

**ANALYSIS OF THE AGREEMENT CONTAINING PROPOSED
CONSENT ORDER TO AID PUBLIC COMMENT**
*In the Matter of the Rite Aid Corporation and The Jean Coutu Group (PJC), Inc.,
File No. 061-0257*

I. Introduction

The Federal Trade Commission (“Commission”) has accepted, subject to final approval, an Agreement Containing Consent Order with Rite Aid Corporation (“Rite Aid”) and The Jean Coutu Group (PJC), Inc. (“Jean Coutu”) (collectively “the Proposed Respondents”). The Agreement is designed to remedy the likely anticompetitive effects arising from Rite Aid’s proposed acquisition of the Brooks and Eckerd retail pharmacies from Jean Coutu. The Agreement has been placed on the public record for thirty days for receipt of comments by interested persons. Comments received during this period will become part of the public record. After thirty days, the Commission will again review the Agreement and the comments received, and will decide whether it should withdraw from the agreement or make the proposed Order final.

The purpose of this analysis is to invite public comment on the proposed consent Order. This analysis does not constitute an official interpretation of the agreement and proposed Order, and does not modify the terms in any way. Further, the proposed consent Order has been entered into for settlement purposes only, and does not constitute an admission by the Proposed Respondents that they violated the law or that the facts alleged in the Complaint against the Respondents (other than jurisdictional facts) are true.

On August 23, 2006, Rite Aid entered into a Stock Purchase Agreement whereby Rite Aid would acquire Jean Coutu’s Eckerd and Brooks retail pharmacy chains in exchange for approximately \$3.5 billion worth of cash and stock. As a result of the transaction, Rite Aid would hold 100% of the common and preferred shares of The Jean Coutu Group USA, Inc., and Jean Coutu would acquire approximately 30% of the voting securities of Rite Aid.

II. Respondents

Respondent Rite Aid, a publicly-traded Delaware corporation, is the third largest retail pharmacy chain in the United States. Rite Aid owns 3,333 stores in the United States, which are primarily located on the East and West Coasts.

Respondent Jean Coutu is a publicly-traded corporation headquartered in Longueuil, Quebec, Canada. Jean Coutu is the parent of The Jean Coutu Group USA, Inc., which owns and operates the Brooks and Eckerd retail pharmacy chains. Jean Coutu currently owns 1,517 Eckerd and 341 Brooks stores, which are located exclusively in the Northeast and Mid-Atlantic regions of the United States. The Jean Coutu stores collectively constitute the fourth largest retail pharmacy chain in the United States.

III. The Complaint

The complaint alleges that the relevant product market in which to analyze the acquisition is the retail sale of pharmacy services to cash customers in local markets. Pharmacy services include the provision of medications by a licensed pharmacist who is able to provide usage advice and other relevant information as may be required by law. Cash customers are consumers of pharmacy services that do not pay a price negotiated by or paid through a third party (such as an insurance plan or a pharmacy benefits manager). Cash customers generally pay the full posted or list price set by a pharmacy for a prescription drug or an amount reflecting a discount off of those prices. The evidence indicates that the sale of pharmacy services to cash customers is a separate market from the sale of pharmacy services to customers covered by third party payors. This is consistent with prior Commission investigations regarding pharmacy services.

The evidence indicates that pricing in the cash prescription market is not constrained by competitive conditions in the third party payor prescription market, nor by mail order pharmacies or discount cards. Cash customers pay prices that are consistently higher than prices on the same drugs paid for by third party payors, and there is a significant disparity in profit margins between sales to cash customers and sales to customers covered by third party payors. Cash customers are most likely unable to purchase health insurance or obtain health benefits from an employer in response to a post-merger price increase for cash prescriptions.

Evidence indicates that cash customers typically do not travel far to fill prescriptions and that pharmacies evaluate competition for cash customers on a localized basis. Therefore, it is appropriate to analyze the competitive effects of the proposed transaction in local geographic markets. The complaint identifies the specific twenty-three relevant geographic markets in which to analyze the effects of the proposed transaction, which include individual towns, cities, boroughs, villages and census-designated areas, or combinations thereof.

The local markets for the retail sale of pharmacy services to cash customers identified in the complaint are highly concentrated. In each of these markets, Rite Aid and Eckerd/Brooks are two of a small number of pharmacies offering cash services, and combined account for at least half, and up to 100 percent, of the pharmacies in the market. Moreover, there is evidence that a significant number of customers view the Rite Aid and Eckerd/Brooks pharmacies in these markets as their first and second choices based on their physical proximity, convenient locations and services offered. Therefore, the complaint alleges that the proposed transaction likely would allow Rite Aid to unilaterally exercise market power, thereby making it likely that cash pharmacy customers would pay higher prices in these areas.

The complaint further alleges that entry would not be timely, likely or sufficient to prevent the anticompetitive effects from the proposed transaction. Certain specific factors make entry into the twenty-three cash prescription markets unlikely. First, because the vast majority of a pharmacy's profits come from sales other than cash prescriptions, including prescription sales to insured customers and the sale of front-end items (e.g., toothpaste), it is unlikely that an

anticompetitive price increase in cash prescription sales would attract new entry. Second, most of the twenty-three markets are small towns or rural areas that may not have a sufficient number of potential customers to support a new pharmacy. Third, opening a new pharmacy requires obtaining zoning, planning and environmental approvals, which can take a significant amount of time. Finally, the limited availability of new pharmacists may serve as an impediment to entry in these areas.

The complaint also alleges that the proposed acquisition, if consummated, may substantially lessen competition in the retail sale of pharmacy services to cash customers in twenty-three local areas, in violation of Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18, and Section 5 of the Federal Trade Commission Act, as amended, 15 U.S.C. § 45, by eliminating actual, direct, and substantial competition between Proposed Respondents in the relevant markets and by increasing the likelihood that the combined Rite Aid/Brooks-Eckerd will unilaterally exercise market power in the relevant markets, each of which increases the likelihood that the prices of pharmacy services to cash customers will increase, and the quality and selection of such services will decrease.

IV. The Terms of the Agreement Containing Consent Orders

The proposed consent order effectively remedies the proposed acquisition's likely anticompetitive effects in the relevant product markets. Pursuant to the proposed consent order, the Proposed Respondents are required to divest one store in each of the twenty-three geographic areas to a Commission-approved acquiror. Specifically, the proposed consent order requires the proposed Respondents to divest one store in each relevant geographic area to one of five up-front buyers including Kinney Drugs, Medicine Shoppe International, Inc. ("Medicine Shoppe"), Walgreen Co., Big Y, and Weis Markets. Kinney Drugs is an employee-owned company headquartered in New York that has 80 retail drug stores in central and northern New York and Vermont. Medicine Shoppe, headquartered in Missouri, operates 24 company-owned apothecary-style drugs stores and is the franchisor of approximately 1,000 apothecary-style franchised locations throughout the country. Walgreen Co., headquartered in Illinois, is the second largest retail drug store chain in the U.S., operating approximately 5,675 stores in 48 states and Puerto Rico. Big Y is one of New England's largest independent supermarket chains, with more than 50 locations throughout Massachusetts and Connecticut. Weis Markets is a Pennsylvania-based supermarket that operates more than 150 grocery stores, some of which contain pharmacy counters, in Pennsylvania, Maryland, New Jersey, West Virginia, and New York. Each of the up-front buyers is competitively and financially viable and each is well qualified to operate the divested stores. As a result, the required divestitures to these companies will be sufficient to maintain competition in the relevant markets. A list of the specific pharmacies that the Proposed Respondents must divest to each of the up-front buyers is attached as Schedule A to the proposed Decision and Order.

The proposed consent order requires the divestitures to occur no later than twenty days, or, in the case of the divestitures to Medicine Shoppe, no later than forty days after the

acquisition is consummated, or four months after the date on which the Proposed Respondents sign the proposed consent order, whichever is earlier. However, if the Proposed Respondents consummate the divestitures to any of the up-front buyers during the public comment period, and if, at the time the Commission decides to make the proposed consent order final, the Commission notifies the Proposed Respondents that any of the up-front buyers is not an acceptable acquirer or that any up-front buyer agreement is not an acceptable manner of divestiture, then the Proposed Respondents must immediately rescind the transaction in question and divest those assets within three months of the date the proposed consent order becomes final. At that time, the Proposed Respondents must divest those assets only to an acquirer, and only in a manner, that receives the prior approval of the Commission.

The proposed consent order also contains an Order to Maintain Assets. This will serve to: (1) maintain the full economic viability and marketability of the pharmacies identified for divestitures, (2) minimize any risk of loss of competitive potential for such businesses, and (3) prevent the destruction, removal, wasting, deterioration, or impairment of any of these assets except for ordinary wear and tear.

The proposed consent order also gives the Commission the power to appoint a trustee to divest any pharmacies identified in the order that Proposed Respondents have not divested to satisfy the requirements of the order. In addition, the proposed consent order permits the Commission to seek civil penalties against the Proposed Respondents for non-compliance with the order.

For a period of ten years from the date the proposed consent order becomes final, the Proposed Respondents are required to provide written notice to the Commission prior to acquiring any ownership or leasehold interest in any facility that has operated as a pharmacy within the previous six months and is located within five miles of any store to be divested pursuant to the proposed consent order. The ten-year written notice requirement also applies to the acquisition by the Proposed Respondents of any prescription files, stock, share capital, equity, or other interest in any entity that owns any interest in or operates any pharmacy that is located within five miles of any store to be divested pursuant to the proposed consent order and has been in existence as a pharmacy within the previous six months. This provision does not restrict the Proposed Respondents from constructing new pharmacies in the relevant markets; nor does it restrict the Proposed Respondents from leasing facilities not operated as pharmacies within the previous six months.

The proposed consent order further prohibits the Proposed Respondents, for a period of ten years, from entering into or enforcing any agreement that restricts the ability of any person that acquires any pharmacy, any leasehold interest in any pharmacy, or any interest in any retail location used as a pharmacy on or after January 1, 2007 in the relevant markets to operate a pharmacy at that site if such pharmacy was formerly owned or operated by the Proposed Respondents.

The Proposed Respondents are required to provide to the Commission a report of compliance with the proposed consent order within thirty days following the date on which they sign the proposed consent order, every thirty days thereafter until the divestitures are completed, and annually for ten years.