RITE AID CORP
Form 11-K
June 28, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 11-K

[X] ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2001

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-5742

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

Rite Aid 401(k) Distribution Employees Saving Plan

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

Rite Aid Corporation
30 Hunter Lane
Camp Hill, Pennsylvania 17011

RITE AID 401(k) DISTRIBUTION EMPLOYEES SAVINGS PLAN

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS AS OF DECEMBER 31, 2001 AND 2000 AND FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2001:	
Statements of Net Assets Available for Benefits	2
Statements of Changes in Net Assets Available for Benefits	3
Notes to Financial Statements	4-7
SUPPLEMENTAL SCHEDULE AS OF DECEMBER 31, 2001:	

Schedule of Assets Held for Investment Purposes	8
SUPPLEMENTAL SCHEDULE AS OF DECEMBER 31, 2000:	
Schedule of Assets Held for Investment Purposes	9
SUPPLEMENTAL SCHEDULE FOR THE YEAR ENDED DECEMBER 31, 1999:	
Schedule of Prohibited Transactions	10

INDEPENDENT AUDITORS' REPORT

To the Trustee and Participants of
Rite Aid 401(k) Distribution Employees Savings Plan

We have audited the accompanying statements of net assets available for benefits of the Rite Aid 401(k) Distribution Employees Savings Plan (the "Plan") as of December 31, 2001 and 2000, and the related statements of changes in net assets available for benefits for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2001 and 2000, and the changes in net assets available for benefits for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules listed in the Table of Contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These schedules are the responsibility of the Plan's management. Such supplemental schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

/s/ Deloitte & Touche LLP

Philadelphia, Pennsylvania

June 13, 2002

RITE AID 401(k) DISTRIBUTION EMPLOYEES SAVINGS PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
DECEMBER 31, 2001 AND 2000

	2001	2000
ASSETS:		
Investments	$ 1,436,154	$ 1,276,509
Employee contributions receivable	11,730	10,127
NET ASSETS AVAILABLE FOR BENEFITS	$ 1,447,884	$ 1,286,636

See notes to financial statements.

RITE AID 401(k) DISTRIBUTION EMPLOYEES SAVINGS PLAN

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

	Year Ended December 31,	
	2001	2000
ADDITIONS:		
Employee contributions	$ 269,654	$ 270,591
Rollover contributions	4,597	270
Investment income	33,703	23,616
Net depreciation in fair value of investments	(101,301)	(166,624)
Total additions, net	206,653	127,853
DEDUCTIONS:		
Benefit payments	45,405	93,594
Total deductions	45,405	93,594

INCREASE IN NET ASSETS AVAILABLE FOR

BENEFITS	161,248	34,259	
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	1,286,636	1,252,377	
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	$ 1,447,884	$ 1,286,636	$

See notes to financial statements.

RITE AID 401(k) DISTRIBUTION EMPLOYEES SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001, 2000 AND 1999

1. PLAN DESCRIPTION

The following brief description of the Rite Aid 401(k) Distribution Employees Savings Plan (the "Plan") is provided for general informational purposes only. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

General - The Plan is a defined contribution plan sponsored by Rite Aid Corporation (the "Company"). An individual account is established for each participant and provides benefits that are based on (a) amounts the participant contributes to the participant's account, and (b) investment earnings (losses), less any administrative expenses charged to the Plan.

The Company is the Plan administrator and is responsible for the preparation of the Plan's financial statements.

Participation - The Plan covers union employees at the Rite Aid of Rome, New York Distribution Center and the Rite Aid of West Virginia Distribution Center who have completed at least one year of service, have been credited with at least 1,000 hours of service, and have attained the age of 21 years.

Contributions - Each year, a participant may contribute up to 15% of the participant's pretax annual compensation, as defined in the Plan. A participant may also contribute, or rollover, amounts representing distributions from another qualified defined benefit or defined contribution plan. There are no employer contributions.

Investment Options - The Plan provides employees with the option of investing in 10 funds. The funds vary in degree of risk and investment objective.

Payment of Benefits - Upon termination of service, a participant may elect to receive a lump sum amount equal to the value of the participant's account or installment payments.

Loans - Participants may elect to borrow against the participant's vested balances at a reasonable rate of interest as determined by the Plan administrator. A participant may borrow up to 50% of the participant's vested balance, with a minimum loan of $1,000 and a maximum loan of $50,000. A participant may only have two loans outstanding at any one time.

Vesting - A participant is vested immediately in all contributions credited to the participant's account plus actual earnings (losses) thereon.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting.

Investments - The Plan's investments are stated at fair value, except the Guaranteed Interest Account, as measured by quoted prices in an active market. Realized gain or loss on investment transactions is determined using the first-in, first-out method; investment transactions are recorded at the trade date.

The Guaranteed Interest Account ("GIA") is a group annuity insurance product issued by Prudential. Interest on the GIA is credited daily. Prudential declares the current interest rate on each successive calendar quarter which remains in effect until the end of the following calendar year for contributions received during that calendar quarter. The GIA is deemed to be benefit responsive, therefore, it is presented at contract value which approximates fair value. The average yield was 5.06%, 6.31%, and 5.61% for 2001, 2000 and 1999, respectively. As of December 31, 2001 and 2000, the crediting interest rate was 4.50% and 6.10%, respectively.

Administrative Expenses - Under the terms of the Plan agreement, costs relating to Plan administration may be paid by the Company. For the years ended December 31, 2001, 2000 and 1999, the Company as Plan sponsor has paid substantially all administrative expenses.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Plan management to make estimates and assumptions that affect the reported amounts of net assets available for benefits at the date of the financial statements and the reported changes to the Plan's net assets available for benefits during the reporting period. Actual results may differ from those estimates and assumptions.

The Plan invests in various securities including mutual funds and corporate stocks. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets available for benefits.

Derivative Instruments and Hedging Activities - On January 1, 2001, the Plan adopted the Financial Accounting Standards Board Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for

Derivative Instruments and Hedging Activities," as amended by SFAS No. 137 and SFAS No. 138. This standard establishes accounting and reporting standards for derivative instruments including certain derivative instruments embedded in other contracts, and for hedging activities. It requires an entity to recognize derivatives as either assets or liabilities in the statement of financial position and to measure those instruments at fair value. Adoption of SFAS No. 133, as amended, did not have a material impact on the financial statements of the Plan.

3. INVESTMENTS

The following presents investments that represent 5% or more of the Plan's assets:

	December 31, 2001	December 31, 2000
Prudential Guaranteed Interest Account	$ 337,563	$ 283,343
Prudential Jennison Growth Fund	277,934	302,095
Prudential Active Balanced Fund	185,456	164,243
Prudential Stock Index Fund, Class I	170,039	171,362
Prudential MoneyMart Assets Fund	150,401	100,469
Prudential International Value Fund	123,690	122,946

The Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) (depreciated) appreciated in value as follows:

	Year Ended December 31, 2001	2000	1999
Investments, at fair value:			
Mutual Funds	$(123,683)	$ (91,626)	$ 155,126
Common Stock	22,382	(74,998)	(282,140)
Total depreciation	$(101,301)	$(166,624)	$(127,014)

4. TAX STATUS

The Plan obtained its latest determination letter dated January 16, 1995, in which the Internal Revenue Service ("IRS") stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code ("IRC"). The Plan has been amended since receiving the determination letter. On February 28, 2002, the Company submitted the Plan for a new determination letter from the IRS. However, the Company, as Plan sponsor, believes that the Plan is in compliance with the applicable requirements of the IRC. Therefore, no provision for income taxes has been included in the Plan's financial statements.

5. PLAN TERMINATION

Although it has not expressed any intent to do so, the Company has the right under the Plan to terminate the Plan subject to the provisions of ERISA.

6. PARTY-IN-INTEREST TRANSACTIONS

Certain Plan investments are shares of mutual funds managed by Prudential, the custodian of the Plan. The transactions related to such investments qualify as party-in-interest transactions. The Plan also permits investment in the common stock of the Company, see Note 7. The Company is the Plan sponsor, as defined by the Plan, and, therefore, these transactions qualify as party-in-interest transactions. The Plan does not consider employer contributions or benefits paid by the Plan to be party-in-interest transactions.

7. CONTINGENCIES

As of January 1, 1999, the Plan had approximately 8% of its assets invested in Company common stock (Company Stock Fund) at a share price of $49.75. On October 12, 1999, following the Company's announcement that its previously issued financial statements should not be relied upon, the Company suspended all purchases of Company stock through the Company Stock Fund. Contributions received on or after October 12, 1999, which would otherwise have been directed to the Company Stock Fund, were invested in the Prudential MoneyMart Assets Fund and will continue to be invested in the Prudential MoneyMart Assets Fund until the participant elects otherwise.

In late 1999, the Company's Board of Directors hired a new executive management team to address and resolve various business, operational and financial challenges confronting the Company. New management began the process of reviewing the administration of the Plan for purposes of determining compliance with provisions of the Plan and regulatory requirements. Management has identified certain processes not in compliance with the provisions of the Plan or regulatory requirements, as follows:

a) During 2000 and 1999, the Company failed to withhold and contribute participants' salary deferral contributions associated with supplemental salary payments in the amounts of $825 and $110, respectively. The Company has completed an evaluation of the amount of investment income that would have been earned by the participants on such salary deferral contributions during the periods in question. The Company estimates the maximum foregone investment income on such contributions to be $126, $110 and $64 for 2001, 2000 and 1999, respectively. The Company expects to make a contribution to the respective participant accounts during 2002.

b) During 1999, the Company failed to remit in a timely manner certain employee salary deferral contributions in the amount of $20,513 to the Plan custodian, Prudential, in accordance with the Department of Labor's rules regarding the timeliness of depositing such employee contributions. The Company has completed its evaluation of the amount of investment income that would have been earned by the participants on those contributions during the period in question. During 2001, the Company made an additional contribution to the Plan to be allocated to the affected participants' accounts in the amount of $377, which represents the investment income that would have been earned by the participants had the contributions been deposited with the custodian on a timely basis.

c) The Plan was not being operated in accordance with the Plan document relating to the disbursement of minimum account balances. The Plan calls for lump-sum disbursements of a participant's account following a termination or retirement if that participant's account is not more than $5,000. As a result of the analysis completed in January 2002 related to this defect, the estimate of the minimum account balances subject to disbursement in accordance with the Plan document for the Plan years ended December 31, 2001, 2000 and 1999 is $19,296, $19,295 and $6,326, respectively. The required distributions are expected to be made.

Management believes that the processes identified for remediation would not cause the Plan to be disqualified by the IRS. Penalties, taxes and remedial payments, if any, due to non-compliance will be paid by the Company.

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RITE AID 401(k) DISTRIBUTION EMPLOYEES SAVINGS PLAN

SCHEDULE OF ASSETS HELD FOR INVESTMENT PURPOSES
DECEMBER 31, 2001

Identity of Issuer	Description of Investment	Current Value
*Prudential	Guaranteed Interest Account	$ 337,563
*Prudential	Jennison Growth Fund	277,934
*Prudential	Active Balanced Fund	185,456
*Prudential	Stock Index Fund, Class I	170,039
*Prudential	MoneyMart Assets Fund	150,401
*Prudential	International Value Fund	123,690
*Prudential	Government Income Fund	9,486
Fidelity	Magellan Fund	50,053
*Rite Aid Corporation	Company Stock Fund	35,279
Putnam	Growth & Income Fund	28,818

**Participant notes	Loan Fund	67,435
	TOTAL	$ 1,436,154

*Party-in-interest

** The loans range in interest rates from 7.50% to 10.50% and expire from 1 to 5 years.

RITE AID 401(k) DISTRIBUTION EMPLOYEES SAVINGS PLAN

SCHEDULE OF ASSETS HELD FOR INVESTMENT PURPOSES
DECEMBER 31, 2000

Identity of Issuer	Description of Investment	Curren Value
*Prudential	Jennison Growth Fund	$ 302,0
*Prudential	Guaranteed Interest Account	283,3
*Prudential	Stock Index Fund, Class I	171,3
*Prudential	Active Balanced Fund	164,2
*Prudential	International Value Fund	122,9
*Prudential	MoneyMart Assets Fund	100,4
*Prudential	Government Income Fund	4,8
Fidelity	Magellan Fund	36,1
*Rite Aid Corporation	Company Stock Fund	18,7
Putnam	Growth & Income Fund	22,6
**Participant notes	Loan Fund	49,6
	TOTAL	$ 1,276,5

* Party-in-interest

** The loans range in interest rates from 9.25% to 10.50% and expire from 1 to 20 years.

-9-

RITE AID 401(k) DISTRIBUTION EMPLOYEES SAVINGS PLAN

SCHEDULE OF PROHIBITED TRANSACTIONS
YEAR ENDED DECEMBER 31, 1999

Date Remitted to Trustee/Custodian	Period(s) Covered by Payroll	Employee Deferral Amount	Check Date
3/25/1999	1/16/1999	$ 4,754	1/21/1999
3/25/1999	1/23/1999	4,634	1/28/1999
5/7/1999	2/6/1999	25	2/11/1999
5/7/1999	2/27/1999	132	3/4/1999
5/26/1999	4/17/1999	5,710	4/22/1999
6/7/1999	4/24/1999	5,252	4/29/1999
3/23/2000	12/30/1999	6	12/30/1999

-10-

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

RITE AID 401(k) DISTRIBUTION EMPLOYEES SAVINGS PLAN

/s/ Richard J. Varmecky

Name: Richard J. Varmecky
Title: Trustee

Date: June 28, 2002