5 million of our existing 5.25% convertible subordinated notes due 2002, would have been subordinated to the notes; and
- o the total of our outstanding debt (excluding

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lease financing obligations) that would be effectively senior to the notes would have been approximately \$1.7 billion, but we would have a right to increase this debt significantly.

The indenture under which the notes have been issued contains no limitation on the incurrence of indebtedness and other liabilities by us and our subsidiaries. See "Description of Notes--Ranking" and "Risk Factors--Since the notes are effectively subordinated to all of our secured debt and the liabilities of our subsidiaries, we may not have sufficient assets to pay amounts owed on the notes if a default occurs."

Conversion Rights..... The notes are convertible at a rate of 153.846 shares of our common stock, par value \$1.00 per share, per \$1,000 principal amount of notes (equivalent to a conversion price of \$6.50 per share), subject to adjustment in certain events.

The notes are convertible into shares of common stock at any time, unless we previously have redeemed or repurchased the notes or unless the notes previously have matured. Holders of notes called for redemption

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or repurchase are entitled to convert their notes to and including, but not after, the close of business on the date fixed for redemption or repurchase, as the case may be.

Form and Denomination..... The notes covered by this prospectus have been issued only in registered form. The notes have been issued in minimum denominations of \$1,000. The notes initially sold by the initial purchasers are represented by a single permanent global note in fully registered form, deposited with a custodian for and registered in the name of a nominee of The Depository Trust Company ("DTC"). The notes sold under this prospectus will be represented by a new unrestricted global security. Beneficial interests in the global note will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. Except as described herein, notes in certificated form will not be issued in exchange for the global notes or interests therein. See "Description of Notes--Book-Entry; Delivery and Form; Global Note."

Optional Redemption..... We may redeem some or all of the notes at any time after December 5, 2004 at the redemption

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prices specified under the caption "Description of Notes--Optional Redemption" plus accrued interest and liquidated damages, if any, to the redemption date if the market price of our common stock equals or exceeds 125% of the conversion price for a specified period. See "Description of Notes--Optional Redemption."

Repurchase at Option of Holders

Upon a Change in Control..... In the event of a Change in Control (as defined under "Description of Notes--Repurchase at Option of Holders Upon a Change in Control") each holder of notes may require us to repurchase its notes in whole or in part, at a repurchase price of 100% of the principal amount thereof, plus accrued interest and liquidated damages, if any, to the repurchase date. See "Description of Notes--Repurchase at Option of Holders Upon a Change in Control" and "Risk Factors--We may be unable to purchase the notes upon a change of control."

Events of Default..... Events of default include: (a) failure to pay any interest on any note or coupon when due, continuing for 30 days; (b) failure to pay the principal or Redemption Price or Repurchase Price of any note when due; (c) default in our obligation to provide notice of a Change in Control; (d) failure to perform any other covenant or warranty we make in the Indenture, continuing for 60 days after written notice to us as provided in the Indenture; (e) default under any bond, debenture, note or other evidence of our Indebtedness or under any mortgage,

indenture or instrument under which there may be issued or by which there may be secured or evidenced any of our Indebtedness (including the notes), which default shall constitute a failure to pay an aggregate principal amount exceeding \$35,000,000 of such Indebtedness when due and payable (after the expiration of any applicable grace period) and shall have resulted in such Indebtedness becoming or being declared due and payable prior to the date on which it would otherwise have become due and payable, without such Indebtedness having been discharged, or such acceleration having been rescinded or annulled, and within a period of 10 days written notice (a Notice of Default) is given as provided in the Indenture, unless remedied, cured or waived as provided in the Indenture; and (f) certain events of bankruptcy, insolvency or reorganization.

Listing..... The notes are not listed on an exchange and we

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do not intend to apply to have the notes listed on any exchange. Our common stock is quoted on the New York Stock Exchange and the Pacific Exchange under the symbol "RAD."

Use of Proceeds..... We will not receive any of the proceeds of sales of any of the securities covered by this prospectus by the selling security holders.

Risk Factors..... Prospective purchasers of the securities offered by this prospectus should carefully consider the information set forth under the heading "Risk Factors," together with all information in this prospectus, including the information we are incorporating by reference, before making an investment decision in the securities 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 a part of this prospectus. We were incorporated in 1968 and are a Delaware corporation.

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RISK FACTORS

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

Risks Related to Our Financial Condition

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

We had, as of March 2, 2002, \$4.1 billion of outstanding indebtedness, including lease financing obligations, and stockholders' equity of \$9.6 million. We also had additional borrowing capacity under our new revolving credit facility of \$438.7 million at that time, net of outstanding letters of credit of \$61.3 million. Our debt obligations adversely affect our operations in a number of ways and our cash flow from operations 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 2002 by \$761.6 million.

Our high level of indebtedness will continue to restrict our operations.

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Among other things, our indebtedness will:

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

In fiscal 2000, we experienced operational and financial difficulties, resulting in disputes with suppliers and vendors. 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.

In 2005, a substantial amount of our indebtedness will mature, including the debt outstanding under our senior secured credit facility.

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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 \$528.0 million of our outstanding indebtedness as of March 2, 2002 bears an interest rate that varies depending upon LIBOR and is not covered by interest rate swap contracts. 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.

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

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

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- o incur liens and debt;
- o pay dividends;
- o make redemptions and repurchases of capital stock;
- o make loans, investments and capital expenditures;
- o prepay, redeem or repurchase debt;
- o engage in mergers, consolidations, assets dispositions, sale-leaseback transactions and affiliate transactions;
- o change our business;
- o amend certain debt and other material agreements;
- o issue and sell capital stock of subsidiaries;
- o restrict distributions from subsidiaries; and
- o 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 obtain modifications of our agreements or are required to obtain waivers of defaults, we may incur significant fees and transaction costs. In fiscal 2002 and 2001, we modified certain covenants contained in our senior credit and loan agreements. In fiscal 2000, we obtained waivers of compliance contained in our credit facilities and public indentures. In connection with obtaining these 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 or 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 or appeal, we are unable to predict the outcome of any of these

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matters at this time. If any of these cases result in a substantial monetary judgment against us or are settled on unfavorable terms, our results of operations, financial condition or 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 associate benefit plans, including our principal 401(k) plan, which permitted associates 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 U.S. 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 or 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 or 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 or cash flows.

We obtain approximately 93% of our pharmaceutical products from a single supplier, McKesson HBOC, Inc., pursuant to a long-term contract. Pharmacy sales represented approximately 61.3% of our total sales during fiscal 2002, 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 or cash flows.

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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

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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 outdated inventory, resolving issues and disputes with our vendors, developing programs intended to provide better customer service and purchasing prescription files, and by 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 may 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 or 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.

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

Terrorist attacks, such as the attacks that occurred in New York and Washington, D.C. on September 11, 2001, and other attacks or acts of war may adversely affect the markets in which we operate, our operations and our profitability.

On September 11, 2001, the United States was the target of terrorist attacks of unprecedented scope. These attacks caused major instability in the U.S. and other financial markets and reduced consumer confidence. The threat of terrorist attacks, any military response and other related developments may adversely affect prevailing economic conditions, resulting in reduced consumer spending and reduced sales in our stores. These developments will subject us to increased risks and, depending on their magnitude, could have a material adverse effect on our business.

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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 sales, and the percentage of prescription sales reimbursed by third parties, have been increasing and we expect them to continue to increase. In fiscal 2002, sales of prescription drugs represented 61.3% of our sales and we were reimbursed by third-party payors for approximately 92.0% of all of the prescription drugs that we sold. During fiscal 2002, the top five third-party payors accounted for approximately 20.0% of our total sales. Any significant loss of third-party provider business could have a material adverse effect on our business and results of operations. Also, these third-party payors could reduce the levels at which they will reimburse us for the prescription drugs that we provide to their members. Furthermore, 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 or cash flows could be adversely affected.

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

Our pharmacy business is subject to federal, state and local regulation. These include local registrations of pharmacies in the states where our pharmacies are located, applicable Medicare and Medicaid regulations, and prohibitions against paid referrals of patients. Failure to properly adhere to these and other applicable regulations could result in the imposition of civil and criminal penalties 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

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federal or state programs could adversely affect our results of operations, financial condition or cash flows.

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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, 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 the Notes

Since the notes are effectively subordinated to all of our secured debt and the liabilities of our subsidiaries, we may not have sufficient assets to pay amounts owed on the notes if a default occurs.

The notes are generally unsecured senior obligations that rank equal in right of payment with all of our existing and future unsecured and unsubordinated debt. The notes are effectively subordinated to all of our secured debt to the extent of the value of the assets securing that debt. Also, the notes are structurally subordinated to all existing and future obligations of our subsidiaries.

We are a holding company with no direct operations. Our principal assets are the equity interests 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 and interest on our outstanding debt. Our subsidiaries are legally distinct from us and have no obligation to pay amounts due on the notes or to make funds available to us for such payment. As of March 2, 2002, we had approximately \$1.7 billion of indebtedness (excluding lease financing obligations) to which the notes would have been structurally subordinated in right of payment. In addition, the notes are structurally subordinated to a substantial amount of other liabilities, including trade payables, that do not constitute indebtedness.

Because the obligations under our new credit facility, our 10.5% senior notes

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due 2002, the 12.5% secured notes due 2006 and our new settlement senior secured notes due 2006 are guaranteed on a secured basis by substantially all of our subsidiaries, failure to comply with those obligations or our inability to pay that indebtedness when due would entitle those creditors immediately to foreclose on certain of our assets in the case of our new credit facility, and substantially all of the assets of our subsidiaries, which serve as collateral. In this event, those secured lenders would be entitled to be repaid in full from the proceeds of the liquidation of those assets before those assets would be available for distribution to other creditors, and, lastly to the holders of our and our subsidiaries' capital stock, including holders of the common stock of Rite Aid Corporation.

Holders of the notes will only be creditors of Rite Aid Corporation and not of our subsidiaries. The ability of our creditors, including you, to participate in any distribution of assets of any of our subsidiaries upon liquidation or bankruptcy will be subject to the prior claims of that subsidiary's creditors, including trade creditors, and any prior or equal claim of any equity holder of that subsidiary. As a result, you may receive less, proportionately, than our secured creditors and the creditors of our subsidiaries.

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We may be unable to purchase the notes upon a change of control.

Upon a change of control event, we would be required to offer to purchase the notes for cash at a price equal to 100% of their aggregate principal amount, plus accrued and unpaid interest, if any. The terms of the notes may not protect you if we undergo a highly leveraged transaction, reorganization, restructuring, merger or similar transaction that may adversely affect you unless the transaction is included within the definition of a change of control.

Our senior credit facility provides that the occurrence of certain events that would constitute a change in control for the purposes of the notes constitutes a default under such facility. Much of our other debt also requires us to repurchase such debt upon an event that would constitute a change in control for the purposes of the notes. Other future debt may contain prohibitions of events that would constitute a change in control or that would require such debt to be repurchased upon a change in control. Moreover, the exercise by holders of notes of their right to require us to repurchase their notes could cause a default under our existing or future debt, even if the change in control itself does not result in a default under existing or future debt, due to the financial effect of such repurchase on us. Finally, our ability to pay cash to holders of notes upon a repurchase may be limited by our financial resources at the time of such repurchase. Therefore, we cannot assure you that sufficient funds will be available when necessary to make any required repurchases. Our failure to purchase notes in connection with a change in control would result in a default under the indenture governing the notes. Such a default would, in turn, constitute a default under much of our existing debt, and may constitute a default under future debt as well.

You may find it difficult to resell your notes.

Since their issuance, there has not been a significant market for the notes. Although the initial purchasers advised us at the time we issued the notes that they intended to make a market in the notes, they are not obligated to do so and may discontinue such market making at any time without notice. In addition, such market making activity will be subject to the limits imposed by the Securities Act and the Exchange Act. Accordingly, there can be no assurance that any market for the notes will develop or, if one does develop, that it will be maintained.

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If an active market for the notes fails to develop or be sustained, the trading price of the notes could be materially adversely affected. We do not intend to apply for listing of the notes on any securities exchange.

Risks Related to Our Common Stock

You may not be able to sell the common stock issued upon conversion of the notes 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. Since the beginning of fiscal 2000, the reported closing prices for our common stock have ranged from a high of \$41.375 to a low of \$1.75. In addition, the stock markets in general, including the New York Stock Exchange, recently experienced extreme price and trading volume fluctuations. These fluctuations have resulted in volatility in the market prices of securities that has often been unrelated or disproportionate to changes in operating performance. These broad market fluctuations may adversely affect the market prices of the notes and our common stock. Further, the shares of our common stock issued upon conversion of the notes offered by this prospectus, as well as the other expected and possible issuances described below, will significantly increase the number of shares of our common stock outstanding, 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.

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Various planned issuances of stock will be, and our continuing debt restructuring efforts may be, dilutive to shares issued upon conversion of the notes.

At March 2, 2002, 515.1 million shares of our common stock were outstanding and an additional 174.7 million shares of our common stock were issuable related to outstanding stock options, convertible notes, preferred stock and warrants. In addition, 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 shares of common stock issued upon conversion of the notes. We cannot predict the extent to which the dilution will negatively affect the trading price of our common stock or the liquidity of our common stock.

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USE OF PROCEEDS

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

RATIO OF EARNINGS TO FIXED CHARGES

We have calculated the ratio of earnings to fixed charges in the following

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

	March 2, 2002 (52 weeks)	March 3, 2001 (53 weeks)	February 27, 2000 (52 weeks)	Year Ended Febru
	(Dollars in thou			
Fixed Charges:				
Interest Expense	\$ 396,064	\$ 649,926	\$ 542,028	\$
Interest Portion of Net Rental Expense (1).....	182,260	159,066	146,852	
Fixed Charges Before Capitalized Interest and Preferred Stock Dividend Requirements.....	578,324	808,992	688,880	
Preferred Stock Dividend Requirement (2).....	42,354	42,445	15,554	
Capitalized Interest	806	1,836	5,292	
Total Fixed Charges.....	\$ 621,484	\$ 853,273	\$ 709,726	\$
Earnings:				
Loss From Continuing Operations Before Income Taxes, Extraordinary Item and Cumulative Effect of Accounting Change.....	\$ (772,837)	\$ (1,282,807)	\$ (1,123,296)	\$
Share of Loss From Equity Method Investees.....	12,092	36,675	15,181	
Fixed Charges Before Capitalized Interest.....	620,678	851,437	704,434	
Total Adjusted Earnings (Loss)...	(140,067)	(394,695)	(403,681)	
Earnings to Fixed Charges, Deficiency.....	\$ (761,551)	\$ (1,247,968)	\$ (1,113,407)	\$

(1) The Interest Portion of Net Rental Expense is estimated to be equal to one-third of the minimum rental expense for the period.

(2) The Preferred Stock Dividend Requirement is computed as the pre-tax earnings that would be required to cover preferred stock dividends.

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SELLING SECURITY HOLDERS

The notes were originally issued by us and sold by the initial purchasers in transactions exempt from the registration requirements of the Securities Act pursuant to Rule 144A under the Securities Act or in offshore transactions under Regulation S under the Securities Act. The selling security holders may from time to time offer and sell pursuant to this prospectus any or all of the notes listed below and the shares of common stock issued upon conversion of such notes. When we refer to the "selling security holders" in this prospectus, we mean those persons listed in the table below, as well as the pledgees, donees, assignees, transferees, successors and others who later hold any of the selling security holders' interests.

The table below sets forth the name of each selling security holder, the principal amount at maturity of notes that each selling security holder may offer pursuant to this prospectus and the number of shares of common stock into which such notes are convertible. Unless set forth below, to our knowledge, none of the selling security holders has, or within the past three years has had, any material relationship with us or any of our predecessors or affiliates or beneficially owns in excess of 1% of the outstanding common stock.

The principal amounts of the notes provided in the table below is based on information provided to us by each of the selling security holders as of May 17, 2002, and the percentages are based on \$250,000,000 principal amount at maturity of notes outstanding. The number of shares of common stock that may be sold is calculated based on the current conversion price of \$6.50 per share.

Since the date on which each selling security holder provided this information, each selling security holder identified below may have sold, transferred or otherwise disposed of all or a portion of its notes in a transaction exempt from the registration requirements of the Securities Act. Information concerning the selling security holders may change from time to time and any changed information will be set forth in supplements to this prospectus to the extent required. In addition, the conversion ratio, and therefore the number of shares of our common stock issuable upon conversion of the notes, is subject to adjustment. Accordingly, the number of shares of common stock issuable upon conversion of the notes may increase or decrease.

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The selling security holders may from time to time offer and sell any or all of the securities under this prospectus. Because the selling security holders are not obligated to sell the notes or the shares of common stock issuable upon conversion of the notes, we cannot estimate the amount of the notes or how many shares of common stock that the selling security holders will hold upon consummation of any such sales.

Name -----	Aggregate principal amount at maturity of notes that may be sold by this prospectus -----	Percentage of notes outstanding -----	Number of common may be s prospec -----

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Argent Classic Convertible				
Arbitrage Fund L.P.....	\$ 2,500,000	1.0		3
Argent Classic Convertible				
Arbitrage Fund (Bermuda) Ltd.....	3,500,000	1.4		5
Argent LowLev Convertible				
Arbitrage Fund Ltd.....	2,000,000	*		3
Aristeia Trading, LLC	3,080,000	1.2		4
Aristeia International Limited	10,920,000	4.4		1,6
Bank Austria Cayman Islands LTD	4,455,000	1.8		6
BNP Paribas Equity Strategies SNC	500,000	*		
BP Amoco PLC, Master Trust	211,000	*		
Canyon Capital Arbitrage Master				
Fund, Ltd.....	6,000,000	2.4		9
Canyon MAC 18 (RMF), Ltd.	2,500,000	1.0		3
Canyon Value Realization Fund				
(Cayman), Ltd.....	12,000,000	4.8		1,8
Canyon Value Realization Fund, L.P.	7,000,000	2.8		1,0
Coastal Convertibles Ltd	1,000,000	*		1
Deutsche Banc Alex. Brown Inc.	5,500,000	2.2		8
DLB High Yield Fund	100,000	*		
Dresdner Kleinwort Wasserstein				
Grantchester Inc.	1,970,000	*		3
Fidelity Advisor Series II:				
Fidelity Advisor High Yield Fund ..	10,250,000	4.1		1,5
Fidelity Financial Trust:				
Fidelity Convertible Securities				
Fund.....	1,255,000	*		1
First Union National Bank	21,225,000	8.5		3,2
First Union Securities Inc.	15,000,000	6.0		2,3
Global Bermuda Limited Partnership .	400,000	*		
Goldman Sachs & Company	1,975,000	*		3
Highbridge International LLC	8,500,000	3.4		1,3
KBC Financial Products USA Inc.	1,240,000	*		1
Lakeshore International, Ltd.	1,600,000	*		2
Lincoln National Global Asset				
Allocation Fund, Inc.	125,000	*		
Massachusetts Mutual Life Insurance				
Company.....	675,000	*		1
MassMutual Asia Limited	25,000	*		
MassMutual Corporate Investors	200,000	*		
Merced Partners Limited Partnership	1,500,000	*		2
Onyx Fund Holdings, LDC	2,500,000	1.0		3
Pioneer High Yield Fund	1,000,000	*		1
Putnam Asset Allocation Funds-				
Balanced Portfolio	1,050,000	*		1
Putnam Asset Allocation Funds-				
Conservative Portfolio	830,000	*		1
Putnam Convertible Income-Growth				
Trust	7,210,000	2.9		1,1
Putnam Convertible Opportunities				
and Income Trust	264,000	*		
Putnam Variable Trust-Putnam VT				
Global Asset Allocation Fund	255,000	*		
Ramius Capital Group	590,000	*		
RCG Halifax Master Fund, LTD.....	1,340,000	*		2

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Name -----	Aggregate principal amount at maturity of notes that may be sold by this prospectus -----	Percentage of notes outstanding -----	Number of common shares may be issued prospectus -----
RCG Latitude Master Fund, LTD	2,445,000	1.0	3
RCG Multi Strategy LP	2,260,000	*	3
St. Albans Partners Ltd.	3,000,000	1.2	4
Tamarack International, Ltd.	1,500,000	*	2
The Estate of James Campbell	320,000	*	
The James Campbell Corporation	423,000	*	
TQA Master Fund, Ltd.	2,000,000	*	3
TQA Master Plus Fund, Ltd.	2,000,000	*	3
Zazove Hedged Convertible Fund LP...	1,000,000	*	1
Zurich Institutional Benchmarks	546,000	*	
All other holders of notes or future transferees, pledgees, donees, assignees or successors of any such holders (3) (4).....	\$ 92,261,000	36.9%	14,1
	-----	-----	-----
Total	\$250,000,000	100.0%	38,4
	=====	=====	=====

* Less than one percent

- (1) Assumes conversion of all of the holder's notes at a conversion rate of 153.846 shares of common stock per \$1,000 principal amount at maturity of the notes. This conversion rate is subject to adjustment, however, as described under "Description of Notes--Conversion Rights." As a result, the number of shares of common stock issuable upon conversion of the notes may increase or decrease in the future.
- (2) Calculated based on Rule 13d-3(d)(1)(i) of the Exchange Act, using 515,113,894 shares of common stock outstanding as of May 1, 2002. In calculating this amount for each holder, we treated as outstanding the number of shares of common stock issuable upon conversion of all that holder's notes, but we did not assume conversion of any other holder's notes.
- (3) Information about other selling shareholders will be set forth in prospectus supplements, if required.
- (4) Assumes that any other holders of the notes or any future pledgees, donees, assignees, transferees or successors of or from such other holders of the notes do not beneficially own any shares of common stock other than the common stock issuable upon conversion of the notes at the initial conversion

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rate described in footnote 1 above.

- (5) Represents the number of shares of common stock into which \$250,000,000 of notes would be convertible at the initial conversion rate described in footnote 1 above.

- (6) Represents the amount which the selling security holders may sell under this prospectus divided by the sum of 515,113,894 shares of common stock outstanding as of May 1, 2002 and the number of shares of common stock into which \$250,000,000 of notes would be convertible at the initial conversion rate described in footnote 1 above.

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DESCRIPTION OF NOTES

In this description, the words "Company," "we," "us" and "our" refer only to Rite Aid Corporation and not to any of our subsidiaries.

We issued the notes under an indenture, dated as of November 19, 2001 (the "Indenture"), between us and BNY Midwest Trust Company, as trustee.

Wherever particular defined terms of the Indenture (including the notes and the various forms thereof) are referred to, such defined terms are incorporated herein by reference (the notes and various terms relating to the notes being referred to in the Indenture as "Securities").

We urge you to read the Indenture because it, and not this description, defines your rights as a holder of these notes. A copy of the Indenture is available upon request to us at the address indicated under "Where You Can Find More Information."

General

The notes are our unsecured unsubordinated obligations, are limited to \$250,000,000 aggregate principal amount at maturity and will mature on December 1, 2006. Payment in full of the principal amount of the notes is due on December 1, 2006. The notes bear interest at the rate of 4.75% per annum from November 19, 2001, payable semiannually on June 1 and December 1 of each year, commencing on June 1, 2002.

The notes are convertible into shares of our common stock, par value \$1.00 per share (the "Common Stock"), initially at the conversion price stated on the cover page of this prospectus, subject to adjustment upon the occurrence of certain events described under "--Conversion Rights," at any time prior to the close of business on the maturity date, unless previously redeemed or repurchased.

The notes are redeemable under the circumstances and at the redemption prices set forth below under "--Optional Redemption," plus accrued interest and liquidated damages, if any, to the redemption date. The notes are also subject to our repurchase at the option of the holders, as described below under "--Repurchase at Option of Holders Upon a Change in Control."

Ranking

The notes are:

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- o our unsubordinated, unsecured obligations; and
- o equal in ranking ("pari passu") with all of our existing and future unsubordinated, unsecured debt.

We and our subsidiaries had, as of March 2, 2002, approximately \$4.1 billion of outstanding indebtedness, including lease financing obligations. We also had additional borrowing capacity under our new revolving credit facility of \$438.7 million as of that date, net of outstanding letters of credit of \$61.3 million.

The notes are effectively subordinated to all of our secured debt to the extent of the value of the assets securing that debt. Also, the notes are structurally subordinated to all existing and future liabilities and obligations of our subsidiaries.

We are a holding company with no direct operations. Our principal assets are the equity interests 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 on the notes or to make funds available to us for such payment. As of March 2, 2002, we had approximately \$1.7 billion of indebtedness (excluding lease financing obligations) to which the notes would have been structurally subordinated in right of payment. In addition, the notes are structurally subordinated to a substantial amount of other liabilities, including trade payables, that do not constitute indebtedness.

Because the obligations under our new credit facility, our 10.5% senior notes due 2002, the 12.5% secured notes due 2006 and our new settlement senior secured notes due 2006 are guaranteed on a secured basis by substantially all of our subsidiaries, failure to

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comply with those obligations or our inability to pay that indebtedness when due would entitle those creditors immediately to foreclose on certain of our assets in the case of our new credit facility, and substantially all of the assets of our subsidiaries, which serve as collateral. In this event, those secured lenders would be entitled to be repaid in full from the proceeds of the liquidation of those assets before those assets would be available for distribution to other creditors, and, lastly to the holders of our and our subsidiaries' capital stock, including holders of Common Stock.

Holders of the notes will only be creditors of Rite Aid Corporation and not of our subsidiaries. The ability of our creditors, including you, to participate in any distribution of assets of any of our subsidiaries upon liquidation or bankruptcy will be subject to the prior claims of that subsidiary's creditors, including trade creditors, and any prior or equal claim of any equity holder of that subsidiary. As a result, you may receive less, proportionately, than our secured creditors and the creditors of our subsidiaries.

Book-Entry; Delivery and Form; Global Note

The notes were originally sold in the United States in reliance on Rule 144A or in offshore transactions in reliance on Regulation S and were originally issued in the form of a single, permanent global note in definitive, fully registered form without interest coupons. The global note was deposited with the trustee as custodian for The Depository Trust Company ("DTC") and registered in

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the name of a nominee of DTC in New York, New York for the accounts of participants in DTC. The notes sold under this prospectus will be represented by a new unrestricted global security.

DTC has advised us as follows: DTC is a limited purpose trust company organized under the laws of the State of New York Uniform Commercial Code, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities of institutions that have accounts with DTC (which we refer to as "participants") and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. DTC's participants include securities brokers and dealers (which may include the initial purchasers), banks, trust companies, clearing corporations and certain other organizations. Access to DTC's book-entry system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

Upon the issuance of the new global note, DTC or its nominee will credit, on its book-entry registration and transfer system, the respective principal amount of the individual beneficial interests represented by the global note to the accounts of participants. Ownership of beneficial interests in the global note will be limited to participants or persons that may hold interests through participants. Ownership of beneficial interests in the global note will be shown on, and the transfer of those ownership interests will be effected only through, records maintained by DTC (with respect to participants' interests) and such participants (with respect to the owners of beneficial interests in the global note other than participants). Investors may also hold their interests in the global note directly through Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, societe anonyme ("Clearstream"), if they are participants in such systems, or indirectly through organizations that are participants in such systems. Euroclear and Clearstream will hold interests in the global note on behalf of their participants through their respective depositaries, which in turn will hold such interests in the global note in customers' securities accounts in the depositaries' names on the books of DTC.

So long as DTC or its nominee is the registered holder and owner of the global note, DTC or such nominee, as the case may be, will be considered the sole legal owner of the notes represented by the global note for all purposes under the Indenture and the notes. Except as set forth below, owners of beneficial interests in the global note will not be entitled to receive notes in definitive form and will not be considered to be the owners or holders of any notes under the global note. We understand that under existing industry practice, in the event an owner of a beneficial interest in the global note desires to take any actions that DTC, as the holder of the global note, is entitled to take, DTC would authorize the participants to take such action, and that participants would authorize beneficial owners owning through such participants to take such action

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or would otherwise act upon the instructions of beneficial owners owning through them. No beneficial owner of an interest in the global note will be able to transfer the interest except in accordance with DTC's applicable procedures, in addition to those provided for under the Indenture and, if applicable, those of Euroclear and Clearstream.

Payments of the principal of, premium, if any, and interest and liquidated

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damages, if any, on the notes represented by the global note registered in the name of and held by DTC or its nominee will be made to DTC or its nominee, as the case may be, as the registered owner and holder of the global note.

We expect that DTC or its nominee, upon receipt of any payment of principal or interest in respect of the global note, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of the global note as shown on the records of DTC or its nominee. We also expect that payments by participants to owners of beneficial interests in the global note held through such participants will be governed by standing instructions and customary practices as is now the case with securities held for accounts of customers registered in the names of nominees for such customers. Such payments, however, will be the responsibility of such participants and indirect participants, and neither we, the trustee nor any paying agent will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the global note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests or for any other aspect of the relationship between DTC and its participants or the relationship between such participants and the owners of beneficial interests in the global note.

Unless and until it is exchanged in whole or in part for notes in definitive form, the global note may not be transferred except as a whole by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC.

Transfers between participants in DTC will be effected in the ordinary way in accordance with DTC rules and will be settled in same-day funds. Transfers between participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures. The laws of some states may require that certain persons take physical delivery of securities in definitive form. As a result, the ability to transfer beneficial interests in a global note to such persons may be limited.

Cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depository; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (Brussels time). Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in the global note in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositories for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in the global note from a DTC participant will be credited during the securities settlement processing day (which must be a business day for Euroclear or Clearstream, as the case may be) immediately following the DTC settlement date, and such credit of any transactions involving interests in the global note settled during such processing day will be reported to the relevant Euroclear or Clearstream participant on such day. Cash received in Euroclear or Clearstream as a result of sales of interests in the global note by or through a Euroclear or Clearstream participant to a DTC participant will be received with value on the DTC settlement date, but will be available in the relevant Euroclear or Clearstream cash account only as of the business day following settlement in DTC.

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We expect that DTC will take any action permitted to be taken by a holder of notes (including the presentation of notes for exchange as described below) only at the direction of one or more participants to whose account the DTC interests in the global note is credited and only in respect of such portion of the

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aggregate principal amount of the notes as to which such participant or participants has or have given such direction. However, if there is an event of default under the notes, DTC will exchange the global note for notes in definitive form, which it will distribute to its participants.

Although we expect that DTC, Euroclear and Clearstream will agree to the foregoing procedures in order to facilitate transfers of interests in the global note among participants of DTC, Euroclear, and Clearstream, DTC, Euroclear and Clearstream are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither we nor the trustee will have any responsibility for the performance by DTC, Euroclear or Clearstream or their participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Certificated Notes

If DTC is unwilling or unable to continue as depository for a global note, is closed for business for 14 continuous days, ceases to be a "Clearing Agency" registered under the Exchange Act or announces an intention permanently to cease business or does in fact do so, or an Event of Default has occurred and is continuing with respect to a global note, we will issue certificates for the notes in definitive, fully registered, non-global form without interest coupons in exchange for the global notes, as the case may be.

The holder of a note in non-global form may transfer such note, subject to compliance with the provisions of any legend, by surrendering it at the office or agency we maintain for such purpose in the Borough of Manhattan, the City of New York, which initially will be the office of the trustee. Upon the transfer, exchange or replacement of notes bearing the legend, or upon specific request for removal of the legend on a note, we will deliver only notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to us such satisfactory evidence, which may include an opinion of counsel, as we may reasonably require that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act. Before any note in non-global form may be transferred to a person who takes delivery in the form of an interest in any global note, the transferor will be required to provide the trustee with a global note certificate, as the case may be.

Notwithstanding any statement herein, we and the trustee reserve the right to impose such transfer, certification, exchange or other requirements, and to require such restrictive legends on certificates evidencing notes, as they may determine are necessary to ensure compliance with the securities laws of the United States and the States therein and any other applicable laws, to ensure that the Shelf Registration Statement or amendment covering the notes and the Common Stock is declared effective by the SEC or as DTC may require.

Conversion Rights

The holder of any note has the right, at the holder's option, to convert any portion of the principal amount of a registered note that is an integral multiple of \$1,000 into shares of Common Stock at any time prior to the close of

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business on the maturity date, unless previously redeemed or repurchased, at a conversion rate of 153.846 shares per \$1,000 principal amount of notes (equivalent to a conversion price of \$6.50 per share) (subject to adjustment as described below). The right to convert a note called for redemption or delivered for repurchase will terminate at the close of business on the redemption date or repurchase date for the note.

The right of conversion attaching to any note may be exercised by the holder by delivering the note at the specified office of the Conversion Agent, accompanied by a duly signed and completed notice of conversion, a copy of which may be obtained from the Conversion Agent. Beneficial owners of interest in a global note may exercise their rights of conversion by delivering to DTC the appropriate instruction forms for conversion pursuant to DTC's conversion program. The conversion date will be the date on which the note and the duly signed and completed notice of conversion are delivered, unless otherwise provided by the notice. As promptly as practicable on or after the conversion date, we will issue and deliver to the trustee a certificate or certificates for the number of full shares of Common Stock issuable upon conversion, together with payment in lieu of any fraction of a share or, at our option, rounded up to the next whole number of shares; the certificate, and payment, if any, will be sent by the trustee to the Conversion Agent for delivery to

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the holder. Any note surrendered for conversion during the period from the close of business on any Regular Record Date to the opening of business on the next succeeding Interest Payment Date (except notes called for redemption on a Redemption Date or to be repurchased on a Repurchase Date and as a result, the right to convert the notes with respect to which redemption or repurchase rights have been exercised would terminate during such period) must be accompanied by payment in New York Clearing House Funds or other funds acceptable to us of an amount equal to the interest payable on that Interest Payment Date on the principal amount of those notes being surrendered for conversion. In the case of any note which has been converted after any Regular Record Date but before the next Interest Payment Date, interest which has a Stated Maturity on that Interest Payment Date will be payable on that Interest Payment Date notwithstanding the conversion, and the interest will be paid to the holder of that note on that Regular Record Date. As a result of the foregoing provisions, holders that surrender notes for conversion on a date that is not an Interest Payment Date will not receive any interest for the period from the Interest Payment Date next preceding the date of conversion to the date of conversion or for any later period, even if the notes are surrendered after a notice of redemption (except for the payment of interest on notes called for redemption on a Redemption Date or to be repurchased on a Repurchase Date for which the right to convert those notes would terminate during the period between a Regular Record Date and the Interest Payment Date to which it relates).

No other payment or adjustment for interest, or for any dividends with respect to Common Stock, will be made upon conversion. Holders of Common Stock issued upon conversion will not be entitled to receive any dividends payable to holders of Common Stock as of any record time before the close of business on the conversion date. No fractional shares will be issued upon conversion but, in lieu thereof, we will calculate an appropriate amount to be paid in cash based on the market price of Common Stock at the close of business on the day of conversion. That market price will be calculated by us and will be deemed to be the average of the daily Closing Prices per share for the five consecutive Trading Days selected by the Company commencing not more than 10 Trading Days before, and ending not later than, the earlier of the day in question and the day before the "ex" date with respect to an issuance or distribution requiring such computation. The term "ex" date, when used with respect to any issuance or distribution, means the first date on which the Common Stock trades without the

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right to receive an issuance or distribution. "Closing Price Per Share" means, for any day, the last reported sales price per share on the NYSE. A "Trading Day" is any day on which the NYSE is open for business.

A holder delivering a note for conversion will not be required to pay any taxes or duties in respect of the issue or delivery of Common Stock on conversion but will be required to pay any tax or duty which may be payable in respect of any transfer involved in the issue or delivery of the Common Stock in a name other than that of the holder of the note. Certificates representing shares of Common Stock will not be issued or delivered unless the person requesting the issue has paid to the Company the amount of any tax or duty or has established to our satisfaction that the tax or duty has been paid.

The conversion rate is subject to adjustment in certain events, including:

- (a) dividends (and other distributions) payable in Common Stock on shares of our capital stock,
- (b) the issuance to all holders of Common Stock of rights, options or warrants entitling them to subscribe for or purchase Common Stock at less than the then-current market price (determined as provided in the Indenture) of Common Stock,
- (c) subdivisions, combinations and reclassifications of Common Stock,
- (d) distributions to all holders of Common Stock of evidences of our indebtedness, shares of capital stock, cash or assets (including securities, but excluding those dividends, rights, options, warrants and distributions referred to above, dividends and distributions paid exclusively in cash and distributions upon mergers or consolidations to which the next succeeding paragraph applies),
- (e) distributions consisting exclusively of cash (excluding any cash portion of distributions referred to in (d) above, or cash distributed upon a merger or consolidation to which the next succeeding paragraph applies) to all holders of Common Stock in an aggregate amount that, combined together with (i) other such all-cash distributions made within the preceding 12 months in respect of which no adjustment has been made and (ii) any cash and the fair market value of other consideration

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payable in respect of any tender offer by the Company or any of its subsidiaries for Common Stock concluded within the preceding 12 months in respect of which no adjustment has been made, exceeds 12.5% of our market capitalization (being the product of the then-current market price of the Common Stock and the number of shares of Common Stock then outstanding) on the record date for such distribution, and

- (f) the successful completion of a tender offer made by us or any of our subsidiaries for Common Stock which involves an aggregate consideration that, together with (i) any cash and other consideration payable in a tender offer by us or any of our subsidiaries for Common Stock expiring within the 12 months preceding the expiration of such tender offer in respect of which no adjustment has been made and (ii) the aggregate amount of any such all-cash distributions referred to in (e) above to all holders of Common Stock within the 12 months preceding the expiration of such tender offer in respect of which no adjustments have been made, exceeds 12.5% of our market capitalization on the expiration of such tender offer.

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We reserve the right to make increases in the conversion rate in addition to those required in the foregoing provisions as it considers to be advisable in order that any event treated for federal income tax purposes as a dividend or distribution of stock or issuance of rights or warrants to purchase or subscribe for stock will not be taxable to the recipients. No adjustment of the conversion rate will be required to be made until the cumulative adjustments amount to 1.0% or more of the conversion rate. We will compute any adjustments to the conversion price pursuant to this paragraph and will give notice to the holders of the notes of any adjustments.

In case of our consolidation or merger with or into another Person or any merger of another Person into us (other than a merger which does not result in any reclassification, conversion, exchange or cancellation of the Common Stock), or in case of any sale or transfer of all or substantially all of our assets, each note then outstanding will, without the consent of the holder of any note or coupon, become convertible only into the kind and amount of securities, cash and other property, if any, receivable upon such consolidation, merger, sale or transfer by a holder of the number of shares of Common Stock into which such note was convertible immediately prior thereto (assuming such holder of Common Stock failed to exercise any rights of election and that such note was then convertible).

If at any time we make a distribution of property to our security holders which would be taxable to such security holders as a dividend for federal income tax purposes (e.g., distribution of evidences of indebtedness or our assets, but generally not stock dividends on Common Stock or rights to subscribe for Common Stock) and, pursuant to the antidilution provisions of the Indenture, the number of shares into which notes are convertible is increased, such increase may be deemed for federal income tax purposes to be the payment of a taxable dividend to holders of notes. See "Certain United States Federal Income Tax Consequences."

Optional Redemption

We may not redeem the notes in whole or in part at any time prior to December 5, 2004. At any time on or after December 5, 2004, we may redeem some or all of the notes on at least 20 but not more than 60 days' notice (which notice must be given no later than the close of business on the tenth business day immediately following the conclusion of the 30 Trading Day period referred to below) if for 20 Trading Days within any period equals or of 30 consecutive Trading Days, including the last day of such period, the Current Market Price of the Common Stock equals or exceeds 125% of the then prevailing conversion price, at the following redemption prices (expressed in percentages of the principal amount):

During the Twelve Months Commencing -----	Redemption Price -----
December 5, 2004	101.90%
December 5, 2005	100.95%

In addition, we will pay interest and liquidated damages, if any, on the notes being redeemed, including those notes which are converted into Common Stock after the date the notice of the redemption is mailed and prior to the Redemption Date. This payment will include interest and liquidated damages, if any, accrued and

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unpaid to, but excluding, the Redemption Date. If the Redemption Date is an interest payment date, we will pay the interest and liquidated damages, if any, to the holder of record on the corresponding record date, which may or may not be the same person to whom we will pay the redemption price.

If we do not redeem all of the notes, the trustee will select the notes to be redeemed in principal amounts of \$1,000 or whole multiples of \$1,000 by lot or on a pro rata basis. If any notes are to be redeemed in part only, we will issue a new note or notes in principal amount equal to the unredeemed principal portion thereof. If a portion of your notes is selected for partial redemption and you convert a portion of your notes, the converted portion will be deemed to be taken from the portion selected for redemption.

The term "conversion price" means \$1,000 divided by the conversion rate. The term "Current Market Price" of Common Stock for any day means the last reported per share sale price, regular way on such day, or, if no sale takes place on such day, the average of the reported closing per share bid and asked prices on such day, regular way, in either case as reported on the New York Stock Exchange or, if the Common Stock is not listed or admitted to trading on such exchange, on the principal national securities exchange or quotation system on which the Common Stock may be listed or admitted to trading or quoted, or, if not listed or admitted to trading or quoted on any national securities exchange or quotation system, the average of the closing per share bid and asked prices of the Common Stock on the over-the-counter market on the day in question as reported by the National Quotation Bureau Incorporated, or similar generally accepted reporting service, or, if not so available in such manner, as furnished by any New York Stock Exchange member firm selected from time to time by our Board of Directors for that purpose, or, if not so available in such manner, as otherwise determined in good faith by our Board of Directors.

Repurchase at Option of Holders Upon a Change in Control

If a Change in Control (as defined) occurs, each holder of notes shall have the right, at the holder's option, to require us to repurchase all of the holder's notes, or any portion of the principal amount thereof that is equal to \$1,000 or an integral multiple of \$1,000 in excess thereof, on the date (the "Repurchase Date") that is 45 days after the date of the Company Notice (as defined), at a price equal to 100% of the principal amount of the notes to be repurchased (the "Repurchase Price"), together with interest accrued and liquidated damages, if any, to the Repurchase Date.

Within 30 days after the occurrence of a Change in Control, we are obligated to give to all holders of the notes notice, as provided in the Indenture (the "Company Notice"), of the occurrence of a Change in Control and of the repurchase right arising therefrom. The Company Notice shall be sufficiently given to holders of notes if in writing and mailed, first class postage prepaid, to each holder of a note affected by the event, at the address of such holder. We must also deliver a copy of the Company Notice to the trustee. To exercise the repurchase right, a holder of notes must deliver on or before the 30th day after the date of the Company Notice irrevocable written notice to the trustee of the holder's exercise of such right, together with the notes with respect to which the right is being exercised.

A Change in Control occurs in the following situations:

- (i) any person, including any syndicate or group deemed to be a "person" under Section 13(d)(3) of the Exchange Act, acquires beneficial ownership, directly or indirectly, through a purchase, merger or other acquisition transaction or series of transactions, of shares of our capital stock entitling the person to exercise 50% or more of the

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total voting power of all shares of our capital stock that are entitled to vote generally in elections of directors;

(ii) we merge or consolidate with or into any other person, any other person merges into us, or we convey, sell, transfer or lease all or substantially all of our assets to another person, other than any such transaction:

(a) that does not result in (1) any reclassification, conversion, exchange or cancellation of outstanding shares of our capital stock, and (2) pursuant to which the holders of 50% or more of the total voting power of all shares of our capital stock entitled to vote generally in elections of directors immediately prior to such transaction have the entitlement to exercise, directly or indirectly, 50% or more of the total voting power of all shares of capital stock entitled to vote

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generally in the election of directors of the continuing or surviving corporation immediately after such transaction, or

(b) which is effected solely to change our jurisdiction of incorporation and results in a reclassification, conversion or exchange of outstanding shares of the Common Stock into solely shares of common stock; or

(iii) our Common Stock (a) ceases to be listed, traded or quoted (or admitted for such a purpose) on a national securities exchange, the Nasdaq National Market, any other quotation system or over-the-counter market or (b) ceases to be registered under the Exchange Act;

provided, however, a Change in Control shall not be deemed to have occurred if either (a) the closing price per share of the Common Stock for any five Trading Days within the period of 10 consecutive Trading Days ending immediately after the later of the Change in Control or the public announcement of the Change in Control (in the case of a Change in Control under clause (i) above) or ending immediately before the Change in Control (in the case of a Change in Control under clause (ii) above) shall equal or exceed 105% of the conversion price of the notes in effect on each such Trading Day, or (b) all of the consideration (excluding cash payments for fractional shares) in the transaction or transactions constituting the Change in Control consists of common stock traded on a national securities exchange or quoted on the Nasdaq National Market and as a result of such transaction or transactions the notes become convertible solely into such common stock.

Our failure to repurchase the notes when required would result in an Event of Default with respect to the notes. See "--Events of Default."

Rule 13e-4 under the Exchange Act requires the dissemination of certain information to security holders in the event of an issuer tender offer and may apply in the event that the repurchase option becomes available to holders of the notes. We will comply with this rule to the extent applicable at that time.

The Change in Control repurchase feature is a result of negotiations between us and the initial purchasers. Management has no present intention to engage in a transaction involving a Change in Control, although it is possible that we would decide to do so in the future. Subject to the covenants described below, we could, in the future, enter into transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a Change in Control under the Indenture, but that could increase the amount of debt

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outstanding at such time or otherwise affect our capital structure or credit ratings.

Our senior credit facility provides that the occurrence of certain events that would constitute a Change in Control constitutes a default under such facility. Much of our other debt also requires us to repurchase such debt upon an event that would constitute a Change in Control for the purposes of the notes. Other future debt of ours may contain prohibitions of events that would constitute a Change in Control or that would require such debt to be repurchased upon a Change in Control. Moreover, the exercise by holders of notes of their right to require us to repurchase their notes could cause a default under our existing or future debt, even if the change in control itself does not result in a default under our existing or future debt, due to the financial effect of such repurchase on us. Finally, our ability to pay cash to holders of notes upon a repurchase may be limited by our financial resources at the time of such repurchase. Therefore, we cannot assure you that sufficient funds will be available when necessary to make any required repurchases. Our failure to purchase notes in connection with a Change in Control would result in a default under the Indenture. Such a default would, in turn, constitute a default under much of our existing debt, and may constitute a default under future debt as well. Our obligation to make an offer to repurchase the notes as a result of a Change in Control may be waived or modified at any time prior to the occurrence of such Change in Control with the written consent of the holders of a majority in aggregate principal amount of the outstanding notes.

The foregoing provisions would not necessarily afford holders of the notes protection in the event of highly leveraged or other transactions involving us that may adversely affect holders.

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Mergers and Sales of Assets by the Company

We may not consolidate with or merge into any other Person or, directly or indirectly, convey, transfer, sell, lease or otherwise dispose of all or substantially all of our properties and assets to any Person (other than a wholly owned subsidiary), and we may not permit any Person (other than a wholly owned subsidiary) to consolidate with or merge into us or convey, transfer, sell, lease or otherwise dispose of all or substantially all of its properties and assets to us, unless:

- (a) the Person formed by such consolidation or into which we are merged or the Person to which our properties and assets are so transferred or leased is a corporation, limited liability company, partnership or trust organized and existing under the laws of the United States, any State thereof or the District of Columbia and has expressly assumed the due and punctual payment of the principal of, premium, if any, and interest on the notes and coupons and the performance of our other covenants under the Indenture,
- (b) immediately after giving effect to such transaction and treating any indebtedness which becomes an obligation of ours or a Subsidiary as a result of such transaction as having been incurred by us or Subsidiary at the time of such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, will have occurred and be continuing, and
- (c) We have provided to the trustee an Officers' Certificate and Opinion of Counsel as provided in the Indenture.

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Events of Default

The following are Events of Default under the Indenture:

- (a) failure to pay any interest (including liquidated damages) on any note or coupon when due, which failure continues for 30 days;
- (b) failure to pay the principal or Redemption Price or Repurchase Price of any note when due;
- (c) default in our obligation to provide notice of a Change in Control;
- (d) our failure to perform any other covenant or warranty in the Indenture, which failure continues for 60 days after written notice to the Company by the trustee as provided in the Indenture;
- (e) default under any bond, debenture, note or other evidence of Indebtedness of the Company or under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness of the Company (including the notes), whether such Indebtedness exists at the time of the Indenture or afterward, which constitutes a failure to pay an aggregate principal amount exceeding \$35,000,000 of Indebtedness when due and payable after the expiration of any applicable grace period with respect thereto and has resulted in such Indebtedness in an aggregate principal amount exceeding \$35,000,000 becoming or being declared due and payable prior to the date on which it would otherwise have become due and payable, without such Indebtedness having been discharged, or such acceleration having been rescinded or annulled, within a period of 10 days written notice (a Notice of Default) given to us by the trustee or to us and the trustee as provided in the Indenture, unless remedied, cured or waived as provided in the Indenture; and
- (f) certain events of bankruptcy, insolvency or reorganization.

Subject to the provisions of the Indenture relating to the duties of the trustee in case an Event of Default shall occur and be continuing, the trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any of the holders, unless the holders have offered to the trustee reasonable indemnity. Subject to these indemnification provisions for the trustee, the holders of a majority in aggregate principal amount of the outstanding notes will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee.

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If an Event of Default (other than an Event of Default specified in subsections (a), (b), and (f) above) occurs and is continuing, the trustee or the holders of not less than 25% in principal amount of the outstanding notes may declare the principal amount (or specified amount) of all the notes to be due and payable immediately, by a notice in writing to us (and to the trustee if given by holders), and upon any such declaration such principal and any accrued interest and any unpaid liquidated damages on the notes will become immediately due and payable. If an Event of Default specified in subsections (a) or (b) occurs and is continuing, the holder of any outstanding note may, by notice in writing to us (with a copy to the trustee), declare the principal of such note to be due and payable immediately, and upon any such declaration the principal and (subject to the Indenture) any accrued interest and liquidated damages on

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such notes will become immediately due and payable. If an Event of Default specified in subsection (f) occurs and is continuing, the principal and any accrued interest, together with any liquidated damages thereon, on all of the notes then outstanding shall become due and payable immediately without any declaration or other Act on the part of the trustee or any holder.

At any time after a declaration of acceleration has been made but before a judgment or decree based on acceleration, the holders of a majority in aggregate principal amount of outstanding notes may, under certain circumstances, rescind and annul such acceleration if all Events of Default, other than the nonpayment of accelerated principal and interest have been cured or waived as provided in the Indenture.

No holder of any note has any right to institute any proceeding with respect to the Indenture or for any remedy thereunder, unless such holder shall have previously given to the trustee written notice of a continuing Event of Default and unless the holders of at least 25% in aggregate principal amount of the outstanding notes also have made written request, and offered reasonable indemnity, to the trustee to institute the proceeding as trustee, and the trustee shall not have received from the holders of a majority in aggregate principal amount of the outstanding notes a direction inconsistent with this request and failed to institute the proceeding within 60 days. However, these limitations do not apply to a suit instituted by a holder of a note for the enforcement of payment of the principal of, premium, if any, or interest on that note on or after the respective due dates expressed in that note or of the right to convert that note in accordance with the Indenture.

We are required to furnish to the trustee annually a statement as to our performance of certain of its obligations under the Indenture and as to any default in such performance.

Modification and Waiver

The Indenture contains provisions permitting us and the trustee to enter into a supplemental indenture without the consent of the holders,

- (a) to evidence the succession of another Person to us and the assumption by such successor of the covenants and obligations under the Indenture and the notes,
- (b) to add to the covenants for the benefit of the holders or to surrender any right or power conferred upon us under the Indenture,
- (c) to secure the notes,
- (d) to modify the restrictions on, and procedures for, resale and other transfers of the notes pursuant to law, regulation or practice relating to the resale or transfer of restricted securities generally,
- (e) to make provision with respect to the conversion rights of holders pursuant to the Indenture,
- (f) to accommodate the issuance of notes in book-entry or definitive form and related matters not affecting adversely the interests of the holders,
- (g) to comply with the requirements of the SEC in order to effect and maintain the qualification of the Indenture under the Trust Indenture Act, or
- (h) to cure any ambiguity or correct or supplement any provision of the Indenture, provided that such action shall not adversely affect the

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interests of the holders in any material respect.

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In addition, modifications and amendments of the Indenture may be made, and certain past defaults by the Company may be waived, with the written consent of the holders of not less than a majority in aggregate principal amount of the notes at the time outstanding (including consents obtained in connection with a tender offer or exchange offer for the notes). However, no modification or amendment may, without the consent of the holder of each outstanding note affected thereby,

- (a) change the Stated Maturity of the principal of, or any installment of interest on, any note,
- (b) reduce the principal amount of, or the premium, if any, or rate of interest on, any note,
- (c) reduce the amount payable upon redemption or repurchase,
- (d) modify the provisions with respect to the repurchase right of the holders in a manner adverse to the holders,
- (e) change the coin or currency of payment of principal of, premium, if any, or interest on, any note or coupon,
- (f) impair the right to institute suit for the enforcement of any payment on or with respect to any note or coupon,
- (g) adversely affect the right to convert notes,
- (h) reduce the above-stated percentage of outstanding notes necessary to modify or amend the Indenture,
- (i) reduce the percentage of aggregate principal amount of outstanding notes necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults,
- (j) reduce the percentage in aggregate principal amount of notes outstanding required for the adoption of a Resolution or the quorum required at any meeting of holders of notes at which a Resolution is adopted, or
- (k) modify our obligation to deliver information required under Rule 144A to permit resales of notes