RITE AID CORP
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SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

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Under the Securities Exchange Act of 1934

The following is a transcript of a conference call hosted by Rite Aid Corporation (Rite Aid) and The Jean Coutu Group (PJC) Inc. (Jean Coutu) on Thursday, August 24, 2006 at 9:30 am EST to discuss the proposed acquisition by Rite Aid of all of the outstanding capital stock of The Jean Coutu Group (PJC) USA Inc., a wholly-owned subsidiary of Jean Coutu, which is engaged in the business of owning and operating a network of retail pharmacy stores conducting business under the Eckerd and Brooks banners.

A playback of the call is available at www.riteaid.com, www.jeancoutu.com , www.StreetEvents.com and www.ccnmatthews.com starting at 2 p.m. Eastern Time on August 24, 2006. The playback will be available on these sites until 5 p.m. Eastern Time September 25, 2006.

This document may contain forward-looking statements, which are subject to certain risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the forward-looking statements. Factors that could cause actual results to differ materially from those expressed or implied in such forward-looking statements include 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, the efforts of private and public third-party payors to reduce prescription drug reimbursements and encourage mail order, competitive pricing pressures, continued consolidation of the drugstore industry, changes in state or federal legislation or regulations, the outcome of lawsuits and governmental investigations, general economic conditions and inflation, interest rate movements, access to capital, the ability of Rite Aid to consummate the transaction with the Jean Coutu Group and realize the benefits of such transaction and our ability to assume the senior subordinated notes. Consequently, all of the forward-looking statements made in this press release are qualified by these and other factors, risks and uncertainties. Readers are also directed to consider other risks and uncertainties discussed in documents filed by the Company with the Securities and Exchange Commission. Forward-looking statements can be identified through the use of words such as may , will , intend , plan , project , expect , anticipate , could , should , would , believe , estimate , contemplate , and possible .

See the 8-K furnished to the Securities and Exchange Commission on June 22, 2006 for definition, purpose and reconciliation of non-GAAP financial measures referred to herein to most comparable GAAP financial measures.

Additional Information and Where to Find It

Rite Aid intends to file with the Securities and Exchange Commission a proxy statement in connection with the proposed transaction. The proxy statement will be mailed to the stockholders of Rite Aid. STOCKHOLDERS OF RITE AID ARE ADVISED TO READ THE PROXY STATEMENT WHEN IT BECOMES AVAILABLE, BECAUSE IT WILL CONTAIN IMPORTANT INFORMATION. Such proxy statement (when available) and other relevant documents may also be obtained, free of charge, on the Securities and Exchange Commission s website (http://www.sec.gov) or by contacting our Secretary, Rite Aid Corporation, 30 Hunter Lane, Camp Hill, Pennsylvania 17011.

Participants in the Solicitation

Rite Aid and certain persons may be deemed to be participants in the solicitation of proxies relating to the proposed transaction. The participants in such solicitation may include Rite Aid s executive officers and directors. Further information regarding persons who may be deemed participants will be available in Rite Aid s proxy statement to be filed with the Securities and Exchange Commission in connection with the transaction.

FINAL TRANSCRIPT

Conference Call Transcript

RAD - Rite Aid will grow to Approximately 5,000 Drugstores as the Jean Coutu Group Agrees to Merge all Brooks and Eckerd Stores into Rite Aid

Event Date/Time: Aug. 24. 2006 / 9:30AM ET

CORPORATE PARTICIPANTS

Mary Sammons

Rite Aid - President, CEO

Kevin Twomey

Rite Aid - CFO

Andre Belzile

Jean Coutu Group - SVP, Finance & Corporate Affairs

Jean Coutu

Jean Coutu Group - Chairman, Pres., CEO

Francois Coutu

Jean Coutu Group - Pres, Canadian Ops, Vice Chairman

Pierre Legault

Jean Coutu Group - Group EVP

CONFERENCE CALL PARTICIPANTS

Meredith Adler

Lehman Brothers - Analyst

Ed Kelly

Credit Suisse - Analyst

Patricia Baker

Merrill Lynch - Analyst

Irene Nattel

RBC Capital - Analyst

Steve Chick

JP Morgan - Analyst

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Credit Suisse - Analyst

Mark Wiltamuth

Morgan Stanley - Analyst

Karim Salamatian

BMO Capital Markets - Analyst

John Heinbockel

Goldman Sachs - Analyst

Keith Hallett

Desjardins Securities - Analyst

Neil Currie

UBS - Analyst

Jim Durran

National Bank Finance - Analyst

Mark Husson

HSBC - Analyst

Ron Ho

Raymond James - Analyst

Karen Miller

Bear Stearns - Analyst

Ryan Balgopal

Scotia Capital - Analyst

John Ransom

Raymond James - Analyst

PRESENTATION

Operator

Good morning. My name is Kerry and I will be your conference operator today. At this time, I would like to welcome everyone to the Rite Aid and Jean Coutu transaction conference call. All lines have been placed on mute to prevent any background noise. After the speakers remarks, there will be a question and answer session. (OPERATOR INSTRUCTIONS). I would now like to turn the conference over to President and CEO of Rite Aid, Mary Sammons. Please go ahead.

Mary Sammons - ***Rite Aid - President, CEO***

Good morning everyone and thank you for joining us this morning on such short notice to hear more about the definitive agreement between Rite Aid and the Jean Coutu Group to merge all of the operations of the Jean Coutu Group USA into Rite Aid.

I m pleased to say that joining me and Rite Aid s Chief Financial Officer, Kevin Twomey, on this joint call, are from the Jean Coutu Group, Jean Coutu, Chairman, President and CEO; Francois Coutu, President of Canadian Operations and Vice Chairman; Pierre Legault, Group Executive Vice President; Michel Coutu, President of U.S. Operations and Andre Belzile, Senior Vice President, Finance and Corporate Affairs.

Kevin and I will make brief remarks, followed by remarks from Jean Coutu and Andre Belzile. A short analyst slide presentation has been made available on the Web sites of both companies and they may be referred to on or after the call. At the conclusion of all of our remarks, we will open the lines for questions from analysts only, making sure to include those who cover each company equally.

Before I begin, Kevin and Andre, would you please read Rite Aid s and the Jean Coutu Group s forward-looking statements?

Kevin Twomey - ***Rite Aid - CFO***

Thanks, Mary, and good morning everyone. Before we start, I would like to remind you that today s conference call includes certain forward-looking statements. These forward-looking statements are made in the context of certain risks and uncertainties that could cause actual results to differ. Also, we will be using a non-GAAP financial measure. The risks, uncertainties and definition of a non-GAAP financial measure, along with the reconciliation to the GAAP measure, are described in more detail in our SEC filings. Andre?

Andre Belzile - ***Jean Coutu Group - SVP, Finance & Corporate Affairs***

Thank you, Kevin, and good morning everyone again. All the reported numbers for the Jean Coutu group are denominated in U.S. dollars, unless specified otherwise. We would like to remind listeners that the Jean Coutu Group forward-looking statement disclaimer included in the joint press release applies to all of our communications. Please note that the media are invited to a Jean Coutu Group press conference to be held today at our Montreal corporate headquarters at 2:30 PM Eastern time. This conference will be Web-cast for the (indiscernible) [interest] parties with English and French tracks available for use. Thank you, and Mary, we can begin our remarks.

Mary Sammons ***- Rite Aid - President, CEO***

Thank you, Andre. Today s announcement is very exciting for both Rite Aid and the Jean Coutu Group. Our two companies have reached agreement on a transaction that will add 1858 Brooks and Eckerd stores and six distribution centers to the Rite Aid network and grow our chain to approximately 5000 stores. All of the acquired stores will be rebranded Rite Aid.

In return, the Jean Coutu Group will receive 1.45 billion in cash and 250 million shares of Rite Aid common stock, making them Rite Aid s largest shareholder. Rite Aid also intends to assume 850 million of the Jean Coutu Group s long-term debt in a transaction valued at approximately $3.4 billion.

When the transaction is completed, I will continue to lead Rite Aid, adding the role of Chairman of the Board to my responsibilities as President and CEO. Michel Coutu will become Co-Chairman of the Board and the Jean Coutu Group will have three other Board seats on the 14-member Board, including Francois and Andre, who are here with me today.

Bob Miller, Rite Aid s current Chairman, will remain a director. Pierre Legault, who we have worked with extensively throughout this process and who is also here today, will become Rite Aid s Chief Administrative Officer, while Rite Aid s current senior management team remains in place.

This transaction is a unique opportunity for Rite Aid and for our shareholders. It dramatically accelerates our growth strategy, particularly in areas where we have already been focusing our new store development. It allows us to grow to roughly 5000 stores and nearly $27 billion in sales virtually overnight, and reach a scale comparable to our two major drugstore competitors. With this larger scale, we will be able to compete more effectively in a very competitive business with many thousands of retail outlets, and we will be in a stronger position to take advantage of the growth expected in our industry with more people taking more prescriptions, a wave of new generics coming to market, the new Medicare prescription plan for seniors and customers becoming more health-conscious.

The Brooks and Eckerd stores are in good locations with dedicated associates who are committed to serving their customers and their communities, just as Rite Aid associates are. 70% of the stores are located in 14 states where we already operate, including areas of focus, such as New York, New Jersey, Connecticut, Pennsylvania, Maryland, Delaware and Virginia. This transaction will also enable Rite Aid to enter Massachusetts, Rhode Island, North Carolina and South Carolina on a competitive basis. Over 50% of the stores are freestanding and almost 50% have drive-throughs. The stores have strong pharmacy share with pharmacy same-store sales that have continued to grow.

Front-end same-store sales have started to improve over the last few months and will employee Rite Aid s successful front-end merchandising, marketing and promotion programs to move the [needs] even further ahead and increase the front-end sales per store.

Let me take a moment to talk about the condition of what some of you have referred to as Eckerd s southern stores. Their sales per store are only slightly less than other Eckerd stores in the network and they have EBITDA as a percent of sales and average scrip count per store that matches or beats many of the Eckerd stores in other geographic areas. We believe we can improve the sales and profitability of stores throughout the Eckerd network by leveraging Rite Aid s infrastructure.

Because of all the acquired because all of the acquired stores are already in Rite Aid s state or adjacent to them, we expect to leverage our already-existing systems, programs and management talent to achieve substantial cost savings as well as gross sales. We estimate that substantial annual net synergies of approximately 150 million will be realized after a 12-month integration period, with some savings during the first year. They will be generated by cost efficiencies in merchandising, purchasing, advertising, distribution and administration, and we believe there is potential to achieve further value from revenue synergies, cost-containment initiatives and the ability to apply best practices across the network.

While the transaction entails the use of substantial leverage, we expect our debt coverage ratio will be less than it is today after all of the expected synergies are realized, and over the next few years we expect to improve our debt coverage ratio as we continue to pay down debt. As a result of the synergies, we expect this transaction to be accretive to Rite Aid earnings by $0.09 to $0.15 per diluted share after the first 12 months. We expect it to be dilutive during the first 12 months by $0.03 to $0.07 per share because of integration costs and non-recurring expenses.

The Rite Aid banner will go up on all of the acquired stores within a matter of weeks after the transaction is final and we expect the stores to be fully integrated into Rite Aid after one year. We plan to invest up to $500 million in the acquired stores in the first year and up to another $450 million on the stores and the distribution centers over the next four years, as needed. In the first year, we will convert all of the Brooks and Eckerd stores to Rite Aid systems. This includes installing next-gen or state-of-the-art pharmacy dispensing system, front-end point-of-sale, labor management and all back-office systems support. We will invest in the training necessary to minimize any disruptions and we will invest in labor in the stores and in field supervision to improve customer satisfaction. We will reset and re-merchandise the stores and add other decor upgrades that reflect elements of our very successful new customer world design. We will begin a remodel program on the stores that need it most and will focus on opportunities to reduce shrink, increase the generic dispense rate and expand private-brand penetration, which will all contribute to margin improvement.

At the same time, we will continue our organic growth programs with plans to open 125 new and relocated stores in fiscal 2006 and 800 to 1000 new and relocated stores over the next five years. We will take the expanded store base into consideration when deciding on locations as we continue our current strategy of growing in areas where we already operate. We expect this integration to go smoothly because Rite Aid has the systems, programs and people to make it happen. In the last six years, we have built an infrastructure at Rite Aid with information systems and a supply chain already capable of supporting these additional stores and distribution centers. We have a strong supply chain process, collaborative supplier relationships, successful front-end and pharmacy marketing initiatives, innovative advertising and promotion programs and state-of-the-art technology that can be easily leveraged because of the locations of the additional stores. We have a strong field structure that can support best practices execution across the network, which includes best practices at Rite Aid, Brooks and Eckerd stores alike, with priority focus on enhancing the customer experience and increasing customer satisfaction. And, we have a management team with significant experience in successful retail mergers and acquisitions.

In reaching this agreement, we worked closely with executives of the Jean Coutu Group and it s been a very collaborative process. The close working relationship that has already been established and having Pierre Legault on the integration leadership team will help ensure a smooth transition for associates and customers alike. We look forward to working with Brooks and Eckerd associates across the network to create a distinctive help and wellness focused shopping experience that is second to none. Now I will turn it over to Kevin.

Kevin Twomey ***- Rite Aid - CFO***

Thanks, Mary. I would like to reiterate what Mary said at the beginning of her remarks. This is an exciting opportunity for both of our companies. Our growth strategy is about to go into high gear and we could not be more pleased. We realize there are a lot of questions, and hopefully we will answer the majority of them today in the announcement and in the conference call.

I will briefly review the following six topics first, timing for the closing; then, more details on the net synergies; third, integration plans, costs and timing; fourth, financing for the transaction; next, our leverage ratio and liquidity; and then finally, our guidance.

First, let s cover the timing for closing the transaction. We are unable to currently give you a precise date for closing the transaction. The actual closing is dependent first on obtaining a vote of approval from our stockholders at a special meeting. Secondly, closing is also dependent on completing the regulatory review process. Closing could occur as early as sometime in our fourth quarter, but we do not know any more than that at this time. The unknown timing for closing makes things a little complicated for all of us when trying to quantify the financial impact and relate that impact to a fiscal year. Until we have a better idea of when closing will actually occur, we will describe the impact to net income, earnings per diluted share and net synergies in 12-month time frames.

That leads us to our second topic, net synergies. We believe synergies will develop quickly after close but will take a full 12 months to reach a fully developed run rate. That is why we estimate that after close, the first 12 months net synergies will be approximately $35 million and the next 12 months net synergies will be approximately $150 million.

All synergies can be characterized into one of four general categories, which are first, gross profit improvement that comes from larger scale and purchasing and use of best practices in merchandising; second, advertising expense optimization that comes from eliminating duplicate costs in common markets; third, distribution system improved productivity that comes from higher volume; and fourth, improved back office and administrative expense coverage that comes from eliminating duplicate costs and covering the fixed cost

component over a larger store base. We are confident in our synergy estimates and are anxious to get working on them, but the key to achieving these synergies brings us to my third topic integration plans, costs and timing.

Our integration plan is anchored in and will fully utilize our existing systems and processes. We have already started the integration planning, which will have four phases. We have placed a priority on communication and training throughout all four phases. The first phase is a thorough store analysis that becomes a platform for launching the other three phases. This phase will be completed before we close. Phase II consists of several activities, such as retrofitting the planograms for all Brooks/Eckerd stores, converting those store systems to our store systems and converting the supply chain processes. We believe this phase will take approximately seven to nine months.

Phase III consists of remerchandising and resetting the stores. Some of Phase III may overlap with Phase II, but for the most part, Phase III will take up to 12 months. The last phase is to remodel the stores, and that will take several years, but we will certainly begin in the first 12 months.

The integration costs have been included in the dilution and accretion amounts we described earlier. Our integration plans require up to $500 million of capital expenditures the first 12 months and another approximate $500 million over the next four years, as needed. We have the human resources, the capital resources and the liquidity to support this integration plan, which brings us to my next topic financing.

Setting the equity portion of the transaction aside, the transaction funding needs are 1.45 billion for the seller, plus transaction costs, with the expectation that we will assume the 850 million, 8.5% senior subordinated notes of the Jean Coutu Group, subject to satisfaction of certain conditions. We also intend to address our fiscal 2007 required debt maturities that total 576 million as part of our financing activities. Therefore, our total funding needs after assuming the 8.5% note are approximately 2.2 billion. Our funding sources will be the use of excess cash on-hand, draws on the existing revolver, term loans and secured notes. We have entered into a financing commitment agreement with Citigroup that covers all of our needs.

Our existing senior secured revolving credit facility and the accounts receivable securitization agreement require amendments to support the transaction, but we are confident of obtaining those amendments. I want to point out that our existing secured note indentures permit the debt related to the financing under either the permitted debt or the interest coverage ratio provision. The assumption of the 8.5% senior subordinated notes is permitted under the merger provisions of the indenture subject to satisfaction of certain conditions. The financing, of course, will not take place until closing.

Now, regarding our leverage ratio and liquidity the combination of the new funded debt, less the amounts used for required maturities, and the assumption of the 8.5% senior subordinated notes will increase our total debt at the time of closing by approximately 2.2 billion. If you treat the accounts receivable securitization program as debt, this transaction will increase the ratio of our debt, divided by the adjusted EBITDA, from our current level of 4.6 to approximately 6.0. After the first 12 months, that ratio will decrease to approximately 5.4. After the next 12 months when the synergies are at the fully-developed run rate, the ratio will be approximately 4.4, which is lower than it is today. For the second 12-months after closing, cash flow from operations, less capital expenditures, is expected to be positive.

Our 1.75 billion revolver will remain in place after amendments. We believe the revolver availability will be more than adequate to support the business activities, including the integration, capital expenditures and costs and continue our new and relocated store program.

My final topic is guidance. We realize the importance of not becoming distracted by the transaction. The integration activities will be the primary responsibility of associates dedicated to the integration so that others can continue to focus on the existing operations. If closing for the transaction occurs before the end of fiscal 2007, we will update our guidance then. But until then, we are confirming our fiscal 2007 guidance for sales, same-store sales, net income, adjusted EBITDA and capital expenditures. Specifically, sales are expected to be between 17.4 billion and 17.65 billion, with same-store sales expected to improve 2% to 4% over fiscal 2006. Net income, or loss, for fiscal 2007 is expected to be between a net loss of $5 million, or net income of 40 million, or a loss per diluted share of $0.07 to net income per diluted share of $0.02.

Adjusted EBITDA is expected to be between 650 million and 725 million. Capital expenditures, excluding proceeds from sale and leaseback transactions, are expected to be between 450 and $500 million. Now, proceeds from sale leaseback transactions are expected to be between 50 million and 100 million.

This completes my prepared remarks. Mr. Coutu?

Jean Coutu - *Jean Coutu Group - Chairman, Pres., CEO*

Thank you, Mary, thank you, Kevin. For the fourth time, good morning, ladies and gentlemen. We re pleased to be here this morning to discuss the next steps in the progress of the Jean Coutu Group. We see this transaction as a unique strategic opportunity to enhance our U.S. presence. The U.S. drugstore industry is rapidly consolidating, and as you know, you need to be a large player to compete better. With Rite Aid, we have an occasion to optimize our investment in the regional chain into the leading ownership of a major national chain of pharmacies. Combining the Rite Aid, Eckerd and Brooks network is the change of scale to be a major player in the growing drugstore industry. We are proud to be associated with Rite Aid s management team and are confident that the team has the skills and experience to leverage [our fast] turnaround success across this larger network.

At the same time, this event allows the Jean Coutu Group to strengthen its balance sheet and maintain focus on our leading Canadian drugstore network.

Merging Brooks, Eckerd into Rite Aid, and becoming its leading shareholders should enable us to generate significant value for our shareholder, and at the same time, for the shareholders of Rite Aid. The detail of today s announced Rite Aid Rite Aid s Board and executive appointment as they are related to the Jean Coutu Group are as follows.

Michel Coutu, currently President of the Jean Coutu Group USA, will become Board Chairman and a member of the Executive Committee of the Rite Aid Board of Directors. Michel will serve as advisor to the Chairman, President and CEO on matters of strategy, government affairs and industry best practices. This will include new marketing concepts that differentiate the Company s network. Recently, Michel was a member of the senior PJC team working on this project.

The Jean Coutu Group will name three other members to a 14-person Rite Aid Board, including Francois Coutu, Vice Chairman and President of Canadian Operations; Andre Belzile, Senior Vice President, Finance and Corporate Affairs; and Mr. Dennis Wood, Board member and member of our Executive and Audit Committee. All four PJCs appointed will become members of Rite Aid s various Board committees. Pierre Legault, who is now Executive Vice Chairman of the Jean Coutu Group, will join Rite Aid and serve as their Senior Executive Vice President, Chief Administrative Officer. As CAO, Mr. Legault will be responsible for finance, information technology and real estate and will be a member of the integration leadership team. We believe that our 20 years experience as an operator of pharmacies in the United States will be beneficial to Rite Aid.

Before I conclude I would also like to acknowledge the work of our loyal hard-working U.S. associates, many of whom are shareholders, who have helped us (indiscernible) build the Brooks/Eckerd chains over the years. Our chain is focused on pharmacy, professionalism and service and we are about to embark on the same stage on our growth together with Rite Aid, an organization with similar values.

PJC shareholders will [now] have a 32% interest in the largest drugstore chains in eastern United States, the third-largest drugstore retailer in America, a company which combines fiscal 2006 annual revenues of nearly 27 billion and approximately 5000 pharmacies. These 5000 drugstores now compare with our major competitor.

So that s the story. And we think that this transaction will permit us to help create a larger drugstore retailer able to benefit from synergies, greater purchasing power and niche distribution channels in the United States. So from now on, [on this closing], from Chairman to store associates, we will all focus on continuing to improve the performance at the Brooks/Eckerd chain. This will make for a stronger Rite Aid going forward.

Thank you, and now, Andre Belzile will discuss the detailed financial aspect.

Andre Belzile - ***Jean Coutu Group - SVP, Finance & Corporate Affairs***

Thank you Mr. Coutu, and good morning again. I will review very briefly some of the key financial aspects of the transaction. I would like to refer you to the slide 12 of the presentation that was posted on both companies Web sites. You will see there how this transaction unlocks the value of PJC s Canada. This page covers the pro forma financial impact to the transaction on the Jean Coutu Group, giving us a summary of several key metrics.

Without the U.S. operations in fiscal 2006, this is what the new Jean Coutu Group would have looked like. You ll notice that our EBITDA margin would have been 10.1% pro forma and that we expect to reimburse all of our debt as a result of this transaction. We intend to fully repay our revolver, Term A and Term B loans. We expect also to retire the $350 million of 7-5/8 senior unsecured notes. Also, as mentioned by Kevin previously, Rite Aid intends to assume the 8.5%, $850 million senior subordinated notes.

On the next page of the slide, 13, you will see the pro forma impact of this transaction on the financial statements of the Jean Coutu Group at closing. The investment in Rite Aid will be accounted for using the equity method, meaning that our 32% interest will be classified investment as a (indiscernible) assets and its fair value at its fair value in the closing concern. We will account for PJC s share of the net earnings of Rite Aid in a separate line of our income statement going forward. The rest our financial statement will reflect Canadian operations only.

Our U.S. operations will not be presented as discontinued operations, considering the continuing company involvement in the expanded Rite Aid. As Mary and Kevin have said, the value assigned to the consideration received in this transaction will depend on Rite Aid s share price on the closing date. Such value also depends on the U.S. median dollar currency exchange rate on the closing date. Using the last 30 days average currency exchange rate and Rite Aid s stock price of $4.41 per share for the 250 million shares to be received, the Jean Coutu Group will have recorded a write-off of approximately 140 million in our P&L, mostly because of the materialized foreign currency exchange translation adjustment and write-off of deeper financing costs.

Once again, we are all very excited about this transaction, which we see clearly as a win-win for both organizations. That concludes my remarks. Now, Mary will make some concluding remarks before we open the call to the analysts question period. Mary?

Mary Sammons - ***Rite Aid - President, CEO***

Thank you, Andre. I will save my concluding remarks until post the Q&A. I know that you re all anxious to be asking a few questions. Joining our group for the Q&A session will be Jim Mastrian, our Chief Operating Officer and Christopher Hall, our Senior VP of Strategic Business Development. They have also been involved on the transaction development. And now we are ready to take questions. I would like to ask each of you to please limit to one question if you could so that we give everyone an opportunity to ask questions. Thank you. Operator, we are ready.

QUESTION AND ANSWER

Operator

(Operator Instructions). Meredith Adler, Lehman Brothers.

Meredith Adler *- Lehman Brothers - Analyst*

Congratulations guys. I d like my biggest question is really about your concerns about anti-trust issues. My analysis shows a significant amount of overlap. Have you had any preliminary conversations with the SEC, and kind of how do you think that s going to play out in terms of acquired divestitures?

Mary Sammons *- Rite Aid - President, CEO*

Meredith, we re not going to speculate on what degree of overlap is significant or what constitutes an overlap because there are a lot of factors involved in an analysis of a transaction such as that. And so we ll go through the regulatory review process and then we will move forward from there.

Kevin Twomey *- Rite Aid - CFO*

However, we have made some estimates that we have included in our dilution and accretion and net synergies amounts.

Meredith Adler *- Lehman Brothers - Analyst*

And just a follow-up with that. Do you have a any sense whether the FTC includes mail-order as a competitor? And will they include independent, non-traditional drug retailer s mass merchants and supermarkets?

Mary Sammons *- Rite Aid - President, CEO*

I think that you would have to direct that question towards that regulatory agency on that. I think they start in a certain manner, but then you have an opportunity to really talk through the competitive nature of the business. And we know that there are hundreds of thousands of outlets that provide prescription medicines, including mail-order.

Operator

Ed Kelly, Credit Suisse.

Ed Kelly ***- Credit Suisse - Analyst***

Let me just say congratulations on what I think is a good deal. I would like to get my hands dirty a little bit on your synergy estimate. You talk about $150 million, and you use the word net. Does that mean net of any lingering integration costs?

Kevin Twomey *- Rite Aid - CFO*

Yes.

Ed Kelly *- Credit Suisse - Analyst*

So the actual gross synergy number is bigger than that, obviously?

Mary Sammons *- Rite Aid - President, CEO*

Yes

Ed Kelly *- Credit Suisse - Analyst*

Now, the second related part to that is that, you know, the Eckerd EBIT margin as I think about it right now I think is probably at about 0.5% or so. The synergies that you re getting here seem to be typical merger-related synergies that you would get no matter who you were acquiring, and that 0.5% EBIT margin on the core Eckerd business I think is a couple hundred basis points below where it was when JC Penney had it. It s about 150 basis points below your core business. So clearly, that s a big incremental piece. And I was hoping you could just walk us through what are the issues at those stores that we have seen in the past couple of years? What gives you the conviction you can get those margins higher, and what does that process look like?

Mary Sammons *- Rite Aid - President, CEO*

Well, obviously, we did a lot of development of our synergy number and took into consideration the opportunities within each of the areas of synergy development; for instance, margin. And we have really gone through all the components through the due diligence process of their margin versus ours and see opportunities in purchasing, in shrink, in generic penetration generics are part of the mix private brand development. A good example there would be Brooks/Eckerd is about 8.5%, maybe slightly better than that now. We re in excess of 12.5% now, almost 13%. So those are the kinds of opportunities. And, again, on a synergy number, you want to have a reasonable synergy target, and then the objective is to obviously do better than that as you develop additional items going forward.

Kevin Twomey *- Rite Aid - CFO*

I would like to also add to that, if you look at the last year, there are a lot of non-recurring activities that have been addressed by the Jean Coutu Group that are not going forward into the current fiscal year. So the combination of that, as well as the synergies that we talked about those four general categories I think accounts for that.

Ed Kelly ***- Credit Suisse - Analyst***

Right. And I would imagine that running that business better and not having these non-recurring items over the past couple of years, that there s probably no reason to think that you couldn t at least operate these stores at the level th