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RITE AID CORP
Form 11-K
June 29, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 11-K

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

For the fiscal year ended December 31, 2004

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 Savings 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

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All other schedules required by Section 2520.103-10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 have been omitted because they are not applicable.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Plan Administrator 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, 2004 and 2003, and the related statement of changes in net assets available for benefits for the year ended December 31, 2004. These financial statements are the responsibility of the Plan Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the Plan Administrator, 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, 2004 and 2003, and the changes in net assets available for benefits for the year ended December 31, 2004 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 schedule listed in the Table of Contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is 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. This schedule is the responsibility of the Plan Administrator. Such supplemental schedule has been subjected to the auditing procedures applied in our audit of the basic 2004 financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2004 financial statements taken as a whole.

/s/ Deloitte & Touche LLP

Philadelphia, Pennsylvania
June 21, 2005

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RITE AID 401(k) DISTRIBUTION EMPLOYEES SAVINGS PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
DECEMBER 31, 2004 AND 2003

| | 2004 | 2003 |
|-----------------------------------|----------------------|----------------------|
| ASSETS: | | |
| Participant-directed investments | \$2,182,057 | \$1,900,378 |
| Employee contributions receivable | 4,087 | 3,378 |
| NET ASSETS AVAILABLE FOR BENEFITS | \$2,186,144 ===== | \$1,903,756 ===== |

See notes to financial statements.

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RITE AID 401(k) DISTRIBUTION EMPLOYEES SAVINGS PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
YEAR ENDED DECEMBER 31, 2004

| | |
|--|-----------------------|
| ADDITIONS: | |
| Employee contributions | \$ 224,316 |
| Settlement contributions (Note 1) | 21,520 |
| Net appreciation in fair value of investments | 107,871 |
| Investment income | 87,643 |
| Total additions | 441,350 |
| DEDUCTIONS: | |
| Benefit payments | 155,329 |
| Loan defaults | 3,633 |
| Total deductions | 158,962 |
| INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS | 282,388 |
| NET ASSETS AVAILABLE FOR BENEFITS--Beginning of year | 1,903,756 |
| NET ASSETS AVAILABLE FOR BENEFITS--End of year | \$ 2,186,144 ===== |

See notes to financial statements.

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RITE AID 401(k) DISTRIBUTION EMPLOYEES SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2004

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 document 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" or "Plan Sponsor"). 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 participant accounts, if any.

Effective October 1, 2004, T. Rowe Price Trust Company was engaged to serve as Plan trustee with respect to all assets other than Company stock. Prior to October 1, 2004, Northern Trust Company was engaged to serve as Plan trustee with respect to all assets other than Company stock. LaSalle Bank National Association serves as Plan trustee with respect to Company stock. The Employee Benefits Administration Committee is the plan administrator ("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 (a twelve-month period when at least 1,000 hours are credited), 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. Participants age 50 and over may make additional pretax contributions, as defined by the Plan. A participant also may contribute, or roll over, amounts representing distributions from another qualified defined benefit or defined contribution plan. There are no Plan Sponsor contributions except as described in the next paragraph.

Two settlement agreements had been entered into with respect to litigation involving the Company common stock held by the Plan. Under these settlement agreements, certain additional contributions were made to the Plan as restorative payments, which were in addition to the contributions otherwise made to the Plan. In February 2004, restorative payments of \$21,520 were made to the Plan. The restorative payments were allocated to the accounts of certain participants (as described in the settlement agreements) whose accounts under the Plan included investments in the Company common stock. The restorative payments are fully vested and have been commingled with the eligible individuals' before-tax contributions. There will be no further contributions stemming from these settlement agreements.

Investment Options--Prior to the change in the Plan's trustee, employees

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were provided with the option of investing in twelve funds. Effective October 1, 2004, the Plan provided employees with the option of investing in twenty-three 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.

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Loans--A participant may elect to borrow against the participant's vested balance at a reasonable rate of interest as defined in the Plan. A participant may borrow up to 50% of the participant's vested balance, with a maximum loan of \$50,000. A participant may only have one loan outstanding at any one time with the exception that participants may have up to two outstanding loans which were grandfathered at the time when the Plan was amended to no longer allow more than one loan.

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 Stable Value Fund and 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. Interest income is recorded on the accrual basis. Dividend income is recognized on the ex-dividend date.

The Plan had 6,143 and 6,284 shares of Company common stock at December 31, 2004 and 2003, respectively.

On July 9, 2004, the Plan began to offer the Prudential Stable Value Fund ("SVF"), which is a trust product and is comprised of a group annuity insurance product issued by The Prudential Insurance Company of America ("Prudential") and a portfolio of assets owned by the plan or designee. Interest on the SVF is credited daily. Prudential declares an annual interest rate on a quarterly basis and credits one-fourth of that amount on a quarterly basis. The SVF is deemed to be fully benefit responsive; therefore, it is presented at contract value, which approximates fair value. The average yield was 4.71% for 2004. As of December 31, 2004, the crediting interest rate was 4.86%.

The Plan offered, as an investment option, the Guaranteed Interest Account (the "GIA") until July 9, 2004. The 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 calendar year following the year of purchase. The GIA is deemed to be fully benefit responsive; therefore, it is presented at contract value, which approximates fair value. The average yield was 3.50% for 2004. As of December 31, 2003, the crediting interest rate was 3.00%.

Administrative Expenses--Plan fees and expenses related to account

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maintenance, transaction and investment fund management are allocated to participant accounts. Under the terms of the Plan document, costs relating to Plan administration may be paid by the Plan Sponsor or paid from Plan forfeitures. For the year ended December 31, 2004, the 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 the Plan Administrator 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.

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The Plan invests in mutual funds, corporate stocks, the SVF and the GIA. 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.

3. INVESTMENTS

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

| | December 31, | |
|--|--------------|---------|
| | 2004 | 2003 |
| Prudential Stable Value Fund | \$823,824 | \$ - |
| T. Rowe Price Equity Index Trust | 313,982 | - |
| Dodge & Cox Balanced Fund | 311,149 | - |
| Northern Trust Global Advisors Large-Cap Growth Fund | 283,208 | - |
| Northern Trust Global Advisors International Equity Fund | 152,827 | - |
| Prudential Guaranteed Interest Account | - | 769,299 |
| Prudential Dryden Stock Index Fund | - | 308,703 |
| Prudential Jennison Growth Fund | - | 278,186 |
| Prudential MFS Total Return Fund | - | 238,735 |
| Prudential Strategic Partners International Value Fund | - | 141,379 |

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

Year Ended
December 31,
2004

Investments:

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| | |
|------------------------|-----------|
| Mutual Funds | \$122,475 |
| Common Stock | (14,604) |
| | ----- |
| Total net appreciation | \$107,871 |
| | ===== |

4. TAX STATUS

The Plan obtained its latest determination letter dated June 27, 2003, 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. The Plan Administrator believes that the Plan is currently designed and being operated 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 Plan Sponsor has the right under the Plan to terminate the Plan subject to the provisions of ERISA.

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6. PARTY-IN-INTEREST TRANSACTIONS

Certain Plan investments are shares of mutual funds managed by T. Rowe Price Trust Company, the trustee and custodian of the Plan, and Prudential, a former custodian of the Plan. The transactions related to such investments qualify as party-in-interest transactions. The Plan has also permitted investment in the common stock of the Plan Sponsor, and therefore these transactions qualify as party-in-interest transactions. The Plan Administrator does not consider Plan Sponsor contributions or benefits paid by the Plan to be party-in-interest transactions.

7. CONTINGENCY

In late 1999, the Plan Sponsor's Board of Directors hired a new executive management team to address and resolve various business, operational and financial challenges confronting the Plan Sponsor. New management reviewed the administration of the Plan for purposes of determining compliance with provisions of the Plan and regulatory requirements. The Plan Administrator identified certain processes not in compliance with the provisions of the Plan or regulatory requirements, the more significant of which was as follows:

- a. 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. The estimate of the minimum account balances subject to disbursement in accordance with the Plan document at December 31, 2004 is \$18,127.

The Plan Administrator has not filed a Voluntary Correction Program ("VCP") with the IRS requesting a compliance statement and approval of the correction method for operational failures identified in the Plan. The Plan Administrator expects to take proper corrective actions,

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including contributions and disbursements in 2005. The Plan Administrator believes that the processes identified for remediation would not cause the Plan to be disqualified by the IRS, therefore no provision for income taxes had been included in the Plan's financial statements. 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

FORM 5500, SCHEDULE H, LINE 4i--SCHEDULE OF ASSETS (HELD AT END OF YEAR)
DECEMBER 31, 2004

| Identity of Issuer | Description of Investment | Current Value |
|--------------------------------|-----------------------------------|-------------------------------|
| *Rite Aid Corporation | Company Stock Fund | \$ 22,483 |
| *T. Rowe Price | Equity Index Trust | 313,982 |
| *T. Rowe Price | Retirement 2010 | 32,426 |
| *T. Rowe Price | Retirement 2025 | 20,381 |
| *T. Rowe Price | Retirement 2030 | 4,017 |
| *T. Rowe Price | Bond Index Trust | 3,799 |
| *T. Rowe Price | Retirement 2015 | 623 |
| *T. Rowe Price | Retirement 2020 | 330 |
| *T. Rowe Price | Retirement 2040 | 317 |
| *T. Rowe Price | Retirement 2035 | 72 |
| *T. Rowe Price | Retirement Income Fund | 34 |
| *T. Rowe Price | Extended Equity Market Index Fund | 19 |
| *T. Rowe Price | International Equity Index Fund | 12 |
| *Prudential | Stable Value Fund | 823,824 |
| Dodge & Cox | Balanced Fund | 311,149 |
| Northern Trust Global Advisors | Large-Cap Growth Fund | 283,208 |
| Northern Trust Global Advisors | International Equity Fund | 152,827 |
| Northern Trust Global Advisors | Large-Cap Value Fund | 74,462 |
| Northern Trust Global Advisors | Mid-Cap Fund | 16,719 |
| Northern Trust Global Advisors | Small-Cap Fund | 5,910 |
| Pimco | Total Return Fund | 39,296 |
| Vanguard | Small-Cap Index Fund | 3,780 |
| *Participant notes | Loan Fund** | 72,387 |
| | TOTAL | ----- \$2,182,057 ===== |

* Party-in-interest

** The loans range in interest rates from 5.0% to 10.5% and expire through 2011.

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SIGNATURES

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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

By: /s/ Theresa G. Nichols

Theresa G. Nichols, not in her individual capacity, but solely as an authorized signatory for the Employee Benefits Administration Committee

Date: June 29, 2005

EXHIBIT INDEX

| Exhibit Number ----- | Description ----- |
|----------------------------|--|
| 23 | Consent of Independent Registered Public Accounting Firm |