

**UNITED STATES OF AMERICA
BEFORE FEDERAL TRADE COMMISSION**

In the Matter of)	
)	
J.C. PENNEY COMPANY, INC. ,)	
a corporation; and)	File No. 971-0016
)	File No. 971-0017
THRIFT DRUG, INC. ,)	
a corporation.)	
))	

AGREEMENT CONTAINING CONSENT ORDER

The Federal Trade Commission ("Commission"), having initiated an investigation of the proposed acquisition of Eckerd Corporation ("Eckerd") and of certain assets of Rite Aid Corporation ("Rite Aid") by J.C. Penney Company, Inc. ("J.C. Penney") and Thrift Drug, Inc. ("Thrift Drug"), and it now appearing that J.C. Penney and Thrift Drug, hereinafter sometimes referred to as "Proposed Respondents," are willing to enter into an agreement containing an Order ("Agreement") to divest certain assets and to cease and desist from certain acts, and providing for other relief:

IT IS HEREBY AGREED by and between Proposed Respondents, by their duly authorized officers and attorneys, and counsel for the Commission that:

1. Proposed Respondent J.C. Penney Company, Inc. is a corporation organized, existing, and doing business under and by virtue of the laws of the state of Delaware, with its office and principal place of business located at 6501 Legacy Drive, Plano, Texas 75024-3698.

2. Proposed Respondent Thrift Drug, Inc., is a corporation organized, existing, and doing business under and by virtue of the laws of the state of Delaware, with its office and principal place of business located at 615 Alpha Drive, Pittsburgh, Pennsylvania 15238.

3. Proposed Respondents admit all the jurisdictional facts set forth in the draft of complaint here attached.

4. Proposed Respondents waive:

- a. any further procedural steps;
- b. the requirement that the Commission's decision contain a statement of findings of fact and conclusions of law;
- c. all rights to seek judicial review or otherwise to challenge or contest the validity of the Order entered pursuant to this agreement; and
- d. any claim under the Equal Access to Justice Act.

5. This Agreement shall not become part of the public record of the proceeding unless and until it is accepted by the Commission. If this Agreement is accepted by the Commission it, together with the draft of complaint contemplated thereby, will be placed on the public record for a period of sixty (60) days and information in respect thereto publicly released. The Commission thereafter may either withdraw its acceptance of this agreement and so notify the Proposed Respondents, in which event it will take such action as it may consider appropriate, or issue

complaint may be used in construing the terms of the Order, and no agreement, understanding, representation, or interpretation not contained in the Order or the Agreement may be used to vary or contradict the terms of the Order.

8. Proposed Respondents have read the proposed complaint and Order contemplated hereby. Proposed Respondents understand that once the Order has been issued, they will be required to file one or more compliance reports showing that they have fully complied with the Order. Proposed Respondents further understand that they may be liable for civil penalties in the amount provided by law for each violation of the Order after it becomes final.

ORDER

I.

IT IS ORDERED that, as used in this Order, the following definitions shall apply:

A. "J.C. Penney" means J.C. Penney Company, Inc., its directors, officers, employees, agents and representatives, predecessors, successors, and assigns, and its subsidiaries, divisions, groups, and affiliates controlled, directly or indirectly, by J.C. Penney Company, Inc., and the respective directors, officers, employees, agents and representatives, successors, and assigns of each.

B. "Thrift Drug" means Thrift Drug, Inc., its directors, officers, employees, agents and representatives, predecessors, successors, and assigns, and its subsidiaries (including Kerr Drug, Inc.), divisions, groups, and affiliates controlled, directly or indirectly, by Thrift Drug, Inc., and the respective directors, officers, employees, agents and representatives, successors, and assigns of each.

C. "Rite Aid" means Rite Aid Corporation, its directors, officers, employees, agents and representatives, predecessors, successors, and assigns, and its subsidiaries, divisions, groups, and affiliates controlled, directly or indirectly, by Rite Aid Corporation and the respective directors, officers, employees, agents and representatives, successors, and assigns of each.

D. "Respondents" means J.C. Penney and Thrift Drug.

E. "Commission" means the Federal Trade Commission.

F. "Acquisitions" means the acquisitions of Eckerd by Omega Acquisition Corporation, a wholly-owned subsidiary of J.C. Penney, and of certain assets of Rite Aid by Thrift Drug, an indirect, wholly-owned subsidiary of J.C. Penney, pursuant to an agreement dated November 2, 1996 and an agreement dated October 11, 1996, respectively.

G. "Retail drug store" means a full-line retail store that carries a wide variety of prescription and nonprescription medicines and miscellaneous items, including, but not limited to, drugs, pharmaceuticals, patent medicines, sundries, tobacco products, and other merchandise.

H. "MSA" means Metropolitan Statistical Area as defined by the United States Department of Commerce, Bureau of the Census.

I. "Rite Aid Retail Business" means Rite Aid 's retail drug store business located in the states of North Carolina and South Carolina.

J. "Rite Aid Retail Assets" means all assets constituting the Rite Aid Retail Business, excluding those assets pertaining to the Rite Aid trade name, trade dress, trade marks and service marks, and including, but not limited to:

1. leases and properties;
2. zoning approvals and registrations, at the Acquirer's option;
3. books, records, reports, dockets and lists relating to the Rite Aid Retail Business;
4. retail drug store inventory and storage capacity;
5. lists of stock keeping units ("SKUs"), e.g., all forms, package sizes and other units in which prescription drugs are sold and which are used in records of sales;
6. lists of all customers, including, but not limited to, third party insurers, including all files of names, addresses, and telephone numbers of the individual customer contacts, and the unit and dollar amounts of sales, by product, to each customer;
7. all pharmacy files, documents, instruments, papers, books, computer files and records and all other records in any media relating to the Rite Aid Retail Business;

8. all rights, titles and interests in and to the contracts entered into in the ordinary course of business with customers (together with associated bid and performance bonds), suppliers, sales representatives, distributors, agents, personal property lessors, personal property lessees, licensors, licensees, consignors and consignees, and all names of prescription drug manufacturers and distributors under contract with Rite Aid;

9. all machinery, fixtures, equipment, vehicles, transportation facilities, furniture, tools and other tangible personal property; and

10. goodwill, tangible and intangible, utilized in retail drug stores.

Provided, however, that Rite Aid Retail Assets shall include only such assets as are being acquired in the Acquisitions.

K. "Rite Aid North Carolina/Charleston Retail Assets" means Rite Aid 's Retail Assets located in the state of North Carolina and in the Charleston-North Charleston, South Carolina MSA.

L. "Thrift Retail Business" means Thrift Drug 's retail drug store business located in the Charlotte-Gastonia-Rock Hill, North Carolina MSA, and Thrift Drug 's retail drug store business identified in Schedule A of this Agreement.

M. "Thrift Retail Assets" means all assets constituting the Thrift Retail Business, excluding those assets pertaining to the Thrift Drug or Kerr trade name, trade dress, trade marks and service marks, and including, but not limited to:

1. leases and properties;
2. zoning approvals and registrations, at the Acquirer

bonds), suppliers, sales representatives, distributors, agents, personal property lessors, personal property lessees, licensors, licensees, consignors and consignees, and all names of prescription drug manufacturers and distributors under contract with Thrift Drug;

9. all machinery, fixtures, equipment, vehicles, transportation facilities, furniture, tools and other tangible personal property; and

10. goodwill, tangible and intangible, utilized in retail drug stores.

II.

IT IS FURTHER ORDERED that:

A. Respondents shall divest, absolutely and in good faith, the Rite Aid North Carolina/Charleston Retail Assets and the Thrift Retail Assets to an acquirer that receives the prior approval of the Commission, and only in a manner that receives the prior approval of the Commission, within four (4) months of the date the Agreement Containing Consent Order in this matter was signed by Respondents; provided, however, that Respondents shall not acquire any of the Rite Aid North Carolina/Charleston Retail Assets until Respondents have entered into an agreement that has received the prior approval of the Commission to divest the Rite Aid North Carolina/Charleston Retail Assets.

B. If Respondents do not divest the Thrift Retail Assets pursuant to Paragraph II.A., Respondents shall divest the Thrift Retail Assets to an acquirer that receives the prior approval of the Commission, and only in a manner that receives the prior approval of the Commission, within five (5) months of the date the Agreement Containing Consent Order in this matter was signed by the Respondents.

C. The purpose of the divestiture of the Rite Aid North Carolina/Charleston Retail Assets and the Thrift Retail Assets is to ensure the continuation of the Rite Aid North Carolina/Charleston Retail Assets and the Thrift Retail Assets as ongoing viable enterprises engaged in the retail drug store business providing retail pharmacy services to third-party payors and to remedy any lessening of competition resulting from the Acquisitions as alleged in the Commission's complaint.

III.

IT IS FURTHER ORDERED that:

A. If Respondents have not divested absolutely and in good faith the Rite Aid North Carolina/Charleston Retail Assets and the Thrift Retail Assets pursuant to Paragraph II.A. of this Order, the Commission may appoint a trustee to divest the Rite Aid Retail Assets and the Thrift Retail Assets; or if the Respondents have not divested absolutely and in good faith the Thrift Retail Assets pursuant to Paragraph II.B. of this Order, the Commission may appoint a trustee to divest the Thrift Retail Assets. In the event that the Commission brings an action pursuant to § 5(1) of the Federal Trade Commission Act, 15 U.S.C.

trustee to effect the divestiture required by this Order.

4. The trustee shall have twelve (12) months from the date the Commission approves the trust agreement described in Paragraph III.B.3. to accomplish the divestiture, which shall be subject to the prior approval of the Commission. If, however, at the end of the twelve (12) month period, the trustee has submitted a plan of divestiture or believes that divestiture can be achieved within a reasonable time, the divestiture period may be extended by the Commission, or in the case of a court-appointed trustee, by the court; provided, however, the Commission may extend this period only two (2) times for up to twelve (12) months each time.

5. The trustee shall have full and complete access to the personnel, books, records and facilities related to the Rite Aid Retail Assets and the Thrift Retail Assets or to any other relevant information, as the trustee may

Commission or a court may set. The trustee shall have the authority to employ, at the cost and expense of Respondents, and at reasonable fees, such consultants, accountants, attorneys, investment bankers, business brokers, appraisers, and other representatives and assistants as are necessary to carry out the trustee's duties and responsibilities. The trustee shall account for all monies derived from the divestiture and all expenses incurred. After approval by the Commission and, in the case of a court-appointed trustee, by the court, of the account of the trustee, including fees for his or her services, all remaining monies shall be paid at the direction of the Respondents, and the trustee's power shall be terminated. The trustee's compensation shall be based at least in significant part on a commission arrangement contingent on the trustee's divesting the Rite Aid Retail Assets and the Thrift Retail Assets.

8. Respondents shall indemnify the trustee and hold the trustee harmless against any losses, claims, damages, liabilities, or expenses arising out of, or in connection with, the performance of the trustee's duties, all reasonable fees of counsel and other expenses incurred in connection with the preparation for, or defense of any claim, whether or not resulting in any liability, except to the extent that such liabilities, losses, damages, claims, or expenses result from misfeasance, gross negligence, willful or wanton acts, or bad faith by the trustee.

9. If the trustee ceases to act or fails to act diligently, a substitute trustee shall be appointed in the same manner as provided in Paragraph III.A. of this Order.

10. The Commission or, in the case of a court-appointed trustee, the court, may on its own initiative or at the request of the trustee issue such additional Orders or directions as may be reasonably necessary or appropriate to accomplish the divestiture required by this Order.

11. The trustee shall also divest such additional ancillary assets and businesses and effect such arrangements as are necessary to assure the marketability and the viability and competitiveness of the Rite Aid Retail Assets and the Thrift Retail Assets.

12. The trustee shall have no obligation or authority to operate or maintain the Rite Aid Retail Assets and the Thrift Retail Assets.

13. The trustee shall report in writing to Respondents and the Commission every sixty (60) days concerning the trustee's efforts to accomplish divestiture.

IV.

IT IS FURTHER ORDERED that:

A. Pending divestiture of the Rite Aid Retail Assets and the Thrift Retail Assets, Respondents shall take such actions as are necessary to maintain the viability, competitiveness, and marketability of the Rite Aid Retail Assets and the Thrift Retail Assets consistent with Paragraphs II. and III. of this Order and to prevent the destruction, removal, wasting, deterioration, or impairment of the Rite Aid Retail Assets and the Thrift Retail Assets except in the ordinary course of business and except for ordinary wear and tear.

B. Respondents shall comply with all the terms of the Asset Maintenance Agreement attached to this Order and made a part hereof as Appendix I. The Asset Maintenance Agreement shall continue in effect until such time as Respondents have complied with the divestiture requirements of the Order.

V.

IT IS FURTHER ORDERED that within thirty (30) days after the date this Order becomes final and every thirty (30) days thereafter until Respondents have fully complied with the provisions of Paragraphs II. and III. of this Order, Respondents shall submit to the Commission verified written reports setting forth in detail the manner and form in which they intend to comply, are complying, and have complied with Paragraphs II. and III. Respondents shall include in their compliance reports, among other things that are required from time to time, a full description of the efforts being made to comply with Paragraphs II. and III. of the Order, including a description of proposals for divestiture and the identity of all parties contacted. Respondents shall include in their compliance reports copies of all written communications to and from such parties concerning divestiture.

VI.

IT IS FURTHER ORDERED that Respondents shall notify the

Commission at least thirty (30) days prior to any proposed change in Respondents such as dissolution, assignment, sale resulting in the emergence of a successor corporation to Respondents, or the creation or dissolution of subsidiaries or any other change in Respondents that may affect compliance obligations arising out of the Order.

VII.

IT IS FURTHER ORDERED that, for the purpose of determining or securing compliance with this Order, Respondents shall permit any duly authorized representative of the Commission:

A. Upon five days' written notice to Respondents, access, during office hours and in the presence of counsel, to inspect and copy all books, ledgers, accounts, correspondence, memoranda and other records and documents in the possession or under the control of Respondents relating to any matters contained in this Order; and

B. Upon five days' written notice to Respondents and without restraint or interference from Respondents, to interview Respondents or officers, directors, or employees of Respondents in the presence of counsel.

Signed this 21st day of November, 1996.

**FEDERAL TRADE COMMISSION
BUREAU OF COMPETITION**

J.C. PENNEY COMPANY, INC.

By: _____
Michael R. Moiseyev
E. Eric Elmore
Attorneys

By: _____
Charles R. Lotter
Executive Vice President
Secretary and General Counsel
J.C. Penney Company, Inc.

Counsel for the Federal
Trade Commission

APPROVED:

Ann Malester
Assistant Director

By: _____
Peter D. Standish, Esq.
Weil, Gotshal & Manges LLP
Counsel for Respondents

SCHEDULE A

William J. Baer
Director
Bureau of Competition

SCHEDULE A

Kerr Store Number 8549
Lakewood Shopping Center
2000 Chapel Hill Road
Durham, NC 27704

Kerr Store Number 8556
Erwin Square
737 Ninth Street
Durham, NC 27705

Kerr Store Number 8566
University Mall
201-10 Estes Drive
Chapel Hill, NC 27514

Kerr Store Number 8550
North Duke Mall
3600 North Duke Street
Durham, NC 27704

Kerr Store Number 8541
Longview Shopping Center
2116 East New Bern Avenue
Raleigh, NC 27610

Kerr Store Number 8537
Eastgate Shopping Center
4025 Old Wake Forest Road
Raleigh, NC 27609

Kerr Store Number 8553
Loehman's Plaza
1821 Hilandale Road
Durham, NC 27705

Kerr Store Number 8929
Crabtree Valley Mall
4325 Glenwood Avenue
Raleigh, NC 27612

Kerr Store Number 8538
South Hills Mall
1255 Buck Jones Road

Kerr Store Number 8935
Cary Village Mall
1105 Walnut Street
Cary, NC 27511

Kerr Store Number 8933
South Square Shopping Center
4001 Chapel Hill Boulevard
Durham, NC 27707

Kerr Store Number 8531
Northridge Shopping Center
8140 Falls of the Neuse Road
Raleigh, NC 27689

Kerr Store Number 8943
Harvest Plaza
9650 Strickland Road
Raleigh, NC 27615

Kerr Store Number 8602
Triangle East Centre
134 Wakelon Street
Zebulon, NC 27597

Kerr Store Number 8530
Towne North Plaza
8385 Creedmoor Road
Raleigh, NC 27612

Kerr Store Number 8904
Preston Corners Shopping
Center
920 High House Road
Cary, NC 27513

Kerr Store Number 8547
The Village Shopping Center
613 Wellons Village
Durham, NC 27703
Raleigh, NC 27606

Kerr Store Number 8595
North Hills Mall
Six Forks Road

Raleigh, NC 27609

Kerr Store Number 8539
Mission Valley Shopping Center
2233-113 Avant Ferry Road
Raleigh, NC 27605

Kerr Store Number 8534
Tower Shopping Center
Newbern Avenue
Raleigh, NC 27610

APPENDIX I

UNITED STATES OF AMERICA
BEFORE FEDERAL TRADE COMMISSION

In the Matter of)
)
)
J.C. PENNEY COMPANY, INC. ,)
a corporation; and) File No. 971-0016
) File No. 971-0017
THRIFT DRUG, INC. ,)
a corporation.)

ASSET MAINTENANCE AGREEMENT

This Asset Maintenance Agreement ("Agreement") is by and between J.C. Penney Company, Inc. ("J.C. Penney"), a corporation organized, existing, and doing business under and by virtue of the laws of the state of Delaware, with its office and principal place of business located at 6501 Legacy Drive, Plano, Texas 75024-3698; Thrift Drug, Inc. ("Thrift Drug"), a corporation organized, existing, and doing business under and by virtue of the laws of the state of Delaware, with its office and principal place of business located at 615 Alpha Drive, Pittsburgh, Pennsylvania 15238; and the Federal Trade Commission ("Commission"), an independent agency of the United States Government, established under the Federal Trade Commission Act of 1914, 15 U.S.C. § 41, et seq. (collectively "the Parties").

PREMISES

WHEREAS, J.C. Penney (through a wholly-owned subsidiary, Omega Acquisition Corporation) agreed to acquire Eckerd Corporation ("the Eckerd Acquisition"), pursuant to an agreement dated November 2, 1996, and J.C. Penney (through a wholly-owned subsidiary, Thrift Drug, Inc.) agreed to acquire certain assets of the Rite Aid Corporation ("the Rite Aid Acquisition"), pursuant to an agreement dated October 11, 1996, respectively (collectively "the Acquisitions"); and

WHEREAS, the Commission is now investigating the Acquisitions to determine if they would violate any of the statutes enforced by the Commission; and

WHEREAS, if the Commission accepts the attached Agreement Containing Consent Order, the Commission is required to place it on the public record for a period of sixty (60) days for public comment and may subsequently withdraw such acceptance pursuant to the provisions of Section 2.34 of the Commission's Rules; and

WHEREAS, the Commission is concerned that if an agreement is not reached preserving the status quo ante of the Rite Aid Retail Assets and the Thrift Retail Assets as described in the attached Agreement Containing Consent Order ("Assets") during the period prior to their divestiture, any divestiture resulting from any administrative proceeding challenging the legality of the

Acquisitions might not be possible, or might produce a less than effective remedy; and

WHEREAS, if the Commission accepts the Consent Order or a modified consent order, and J.C. Penney and Thrift Drug have not divested the Assets or such other assets as are specified in the Consent Order or in a modified consent order, in accordance with the Consent Order or modified order respectively, the Commission may appoint a trustee to divest the Assets and such additional assets as are identified in the Consent Order or in a modified consent order; and

WHEREAS, the Commission is concerned that prior to divestiture to an acquirer approved by the Commission, it may be necessary to preserve the continued viability and competitiveness of the Assets; and

WHEREAS, the purpose of this Agreement and of the Consent Order is to preserve the Assets pending the divestiture to an acquirer approved by the Commission under the terms of the Order, in order to remedy any anticompetitive effects of the Acquisitions; and

WHEREAS, J.C. Penney and Thrift Drug entering into this Agreement shall in no way be construed as an admission by J.C. Penney or Thrift Drug that the Acquisitions are illegal; and

WHEREAS, J.C. Penney and Thrift Drug understand that no act or transaction contemplated by this Agreement shall be deemed

immune or exempt from the provisions of the antitrust laws or the Federal Trade Commission Act by reason of anything contained in this Agreement.

NOW, THEREFORE, in consideration of the Commission's agreement that at the time it accepts the Consent Order for public comment it will grant early termination of the Hart-Scott-Rodino waiting periods, the Parties agree as follows:

TERMS OF AGREEMENT

1. J.C. Penney and Thrift Drug agree to execute, and upon its issuance to be bound by, the attached Consent Order. The Parties further agree that each term defined in the attached Consent Order shall have the same meaning in this Agreement.

2. Unless the Commission brings an action to seek to enjoin the proposed Rite Aid Acquisition or the proposed Eckerd Acquisition pursuant to Section 13(b) of the Federal Trade Commission Act, 15. U.S.C. § 53(b), and obtains a temporary restraining order or preliminary injunction blocking the proposed Rite Aid Acquisition or the proposed Eckerd Acquisition, J.C. Penney and Thrift Drug will be free to close the Rite Aid Acquisition after December 8, 1996, subject to the terms of the Order, and the Eckerd Acquisition after December 6, 1996.

3. J.C. Penney and Thrift Drug agree that from the date this Agreement is signed until the earlier of the dates listed in subparagraphs 3.a - 3.b, they will comply with the provisions of

this Agreement:

a. three business days after the Commission withdraws its acceptance of the Consent Order pursuant to the provisions of Section 2.34 of the Commission's Rules; or

b. on the day the divestitures set out in the Consent Order have been completed.

4. J.C. Penney and Thrift Drug shall maintain the competitiveness of the Assets. This includes, but is not limited to, the maintaining of promotions and discount policies as well as the continuation of specific store services (i.e., hours of operation and operation of specific departments).

5. Until J.C. Penney and Thrift Drug have divested the Assets or other assets pursuant to Paragraphs II. and III. of the Consent Order or such assets as are specified pursuant to a modified consent order, J.C. Penney and Thrift Drug shall continue to offer those Thrift Drug customers who receive third-party pharmacy services at Thrift Drug the same type of pharmacy service at any retail drug store that constitutes a part of the Thrift Retail Assets.

6. Should the Commission seek in any proceeding to compel J.C. Penney and Thrift Drug to divest themselves of the Assets or such other assets as specified in the Consent Order or in a modified consent order or to seek any other injunctive or equitable relief, J.C. Penney and Thrift Drug shall not raise any

objection based upon the expiration of the applicable Hart-Scott-Rodino Antitrust Improvements Act waiting period or the fact that the Commission has not sought to enjoin the Acquisitions. J.C. Penney and Thrift Drug also waive all rights to contest the validity of this Agreement.

7. For the purpose of determining or securing compliance with this Agreement, subject to any legally recognized privilege, and upon written request with five (5) days' notice to J.C. Penney or Thrift Drug and to their principal offices, J.C. Penney and Thrift Drug shall permit any duly authorized representative or representatives of the Commission:

a. access during the office hours of J.C. Penney or Thrift Drug, in the presence of counsel, to inspect and copy all books, ledgers, accounts, correspondence, memoranda and other records and documents in the possession or under the control of J.C. Penney or Thrift Drug relating to compliance with this Agreement; and

b. to interview officers or employees of J.C. Penney or Thrift Drug, who may have counsel present, regarding any such matters.

8. This Agreement shall not be binding until approved by the Commission.

Signed this 6th day of December, 1996.

J.C. PENNEY COMPANY, INC., A CORPORATION

By: _____
Charles R. Lotter
Executive Vice President
Secretary and General Counsel
J.C. Penney Company, Inc.

Peter D. Standish, Esq.
Weil, Gotshal & Manges LLP
Counsel for Respondents

FEDERAL TRADE COMMISSION

By: _____
Stephen C. Calkins
General Counsel

UNITED STATES OF AMERICA
BEFORE FEDERAL TRADE COMMISSION

In the Matter of)	
)	
J.C. PENNEY COMPANY, INC. ,)	
a corporation; and)	Docket No. C-
)	
THRIFT DRUG, INC. ,)	
a corporation.)	
_____)	

COMPLAINT

The Federal Trade Commission ("Commission "), having reason to believe that J.C. Penney Company, Inc. , through two wholly-owned subsidiaries, Omega Acquisition Corporation and Thrift Drug, Inc. , all subject to the jurisdiction of the Commission, has agreed to acquire Eckerd Corporation and certain assets of Rite Aid Corporation, in violation of Section 7 of the Clayton Act, as amended, 15 U.S.C.

principal place of business located at 615 Alpha Drive, Pittsburgh, Pennsylvania 15238.

4. For purposes of this proceeding, Respondents are, and at all times relevant herein have been, engaged in commerce as "commerce" is defined in Section 1 of the Clayton Act, as amended, 15 U.S.C. § 12, and are corporations whose businesses are in or affecting commerce as "commerce" is defined in Section 4 of the FTC Act, as amended, 15 U.S.C. § 44.

III. THE ACQUIRED COMPANIES

5. Eckerd Corporation ("Eckerd") is a corporation organized, existing, and doing business under and by virtue of the laws of the state of Delaware, with its office and principal place of business located at 8333 Bryan Dairy Road, Largo, Florida 34647.

6. Rite Aid Corporation ("Rite Aid") is a corporation organized, existing, and doing business under and by virtue of the laws of the state of Delaware, with its office and principal place of business located at 30 Hunter Lane, Camp Hill, Pennsylvania 17011.

7. For purposes of this proceeding, Eckerd and Rite Aid are, and at all times relevant herein have been, engaged in commerce as "commerce" is defined in Section 1 of the Clayton Act, as amended, 15 U.S.C. § 12, and are corporations whose businesses are in or affecting commerce as "commerce" is defined in Section 4 of the FTC Act, as amended, 15 U.S.C. § 44.

IV. THE ACQUISITIONS

8. On October 11, 1996, J.C. Penney's wholly-owned subsidiary, Thrift Drug, entered into an Asset Purchase Agreement to acquire certain assets of Rite Aid, and on November 2, 1996, J.C. Penney's wholly-owned subsidiary, Omega Acquisition Corporation, entered into an Amended and Restated Agreement and Plan of Merger to acquire Eckerd (collectively "the Acquisitions").

V. THE RELEVANT MARKETS

9. For purposes of this Complaint, the relevant line of commerce in which to analyze the effect of the Acquisitions is the retail sale of pharmacy services to third-party payors.

10. For purposes of this Complaint, the relevant sections of the country in which to analyze the effect of the Acquisitions are:

- a. the state of North Carolina;
- b. the Charlotte-Gastonia-Rock Hill, North Carolina-South Carolina MSA;
- c. the Greensboro-Winston Salem-High Point, North Carolina MSA;
- d. the Raleigh-Durham-Chapel Hill, North Carolina MSA; and
- e. the Charleston-North Charleston, South Carolina MSA.

11. The relevant markets set forth in Paragraphs 9 and 10 are highly concentrated, whether measured by Herfindahl-Hirschmann Indices ("HHI") or two-firm and four-firm concentration ratios.

12. Entry into the relevant markets is difficult or unlikely to occur at a sufficient scale to deter or counteract the effect of the Acquisitions described in Paragraph 14.

13. Thrift Drug, Eckerd and Rite Aid are actual competitors in the relevant markets.

VI. EFFECT OF THE ACQUISITIONS

14. The effect of the Acquisitions may be substantially to lessen competition and to tend to create a monopoly in the relevant markets 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, 15 U.S.C. § 45, in the following ways, among others:

- a. by eliminating direct actual competition between Thrift Drug, Eckerd and Rite Aid;
- b. by increasing the likelihood that Thrift Drug will unilaterally exercise market power; and
- c. by increasing the likelihood of collusion in the relevant markets.

15. All of the above increase the likelihood that firms in the relevant markets will increase prices and restrict output both in the near future and in the long term.

VII. VIOLATIONS CHARGED

16. The acquisition agreements described in Paragraph 8 constitute violations of Section 5 of the FTC Act, as amended, 15 U.S.C.

Analysis of Proposed Consent Order To Aid Public Comment

The Federal Trade Commission ("Commission") has accepted, subject to final approval, an agreement containing a proposed Consent Order from J.C. Penney Company, Inc. and its wholly-owned subsidiary Thrift Drug, Inc. (collectively "J.C. Penney/Thrift") under which J.C. Penney/Thrift would be required to divest a total of 34 Thrift Drug retail drug stores in the Raleigh-Durham and Charlotte, North Carolina metropolitan areas and all of the Rite Aid retail drug stores in the state of North Carolina and in the Charleston, South Carolina metropolitan area, to a Commission-approved purchaser. The agreement is designed to remedy the anticompetitive effects resulting from J.C. Penney/Thrift's acquisitions of both the Eckerd Corporation and the Rite Aid drug stores in North Carolina and South Carolina.

The proposed Consent Order has been placed on the public record for sixty (60) days for reception of comments by interested persons. Comments received during this period will become part of the public record. After sixty (60) days, the Commission will again review the agreement and the comments received and will decide whether it should withdraw from the agreement or make final the agreement's proposed Order.

The proposed complaint alleges that the proposed acquisitions, if consummated, would constitute violations of Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18, and Section 5 of the FTC Act, as amended, 15 U.S.C. § 45, in the market for the retail sale of pharmacy services to third-party payors.

The retail sale of pharmacy services to third-party payors refers to prescription drugs sold by retail outlets such as drug store chains, independent drug stores, food stores and mass

merchandise stores, to third-party payors, which include insurance carriers, health maintenance organizations, preferred provider organizations, and corporate employers. Third-party payors provide retail pharmacy service benefits to their beneficiaries, typically through intermediaries known as pharmacy benefit management ("PBM") firms that create and administer retail pharmacy networks on behalf of third-party payors, whereby third-party payor beneficiaries may go to any pharmacy participating in the network to have prescriptions filled. In establishing these pharmacy networks, third-party payors rely on competition between large pharmacy chains to drive down the cost of pharmacy services. In markets where only a small number of pharmacy chains compete, third-party payors pay higher rates for pharmacy services. Where a single pharmacy chain controls a large share of pharmacy locations in a given area, that chain is able to extract higher prices, and this situation is exacerbated when the second largest pharmacy chain in that given area has a much smaller number of pharmacies than the largest one.

J.C. Penney/Thrifty proposed acquisitions of Eckerd and the Rite Aid stores in North Carolina and South Carolina will give the combined entity a dominant position in the state of North Carolina and its three major metropolitan areas -- Charlotte, Greensboro, and Raleigh-Durham -- and in Charleston, South Carolina, the second largest metropolitan area in South Carolina, and as a result, the ability to increase prices for the retail sale of pharmacy services to third-party payors. Further, timely entry is unlikely in the market for the retail sale of pharmacy services to third-party payors in these geographic markets on the scale necessary to offset the competitive harm likely from the combination of J.C. Penney/Thrifty, Eckerd and Rite Aid.

The proposed Consent Order would remedy the alleged violations by replacing the lost competition that would result from the acquisitions. Under the proposed Consent Order, J.C.

Penney/Thrift is required to divest within four (4) months of November 21, 1996, the date J.C. Penney/Thrift signed the Consent Agreement, the following: fourteen (14) Thrift drug stores in the Charlotte metropolitan area; twenty (20) Thrift drug stores in the Raleigh-Durham metropolitan area; all Rite Aid drug stores in North Carolina (110 stores); and all Rite Aid drug stores in the Charleston, South Carolina metropolitan area (17 stores). In the event that J.C. Penney/Thrift does not acquire the Rite Aid stores in North Carolina and South Carolina, then J.C. Penney/Thrift will have five (5) months from November 21, 1996, to sell the 34 Thrift drug stores in Charlotte and Raleigh-Durham, North Carolina. The proposed Order specifies that the 34 Thrift drug stores will go to a single purchaser to ensure competition by recreating a chain of sufficient size and coverage to serve as an alternative anchor pharmacy chain for a PBM retail pharmacy network.

Under the proposed Order, if the divestiture is not accomplished within the required time period, then the Commission may appoint a trustee to divest not only the 34 Thrift drug stores and the Rite Aid stores in North Carolina and Charleston, South Carolina, but also the remaining sixty-three (63) Rite Aid stores in South Carolina, representing the entire package of Rite Aid stores that J.C. Penney/Thrift had proposed to acquire. Further, under the proposed Order, J.C. Penney/Thrift is prohibited from acquiring any of the Rite Aid stores in North Carolina and Charleston, South Carolina until it has entered into an agreement, approved by the Commission, to divest those stores. The Commission has not required a hold separate agreement in this case because the proposed Order contemplates a short divestiture time period; the appointment of a trustee should the divestiture not occur within the prescribed time period; and a prohibition against J.C. Penney/Thrifts acquiring any of the North Carolina and the Charleston, South

Carolina Rite Aid stores until it has entered an agreement with a Commission-approved purchaser to divest those stores.

Under the provisions of the proposed Order, J.C. Penney/Thrift is also required to provide the Commission with a report of compliance with the divestiture provisions of the Order within thirty (30) days following the date this Order becomes final, and every thirty (30) days thereafter until J.C. Penney/Thrift has fully complied with the divestiture provisions of the proposed Order.

The purpose of this analysis is to facilitate public comment on the proposed Order, and it is not intended to constitute an official interpretation of the agreement and proposed Order or to modify in any way their terms.