

RITE AID CORP
Form 424B2
August 18, 2005

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Registration File No.: 333-121636

PROSPECTUS SUPPLEMENT
(To the Prospectus dated January 14, 2005)

4,600,000 shares

5.50% Series I Mandatory Convertible Preferred Stock

(liquidation preference \$25 per share)

We are offering 4,600,000 shares of our Series I mandatory convertible preferred stock by this prospectus supplement and the accompanying prospectus. We will receive all of the net proceeds from the sale of the shares offered hereby.

We will pay annual dividends on each share of our mandatory convertible preferred stock in the amount of \$1.3752. Dividends will be cumulative from the date of issuance and payable to the extent that assets are legally available to pay dividends and our board of directors or an authorized committee of our board declares a dividend payable. We may pay dividends in cash, shares of our common stock, or any combination of cash and common stock, in our sole discretion, after every quarter. Shares of our common stock used to pay dividends will be delivered to the transfer agent to be sold, resulting in net cash proceeds to be distributed to the holders in an amount equal to the cash dividends otherwise payable. The first dividend payment, if declared, will be made on November 1, 2005.

On November 17, 2008, each share of our mandatory convertible preferred stock will automatically convert, subject to the adjustments described in this prospectus supplement, into no fewer than 4.7134 shares of our common stock and no more than 5.6561 shares of our common stock, depending on the then-prevailing market price of our common stock. At any time prior to November 17, 2008, holders may elect to convert each share of their mandatory convertible preferred stock, subject to the adjustments described in this prospectus supplement, into 4.7134 shares of our common stock. If the closing price per share of our common stock exceeds \$9.55 for at least 20 trading days within a period of 40 consecutive trading days, we may elect, subject to certain limitations described in this prospectus supplement, to cause the conversion, subject to the adjustments described in this prospectus supplement, of all, but not less than all, of the shares of mandatory convertible preferred stock into 4.7134 shares of our common stock, plus an amount equal to all accumulated and unpaid dividends and a "make-whole" payment.

If we are the subject of specified cash acquisitions on or prior to November 17, 2008, under certain circumstances, we will permit conversion of our mandatory convertible preferred stock during a specified period and at a specified conversion rate described in this prospectus supplement, and (unless we exercise our right to deliver shares in lieu of making a cash payment) pay converting holders an amount equal to the sum of any accumulated and unpaid dividends on shares of our mandatory convertible preferred stock that are converted plus the present value of all remaining dividend payments on such shares through and including November 17, 2008.

Our common stock is listed on the New York Stock Exchange and Pacific Exchange under the symbol "RAD." On August 16, 2005, the last reported sale price of our common stock was \$4.42 per share. The mandatory convertible preferred stock will not be listed or traded on any securities exchange or trading market.

Investing in our Series I mandatory convertible preferred stock involves risks. See "Risk factors" beginning on page S-12 of this prospectus supplement and on page 2 of the accompanying prospectus.

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

	Per Share	Total
Public offering price	\$ 25.00	\$ 115,000,000
Underwriting discounts and commissions	\$ 0.75	\$ 3,450,000
Proceeds, before expenses, to Rite Aid	\$ 24.25	\$ 111,550,000

The underwriters may also purchase up to 600,000 shares of our mandatory convertible preferred stock from us at the public offering price, less underwriting discounts and commissions, within 30 days of the date of this prospectus supplement. The underwriters may exercise this option only to cover over-allotments, if any.

The underwriters are offering the shares of our mandatory convertible preferred stock as set forth in "Underwriting." Delivery of the shares of mandatory convertible preferred stock will be made on or about August 22, 2005.

Joint Book-Running Managers

Citigroup
August 16, 2005

JPMorgan

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

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Prospectus

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ABOUT THIS PROSPECTUS SUPPLEMENT

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

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

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

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

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SUMMARY

The following information summarizes the more detailed information and financial statements included elsewhere or incorporated by reference in this prospectus supplement or the accompanying prospectus. We encourage you to read this entire prospectus supplement, the accompanying prospectus and those documents incorporated by reference into this document carefully. Unless otherwise indicated or the context otherwise requires, dates in this prospectus supplement that refer to a particular fiscal year (e.g., fiscal 2005) refer to the fiscal year ended on the Saturday closest to February 29 or March 1 of that year. The fiscal years ended February 26, 2005, February 28, 2004, March 1, 2003 and March 2, 2002 included 52 weeks. The fiscal year ended March 3, 2001 included 53 weeks.

Rite Aid Corporation

Our Business

We are the third largest retail drugstore chain in the United States based on revenues and number of stores. We operate our drugstores in 28 states across the country and in the District of Columbia. As of May 28, 2005, we operated 3,354 stores. During fiscal 2005 and the thirteen week period ended May 28, 2005, we generated \$16.8 billion and \$4.2 billion in revenues, respectively.

In our stores, we sell prescription drugs and a wide assortment of other merchandise, which we call "front-end" products. In fiscal 2005 and the thirteen week period ended May 28, 2005, prescription drug sales accounted for 63.6% and 64.0%, respectively, of our total sales. We believe that our pharmacy operations will continue to represent a significant part of our business due to our on-going program of purchasing prescription files from independent pharmacies and favorable industry trends, including an aging population, increased life expectancy, a new federally funded prescription drug benefit to begin in calendar 2006, which is part of the Medicare Prescription Drug Improvement and Modernization Act of 2003, and the discovery of new and better drug therapies. We offer approximately 24,000 front-end products, which accounted for the remaining 36.4% and 36.0%, respectively, of our total sales in fiscal 2005 and the thirteen week period ended May 28, 2005. Front-end products include over-the-counter medications, health and beauty aids, personal care items, cosmetics, household items, beverages, convenience foods, greeting cards, seasonal merchandise and numerous other everyday and convenience products, as well as photo processing. We distinguish our stores from other national chain drugstores, in part, through our private brands and our strategic alliance with GNC, a leading retailer of vitamin and mineral supplements. We offer approximately 2,400 products under the Rite Aid private brand, which contributed approximately 11.5% of our front-end sales in the categories where private brand products were offered in fiscal 2005.

Our stores range in size from approximately 5,000 to 40,000 square feet. The overall average size of each store in our chain is approximately 12,750 square feet. The larger stores are concentrated in the western United States. Approximately 54% of our stores are freestanding; approximately 39% of our stores include a drive-thru pharmacy; approximately 75% include one-hour photo shops; and approximately 31% include a GNC store-within-Rite Aid store.

Our Business Strategy

Our strategy is to continue to focus on improving the productivity of our existing stores and developing new stores in our strongest existing markets. We believe that improving the sales of existing stores and growing our existing markets is critical to improving our profitability and cash flow.

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

Develop Stores in Existing Markets. We have resumed our new store, store relocation and store remodeling program. Our goal is to open or relocate 80 stores by the end of fiscal 2006, of which we expect that approximately 70% will be relocated stores and the remaining 30% will be new stores. As part of this program, we plan to remodel a significant number of stores. The program is focused on

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our strongest existing markets. An integral part of the program is a new prototype store. Nine stores have recently been constructed and opened utilizing the new prototype. We believe that this program over the longer term, along with the execution of the near term strategy of improving store productivity, will continue to increase our sales.

Grow our Pharmacy Sales and Attract More Customers. We believe that customer service and convenience are key factors to growing pharmacy sales. To improve customer service, we are focused on our "With us it's personal" program that is aimed at delivering more personalized service along with timely delivery to our customers. To help our pharmacists do this, we have completed the development and roll out of our new pharmacy management and dispensing system. This new system, which we call "Nexgen," provides our pharmacists with better tools and information to meet our customers' needs. In addition, the new system provides management with important information about the performance of each pharmacy in critical operating areas that drive customer service. We provide our customers with what we believe to be an easy and convenient way to order refills over the telephone or the internet using our automatic refill program. To provide better value to our customers we recommend, when appropriate, the utilization of generic drugs. Generic drugs, which often cost our customers significantly less than a branded drug, are also more profitable for us. We also plan to grow sales of prescriptions to senior citizens through a program called "Living More" that provides newsletters and discounts. Our Living More program also positions us for greater participation in Medicare endorsed prescription programs.

To help grow sales and script count, we acquire pharmacy files from other drug stores and have initiatives designed to attract and retain those customers. We have also recently added the capability to provide pharmacy benefit management ("PBM") services to employers, health plans and insurance companies. We intend to offer, through our PBM capabilities, a 90 day at retail alternative to mail order. We also believe that providing PBM services will create opportunities to direct customers to our stores.

Grow Front-End Sales. We intend to grow front-end sales through continued emphasis on core drugstore categories, a commitment to health and wellness products to enhance our pharmacy position, a focus on seasonal and

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

Focus on Customers and Associates. Our "With us, it's personal" commitment encourages associates to provide customers with a superior customer service experience. We obtain feedback on our customer service performance by utilizing an automated survey system that collects store specific information from customers shortly after the point of sale and frequent customer surveys by an independent third party. We also have several programs in place that enhance customer satisfaction, examples of which are the maintenance of a customer support center that centrally receives and processes all customer calls and our "never out of stock" program. We continue to develop and implement associate training programs to improve customer satisfaction and educate our associates about the products we offer. We have implemented programs that create compensatory and other incentives for associates to provide customers with excellent service. We believe that these steps further enable and motivate our associates to deliver superior customer service.

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The Offering

Issuer	Rite Aid Corporation
Securities offered	4,600,000 shares of 5.50% Series I mandatory convertible preferred stock, which we refer to in this prospectus supplement as the "mandatory convertible preferred stock." To the extent that the underwriters sell more than 4,600,000 shares of mandatory convertible preferred stock, they have the option to purchase an additional 600,000 shares of mandatory convertible preferred stock from us at the initial offering price, less the underwriting discounts and commissions.
Initial price to public	\$25.00 for each share of mandatory convertible preferred stock.
Dividends	\$1.3752 for each share of mandatory convertible preferred stock per year. Dividends will be cumulative from the date of issuance and to the extent that assets are legally available to pay dividends and our board of directors or an authorized committee of our board declares a dividend payable, we will pay dividends in cash, shares of our common stock, or any combination thereof, in our sole discretion, every quarter. Shares of our common stock used to pay dividends will be delivered to the transfer agent to be sold, resulting in net cash proceeds to be distributed to the holders in an amount equal to the cash dividends otherwise payable. See "Risk Factors— Delaware

law and the terms of our senior secured credit facility and debt indentures may restrict us from paying cash dividends on our mandatory convertible preferred stock" and "—We cannot assure you that we will file or will be able to file, cause to be declared effective or keep effective, as the case may be, the registration statement required to permit us to pay dividends on our mandatory convertible preferred stock in shares of our common stock."

Dividend payment dates

The 1st calendar day (or the following business day if such day is not a business day) of each February, May, August and November, commencing on November 1, 2005, other than the last dividend payment which will be paid on November 17, 2008.

Mandatory conversion date

November 17, 2008, which we call the "automatic conversion date."

Mandatory conversion

On the automatic conversion date, each share of mandatory convertible preferred stock will automatically convert into shares of our common stock, based on the conversion rate then in effect.

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

Conversion rate

The conversion rate for each share of mandatory convertible preferred stock will not be fewer than 4.7134 shares of our common stock and no more than 5.6561 shares of our common stock, and will depend on the applicable market value of our common stock, as described below. The conversion rate is subject to certain adjustments, including those described under "Description of Mandatory Convertible Preferred Stock—Anti-dilution Adjustments."

The applicable market value is the average of the volume-weighted average prices per share of our common stock on each of the 20 consecutive trading days ending on the third trading day immediately preceding the automatic conversion date. To the extent that we enter into a reorganization event (as defined under "Description of Mandatory Convertible Preferred Stock —Anti-dilution Adjustments"), applicable market value shall mean the

exchange property unit value (as defined under "Description of Mandatory Convertible Preferred Stock—Anti-dilution Adjustments—Reorganization Events") and it will be calculated as described under "Description of Mandatory Convertible Preferred Stock—Conversion—Automatic Conversion of Our Mandatory Convertible Preferred Stock."

The following table illustrates the conversion rate per share of mandatory convertible preferred stock and the value of our common stock issuable upon conversion on the automatic conversion date, at the applicable market value shown, subject to certain adjustments described under "Description of Mandatory Convertible Preferred Stock—Anti-dilution Adjustments."

	Applicable market value on automatic conversion date	Conversion rate
Equal to or greater than \$5.30		4.7134
Greater than \$4.42 and less than \$5.30		between 4.7134 and 5.6561
Less than or equal to \$4.42		5.6561

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Provisional conversion at the option of Rite Aid

If the closing price per share of our common stock exceeds \$9.55 for at least 20 trading days within a period of 40 consecutive trading days, we may elect to cause the conversion of all, but not less than all, of the shares of mandatory convertible preferred stock then outstanding for shares of our common stock at a conversion rate of 4.7134 shares of our common stock, subject to certain adjustments as described under "Description of Mandatory Convertible Preferred Stock—Anti-dilution Adjustments," only if, in addition to issuing you the shares of common stock, we either:

pay you in cash (1) an amount equal to any accumulated and unpaid dividend payments on our mandatory convertible preferred stock, whether or not declared, and (2) the present value of all the remaining dividend payments through and including November 17, 2008, on our mandatory convertible preferred stock, computed using a discount rate equal to the Treasury Yield as defined under "Description of Mandatory Convertible Preferred Stock—Conversion—Provisional Conversion at the Option of Rite Aid," in each case, out of legally available assets, or

increase the number of shares of our common stock to be issued on conversion by an amount equal to the sum of the accrued and unpaid dividends and the present value of all remaining dividend payments, divided by the applicable market value per share of our common stock.

See "Description of Mandatory Convertible Preferred Stock—Conversion—Provisional Conversion at the Option of Rite Aid."

Optional conversion

At any time prior to November 17, 2008, you may elect to convert each of your shares of mandatory convertible preferred stock into 4.7134 shares of our common stock. This conversion rate is subject to certain adjustments as described under "Description of Mandatory Convertible Preferred Stock—Anti-dilution Adjustments."

**Conversion upon cash acquisition;
make-whole amount and public acquirer
change of control**

If we are the subject of specified cash acquisitions on or prior to November 17, 2008, under certain circumstances, we will (1) permit conversion of our mandatory convertible preferred stock during the period beginning on the date that is 15 days prior to the anticipated effective date of the applicable cash acquisition and ending on the date that is 15 days after the actual effective date at a specified conversion rate determined by reference to the price per

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share of our common stock paid in such cash acquisition and (2) pay converting holders an amount equal to the sum of any accumulated and unpaid dividends on shares of our mandatory convertible preferred stock that are converted plus the present value of all remaining dividend payments on such shares through and including November 17, 2008, as described under "Description of Mandatory Convertible Preferred Stock—Conversion—Conversion Upon Cash Acquisition; Cash Acquisition Dividend Make-Whole Amount and Public Acquirer Change of Control." The applicable conversion rate will be determined based on the date such transaction becomes effective and the price paid per share of our common stock in such transaction. However, if such transaction constitutes a public acquirer change of control, in lieu of providing for immediate conversion and paying the dividend amount, we may elect to adjust our conversion obligation such that upon conversion of the mandatory convertible preferred stock, we will deliver acquirer common stock as described under "Description of Mandatory Convertible Preferred Stock—Conversion—Conversion Upon Cash Acquisition; Cash Acquisition Dividend Make-Whole Amount and

Anti-dilution adjustments	Public Acquirer Change of Control." The formula for determining the conversion rate on the automatic conversion date and the number of shares of our common stock to be delivered upon any other conversion date may be adjusted if certain events occur. See "Description of Mandatory Convertible Preferred Stock—Anti-dilution Adjustments."
Liquidation preference	\$25.00 per share of mandatory convertible preferred stock, plus an amount equal to the sum of all accumulated and unpaid dividends.
Voting rights	Holders of the mandatory convertible preferred stock will not be entitled to any voting rights, except as required by applicable state law and as described under "Description of Mandatory Convertible Preferred Stock— Voting Rights."
Ranking	The mandatory convertible preferred stock will rank senior in right of payment to all of our common stock now outstanding or to be issued in the future and on parity with our Series E, F, G and H preferred stock now outstanding or to be issued in the future. The terms of the mandatory convertible preferred stock restrict our ability to issue capital stock that ranks senior to the mandatory convertible preferred stock with an aggregate liquidation preference in excess of \$50.0 million.
Use of proceeds	We estimate that we will receive approximately \$110.5 million in net proceeds (\$125.1 million if the underwriters

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Trading	exercise their over-allotment option in full) from the sale of the mandatory convertible preferred stock offered hereby. We intend to use all of the net proceeds, plus available cash, to redeem, at a purchase price of 105% of the liquidation preference, plus accrued dividends, all of our outstanding shares of Series F preferred stock (1,176,497 shares, \$100 liquidation preference per share). The mandatory convertible preferred stock will be new securities for which no market currently exists. While the underwriters have informed us that they intend to make a market in the mandatory convertible preferred stock, they are under no obligation to do so and may discontinue such activities at any time without notice.
NYSE symbol for Rite Aid common stock	RAD

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Risk Factors

Prospective purchasers of our mandatory convertible preferred stock should carefully consider the information set forth under the heading "Risk Factors," together with all other information included or incorporated by reference in this prospectus supplement, before making an investment in the mandatory convertible preferred stock offered by this prospectus supplement.

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

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Summary Consolidated Financial Data

The following summary consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited consolidated financial statements and related notes and the interim condensed consolidated financial statements and related notes incorporated by reference into this prospectus supplement. The summary consolidated financial data for the thirteen week periods ended May 28, 2005 and May 29, 2004 are unaudited and not necessarily indicative of the results to be expected for the full year. The following summary financial data does not give pro forma effect to this offering, or to the July 2005 early redemption of all of our outstanding \$150.0 million aggregate principal amount of 11.25% senior notes due July 2008.

	Fiscal Year Ended					Thirteen Week Period Ended	
	February 26, 2005 (52 weeks)	February 28, 2004 (52 weeks)	March 1, 2003 (52 weeks)	March 2, 2002 (52 weeks)	March 3, 2001 (53 weeks) ⁽¹⁾	May 28, 2005	May 29, 2004
	(Dollars in thousands, except per share amounts)						
Operations Data:							
Revenues	\$16,816,439	\$16,600,449	\$15,791,278	\$15,166,170	\$14,516,865	\$ 4,221,436	\$ 4,224,357
Cost and expenses:							
Cost of goods sold, including occupancy costs	12,608,988	12,568,729	12,036,003	11,695,871	11,152,285	3,140,803	3,191,456
Selling, general and administrative expenses ⁽²⁾	3,721,442	3,624,226	3,476,379	3,406,492	3,458,307	947,453	912,845

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Goodwill amortization ⁽³⁾	—	—	—	21,007	20,670	—	—
Store closing and impairment charges (credits)	35,655	22,074	135,328	251,617	388,078	15,532	(4,595)
Interest expense	294,871	313,498	330,020	396,064	649,926	70,851	77,801
Interest rate swap contracts	—	—	278	41,894	—	—	—
Loss (gain) on debt modifications and retirements, net	19,229	35,315	(13,628)	221,054	100,556	—	—
Share of loss from equity investments	—	—	—	12,092	36,675	—	—
Loss (gain) on sale of assets and investments, net	2,247	2,023	(18,620)	(42,536)	(6,030)	(538)	(1,918)
Total costs and expenses	16,682,432	16,565,865	15,945,760	16,003,555	15,800,467	4,174,101	4,175,589
Income (loss) from continuing operations before income taxes	134,007	34,584	(154,482)	(837,385)	(1,283,602)	47,335	68,768
Income tax (benefit) expense	(168,471)	(48,795)	(41,940)	(11,745)	148,957	13,911	5,049

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	Fiscal Year Ended					Thirteen Week Period Ended	
	February 26, 2005 (52 weeks)	February 28, 2004 (52 weeks)	March 1, 2003 (52 weeks)	March 2, 2002 (52 weeks)	March 3, 2001 (53 weeks) ⁽¹⁾	May 28, 2005	May 29, 2004
	(Dollars in thousands, except per share amounts)						
Income (loss) from continuing operations	302,478	83,379	(112,542)	(825,640)	(1,432,559)	33,424	63,719
Income (loss) from discontinued operations, net of income tax	—	—	—	—	11,335	—	—

expense of
\$13,846

Loss on disposal
of discontinued
operations, net
of income tax
benefit of \$734

		—		—		—		(168,795)		—		—		
Net income (loss)	\$	302,478	\$	83,379	\$	(112,542)	\$	(825,640)	\$	(1,590,019)	\$	33,424	\$	63,719

Basic and diluted net income (loss)

per share:

Income (loss) from continuing operations	\$	0.50	\$	0.11	\$	(0.28)	\$	(1.81)	\$	(5.15)	\$	0.05	\$	0.11
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(Loss) from discontinued operations		—		—		—		—		(0.50)		—		—
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Basic net income (loss) per share	\$	0.50	\$	0.11	\$	(0.28)	\$	(1.81)	\$	(5.65)	\$	0.05	\$	0.11
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Diluted net income(loss) per share	\$	0.47	\$	0.11	\$	(0.28)	\$	(1.81)	\$	(5.65)	\$	0.05	\$	0.10
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Balance Sheet Data

Working capital	\$	1,335,017	\$	1,894,247	\$	1,676,889	\$	1,580,218	\$	1,955,877	\$	1,424,639	\$	1,751,442
Property, plant and equipment, net		1,733,694		1,882,763		1,867,830		2,095,552		3,040,790		1,701,383		1,861,465
Total assets		5,932,583		6,245,634		6,132,766		6,491,281		7,913,693		5,847,557		6,359,031
Total debt ⁽⁴⁾		3,311,336		3,891,666		3,862,628		4,056,468		5,894,548		3,147,316		3,889,565

Redeemable preferred Stock ⁽⁵⁾		—		—		19,663		19,561		19,457		—		—
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Stockholders' equity(deficit)		322,934		(8,277)		(129,938)		(7,527)		(373,619)		360,869		61,343
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Other Data:

Cash flows from continuing operations provided by (used in):

Operating activities	\$	518,446	\$	227,515	\$	305,383	\$	16,343	\$	(704,554)	\$	172,840	\$	216,559
Investing activities		(118,985)		(242,150)		(72,214)		342,531		677,653		(22,146)		(38,335)

	Fiscal Year Ended					Thirteen Week Period Ended	
	February 26, 2005 (52 weeks)	February 28, 2004 (52 weeks)	March 1, 2003 (52 weeks)	March 2, 2002 (52 weeks)	March 3, 2001 (53 weeks) ⁽¹⁾	May 28, 2005	May 29, 2004
	(Dollars in thousands, except per share amounts)						
Financing activities	(571,395)	(15,931)	(211,903)	(107,109)	(64,324)	(178,478)	(12,828)
Capital expenditures	222,417	267,373	116,154	187,383	141,504	49,717	41,818
Ratio of earnings to fixed charges ⁽⁶⁾	1.15	—	—	—	—	1.27	1.41
Basic weighted average shares	518,716,000	515,822,000	515,129,000	474,028,000	314,189,000	520,752,000	516,837,000
Diluted weighted average shares ⁽⁷⁾	634,062,000	525,831,000	515,129,000	474,028,000	314,189,000	529,684,000	574,091,000
Number of retail drug stores	3,356	3,382	3,404	3,497	3,648	3,354	3,374
Number of associates	71,200	72,500	72,000	75,000	75,500	72,000	76,000

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

(2)Includes stock-based compensation expense (benefit). Stock-based compensation expense for the fiscal years ended February 26, 2005 and February 28, 2004 and for the thirteen week periods ended May 28, 2005 and May 29, 2004 was determined using the fair value method set forth in Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation. " Stock-based compensation expense (benefit) for the fiscal years ended March 1, 2003, March 2, 2002 and March 3, 2001 was determined using the intrinsic method set forth in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees. "

(3)Effective March 3, 2002, we adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Intangible Assets, " which specifies that goodwill and indefinite life intangibles shall no longer be amortized. Accordingly, no goodwill amortization expense was recorded for the fiscal years ended February 26, 2005, February 28, 2004, and March 1, 2003 and for the thirteen week periods ended May 28, 2005 and May 29, 2004.

(4)Total debt included capital lease obligations of \$168.3 million, \$183.2 million, \$176.2 million, \$182.6 million, \$1.1 billion, \$174.9 million and \$182.5 million as of February 26, 2005, February 28, 2004, March 1, 2003, March 2, 2002, March 3, 2001, May 28, 2005 and May 29, 2004, respectively.

(5)Redeemable preferred stock of \$19,868, \$19,766, \$19,893 and \$19,791 was included in "Other Non-current liabilities" as of February 26, 2005, February 28, 2004, May 28, 2005 and May 29, 2004, respectively.

(6)Calculated by dividing earnings by fixed charges. For this purpose, earnings include income (loss) from continuing operations before income taxes plus fixed charges before capitalized interest. Fixed charges

include interest, whether expensed or capitalized, amortization of debt incurrence costs, preferred stock dividends and that portion of rental expense which is representative of the interest factors in those rentals. For fiscal 2004, fiscal 2003, fiscal 2002 and fiscal 2001, earnings were insufficient to cover fixed charges by approximately \$2.6 million, \$204.3 million, \$868.5 million and \$1,291.2 million, respectively.

(7) Diluted weighted average shares for the year ended February 26, 2005 included the impact of stock options, convertible debt and preferred stock, as calculated under the treasury stock method. Diluted weighted average shares for the year ended February 28, 2004 and the thirteen week period ended May 28, 2005 included the impact of stock options, as calculated under the treasury stock method. Diluted weighted average shares for the thirteen week period ended May 29, 2004 included the impact of convertible debt and stock options, as calculated under the treasury method.

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RISK FACTORS

An investment in our mandatory convertible preferred 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 supplement, before buying the mandatory convertible preferred stock offered hereby. Additional risks and uncertainties not presently known to us, or that we currently deem immaterial, may also impair our business operations. We cannot assure you that any of the events discussed in the risk factors below will not occur. If they do, our business, financial condition or results of operations could be materially and adversely affected. In such case, the trading price of our securities could decline, and you might lose all or part of your investment.

Risks Related to our Financial Condition

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

We had, as of May 28, 2005, \$3.1 billion of outstanding indebtedness (not including obligations under the receivables securitization agreements and without giving effect to our subsequent redemption of our 11.25% notes due 2008) and stockholders' equity of \$360.9 million. We also had additional borrowing capacity under our revolving credit facility of \$837.7 million at that time, net of outstanding letters of credit of \$112.3 million. Our debt obligations adversely affect our operations in a number of ways and while we believe we have adequate sources of liquidity to meet our anticipated requirements for working capital, debt service and capital expenditures through fiscal year 2006, there can be no assurance that our cash flow from operations will be sufficient to service our debt, which may require us to borrow additional funds for that purpose, restructure or otherwise refinance our debt. Our ratio of earnings to fixed charges for fiscal 2005 was 1.15. Our earnings were insufficient to cover fixed charges for fiscal 2004 by \$2.6 million and by considerably higher amounts prior to fiscal 2004.

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

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

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

Borrowings under our senior credit facility and expenses related to the sale of our accounts receivable under our receivables securitization agreements are based upon variable rates of interest, which could result in higher expense in the event of increases in interest rates.

Approximately \$447.8 million of our outstanding indebtedness as of May 28, 2005 bears an interest rate that varies depending upon LIBOR. If we borrow additional amounts under our senior

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credit facility, the interest rate on those borrowings will also vary depending upon LIBOR. Further, we pay ongoing program fees under our receivables securitization agreements that vary depending upon LIBOR. If LIBOR rises, the interest rates on outstanding debt and the program fees under our receivables securitization program will increase. Therefore an increase in LIBOR would increase our interest payment obligations under these outstanding loans, increase our receivables securitization program fee payments and have a negative effect on our cash flow and financial condition. We currently do not maintain any hedging contracts that would limit our exposure to variable rates of interest.

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

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

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

In addition, if we have less than \$300.0 million in available borrowings under our revolving credit facility, we will be subject to certain financial covenant ratios. If we are unable to meet the terms of the financial covenants or if we

breach any of these covenants, a default could result under one or more of these agreements. A default, if not waived by our lenders, could result in the acceleration of our outstanding indebtedness and cause our debt to become immediately due and payable. If acceleration occurs, we would not be able to repay our debt and it is unlikely that we would be able to borrow sufficient additional funds to refinance such debt. Even if new financing is made available to us, it may not be available on terms acceptable to us.

If we obtain modifications of our agreements, or are required to obtain waivers of defaults, we may incur significant fees and transaction costs. In fiscal 2005 and the previous four fiscal years, we modified certain covenants contained in our then existing senior secured credit facility and loan agreements. In connection with obtaining these modifications, we paid significant fees and transaction costs.

Risks Related to our Operations

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

We have not yet achieved the sales productivity level of our major competitors. We believe that improving the sales of existing stores is important to achieving profitability and continuing to improve operating cash flow. If we are not successful in implementing our strategy, or if our strategy is not effective, we may not be able to improve our operations. In addition, any adverse change in general

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

Our new store and store relocation development program requires us to enter into construction and development commitments and occasionally purchase land that we will not utilize for several years which may limit our financial flexibility.

We will enter into significant construction and development commitments as part of our new store and store relocation development program. Also, we will occasionally make capital expenditures to acquire land that may not be used for several years. Even if there are significant negative economic or competitive developments in our industry, financial condition or the regions where we have made these commitments, we are obligated to fulfill these commitments. Further, if we subsequently dispose of the property that we acquire, we may receive less than our purchase price or the net book value of such property, which may result in financial loss.

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

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

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

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

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

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

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

We obtain approximately 93% of the dollar value of our prescription drugs from a single supplier, McKesson Corp. ("McKesson"), pursuant to a contract that runs through March 2009. Pharmacy sales

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represented approximately 63.6% of our total sales during fiscal 2005, and, therefore, our relationship with McKesson is important to us. Any significant disruptions in our relationship with McKesson would make it difficult for us to continue to operate our business until we executed a replacement strategy. There can be no assurance that we would be able to find a replacement supplier on a timely basis or that such supplier would be able to fulfill our demands on similar terms, which would have a material adverse effect on our results of operations, financial condition and cash flows.

Risks Related to our Industry

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

We face intense competition with local, regional and national companies, including other drugstore chains, independently owned drugstores, supermarkets, mass merchandisers, discount stores, dollar stores and mail order

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

Another adverse trend for drugstore retailing has been initiatives to contain rising healthcare costs leading to the rapid growth in mail order prescription processors. These prescription distribution methods have grown in market share relative to drugstores as a result of the rapid rise in drug costs experienced in recent years and are predicted to continue to rise. Mail order prescription distribution methods are perceived by employers and insurers as being less costly than traditional distribution methods and are being encouraged, and, in some cases, required, by third party pharmacy benefit managers, employers and unions that administer benefits. As a result, some labor unions and employers are requiring, and others may encourage or require, that their members or employees obtain medications from mail order pharmacies which offer drug prescriptions at prices lower than we are able to offer. For example, following the thirteen week period ended May 28, 2005, we disclosed that our sales continued to be negatively impacted by mandatory mail prescription programs, including the United Auto Workers' program. Mail order prescription distribution has negatively affected sales for traditional chain drug retailers, including us, in the last few years and we expect such negative effect to continue in the future. There can be no assurance that our efforts to offset the effects of mail order will be successful.

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 2005 and the thirteen week period ended May 28, 2005, sales of prescription drugs represented 63.6% and 64.0%, respectively, of our sales and 93.5% and 93.9%, respectively, of all of the prescription drugs that we sold were with third party payors. During fiscal 2005, the top five third-party payors accounted for approximately 31.6% of our total sales, the largest of which represented 10.4% of our total sales. Any significant loss of third-party payor business could have a material adverse effect on our business and results of operations. Also, these third-party payors could reduce the levels at which they will reimburse us for the prescription drugs that we provide to their members. Furthermore, the passing in December 2003 of the Medicare Prescription Drug, Improvement and Modernization Act will grant a prescription drug benefit to participants. As a result of this benefit, we may be reimbursed for some

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prescription drugs at prices lower than our current reimbursement levels. In fiscal 2005, approximately 12.4% of our revenues were from state sponsored Medicaid agencies. There have been a number of recent proposals and enactments by various states to reduce Medicaid reimbursement levels in response to budget problems, some of which propose to reduce reimbursement levels in the applicable states significantly, and we expect other similar proposals in the future. If third-party payors reduce their reimbursement levels or if Medicare or state Medicaid programs cover prescription drugs at lower reimbursement levels, our margins on these sales would be reduced, and the profitability of our

business and our results of operations, financial condition or cash flows could be adversely affected.

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

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

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

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

Pharmacies are exposed to risks inherent in the packaging and distribution of pharmaceuticals and other healthcare products, such as with respect to improper filling of prescriptions, labeling of prescriptions, adequacy of warnings and unintentional distribution of counterfeit drugs. In addition, federal and state laws that require our pharmacists to offer counseling, without additional charge, to their customers about medication, dosage, delivery systems, common side effects and other information the pharmacists deem significant can impact our business. Our pharmacists may also have a duty to warn customers regarding any potential negative effects of a prescription drug if the warning could reduce or negate these effects. Although we maintain professional liability and errors and omissions liability insurance, from time to time, claims result in the payment of significant amounts, some portions of which are not funded by insurance. We cannot assure you that the coverage limits under our insurance programs will be adequate to protect us against future claims, or that we will be able to maintain this insurance on acceptable terms in the future. Our results of operations, financial condition or cash flows may be adversely affected if in the future our insurance coverage proves to be inadequate or unavailable or there is an increase in liability for which we self-insure or we suffer reputational harm as a result of an error or omission.

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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. We have also expanded our pharmacist

recruiting efforts through an increase in the number of recruiters, improved our pharmacist intern program and taken efforts to improve relations with pharmacy schools. However, we may not be able to attract, hire and retain enough qualified pharmacists. This could adversely affect our operations.

We may be subject to significant liability should the consumption of any of our products cause injury, illness or death.

Products that we sell could become subject to contamination, product tampering, mislabeling or other damage requiring us to recall our private label products. In addition, errors in the dispensing and packaging of pharmaceuticals could lead to serious injury or death. Product liability claims may be asserted against us with respect to any of the products or pharmaceuticals we sell and we may be obligated to recall our private brand products. A product liability judgment against us or a product recall could have a material, adverse effect on our business, financial condition or results of operations.

Risks Related to the Offering

The market price of our mandatory convertible preferred stock will be directly affected by the market price of our common stock, which may be volatile, and other factors:

To the extent there is a secondary market for our mandatory convertible preferred stock, we believe that the market price of our mandatory convertible preferred stock will be directly affected by the market price of our common stock. We cannot predict how our common stock will trade. This may result in greater volatility in the market price of the mandatory convertible preferred stock than would be expected for nonconvertible preferred stock. From January 1, 2004 to August 16, 2005, the reported high and low closing sales prices for our common stock ranged from a low of \$3.35 per share to a high of \$6.14 per share. The market price of our common stock will likely continue to fluctuate in response to a number of factors including the following, many of which are beyond our control:

- quarterly fluctuations in our operating and financial results;
- changes in financial estimates and recommendations by financial analysts;
- developments related to litigation or the civil and criminal investigations by the United States Attorney;
- our ability to meet our debt service obligations;
- dispositions, acquisitions and financings;
- changes in the ratings of our other securities, including the August 12, 2005 revision of our outlook to negative from stable by Standard & Poor's Ratings Services;
- hedging transactions undertaken by holders of our securities;
- fluctuations in the stock price and operating results of our competitors;
- ability to hire and retain pharmacists and other store personnel;
- changes to federal, state and local regulations; and
- changes in third-party payor drug reimbursements and mail-order prescription programs.

In addition, the stock markets in general, including the New York Stock Exchange, experience price and trading fluctuations. These fluctuations may result in volatility in the market prices of securities that could be unrelated or disproportionate to changes in operating performance. These

broad market fluctuations may adversely affect the market prices of our mandatory convertible preferred stock and our common stock.

Purchasers of mandatory convertible preferred stock who convert their shares into common stock may incur immediate dilution.

Persons purchasing our mandatory convertible preferred stock who convert their shares into our common stock may incur immediate and substantial net tangible book value dilution.

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

A holder of our mandatory convertible preferred stock may realize some or all of a decline in the market value of our common stock.

The number of shares of our common stock that you will receive upon the automatic conversion of your shares of mandatory convertible preferred stock is not fixed but instead will depend on the average of the volume-weighted average price per share of our common stock on each of the 20 consecutive trading days ending on the third trading day immediately preceding the automatic conversion date, subject to adjustment, which we refer to as the applicable market value. The market value of common stock received by you on the automatic conversion date may be less than the effective price per share paid by you for our common stock by buying the shares of mandatory convertible preferred stock. The applicable market value of our common stock on November 17, 2008, may be less than \$4.42 per share, which we call the initial price. If that market value is less than the initial price, then holders of our mandatory convertible preferred stock will receive shares of our common stock on November 17, 2008, with a market per share value that is less than the initial price. Accordingly, a holder of mandatory convertible preferred stock assumes the entire risk that the market value of our common stock may decline. Any decline in the market value of our common stock may be substantial.

The opportunity for equity appreciation provided by an investment in the shares of our mandatory convertible preferred stock is less than that provided by a direct investment in our common stock.

The opportunity for equity appreciation provided by an investment in our mandatory convertible preferred stock is less than that provided by a direct investment in our common stock. The applicable market value of our common stock on November 17, 2008, must exceed the threshold appreciation price of \$5.30 before a holder of our mandatory convertible preferred stock will realize any equity appreciation in connection with a mandatory conversion.

Holders of our mandatory convertible preferred stock will have no rights as holders of common stock until they acquire our common stock.

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

The mandatory convertible preferred stock offered hereby has never been publicly traded and may never be publicly traded.

Prior to this offering, there has been no public market for our mandatory convertible preferred stock offered hereby. Our mandatory convertible preferred stock has not been listed on any stock

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exchange. There can be no assurance that an active trading market will develop, or if developed, that an active trading market will be maintained. The underwriters have advised us that they intend to facilitate secondary market trading by making a market in the shares of mandatory convertible preferred stock offered hereby. However, the underwriters are not obligated to make a market in the shares of mandatory convertible preferred stock and may discontinue market making activities at any time.

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

In the event of bankruptcy, liquidation or winding up, our assets will be available to pay obligations on our mandatory convertible preferred stock only after all of our liabilities have been paid and only on a pari passu basis with our Series E, F, G and H preferred stock and any other pari passu preferred stock we may issue hereafter. In addition, our mandatory convertible preferred stock will effectively rank junior to all existing and future liabilities of our subsidiaries and the capital stock of our subsidiaries held by third parties. The rights of holders of our mandatory convertible preferred stock effectively to participate in the assets of our subsidiaries upon any liquidation or reorganization of any subsidiary will rank junior to the prior claims of that subsidiary's creditors and preferred equity holders. As of May 28, 2005, we had total consolidated liabilities of \$5.5 billion. In the event of bankruptcy, liquidation or winding up, there may not be sufficient assets remaining, after paying our and our subsidiaries' liabilities, to pay amounts due on any or all of our mandatory convertible preferred stock. To the extent we have assets remaining after paying our and our subsidiaries' liabilities, we are obligated to pay amounts due on any senior preferred stock that we issue prior to and any amounts due on any or all of our Series E, F, G and H preferred stock then outstanding and any other pari passu preferred stock that we may issue in the future on a pari passu basis with amounts due on any or all of our preferred stock then outstanding. We are permitted to issue up to \$50.0 million aggregate liquidation preference of senior preferred stock without the consent of the holders of our mandatory convertible preferred stock.

The value of our mandatory convertible preferred stock may be adversely affected by modifications to our capital structure for which the conversion rate will not be adjusted.

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

Delaware law and the terms of our senior secured credit facility and debt indentures may restrict us from paying cash dividends on our mandatory convertible preferred stock.

Delaware law provides that we may pay dividends on the mandatory convertible preferred stock only to the extent that assets are legally available to pay such dividends. Legally available assets mean the amount of our surplus. Our

surplus is the amount by which our total assets exceed the sum of (x) our total liabilities, including our contingent liabilities, and (y) the amount of our capital. In accordance with Delaware law, the amount of our total assets and total liabilities is determined by our board of directors each time we intend to declare dividends. If there is no surplus, legally available assets means, in the case of a dividend, the amount of our net profits for the fiscal year in which the payment occurs and/or the preceding fiscal year.

The terms of our senior secured credit facility and our other long-term debt instruments limit our ability to pay cash dividends on any shares of our mandatory convertible preferred stock.

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Furthermore, if we are in default under our senior secured credit facility, our ability to pay cash dividends will be limited in the absence of a waiver from that default or an amendment to our senior secured credit facility. Similar prohibitions may be applicable under our debt indentures. In these circumstances, we cannot assure you that we will be able to successfully obtain such waivers or negotiate an amendment.

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

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

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

The conversion rate and payment you may receive in respect of shares of mandatory convertible preferred stock converted in connection with certain cash acquisitions of us may not adequately compensate you for the lost option time value of your mandatory convertible preferred stock as a result of such fundamental change.

If certain cash acquisitions of us occur on or prior to November 17, 2008, under certain circumstances, we will (1) permit conversion of our mandatory convertible preferred stock during the period beginning on the date that is 15 days prior to the anticipated effective date of the applicable cash acquisition and ending on the date that is 15 days after the actual effective date and (2) pay converting holders an amount equal to the sum of any accumulated and unpaid dividends on shares of our mandatory convertible preferred stock that are converted plus the present value of all remaining dividend payments on such shares through and including November 17, 2008, as described under "Description of Mandatory Convertible Preferred Stock—Conversion—Conversion Upon Cash Acquisition; Cash Acquisition Dividend Make-Whole Amount and Public Acquirer Change of Control." The applicable conversion rate will be determined based on the date on which the transaction becomes effective and the price paid per share of our common stock in such transaction as described under "Description of Mandatory Convertible Preferred Stock—Conversion—Conversion Upon Cash Acquisition; Cash Acquisition Dividend Make-Whole Amount and Public Acquirer Change of Control." While the conversion rate and the additional payment amount is designed to compensate

you for the lost option time value of your mandatory convertible preferred stock as a result of such transaction, the amount of the make whole premium is only an approximation of such lost value and may not adequately compensate you for such loss.

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

The number of shares of common stock that you are entitled to receive upon conversion is subject to adjustment for certain events, including from stock splits and combinations, stock dividends, certain cash dividends and certain other actions by us or a third party that modify our capital structure. If the conversion rate is adjusted, under certain circumstances, you might be required to include an amount in income for federal income tax purposes, notwithstanding the fact that you do not actually receive such distribution. In addition, non-U.S. holders of the mandatory convertible preferred stock may, in certain circumstances, be deemed to have received a distribution subject to U.S. federal withholding tax requirements.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- our high level of indebtedness;
- our ability to make interest and principal payments on our debt and satisfy the other covenants contained in our senior secured credit facility and other debt agreements;
- our ability to improve the operating performance of our existing stores in accordance with our long term strategy;
- our ability to hire and retain pharmacists and other store personnel;
- our ability to open or relocate stores according to our real estate development program;
- the outcomes of pending lawsuits and governmental investigations;
- competitive pricing pressures and continued consolidation of the drugstore industry; and
- the efforts of third-party payors to reduce prescription drug reimbursements and encourage mail order, changes in state or federal legislation or regulations, the success of planned advertising and merchandising strategies, general economic conditions and inflation, interest rate movements, access to capital, and our relationships with our suppliers.

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

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USE OF PROCEEDS

We estimate that we will receive approximately \$110.5 million in net proceeds from the sale of the 4,600,000 shares of mandatory convertible preferred stock offered hereby (\$125.1 million if the underwriters exercise their over-allotment option in full). We intend to use all of the net proceeds, plus available cash, to redeem, at a purchase price of 105% of the liquidation preference, plus accrued dividends, all of our outstanding shares of Series F preferred stock (1,176,497 shares, \$100 liquidation preference per share).

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CAPITALIZATION

The following table sets forth our consolidated cash and cash equivalents and total capitalization as of May 28, 2005: (i) on an actual basis, (ii) as adjusted to give effect to the redemption of our 11.25% senior notes due 2008 and the declaration and payment of a regularly scheduled dividend on each of the Series F, G and H preferred stock in the amount of \$2,307, \$2,014 and \$1,722, respectively, which dividends were paid in additional shares of the respective series of preferred stock and (iii) as further adjusted to give effect to this offering, including the anticipated use of proceeds therefrom.

	May 28, 2005		
	Actual	As Adjusted	As Further Adjusted
	(In thousands, except share amounts)		
Cash and cash equivalents ⁽¹⁾	\$ 135,037	\$ 135,037	\$ 120,487
Long-term debt, including current portion:			
Secured Debt: ⁽²⁾			
Senior credit facility:			
Revolving Credit Facility due 2009	\$ —	\$ —	—
Term Loan due 2009	447,750	447,750	447,750
12.5% senior secured notes due 2006 ⁽³⁾	139,816	139,816	139,816
8.125% senior secured notes due 2010 ⁽⁴⁾	356,666	356,666	356,666
9½% senior secured notes due 2011	300,000	300,000	300,000
7½% senior secured notes due 2015	200,000	200,000	200,000
Other secured debt	2,321	2,321	2,321
	1,446,553	1,446,553	1,446,553
Lease Financing Obligations	174,915	174,915	174,915
Unsecured Debt:			
6.0% fixed-rate senior notes due 2005	38,047	38,047	38,047

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4.75% convertible notes due 2006 ⁽⁵⁾	247,875	247,875	247,875
7.125% senior notes due 2007	184,074	184,074	184,074
11.25% senior notes due 2008 ⁽⁶⁾	150,000	—	—
6.125% fixed-rate senior notes due 2008	150,000	150,000	150,000
9.25% senior notes due 2013 ⁽⁷⁾	148,079	148,079	148,079
6.875% senior debentures due 2013	184,773	184,773	184,773
7.7% notes due 2027	295,000	295,000	295,000
6.875% fixed-rate senior notes due 2028	128,000	128,000	128,000
	1,525,848	1,375,848	1,375,848
Total debt	3,147,316	2,997,316	2,997,316
Stockholders' equity:			
Series E preferred stock, par value \$1 per share, liquidation preference \$50 per share, 2,500,000 shares authorized, 2,500,000 shares issued and outstanding actual, as adjusted and as further adjusted	120,000	120,000	120,000
Series F preferred stock, par value \$1 per share, liquidation preference \$100 per share, 2,000,000 shares authorized, 1,153,430 shares issued and outstanding actual, 1,176,497 shares issued and outstanding as adjusted, no shares issued and outstanding as further adjusted ⁽⁸⁾	115,343	117,650	—

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	May 28, 2005		
	Actual	As Adjusted	As Further Adjusted
	(In thousands, except share amounts)		
Series G preferred stock, par value \$1 per share, liquidation preference \$100 per share, 2,000,000 shares authorized, 1,150,600 shares issued and outstanding actual, 1,170,737 shares issued and outstanding as adjusted and as further adjusted	115,060	117,074	117,074
Series H preferred stock, par value \$1 per share, liquidation preference \$100 per share, 2,000,000 shares authorized, 1,147,770 shares issued and outstanding actual, 1,164,991 shares issued and outstanding as adjusted, and as further adjusted	114,777	116,499	116,499
Series I preferred stock, par value \$1 per share, liquidation preference \$25 per share, 5,200,000 shares authorized, no shares issued and outstanding actual and as adjusted, 4,600,000 shares issued and outstanding as further adjusted ⁽⁹⁾	—	—	110,525
Common stock, par value \$1 per share, 1,000,000,000 shares authorized, 520,903,000 shares issued and outstanding actual, as adjusted and as further adjusted	520,903	520,903	520,903
Additional paid-in capital ⁽¹⁰⁾	3,119,513	3,113,470	3,111,928

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Accumulated deficit ⁽¹¹⁾	(3,722,722)	(3,731,908)	(3,737,791)
Accumulated other comprehensive loss	(22,005)	(22,005)	(22,005)
Total stockholders' equity	360,869	351,683	337,133
Total capitalization	3,508,185	3,348,999	3,334,449

- (1) As further adjusted amount reflects the difference between the net proceeds from the sale of our Series I preferred stock offered hereby and the redemption of the outstanding shares of Series F stock. As further adjusted cash would be \$135,037 if the underwriters exercise their over-allotment in full. See "Use of Proceeds."
- (2) Does not include off balance sheet obligations under our accounts receivable securitization program in the amount of \$150,000.
- (3) Represents principal amount of \$142,025 less unamortized discount of \$2,209.
- (4) Represents principal amount of \$360,000 less unamortized discount of \$3,334.
- (5) Represents principal amount of \$250,000 less unamortized discount of \$2,125.
- (6) Reflects the early redemption of the full outstanding balance of our 11.25% senior notes. The redemption was financed by additional proceeds from our accounts receivable securitization program.
- (7) Represents principal amount of \$150,000 less unamortized discount of \$1,921.
- (8) As further adjusted reflects the redemption of 1,176,497 shares of outstanding Series F preferred stock. See "Use of Proceeds."
- (9) Represents net proceeds from the sale of the mandatory convertible preferred stock offered hereby. The as further adjusted net proceeds from the sale of the mandatory convertible preferred stock would be \$125,075 if the underwriters exercise their over-allotment option in full and the number of shares issued would be 5,200,000.
- (10) As adjusted additional paid in capital is reduced by the payment, in shares, of the regularly scheduled dividends on each of the Series F, G and H preferred stock. As further adjusted additional paid in capital reflects a cash dividend payment on the Series F preferred stock of \$1,542 that accrued from the last scheduled dividend through the redemption date.
- (11) As adjusted amount reflects a charge of \$9,186 incurred for the early redemption of our 11.25% senior notes. As further adjusted amount reflects the redemption of 1,176,497 shares of outstanding Series F preferred stock that is in excess of the liquidation preference.

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PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY

Our common stock, par value \$1.00 per share, is listed on the New York and Pacific Stock Exchanges under the symbol "RAD." As of August 10, 2005, we had approximately 19,863,810 record shareholders and had outstanding 521,583,225 shares of common stock. Quarterly high and low stock prices, based on closing sales prices per share on the New York Stock Exchange, are shown below. The last reported sale price for our common stock on August 16, 2005 was \$4.42 per share.

	High	Low
Fiscal Year 2006		
First quarter	\$ 4.24	\$ 3.49
	\$ 4.83	\$ 3.96

Second quarter
(through August 16, 2005)

Fiscal Year 2005

First quarter	\$ 5.75	\$ 4.53
Second quarter	\$ 5.38	\$ 4.38
Third quarter	\$ 4.58	\$ 3.35
Fourth quarter	\$ 3.81	\$ 3.41

Fiscal Year 2004

First quarter	\$ 3.90	\$ 2.17
Second quarter	\$ 5.05	\$ 3.67
Third quarter	\$ 6.30	\$ 4.73
Fourth quarter	\$ 6.40	\$ 5.25

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

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DESCRIPTION OF MANDATORY CONVERTIBLE PREFERRED STOCK

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

General

Our certificate of incorporation, as amended, authorizes the issuance of 20,000,000 shares of preferred stock, par value \$1.00 per share, in one or more series and on the terms and conditions determined by our board of directors. When issued, our mandatory convertible preferred stock will constitute a single series of our preferred stock, consisting of 4,600,000 shares (or 5,200,000 shares if the underwriters exercise in full their over-allotment option in accordance with the procedures set forth in "Underwriting"). The liquidation preference of our mandatory convertible preferred stock will be \$25.00 per share, plus an amount equal to the sum of all accumulated and unpaid dividends. The holders of shares of our mandatory convertible preferred stock will have no preemptive rights. All of the shares of our mandatory convertible preferred stock, when issued and paid for, will be fully paid and non-assessable. See "Description of Capital Stock—Preferred Stock" in the accompanying prospectus.

Our mandatory convertible preferred stock will rank senior to all of our currently outstanding common stock and common stock that we may issue in the future as to payment of dividends and distribution of assets upon our dissolution, our liquidation or the winding up of our affairs. As of August 10, 2005, we had approximately 521,538,225 shares of common stock outstanding. Our mandatory convertible preferred stock will rank on parity with our Series E, F, G and H preferred stock and any Series E, F, G and H preferred stock that we may issue in the future as to payment of dividends and distribution of assets upon our dissolution, our liquidation or the winding up of our

affairs. As of June 30, 2005, we had approximately 2,500,000 shares of Series E (representing an aggregate liquidation preference of \$125.0 million), 1,176,497 shares of Series F (representing an aggregate liquidation preference of \$117.6 million), 1,170,139 shares of Series G (representing an aggregate liquidation preference of \$117.0 million) and 1,164,991 shares of Series H (representing an aggregate liquidation preference of \$116.5 million) preferred stock outstanding. We intend to use the net proceeds from the offering of the mandatory convertible preferred stock to redeem all outstanding shares of the Series F preferred stock as described under "Use of Proceeds."

The terms of our mandatory convertible preferred stock restrict our ability to issue capital stock that ranks senior to our mandatory convertible preferred stock with an aggregate liquidation preference in excess of \$50.0 million. See "—Voting Rights."

Under Delaware law, we may pay dividends on our mandatory convertible preferred stock, whether in cash or otherwise, only to the extent that assets are legally available to pay such dividends.

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

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

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

When the need to make a determination of legally available assets arises, the amount of our total assets and liabilities and the amount of our capital will be determined by our board of directors in accordance with Delaware law. As of the date of this prospectus supplement, and before giving effect

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to the consummation of this offering, the anticipated use of proceeds therefrom to redeem shares of Series F preferred stock, we had a surplus of at least \$130 million.

Dividends

General

Dividends on our mandatory convertible preferred stock will be payable quarterly, if declared, on the 1st calendar day (or the following business day if the 1st is not a business day) of February, May, August and November of each year (each a "dividend payment date") at the annual rate of \$1.3752 per share. The initial dividend on our mandatory convertible preferred stock assuming our issue date is August 22, 2005, will be \$0.2635 per share, and will be payable, if declared, on November 1, 2005. Each subsequent quarterly dividend on our mandatory convertible preferred stock, if declared, will be \$0.3438 per share; provided, however, that, unless the mandatory convertible preferred stock is either earlier converted, redeemed or otherwise retired, the final dividend will be \$0.4049 and will be payable, if declared, on November 17, 2008.

The amount of dividends payable on each share of our mandatory convertible preferred stock for each full quarterly period will be computed by dividing the annual dividend rate by four. The amount of dividends payable for any other

period that is shorter or longer than a full quarterly dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months.

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

We are only obligated to pay a dividend on our mandatory convertible preferred stock if our board of directors or an authorized committee of our board declares the dividend payable and we have assets that legally can be used to pay the dividend. The terms of our senior credit facility limit our ability to pay cash dividends on any shares of our preferred stock to \$60 million per year, and only permit such payments if no default or event of default has occurred and is continuing under our senior credit facility. The terms of our debt indentures also limit our ability to pay cash dividends on any shares of our preferred stock. Dividends on our series E preferred stock are approximately \$8.75 million for fiscal year 2006 and dividends on our Series G and H preferred stock are approximately \$15.0 million per year in the aggregate, although these dividends may be paid in additional shares of the applicable series of preferred stock. Furthermore, if we are in default under our credit facilities or indentures, our ability to pay cash dividends will be limited in the absence of a waiver of such default or an amendment to our senior credit facility or indentures.

Dividends on our mandatory convertible preferred stock will be cumulative, whether or not there are assets legally available for the payment of such dividends. This means that, if our board of directors or an authorized committee of our board fails to declare a dividend, the dividend will accumulate until declared and paid. Accumulated unpaid dividends will cumulate dividends at the annual rate of 5.50% and are payable in the manner provided below.

We may pay dividends in cash, shares of common stock, or any combination thereof, as we determine in our sole discretion. Shares of our common stock delivered to the transfer agent as dividends on behalf of the holders of our mandatory convertible preferred stock will be sold for cash. We will serve as the designated agent of the holders of shares of our mandatory convertible preferred stock in causing the transfer agent to deliver the shares of common stock for sale. If we pay dividends by delivering shares of our common stock to the transfer agent, we must deliver to the transfer agent the number of shares of our common stock, which, when sold, will result in net cash proceeds to be distributed to the holders in an amount equal to the cash dividends otherwise payable. To pay

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dividends in this manner, we must provide the transfer agent with a registration statement permitting the immediate sale of the shares of common stock in the public market. In addition, we may elect to deliver shares of our common stock to the transfer agent to sell on our behalf pursuant to such registration statement in order to finance our payment of a cash dividend. We cannot assure you that we will or will be able to timely file, cause to be declared effective or keep effective such a registration statement. See "Risk Factors—We cannot assure you that we will file or will be able to file, cause to be declared effective or keep effective, as the case may be, the registration statement required to permit us to pay dividends on our mandatory convertible preferred stock in shares of our common stock."

If we pay dividends in shares of our common stock by delivering them to the transfer agent, those shares will be owned by the holders of shares of our mandatory convertible preferred stock upon delivery to the transfer agent, and the transfer agent will hold those shares and the net cash proceeds from the sale of those shares for the exclusive

benefit of the holders. By purchasing our mandatory convertible preferred stock, you are deemed to appoint us as your agent in causing the transfer agent to deliver the shares of common stock for sale upon payment of dividends on our mandatory convertible preferred stock.

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

If our board of directors or an authorized committee of our board does not declare a dividend in respect of any dividend payment date, the board of directors or an authorized committee may declare and pay the dividend on any other date, whether or not a dividend payment date. The persons entitled to receive the dividend will be holders of our mandatory convertible preferred stock as they appear on our stock register on a date selected by the board of directors or an authorized committee. That date must (1) not precede the date our board of directors or an authorized committee of our board declares the dividend payable and (2) not be more than 60 days prior to the date the dividend is paid.

Payment Restrictions

If we do not pay a dividend on a dividend payment date, then, until all accumulated and unpaid dividends on our mandatory convertible preferred stock for all prior dividend periods are declared and paid:

- We may not take any of the following actions with respect to any of our capital stock that ranks junior to our mandatory convertible preferred stock ("junior capital stock") as to payment of dividends or the distribution of assets upon our dissolution, our liquidation or the winding up of our affairs:
 - declare or pay any dividend or make any distribution of assets on such junior capital stock, other than dividends or distributions made in shares of our capital stock that ranks junior to our mandatory convertible preferred stock or securities that rank junior to our mandatory convertible preferred stock that are exchangeable for or convertible into our capital stock that ranks junior to our mandatory convertible preferred stock as to payment of dividends and the distribution of assets upon our dissolution, our liquidation or the winding up of our affairs; or
 - redeem, purchase or otherwise acquire, pay or make available any monies for a sinking fund for such junior capital stock, except upon conversion into or in exchange for our capital stock that ranks junior to our mandatory convertible preferred stock as to payment of dividends and the distribution of assets upon our dissolution, our liquidation or the winding up of our affairs.

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- We may not redeem, purchase or otherwise acquire any of our capital stock that ranks equally with our mandatory convertible preferred stock as to payment of dividends or the distribution of assets upon our dissolution, our liquidation or the winding up of our affairs, except upon conversion into or in exchange for our capital stock that ranks equally with or junior to our mandatory convertible preferred stock as to payment of dividends and the distribution of assets upon our dissolution, our liquidation or the winding up of our affairs; provided, however, that:
 -

the equally ranking capital stock contains terms and conditions (including, without limitation, with respect to the payment of dividends, dividend rates, liquidation preferences, voting and representation rights, payment restrictions, anti-dilution rights, change of control rights, covenants, remedies and conversion and redemption rights) that are not materially less favorable, taken as a whole, to us or to the holders of our mandatory convertible preferred stock than those contained in the capital stock that is converted into or exchanged for such equally ranking capital stock, as determined in good faith by our board of directors,

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

Notwithstanding the restrictions described in the immediately preceding paragraph, we may redeem, repurchase or otherwise acquire for consideration, parity stock pursuant to a purchase or exchange offer made to all holders of such parity stock and on the same terms to all holders of other parity stock, including the mandatory convertible preferred stock.

The foregoing restrictions do not restrict our ability to declare and pay dividends, whether in cash or shares of capital stock, on capital stock that ranks equally with our mandatory convertible preferred stock as to the payment of dividends or the distribution of assets upon our dissolution, our liquidation, or the winding up of our affairs, including our Series E, F (which will be redeemed with the proceeds of this offering), G and H preferred stock.

Conversion

General

Each share of mandatory convertible preferred stock will be convertible into a specified number of newly issued shares of our common stock equal to the applicable conversion rate. The applicable conversion rate will vary depending upon whether:

- your mandatory convertible preferred stock is converted on the automatic conversion date; or
- we cause you to convert your mandatory convertible preferred stock prior to the automatic conversion date, as described below under "—Automatic Conversion of Our Mandatory Convertible Preferred Stock," pursuant to our provisional conversion right described below under "—Provisional Conversion at the Option of Rite Aid;" or
- you convert your mandatory convertible preferred stock prior to the automatic conversion date pursuant to the conversion right described below under "—Conversion at the Option of the Holder;" or

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- we are the subject of specified cash acquisitions prior to the automatic conversion date, and you have converted your mandatory convertible preferred stock through an exercise of the early conversion right as described in "—Conversion Upon Cash Acquisition; Cash Acquisition

Dividend Make-Whole Amount and Public Acquirer Change of Control."

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

Conversion of the mandatory convertible preferred stock will occur on the automatic conversion date unless you exercise your optional conversion right or, following a qualifying cash acquisition, your early conversion right, or we exercise our provisional conversion right.

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

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

Automatic Conversion of Our Mandatory Convertible Preferred Stock

Each share of our mandatory convertible preferred stock, unless previously converted, will automatically convert, on November 17, 2008, or the "automatic conversion date," into a number of newly issued shares of our common stock equal to the conversion rate described in the next paragraph. The holders of shares of mandatory convertible preferred stock on the automatic conversion date will have the right to receive a payment of cash, shares of our common stock, or any combination thereof, as we determine in our sole discretion, in an amount equal to the accumulated and unpaid dividends on our mandatory convertible preferred stock as of the automatic conversion date (taking into account any payment of such dividends on the automatic conversion date), whether or not declared, out of legally available assets. To the extent we have these assets available and we pay some or all of the amount of accumulated and unpaid dividends in shares of our common stock, the number of shares of our common stock issuable to you in respect of such accumulated and unpaid

dividends will equal the amount of accumulated and unpaid dividends on our mandatory convertible preferred stock on the automatic conversion date that we determine to pay in shares of our common stock divided by the "applicable market value" (as defined below) per share of our common stock used for purposes of determining the conversion rate. In the event we pay some or all of the amount of accumulated and unpaid dividends in shares of our common stock, we will notify the holders of shares of our mandatory convertible preferred stock whether such amount will be payable in full in shares of our common stock or any combination of cash and shares of our common stock, and will specify the combination in the notice, at least 3 business days prior to the first trading day that will be included in the calculation of applicable market value for purposes of determining the conversion rate applicable to such conversion.

The conversion rate for the automatic conversion date, which is the number of newly issued shares of our common stock issuable upon conversion of each share of our mandatory convertible preferred stock on that date, will, subject to adjustment under certain circumstances as described under "—Anti-dilution Adjustments" below, be as follows:

- If the "applicable market value" of our common stock (as defined below) is equal to or greater than \$5.30, which we call the "threshold appreciation price", then the conversion rate per share of mandatory convertible preferred stock will be 4.7134 shares of our common stock (which we call the "minimum conversion rate"), which is equal to \$25.00 divided by \$5.30 (the threshold appreciation price).

Accordingly, if the market price for our common stock increases after the date of this prospectus supplement but that market price is equal to the threshold appreciation price on the automatic conversion date, the value of the shares of our common stock issued upon conversion of each such share of mandatory convertible preferred stock will equal \$25.00. If the market price for our common stock increases after the date of this prospectus supplement and that market price is greater than the threshold appreciation price on the automatic conversion date, the value of the shares of our common stock issued upon conversion of each such share of mandatory convertible preferred stock, assuming that the market price on the automatic conversion date is the same as the applicable market value of our common stock, will be greater than \$25.00.

- If the applicable market value of our common stock is less than the threshold appreciation price but greater than \$4.42 (which we call the "initial stock price"), the conversion rate will be equal to \$25.00 divided by the applicable market value of our common stock per share of our mandatory convertible preferred stock. Accordingly, if the market price for our common stock increases after the date of this prospectus supplement but that market price is less than the threshold appreciation price on the automatic conversion date, the value of the shares of our common stock issued upon conversion of each share of our mandatory convertible preferred stock, assuming that the market price on the automatic conversion date is the same as the applicable market value of our common stock, will equal \$25.00.

- If the applicable market value of our common stock is less than or equal to the initial stock price, the conversion rate (which we call the "maximum conversion rate") will be 5.6561 shares of our common stock per share of our mandatory convertible preferred stock, which is equal to \$25.00 divided by the initial stock price. Accordingly, if the market price of our common stock on the automatic conversion date equals the initial stock price, the value of those shares, assuming that this market price is the same as the applicable market value of our common stock, will equal \$25.00. If the market price for our common stock decreases to an amount that is less than the initial stock price on the automatic conversion date, the value of the shares of our common stock issued upon conversion of each share of our mandatory convertible preferred stock, assuming that the market price on the automatic conversion date is the same as the

applicable market value of our common stock, will be less than \$25.00. Holders of our mandatory convertible preferred stock will realize the entire decline in equity value if, at the automatic conversion date, the applicable market value of our common stock is less than the initial stock price.

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

We refer to the minimum conversion rate and the maximum conversion rate collectively as the "fixed conversion rates."

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

The "volume-weighted average price," with respect to a trading day, means such price as displayed on Bloomberg (or any successor service) page RAD <equity> VAP in respect of the period from 9:30 a.m. to 4:00 p.m., New York City time, on such trading day; or if such price is not available, the "applicable stock price" means the closing price (as defined below).

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

A "trading day" means a day during which trading in securities generally occurs on the New York Stock Exchange or, if our common stock or any security distributed in a spin-off or any other common stock, as the case may be, is not listed on the New York Stock Exchange, on the principal other U.S. national or regional securities exchange on which our common stock, any security distributed in a spin-off or such other common stock, as the case may be, is then listed or, if our common stock, any security distributed in a spin-off or such other common stock, as the case may be, is not listed on a U.S. national or regional securities exchange, as reported by the Nasdaq stock market or, if our common stock, any security distributed in a spin-off or such other common stock, as the case may be, is not so reported, on the principal over-the-counter market on which our common stock, any security distributed in a spin-off or such other common stock, as the case may be, is then traded. No day on

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which our common stock, any security distributed in a spin-off or such other common stock, as the case may be, experiences any of the following, however, will count as a trading day:

- any suspension of or limitation imposed on trading of our common stock, any security distributed in a spin-off or such other common stock, as the case may be, on the principal U.S. national or regional securities exchange or association or over-the-counter market on which it is listed or traded;
- any event (other than an event listed in the bullet below) that disrupts or impairs the ability of market participants in general to effect transactions in or obtain market values for our common stock, any security distributed in a spin-off or such other common stock, as the case may be, on the principal U.S. national or regional securities exchange or association or over-the-counter market on which it is listed or traded; or
- the principal U.S. national or regional securities exchange or association or over-the-counter market on which our common stock, any security distributed in a spin-off or such other common stock, as the case may be, is listed or trades closes on any exchange business day prior to its scheduled closing time unless, in the case of an exchange or the Nasdaq stock market, such earlier closing time is announced by the exchange or association at least one hour prior to the earlier of (1) the actual closing time for the regular trading session on that exchange and (2) the submission deadline for orders to be entered into the exchange for execution on that business day.

Provisional Conversion at the Option of Rite Aid

Prior to the automatic conversion date, we may, at our option cause the conversion of all, but not less than all, the shares of our mandatory convertible preferred stock then outstanding for shares of our common stock at the minimum conversion rate of 4.7134 shares of our common stock for each share of our mandatory convertible preferred stock, subject to adjustment under the circumstances described under "Anti-dilution Adjustments" below; provided that we may not send the notice of provisional conversion to you unless the closing price per share of our common stock on the day of such notice exceeded 180% of the threshold appreciation price (or \$9.55) for at least 20 trading days within a period of 40 consecutive trading days ending on the trading day prior to the notice date. Such notice must specify the date for the provisional conversion which shall be at least 30, but not more than 60, days from the date of such notice. In addition, if we elect to deliver some or all of the amount of accumulated and unpaid dividends and the present value of all remaining dividend payments on your mandatory convertible preferred stock through and including November 17, 2008, in shares of our common stock (as described below), such notice will indicate whether such amount will be payable in full in shares of our common stock or any combination of cash and shares of our common stock, and we

will specify the combination in the notice. We will be able to cause this conversion only if, in addition to issuing you shares of our common stock as described above, we either pay you in cash, the sum of (which we refer to as the "dividend make-whole amount") (1) an amount equal to any accumulated and unpaid dividends on your shares of our mandatory convertible preferred stock, whether or not declared, plus (2) the present value of all remaining dividend payments on your shares of mandatory convertible preferred stock through and including November 17, 2008, in each case, out of legally available assets, or increase the number of shares of our common stock to be issued on conversion by an amount equal to the dividend make-whole amount, divided by the closing price of our common stock determined as of the second trading day immediately preceding the conversion date. The present value of the remaining dividend payments will be computed using a discount rate equal to the Treasury Yield. "Treasury Yield" means the weekly average yield at the time of computation for United States Treasury securities at constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) which has become publicly available at least two business days prior to the conversion date (or, if such Statistical Release is no longer published, any publicly available source for similar market data)) most nearly equal to the then-remaining term to November 17, 2008; provided, however, that if the then-remaining term to November 17, 2008 is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the Treasury Rate will be obtained by linear interpolation

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(calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given, except that if the then-remaining term to November 17, 2008 is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

Conversion at the Option of the Holder

The holders of shares of mandatory convertible preferred stock have the right to convert them, in whole or in part, at any time prior to the automatic conversion date, into shares of our common stock at the minimum conversion rate of 4.7134 shares of our common stock for each share of our mandatory convertible preferred stock, subject to adjustment under certain circumstances as described under "—Anti-dilution Adjustments" below.

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

Except as described above, upon any optional conversion of our mandatory convertible preferred stock, we will make no payment or allowance for unpaid dividends, whether or not in arrears, on those shares of mandatory convertible preferred stock, or for dividends or distributions on the shares of our common stock issued upon conversion.

Conversion Upon Cash Acquisition; Cash Acquisition Dividend Make-Whole Amount and Public Acquirer Change of Control

General. If a cash acquisition (as defined below) occurs, we will provide for the conversion of shares of our mandatory convertible preferred stock and a cash acquisition dividend make-whole amount (as defined below) by:

- permitting holders to convert their shares of our mandatory convertible preferred stock at any time during the period (the "cash acquisition conversion period") beginning on the date that is 15 days prior to the anticipated effective date of such cash acquisition and ending on the date that is 15 days after the actual effective date (the "effective date") at the conversion rate (the "cash acquisition conversion rate") specified in the table below; and
- paying converting holders an amount equal to the sum of (a) any accumulated and unpaid dividends on your shares of our mandatory convertible preferred stock plus (b) the present value of all remaining dividend payments on your shares of mandatory convertible preferred stock through and including November 17, 2008, calculated as set forth below (subject to our ability to satisfy the make-whole amount by increasing the number of shares to be issued on conversion).

We will notify holders, at least 20 days prior to the anticipated effective date of such cash acquisition, of the anticipated effective date of such transaction and whether we elect, if such transaction also constitutes a public acquirer change of control, to modify the conversion obligation as described below under "—Public Acquirer Change of Control" in lieu of permitting conversion at the cash acquisition conversion rate and paying the cash acquisition make-whole amount. In addition, if we elect to deliver some or all of the amount of accumulated and unpaid dividends and the present value of all remaining dividend payments on your mandatory convertible preferred stock through and including November 17, 2008, in shares of our common stock (as described below), such notice will indicate whether such amount will be payable in full in shares of our common stock or any combination of cash and shares of our common stock, and we will specify the combination in the notice.

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Cash Acquisition Conversion Rate. The following table sets forth the cash acquisition conversion rate per share of mandatory convertible preferred stock for each hypothetical stock price and effective date set forth below:

Effective Date	Stock Price on Effective Date										
	\$1.00	\$2.50	\$4.00	\$4.42	\$4.75	\$5.00	\$5.30	\$6.00	\$6.50	\$7.00	\$9.00
August 22, 2005	5.5463	5.1090	4.8412	4.8002	4.7751	4.7596	4.7442	4.7190	4.7077	4.7003	4.6911
September 1, 2006	5.6299	5.3071	4.9569	4.8940	4.8543	4.8292	4.8040	4.7618	4.7422	4.7288	4.7080
September 1, 2007	5.6535	5.5230	5.1163	5.0175	4.9524	4.9105	4.8682	4.7979	4.7665	4.7458	4.7162
September 17, 2008	5.6561	5.6561	5.6561	5.6558	5.2632	5.0000	4.7170	4.7134	4.7134	4.7134	4.7134

A "cash acquisition" will be deemed to have occurred at such time after the original issuance of the mandatory convertible preferred stock upon the consummation of any transaction or event (whether by means of a liquidation, share exchange, tender offer, consolidation, recapitalization, reclassification, merger of us or any sale, lease or other transfer of the consolidated assets of ours and our subsidiaries) or a series of related transactions or events pursuant to which our common stock is exchanged for, converted into or constitutes solely the right to receive cash, securities or other property more than 10% of which consists of cash, securities or other property that are not, or upon issuance will not be, traded on the New York Stock Exchange or quoted on the Nasdaq National Market.

The cash acquisition conversion rate will be determined by reference to the table above and is based on the effective date and the price (the "stock price") paid per share of our common stock in such transaction. If the holders of our common stock receive only cash in the cash acquisition, the stock price shall be the cash amount paid per share. Otherwise the stock price shall be the average of the closing sale price per share of our common stock on the 10 trading days up to but not including the effective date.

The stock prices set forth in the first row of the table (i.e., the column headers), will be adjusted as of any date on which the fixed conversion rates of our mandatory convertible preferred stock are adjusted. The adjusted stock prices will equal the stock prices applicable immediately prior to such adjustment multiplied by a fraction, the numerator of which is the minimum conversion rate immediately prior to the adjustment giving rise to the stock price adjustment and the denominator of which is the minimum conversion rate as so adjusted. Each of the conversion rates in the table will be subject to adjustment in the same manner as each fixed conversion rate as set forth under "—Anti-dilution Adjustments."

The exact stock price and effective dates may not be set forth on the table, in which case:

1. if the stock price is between two stock price amounts on the table or the effective date is between two dates on the table, the cash acquisition conversion rate will be determined by straight-line interpolation between the cash acquisition conversion rates set forth for the higher and lower stock price amounts and the two dates, as applicable, based on a 365 day year;
2. if the stock price is in excess of \$11.00 per share (subject to adjustment as described above), then the cash acquisition conversion rate will be the minimum conversion rate, subject to adjustment; and
3. if the stock price is less than \$1.00 per share (subject to adjustment as described above), then the cash acquisition conversion rate will be the maximum conversion rate, subject to adjustment.

Cash Acquisition Dividend Make-Whole Payment. For any shares of mandatory convertible preferred stock that are converted during the cash acquisition conversion period, in addition to the shares of common stock issued upon conversion, we must, in our sole discretion, (a) either pay you in cash, the sum of (which we refer to as the "cash acquisition dividend make-whole amount") (1) an amount equal to any accumulated and unpaid dividends on your shares of our mandatory convertible preferred stock, whether or not declared, plus (2) the present value of all remaining dividend

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payments on your shares of mandatory convertible preferred stock through and including November 17, 2008, in each case, out of legally available assets, or (b) increase the number of shares of our common stock to be issued on conversion by an amount equal to the cash acquisition dividend make-whole amount, divided by the stock price. The present value of the remaining dividend payments will be computed using a discount rate equal to 10%.

Our obligation to deliver shares at the cash acquisition conversion rate and pay the cash acquisition dividend make-whole amount could be considered a penalty, in which case the enforceability thereof would be subject to general principles of reasonableness of economic remedies.

Public Acquirer Change of Control. Notwithstanding the foregoing, and in lieu of permitting conversion at the cash acquisition conversion rate and paying the cash acquisition dividend make-whole amount as set forth above, in the case of a "public acquirer change of control" (as defined below) we may elect that, from and after the effective date of

such public acquirer change of control, the right to convert a share of mandatory convertible preferred stock will be changed into a right to convert such share into a number of shares of "acquirer common stock" (as defined below). Each fixed conversion rate following the effective date of such transaction will be a number of shares of acquirer common stock equal to the product of:

- such fixed conversion rate in effect immediately prior to the effective date of such public acquirer change of control, times
- the average of the quotients obtained, for each trading day in the 10 consecutive trading-day period commencing on the trading day next succeeding the effective date of such public acquirer change of control (the "valuation period"), of:
 - (i) the "acquisition value" of our common stock on each such trading day in the valuation period, divided by
 - (ii) the closing sale price of the acquirer common stock on each such trading day in the valuation period.

In addition to the adjustments to the fixed conversion rates, a corresponding adjustment will be made to the threshold appreciation price and the initial stock price.

The "acquisition value" of our common stock means, for each trading day in the valuation period, the value of the consideration paid per share of our common stock in connection with such public acquirer change of control, as follows:

- for any cash, 100% of the face amount of such cash,
- for any acquirer common stock, 100% of the closing sale price of such acquirer common stock on each such trading day; and
- for any other securities, assets or property, 100% of the fair market value of such security, asset or property on each such trading day, as determined by two independent nationally recognized investment banks selected by the transfer agent for this purpose.

After the adjustment of the fixed conversion rates in connection with a public acquirer change of control, the conversion rates will be subject to further similar adjustments in the event that any of the events described above occur thereafter.

A "public acquirer change of control" is any cash acquisition where the acquirer of a majority of our common stock or the person formed by or surviving such cash acquisition, or any entity that it is a direct or indirect "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act) of more than 50% of the total voting power of all shares of such acquirer's capital stock that are entitled to vote generally in the election of directors, but in each case other than us, has a class of common stock traded on the New York Stock Exchange or quoted on the Nasdaq National Market. We refer to such acquirer's or other entity's class of common stock traded on the New York Stock Exchange or quoted on the Nasdaq National Market as the "acquirer common stock."

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Anti-dilution Adjustments

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

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

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

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

- each fixed conversion rate by
- a fraction, the numerator of which shall be the number of shares of our common stock outstanding at the close of business on the date fixed for such determination plus the number of shares of our common stock which the aggregate consideration expected to be received by us upon the exercise, conversion or exchange of such rights, options, warrants or securities would purchase at such current market price and the denominator of which shall be the number of shares of our common stock outstanding at the close of business on the date fixed for such determination plus the number of shares of our common stock so offered for subscription or purchase, either directly or indirectly.

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

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

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

In the case of the payment of a dividend or other distribution on our common stock of shares of capital stock of any class or series, or similar equity interests, of or relating to a subsidiary or other business unit of ours, which we refer to as a "spin-off," each fixed conversion rate in effect immediately before the close of business on the record date fixed for determination of stockholders entitled to receive that distribution will be increased by dividing:

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

The adjustment to each fixed conversion rate under the preceding paragraph will occur on the date that is the earlier of: