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## **FORM 10-K405**

**CVS HEALTH Corp - CVS**

**Filed: March 31, 1997 (period: December 31, 1996)**

Annual report filed under Regulation S-K Item 405 (Discontinued)

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-1011

CVS CORPORATION  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)  
(FORMERLY MELVILLE CORPORATION)

DELAWARE  
(STATE OR OTHER JURISDICTION  
OF INCORPORATION OR ORGANIZATION)

05-0494040  
(I.R.S. EMPLOYER  
IDENTIFICATION NO.)

ONE CVS DRIVE  
WOONSOCKET, RHODE ISLAND  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

02895  
(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (401) 765-1500

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE EXCHANGE ACT:

TITLE OF EACH CLASS NAME OF EACH EXCHANGE ON WHICH REGISTERED

Common Stock, par value \$.01 per share

New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE EXCHANGE ACT: NONE

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item  
405 of Regulation S-K is not contained herein, and will not be contained, to the  
best of registrant's knowledge, in definitive proxy or information statements  
incorporated by reference in Part III of this Form 10-K or any amendment to this  
Form 10-K. Yes  No

The aggregate market value of the registrant's voting stock\* held by non-affiliates\*\* of the registrant (without admitting that any person whose shares are not included in such calculation is an affiliate) on March 1, 1997 was \$4,944,270,225, based on the last sale price as reported by the New York Stock Exchange.

As of March 1, 1997, the registrant had 107,158,665 shares of Common Stock outstanding.

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- \* Does not include 5,526,677 outstanding shares of Series One ESOP Convertible Preference Stock ("ESOP Preference Stock"). As of March 1, 1997, each share of ESOP Preference Stock is entitled to approximately 1.2 vote(s) per share on all matters submitted to a vote of the holders of Common Stock.
  - \*\* Only stock held by directors and officers is excluded.

DOCUMENTS INCORPORATED BY REFERENCE

Annual Report to Shareholders for the year ended December 31, 1996: Part II, Items 6, 7 and 8; and Part IV, Item 14.

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PART I

ITEM 1. BUSINESS

General

CVS Corporation, a Delaware corporation ("CVS" or the "Company"), is a leader in the chain drug industry with over \$5.5 billion in revenue in 1996. As of December 31, 1996, the Company operated 1,408 stores, in 14 states and the District of Columbia, most of which have pharmacies. In addition to prescription drugs and services, CVS stores offer a broad selection of health and beauty aids, greeting cards, photo processing services, cosmetics, convenience foods, private label and seasonal items. In 1996, pharmacy sales increased 18.4% to \$2.4 billion, representing 43.9% of total sales for the year, while higher-margin front store sales increased 9.3% to \$3.1 billion, representing 56.1% of total sales for the year. CVS pharmacies fill an average of about 1,200 prescriptions a week, which is significantly higher than the average community pharmacy. Total sales of \$573 per square foot place CVS among the top performers in the chain drug industry.

The Company's principal executive offices are located at One CVS Drive, Woonsocket, Rhode Island 02895.

Strategic Restructuring Plan

In October 1995, the Board of Directors of CVS approved a comprehensive restructuring plan that was the product of a strategic review initiated in 1994. The restructuring plan included, among other things, (i) the continued operation of CVS (which includes CVS and, initially, the Linens 'n Things and Bob's divisions), (ii) the disposition of the Marshalls, Kay-Bee Toys, Wilsons and This End Up divisions (collectively, the "Dispositions"), (iii) the spin-off of Footstar, Inc. ("Footstar"), which includes the Meldisco, Footaction and Thom McAn divisions, and (iv) the elimination of significant corporate overhead costs. Subsequently, in May 1996, the Board of Directors approved further refinements to the restructuring plan, which included, among other things, a formal plan to separate the Linens 'n Things and Bob's divisions from CVS. The Dispositions were completed during 1995 and 1996. The Company completed the spin-off of Footstar in October 1996 and, in December 1996, completed the initial public offering of 67.5% of the shares of common stock of Linens 'n Things, Inc. See Note 2 of Notes to Consolidated Financial Statements for further information about the Company's restructuring program.

The Company's stock began trading on the New York Stock Exchange under the symbol "CVS" on October 16, 1996 and, on November 20, 1996, Melville's corporate

name was officially changed to CVS Corporation. As used in this Form 10-K, unless the context indicates otherwise, "CVS" or the "Company" shall mean and include Melville with respect to periods prior to November 20, 1996.

#### Agreement to Acquire Revco D.S., Inc.

On February 6, 1997, CVS signed a definitive merger agreement to acquire Revco D.S., Inc. ("Revco") in a stock-for-stock merger valued at approximately \$2.8 billion. CVS will also assume approximately \$900 million of existing Revco debt as part of this transaction.

The combination of CVS and Revco, which has been approved by the Boards of Directors of both companies, will bring together two of the leading companies in the chain-drug industry to create the nation's largest chain drugstore company based on store count, with approximately 4,000 locations in 24 states and the District of Columbia. The combination will bring the combined company into high-growth, contiguous markets in the Northeast, Mid-Atlantic, Southeast and Midwest regions; and the combined enterprise is expected to rank second in annual retail drugstore revenues in 1997.

Under the terms of the merger agreement, CVS will combine with Revco in an exchange of stock that is expected to qualify for treatment as a pooling of interests transaction, tax free to Revco shareholders. If the merger is completed, for each share of Revco common stock held, Revco shareholders will receive the sum of (i) 0.4692 shares of CVS common stock and (ii) the number of shares of CVS common stock equal to the quotient obtained by dividing \$20 by the average closing price of CVS common stock during ten trading days

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randomly selected out of the twenty trading days ending on the fifth trading day preceding the closing date (collectively, the "Exchange Ratio"), provided that, under no circumstances will the Exchange Ratio exceed 1.0097 or be less than 0.8837.

The transaction is subject to approval by the shareholders of both companies, expiration of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and certain other customary closing conditions. If all the closing conditions have been met, it is expected that the transaction will be completed by mid-year 1997.

#### Products and Operations

A key focus of the Company's business is its pharmacy operations. The Company believes that its pharmacy operations will continue to represent a significant portion of its sales and profits due to (i) the demographic trend toward an aging population, (ii) the continued development of new pharmaceutical products and services, (iii) the Company's ability to attract and maintain third party provider business and (iv) the continued shift toward payment for prescriptions by third party providers. The Company also offers a broad selection of general merchandise, presented in a well-organized fashion, in stores that are designed to be warm, inviting and easy to shop. Major year-round product lines include health and beauty aids, cosmetics, greeting cards, photo processing services, books and magazines, convenience foods and household items. The Company also features private label and seasonal items. The Company offers over 1,100 products under the CVS brand private label, accounting for 11% of the Company's front store sales. By providing high quality at an excellent price, sales of CVS brand name products have grown at an annual rate of over 15%.

The Company's merchandising effort is driven by a highly successful category management approach, which affords the ability to refine and tailor store merchandise selection market-by-market, based on local demographics. In addition, the Company emphasizes the creation of key destination categories, such as greeting cards, film and photofinishing, beauty and cosmetics, convenience foods, private label and seasonal merchandise. These product areas are managed so as to differentiate CVS in the marketplace and to take advantage

of the potential each destination category has to offer. To further support growth in existing stores, the Company has in place an active remodel and remerchandise program, which seeks to remodel 20% of the Company's existing stores each year and to remerchandise another 20% each year. The Company has also extended store hours in many locations, and, at the end of 1996, operated approximately 100 24-hour stores.

The Company centrally purchases most of its merchandise, including prescription drugs, directly from manufacturers, allowing it to take advantage of the promotional and volume discount programs that certain manufacturers offer to retailers. During 1996, approximately 84% of the merchandise purchased by the Company was received at one of the Company's four distribution centers for redistribution to its stores. The balance of store merchandise is shipped directly to CVS stores from manufacturers and distributors at prices negotiated at the corporate level. The Company's largest supplier accounted for approximately 6.5% of total merchandise purchased in 1996. The Company believes that the loss of any one supplier or group of suppliers under common control would not have a material effect on its business.

In the Company's pharmacy business, its "RX2000" computer system enables CVS pharmacists to manage their prescription filling duties more efficiently, giving them more time to spend with customers. The RX2000 system, which includes one of the largest data warehouses in the country, facilitates the management of third party healthcare plans and provides a warehouse of pharmacy data that can be analyzed by both CVS and its managed care customers for a variety of healthcare- and business-related applications. In addition, the Company is currently implementing an Interactive Voice Response system that enables customers to place refill orders by telephone.

In the front store business, the Company has developed an advanced "Retail Data Warehouse" that enables a quick analysis of point-of-sale ("POS") data on a store-by-store basis to develop targeted marketing and merchandising strategies. The Company has also implemented a "Field Management System" that uses POS data to identify areas to improve operational execution on a store-by-store basis. In addition, the Company is in the process of reengineering its entire warehouse and merchandising network, in order to enable the more efficient and effective control of merchandise flow to CVS stores.

The Company's business normally generates higher revenues during the holiday season in its fourth fiscal quarter. In each of the fiscal years ended 1996 and 1995, the fourth quarter accounted for approximately 28.0% of the Company's net sales.

CVS Stores

At December 31, 1996, the Company operated 1,408 stores, in 14 states and the District of Columbia. CVS stores are considered "destination" stores and are located primarily in "strip" shopping centers or are freestanding units. CVS stores generally range in size from approximately 8,000 to 10,000 square feet, with an average store size of approximately 9,000 square feet. The prototype new store size is 75' x 135' (or 10,125 square feet), with growth programs directed toward freestanding locations at traffic controlled intersections. The following is a breakdown by state of the locations of the 1,408 Company operated stores at the end of 1996:

Connecticut.....	113
Delaware.....	3
District of Columbia.....	48
Georgia.....	11
Maine.....	20
Maryland.....	116

Massachusetts.....	308
New Hampshire.....	29
New Jersey.....	140
New York.....	228
Pennsylvania.....	206
Rhode Island.....	48
Vermont.....	2
Virginia.....	130
West Virginia.....	6

The Company believes that significant opportunities exist to increase its presence in many existing markets, as well as to enter new geographic areas. The Company intends to build on its existing base of stores in the Northeast and Mid-Atlantic. The Company also intends to expand its base by entering fast-growing markets in contiguous states through acquisition opportunities as well as new store openings, through both self-development and landlord-built projects.

During 1996, the Company opened 98 new stores, including 23 relocations. During 1997, the Company expects to open approximately 150 new stores, including approximately 50 relocations. This planned expansion would contribute an additional 5% in square footage, as most new stores will be approximately 10,000 square feet in size. Many new stores have drive-through pharmacies. Sites are selected based on convenience, with an emphasis on free-standing locations.

The addition of new stores has played, and will continue to play, a major role in the Company's continued growth. As new stores have been opened, the Company has maintained its objective of securing strong positions in each market that its stores serve. This provides the Company several important advantages, including an ability to save on advertising and distribution costs. It is also an important consideration for managed care providers, who want to provide their members with convenient access to pharmacy services.

The Company's efforts to open new stores are complemented by an active store relocation and renovation program that is aimed at making CVS' store base as productive as possible. The Company aggressively pursues opportunities to relocate select strip center stores to freestanding locations. Plans for 1997 include approximately 50 relocations. Freestanding locations require properties of approximately 1 1/4 acres to support parking for 40-60 cars. Site selection is also an important aspect of the Company's relocation program. As stores are relocated to free-standing or more convenient locations, the Company has often been able to achieve a 20-25% increase in sales.

If the proposed merger with Revco is completed, the transaction is expected to create the nation's largest chain drugstore company based on store count, with approximately 4,000 locations in 24 states and the District of Columbia. The combination will bring the combined company into high-growth, contiguous markets in the Northeast, Mid-Atlantic, Southeast and Midwest regions; and the combined enterprise is expected to rank second in annual retail drugstore revenues in 1997.

The following table sets forth, for the periods indicated below, certain information concerning CVS store growth:

	FISCAL YEAR ENDING DECEMBER 31,		
	1994	1995	1996
Stores open, beginning of period.....	1,284	1,328	1,366
Stores added.....	63	73	75
Stores closed.....	19	35	33
Stores open, end of period.....	1,328	1,366	1,408

## Pharmacy Sales and Managed Care

In 1996, pharmacy sales increased 18.4% to \$2.4 billion, representing 43.9% of total sales for the year. Pharmacy sales in 1995 and 1994 were \$2.0 billion and \$1.7 billion, representing 42.0% and 40.4% of total sales for such years. CVS pharmacies fill an average of about 1,200 prescriptions per store per week, which is significantly higher than the average community pharmacy. Growth in pharmacy sales is primarily driven by (i) the Company's ability to succeed in the rapidly-growing managed care arena, (ii) the purchase of prescription files from independent pharmacies and (iii) favorable trends, including an aging American population, greater demand for retail formats that provide easy access and convenience, the continued discovery and development of new drug therapies and a need for cost-effective healthcare solutions.

During fiscal 1996, 81.8% of pharmacy sales were attributable to payments by third party providers under prescription drug plans, as compared to 76.1% in 1995 and 69.1% in 1994. The shift toward payment for prescriptions by third party providers is likely to continue, as consumers move from fee-for-service indemnity plans to managed care plans with preferred providers. In a typical third party payment plan, the Company has a contract with a third party payor, such as an insurance company, a prescription benefit management company, a governmental agency, a private employer, a health maintenance organization or other managed care provider, which agrees to pay for all or a portion of a customer's eligible prescription purchases in exchange for reduced prescription rates. Although third party payment plans provide a high volume of prescription drug sales, such sales typically generate lower gross margins than other prescription drug sales due to the cost containment efforts of these large third party payors and the increasing competition among pharmacies for this business.

CVS' experience in providing solutions to managed care providers, and its existing store base which affords easy access and convenience to consumers, are factors that should contribute to the Company's continued ability to attract and maintain third party business. In addition, the Company's RX2000 pharmacy computer system facilitates the management of third party healthcare plans and enables CVS to provide managed care providers with a level of information unmatched by competitors. By analyzing this data, CVS and its managed care partners are able to evaluate treatment outcomes with an eye toward improving care and containing costs. The Company's emphasis on customer service extends from the expert advice and service that individual customers receive from CVS pharmacists into the managed care portion of the Company's business, where Managed Care Service Teams are responsible for insuring the high level of service that CVS' managed care partners receive. During 1996, the top 5 providers accounted for approximately 41% of pharmacy sales. Any significant loss of third party provider business could have a material adverse affect on the Company's business and results of operations.

The Company's pharmacy business also continues to benefit from an "independent file buy" program, in which CVS purchases prescription files from one or more independent pharmacies. During 1996, CVS purchased 114 prescription files, containing an average weekly prescription count of approximately 400, from independent pharmacies, and the Company plans to purchase a similar number of prescription files during 1997. The Company believes that independent file buys are productive investments. In many cases, the independent pharmacist will move to CVS, thereby providing continuity in the pharmacist-patient relationship.

## Pharmacare

CVS is committed to being part of an integrated healthcare approach that brings together industry participants such as physicians, pharmaceutical companies, managed care providers and pharmacies in order to provide patients with the best possible care at the lowest cost. The Company's efforts to date

have primarily concentrated on two main areas: (i) the operation and expansion of Pharmicare, the Company's prescription benefit management subsidiary and (ii) the creation of strategic alliances with healthcare partners.

Pharmacare, founded in 1994, provides managed care providers a full range of prescription benefit management services including plan design and administration, formulary management, claims processing and generic substitution, with a focus on providing integrated solutions to the delivery of healthcare. In the two and a half years since it was established, Pharmicare has grown considerably and, at the end of 1996, managed healthcare services for more than one million people through a preferred national pharmacy network of approximately 37,500 pharmacies.

One of the features that sets Pharmicare apart from other prescription benefit management providers is its proprietary Clinical Information Management System ("CIMS"). CIMS enables CVS pharmacists to work more efficiently with physicians by facilitating communication and information-sharing, with the objective of improving patient care and reducing costs. More than 10,000 physicians are currently using CIMS. In addition, Pharmicare plays an increasing role in healthcare management through integrated partnerships with several large managed care providers.

CVS is also pursuing strategic alliances with healthcare partners to develop products and services that will create new opportunities for revenue and profit growth. In December 1995, CVS announced its first such alliance, a joint venture with Pfizer Health Solutions, Inc., a subsidiary of Pfizer, Inc., called HealthCare Market Research ("HCMR"). This partnership, will draw upon Pfizer's expertise in research and disease management and the wealth of information residing in CVS' pharmacy data warehouse. HCMR plans to develop information-based products to help managed care organizations and employers achieve better health outcomes and cost efficiencies. One goal is to provide clients with economic comparisons of various pharmaceutical care programs to help them select care management strategies for particular patients and disease types, with the objective of improving treatment and managing costs.

#### Information Systems

CVS has made significant investments in information systems to enable the Company to deliver an exceptional level of customer service, while lowering costs and increasing operating efficiency. The Company's client-server based system permits rapid and flexible system development to meet changing business needs, enabling the integration of CVS systems with those of other healthcare providers, including many of the Company's managed care customers. With a scaleable technical architecture, CVS can efficiently expand its network and add stores.

In the Company's pharmacy business, the RX2000 computer system enables CVS pharmacists to manage their prescription filling duties more efficiently, giving them more time to spend with customers. The RX2000 system facilitates the management of third party healthcare plans and provides a warehouse of pharmacy data that can be analyzed by both CVS and its managed care customers for a variety of healthcare-and business-related applications. In addition, the Company is currently implementing an Interactive Voice Response system that enables customers to place refill orders by telephone.

In the front store business, the Company has developed an advanced "Retail Data Warehouse" that enables a quick analysis of point-of-sale ("POS") data on a store-by-store basis to develop targeted marketing and merchandising strategies. The Company has also implemented a "Field Management System" that uses POS data to identify areas to improve operational execution on a store-by-store basis. In addition, the Company is in the process of a major supply chain initiative to reengineer its entire warehouse and merchandising network, which is intended to enable the more efficient and effective control of merchandise flow to CVS stores.



## Customer Service

CVS strives to provide the highest levels of service to its customers and partners. As a result, the Company devotes considerable time and attention to people, systems and high service standards. The Company places an emphasis on attracting friendly and helpful associates to work both in CVS stores and throughout the CVS organization. The Company continuously provides training and educational programs, and invests in the tools associates need to do their jobs effectively. The Company measures results continuously, to identify and correct any problems quickly. Each CVS store receives a formal customer service evaluation twice per year, based on a mystery shopper program, customer letters and calls, and market research. In addition, feedback received through customer letters and calls is provided on a more informal basis every month. CVS' priority on customer service extends into the managed care portion of its business as well. In every market, a Managed Care Service Team is responsible for insuring that managed care partners are receiving high levels of service. These teams have the ability to bring in additional corporate support as necessary to meet our partners' needs. CVS pharmacists consistently rank at the top of the industry on measurements of trust, relationship-building and accessibility. This high level of service and expertise has played a key role in enabling growth in pharmacy operations year after year.

## Regulation

The Company's pharmacies and pharmacists are required to be licensed by the appropriate state boards of pharmacy. The Company's pharmacies and its distribution centers are also registered with the Federal Drug Enforcement Agency. By virtue of these licensing and registration requirements, the Company is required to comply with various statutes, rules and regulations, a violation of which could result in a suspension or revocation of such licenses or registrations. Under the Omnibus Budget Reconciliation Act of 1990, the Company's pharmacists are required to offer counseling, without charge, to customers covered by Medicare about medication, dosage, delivery system, potential side effects, and other information deemed significant by such pharmacists. The Company's pharmacists in fact routinely offer such counseling to consumers.

## Competition

The retail drugstore business is highly competitive. The Company believes that it competes principally on the basis of: (i) store location and convenience, (ii) customer service and satisfaction, (iii) product selection and variety and (iv) price. The Company experiences active competition not only from independent and other chain drugstores, but also from health maintenance organizations, hospitals, mail order organizations, supermarkets, discount drugstores and discount general merchandisers. Among major drug chains, some competitors have greater financial resources than the Company and have used such resources, in some instances, to improve their competitive position through modernized store systems, aggressive remodeling, new store openings and acquisitions. The deep discount drug segment has experienced significant growth over the past several years as drug chains, food, discount and specialty retailers have entered the business. Major retail companies now operate deep discount drugstores in the most competitive retailing markets. "Combo" stores, which consist of grocery, drugstore and several other operations under the same roof, have also experienced significant growth over the past several years as consumers have become more attracted to one-stop shopping. Retail mass merchandisers with prescription departments have also grown in popularity. The Company believes, based on publicly available information, that, as of December 31, 1996, it ranked 5th on a store-count basis and 6th on an annual sales-volume basis among chain drugstores.

## ITEM 2. DESCRIPTION OF PROPERTY

Most CVS stores are occupied pursuant to long term leases that vary as to rental amounts and payments, expiration dates, renewal options and other rental provisions. The Company does not deem any individual store lease to be significant in relation to its overall business. For information as to the

amount of the Company's rental obligations for retail store leases, see Note 12 of Notes to Consolidated Financial Statements.

The Company owns its corporate headquarters located in Woonsocket, Rhode Island, which contains approximately 272,000 square feet. The Company also owns and operates four distribution centers, located in

Woonsocket, Rhode Island, North Smithfield, Rhode Island, Lumberton, New Jersey and Fredericksburg Virginia, which contain an aggregate of approximately 2,445,000 square feet. In addition, the Company owns a store support building located in Woonsocket, Rhode Island which contains approximately 114,000 square feet, and an office building located in Woonsocket, Rhode Island which contains approximately 33,000 square feet. The Company also leases approximately 41,000 square feet in an office building in Lincoln, Rhode Island and three "satellite" store support buildings which contain an aggregate of approximately 120,000 square feet.

In addition, in connection with certain dispositions completed between 1991 and 1996, CVS continues to guaranty the lease obligations for approximately 2,600 former stores. The Company is indemnified for these obligations by the respective purchasers. See Note 13 of Notes to Consolidated Financial Statements.

ITEM 3. LEGAL PROCEEDINGS

From time to time the Company and its subsidiaries are involved in the assertion of claims and in litigation incidental to the normal course of business. In the opinion of management, no existing claims or litigation will have a material adverse effect on the consolidated financial condition or results of operations of the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On November 19, 1996, at a special meeting of the stockholders of Melville Corporation, the Melville stockholders approved a proposal (the "Proposal") to incorporate a new holding company in Delaware resulting in Melville stockholders owning shares of such new Delaware holding company named "CVS Corporation" and, in connection therewith, to effect the amendments to the holding company's charter and bylaws, all as more fully described in the Proxy Statement of the predecessor corporation, Melville Corporation, on Schedule 14A dated October 7, 1996 filed with the Securities Exchange Commission. The Proposal was approved by a vote of 85,999,993 shares in favor of the Proposal, 1,163,842 shares opposed to the Proposal (none of which were broker non-votes deemed to be votes against the Proposal) and 302,969 shares abstaining from voting.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following is included as an unnumbered item in Part I of this Report.

NAME/OFFICE	AGE	DATE APPOINTED PRESENT OFFICE	DATE FIRST APPOINTED OF OFFICER COMPANY
Charles C. Conaway..... Chief Financial Officer and Executive Vice President	36	07/10/96	07/10/96
Stanley P. Goldstein..... Chairman of the Board and Chief Executive Officer	62	01/01/87	04/13/71
Aldwin Jolly..... Vice President	57	10/09/96	10/09/96
Larry J. Merlo..... Vice President	41	10/09/96	10/09/96

Daniel C. Nelson.....	47	10/09/96	10/09/96
Vice President			
Thomas M. Ryan.....	44	10/09/96	01/01/94
Vice Chairman and Chief Operating Officer			
Larry Solberg.....	49	10/09/96	10/09/96
Vice President			

In each case the term of office extends to the date of the board of directors meeting following the next annual meeting of shareholders of the Company. In addition to the office(s) which they hold in the Company as shown above, each of the individuals listed (with the exception of Mr. Goldstein) holds various offices in certain CVS subsidiaries. Previous positions and responsibilities held by each of the above officers with the

Company and for each of the above officers who have not held the same office(s) with the same responsibilities for more than the past five years, are indicated below:

Charles C. Conaway, Executive Vice President and Chief Financial Officer of CVS since July 1996; Executive Vice President and Chief Financial Officer of CVS Pharmacy, Inc. since February 1995; from September 1992 to February 1995, Senior Vice President -- Pharmacy of the CVS Pharmacy, Inc.; from August 1989 to September 1992, Executive Vice President, Chief Operating Officer and a director of Reliable Drug Stores, Inc.; director of Linens 'n Things, Inc.

Stanley P. Goldstein, Chairman of the Board and Chief Executive Officer of CVS since January 1987; director of NYNEX Corporation, Linens 'n Things, Inc. and Footstar.

Aldwin Jolly, Vice President of CVS since October 1996; Senior Vice President -- Human Resources of CVS Pharmacy, Inc. since April 1992; from September 1986 to April 1992, President of Corporate Investments, International.

Larry J. Merlo, Vice President of CVS since October 1996; Senior Vice President -- Stores of CVS Pharmacy, Inc. since January 1994; from March 1993 to December 1993, Area Vice President of CVS Pharmacy, Inc.; from March 1991 to March 1993, Area Vice President of Peoples Drug Stores, Inc.

Daniel C. Nelson, Vice President of CVS since October 1996; Executive Vice President -- Marketing of CVS Pharmacy, Inc. since September 1993; from June 1990 to September 1993, Senior Vice President of Dominicks Finer Foods, Inc.

Thomas M. Ryan, Vice Chairman and Chief Operating Officer of CVS since October 1996; President and Chief Executive Officer of CVS Pharmacy, Inc. since January 1994; from January 1990 to January 1994, Executive Vice President -- Stores of CVS Pharmacy, Inc.; director of Citizens Bank.

Larry Solberg, Vice President of CVS since October 1996; Senior Vice President -- Finance and Controller of CVS Pharmacy, Inc. since March 1996; Vice President and Controller of CVS Pharmacy, Inc. from October 1994 to March 1996; from September 1993 to October 1994, Senior Vice President of PIMMS Corp.; prior to September 1993, various offices with National Car Rental Corp., most recently as Executive Vice President and Chief Financial Officer.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The number of holders of the Company's Common Stock, based upon the number of record holders, was approximately 5,700 as of December 31, 1996. The Company's Common Stock is listed on the New York Stock Exchange ("NYSE"), under

the ticker symbol "CVS." The following table sets forth, for the calendar quarters indicated, the reported high and low sale prices of CVS Common Stock as reported on the NYSE Composite Transaction Tape, based on published financial sources, and the cash dividends declared on the CVS Common Stock.

	HIGH ---	LOW ---	CASH DIVIDENDS DECLARED -----
1995			
First Quarter.....	\$37 1/2	\$30 5/8	\$0.38
Second Quarter.....	\$39 7/8	\$33 5/8	\$0.38
Third Quarter.....	\$37 1/4	\$32 3/4	\$0.38
Fourth Quarter.....	\$37 1/8	\$28 5/8	\$0.38
1996			
First Quarter.....	\$36 3/8	\$27 1/4	\$0.11
Second Quarter.....	\$44 1/2	\$35 1/4	\$0.11
Third Quarter(1)	\$46	\$36 5/8	\$0.11
Fourth Quarter.....	\$44 3/4	\$36 3/8	\$0.11

(1) On October 12, 1996, CVS completed the distribution of 100% of the common stock of Footstar to CVS' stockholders. The CVS stock prices shown in the table are actual CVS trading prices and do not reflect any adjustments for the when-issued price of Footstar prior to October 16, 1996 (the date on which Footstar common stock commenced trading regular way on the NYSE).

#### UNREGISTERED SALES OF SECURITIES

The Company did not sell any equity securities during the period covered by this Annual Report on Form 10-K that were not registered under the Securities Act of 1933.

#### ITEM 6. SELECTED FINANCIAL DATA

The information required by this item is included in the Company's Annual Report to Shareholders for the year ended December 31, 1996 on page 53 and is incorporated herein by reference.

#### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this item is included in the Company's Annual Report to Shareholders for the year ended December 31, 1996 on pages 28 through 33 and is incorporated herein by reference.

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is included in the Company's Annual Report to Shareholders for the year ended December 31, 1996 on pages 34 through 52, and is incorporated herein by reference.

#### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

During the Company's two most recent fiscal years and subsequent interim period, no event occurred which would require disclosure under this item.

### PART III

#### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

(a) Executive Officers -- See "Executive Officers of the Registrant" appearing in Part I above.

(b) Directors -- The following individuals currently serve as directors of CVS. Mr. Jordan and Mr. Rosenthal are current directors who are not standing for re-election at the next meeting of stockholders of CVS. Each individual's age is indicated in parentheses alongside such individual's name.

Allan J. Bloostein, (67), a director since 1989, is the President of Allan J. Bloostein Associates, a consulting firm; retired Vice Chairman and director of May Department Stores; director of Taubman Centers Inc.; trustee or director of various Smith Barney investment portfolios.

W. Don Cornwell, (49), a director since 1994, is the Chairman of the Board and Chief Executive Officer of Granite Broadcasting Corporation, a group broadcasting company.

Thomas P. Gerrity, (55), a director since 1995, is the Dean of The Wharton School of the University of Pennsylvania; director of Digital Equipment Corporation, the Federal National Mortgage Association, Reliance Group Holdings, Inc., Sun Company, Inc. and Union Carbide Corporation; trustee of the MAS Funds.

Stanley P. Goldstein, (62), a director since 1984, has been Chairman of the Board and Chief Executive Officer since January 1987; director of NYNEX Corporation, Linens 'n Things, Inc. and Footstar.

Michael H. Jordan, (60), a director since 1984, is the Chairman of the Board and Chief Executive Officer of Westinghouse Electric Corporation; from August 1992 to June 1993, Principal of Clayton, Dubilier & Rice, Inc., a private investment firm; prior to August, 1992, Chairman and Chief Executive Officer of PepsiCo International Food and Beverages; director of Aetna Life & Casualty Company, Dell Computer Corporation, Nukote, Inc. and Rhone-Poulenc Rorer Inc.

William H. Joyce, (61), a director since 1994, is the Chairman of the Board and Chief Executive Officer of Union Carbide Corporation, a leading producer of chemicals and polymers; from January 1993 to January 1996, President, Chief Operating Officer and director of Union Carbide Corporation; from December 1991 to January 1993, Executive Vice President of Union Carbide Corporation; director of Reynolds Metals Company.

Terry R. Lautenbach, (58), a director since 1991, is a retired Senior Vice President of IBM Corporation, a multinational advanced information technology company; director of Air Products and Chemicals Inc., Varian Associates, Inc. and Footstar; trustee of Loomis-Sayles Mutual Funds.

Terrence Murray, (57), a director since 1996, is the Chairman, President and Chief Executive Officer of Fleet Financial Group; director of A.T. Cross Company and Allmerica Financial Corporation.

Harvey Rosenthal, (54), a director since 1994; prior to October 1996, President and Chief Operating Officer of Melville Corporation; prior to January, 1994, Vice President of CVS and President and Chief Executive Officer of CVS Pharmacy, Inc.

Thomas M. Ryan, (44), a director since 1996; Vice Chairman and Chief Operating Officer of CVS since October 1996; President and Chief Executive Officer of CVS Pharmacy, Inc. since January 1994; from January 1990 to January 1994, Executive Vice President Stores of CVS Pharmacy, Inc.; director of Citizen's Bank.

Ivan G. Seidenberg, (50), a director since 1993, is the Chairman of the Board and Chief Executive Officer of NYNEX Corporation, a worldwide communications company; from January 1995 to April 1995, President, Chief Executive Officer and director of NYNEX Corporation; from February 1994 to January 1995, President, Chief Operating Officer and Vice Chairman of NYNEX Corporation; from April 1991 to

February 1994, Vice Chairman, Telecommunications Group, NYNEX Corporation; director of American Home Products Corporation, Viacom Inc. and Allied Signal Inc.

Patricia Carry Stewart, (68), a director since 1989, is a retired Vice President of The Edna McConnell Clark Foundation, a charitable foundation; director of Bankers Trust New York Corporation.

M. Cabell Woodward, Jr., (68), a director since 1982, is a retired Vice Chairman, Chief Financial Officer and director of ITT Corporation, a diversified multinational corporation; director of The Black & Decker Corporation and Footstar; trustee of a management investment company sponsored by PaineWebber.

#### ITEM 11. EXECUTIVE COMPENSATION

##### Summary Compensation Table

The following table summarizes all compensation awarded to, earned by or paid to the five named executive officers for all services rendered to CVS and its subsidiaries for the periods indicated.

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION		LONG TERM COMPENSATION			ALL OTHER COMPENSATION (\$ (5))
		SALARY (\$)	BONUS (\$ (1))	AWARDS		PAYOUTS	
				RESTRICTED STOCK AWARDS (\$ (2) (3))	SECURITIES UNDERLYING OPTIONS (#) (2)	LTIP PAYOUTS (\$ (4))	
Stanley P. Goldstein.....	1996	1,050,000	1,000,000	--	--	--	20,040
Chairman of the Board,	1995	1,050,000	--	--	519,690	--	3,750
Chief Executive Officer and Director of CVS	1994	1,050,000	491,400	240,863	--	109,549	4,350
Thomas M. Ryan.....	1996	587,599	2,558,000	300,000	346,460	--	9,167
Vice Chairman, Chief Operating Officer and Director of CVS; President and Chief Executive Officer of CVS Pharmacy, Inc.	1995	525,000	862,000	870,000	86,615	--	10,580
	1994	450,000	230,000	145,515	11,549	--	7,914
Charles C. Conaway.....	1996	387,500	2,037,000	230,000	230,974	--	9,167
Executive Vice President and Chief Financial Officer of CVS; Executive Vice President and Chief Financial Officer of CVS Pharmacy, Inc.							
Daniel C. Nelson	1996	337,575	537,000	230,000	230,974	--	8,375
Vice President of CVS; Executive Vice President -- Marketing of CVS Pharmacy, Inc.							
Larry J. Merlo.....	1996	266,250	358,000	153,000	86,615	--	9,000
Vice President of CVS; Senior Vice President -- Stores of CVS Pharmacy, Inc.							

- (1) Includes a deferred bonus in the amount of \$1,500,000 payable to each of Messrs. Ryan and Conaway in 1999 in recognition of their work in successfully implementing CVS' restructuring.
- (2) Options outstanding have been adjusted to account for the spin-off of Footstar on October 12, 1996. Options granted in 1996 become exercisable as follows: one-half of the grant becomes exercisable in three annual installments beginning on the second anniversary of the grant date and the remaining one-half of the grant becomes exercisable after seven years of continued future employment, subject to accelerated vesting of 50% if the trading value of CVS Common Stock reaches \$43.2950 and the other 50% if the trading value reaches \$47.6245.
- (3) Restricted stock granted in 1996 is forfeitable if the recipient ceases to be employed by CVS during the three-year restriction period, subject to accelerated vesting in certain events. All restricted stock disclosed in

this table and currently outstanding reflect awards of either (i) performance-based restricted stock which is contingent upon meeting one year performance objectives and subject to a three-year holding period from the date of grant or (ii) restricted stock that vests over either a three or four year period based on continuing employment. Based on the number of shares of restricted stock earned at the end of a period, dividends are paid at the same rate as paid to all shareholders from the date of the award. On December 31, 1996, Mr. Goldstein had a right to receive, in the aggregate, 9,177 restricted shares having

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a market value on December 31, 1996 of \$378,551. Mr. Ryan had a right to receive, in the aggregate, 33,044 restricted shares having a market value on December 31, 1996 of \$1,363,065. Mr. Conaway had a right to receive, in the aggregate, 17,960 restricted shares having a market value on December 31, 1996 of \$740,850. Mr. Nelson had a right to receive, in the aggregate, 18,545 restricted shares having a market value on December 31, 1996 of \$764,981. Mr. Merlo had a right to receive, in the aggregate, 6,419 restricted shares having a market value on December 31, 1996 of \$264,784.

- (4) Represents performance shares granted for the 1992-1994 performance cycle based on the market value on December 31, 1994 of \$30.31. These units were earned at the end of the performance cycle based on pre-established financial performance objectives with respect to earnings per share, growth and return on equity.
- (5) For 1996, includes \$3,000, \$6,167, \$6,167, \$5,375 and \$6,000 contributed under CVS' 401(k) Profit Sharing Plan for Mr. Goldstein, Mr. Ryan, Mr. Conaway, Mr. Nelson and Mr. Merlo, respectively; 56.127 ESOP shares based on an assumed market value of \$53.45 per share (total value of \$3,000) contributed under the CVS ESOP for each of the named executives; and \$14,040 paid as premiums on life insurance on behalf of Mr. Goldstein.

Option Grants in Fiscal Year Ending December 31, 1996

The following table summarizes activity relating to stock options awarded to the named executive officers in the last fiscal year.

NAME	NO. OF SECURITIES UNDERLYING OPTIONS GRANTED (#) (1)	PERCENTAGE OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR (2)	EXERCISE PRICE	EXPIRATION DATE	GRANT DATE PRESENT VALUE (3)
Stanley P. Goldstein.....	0	0.00%	N/A	N/A	N/A
Thomas M. Ryan.....	346,460	31.25%	\$33.4445	5/14/2006	\$3,073,100
Charles C. Conaway.....	230,974	20.83%	\$33.4445	5/14/2006	\$2,048,739
Daniel C. Nelson.....	230,974	20.83%	\$33.4445	5/14/2006	\$2,048,739
Larry J. Merlo.....	86,615	7.81%	\$33.4445	5/14/2006	\$ 768,275

(1) The number of shares granted and the exercise price per share has been adjusted to account for the spin-off of Footstar on October 12, 1996. These options become exercisable as follows: one-half of the grant becomes exercisable in three annual installments beginning on the second anniversary of the grant date and one-half of the grant becomes exercisable after seven years of continued future employment, subject to accelerated vesting of 50% if the trading value of the CVS Common Stock reaches \$43.2950 and the other 50% if the trading value reaches \$47.6245. The exercise prices are equal to the fair market value of CVS Common Stock on the grant date.

(2) Based on options to purchase 1,108,673 shares granted to all employees

during 1996.

- (3) The hypothetical present values on the grant date are calculated under the modified Black Scholes Model, which is a mathematical formula used to value options traded on stock exchanges. This formula considers a number of factors in hypothesizing an option's present value. Factors used to value options granted which expire 5/14/2006 include the stock's expected volatility rate (20.7%), risk free rate of return (6.58%), projected dividend yield (1.1%), projected time of exercise (7 years) and projected risk of forfeiture rate for vesting period (5% per annum). There is no assurance that the hypothetical present value of the stock options reflected in this table will be realized.

Aggregated Option Exercises in Fiscal Year Ending December 31, 1996 and Year-end Option Values

The following table summarizes stock option exercise activity for the named executive officers during the last fiscal year and the fiscal year-end values of unexercised options.

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR-END (#) (1)	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR-END (\$) (2)
			EXERCISABLE/ UNEXERCISABLE	EXERCISABLE/ UNEXERCISABLE
Stanley P. Goldstein.....	30,000	\$465,569	487,353/346,460	\$3,157,567/\$3,079,301
Thomas M. Ryan.....	3,000	\$ 40,691	155,444/317,589	\$1,124,312/\$2,541,442
Charles C. Conaway.....	0	\$ 0.00	81,995/196,329	\$ 561,268/\$1,557,446
Daniel C. Nelson.....	0	\$ 0.00	86,614/196,329	\$ 592,005/\$1,557,446
Larry J. Merlo.....	0	\$ 0.00	34,473/ 64,962	\$ 255,164/\$ 507,060

- (1) Options outstanding have been adjusted to account for the spin-off of Footstar on October 12, 1996.
- (2) The value of unexercised in-the-money options at fiscal year-end assumes a fair market value of CVS Common Stock of \$41.25, the average of the high and low sale prices of the CVS Common Stock as reported by the New York Stock Exchange on December 31, 1996. The actual before-tax amount, if any, realized upon the exercise of a stock option will depend upon the market price of the CVS Common Stock at the time the stock option is exercised. There is no assurance that the value of unexercised in-the-money stock options reflected in this table will be realized.

Income Continuation Policy

In January 1987, the CVS Board of Directors adopted and in May 1988 amended, the Income Continuation Policy for Select Senior Executives of CVS (the "Income Continuation Policy"), which provides that in the event of a change in control, as defined in the Income Continuation Policy, and subsequent termination of employment by CVS other than for cause, or by the executive with good reason (as defined in the Income Continuation Policy), within 24 months of a change in control, the Chief Executive Officer and other current named executive officers in the Summary Compensation Table will be entitled to receive from CVS a single sum payment equal to three times the sum of annual base pay plus their full normal annual incentive compensation award immediately prior to such termination of employment. In addition, upon such a termination of employment, each covered executive will be entitled to remain a participant in all employee welfare benefit plans maintained by CVS at the time of such termination of employment for a period of 24 months after such termination of employment (or if such participation is not possible under the terms of any such



plan, each such executive shall be provided with benefits which are comparable to the coverage provided by such plan). The Income Continuation Policy also provides that in the event of a change in control each covered executive shall be fully vested in all shares previously awarded to the executive under CVS' Omnibus Stock Incentive Plan and any successor plan thereto without regard to any restrictions previously imposed under the terms of such plan and entitled to exercise any stock options on CVS Common Stock (whether or not otherwise exercisable). In addition, upon termination of employment each outstanding option shall remain exercisable until the earlier of six months after such termination, provided such exercise does not violate the terms of the plan under which such option was granted, or the expiration of the option period specified in such plan. The Income Continuation Policy also provides that if payments under such policy or the Supplemental Executive Retirement Plan described below are subject to the "golden parachute" excise tax under Section 4999 of the Code (which deals with certain payments contingent on a change in control), CVS will make an additional payment to the covered executive in respect of such tax.

#### Supplemental Executive Retirement Plan

CVS maintains a Supplemental Executive Retirement Plan for Select Senior Management of CVS (the "Supplemental Retirement Plan"). The Supplemental Retirement Plan is designed to increase the retirement

benefits of selected executive employees. In connection with CVS' restructuring during 1996, the Supplemental Retirement Plan was amended to create a new benefit formula (the "New Benefit Formula"). Under the New Benefit Formula, executives selected for participation (including Messrs. Ryan, Conaway, Nelson and Merlo) will receive an annual benefit commencing on the later of age 55 or retirement, equal to 1.6% of a three-year average of final compensation (as defined) for each year of service (including credited years of service under the Supplemental Retirement Plan prior to amendment) up to 30 years, or a maximum benefit of 48% of final compensation, with no offset for any amounts provided by CVS' qualified plans, social security or other retirement benefits. Except in the event of a change in control (as defined in the plan) or as provided in the employment agreements referred to below, no benefits are payable to an eligible executive unless he or she terminates employment after attaining age 55 or after five years of credited service under the plan. The following table shows the approximate amounts of annual retirement income that would be payable under the New Benefit Formula to executives covered by it based on various assumptions as to compensation and years of service, assuming benefits are computed under a straight life annuity formula and retirement after attaining age 55 or with five years of service:

#### ESTIMATED ANNUAL RETIREMENT BENEFITS BASED ON SERVICE OF

COMPENSATION	5 YEARS	10 YEARS	15 YEARS	20 YEARS	30 YEARS
\$ 600,000	\$ 48,000	\$ 96,000	\$144,000	\$192,000	\$288,000
800,000	64,000	128,000	192,000	256,000	384,000
1,000,000	80,000	160,000	240,000	320,000	480,000
1,300,000	104,000	208,000	312,000	416,000	624,000
1,600,000	128,000	256,000	384,000	512,000	768,000
1,900,000	152,000	304,000	456,000	608,000	912,000

Final compensation for purposes of the New Benefit Formula is the average of the executive's three highest years of annual salary and bonus out of the last ten years of service. For this purpose, salary and bonus are the amounts shown in the Salary and Bonus column of the Summary Compensation Table. The estimated credited years of benefit service for Messrs. Ryan, Conaway, Nelson

and Merlo as of December 31, 1996 were 21, 4, 3 and 18 years, respectively. Enhanced benefits are payable in a lump sum upon termination of employment following a change in control.

The benefit formula in place prior to amendment of the Supplemental Retirement Plan (the "Prior Benefit Formula") continues to apply to Mr. Goldstein and certain other executives who have terminated employment with a vested benefit. The Prior Benefit Formula provides that executive officers with at least 10 years of credited service will receive upon retirement at or after age 60 an annual benefit equal to 50% of final compensation less any amounts provided by other retirement programs of CVS or programs of other companies (but without deduction for social security). In the case of retirement on or after age 55 but before age 60, a reduced benefit is provided. Except in the event of a change in control (as defined in the plan) or as provided in the employment agreements referred to below, no benefits are payable to an eligible executive who terminates employment prior to age 55 or prior to completing 10 years of credited service.

Under the Prior Benefit Formula, Mr. Goldstein is currently entitled to retire with an annual benefit of \$768,000, computed under a straight life annuity formula. Final compensation for purposes of the Prior Benefit Formula is the executive's final year of salary plus targeted annual incentive bonus for his or her final year. In the event of a change in control, benefits will be payable under the Prior Benefit Formula upon subsequent termination of employment on a lump sum basis.

Benefits under the New Benefit Formula and the Prior Benefit Formula are generally payable in annual installments for the life of the executive, but joint and survivor forms of payment of equivalent actuarial value may be elected.

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#### CVS Employment Agreements

In December 1996, the CVS Board approved that CVS enter into employment agreements (each referred to below as a "CVS Employment Agreement" and collectively as the "CVS Employment Agreements") with Messrs. Ryan, Conaway, Nelson, Merlo and one other executive officer relating to their employment with CVS. CVS has entered into a CVS Employment Agreement with certain of these officers and expects that the remaining unexecuted employment agreements will be entered into within a reasonable period after the date of this Annual Report on Form 10-K. The CVS Employment Agreements supersede the Income Continuation Policy (referred to above) as it relates to such executives.

The period of employment under the CVS Employment Agreements extends initially for three years, subject to automatic one-year extensions at the end of the initial term unless either party gives notice of non-renewal at least 180 days prior to expiration of the term. The CVS Employment Agreements generally provide for payment of an annual base salary, subject to review for increase at the discretion of the Compensation Committee. Base salaries are currently \$725,000, \$500,000, \$450,000 and \$350,000 for Messrs. Ryan, Conaway, Nelson and Merlo, respectively. The CVS Employment Agreements also generally provide for (i) continued payment of base salary, target cash bonuses, and other benefits for 36 months in the case of Mr. Ryan and for 24 months in the case of other named executive officers (or a lump sum equal to three times salary plus target bonuses in the case of a change in control) in the event the executive's employment is terminated by CVS without "cause" or voluntarily by the executive due to a "constructive termination without cause"; (ii) non-competition for a period of 18 months subsequent to a voluntary termination of employment if CVS elects to continue paying 50% of the executive's base salary during such period; (iii) other restrictive covenants including nondisclosure, non-solicitation of employees and availability for litigation support; (iv) participation in certain benefit plans and programs (including life insurance and medical benefits); (v) annual and long term incentive compensation opportunities; and (vi) deferred compensation arrangements. Mr. Ryan's CVS Employment Agreement provides that his

target annual incentive opportunity may not be less than 65% of his base salary, and the CVS Employment Agreements for Messrs. Conaway, Nelson and Merlo provide that their target annual incentive opportunities may not be less than 60%, 60% and 50%, respectively, of their base salaries.

A "change in control" is defined in generally the same manner as under the proposed 1997 Incentive Compensation Plan, as described below. "Constructive termination without cause" is defined generally as demotion, reduction in compensation, unapproved relocation in the case of Mr. Ryan (or, in the case of other named executive officers, following a change in control), material breach of the CVS Employment Agreement by CVS, or, in the case of Mr. Ryan, failure to extend the term of the CVS Employment Agreement to his 60th birthday. "Cause" is defined generally as a breach of the restrictive covenants, felony convictions, or willful gross neglect or gross misconduct resulting in material harm to CVS.

If payments under the CVS Employment Agreements following a change in control are subject to the "golden parachute" excise tax, CVS will make an additional "gross-up" payment sufficient to ensure that the net after-tax amount retained by the executive (taking into account all taxes, including those on the gross-up payment) is the same as would have been the case had such excise tax not applied. The CVS Employment Agreements obligate CVS to indemnify the executives to the fullest extent permitted by law, including the advancement of expenses, and provide that CVS generally will reimburse an executive for expenses incurred in seeking enforcement of the CVS Employment Agreement if he prevails or, after a change in control, if the executive's assertion of rights is in good faith and not frivolous.

The CVS Employment Agreement with Mr. Ryan relates to his employment as Vice Chairman and Chief Operating Officer of CVS, President and Chief Executive Officer of CVS Pharmacy Inc., and his agreement to serve as a member of the CVS Board of Directors of CVS. The CVS Employment Agreements with Messrs. Conaway, Nelson and Merlo relate to their employment as executive officers of CVS.

Pursuant to the terms of his employment agreement with CVS, Mr. Harvey Rosenthal (who is a former officer of CVS whose employment with CVS terminated during 1996 and who is a current director of CVS who is not standing for re-election at the next meeting of stockholders of the Company) will be paid his base salary at the rate in effect on September 30, 1996 (the date of his termination) for a period of two years, plus

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\$800,000 to be paid in equal monthly installments over the severance period and a lump sum amount of \$323,995 which was paid in 1996. All restrictions on restricted stock held by Mr. Rosenthal lapsed as of his date of termination. Mr. Rosenthal's outstanding options will continue to vest during the severance period in accordance with the options' original schedules and will remain exercisable for six years following his termination.

#### Compensation of CVS Directors

Summarized below are each of the components of directors compensation in effect for the fiscal year ended December 31, 1996.

Annual Retainer and Stock Grant. Each director who is not an employee of CVS receives a retainer of \$25,000 per year and a fee of \$1,000 for each CVS Board or committee meeting that he or she attends. In addition, each director who is not an employee of CVS receives an annual retainer of \$2,500 for each committee he or she chairs. One-half of the annual retainer is paid in CVS Common Stock. At a director's election, all retainers and meeting fees may be paid in CVS Common Stock. In accordance with the 1996 Directors Stock Plan, each non-employee director receives an annual grant of 347 shares of CVS Common Stock, subject to proration for any partial year of service. Receipt of shares may be electively deferred.

As of December 31, 1996, CVS' directors had deferred receipt of shares of

CVS Common Stock as follows: Mr. Bloostein, 3,558 shares; Mr. Cornwell, 1,026 shares; Mr. Gerrity, 183 shares; Mr. Jordan, 2,523 shares; Mr. Joyce, 1,393 shares; Mr. Lautenbach, 1,911 shares; Mr. Seidenberg, 1,185 shares; Ms. Stewart, 3,711 shares; and Mr. Woodward, 5,573 shares.

Directors Retirement Plan. The CVS Board of Directors determined to cease further accruals under the Directors Retirement Plan and to permit each director who is entitled to a benefit under the Directors Retirement Plan to elect to receive the present value of such benefit in the form of shares of CVS Common Stock. Each of CVS' entitled directors elected to do so.

Directors and Officers Liability Insurance. CVS has purchased directors and officers liability insurance with a limit of \$100,000,000 and pension trust liability insurance with a limit of \$50,000,000. This insurance was purchased in layers from National Union Fire Insurance Company of Pittsburgh, Pennsylvania; Federal Insurance Company of Warren, New Jersey; Royal Indemnity Company of Charlotte, North Carolina; Columbia Casualty Insurance Company of Chicago, Illinois; St. Paul Surplus Lines Company of St. Paul, Minnesota; and Reliance Insurance Company of Philadelphia, Pennsylvania. The pension trust liability insurance covers actions of directors and officers as well as other employees with fiduciary responsibilities under ERISA. All of the insurance policies expire on June 30, 1997. The aggregate premium for these insurance policies is \$791,445 for the directors and officers liability coverage and \$110,753 for the pension trust liability coverage. It is expected that the above liability insurance coverage will be renewed or replaced upon expiration of the above policies.

Compensation Committee Interlocks and Insider Participation

Mr. Ivan Seidenberg, the President and Chief Executive Officer of NYNEX, who is one of the directors standing for re-election, serves on CVS' Compensation Committee. Mr. Stanley Goldstein, the Chairman and Chief Executive Officer of CVS, serves on the Board of Directors of NYNEX but does not serve on NYNEX's Compensation Committee.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Share Ownership Information of Current CVS Directors and Named Executive Officers

Share ownership information for current directors and executive officers named in the Summary Compensation Table on page 12 hereof is set forth below. Mr. Jordan and Mr. Rosenthal are current directors who are not standing for re-election at the next meeting of stockholders of CVS.

NAME - - - - -	OWNERSHIP OF CVS COMMON STOCK (1)	
	NUMBER -----	PERCENT -----
Allan J. Bloostein.....	10,087 (2) (5)	*
Charles Conaway.....	111,504 (2) (3) (4)	*
W. Don Cornwell.....	3,565 (2) (5)	*
Thomas P. Gerrity.....	4,001 (2) (5)	*
Stanley P. Goldstein.....	838,483 (2) (3) (4) (6)	*
Michael H. Jordan.....	10,382 (2) (5)	*
William H. Joyce.....	4,465 (2) (5)	*
Terry R. Lautenbach.....	8,730 (2) (5)	*
Larry J. Merlo.....	40,892 (2) (3) (4)	*
Terrence Murray.....	1,309 (6)	*
Daniel C. Nelson.....	119,278 (2) (3) (4)	*
Harvey Rosenthal.....	432,640 (2) (4) (5)	*
Thomas M. Ryan.....	221,863 (2) (3) (4)	*
Ivan G. Seidenberg.....	4,620 (2) (5)	*
Patricia Carry Stewart.....	9,740 (2) (5)	*
M. Cabell Woodward, Jr.....	13,240 (2) (5)	*

All directors and executive officers as a group  
(18 persons)..... 1,885,422 (2) (3) (4) (6) 1.7%

\* Less than 1%.

- (1) Unless otherwise indicated, ownership means sole voting and investment power. The number of shares and other information indicated in this table are as of February 17, 1997.
- (2) The following shares of CVS Common Stock included above for the indicated persons and group are not presently owned, but are subject to options which were outstanding on February 17, 1997 and were exercisable within 60 days thereafter: Mr. Goldstein, 660,583; each of Messrs. Bloostein, Jordan, Woodward and Ms. Stewart, 9,240; Mr. Lautenbach, 6,930; Mr. Gerrity, 2,310; Mr. Seidenberg, 4,620; Messrs. Joyce and Cornwell, 3,465; Mr. Rosenthal 411,517; Mr. Ryan, 184,316; Mr. Conaway, 93,544; Mr. Nelson, 98,163; Mr. Merlo, 34,473; directors and executive officers as a group, 1,588,274.
- (3) The following shares of CVS Common Stock included above for the indicated persons and group were granted under CVS' Omnibus Stock Incentive Plan and, although no longer subject to performance standards since the one year performance period for these awards has expired, are subject to certain restrictions as to continued employment and transfer of such shares as provided in the plan: Mr. Goldstein, 9,177; Mr. Ryan, 33,044; Mr. Conaway, 17,960; Mr. Nelson, 18,545; Mr. Merlo, 6,419; executive officers as a group, 87,840.
- (4) The CVS ESOP, established in 1989, held as of February 17, 1997, 5,526,677 shares of CVS ESOP Preference Stock. The Bank of New York, the trustee of the CVS ESOP, will vote shares held by the CVS ESOP in proportion to instructions received from plan participants. As of December 31, 1996 the last date on which an allocation was made, Mr. Goldstein has been allocated 776.619 shares; Mr. Ryan has been allocated 750.062 shares; Mr. Conaway has been allocated 203.498 shares; Mr. Nelson has been allocated 147.150 shares; Mr. Merlo has been allocated 462.799 shares; Mr. Rosenthal has been allocated 720.492 shares; and all executive officers as a group have been allocated 3,595.170 shares. These amounts have not been included in the above table.
- (5) The receipt of the following shares of Common Stock received as director compensation has been deferred pursuant to the 1996 Directors Stock Plan: Mr. Bloostein, 3,558 shares; Mr. Cornwell, 1,026 shares; Mr. Gerrity, 183 shares; Mr. Jordan, 2,523 shares; Mr. Joyce, 1,393 shares; Mr. Lautenbach,

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1,911 shares; Mr. Seidenberg, 1,185 shares; Ms. Stewart, 3,711 shares; and Mr. Woodward, 5,573 shares. These amounts have not been included in the above table.

- (6) Of the shares shown opposite Mr. Goldstein's name, 20,000 shares are held by Mr. Goldstein's wife. Mr. Goldstein disclaims beneficial ownership of such shares. Of the shares shown opposite Mr. Murray's name, 500 shares are held by a charitable foundation. Mr. Murray disclaims beneficial ownership of such shares.

#### Share Ownership Information of Certain Principal Stockholders

CVS is not aware of any person who owned beneficially more than 5% of the outstanding voting securities of CVS as of February 17, 1997, except as shown in the following table:

TITLE OF CLASS	NAME AND ADDRESS OF BENEFICIAL OWNER	NO. OF SHARES	PERCENT OF CLASS
Common Stock.....	FMR Corp.(1) 82 Devonshire Street Boston, MA 02109	15,947,754	14.9%
Common Stock.....	Brinson Partners, Inc.(2) 209 S. LaSalle Street, 11th Floor Chicago, IL 60604-1295	6,904,354	6.5%
Series One ESOP Convertible Preference Stock.....	CVS Corporation and Subsidiaries Employee Stock Ownership Plan Trust c/o Bank of New York, as Trustee(3) 48 Wall Street New York, NY 10005	5,526,677	100%

\* This calculation is based on all outstanding shares of CVS Common Stock and CVS ESOP Preference Stock as of February 17, 1997. The percent of voting securities owned by FMR Corp., Brinson Partners, Inc. and the CVS ESOP are 14.0%, 6.1% and 5.8%, respectively.

- (1) FMR Corp. ("FMR") filed a statement with the SEC dated December 12, 1996 on Schedule 13G under the Securities Exchange Act of 1934, as the parent holding company in accordance with Rule 13d-1(b)(ii)(G) of such Act, disclosing beneficial ownership of greater than 5% of CVS Common Stock (15,947,754 shares). According to the statement, FMR and/or subsidiaries have sole voting power with respect to 951,613 of such shares and sole dispositive power over all of these shares, and FMR has certified that all of these shares were acquired in the ordinary course of business, and not for the purpose of changing or influencing the control of CVS.
- (2) Share ownership information relating to Brinson Partners, Inc. set forth in the table above is based on information contained in a 13(f) Filing Report obtained from CDA/Spectrum as of August 31, 1996.
- (3) Each participant in the CVS ESOP instructs the Trustee of the CVS ESOP how to vote his or her shares. As to unallocated shares and shares with respect to which the Trustee receives no timely voting instructions, the Trustee, pursuant to the ESOP Trust Agreement, votes these shares in the same proportion as it votes all of the shares with respect to which it has received timely voting instructions. Currently, each share of CVS ESOP Preference Stock is entitled to approximately 1.2 votes per share on all matters submitted to a vote of the holders of CVS Common Stock, voting together with the holders of CVS Common Stock as a single class.

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Not Applicable

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#### PART IV

#### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

ITEM 14(a) The following documents are filed as part of this Annual Report on Form 10-K.

ITEM 14(a)(1) AND (2) The consolidated financial statements of CVS Corporation incorporated herein by reference to the Annual Report to Shareholders for the fiscal year ended December 31, 1996 and the related consolidated financial statement schedule are set forth in the Index to Consolidated Financial Statements and Schedule on page 24 hereof. See "Financial Statements and Supplementary Data" at Item 8 to this Annual Report on Form 10-K. Other financial statement schedules have not been included because they are not applicable or the information is included in the financial statements or notes

thereto.

ITEM 14(a)(3) Exhibits

The following is a list of exhibits filed as part of this Annual Report on Form 10-K.

EXHIBIT -----	DESCRIPTION -----
3.1	Amended and Restated Certificate of Incorporation of the Registrant (the "CVS Charter").
3.2	Bylaws of the Registrant (the "CVS Bylaws").
4	Pursuant to Regulation S-K, Item 601(b)(4)(iii)(A), no instrument which defines the rights of holders of long-term debt of the Registrant and its subsidiaries is filed herewith. The Registrant hereby agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registration Statement of the Registrant on Form 8-B dated November 4, 1996 and filed under the Securities Exchange Act of 1934 on November 5, 1996).
4.2	Amended and Restated Certificate of Incorporation of the Registrant (see Exhibit 3.1 hereto).
4.3	Bylaws of the Registrant (see Exhibit 3.2 hereto).
10(i)(1)	Stock Purchase Agreement dated as of October 14, 1995 between The TJX Companies, Inc. and Melville Corporation, as amended November 17, 1995 (incorporated by reference to Exhibits 2.1 and 2.2 to Melville's Current Report on Form 8-K dated December 4, 1995).
10(i)(2)	Stock Purchase Agreement dated as of March 25, 1996 between Melville Corporation and Consolidated Stores Corporation, as amended May 3, 1996 (incorporated by reference to Exhibits 2.1 and 2.2 to Melville's Current Report on Form 8-K dated May 5, 1996).
10(i)(3)	Distribution Agreement dated as of September 24, 1996 among Melville Corporation, Footstar, Inc. and Footstar Center, Inc. (incorporated by reference to Exhibit 99.1 to Melville's Current Report on Form 8-K dated October 28, 1996).
10(i)(4)	Tax Disaffiliation Agreement dated as of September 24, 1996 among Melville Corporation, Footstar, Inc. and certain subsidiaries named therein (incorporated by reference to Exhibit 99.2 to Melville's Current Report on Form 8-K dated October 28, 1996).
10(i)(5)	Agreement and Plan of Merger dated as of February 6, 1997 among the Registrant, Revco D.S., Inc. and North Acquisition Corp. (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated February 7, 1997).
10(i)(6)	Stockholder Agreement dated as of February 6, 1997 between the Registrant and Zell/ Chilmark Fund, L.P. (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated February 7, 1997).

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EXHIBIT -----	DESCRIPTION -----
10(iii)(A)(i)	1973 Stock Option Plan (incorporated by reference to Exhibit (10)(iii)(A)(i) to Melville Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1987).
(ii)	1987 Stock Option Plan (incorporated by reference to Exhibit (10)(iii)(A)(iii) to Melville Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1987).
(iii)	1989 Directors Stock Option Plan (incorporated by reference to Exhibit B to

Melville Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1988).

- (iv) Melville Corporation Omnibus Stock Incentive Plan (incorporated by reference to Exhibit B to Melville Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1989 and Exhibit A to Melville's definitive Proxy Statement dated March 7, 1995).
- (v) Profit Incentive Plan of Melville Corporation (incorporated by reference to Exhibit A to Melville Corporation's definitive Proxy Statement dated March 14, 1994).
- (vi) Supplemental Retirement Plan for Select Senior Management of Melville Corporation I as amended through July 1995 (incorporated by reference to Exhibit 10(iii)(A)(vii) to Melville's Annual Report on Form 10-K for the fiscal year ended December 31, 1995).
- (vii) Supplemental Retirement Plan for Select Senior Management of Melville Corporation II as amended through July 1995 (incorporated by reference to Exhibit 10(iii)(A)(viii) to Melville's Annual Report on Form 10-K for the fiscal year ended December 31, 1995).
- (viii) Income Continuation Policy for Select Senior Executives of Melville Corporation as amended through May 12, 1988 (incorporated by reference to Exhibit 10 (viii) to Melville's Annual Report on Form 10-K for the fiscal year ended December 31, 1994).
- (ix) Melville Corporation 1996 Directors Stock Plan (incorporated by reference to Exhibit A to Melville's definitive Proxy Statement dated March 7, 1996).
- (x) Form of Employment Agreements between the Registrant and each of Messrs. Ryan, Conaway, Nelson and Merlo.

11 Statement re: Computation of Net Earnings Per Share.

12 Statement re: Computation of Ratio of Earnings to Fixed Charges.

13 1996 Annual Report to Stockholders (Sections entitled "Management's Discussion and Analysis of Results of Operations and Financial Condition," "Management's Responsibility for Financial Reporting," "Independent Auditors Report," "Consolidated Statement of Operations," "Consolidated Balance Sheets," "Consolidated Statements of Shareholders' Equity," "Consolidated Statements of Cash Flows," "Notes to Consolidated Financial Statements," and "Five-Year Financial Summary").

21 Subsidiaries of the Registrant.

27 Financial Data Schedule.

27A Restated Financial Data Schedule -- December 31, 1995.

27B Restated Financial Data Schedule -- September 30, 1995.

27C Restated Financial Data Schedule -- July 1, 1995.

27D Restated Financial Data Schedule -- April 1, 1995.

#### ITEM 14(b) Reports on Form 8-K

The Company filed a Report on Form 8-K on December 6, 1996 reporting on the initial public offering of Linens 'n Things, Inc., an indirect subsidiary of CVS. On December 2, 1996, through its indirect, wholly-owned subsidiary, Nashua Hollis CVS, Inc., CVS consummated an initial underwritten public offering of 13,000,000 shares of the common stock of Linens 'n Things, Inc., an indirect subsidiary of CVS, at a price to the public of \$15.50 per share.

The Company filed a Report on Form 8-K on October 28, 1996 reporting on the spin-off of Footstar, Inc. ("Footstar") through the October 12, 1996 distribution by Melville of 100% of the shares of Footstar common stock to its shareholders of record as of the close of business on October 2, 1996.

#### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.



CVS CORPORATION

Date: March 31, 1997

By: /s/ STANLEY P. GOLDSTEIN

-----  
 STANLEY P. GOLDSTEIN,  
 CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE -----	TITLE(S) -----	DATE ----
/s/ STANLEY P. GOLDSTEIN ----- Stanley P. Goldstein	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	March 31, 1997
/s/ CHARLES C. CONAWAY ----- Charles C. Conaway	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 31, 1997
/s/ LARRY SOLBERG ----- Larry Solberg	Vice President (Principal Accounting Officer)	March 31, 1997
/s/ ALLAN J. BLOOSTEIN ----- Allan J. Bloostein	Director	March 31, 1997
/s/ W. DON CORNWELL ----- W. Don Cornwell	Director	March 31, 1997
/s/ THOMAS P. GERRITY ----- Thomas P. Gerrity	Director	March 31, 1997
/s/ MICHAEL H. JORDAN ----- Michael H. Jordan	Director	March 31, 1997
/s/ WILLIAM H. JOYCE ----- William H. Joyce	Director	March 31, 1997

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SIGNATURE -----	TITLE(S) -----	DATE ----
/s/ TERRY R. LAUTENBACH ----- Terry R. Lautenbach	Director	March 31, 1997
/s/ TERRENCE MURRAY ----- Terrence Murray	Director	March 31, 1997

/s/ HARVEY ROSENTHAL	Director	March 31, 1997
-----		
Harvey Rosenthal		
/s/ THOMAS M. RYAN	Vice Chairman, Chief Operating Officer and Director	March 31, 1997
-----		
Thomas M. Ryan		
/s/ IVAN G. SEIDENBERG	Director	March 31, 1997
-----		
Ivan G. Seidenbert		
/s/ PATRICIA CARRY STEWART	Director	March 31, 1997
-----		
Patricia Carry Stewart		
/s/ M. CABELL WOODWARD, JR.	Director	March 31, 1997
-----		
M. Cabell Woodward, Jr.		

CVS CORPORATION AND SUBSIDIARY COMPANIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

The consolidated financial statements of CVS Corporation together with the report on such consolidated financial statements of KPMG Peat Marwick LLP dated February 6, 1997 which appear on the pages listed below of the 1996 Annual Report to Shareholders, are incorporated by reference in this Annual Report on Form 10-K.

	PAGE NUMBER IN 1996 ANNUAL REPORT TO SHAREHOLDERS -----
Management's Responsibility for Financial Reporting.....	34
Independent Auditors' Report.....	35
Consolidated Statements of Operations for the years ended December 31, 1996, 1995 and 1994.....	36
Consolidated Balance Sheets as of December 31, 1996 and 1995.....	37
Consolidated Statements of Shareholders' Equity for the years ended December 31, 1996, 1995 and 1994.....	38
Consolidated Statements of Cash Flows for the years ended December 31, 1996, 1995 and 1994.....	39
Notes to Consolidated Financial Statements.....	40-52
Five-Year Financial Summary.....	53

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Included in Part IV of this report:	
Consent of Independent Auditors for CVS Corporation and Subsidiary Companies.....	F-1
Independent Auditors' Report on Consolidated Financial Statement Schedule.....	F-2
Consolidated Financial Statement Schedule of CVS Corporation for the years ended December 31, 1996, 1995 and 1994:	

Schedules not included above have been omitted because they are not applicable or the required information is shown in the consolidated financial statements or related notes.

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#### CONSENT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders  
of CVS Corporation:

We consent to incorporation by reference in the Registration Statements Numbers 33-40251, 33-17181, 2-97913, 2-77397 and 2-53766 on Form S-8 of CVS Corporation of our report dated February 6, 1997, relating to the consolidated balance sheets of CVS Corporation as of December 31, 1996 and 1995, and the related consolidated statement of operations, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1996, which report is incorporated by reference in the December 31, 1996 annual report on Form 10-K of CVS Corporation and to our report dated February 6, 1997 on the related financial statement schedule, which report appears in the December 31, 1996 annual report on Form 10-K of CVS Corporation.

Our reports refer to the adoption of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" effective October 1, 1995.

Providence, Rhode Island  
March 28, 1997

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#### INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders  
of CVS Corporation:

Under date of February 6, 1997, we reported on the consolidated balance sheets of CVS Corporation as of December 31, 1996 and 1995, and related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1996, as contained in the 1996 annual report to shareholders. These consolidated financial statements and our report thereon are incorporated by reference in the annual report on Form 10-K for the year 1996. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule as listed in the accompanying index. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed on page 41 of the Annual Report to Shareholders, the Company adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of" effective October 1, 1995.

Providence, Rhode Island  
February 6, 1997

## SCHEDULE II

## CVS CORPORATION

## VALUATION AND QUALIFYING ACCOUNTS

IN MILLIONS	BALANCE AT BEGINNING OF YEAR	ADDITIONS CHARGED TO COSTS & EXPENSES	DEDUCTIONS (1)	BALANCE AT END OF YEAR
	-----	-----	-----	-----
ACCOUNTS RECEIVABLE ALLOWANCE FOR DOUBTFUL ACCOUNTS:				
Year Ended December 31, 1996.....	33.4	1.0	24.3	10.1
-----				
Year Ended December 31, 1995.....	18.9	33.8	19.3	33.4
-----				
Year Ended December 31, 1994.....	32.5	14.5	28.1	18.9
-----				

(1) Write-offs, net of recoveries

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AMENDED AND RESTATED  
 CERTIFICATE OF INCORPORATION  
 OF  
 CVS CORPORATION

CVS Corporation, a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), hereby certifies as follows:

1. The name of the Corporation is "CVS Corporation" and the name under which the Corporation was originally formed is "CVS Corporation." The original Certificate of Incorporation was filed with the Secretary of State of the State of Delaware on August 22, 1996.

2. This Amended and Restated Certificate of Incorporation (this "Restated Certificate") has been duly adopted by the Board of Directors of the Corporation in accordance with Sections 241 and 245 of the General Corporation Law of the State of Delaware.

3. Pursuant to Sections 241 and 245 of the General Corporation Law of the State of Delaware, this Amended and Restated Certificate of Incorporation restates and integrates and further amends the provisions of the Certificate of Incorporation of the Corporation.

4. The text of the Certificate of Incorporation as heretofore amended is hereby restated and further amended to read in its entirety as hereinafter set forth:

FIRST: The name of the Corporation is "CVS Corporation".

SECOND: The address of its registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, City of Wilmington, County of New Castle, Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware as the same exists or may hereafter be amended ("Delaware Law").

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FOURTH: The authorized capital stock of the Corporation consists of (i) 300,000,000 shares of Common Stock, par value \$.01 per share ("Common Stock"), (ii) 120,619 shares of Cumulative Preferred Stock, par value \$.01 per share ("Preferred Stock"), and (iii) 50,000,000 shares of Preference Stock, par value \$1 per share ("Preference Stock").

All the designations, preferences, privileges and voting powers of the shares of each class, and the restrictions or qualifications thereof, shall be as follows:

I. PROVISIONS GENERALLY APPLICABLE TO CAPITAL STOCK

I.A. Voting Rights of Common Stock

Each holder of Common Stock shall be entitled to one vote for each share thereof held of record by such holder.

#### I.B. Ranking of Capital Stock

The Preferred Stock shall be senior to the Preference Stock and the Common Stock, and the Preference Stock and the Common Stock shall be subject to all the rights and preferences of the Preferred Stock as hereafter set forth. The Preference Stock shall be senior to the Common Stock, and the Common Stock shall be subject to all the rights and preferences of the Preference Stock as hereafter set forth.

#### I.C. No Preemptive Rights

No stockholder of the Corporation shall be entitled as such, as a matter of right, to subscribe for or purchase any part of any new or additional issue of stock of any class or series whatsoever, any rights or options to purchase stock of any class or series whatsoever, whether now or hereafter authorized and whether issued for cash or other consideration or by way of dividend.

#### I.D. Fractional Interests

In case any person shall become entitled to a fractional interest in a share of Preferred Stock, of Preference Stock or of Common Stock, the Corporation may deliver a scrip certificate representing such fractional interest, which together with other similar scrip certificates aggregating a whole share, may be surrendered in exchange for a stock certificate representing one full share of Preferred Stock, Preference Stock or Common Stock as the case may be; provided, however, that the rights of the holders of such scrip certificates shall be subject to any conditions and limitations prescribed by the Board of Directors, which may include a provision that after a specified date the scrip certificate shall become absolutely void.

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## II. PREFERRED STOCK

### II.A. Provisions Generally Applicable to Preferred Stock

II.A.(i) The Preferred Stock may be issued from time to time in one or more series, the shares of each series to have such designations, preferences, privileges, and voting powers, and the restrictions or qualifications thereof, as are stated and expressed herein or in a resolution or resolutions providing for the issue of such series adopted by the Board of Directors as hereafter provided.

II.A.(ii) Authority is hereby expressly granted to the Board of Directors, subject to the provisions of this Certificate and Delaware Law, to authorize the issue of one or more series of Preferred Stock and with respect to each such series to fix by resolution or resolutions providing for the issue of such series:

(1) The number of shares of Preferred Stock which shall comprise such series and the distinctive designation thereof;

(2) The dividend rate on the shares of such series (not exceeding \$6 a share per annum) and the date or dates from which dividends shall accumulate;

(3) Whether or not the shares of such series shall be subject to purchase and to redemption and the amount of premium, if any (not exceeding \$7 a share), which the holders of shares of such series shall be entitled to receive over and above \$100 a share and any accrued dividends thereon upon the redemption thereof or upon the voluntary liquidation, dissolution or winding up of the Corporation;

(4) Whether or not the shares of such series shall be subject to the operation of a sinking fund to be applied to the purchase or redemption of the shares of such series for retirement and, if such sinking fund be established, the terms and provisions relative to the operation thereof;

(5) Whether or not the shares of such series shall be made convertible into or exchangeable for any other class or classes or for any other series of the same class of stock of the Corporation and, if made so convertible or exchangeable, the conversion price or prices or rates of exchange at which such conversion or exchange may be made and the method, if any, of adjusting the same;

(6) The restrictions, if any, on the payment of dividends upon, and the making of distributions to, any class of stock ranking junior to the shares of Preferred Stock, and the restrictions, if any, on the purchase or redemption of the shares of any such junior class; and

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(7) The voting rights, if any, of the shares of such series other than those voting rights provided for in Section II.A.(viii) of this Article Fourth.

II.A.(iii) All shares of any one series of Preferred Stock shall be identical with each other in all respects except that shares of any one series issued at different times may differ as to the dates from which dividends thereon shall accumulate; and all series shall rank equally and be identical in all respects except as permitted in the foregoing provisions of Section II.A.(ii) of this Article Fourth.

II.A.(iv) The holders of shares of Preferred Stock of each series shall be entitled to receive, when and as declared by the Board of Directors, dividends payable in cash in, but not exceeding, the amount fixed for such series. Such dividends shall be cumulative, so that if dividends on all outstanding Preferred Stock of each series in the amount fixed therefor shall not have been paid or declared and set apart for payment for all past dividend periods, and for the dividend period current at the time, the deficiency shall be fully paid, or dividends equal thereto declared and set apart for payment, but without interest thereon, before any dividends on any class of stock of the Corporation junior to the Preferred Stock shall be paid or declared and set apart for payment.

Dividends shall not be declared or paid on the Preferred Stock of any one series for any dividend period unless dividends have been or are contemporaneously paid or declared and set apart for payment on the Preferred Stock of all series for the dividend periods terminating on the same and all earlier dates.

Any dividend paid in an amount less than full cumulative dividends accrued or in arrears on all Preferred Stock then outstanding shall be divided between the outstanding Preferred Stock in proportion to the amounts which would be distributable per share to the Preferred Stock if full cumulative dividends were declared and paid thereon.

After full cumulative dividends as aforesaid upon the Preferred Stock of all series then outstanding shall have been paid for all past dividend periods, and full dividends on the Preferred Stock then outstanding for the current dividend period shall have been declared and paid or set apart for payment, and after complying with all the provisions with respect to any sinking fund or funds for any one or more series of Preferred Stock, then, and not otherwise, dividends may be declared and paid upon any class of stock of the Corporation junior to the Preferred Stock.

II.A.(v) In the event of any liquidation, dissolution or winding up of the Corporation the Preferred Stock shall be preferred as to assets as well as dividends and upon any such dissolution, liquidation or winding up, the holders of the Preferred Stock of each series shall be entitled to receive and be paid for each share thereof out of the assets of the Corporation (whether capital or surplus) \$100, together with an amount equal to the accrued and unpaid dividends thereon computed to the date of payment, plus a premium of such additional

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amount per share as shall have been fixed for such series in the event the dissolution, liquidation or winding up is voluntary, before any distribution of the assets shall be made to the holders of any class of stock of the Corporation junior to the Preferred Stock. All assets remaining after such distribution to the Preferred Stock shall then be distributed exclusively among the holders of any class or classes of stock of the Corporation junior to the Preferred Stock. If, upon any such dissolution, liquidation or winding up, the assets of the Corporation distributable among the holders of Preferred Stock shall be insufficient to pay in full the preferential amount aforesaid, then such assets or the proceeds thereof shall be distributed ratably among the holders of Preferred Stock then outstanding until there shall have been paid in full and in order, first, the sum of \$100 in respect of each share; second, an amount ratably in proportion to the amounts to which they are respectively entitled by reason of accrued and unpaid dividends computed to the date of distribution; and third, the balance ratably in proportion to the amounts to which they are respectively entitled by way of premium.

II.A.(vi) The Corporation, at its option to be exercised by its Board of Directors, may redeem the whole or any part of any series of Preferred Stock which by its terms is subject to redemption, at the time or times provided in the terms of such series, at a redemption price per share for each series thereof, equal to: \$100 plus a premium, if any, of such additional amount as shall have been fixed as payable in case of redemption in respect of each share of such series and an amount equal to any accrued and unpaid dividends thereon computed to the date of redemption. If at any time less than all of the Preferred Stock then outstanding and subject to redemption shall be called for redemption, the Board of Directors may select the series of such Preferred Stock to be redeemed and if less than all the Preferred Stock of any series is to be called for redemption, the shares to be redeemed may be selected by lot or by such other equitable method as the Board of Directors in its discretion may determine. Notice of every such redemption, stating the redemption date, the redemption price, and the place of payment thereof, shall be given by mailing a copy of such notice at least thirty (30) days and not more than sixty (60) days prior to the date fixed for redemption to the holders of record of the Preferred Stock to be redeemed at their respective addresses as the same appear on the books of the Corporation. A similar notice shall be published at least once in a daily newspaper printed in the English language and published and of general circulation in the Borough of Manhattan, the City of New York. At any time after notice of redemption has been given in the manner prescribed by the Board of Directors to the holders of stock so to be redeemed the Corporation may deposit with a bank or trust company having capital, surplus and undivided profits of at least \$5,000,000 named in such notice, the redemption price, in trust, for payment on or before the date fixed for redemption, as aforesaid, to the respective orders of the holders of the shares so to be redeemed, on such endorsement to the Corporation or its nominee or otherwise, as may be required, and upon surrender of the certificates for such shares. Upon the deposit of the said redemption price as aforesaid, or, if no such deposit is made, upon the said redemption date (unless the Corporation shall default in making payment of the redemption price as set forth in such notice), such holders shall cease to be stockholders with respect to the said shares, and from and after the making of the said deposit, or, if no such deposit is made, after the redemption date (the Corporation



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not having defaulted in making payment of the redemption price as set forth in such notice), the said shares shall no longer be transferable on the books of the Corporation, and the said holders shall have no interest in or claim against the Corporation with respect to the said shares but shall be entitled only to such conversion rights (if any) on or before the date fixed for redemption as may be provided with respect to such shares or to receive payment of the redemption price without interest thereon, upon endorsement; provided, that any funds so deposited by the Corporation and unclaimed at the end of one year from the date fixed for such redemption shall be repaid to the Corporation upon its request, after which repayment the holders of such shares so called for redemption shall look only to the Corporation for the payment of the redemption price thereof. Any funds so deposited, which shall not be required for such redemption because of the exercise of any right of conversion or otherwise subsequently to the date of such deposit, shall be returned to the Corporation forthwith. Any interest accrued on any funds so deposited shall belong to the Corporation and shall be paid to it from time to time.

In order to facilitate the redemption of any shares of Preferred Stock, the Board of Directors is authorized to cause the transfer books of the Corporation to be closed as to the shares to be redeemed.

The Corporation shall have the right, provided full cumulative dividends on the Preferred Stock shall have been paid for past dividend periods and the Corporation shall not then be in default as to any payment required for any sinking fund created with respect to any series of Preferred Stock, to purchase Preferred Stock of any series which is subject to purchase by the terms of such series, at prices not in excess of the then redemption price thereof, either for the purpose of redemption or retirement or to be held, used and disposed of as treasury shares.

II.A.(vii) If at any time the Corporation shall have failed to pay dividends in full on the Preferred Stock, thereafter and until dividends in full, including all accrued and unpaid dividends, on Preferred Stock outstanding shall have been paid, or declared and set aside for payment, the Corporation shall not redeem any Preferred Stock except as a whole and shall not purchase any Preferred Stock except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of the Preferred Stock upon the same terms as to any series, and shall not purchase or redeem any other shares of any class ranking on a parity with or junior to the Preferred Stock as to dividends or as to assets.

II.A.(viii) Special Voting Rights of Preferred Stock

(1) The Corporation shall not, without the affirmative vote at a meeting, or the written consent with or without a meeting, of the holders of at least two-thirds of the then outstanding Preferred Stock of all series:

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(a) Change the express terms and provisions applicable to all series of the Preferred Stock in any material respect prejudicial to the holders thereof; or

(b) Create any class of stock which shall be preferred as to dividends or as to assets over the Preferred Stock.

(2) The Corporation shall not, without the affirmative vote at a meeting, or the written consent with or without a meeting, of the holders of at least two-thirds of the outstanding Preferred Stock of any particular series, change the express terms of the special provisions for such series as provided in this Certificate or in the resolution or resolutions of the Board of Directors providing for the issue of such series in any material respect prejudicial to the holders of shares of such series.

(3) The Corporation shall not without the affirmative vote at a meeting, or the written consent with or without a meeting, of the holders of at least a majority of the then outstanding Preferred Stock of all series, increase the authorized number of shares of Preferred Stock or create any class of stock which shall rank on a parity with the Preferred Stock as to dividends or as to assets.

(4) If the Corporation shall have failed to pay dividends upon the Preferred Stock in an aggregate amount equal to four full quarterly dividends on any series of the Preferred Stock at the time outstanding, the holders of Preferred Stock shall have the right, voting separately as a class at the annual meeting of stockholders, to elect one-third (or the nearest number thereto) of the members of the Board of Directors of the Corporation until such time as all dividends accumulated on the Preferred Stock shall have been paid in full; and upon such payment in full of all dividends accumulated on the Preferred Stock, such special voting rights of holders thereof shall cease, subject to re-vesting in the event of each and every subsequent default of the character above mentioned.

### III. PREFERENCE STOCK

#### III.A. Provisions Generally Applicable to Preference Stock

III.A.(i) The Preference Stock may be issued from time to time by the Board of Directors as shares of one or more series. Subject to the provisions hereof and the limitations prescribed by law, the Board of Directors is expressly authorized, prior to issuance, by adopting resolutions providing for the issuance of shares of any particular series and, if and to the extent from time to time required by law, by filing a certificate pursuant to the Delaware Law (or other laws hereafter in effect relating to the same or substantially similar subject matter), to establish the number of shares to be included in each such series and to fix the designations, relative rights, preferences and limitations of the shares of each such series. The authority of the Board of Directors with respect to each series shall include, but not be limited to, determination of the following:

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(1) the distinctive serial designation of such series and the number of shares constituting such series (provided that the aggregate number of shares constituting all series of Preference Stock shall not exceed 50,000,000);

(2) the dividend rate, or basis for determining such rate, if any, on shares of such series, whether dividends shall be cumulative and, if so, from which date or dates;

(3) whether the shares of each series shall be redeemable and, if so, the terms and conditions of such redemption, including the date or dates upon and after which such shares shall be redeemable, and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates;

(4) the obligation, if any, of the Corporation to retire shares of such series pursuant to a sinking fund;

(5) whether shares of such series shall be convertible into, or exchangeable for, shares of stock of any other class or classes or any other series of the same class of stock and, if so, the terms and conditions of such conversion or exchange, including the price or prices or the rate or rates of conversion or exchange and the terms of adjustment, if any;

(6) whether the shares of such series shall have voting

rights, in addition to the voting rights provided by law, and, if so, the terms of such voting rights;

(7) the rights of the shares of such series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation;

(8) the restrictions, if any, on the payment of dividends upon, and the making of distributions to, any class of stock ranking junior to the shares of Preference Stock, and the restrictions, if any, on the purchase or redemption of the shares of any such junior class; and

(9) any other designations, relative rights, preferences and limitations of such series.

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### III.B. Series One ESOP Convertible Preference Stock

The number of shares, the designation, the relative rights, the preferences and the limitations of the Series One ESOP Convertible Preference Stock of the Corporation are as follows:

#### III.B.(i) Designation and Amount; Special Purpose Restricted Transfer Issue

(1) The shares of this series of Preference Stock shall be designated as Series One ESOP Convertible Preference Stock ("Series One Preference Stock") and the number of shares constituting such series shall be 6,688,494.

(2) Shares of Series One Preference Stock shall be issued only to a trustee acting on behalf of an employee stock ownership plan or other employee benefit plan of the Corporation. In the event of any transfer of shares of Series One Preference Stock to any person other than (a) the issuance of Series One Preference Stock to any such plan trustee or (b) a distribution of Series One Preference Stock by any such plan trustee to a participant in any such plan in satisfaction of the distribution requirements of any such plan or any investment elections provided to participants pursuant to any such plan, the shares of Series One Preference Stock so transferred, upon such transfer and without any further action by the Corporation or the holder, shall be automatically converted into shares of Common Stock on the terms otherwise provided for the conversion of shares of Series One Preference Stock into shares of Common Stock pursuant to Section III.B.(v) hereof and no such transferee shall have any of the voting powers, preferences and relative, participating, optional or special rights ascribed to shares of Series One Preference Stock hereunder but, rather, only the powers and rights pertaining to the Common Stock into which such shares of Series One Preference Stock shall be so converted. Certificates representing shares of Series One Preference Stock shall be legended to reflect such restrictions on transfer. Notwithstanding the foregoing provisions of this Section III.B.(i)(2), shares of Series One Preference Stock (a) may be converted into shares of Common Stock as provided by Section III.B.(v) hereof and the shares of Common Stock issued upon such conversion may be transferred by the holder thereof as permitted by law and (b) shall be redeemable by the Corporation upon the terms and conditions provided by Sections III.B.(vi), (vii) and (viii) hereof.

#### III.B.(ii) Dividends and Distributions

(1) Subject to the provisions for adjustment hereinafter set forth, the holders of shares of Series One Preference Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available therefor, cash dividends ("Preference Dividends") in an amount per share equal to the greater of (a) the sum of the aggregate amounts of regular cash dividends paid during the periods ending on December 31, 1989, October 31,

1990, October 31, 1991, October 31, 1992 and December 31, 1993 in each year thereafter (each a "Dividend Payment Date") on the number of shares of Common Stock into

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which one share of Series One Preference Stock could be converted pursuant to Section III.B.(v) hereof, calculated on the basis of the Conversion Price (as defined in Section III.B.(v) hereof and as adjusted from time to time pursuant to Section III.B.(ix) hereof) in effect on each record date for any such regular quarterly cash dividends on Common Stock paid during such one year period, and (b) \$3.90 per share per annum, and no more; provided that the first dividend on the Series One Preference Stock shall be \$3.63. For purposes of this Section III.B.(ii)(1), "regular cash dividends" on the Common Stock shall mean any cash dividends on the Common Stock which are not "Extraordinary Distributions" as defined in Section III.B.(ix)(7). Preference Dividends shall be payable annually, on each Dividend Payment Date, commencing on the Dividend Payment Date in 1989, to holders of record at the start of business on such Dividend Payment Date. Preference Dividends shall begin to accrue on outstanding shares of Series One Preference Stock from the date of issuance of such shares of Series One Preference Stock. The amount of Preference Dividends accrued as of any date on each share of Series One Preference Stock shall be equal to the greater of (x) the sum of the aggregate amounts of regular cash dividends paid during the period beginning on the most current previous Dividend Payment Date and ending on the date as of which accrual is being determined on the number of shares of Common Stock into which one share of Series One Preference Stock could be converted pursuant to Section III.B.(v) hereof, calculated as provided in clause (a) above, and (y) \$3.90 per annum accrued on a daily basis (whether or not the Corporation shall have surplus at the time) for the period beginning on the most recent previous Dividend Payment Date and ending on the date as of which accrual is being determined, computed for any period less than a full annual period between Dividend Payment Dates on the basis of a 360 day year of 30 day months; provided that a total dividend payment of \$3.63 per share shall accrue for the period from the date of issuance of the Series One Preference Stock until December 31, 1989. Accumulated but unpaid Preference Dividends shall cumulate as of the Dividend Payment Date on which they first become payable, but no interest shall accrue on accumulated but unpaid Preference Dividends.

(2) So long as any Series One Preference Stock shall be outstanding, no dividend shall be declared or paid or set apart for payment on any other series of stock ranking on a parity with the Series One Preference Stock as to dividends, unless there shall also be or have been declared and paid or set apart for payment on the Series One Preference Stock, like dividends for all dividend payment periods of the Series One Preference Stock ending on or before the dividend payment date of such parity stock, ratably in proportion to the respective amounts of dividends accumulated and unpaid through such dividend payment period on the Series One Preference Stock and accumulated and unpaid or payable on such parity stock through the dividend payment period on such parity stock next preceding such dividend payment date. In the event that full cumulative dividends on the Series One Preference Stock have not been declared and paid or set apart for payment when due, the Corporation shall not declare or pay or set apart for payment any dividends or make any other distributions on, or make any payment on account of the purchase, redemption or other retirement of any other class of stock or series thereof of the Corporation ranking, as to dividends or as to distributions in the event of a liquidation, dissolution or winding-up of the Corporation, junior

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to the Series One Preference Stock until full cumulative dividends on the Series One Preference Stock shall have been paid or declared and provided for; provided, however, that the foregoing shall not apply to (a) any dividend payable solely in any shares of any stock ranking, as to dividends or as to distributions in the event of a liquidation, dissolution or winding-up of the

Corporation, junior to the Series One Preference Stock, or (b) the acquisition of shares of any stock ranking, as to dividends or as to distributions in the event of a liquidation, dissolution or winding-up of the Corporation, junior to the Series One Preference Stock either (x) pursuant to any employee or director incentive or benefit plan or arrangement (including any employment, severance or consulting agreement) of the Corporation or any subsidiary of the Corporation heretofore or hereafter adopted or (y) in exchange solely for shares of any other stock ranking junior to the Series One Preference Stock.

### III.B.(iii) Voting Rights

The holders of shares of Series One Preference Stock shall have the following voting rights:

(1) The holders of Series One Preference Stock shall be entitled to vote on all matters submitted to a vote of the holders of Common Stock of the Corporation, voting together with the holders of Common Stock as one class. Each share of the Series One Preference Stock shall be entitled to the number of votes equal to the number of shares of Common Stock into which such share of Series One Preference Stock could be converted on the record date for determining the stockholders entitled to vote, rounded to the nearest one-tenth of a vote; it being understood that whenever the "Conversion Price" (as defined in Section III.B.(v) hereof) is adjusted as provided in Section III.B.(ix) hereof, the voting rights of the Series One Preference Stock shall also be similarly adjusted.

(2) Except as otherwise required by law or set forth herein, holders of Series One Preference Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for the taking of any corporate action; provided, however, that the vote of at least 66- 2/3% of the outstanding shares of Series One Preference Stock, voting separately as a series, shall be necessary to adopt any alteration, amendment or repeal of any provision of the Certificate of Incorporation of the Corporation, as amended (including any such alteration, amendment or repeal effected by any merger or consolidation in which the Corporation is the surviving or resulting corporation), if such amendment, alteration or repeal would alter or change the powers, preferences or special rights of the shares of Series One Preference Stock so as to affect them adversely. The authorization or issuance of additional Common Stock, Preference Stock or Preferred Stock shall be deemed not to affect the powers, preferences and special rights of the Series One Preference Stock adversely for purposes of the preceding sentence.

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### III.B.(iv) Liquidation, Dissolution or Winding Up

(1) Upon any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the holders of Series One Preference Stock shall be entitled to receive out of assets of the Corporation which remain after satisfaction in full of all valid claims of creditors of the Corporation and which are available for payment to stockholders and subject to the rights of the holders of any stock of the Corporation ranking senior to or on a parity with the Series One Preference Stock in respect of distributions upon liquidation, dissolution or winding up of the Corporation, before any amount shall be paid or distributed among the holders of Common Stock or any other shares ranking junior to the Series One Preference Stock in respect of distributions upon liquidation, dissolution or winding up of the Corporation, liquidating distributions in the amount of \$53.45 per share, plus an amount equal to all accrued and unpaid dividends thereon to the date fixed for distribution, and no more. If upon any liquidation, dissolution or winding up of the Corporation, the amounts payable with respect to the Series One Preference Stock and any other stock ranking as to any such distribution on a parity with the Series One Preference Stock are not paid in full, the holders of the Series One Preference Stock and such other stock shall share ratably in any distribution of assets in proportion to the full respective preferential amounts to which they are entitled. After payment

of the full amount to which they are entitled as provided by the foregoing provisions of Section III.B.(iv)(1), the holders of shares of Series One Preference Stock shall not be entitled to any further right or claim to any of the remaining assets of the Corporation.

(2) Neither the merger or consolidation of the Corporation with or into any other corporation, nor the merger or consolidation of any other corporation with or into the Corporation, nor the sale, transfer or lease of all or any portion of the assets of the Corporation, shall be deemed to be a dissolution, liquidation or winding up of the affairs of the Corporation for purposes of this Section III.B.(iv), but the holders of Series One Preference Stock shall nevertheless be entitled in the event of any such merger or consolidation to the rights provided by Section III.B.(viii) hereof.

(3) Written notice of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, stating the payment date or dates when, and the place or places where, the amounts distributable to holders of Series One Preference Stock in such circumstances shall be payable, shall be given by first-class mail, postage prepaid, mailed not less than twenty (20) days prior to any payment date stated therein, to the holders of Series One Preference Stock, at the address shown on the books of the Corporation or any transfer agent for the Series One Preference Stock.

#### III.B.(v) Conversion into Common Stock.

(1) A holder of shares of Series One Preference Stock shall be entitled, at any time prior to the close of business on the date fixed for redemption of such shares pursuant to Sections III.B.(vi), (vii) or (viii) hereof, to cause any or all of such shares to be converted into

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shares of Common Stock, initially at a conversion rate equal to the ratio of \$53.45 to the amount which initially shall be \$53.45 and which shall be adjusted as hereinafter provided (and, as so adjusted, is hereinafter sometimes referred to as the "Conversion Price") (that is, a conversion rate initially equivalent to one share of Common Stock for each share of Series One Preference Stock so converted but that is subject to adjustment as the Conversion Price is adjusted as hereinafter provided).

(2) Any holder of shares of Series One Preference Stock desiring to convert such shares into shares of Common Stock shall surrender the certificate or certificates representing the shares of Series One Preference Stock being converted, duly assigned or endorsed for transfer to the Corporation (or accompanied by duly executed stock powers relating thereto), at the principal executive office of the Corporation or the offices of the transfer agent for the Series One Preference Stock or such office or offices in the continental United States of an agent for conversion as may from time to time be designated by notice to the holders of the Series One Preference Stock by the Corporation or the transfer agent for the Series One Preference Stock, accompanied by written notice of conversion. Such notice of conversion shall specify (a) the number of shares of Series One Preference Stock to be converted and the name or names in which such holder wishes the certificate or certificates for Common Stock and for any shares of Series One Preference Stock not to be so converted to be issued, and (b) the address to which such holder wishes delivery to be made of such new certificates to be issued upon such conversion.

(3) Upon surrender of a certificate representing a share or shares of Series One Preference Stock for conversion, the Corporation shall prepare and send by hand delivery (with receipt to be acknowledged) or by first class mail, postage prepaid, to the holder thereof or to such holder's designee, at the address designated by such holder, a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled upon conversion. In the event that there shall have been surrendered a certificate or certificates representing shares of Series One Preference Stock, only part of which are to be converted, the Corporation shall issue and deliver to such

holder or such holder's designee a new certificate or certificates representing the number of shares of Series One Preference Stock which shall not have been converted.

(4) The conversion into Common Stock of shares of Series One Preference Stock at the option of the holder thereof shall be effective as of the earlier of (a) the delivery to such holder or such holder's designee of the certificates representing the shares of Common Stock deliverable upon conversion thereof or (b) the commencement of business on the second business day after the surrender of the certificate or certificates for the shares of Series One Preference Stock to be converted, duly assigned or endorsed for transfer to the Corporation (or accompanied by duly executed stock powers relating thereto) as provided by this Section III.B(v). On and after the effective day of conversion, the person or persons entitled to receive the Common Stock deliverable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock, but no allowance or

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adjustment shall be made in respect of dividends payable to holders of Common Stock in respect of any period prior to such effective date. The Corporation shall not be obligated to pay any dividends which shall have been declared and shall be payable to holders of shares of Series One Preference Stock on a Dividend Payment Date if such Dividend Payment Date for such dividend shall coincide with or be on or subsequent to the effective date of conversion of such shares.

(5) The Corporation shall not be obligated to deliver to holders of Series One Preference Stock any fractional share or shares of Common Stock deliverable upon any conversion of such shares of Series One Preference Stock, but in lieu thereof may make a cash payment in respect thereof in any manner permitted by law.

(6) The Corporation shall at all times reserve and keep available out of its authorized and unissued Common Stock, or out of Common Stock held in its treasury, solely for delivery upon the conversion of shares of Series One Preference Stock as herein provided, free from any preemptive rights, such number of shares of Common Stock as shall from time to time be deliverable upon the conversion of all the shares of Series One Preference Stock then outstanding. The Corporation shall prepare and shall use its best efforts to obtain and keep in force such governmental or regulatory permits or other authorizations as may be required by law, and shall comply with all requirements as to registration or qualification of the Common Stock, in order to enable the Corporation lawfully to deliver to each holder of record of Series One Preference Stock such number of shares of its Common Stock as shall from time to time be sufficient to effect the conversion of all shares of Series One Preference Stock then outstanding and convertible into shares of Common Stock.

#### III.B.(vi) Redemption At the Option of the Corporation

(1) The Series One Preference Stock shall be redeemable, in whole or in part, at the option of the Corporation at any time at the following redemption prices per share, except that no such redemption at the option of the corporation may be made prior to June 23, 1991 unless the Fair Market Value of the Common Stock as of the date on which notice of redemption is first mailed pursuant to Section III.B.(vi)(2) below shall be at least 130% of the then current Conversion Price. The Fair Market Value of the Common Stock shall be determined as provided in Section III.B.(ix)(7), except that for purposes of this Section III.B.(vi)(1) the Adjustment Period used in calculating such Fair Market Value shall be deemed to be the twenty (20) consecutive trading days ending upon but excluding, the date on which notice of redemption is first mailed:

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DURING THE TWELVE-MONTH  
PERIOD BEGINNING JUNE 23

PRICE PER SHARE

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1989	\$57.35
1990	\$56.96
1991	\$56.57
1992	\$56.18
1993	\$55.79
1994	\$55.40
1995	\$55.01
1996	\$54.62
1997	\$54.23
1998	\$53.84

and thereafter at \$53.45 per share, plus, in each case, an amount equal to all accrued and unpaid dividends thereon to the date fixed for redemption. Payment of the redemption price shall be made by the Corporation in cash or shares of Common Stock, or a combination thereof, as permitted by Section III.B.(vi)(4). From and after the date fixed for redemption, dividends on shares of Series One Preference Stock called for redemption will cease to accrue, such shares will no longer be deemed to be outstanding and all rights in respect of such shares of the Corporation shall cease, except the right to receive the redemption price. If less than all of the outstanding shares of Series One Preference Stock are to be redeemed, the Corporation shall either redeem a portion of the shares of each holder determined pro rata based on the number of shares held by each holder or shall select the shares to be redeemed by lot, as may be determined by the Board of Directors of the Corporation.

(2) Unless otherwise required by law, notice of redemption will be sent to the holders of Series One Preference Stock at the address shown on the books of the Corporation or any transfer agent for the Series One Preference Stock by first class mail, postage prepaid, mailed not less than twenty (20) days nor more than sixty (60) days prior to the redemption date. Each such notice shall state: (a) the redemption date; (b) the total number of shares of the Series One Preference Stock to be redeemed and, if fewer than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (c) the redemption price and the form of payment thereof; (d) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; (e) that dividends on the shares to be redeemed will cease to accrue on such redemption date; and (f) the conversion rights of the shares to be redeemed, the period within which conversion rights may be exercised, and the Conversion Price and number of shares of Common Stock issuable upon conversion of a share of Series One Preference Stock at the time. Upon surrender of the certificates for any shares so called for redemption and not previously converted (properly endorsed or assigned for transfer, if the Board of Directors of the Corporation shall so require and the notice shall so state), such shares shall be redeemed by the Corporation at the date fixed for redemption and at the redemption price set forth in this Section III.B.(vi).

(3) Notwithstanding anything to the contrary contained in Section III.B.(vi)(1), the Corporation may from time to time, in its sole discretion, elect to redeem, upon notice as required in Section III.B.(vi)(2), all or part of the shares of Series One Preference Stock at a price equal to the amount payable in respect of such shares upon liquidation of the Corporation pursuant to Section III.B.(iv) hereof (except that any redemption pursuant to clause (d) below shall be at a price equal to the price payable upon redemption at the option of the Corporation pursuant to Section III.B.(vi)(1) plus all accrued and



unpaid dividends to the date fixed for redemption) upon any of the following:

(a) In the event of a change in the federal tax law of the United States of America which has the effect of precluding the Corporation from claiming any of the tax deductions for dividends paid on the Series One Preference Stock when such dividends are used as provided under Section 404(k) (2) of the Internal Revenue code of 1986, as amended (the "Code") and in effect on the date the shares of Series One Preference Stock are initially issued; provided that notice of any redemption pursuant to this clause (a) shall be given not more than 90 days following the later of the effectiveness or the adoption of any such change in the federal tax law of the United States of America; or

(b) In the event of a determination by the Internal Revenue Service that the Melville Corporation and Subsidiaries Employee Stock Ownership Plan, dated as of January 1, 1989, as amended, or any successor plan ("the Plan"), as the same may be amended, is not qualified within the meaning of Section 401(a) or is not an employee stock ownership plan within the meaning of Section 4975(e) (7) of the Code; or

(c) If the exclusion of interest received by any lender on any borrowings by the trustee of the Plan from the lender's income pursuant to Section 133 or any successor provision of the Code is reduced to a percentage amount less than fifty percent (50%); provided that notice of any redemption pursuant to this clause (c) shall be given not more than 90 days following the later of the effectiveness or the adoption of any such reduction; or

(d) If the corporation terminates the Plan or terminates future contributions to the Plan; or

(e) If any shares of Series One Preference Stock are transferred to a participant in the Plan, but only any such shares so transferred may be redeemed pursuant to this clause (e); or

(f) In the event and to the extent that redemption of Series One Preference Stock is necessary or appropriate to provide for satisfaction of any investment election provided to participants in accordance with the Plan; or

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(g) In the event and to the extent that redemption of Series One Preference Stock is necessary or appropriate to provide for distributions to be made to participants under the Plan.

(4) The Corporation, at its option, may make payment of the redemption price required upon redemption of shares of Series One Preference Stock pursuant to Section III.B.(vi) (1) above or clauses (a) through (f) of Section III.B.(vi) (3) above in cash or in shares of Common Stock, or in a combination of such shares and cash. The Corporation shall make payment of the redemption price required upon redemption of shares of Series One Preference Stock pursuant to clause (g) of Section III.B.(vi) (3) above in shares of Common Stock, except that cash shall be paid in lieu of delivery of fractional shares. Any shares of Common Stock delivered in payment of the redemption price pursuant to this Section III.B.(vi) shall be valued for such purpose at their Fair Market Value (as defined in Section III.B.(ix) (7) hereof, provided, however, that in calculating their Fair Market Value the Adjustment Period shall be deemed to be the five (5) consecutive trading days ending with, and including, the date of redemption).

III.B.(vii) Other Redemption Rights

Shares of Series One Preference Stock shall be called for redemption

by the Corporation, through notice as required by Section III.B.(vi)(2), for cash or, if the Corporation so elects, in shares of Common Stock, or a combination of such shares and cash, any such shares of Common Stock to be valued for such purpose as provided by Section III.B.(vi)(4), at a redemption price of \$53.45 per share plus accrued and unpaid dividends thereon to the date fixed for redemption, at any time and from time to time when and to the extent necessary to provide for payment of principal, interest or premium due and payable (whether as scheduled or upon acceleration) on the 8.60% ESOP Notes Due 2008 of the trust under the Plan or any indebtedness incurred by the trustee for the benefit of the Plan.

#### III.B.(viii) Consolidation, Merger, etc

(1) In the event that the Corporation shall consummate any consolidation or merger or similar transaction, however named, pursuant to which the outstanding shares of Common Stock are by operation of law exchanged solely for or changed, reclassified or converted solely into stock of any successor or resulting corporation (including the Corporation) that constitutes "qualifying employer securities" with respect to a holder of Series One Preference Stock within the meaning of Section 409(l) of the Code and Section 407(c)(5) of the Employee Retirement Income Security Act of 1974, as amended, or any successor provisions of law, and, if applicable, for a cash payment in lieu of fractional shares, if any, the shares of Series One Preference Stock of such holder shall be assumed by and shall become preferred stock of such successor or resulting corporation, having in respect of such corporation insofar as possible the same powers, preferences and relative, participating, optional or other special rights (including the redemption rights provided by Sections III.B.(vi), (vii) and (viii) hereof),

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and the qualifications, limitations or restrictions thereon, that the Series One Preference Stock had immediately prior to such transaction, except that after such transaction each share of the Series One Preference Stock shall be convertible, otherwise on the terms and conditions provided by Section III.B.(v) hereof, into the qualifying employer securities so receivable by a holder of the number of shares of Common Stock into which such shares of Series One Preference Stock could have been converted immediately prior to such transaction if such holder of Common Stock failed to exercise any rights of election to receive any kind or amount of stock, securities, cash or other property (other than such qualifying employer securities and a cash payment, if applicable, in lieu of fractional shares) receivable upon such transaction (provided that, if the kind or amount of qualifying employer securities receivable upon such transaction is not the same for each non-electing share, then the kind and amount of qualifying employer securities receivable upon such transaction for each non-electing share shall be the kind and amount so receivable per share by a plurality of the non-electing shares). The rights of the Series One Preference Stock as preferred stock of such successor or resulting company shall successively be subject to adjustments pursuant to Section III.B.(ix) hereof after any such transaction as nearly as possible equivalent to the adjustments provided for by such section prior to such transaction. The Corporation shall not consummate any such merger, consolidation or similar transaction unless all then outstanding shares of the Series One Preference Stock shall be assumed and authorized by the successor or resulting company as aforesaid.

(2) In the event that the Corporation shall consummate any consolidation or merger or similar transaction, however named, pursuant to which the outstanding shares of Common Stock are by operation of law exchanged for or changed, reclassified or converted into other stock or securities or cash or any other property, or any combination thereof, other than any such consideration which is constituted solely of qualifying employer securities (as referred to in Section III.B.(viii)(1)) and cash payments, if applicable, in lieu of fractional shares, then the Corporation shall, at least twenty (20) days before consummation of such transaction, give notice of such agreement and the material terms thereof to each holder of Series One Preference Stock and the Corporation shall simultaneously call for redemption, through notice as required by Section

III.B.(vi)(2), for cash at a redemption price equal to the amount payable in respect of such shares upon liquidation of the Corporation pursuant to Section III.B.(iv), all of the then outstanding shares of Series One Preferred Stock.

#### III.B.(ix) Anti-dilution Adjustments

(1) In the event the Corporation shall, at any time or from time to time while any of the shares of the Series One Preference Stock are outstanding, (a) pay a dividend or make a distribution in respect of the Common Stock in shares of Common Stock, (b) subdivide the outstanding shares of Common Stock, or (c) combine the outstanding shares of Common Stock into a smaller number of shares, in each case whether by reclassification of shares, recapitalization of the Corporation (including a recapitalization effected by a merger or consolidation to which Section III.B.(viii) hereof does not apply) or otherwise, the

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Conversion Price in effect immediately prior to such action shall be adjusted by multiplying such Conversion Price by the fraction the numerator of which is the number of shares of Common Stock outstanding immediately before such event and the denominator of which is the number of shares of Common Stock outstanding immediately after such event. An adjustment made pursuant to this Section III.B.(ix)(1) shall be given effect, upon payment of such a dividend or distribution, as of the record date for the determination of stockholders entitled to receive such dividend or distribution (on a retroactive basis) and in the case of a subdivision or combination shall become effective immediately as of the effective date thereof.

(2) In the event that the Corporation shall, at any time or from time to time while any of the shares of Series One Preference Stock are outstanding, issue to holders of shares of Common Stock as a dividend or distribution, including by way of a reclassification of shares or a recapitalization of the Corporation, any right or warrant to purchase shares of Common Stock (but not including as such a right or warrant any security convertible into or exchangeable for shares of Common Stock) at a purchase price per share less than the Fair Market Value (as hereinafter defined) of a share of Common Stock on the date of issuance of such right or warrant, then, subject to the provisions of Sections III.B.(ix)(5) and III.B.(ix)(6), the Conversion Price shall be adjusted by multiplying such Conversion Price by the fraction the numerator of which shall be the number of shares of Common Stock outstanding immediately before such issuance of rights or warrants plus the number of shares of Common Stock which could be purchased at the Fair Market Value of a share of Common Stock at the time of such issuance for the maximum aggregate consideration payable upon exercise in full of all such rights or warrants and the denominator of which shall be the number of shares of Common Stock outstanding immediately before such issuance of rights or warrants plus the maximum number of shares of Common Stock that could be acquired upon exercise in full of all such rights and warrants.

(3) In the event the Corporation shall, at any time or from time to time while any of the shares of Series One Preference Stock are outstanding, issue, sell or exchange shares of Common Stock (other than pursuant to any right or warrant to purchase or acquire shares of Common Stock (including as such a right or warrant any security convertible into or exchangeable for shares of Common Stock) and other than pursuant to any employee or director incentive or benefit plan or arrangement, including any employment, severance or consulting agreement, of the Corporation or any subsidiary of the Corporation heretofore or hereafter adopted) for a consideration having a Fair Market Value on the date of such issuance, sale or exchange less than the Fair Market Value of such shares on the date of such issuance, sale or exchange, then, subject to the provisions of Sections III.B.(ix)(5) and III.B.(ix)(6), the Conversion Price shall be adjusted by multiplying such Conversion Price by the fraction the numerator of which shall be the sum of (a) the Fair Market Value of all the shares of Common Stock outstanding on the day immediately preceding the first public announcement of such issuance, sale or exchange plus (b) the Fair Market Value of the

consideration received by the Corporation in respect of such issuance, sale or exchange of shares of Common Stock, and the denominator of which shall be the product of (a) the Fair

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Market Value of a share of Common Stock on the day immediately preceding the first public announcement of such issuance, sale or exchange multiplied by (b) the sum of the number of shares of Common Stock outstanding on such day plus the number of shares of Common Stock so issued, sold or exchanged by the Corporation. In the event the Corporation shall, at any time or from time to time while any shares of Series One Preference Stock are outstanding, issue, sell or exchange any right or warrant to purchase or acquire shares of Common Stock (including as such a right or warrant any security convertible into or exchangeable for shares of Common Stock), other than any such issuance to holders of shares of Common Stock as a dividend or distribution (including by way of a reclassification of shares or a recapitalization of the Corporation) and other than pursuant to any employee or director incentive or benefit plan or arrangement (including any employment, severance or consulting agreement) of the Corporation or any subsidiary of the Corporation heretofore or hereafter adopted, for a consideration having a Fair Market Value on the date of such issuance, sale or exchange less than the Non-Dilutive Amount (as hereinafter defined), then, subject to the provisions of Sections III.B.(ix)(5) and III.B.(ix)(6), the Conversion Price shall be adjusted by multiplying such Conversion Price by a fraction the numerator of which shall be the sum of (a) the Fair Market Value of all the shares of Common Stock outstanding on the day immediately preceding the first public announcement of such issuance, sale or exchange plus (b) the Fair Market Value of the consideration received by the Corporation in respect of such issuance, sale or exchange of such right or warrant plus (c) the Fair Market Value at the time of such issuance of the consideration which the Corporation would receive upon exercise in full of all such rights or warrants, and the denominator of which shall be the product of (a) the Fair Market Value of a share of Common Stock on the day immediately preceding the first public announcement of such issuance, sale or exchange multiplied by (b) the sum of the number of shares of Common Stock outstanding on such day plus the maximum number of shares of Common Stock which could be acquired pursuant to such right or warrant at the time of the issuance, sale or exchange of such right or warrant (assuming shares of Common Stock could be acquired pursuant to such right or warrant at such time).

(4) In the event the Corporation shall, at any time or from time to time while any of the shares of Series One Preference Stock are outstanding, make an Extraordinary Distribution (as hereinafter defined) in respect of the Common Stock, whether by dividend, distribution, reclassification of shares or recapitalization of the Corporation (including a recapitalization or reclassification effected by a merger or consolidation to which Section III.B.(viii) hereof does not apply) or effect a Pro Rata Repurchase (as hereinafter defined) of Common Stock, the Conversion Price in effect immediately prior to such Extraordinary Distribution or Pro Rata Repurchase shall, subject to Sections III.B.(ix)(5) and III.B.(ix)(6), be adjusted by multiplying such Conversion Price by the fraction the numerator of which is (a) the product of (x) the number of shares of Common Stock outstanding immediately before such Extraordinary Distribution or Pro Rata Repurchase multiplied by (y) the Fair Market Value (as herein defined) of a share of Common Stock on the record date with respect to an Extraordinary Distribution, or on the applicable expiration date (including all extensions thereof) of any tender offer which is a Pro Rata Repurchase, or on the date of purchase with

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respect to any Pro Rata Repurchase which is not a tender offer, as the case may be, minus (b) the Fair Market Value of the Extraordinary Distribution or the aggregate purchase price of the Pro Rata Repurchase, as the case may be, and the denominator of which shall be the product of (x) the number of shares of Common

Stock outstanding immediately before such Extraordinary Dividend or Pro Rata Repurchase minus, in the case of a Pro Rata Repurchase, the number of shares of Common Stock repurchased by the Corporation multiplied by (y) the Fair Market Value of a share of Common Stock on the record date with respect to an Extraordinary Distribution or on the applicable expiration date (including all extensions thereof) of any tender offer which is a Pro Rata Repurchase or on the date of purchase with respect to any Pro Rata Repurchase which is not a tender offer, as the case may be. The Corporation shall send each holder of Series One Preference Stock (a) notice of its intent to make any dividend or distribution and (b) notice of any offer by the Corporation to make a Pro Rata Repurchase, in each case at the same time as, or as soon as practicable after, such offer is first communicated (including by announcement of a record date in accordance with the rules of any stock exchange on which the Common Stock is listed or admitted to trading) to holders of Common Stock. Such notice shall indicate the intended record date and the amount and nature of such dividend or distribution, or the number of shares subject to such offer for a Pro Rata Repurchase and the purchase price payable by the Corporation pursuant to such offer, as well as the Conversion Price and the number of shares of Common Stock into which a share of Series One Preference Stock may be converted at such time.

(5) Notwithstanding any other provisions of this Section III.B.(ix), the Corporation shall not be required to make any adjustment of the Conversion Price unless such adjustment would require an increase or decrease of at least one percent (1%) in the Conversion Price. Any lesser adjustment shall be carried forward and shall be made no later than the time of, and together with, the next subsequent adjustment which, together with any adjustment or adjustments so carried forward, shall amount to an increase or decrease of at least one percent (1%) in the Conversion Price.

(6) If the Corporation shall make any dividend or distribution on the Common Stock or issue any Common Stock, other capital stock or other security of the Corporation or any rights or warrants to purchase or acquire any such security, which transaction does not result in an adjustment to the Conversion Price pursuant to the foregoing provisions of this Section III.B.(ix), the Board of Directors of the Corporation shall consider whether such action is of such a nature that an adjustment to the Conversion Price should equitably be made in respect of such transaction. If in such case the Board of Directors of the Corporation determines that an adjustment to the Conversion Price should be made, an adjustment shall be made effective as of such date as is determined by the Board of Directors of the Corporation. The determination of the Board of Directors of the Corporation as to whether an adjustment to the Conversion Price should be made pursuant to the foregoing provisions of this Section III.B.(ix)(6), and, if so, as to what adjustment should be made and when, shall be final and binding on the Corporation and all stockholders of the Corporation. The Corporation shall be entitled to make such additional adjustments in the Conversion Price, in addition to those

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required by the foregoing provisions of this Section III.B.(ix), as shall be necessary in order that any dividend or distribution in shares of capital stock of the Corporation, subdivision, reclassification or combination of shares of stock of the Corporation or any recapitalization of the Corporation shall not be taxable to holders of the Common Stock.

(7) For purposes of this Section III.B.(ix), the following definitions shall apply:

"Extraordinary Distribution" shall mean any dividend or other distribution (effected while any of the shares of Series One Preference Stock are outstanding) (a) of cash, where the aggregate amount of such cash dividend or distribution together with the amount of all cash dividends and distributions made during the preceding period of 12 months, when combined with the aggregate amount of all Pro Rata Repurchases (for this purpose, including only that portion of the aggregate purchase price of such Pro Rata Repurchase which is in excess of the Fair Market Value of the Common Stock repurchased as determined on

the applicable expiration date (including all extensions thereof) of any tender offer or exchange offer which is a Pro Rata Repurchase, or the date of purchase with respect to any other Pro Rata Repurchase which is not a tender offer or exchange offer made during such period), exceeds twelve and one-half percent (12-1/2%) of the aggregate Fair Market Value of all shares of Common Stock outstanding on the record date for determining the stockholders entitled to receive such Extraordinary Distribution and (b) of any shares of capital stock of the Corporation (other than shares of Common Stock), other securities of the Corporation (other than securities of the type referred to in Section III.B.(ix)(2)), evidences of indebtedness of the Corporation or any other person or any other property (including shares of any subsidiary of the Corporation), or any combination thereof. The Fair Market Value of an Extraordinary Distribution for purposes of Section III.B.(ix)(4) shall be the sum of the Fair Market Value of such Extraordinary Distribution plus the amount of any cash dividends which are not Extraordinary Distributions made during such twelve month period and not previously included in the calculation of an adjustment pursuant to Section III.B.(ix)(4).

"Fair Market Value" shall mean, as to shares of Common Stock or any other class of capital stock or securities of the Corporation or any other issuer which are publicly traded, the average of the Current Market Prices (as hereinafter defined) of such shares or securities for each day of the Adjustment Period (as hereinafter defined). "Current Market Price" of publicly traded shares of Common Stock or any other class of capital stock or other security of the Corporation or any other issuer for a day shall mean the last reported sales price, regular way, or, in case no sale takes place on such day, the average of the reported closing bid and asked prices, regular way, in either case as reported on the New York Stock Exchange Composite Tape or, if such security is not listed or admitted to trading on the New York Stock Exchange, on the principal national securities exchange on which such security is listed or admitted to trading or, if not listed or admitted to trading on any national securities exchange, on the NASDAQ National Market System or, if such security is not quoted on such National Market System, the average of the closing bid and asked prices on each such day in the over-the-counter market as reported by NASDAQ or, if bid and asked prices for such

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security on each such day shall not have been reported through NASDAQ, the average of the bid and asked prices for such day as furnished by any New York Stock Exchange member firm regularly making a market in such security selected for such purpose by the Board of Directors of the Corporation or a committee thereof on each trading day during the Adjustment Period. "Adjustment Period" shall mean the period of five (5) consecutive trading days, selected by the Board of Directors of the Corporation or a committee thereof, during the 20 trading days ending with, and including, the date as of which the Fair Market Value of a security is to be determined; provided that such period of five consecutive trading days shall end prior to the date on which such security begins to trade "ex dividend" with respect to any dividend or distribution giving rise to an adjustment under this Section III.B.(ix). The "Fair Market Value" of any security which is not publicly traded or of any other property shall mean the fair value thereof as determined by an independent investment banking or appraisal firm experienced in the valuation of such securities or property selected in good faith by the Board of Directors of the Corporation or a committee thereof, or, if no such investment banking or appraisal firm is in the good faith judgment of the Board of Directors or such committee available to make such determination, as determined in good faith by the Board of Directors of the Corporation or such committee.

"Non-Dilutive Amount" in respect of an issuance, sale or exchange by the Corporation of any right or warrant to purchase or acquire shares of Common Stock (including any security convertible into or exchangeable for shares of Common Stock) shall mean the remainder of (a) the product of the Fair Market Value of a share of Common Stock on the day preceding the first public announcement of such issuance, sale or exchange multiplied by the maximum number of shares of Common Stock which could be acquired on such date upon the exercise

in full of such rights and warrants (including upon the conversion or exchange of all such convertible or exchangeable securities), whether or not exercisable (or convertible or exchangeable) at such date, minus (b) the aggregate amount payable pursuant to such right or warrant to purchase or acquire such maximum number of shares of Common Stock; provided, however, that in no event shall the Non-Dilutive Amount be less than zero. For purposes of the foregoing sentence, in the case of a security convertible into or exchangeable for shares of Common Stock, the amount payable pursuant to a right or warrant to purchase or acquire shares of Common Stock shall be the Fair Market Value of such security on the date of the issuance, sale or exchange of such security by the Corporation.

"Pro Rata Repurchase" shall mean any purchase of shares of Common Stock by the Corporation or any subsidiary thereof, whether for cash, shares of capital stock of the Corporation, other securities of the Corporation, evidences of indebtedness of the Corporation or any other person or any other property (including shares of a subsidiary of the Corporation), or any combination thereof, effected while any of the shares of Series One Preference Stock are outstanding, pursuant to any tender offer or exchange offer subject to Section 13(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any successor provision of law, or pursuant to any other offer available to substantially all holders of Common Stock; provided, however, that no purchase of shares by the Corporation

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or any subsidiary thereof shall be deemed a Pro Rata Repurchase if made (a) in open market transactions or (b) pursuant to a single tender offer subject to Section 13(e) of the Securities Exchange Act commenced prior to December 31, 1989, but any purchase made in such a tender offer shall only be deemed not to be a Pro Rata Repurchase to the extent that the aggregate amount used to purchase Common Stock in such tender offer does not exceed \$357,500,000. For purposes of this subsection (ix)(7), shares shall be deemed to have been purchased by the Corporation or any subsidiary thereof "in open market transactions" if they have been purchased substantially in accordance with the requirements of Rule 10b-18 as in effect under the Exchange Act, on the date shares of Series One Preference Stock are initially issued by the Corporation or on such other terms and conditions as the Board of Directors of the Corporation or a committee thereof shall have determined are reasonably designed to prevent such purchases from having a material effect on the trading market for the Common Stock.

(8) Whenever an adjustment to the Conversion Price and the related voting rights of the Series One Preference Stock is required pursuant to this Section III.B.(ix), the Corporation shall forthwith place on file with the transfer agent for the Common Stock and the Series One Preference Stock if there be one, and with the Secretary of the Corporation, a statement signed by two officers of the Corporation stating the adjusted Conversion Price determined as provided herein and the resulting conversion ratio, and the voting rights (as appropriately adjusted), of the Series One Preference Stock. Such statement shall set forth in reasonable detail such facts as shall be necessary to show the reason and the manner of computing such adjustment, including any determination of Fair Market Value involved in such computation. Promptly after each adjustment to the Conversion Price and the related voting rights of the Series One Preference Stock, the Corporation shall mail a notice thereof and of the then prevailing conversion ratio to each holder of shares of the Series One Preference Stock.

#### III.B.(x) Ranking; Retirement of Shares

(1) The Series One Preference Stock shall rank senior to the Common Stock as to the payment of dividends and the distribution of assets on liquidation, dissolution and winding up of the Corporation. The Series One Preference Stock shall rank on a parity with all other series of the Corporation's Preference Stock as to the payment of dividends and the distribution of assets on liquidation, dissolution and winding up of the Corporation. Unless otherwise provided in the Certificate of Incorporation of

the Corporation, as amended, the Series One Preference Stock shall rank junior to all other series of the Corporation's Preferred Stock as to the payment of dividends and the distribution of assets on liquidation, dissolution or winding up of the Corporation.

(2) Any shares of Series One Preference Stock acquired by the Corporation by reason of the conversion or redemption of such shares as provided by this Section III.B., or otherwise so acquired, shall be retired as shares of Series One Preference Stock and restored

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to the status of authorized but unissued shares of preference stock, \$1.00 par value, of the Corporation, undesignated as to series, and may thereafter be reissued as part of a new series of such Preference Stock as permitted by law.

#### III.B.(xi) Miscellaneous

(1) All notices referred to herein shall be in writing, and all notices hereunder shall be deemed to have been given upon the earlier of receipt thereof or three (3) business days after the mailing thereof if sent by registered mail (unless first-class mail shall be specifically permitted for such notice under the terms of this Resolution) with postage prepaid, addressed: (a) if to the Corporation, to its office as specified in its most recent Annual Report on Form 10-K (or any successor report or form) or to the transfer agent for the Series One Preference Stock, or other agent of the Corporation designated as permitted by this Section III.B. or (b) if to any holder of the Series One Preference Stock or Common Stock, as the case may be, to such holder at the address of such holder as listed in the stock record books of the Corporation (which may include the records of any transfer agent for the Series One Preference Stock or Common Stock, as the case may be) or (c) to such other address as the Corporation or any such holder, as the case may be, shall have designated by notice similarly given.

(2) The term "Common Stock" as used in this Section III.B. means the Corporation's Common Stock of par value \$.01, as the same exists at the date of filing of this Certificate of Amendment of the Certificate of Incorporation of the Corporation relating to Series One Preference Stock or any other class of stock resulting from successive changes or reclassifications of such Common Stock consisting solely of changes in par value, or from par value to no par value, or from no par value to par value. In the event that, at any time as a result of an adjustment made pursuant to Section III.B.(ix), the holder of any shares of the Series One Preference Stock upon thereafter surrendering such shares for conversion shall become entitled to receive any shares or other securities of the Corporation other than shares of Common Stock, the Conversion Price in respect of such other shares or securities so receivable upon conversion of shares of Series One Preference Stock shall thereafter be adjusted, and shall be subject to further adjustment from time to time, in a manner and on terms as nearly equivalent as practicable to the provisions with respect to Common Stock contained in Section III.B.(ix) hereof, and the provisions of Sections (i) through (viii) and (x) and (xi) of this Article Fourth.III.B. with respect to the Common Stock shall apply on like or similar terms to any such other shares or securities.

(3) The Corporation shall pay any and all stock transfer and documentary stamp taxes that may be payable in respect of any issuance or delivery of shares of Series One Preference Stock or shares of Common Stock or other securities issued on account of Series One Preference Stock pursuant hereto or certificates representing such shares or securities. The Corporation shall not, however, be required to pay any such tax which may be payable in respect of any transfer involved in the issuance or delivery of shares of Series One Preference

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Stock or Common Stock or other securities in a name other than that in which the shares of Series One Preference Stock with respect to which such shares or other securities are issued or delivered were registered, or in respect of any payment to any person with respect to any such shares or securities other than a payment to the registered holder thereof, and shall not be required to make any such issuance, delivery or payment unless and until the person otherwise entitled to such issuance, delivery or payment has paid to the Corporation the amount of any such tax or has established, to the satisfaction of the Corporation, that such tax has been paid or is not payable.

(4) In the event that a holder of shares of Series One Preference Stock shall not by written notice designate the name in which shares of Common Stock to be issued upon conversion of such shares should be registered or to whom payment upon redemption of shares of Series One Preference Stock should be made or the address to which the certificate or certificates representing such shares, or such payment, should be sent, the Corporation shall be entitled to register such shares, and make such payment, in the name of the holder of such Series One Preference Stock as shown on the records of the Corporation and to send the certificate or certificates representing such shares, or such payment, to the address of such holder shown on the records of the Corporation.

(5) Unless otherwise provided in the Certificate of Incorporation, as amended, of the Corporation, all payments in the form of dividends, distributions on voluntary or involuntary dissolution, liquidation or winding-up or otherwise made upon the shares of Series One Preference Stock and any other stock ranking on a parity with the Series One Preference Stock with respect to such dividend or distribution shall be made pro rata, so that amounts paid per share on the Series One Preference Stock and such other stock shall in all cases bear to each other the same ratio that the required dividends, distributions or payments, as the case may be, then payable per share on the shares of the Series One Preference Stock and such other stock bear to each other.

(6) The Corporation may appoint, and from time to time discharge and change, a transfer agent for the Series One Preference Stock. Upon any such appointment or discharge of a transfer agent, the Corporation shall send notice thereof by first-class mail, postage prepaid, to each holder of record of Series One Preference Stock.

FIFTH: (i) In addition to any affirmative vote required by law or otherwise, the affirmative vote of the holders of at least 66 2/3% of the outstanding shares of Voting Stock, voting together as a single class, held by stockholders other than a Related Person shall be required for the approval, authorization or effectuation directly or indirectly, of any Business Combination with such Related Person (such affirmative vote being required notwithstanding the fact that no vote may be required or that a lesser percentage may be specified by law, this Certificate of Incorporation, any resolution or resolutions adopted by the Board of Directors pursuant to this Certificate of Incorporation, any agreement with any national securities

exchange or otherwise); provided, however, that such voting requirement shall not be applicable if:

(1) The Continuing Directors, by at least 66 2/3% vote of such Continuing Directors, have expressly approved such Business Combination either in advance of or subsequent to such Related Person's having become a Related Person; or

(2) All of the following conditions shall have been satisfied:

(a) The Fair Market Value as of the date of consummation of the Business Combination of the consideration to be received per share by holders of shares of each class or series of Capital Stock

(regardless of whether or not such Related Person is the Beneficial Owner of shares of any such class or series of Capital Stock) in the Business Combination is not less than the Highest Per Share Price;

(b) The form of consideration to be received by holders of shares of each class or series of Capital Stock in the Business Combination shall be United States currency or the form of consideration used by such Related Person in acquiring the largest aggregate number of shares of the Capital Stock which such Related Person has previously acquired;

(c) After such Related Person shall have first become a Related person and prior to the consummation of such Business Combination:

(x) Except as approved by at least 66 2/3% of the Continuing Directors, there shall not have been any failure to declare and pay at the regular dates therefor the full amount of all dividends (whether or not cumulative) payable on the Preferred Stock, the Preference Stock or any other class or series of stock having a preference over the Common Stock as to dividends or upon liquidation;

(y) There shall not have been (A) any reduction in the annual rate of dividends paid on the Common Stock (except as necessary to reflect any subdivision of the Common Stock) except as approved by at least 66 2/3% of the Continuing Directors or (B) any failure to increase such annual rate of dividends, to the extent necessary to prevent any such reduction, in the event of any reclassification (including any reverse stock split), recapitalization, reorganization or any similar transaction that has the effect of reducing the number of outstanding shares of Common Stock, unless the failure so to increase such annual rate shall have been approved by at least 66 2/3% of the Continuing Directors; and

(z) Such Related Person shall not have become the Beneficial Owner of additional shares of Voting Stock, except as part of the transaction that results in such Related Person becoming a Related Person and except in a transaction that,

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giving effect thereto, would not result in any increase in the percentage of Voting Stock of which such Related Person is the Beneficial Owner; and

(d) A proxy statement describing the proposed Business Combination and complying with the requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, or any acts, rules or regulations that at least 66 2/3% of the Continuing Directors determine are successors thereof, shall (whether or not such a proxy statement is required to be mailed pursuant to such acts, rules or regulations) have been mailed to all holders of Voting Stock at least 30 days prior to the date of the meeting called to consider such Business Combination and such statement shall have contained, at the front thereof, in a prominent place such recommendations and other information concerning the Business Combination as at least 66 2/3% of the Continuing Directors may determine so to include.

(ii) For purposes of this Article:

(1) The terms "Affiliate" and "Associate" shall have the same meaning as in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended, as in effect on the date of this

Restated Certificate (the term "registrant" in said Rule 12b-2 meaning in this case the Corporation), and shall include any Person that, giving effect to a Business Combination, would become such an Affiliate or Associate.

(2) The term "Beneficial Owner" shall mean any Person which beneficially owns any Capital Stock within the meaning ascribed in Rule 13d-3 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended, as in effect on the date of this Restated Certificate, or who has the right to acquire any such beneficial ownership (whether or not such right is exercisable immediately, with the passage of time or subject to any condition) pursuant to any agreement, contract, arrangement or understanding or upon the exercise of any conversion, exchange or other right, warrant or option, or otherwise. A Person shall be deemed the Beneficial Owner of all Capital Stock of which any Affiliate or Associate of such Person is the Beneficial Owner.

(3) The term "Business Combination" shall mean (a) any merger or consolidation of the Corporation or a Subsidiary with or into a Related Person, (b) any sale, lease, exchange, transfer or other disposition, including without limitation by way of a mortgage or any other security device, of any Substantial Amount of the assets of the Corporation, one or more Subsidiaries or the Corporation and one or more Subsidiaries to a Related Person, (c) the adoption of any plan or proposal for the liquidation or dissolution of the Corporation proposed by or on behalf of any Related Person, (d) any sale, lease, exchange, transfer or other disposition, including without limitation by way of a mortgage or any other security device, of any Substantial Amount of the assets of a Related Person to the Corporation, one or more Subsidiaries, or the Corporation and one or more Subsidiaries, (e) the issuance of any securities of the Corporation, one or more Subsidiaries or the Corporation and one or more

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Subsidiaries to a Related Person or to a Person that giving effect thereto, would be a Related Person other than the issuance on a pro rata basis to all holders of stock of the same class pursuant to a stock split or stock dividend, (f) any reclassification of securities, recapitalization of the Corporation, or any merger or consolidation of the Corporation with or into one or more Subsidiaries or any other transaction that would have the effect, directly or indirectly, of increasing the voting power or other equity interest of a Related Person in the Corporation, (g) any loan, advance, guaranty, pledge or other financial assistance by the Corporation, one or more Subsidiaries or the Corporation and one or more Subsidiaries to or for the benefit, directly or indirectly (except proportionately as a stockholder), of a Related Person, (h) any agreement, contract or other arrangement providing for any Business Combination and (i) any series of transactions that a majority of Continuing Directors determines are related and that, taken together, would constitute a Business Combination.

(4) For the purposes of Section (i)(2) of this Article FIFTH, the term "consideration to be received" shall include, without limitation, Capital Stock of the Corporation retained by its existing stockholders other than Related Persons in the event of a Business Combination that is a merger and in which the Corporation is the surviving corporation.

(5) The term "Continuing Director" shall mean a Director of the Corporation who is not the Related Person, or an Affiliate or Associate of the Related Person (or a representative or nominee of the Related Person or such Affiliate or Associate), that is involved in the relevant Business Combination and (a) who was a member of the Board of Directors of the Corporation immediately prior to the time that such Related Person became a Related Person or (b) whose initial election as a Director of the Corporation was recommended by the affirmative vote of a least 66 2/3% of the Continuing Directors then in office, provided that, in either such case, such Continuing Director has continued in office after becoming a Continuing Director.

(6) The term "Fair Market Value" shall mean (a) in the case of United States currency, the amount thereof, (b) in the case of stock, (x) the

closing sale price per share thereof on the last trading day preceding the date as of which the determination thereof is to be made, or the highest closing sale price per share thereof during the specified period, on the Composite Tape for New York Stock Exchange--Listed Stocks or, if such stock is not quoted on the Composite Tape, on the New York Stock Exchange, or if such stock is not listed on such exchange, on the United States securities exchange registered as a national securities exchange under the Securities Exchange Act of 1934, as amended, on which such stock is listed or principally traded, (y) if such stock is not so listed, the closing bid quotation per share thereof on the last trading day preceding the date as of which the determination thereof is to be made, or the highest closing bid quotation per share thereof during the specified period, on the National Association of Securities Dealers Inc. Automated Quotation System, or any system then in use or (z) if no such quotations are then available, the fair market value thereof, as of the date of which the determination thereof is to be made, as determined by at least 66 2/3% of the Continuing Directors and (c) in the case of securities, property or assets

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other than such currency or stock, the fair market value thereof, as of the date of which the determination thereof is to be made, as determined by at least 66 2/3% of the Continuing Directors.

(7) The term "Highest Per Share Price" shall mean with respect to any class or series of Capital Stock the highest of (a) the highest price per share that can be determined to have been paid at any time by the Related Person involved in the relevant Business Combination for any share or shares of such class or series of Capital Stock, or if such Related Person has not acquired any Capital Stock of such class or series, the highest equivalent, as determined by at least 66 2/3% of the Continuing Directors for a share of such class or series of such highest price for any other class or series of Capital Stock, (b) the highest preferential amount, if any, per share payable with respect to shares of such class or series of Capital Stock in the event of a voluntary or involuntary liquidation of the Corporation, or the highest redemption price, if any, to which the holders of shares of such class or series of Capital Stock would be entitled, whichever is higher, and (c) the Fair Market Value per share of such Capital Stock during the period of twenty (20) trading days immediately preceding the time the relevant Business Combination is first publicly announced, or during the period of twenty (20) trading days immediately preceding the time at which the Related Person became a Related Person, whichever is higher. In determining the Highest Per Share Price, (x) all purchases by the Related Person shall be taken into account regardless of whether the shares were purchased before or after the Related Person became a Related Person and (y) the Highest Per Share Price shall include any brokerage commissions, transfer taxes and soliciting dealers' fees or other value paid in connection with such purchases.

A Related Person shall be deemed to have acquired a share of Capital Stock at the time when such Related Person became the Beneficial Owner thereof. The price deemed to have been paid by a Related Person for Capital Stock of which an Affiliate or Associate is the Beneficial Owner shall be the price that is the highest of (a) the price paid upon the acquisition thereof by the relevant Affiliate or Associate (if any, and whether or not such Affiliate or Associate was an Affiliate or Associate at the time of such acquisition), and (b) the Fair Market Value per share of such Capital Stock during the period of 20 trading days immediately preceding the time when the Related Person became the Beneficial Owner thereof.

In any determination of the price or prices paid or deemed to have been paid by any Person, and in any determination of the Highest Per Share Price or Fair Market Value, appropriate adjustment shall be made to reflect the relevant effect of any stock dividends, splits and distributions and any combination or reclassification of Capital Stock.

(8) The Term "Related Person" shall mean (a) any Person (other than

the Corporation or any wholly owned Subsidiary) that, alone or together with any Affiliates and Associates, is or becomes the Beneficial Owner of an aggregate of 10% or more of the outstanding Voting Stock, and (b) any Affiliate or Associate of any such Person, provided, however, that the term "Related Person" shall not include (x) a Person whose acquisition of such aggregate

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percentage of Voting Stock was approved in advance by at least 66 2/3% of the Continuing Directors or (y) any pension, profit sharing, employee stock ownership or other employee benefit plan of the Corporation or any Subsidiary, all of the capital stock of or equity interest in which Subsidiary is owned by the Corporation, one or more Subsidiaries or the Corporation and one or more Subsidiaries, or any trustee or fiduciary when acting in such capacity with respect to any such plan. The term "Person" shall mean any individual, corporation, partnership or other entity, including, any group comprised of any person and any other Person, or any Affiliate or Associate thereof, with whom such Person, or any Affiliate or Associate thereof, has any agreement, arrangement or understanding, directly or indirectly, for the purpose of acquiring, holding, voting or disposing of Voting Stock and each Person, and any Affiliate or Associate thereof, that is a member of such group.

(9) The term "Subsidiary" shall mean any Person a majority of the capital stock of or other equity interest in which is owned by the Corporation, one or more Subsidiaries or the Corporation and one or more Subsidiaries.

(10) The term "Substantial Amount" shall mean an amount of stock, securities or other property having a Fair Market Value equal to 10% or more of the Fair Market Value of the total consolidated assets of the Corporation and its Subsidiaries taken as a whole, as of the end of the Corporation's most recent fiscal year ended prior to the time as of which the determination is being made.

(11) The term "Voting Stock" shall mean all outstanding Common Stock and all other outstanding Capital Stock of the Corporation, if any, entitled to vote on each matter on which the holders of record of Common Stock shall be entitled to vote, and each reference to a proportion of shares of Voting Stock shall refer to such proportion of the votes entitled to be cast by the holders of such Common Stock and other Capital Stock, if any, and the term "Capital Stock" shall mean all outstanding capital stock of the Corporation issued pursuant to this Certificate of Incorporation or any resolution or resolutions of the Board of Directors of the Corporation adopted pursuant to this Certificate of Incorporation.

(12) The Continuing Directors by at least a 66 2/3% vote, shall have the power to make any and all determinations provided for in this Article FIFTH and to interpret the provisions and definitions in this Article FIFTH, which determinations and interpretations shall, to the fullest extent permitted by law, be conclusive.

(iii) In addition to the requirements of law and any other provisions of this Certificate of Incorporation or any resolution or resolutions of the Board of Directors adopted pursuant to this Certificate of Incorporation (and notwithstanding the fact that a lesser percentage may be specified by law, this Certificate of Incorporation, any such resolution or resolutions or otherwise), the affirmative vote of the holders of at least 66 2/3% of the outstanding shares of Voting Stock held by stockholders other than any Related Person

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shall be required to amend, alter or repeal, or adopt any provision inconsistent with the provisions of this Article FIFTH.

SIXTH: The number of directors of the Corporation shall not be less than three nor more than eighteen, as determined by action of the Board of Directors.

SEVENTH: (i) A director of the Corporation shall not be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director to the fullest extent permitted by Delaware Law.

(ii) (1) Each person (and the heirs, executors or administrators of such person) who was or is a party or is threatened to be made a party to, or is involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, shall be indemnified and held harmless by the Corporation to the fullest extent permitted by Delaware Law. The right to indemnification conferred in this ARTICLE SEVENTH shall also include the right to be paid by the Corporation the expenses incurred in connection with any such proceeding in advance of its final disposition to the fullest extent authorized by Delaware Law. The right to indemnification conferred in this ARTICLE SEVENTH shall be a contract right.

(2) The Corporation may, by action of its Board of Directors, provide indemnification to such of the employees and agents of the Corporation to such extent and to such effect as the Board of Directors shall determine to be appropriate and authorized by Delaware Law.

(iii) The Corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss incurred by such person in any such capacity or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under Delaware Law.

(iv) The rights and authority conferred in this ARTICLE SEVENTH shall not be exclusive of any other right which any person may otherwise have or hereafter acquire.

(v) Neither the amendment nor repeal of this ARTICLE SEVENTH, nor the adoption of any provision of this Certificate of Incorporation or the bylaws of the Corporation, nor, to the fullest extent permitted by Delaware Law, any modification of law, shall eliminate or reduce the effect of this ARTICLE SEVENTH in respect of any acts or omissions occurring prior to such amendment, repeal, adoption or modification.

EIGHTH: Any action required or permitted to be taken at any annual or special meeting of stockholders may be taken without a meeting on written consent, setting forth the holders of all outstanding shares entitled to vote thereon. Written consent thus given by the holders of all outstanding shares entitled to vote shall have the same effect as a unanimous vote of stockholders.

NINTH: Special meetings of the stockholders may be called by the Board of Directors, the Chairman of the Board of Directors or the President of the Corporation and may not be called by any other person. Notwithstanding the foregoing, whenever holders of one or more classes or series of Preferred Stock or Preference Stock shall have the right, voting separately as a class or series, to elect directors, such holders may call, to the extent provided in Article FOURTH (or pursuant to the terms of the resolution or resolutions adopted by the Board of Directors pursuant to ARTICLE FOURTH hereof), special meetings of holders of such Preferred Stock or Preference Stock.

TENTH: The Corporation's bylaws or any of them, may be altered, amended or repealed, or new bylaws may be made, by the stockholders entitled to vote thereon at any annual or special meeting thereof or by the Board of Directors.

ELEVENTH: The Corporation reserves the right to amend this Certificate of Incorporation in any manner permitted by Delaware Law and, with the sole exception of those rights and powers conferred under the above ARTICLE SEVENTH, all rights and powers conferred herein on stockholders, directors and officers, if any, are subject to this reserved power.

[Remainder of this page intentionally left blank.]

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IN WITNESS WHEREOF, the Corporation has caused this Restated Certificate to be executed by its Chief Executive Officer and attested by its Secretary on this 15th day of November, 1996.

CVS Corporation

By: /s/ Stanley P. Goldstein

-----  
Name: Stanley P. Goldstein  
Title: Chairman of the Board and  
Chief Executive Officer

Attest: /s/ Zenon Lankowsky

-----  
Name: Zenon Lankowsky  
Secretary: Secretary

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BY-LAWS  
OF  
CVS CORPORATION

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ARTICLE I

STOCKHOLDERS

Section 1. ANNUAL MEETING. The annual meeting of the stockholders of the corporation, for the purpose of electing directors and for the transaction of such other business as may be brought before the meeting, shall be held at the principal office of the corporation, or at such other place within or without the State of Delaware stated in the notice of the meeting as the Board of Directors may determine, on the second Tuesday of May of each year (unless such day shall be a legal holiday, in which case the annual meeting shall be held on the next succeeding day not a legal holiday), or on such other day in the month of May as the Board of Directors may determine, at 10:00 o'clock in the forenoon, New York time, or at such other hour stated in the notice of the meeting as the Board of Directors may determine.

Section 2. SPECIAL MEETINGS. Special meetings of stockholders may be called by the Board of Directors, the Chairman of the Board of Directors or the President and may not be called by any other person.

Special meetings shall be held at such place within or without the State of Delaware as is specified in the call thereof.

Section 3. NOTICE OF MEETING; WAIVER. Unless otherwise required by statute, the notice of every meeting of the stockholders shall be in writing and signed by the Chairman of the Board of Directors or the President (or a Vice-President or the Secretary or an Assistant Secretary, in each case acting at the direction of the Chairman or the President) and shall state the time when and the place where it is to be held, and a copy thereof shall be served, either personally or by mail, upon each stockholder of record entitled to vote at such meeting, not less than ten nor more than sixty days before the meeting. If the meeting to be held is other than the annual meeting of stockholders, the notice shall also state the purpose or purposes for which the meeting is called and shall indicate that it is being issued by or at the direction of the person or persons calling the meeting. If, at any meeting, action is proposed to be taken which would, if taken, entitle stockholders to receive payment for their shares pursuant to Section 262 of the General Corporation Law of the State of Delaware, the notice of such meeting shall include a statement of that purpose and

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to that effect. If the notice is mailed, it shall be directed to a stockholder at his address as it appears on the record of stockholders unless he shall have filed with the Secretary of the corporation a written request that notices intended for him be mailed to some other address, in which case it shall be mailed to the address designated in such request.

Notice of a meeting need not be given to any stockholder who submits a signed waiver of notice, in person or by proxy, whether before or after the meeting. The attendance of a stockholder at a meeting, in person or by proxy, without protesting prior to the conclusion of the meeting the lack of notice of such meeting, shall constitute a waiver of notice by him.



Section 4. QUORUM. At any meeting of the stockholders the holders of a majority of the shares entitled to vote and being present in person or represented by proxy shall constitute a quorum for all purposes, unless the representation of a different number shall be required by law or by another provision of these by-laws, and in that case the representation of the number so required shall constitute a quorum.

If the holders of the amount of shares necessary to constitute a quorum shall fail to attend in person or by proxy, the holders of a majority of the shares present in person or represented by proxy at the meeting may adjourn from time to time without further notice other than by an announcement made at the meeting. At any such adjourned meeting at which a quorum is present, any business may be transacted which might have been transacted at the meeting as originally called.

Section 5. ORGANIZATION. The Chairman of the Board of Directors or, in his absence, the President or, in his absence, any Executive Vice President, Senior Vice President or Vice President in the order of their seniority or in such other order as may be designated by the Board of Directors, shall call meetings of the stockholders to order and shall act as chairman of such meetings. The Board of Directors or the Executive Committee may appoint any stockholder to act as chairman of any meeting in the absence of any of such officers and in the event of such absence and the failure of such board or committee to appoint a chairman, the stockholders present at such meeting may nominate and appoint any stockholder to act as chairman.

The Secretary of the corporation, or, in his absence, an Assistant Secretary, shall act as secretary of all meetings of stockholders, but, in the absence of said officers, the chairman of the meeting may appoint any person to act as secretary of the meeting.

Section 6. VOTING. At each meeting of the stockholders every stockholder of record having the right to vote shall be entitled to vote either in person or by proxy.

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Section 7. ACTION BY WRITTEN CONSENT. Any action required or permitted to be taken at any annual or special meeting of stockholders may be taken without a meeting on written consent, setting forth the action so taken, signed by the holders of all outstanding shares entitled to vote thereon. Written consent thus given by the holders of all outstanding shares entitled to vote shall have the same effect as a unanimous vote of the stockholders.

Section 8. INSPECTORS OF ELECTION. The Board of Directors, in advance of any stockholders' meeting, may appoint one or more inspectors to act at the meeting or any adjournment thereof. If inspectors are not so appointed, the person presiding at a stockholders' meeting may, and on the request of any stockholder entitled to vote thereat, shall appoint one or more inspectors. In case any person appointed fails to appear or act, the vacancy may be filled by appointment made by the Board in advance of the meeting or at the meeting by the person presiding thereat. Inspectors shall be sworn.

Section 9. CONDUCT OF ELECTION. At each meeting of the stockholders, votes, proxies, consents and ballots shall be received, and all questions touching the qualification of voters, the validity of proxies and the acceptance or rejection of votes, shall be decided by the Inspectors of Election.

## ARTICLE II

### BOARD OF DIRECTORS

Section 1. NUMBER OF DIRECTORS. The number of directors of the Corporation shall be not less than three nor more than eighteen, as determined by action of the Board of Directors.

Section 2. TERM AND VACANCIES. Directors shall be elected at the

annual meeting of stockholders to hold office until the next annual meeting and until their respective successors have been duly elected and have qualified.

Vacancies in the Board of Directors occurring between annual meetings, from any cause whatsoever including vacancies created by an increase in the number of directors, shall be filled by the vote of a majority of the remaining directors, though less than a quorum.

Directors need not be stockholders.

Section 3. GENERAL POWERS OF DIRECTORS. The business of the corporation shall be managed under the direction of its Board of Directors subject to the restrictions imposed by law, by the corporation's certificate of incorporation and amendments thereto, or by these by-laws.

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Section 4. MEETINGS OF DIRECTORS. The directors may hold their meetings and may keep an office and maintain the books of the corporation, except as otherwise provided by statute, in such place or places in the State of Delaware or outside the State of Delaware as the Board may, from time to time, determine.

Any action required or permitted to be taken by the Board of Directors may be taken without a meeting if all of the directors consent in writing to the adoption of a resolution authorizing the action, and in such event the resolution and the written consent of all directors thereto shall be filed with the minutes of the proceedings of the Board of Directors.

Any one or more directors may participate in a meeting of the Board of Directors by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time, and participation by such means shall constitute presence in person at a meeting.

Section 5. REGULAR MEETINGS. Regular meetings of the Board of Directors shall be held at the principal office of the corporation in the County of Providence, Town of Woonsocket, State of Rhode Island, or at such other place within or without the State of Delaware as shall be designated in the notice of the meeting as follows: One meeting shall be held immediately following the annual meeting of stockholders and further meetings shall be held at such intervals or on such dates as may from time to time be fixed by the directors, all of which meetings shall be held upon not less than four days' notice served upon each director by mailing such notice to him at his address as the same appears upon the records of the corporation, except the meeting which shall be held immediately following the annual meeting of stockholders which meeting shall be held without notice.

Section 6. SPECIAL MEETINGS. Special meetings of the Board of Directors shall be held whenever called by the direction of the Chairman of the Board of Directors, or of the President of the corporation, or of one-third of the directors at the time in office. The Secretary shall give notice of each special meeting by mailing such notice not less than four days, or by telegraphing or telecopying such notice not less than two days, before the date set for a special meeting, to each director.

Section 7. WAIVER. Notice of a meeting need not be given to any director who submits a signed waiver of notice whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to him.

Section 8. QUORUM. One-third of the total number of directors shall constitute a quorum for the transaction of business, but if at any meeting of the Board

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there be less than a quorum present, the majority of those present may adjourn the meeting from time to time.

Section 9. ORDER OF BUSINESS. At meetings of the Board of Directors business shall be transacted in such order as the Board may fix and determine.

At all meetings of the Board of Directors, the Chairman of the Board of Directors, or in his absence, the President, or in the absence of both, the Executive Vice-President or any Vice-President (provided such person be a member of the Board) shall preside.

Section 10. ELECTION OF CHAIRMAN, OFFICERS AND COMMITTEES. At the first regular meeting of the Board of Directors in each year, at which a quorum shall be present, held next after the annual meeting of the stockholders, the Board of Directors shall proceed to the election of a Chairman of the Board, of the executive officers of the corporation and of the Executive Committee, if the Board of Directors shall provide for such committee under the provisions of Article III hereof.

The Board of Directors from time to time may fill any vacancies among the executive officers, members of the Executive Committee and members of other committees, and may appoint additional executive officers and additional members of such Executive Committee or other committees.

Section 11. COMPENSATION. Directors who are not officers or employees of the corporation or any of its subsidiaries may receive such remuneration as the Board may fix, in addition to a fixed sum for attendance at each regular or special meeting of the Board or a Committee of the Board; provided, however, that nothing herein contained shall be construed to preclude any director from serving the corporation in any other capacity or receiving compensation therefor. In addition, each director shall be entitled to reimbursement for expenses incurred in attending any meeting of the Board or Committee thereof.

### ARTICLE III

#### COMMITTEES

Section 1. EXECUTIVE COMMITTEE. The Board of Directors by resolution adopted by a majority of the entire Board, may designate from the Directors an Executive Committee consisting of three or more, to serve at the pleasure of the Board. At all times when the Board of Directors is not in session, the Executive Committee so designated shall have and exercise the powers of the Board of Directors, except that such committee shall have no authority as to the matters set out in Section 3 of this Article III.

Meetings of the Executive Committee shall be called by any member of the same, on three days' mailed notice, or one day's telegraphed or telecopied notice to each of the other members, stating therein the purpose for which such meeting is to be held. Notice of meeting may be waived, in writing, by any member of the Executive Committee.

All action by the Executive Committee shall be recorded in its minutes and reported from time to time to the Board of Directors.

The Executive Committee shall fix its own rules of procedure and shall meet where and as provided by such rules or by resolution of the Board of Directors.

Any action required or permitted to be taken by the Executive Committee may be taken without a meeting if all of the members of the Executive Committee consent in writing to the adoption of a resolution authorizing the action, and in such event the resolution and the written consent of all members of the Executive Committee thereto shall be filed with the minutes of the

proceedings of the Executive Committee.

Any one or more members of the Executive Committee may participate in a meeting of the Executive Committee by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time, and participation by such means shall constitute presence in person at a meeting.

Section 2. OTHER COMMITTEES. The Board of Directors may appoint such other committees, of three or more, as the Board shall, from time to time, deem advisable, which committees shall have and may exercise such powers as shall be prescribed, from time to time, by resolution of the Board of Directors, except that such committees shall have no authority as to the matters set out in Section 3 hereof.

Actions and recommendations by each committee which shall be appointed pursuant to this section shall be recorded and reported from time to time to the Board of Directors.

Each such committee shall fix its own rules of procedure and shall meet where and as provided by such rules or by resolution of the Board of Directors.

Any action required or permitted to be taken by any such committee may be taken without a meeting if all of the members of such committee consent in writing to the adoption of a resolution authorizing the action, and in such event the resolution and the written consent of all members of such committee thereto shall be filed with the minutes of the proceedings of such committee.

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Any one or more members of any such committee may participate in a meeting of such committee by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time, and participation by such means shall constitute presence in person at a meeting.

Section 3. LIMITATIONS. No committee shall have authority as to the following matters:

(1) The submission to stockholders of any action that needs stockholders' authorization.

(2) The filling of vacancies in the Board of Directors or in any committee.

(3) The fixing of compensation of the directors for serving on the Board or on any committee.

(4) The amendment or repeal of the by-laws, or the adoption of new by-laws.

(5) The amendment or repeal of any resolution of the Board which by its terms shall not be so amendable or repealable.

Section 4. ALTERNATES. The Board may designate one or more directors as alternate members of any such committees, who may replace any absent member or members at any meeting of such committees.

Section 5. COMPENSATION. Members of special or standing committees may receive such salary for their services as the Board of Directors may determine; provided, however, that nothing herein contained shall be construed to preclude any member of any such committee from serving the corporation in any other capacity or receiving compensation therefor.

#### ARTICLE IV

## OFFICERS

Section 1. TITLES AND TERMS OF OFFICE. The executive officers of the corporation shall be the Chairman of the Board of Directors and a Vice Chairman, each of whom shall be a member of the Board of Directors, and may include a President, such number of Executive Vice Presidents, Senior Vice Presidents and/or Vice Presidents, a Controller, a Treasurer and/or a Secretary, as the Board of Directors shall determine, all of whom shall be chosen by the Board of Directors.

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The Board of Directors may also appoint one or more Assistant Secretaries and one or more Assistant Treasurers, and such other junior officers as it shall deem necessary, who shall have such authority and shall perform such duties as from time to time may be prescribed by the Board of Directors.

One person may hold more than one of the above offices except the offices of President and Secretary.

The officers of the Corporation shall each hold office for one year and until their successors are chosen and qualified, and shall be subject to removal at any time by the affirmative vote of the majority of the entire Board of Directors.

Section 2. CHAIRMAN OF THE BOARD OF DIRECTORS. The Chairman of the Board of Directors shall be the chief executive officer of the corporation. He shall have general management and control over the policy, business and affairs of the corporation and shall have such other authority and perform such other duties as usually appertain to a chief executive officer of a business corporation. He shall preside at meetings of the Board of Directors and of the stockholders.

Section 3. VICE CHAIRMAN. The Vice Chairman shall have such authority and perform such duties as the Board of Directors, the Executive Committee, or the Chairman of the Board of Directors may from time to time determine. In the event that at any time no President of the Corporation is in office, all powers of the President shall vest in the Vice Chairman and the Vice Chairman may exercise all powers of the President set forth in these by-laws.

Section 4. PRESIDENT. The President, if any, shall have such authority and shall perform such duties as the Board of Directors, the Executive Committee, or the Chairman of the Board of Directors may from time to time determine. He shall exercise the powers of the Chairman of the Board of Directors during his absence or inability to act.

Section 5. EXECUTIVE VICE PRESIDENTS, SENIOR VICE PRESIDENTS AND VICE PRESIDENTS. The Executive Vice Presidents, Senior Vice Presidents and Vice Presidents, if any, shall be designated and shall have such powers and perform such duties as may be assigned to them by the Board of Directors, the Executive Committee, the Chairman of the Board of Directors or the President. They shall, in order of their seniority or in such other order as may be designated by the Board of Directors, the Executive Committee, the Chairman of the Board of Directors or the President exercise the powers of the Chairman of the Board of Directors during the absence or inability to act of the Chairman of the Board of Directors and the President.

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Section 6. PRINCIPAL FINANCIAL OFFICER. An officer designated by the Board of Directors shall be the principal financial officer of the Corporation. He shall render to the Board of Directors, whenever the Board may require, an account of the financial condition of the corporation, and shall do and perform such other duties as from time to time may be assigned to him by the Board of Directors, the Executive Committee, the Chairman of the Board of Directors or the President.

Section 7. PRINCIPAL ACCOUNTING OFFICER. A Controller or other officer designated by the Board of Directors shall be the principal accounting officer and subject to the direction of the principal financial officer, he shall have supervision over all the accounts and account books of the corporation. He shall have such other powers and perform such other duties as from time to time may be assigned to him by the principal financial officer, and shall exercise the powers of the principal financial officer during his absence or inability to act.

Section 8. TREASURER. The Treasurer shall have custody of the funds and securities of the corporation which come into his hands. When necessary or proper, he may endorse on behalf of the corporation for collection, checks, notes, and other instruments and obligations and shall deposit the same to the credit of the corporation in such bank or banks or depositories as the Board of Directors or the Executive Committee shall designate; whenever required by the Board of Directors or the Executive Committee, he shall render a statement of his cash account; he shall keep, or cause to be kept, books of account, in which shall be entered and kept full and accurate accounts of all monies received and paid out on account of the corporation; he shall perform all acts incident to the position of Treasurer, subject to the control of the Board of Directors, the Executive Committee, the Chairman of the Board of Directors, the President and the principal financial officer; he shall give bond for the faithful discharge of his duties, if, as, and when the Board of Directors or the Executive Committee may require. He shall perform such other duties as from time to time may be assigned to him by the Board of Directors, the Executive Committee, the Chairman of the Board of Directors, the President or the principal financial officer.

Section 9. ASSISTANT TREASURER. Each Assistant Treasurer shall have such powers and perform such duties as may be delegated to him, and the Assistant Treasurers shall, in the order of their seniority, or in such other order as may be designated by the Board of Directors, the Executive Committee, the Chairman of the Board of Directors, the President or the principal financial officer, exercise the powers of the Treasurer during his absence or inability to act.

Section 10. SECRETARY. The Secretary shall keep the minutes of all meetings of the Board of Directors and the minutes of all meetings of the stockholders and of the Executive Committee, in books provided for that purpose; he shall attend to the giving and serving of all notices of the corporation; and he shall have charge

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of the certificate books, transfer books and records of stockholders and such other books and records as the Board of Directors or Executive Committee may direct, all of which shall at all reasonable times be open to the inspection of any director upon application during the usual business hours.

He shall keep at the office of the corporation, or at the office of the transfer agent or registrar of the corporation's capital stock, a record containing the names, alphabetically arranged, of all persons who are stockholders of the corporation, showing their places of residence, the number of shares held by them, respectively, the time when they respectively became the owners thereof, and the amount paid thereon, and such record shall be open for inspection as prescribed by Section 220 of the General Corporate Law of the State of Delaware. He shall in general perform all the duties incident to the office of Secretary, subject to the control of the Board of Directors, the Executive Committee, the Chairman of the Board of Directors and the President.

Section 11. ASSISTANT SECRETARIES. Each Assistant Secretary shall have such powers and perform such duties as may be delegated to him, and the Assistant Secretaries shall, in the order of their seniority, or in such other order as may be designated by the Board of Directors, the Executive Committee, the Chairman of the Board of Directors or the President, exercise the powers of

the Secretary during his absence or inability to act.

Section 12. VOTING UPON STOCKS. Unless otherwise ordered by the Board of Directors or by the Executive Committee, the Chairman of the Board of Directors of the corporation, or one designated in a proxy executed by him, and in the absence of either, the President, or a person designated in a proxy executed by him, and in the absence of all such, the Executive Vice-Presidents or the Vice-Presidents of the corporation in the order of their seniority, shall have full power and authority on behalf of the corporation to attend, and to act, and to vote at meetings of stockholders of any corporation in which this corporation may hold stock, and each such officer of the corporation shall have power to sign a proxy deputizing others to vote the same; and all such who shall be so authorized to vote shall possess and may exercise any and all rights and powers incident to the ownership of such stock and which, as the owner thereof, the corporation might have possessed and exercised, if present.

The Board of Directors or the Executive Committee may, by resolution from time to time, confer like powers on any other person or persons which shall supersede the powers of those designated in the foregoing paragraph.

Section 13. EXECUTION OF CHECKS, ETC. All checks, notes, drafts or other instruments for the payment of money shall be signed on behalf of this

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corporation by such person or persons and in such manner as the Board of Directors or Executive Committee may prescribe by resolution from time to time.

#### ARTICLE V

##### STOCK; RECORD DATE

Section 1. CERTIFICATES FOR STOCK. The certificates for shares of the stock of the corporation shall be in such form as shall be proper or approved by the Board of Directors. Each certificate shall state (i) that the corporation is formed under the laws of the State of Delaware, (ii) the name of the person or persons to whom issued, (iii) the number and class of shares and the designation of the series, if any, which such certificate represents and (iv) the par value, if any, of each share represented by such certificate. Each certificate shall be signed by the Chairman of the Board of Directors, the President, an Executive Vice-President or a Vice-President, and also by the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary and sealed with the corporation's seal; provided, however, that if such certificates are signed by a transfer agent or transfer clerk and by a registrar the signature of the Chairman of the Board of Directors, the President, the Executive Vice President, Vice-President, Treasurer, Assistant Treasurer, Secretary and Assistant Secretary and the seal of the corporation upon such certificates may be facsimiles, engraved or printed.

Section 2. TRANSFER OF SHARES. Shares of the stock of the corporation may be transferred on the record of stockholders of the corporation by the holder thereof in person or by his duly authorized attorney upon surrender of a certificate therefor properly endorsed.

Section 3. AUTHORITY FOR ADDITIONAL RULES REGARDING TRANSFER. The Board of Directors and the Executive Committee shall have power and authority to make all such rules and regulations as respectively they may deem expedient concerning the issue, transfer and registration of such certificates for shares of the stock of the corporation as well as for the issuance of new certificates in lieu of those which may be lost or destroyed, and may require of any stockholder requesting replacement of lost or destroyed certificates, bond in such amount and in such form as they may deem expedient to indemnify the corporation, and/or the transfer agents, and/or the registrars of its stock against any claims arising in connection therewith.

Section 4. TRANSFER AGENTS AND REGISTRARS. The Board of Directors or

Executive Committee may appoint one or more transfer agents and one or more registrars of transfer and may require all stock certificates to be countersigned by such transfer agent and registered by such registrar of transfers. One person or organization may serve as both transfer agent and registrar.

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Section 5. RECORD DATE. For the purpose of determining the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to or dissent from any proposal without a meeting, or for the purpose of determining stockholders entitled to receive payment of any dividend or the allotment of any rights, or for the purpose of any other action, the Board of Directors shall fix in advance a date as the record date for any such determination of stockholders. Such date shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action.

Section 6. LIST OF STOCKHOLDERS AS OF RECORD DATE. The Secretary of the corporation or the transfer agent of its stock shall make and certify a list of the stockholders as of the record date and number of shares of each class of stock of record in the name of each stockholder and such list shall be present at every meeting of stockholders. If the right to vote at any meeting is challenged, the inspectors of elections, or person presiding thereat, shall require such list of stockholders to be produced as evidence of the right of the persons challenged to vote at such meeting, and all persons who appear from such list to be stockholders entitled to vote thereat, may vote at such meeting.

Section 7. DIVIDENDS. Dividends may be declared and paid out of the surplus of the corporation as often and at such times and to such extent as the Board of Directors may determine, consistent with the provisions of the certificate of incorporation of the corporation.

#### ARTICLE VI

##### CORPORATE SEAL

The Board of Directors shall provide a suitable seal containing the name of the corporation and of the state under the laws of which the corporation was incorporated; and the Secretary shall have the custody thereof.

#### ARTICLE VII

##### AMENDMENTS

Section 1. These by-laws or any of them, may be altered, amended or repealed, or new bylaws may be made by the stockholders entitled to vote thereon at any annual or special meeting thereof or by the Board of Directors.

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CVS CORPORATION

EMPLOYMENT AGREEMENT FOR \_\_\_\_\_

CVS CORPORATION

EMPLOYMENT AGREEMENT FOR \_\_\_\_\_

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EMPLOYMENT AGREEMENT

AGREEMENT, made and entered into as of the \_\_\_ day of \_\_\_\_\_, \_\_\_ by and between CVS Corporation, a Delaware corporation (together with its successors and assigns, the "Company"), and \_\_\_\_\_ (the "Executive").

W I T N E S S E T H:  
- - - - -

WHEREAS, the Company desires to employ the Executive pursuant to an agreement embodying the terms of such employment (this "Agreement") and the Executive desires to enter into this Agreement and to accept such employment, subject to the terms and provisions of this Agreement;

NOW, THEREFORE, in consideration of the premises and mutual covenants

contained herein and for other good and valuable consideration, the receipt of which is mutually acknowledged, the Company and the Executive (individually a "Party" and together the "Parties") agree as follows:

1. DEFINITIONS.

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- (a) "Approved Early Retirement" shall have the meaning set forth in Section 10(f) below.
- (b) "Base Salary" shall have the meaning set forth in Section 4 below.
- (c) "Board" shall have the meaning set forth in Section 3(a) below.
- (d) "Cause" shall have the meaning set forth in Section 10(b) below.
- (e) "Change in Control" shall have the meaning set forth in Section 10(c) below.
- (f) "Committee" shall have the meaning set forth in Section 4 below.
- (g) "Confidential Information" shall have the meaning set forth in Section 11(c) below.
- (h) "Constructive Termination Without Cause" shall have the meaning set forth in Section 10(c) below.
- (i) "Effective Date" shall have the meaning set forth in Section 2(a) below.
- (j) "Normal Retirement" shall have the meaning set forth in Section 10(f) below.
- (k) "Original Term of Employment" shall have the meaning set forth in Section 2(a) below.
- (l) "Renewal Term" shall have the meaning set forth in Section 2(a) below.
- (m) "Restriction Period" shall have the meaning set forth in Section 12(b) below.

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- (n) "Severance Period" shall have the meaning set forth in Section 10(c)(ii) below, except as provided otherwise in Section 10(e) below.
- (o) "Subsidiary" shall have the meaning set forth in Section 11(d) below.
- (p) "Term of Employment" shall have the meaning set forth in Section 2(a) below.
- (q) "Termination Without Cause" shall have the meaning set forth in Section 10(c) below.

2. TERM OF EMPLOYMENT.

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(a) The term of the Executive's employment under this Agreement shall commence on the date of this Agreement (the "Effective Date") and end on the third anniversary of such date (the "Original Term of Employment"), unless terminated earlier in accordance herewith. The Original Term of Employment shall be automatically renewed for successive one-year terms (the "Renewal Terms") unless at least 180 days prior to the expiration of the Original Term of Employment or any Renewal Term, either Party notifies the other Party in writing that he or it is electing to terminate this Agreement at the expiration of the then current Term of Employment. "Term of Employment" shall mean the Original Term of Employment and all Renewal Terms. If a Change in Control shall have occurred during the Term of Employment, notwithstanding any other provision of this Section 2(a), the Term of Employment shall not expire earlier than two years after such Change in Control.

(b) Notwithstanding anything in this Agreement to the contrary, at least one year prior to the expiration of the Original Term of Employment, upon the written request of the Company or the Executive, the Parties shall meet to discuss this Agreement and may agree in writing to modify any of the terms of this Agreement.

3. POSITION, DUTIES AND RESPONSIBILITIES.  
-----

(a) GENERALLY. Executive shall serve as a senior officer of the Company. Executive shall have and perform such duties, responsibilities, and authorities as shall be specified by the Company from time to time and as are customary for a senior officer of a publicly held corporation of the size, type, and nature of the Company as they may exist from time to time and as are consistent with such position and status. Executive shall devote substantially all of his business time and attention (except for periods of vacation or absence due to illness), and his best efforts, abilities, experience, and talent to his position and the businesses of the Company.

(b) OTHER ACTIVITIES. Anything herein to the contrary notwithstanding, nothing in this Agreement shall preclude the Executive from (i) serving on the boards of directors of a reasonable number of other corporations or the boards of a reasonable number of trade associations and/or charitable organizations, (ii) engaging in charitable activities and community affairs, and (iii) managing his personal investments and affairs, provided that such activities do not materially interfere with the proper performance of his duties and responsibilities under this Agreement.

(c) PLACE OF EMPLOYMENT. Executive's principal place of employment shall be the corporate offices of the Company.

4. BASE SALARY.  
-----

The Executive shall be paid an annualized salary ("Base Salary"), payable in accordance with the regular payroll practices of the Company, of not less than \$\_\_\_\_\_, subject to review for increase at the discretion of the Compensation Committee (the "Committee") of the Company's Board of Directors (the "Board").

5. ANNUAL INCENTIVE AWARDS.  
-----

The Executive shall participate in the Company's annual incentive compensation plan with a target annual incentive award opportunity of no less than \_\_\_% of Base Salary. Payment of annual incentive awards shall be made at the same time that other senior-level executives receive their incentive awards.

6. LONG-TERM INCENTIVE PROGRAMS.  
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The Executive shall be eligible to participate in the Company's long-term incentive compensation programs (including stock options and stock grants).

7. EMPLOYEE BENEFIT PROGRAMS.  
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(a) GENERAL BENEFITS. During the Term of Employment, the Executive shall be entitled to participate in such employee pension and welfare benefit plans and programs of the Company as are made available to the Company's senior-level executives or to its employees generally, as such plans or programs may be in effect from time to time, including, without limitation, health, medical, dental, long-term disability, travel accident and life insurance plans.

(b) DEFERRAL OF COMPENSATION. The Company shall implement deferral arrangements, reasonably acceptable to Executive and the Company, permitting Executive to elect to defer receipt, pursuant to written deferral election terms and forms (the "Deferral Election Forms"), of all or a specified portion of (i) his annual Base Salary and annual incentive compensation under Sections 4 and 5, (ii) long term incentive compensation under Section 6 and (iii) shares acquired upon exercise of options to purchase Company common stock that are acquired in an exercise in which Executive pays the exercise price by the surrender of previously acquired shares, to the extent of the net additional shares otherwise issuable to Executive in such exercise; PROVIDED, HOWEVER, that such deferrals shall not reduce Executive's total cash compensation in any calendar year below the sum of (i) the FICA maximum taxable wage base plus (ii) the amount needed, on an after-tax basis, to enable Executive to pay the 1.45% medicare tax imposed on his wages in excess of such FICA maximum taxable wage base.

In accordance with such duly executed Deferral Election Forms, the Company shall credit to a bookkeeping account (the "Deferred Compensation Account") maintained for Executive on the respective payment date or dates, amounts equal to the compensation subject to deferral, such credits to be denominated in cash if the compensation would have been paid in cash but for the deferral or in shares if the compensation would have been paid in shares but for the deferral. An amount of cash equal in value to all cash-denominated amounts credited to Executive's account and a number of shares of Company common stock equal to the number of shares credited to Executive's account pursuant to this Section 7(b) shall be transferred as soon as practicable following such crediting by the Company to, and shall be held and invested by, an independent

trustee selected by the Company and reasonably acceptable to Executive (a "Trustee") pursuant to a "rabbi trust" established by the Company in connection with such deferral arrangement and as to which the Trustee shall make investments based on Executive's investment objectives (including possible investment in publicly traded stocks and bonds, mutual funds, and insurance vehicles). Thereafter, Executive's deferral accounts will be valued by reference to the value of the assets of the "rabbi trust". The Company shall pay all costs of administration or maintenance of the deferral arrangement, without deduction or reimbursement from the assets of the "rabbi trust."

Except as otherwise provided under Section 10, in the event of Executive's termination of employment with the Company or as otherwise determined by the Committee in the event of hardship on the part of Executive, upon such date(s) or event(s) set forth in the Deferral Election Forms (including forms filed after deferral but before settlement in which Executive may elect to further defer settlement), the Company shall promptly pay to Executive cash equal to the value of the assets then credited to Executive's deferral accounts, less applicable withholding taxes, and such distribution shall be deemed to fully settle such accounts; PROVIDED, HOWEVER, that the Company may instead settle such accounts by directing the Trustee to distribute Company common stock and/or other assets of the "rabbi trust." The Company and Executive agree that compensation deferred pursuant to this Section 7(b) shall be fully vested and nonforfeitable; HOWEVER, Executive acknowledges that his rights to the deferred compensation provided for in this Section 7(b) shall be no greater than those of a general unsecured creditor of the Company, and that such rights may not be pledged, collateralized, encumbered, hypothecated, or liable for or subject to any lien, obligation, or liability of Executive, or be assignable or transferable by Executive, otherwise than by will or the laws of descent and distribution, provided that Executive may designate one or more beneficiaries to receive any payment of such amounts in the event of his death.

8.       DISABILITY.  
-----

(a)       During the Term of Employment, as well as during the Severance Period, the Executive shall be entitled to disability coverage as described in this Section 8(a). In the event the Executive becomes disabled, as that term is defined under the Company's Long-Term Disability Plan, the Executive shall be entitled to receive pursuant to the Company's Long-Term Disability Plan or otherwise, and in place of his Base Salary, an amount equal to 60% of his Base Salary, at the annual rate in effect on the commencement date of his eligibility for the Company's long-term disability benefits ("Commencement Date") for a period beginning on the Commencement Date and ending with the earlier to occur of (A) the Executive's attainment of age 65 or (B) the Executive's commencement of retirement benefits from the Company in accordance with Section 10(f) below. If (i) the Executive ceases to be disabled during the Term of Employment (as determined in accordance with the terms of the Long-Term Disability Plan), (ii) his position or another senior executive position is then vacant and (iii) the Company requests in writing that he resume such position, he may elect to resume such position by written notice to the Company within 15 days after the Company delivers its request. If he resumes such position, he shall thereafter be entitled to his Base Salary at the annual rate in effect on the Commencement Date and, for the year he resumes his position, a pro rata annual incentive award. If he ceases to be disabled during the Term of Employment and does not resume his position in accordance with the preceding sentence, he shall be treated as if he voluntarily terminated his employment pursuant to Section 10(d) as of the date the Executive ceases to be disabled. If the Executive is not offered his position or another senior executive position after he ceases to be disabled during the Term of Employment, he shall be treated as if his employment was terminated Without Cause pursuant to Section 10(c) as of the date the Executive ceases to be disabled; PROVIDED, HOWEVER, that if a Change in Control shall have

occurred during the period of the Executive's disability, he shall be treated as if his employment was terminated Without Cause following a Change in Control pursuant to Section 10(e) as of the date the Executive ceases to be disabled.

(b)       The Executive shall be entitled to a pro rata annual incentive

award for the year in which the Commencement Date occurs based on \_\_\_% of Base Salary paid to him during such year prior to the Commencement Date, payable in a lump sum not later than 15 days after the Commencement Date. The Executive shall not be entitled to any annual incentive award with respect to the period following the Commencement Date. If the Executive recommences his position in accordance with Section 8(a), he shall be entitled to a pro rata annual incentive award for the year he resumes such position and shall thereafter be entitled to annual incentive awards in accordance with Section 5 hereof.

(c) During the period the Executive is receiving disability benefits pursuant to Section 8(a) above, he shall continue to be treated as an employee for purposes of all employee benefits and entitlements in which he was participating on the Commencement Date, including without limitation, the benefits and entitlements referred to in Sections 6 and 7 above, except that the Executive shall not be entitled to receive any annual salary increases or any new long-term incentive plan grants following the Commencement Date.

9. REIMBURSEMENT OF BUSINESS AND OTHER EXPENSES.  
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The Executive is authorized to incur reasonable expenses in carrying out his duties and responsibilities under this Agreement, and the Company shall promptly reimburse him for all business expenses incurred in connection therewith, subject to documentation in accordance with the Company's policy. During the Term of Employment, the Company shall reimburse the Executive, upon demand, for out-of-pocket expenses incurred in connection with personal financial and tax planning up to a maximum of \$\_\_\_\_\_ per annum. The Company shall pay or reimburse the Executive for the expenses (including, without limitation, reasonable attorneys' fees and expenses) incurred by him in conjunction with preparation and negotiation of this Agreement and any related documents up to a maximum of \$\_\_\_\_\_.

10. TERMINATION OF EMPLOYMENT.  
-----

(a) TERMINATION DUE TO DEATH. In the event the Executive's employment with the Company is terminated due to his death, his estate or his beneficiaries, as the case may be, shall be entitled to and their sole remedies under this Agreement shall be:

- (i) Base Salary through the date of death, which shall be paid in a cash lump sum not later than 15 days following the Executive's death;
- (ii) pro rata annual incentive award for the year in which the Executive's death occurs assuming that the Executive would have received an award equal to \_\_\_% of Base Salary for such year, which shall be payable in a cash lump sum promptly (but in no event later than 15 days) after his death;
- (iii) elimination of all restrictions on any restricted or deferred stock awards outstanding at the time of his death (other than awards

under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);

- (iv) immediate vesting of all outstanding stock options and

the right to exercise such stock options for a period of one year following death or for the remainder of the exercise period, if less (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);

- (v) the balance of any incentive awards earned as of December 31 of the prior year (but not yet paid), which shall be paid in a cash lump sum not later than 15 days following the Executive's death;
- (vi) settlement of all deferred compensation arrangements in accordance with any then applicable deferred compensation plan or election form; and
- (vii) other or additional benefits then due or earned in accordance with applicable plans and programs of the Company.

(b) TERMINATION BY THE COMPANY FOR CAUSE.  
-----

- (i) "Cause" shall mean:
  - (A) the Executive's willful and material breach of Sections 11, 12 or 13 of this Agreement;
  - (B) the Executive is convicted of a felony involving moral turpitude; or
  - (C) the Executive engages in conduct that constitutes willful gross neglect or willful gross misconduct in carrying out his duties under this Agreement, resulting, in either case, in material harm to the financial condition or reputation of the Company.

For purposes of this Agreement, an act or failure to act on Executive's part shall be considered "willful" if it was done or omitted to be done by him not in good faith, and shall not include any act or failure to act resulting from any incapacity of Executive.

- (ii) A termination for Cause shall not take effect unless the provisions of this paragraph (ii) are complied with. The Executive shall be given written notice by the Company of its intention to terminate him for Cause, such notice (A) to state in detail the particular act or acts or failure or failures to act that constitute the grounds on which the proposed termination for Cause is based and (B) to be given within 90 days of the Company's learning of such act or acts or failure or failures to act. The Executive shall have 20 days after the date that such written notice has been given to him in which to cure such conduct, to the extent such cure is possible. If he fails to cure such

conduct, the Executive shall then be entitled to a hearing before the Committee of the Board at which the Executive is entitled to appear. Such hearing shall be held within 25 days of such notice to the Executive,



provided he requests such hearing within 10 days of the written notice from the Company of the intention to terminate him for Cause. If, within five days following such hearing, the Executive is furnished written notice by the Board confirming that, in its judgment, grounds for Cause on the basis of the original notice exist, he shall thereupon be terminated for Cause.

- (iii) In the event the Company terminates the Executive's employment for Cause, he shall be entitled to and his sole remedies under this Agreement shall be:
- (A) Base Salary through the date of the termination of his employment for Cause, which shall be paid in a cash lump sum not later than 15 days following the Executive's termination of employment;
  - (B) any incentive awards earned as of December 31 of the prior year (but not yet paid), which shall be paid in a cash lump sum not later than 15 days following the Executive's termination of employment;
  - (C) settlement of all deferred compensation arrangements in accordance with any then applicable deferred compensation plan or election form; and
  - (D) other or additional benefits then due or earned in accordance with applicable plans or programs of the Company.

(c) TERMINATION WITHOUT CAUSE OR CONSTRUCTIVE TERMINATION WITHOUT CAUSE PRIOR TO CHANGE IN CONTROL. In the event the Executive's employment with the Company is terminated without Cause (which termination shall be effective as of the date specified by the Company in a written notice to the Executive), other than due to death, or in the event there is a Constructive Termination Without Cause (as defined below), in either case prior to a Change in Control (as defined below) the Executive shall be entitled to and his sole remedies under this Agreement shall be:

- (i) Base Salary through the date of termination of the Executive's employment, which shall be paid in a cash lump sum not later than 15 days following the Executive's termination of employment;
- (ii) Base Salary, at the annualized rate in effect on the date of termination of the Executive's employment (or in the event a reduction in Base Salary is a basis for a Constructive Termination Without Cause, then the Base Salary in effect immediately prior to such reduction), for a period of 24 months (the "Severance Period");

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- (iii) pro rata annual incentive award for the year in which termination occurs equal to \_\_\_% of Base Salary (determined in accordance with Section 10(c)(ii) above) for such year, payable in a cash lump sum promptly (but in no event later than 15 days) following termination;

- (iv) an amount equal to \_\_\_% of Base Salary (determined in accordance with Section 10(c)(ii) above) multiplied by two, payable in equal monthly payments over the Severance Period;
- (v) elimination of all restrictions on any restricted or deferred stock awards granted to the Executive in connection with the CVS Corporation Special Incentive Plan for 1995 or 1996 performance;
- (vi) immediate vesting of all outstanding stock options granted to the Executive on May 14, 1996, and the right to exercise such stock options during the Severance Period or for the remainder of the exercise period, if less;
- (vii) the balance of any incentive awards earned as of December 31 of the prior year (but not yet paid), which shall be paid in a cash lump sum not later than 15 days following the Executive's termination of employment;
- (viii) settlement of all deferred compensation arrangements in accordance with any then applicable deferred compensation plan or election form;
- (ix) continued participation in all medical, health and life insurance plans at the same benefit level at which he was participating on the date of the termination of his employment until the earlier of:
  - (A) the end of the Severance Period; or
  - (B) the date, or dates, he receives equivalent coverage and benefits under the plans and programs of a subsequent employer (such coverage and benefits to be determined on a coverage-by-coverage, or benefit-by-benefit, basis); provided that (1) if the Executive is precluded from continuing his participation in any employee benefit plan or program as provided in this clause (ix) of this Section 10(c), he shall receive cash payments equal on an after-tax basis to the cost to him of obtaining the benefits provided under the plan or program in which he is unable to participate for the period specified in this clause (ix) of this Section 10(c), (2) such cost shall be deemed to be the lowest reasonable cost that would be incurred by the Executive in obtaining such benefit himself on an individual basis, and (3) payment of such amounts shall be made quarterly in advance; and
- (x) other or additional benefits then due or earned in accordance with applicable plans and programs of the Company.

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"Termination Without Cause" shall mean the Executive's employment is

terminated by the Company for any reason other than Cause (as defined in Section 10(b)) or due to death.

"Constructive Termination Without Cause" shall mean a termination of the Executive's employment at his initiative as provided in this Section 10(c) following the occurrence, without the Executive's written consent, of one or more of the following events (except as a result of a prior termination):

- (A) an assignment of any duties to Executive which are inconsistent with his status as a senior officer of the Company;
- (B) a decrease in Executive's annual Base Salary or target annual incentive award opportunity below 50% of Base Salary;
- (C) any other failure by the Company to perform any material obligation under, or breach by the Company of any material provision of, this Agreement that is not cured within 30 days; or
- (D) any failure to secure the agreement of any successor corporation or other entity to the Company to fully assume the Company's obligations under this Agreement.

In addition, following a Change in Control, "Constructive Termination Without Cause" shall also mean a termination of the Executive's employment at his initiative as provided in this Section 10(c) following the occurrence, without the Executive's written consent, of (i) a relocation of his principal place of employment outside a 35-mile radius of his principal place of employment as in effect immediately prior to such Change in Control or (ii) a material diminution or change, adverse to Executive, in Executive's positions, titles, offices, status, rank, nature of responsibility, or authority within the Company, as in effect immediately prior to such Change in Control, or a removal of Executive from or any failure to elect or re-elect, or as the case may be, nominate Executive to any such positions or offices.

A "Change in Control" shall be deemed to have occurred if:

- (i) any Person (other than the Company, any trustee or other fiduciary holding securities under any employee benefit plan of the Company, or any company owned, directly or indirectly, by the stockholders of the Company immediately prior to the occurrence with respect to which the evaluation is being made in substantially the same proportions as their ownership of the common stock of the Company) becomes the Beneficial Owner (except that a Person shall be deemed to be the Beneficial Owner of all shares that any such Person has the right to acquire pursuant to any agreement or arrangement or upon exercise of conversion rights,

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warrants or options or otherwise, without regard to the sixty day period referred to in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company or any Significant Subsidiary (as defined below), representing 25% or more of the combined voting

power of the Company's or such subsidiary's then outstanding securities;

- (ii) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board, and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in clause (i), (iii), or (iv) of this paragraph) whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the two-year period or whose election or nomination for election was previously so approved but excluding for this purpose any such new director whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of an individual, corporation, partnership, group, associate or other entity or Person other than the Board, cease for any reason to constitute at least a majority of the Board;
- (iii) the consummation of a merger or consolidation of the Company or any subsidiary owning directly or indirectly all or substantially all of the consolidated assets of the Company (a "Significant Subsidiary") with any other entity, other than a merger or consolidation which would result in the voting securities of the Company or a Significant Subsidiary outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving or resulting entity) more than 50% of the combined voting power of the surviving or resulting entity outstanding immediately after such merger or consolidation;
- (iv) the stockholders of the Company approve a plan or agreement for the sale or disposition of all or substantially all of the consolidated assets of the Company (other than such a sale or disposition immediately after which such assets will be owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the common stock of the Company immediately prior to such sale or disposition) in which case the Board shall determine the effective date of the Change in Control resulting therefrom; or
- (v) any other event occurs which the Board determines, in its discretion, would materially alter the structure of the Company or its ownership.

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For purposes of this definition:

- (A) The term "Beneficial Owner" shall have the meaning

ascribed to such term in Rule 13d-3 under the Exchange Act (including any successor to such Rule).

- (B) The term "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.
- (C) The term "Person" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including "group" as defined in Section 13(d) thereof.

(d) VOLUNTARY TERMINATION. In the event of a termination of employment by the Executive on his own initiative after delivery of 10 business days advance written notice, other than a termination due to death, a Constructive Termination Without Cause, or Approved Early Retirement or Normal Retirement pursuant to Section 10(f) below, the Executive shall have the same entitlements as provided in Section 10(b)(iii) above for a termination for Cause, provided that at the Company's election, furnished in writing to the Executive within 15 days following such notice of termination, the Company shall in addition pay the Executive 50% of his Base Salary for a period of 18 months following such termination in exchange for the Executive not engaging in competition with the Company or any Subsidiary as set forth in Section 12(a) below. Notwithstanding any implication to the contrary, the Executive shall not have the right to terminate his employment with the Company during the Term of Employment except in the event of a Constructive Termination Without Cause, Approved Early Retirement, or Normal Retirement, and any voluntary termination of employment during the Term of Employment in violation of this Agreement shall be considered a material breach.

(e) TERMINATION WITHOUT CAUSE; CONSTRUCTIVE TERMINATION WITHOUT CAUSE OR VOLUNTARY TERMINATION FOLLOWING CHANGE IN CONTROL. In the event the Executive's employment with the Company is terminated by the Company without Cause (which termination shall be effective as of the date specified by the Company in a written notice to the Executive), other than due to death, or in the event there is a Constructive Termination Without Cause (as defined above), in either case within two years following a Change in Control (as defined above), the Executive shall be entitled to and his sole remedies under this Agreement shall be:

- (i) Base Salary through the date of termination of the Executive's employment, which shall be paid in a cash lump sum not later than 15 days following the Executive's termination of employment;
- (ii) an amount equal to three times the Executive's Base Salary, at the annualized rate in effect on the date of termination of the Executive's employment (or in the event a reduction in Base Salary is a basis for a Constructive Termination Without Cause, then the Base Salary in effect immediately prior to such reduction), payable in a cash lump sum promptly (but in no event later than 15 days) following the Executive's termination of employment;

- (iii) pro rata annual incentive award for the year in which termination occurs assuming that the Executive would have received an award equal to \_\_\_% of Base Salary (determined in accordance with Section 10(e)(ii) above) for such year, payable in a cash lump sum promptly (but in no event later than 15 days) following the Executive's termination of employment;
- (iv) an amount equal to \_\_\_% of such Base Salary (determined in accordance with Section 10(e)(ii) above) multiplied by three, payable in a cash lump sum promptly (but in no event later than 15 days) following the Executive's termination of employment;
- (v) elimination of all restrictions on any restricted or deferred stock awards outstanding at the time of termination of employment (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);
- (vi) immediate vesting of all outstanding stock options and the right to exercise such stock options during the Severance Period or for the remainder of the exercise period, if less (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);
- (vii) the balance of any incentive awards earned as of December 31 of the prior year (but not yet paid), which shall be paid in a single lump sum not later than 15 days following the Executive's termination of employment;
- (viii) immediate vesting of the Executive's accrued benefits under any supplemental retirement benefit plan ("SERP") maintained by the Company, with payment of such benefits to be made in accordance with the terms and conditions of the SERP;
- (ix) settlement of all deferred compensation arrangements in accordance with any then applicable deferred compensation plan or election form;
- (x) continued participation in all medical, health and life insurance plans at the same benefit level at which he was participating on the date of termination of his employment until the earlier of:
  - (A) the end of the Severance Period; or
  - (B) the date, or dates, he receives equivalent coverage and benefits under the plans and programs of a subsequent employer (such coverage and benefits to be determined on a coverage-by-coverage, or benefit-by-benefit, basis); provided that (1) if the Executive is precluded from continuing his participation in any employee benefit plan or program as provided in this clause (x) of this Section 10(e),

he shall receive cash payments equal on an after-tax basis to the cost to him of obtaining the benefits provided under the plan or program in which he is unable to participate for the period specified in this clause (x) of this Section 10(e), (2) such cost shall be deemed to be the lowest reasonable cost that would be incurred by the Executive in obtaining such benefit himself on an individual basis, and (3) payment of such amounts shall be made quarterly in advance; and

- (xi) other or additional benefits then due or earned in accordance with applicable plans and programs of the Company.

For purposes of any termination pursuant to this Section 10(e), the term "Severance Period" shall mean the period of 36 months following the termination of the Executive's employment.

(f) APPROVED EARLY RETIREMENT OR NORMAL RETIREMENT. Upon the Executive's Approved Early Retirement or Normal Retirement (each as defined below), the Executive shall be entitled to and his sole remedies under this Agreement shall be:

- (i) Base Salary through the date of termination of the Executive's employment, which shall be paid in a cash lump sum not later than 15 days following the Executive's termination of employment;
- (ii) pro rata cash portion of annual incentive award for the year in which termination occurs, based on performance valuation at the end of such year and payable in a cash lump sum promptly (but in no event later than 15 days) thereafter;
- (iii) elimination of all restrictions on any restricted stock awards outstanding at the time of the Executive's termination of employment;
- (iv) continued vesting (as if the Executive remained employed by the Company) of any deferred stock awards outstanding at the time of his termination of employment (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);
- (v) continued vesting of all outstanding stock options and the right to exercise such stock options for a period of one year following the later of the date the options are fully vested or the Executive's termination of employment or for the remainder of the exercise period, if less (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards); provided, however, that options granted pursuant to the Company's 1987 Stock Option Plan shall in no event be exercisable after three years following termination of employment;

- (vi) the balance of any incentive awards earned as of December 31 of the prior year (but not yet paid), which shall be paid in a single lump sum not later than 15 days following the Executive's termination of employment;
- (vii) settlement of all deferred compensation arrangements in accordance with any then applicable deferred compensation plan or election form; and
- (viii) other or additional benefits then due or earned in accordance with applicable plans and programs of the Company.

"Approved Early Retirement" shall mean the Executive's voluntary termination of employment with the Company at or after attaining age 55 but prior to attaining age 60, if such termination is approved in advance by the Committee.

"Normal Retirement" shall mean the Executive's voluntary termination of employment with the Company at or after attaining age 60.

(g) NO MITIGATION; NO OFFSET. In the event of any termination of employment, the Executive shall be under no obligation to seek other employment; amounts due the Executive under this Agreement shall not be offset by any remuneration attributable to any subsequent employment that he may obtain.

(h) NATURE OF PAYMENTS. Any amounts due under this Section 10 are in the nature of severance payments considered to be reasonable by the Company and are not in the nature of a penalty.

(i) EXCLUSIVITY OF SEVERANCE PAYMENTS. Upon termination of the Executive's employment during the Term of Employment, he shall not be entitled to any severance payments or severance benefits from the Company or any payments by the Company on account of any claim by him of wrongful termination, including claims under any federal, state or local human and civil rights or labor laws, other than the payments and benefits provided in this Section 10.

(j) RELEASE OF EMPLOYMENT CLAIMS. The Executive agrees, as a condition to receipt of the termination payments and benefits provided for in this Section 10, that he will execute a release agreement, in a form reasonably satisfactory to the Company, releasing any and all claims arising out of the Executive's employment (other than enforcement of this Agreement, the Executive's rights under any of the Company's incentive compensation and employee benefit plans and programs to which he is entitled under this Agreement, and any claim for any tort for personal injury not arising out of or related to his termination of employment).

11. CONFIDENTIALITY; COOPERATION WITH REGARD TO LITIGATION;  
NON-DISPARAGEMENT.

(a) During the Term of Employment and thereafter, the Executive shall not, without the prior written consent of the Company, disclose to anyone (except in good faith in the ordinary course of business to a person who will be advised by the Executive to keep such information confidential) or make use of any Confidential Information except in the performance of his duties hereunder or when required to do so by legal process, by any governmental agency having supervisory authority over the business of the Company or by any administrative or



legislative body (including a committee thereof) that requires him to divulge, disclose or make accessible such information. In the event that the Executive is so ordered, he shall give prompt written notice to the Company in order to allow the Company the opportunity to object to or otherwise resist such order.

(b) During the Term of Employment and thereafter, Executive shall not disclose the existence or contents of this Agreement beyond what is disclosed in the proxy statement or documents filed with the government unless and to the extent such disclosure is required by law, by a governmental agency, or in a document required by law to be filed with a governmental agency or in connection with enforcement of his rights under this Agreement. In the event that disclosure is so required, the Executive shall give prompt written notice to the Company in order to allow the Company the opportunity to object to or otherwise resist such requirement. This restriction shall not apply to such disclosure by him to members of his immediate family, his tax, legal or financial advisors, any lender, or tax authorities, or to potential future employers to the extent necessary, each of whom shall be advised not to disclose such information.

(c) "Confidential Information" shall mean all information concerning the business of the Company or any Subsidiary relating to any of their products, product development, trade secrets, customers, suppliers, finances, and business plans and strategies. Excluded from the definition of Confidential Information is information (i) that is or becomes part of the public domain, other than through the breach of this Agreement by the Executive or (ii) regarding the Company's business or industry properly acquired by the Executive in the course of his career as an executive in the Company's industry and independent of the Executive's employment by the Company. For this purpose, information known or available generally within the trade or industry of the Company or any Subsidiary shall be deemed to be known or available to the public.

(d) "Subsidiary" shall mean any corporation controlled directly or indirectly by the Company.

(e) The Executive agrees to cooperate with the Company, during the Term of Employment and thereafter (including following the Executive's termination of employment for any reason), by making himself reasonably available to testify on behalf of the Company or any Subsidiary in any action, suit, or proceeding, whether civil, criminal, administrative, or investigative, and to assist the Company, or any Subsidiary, in any such action, suit, or proceeding, by providing information and meeting and consulting with the Board or its representatives or counsel, or representatives or counsel to the Company, or any Subsidiary as reasonably requested; PROVIDED, HOWEVER, that the same does not materially interfere with his then current professional activities. The Company agrees to reimburse the Executive, on an after-tax basis, for all expenses actually incurred in connection with his provision of testimony or assistance.

(f) The Executive agrees that, during the Term of Employment and thereafter (including following the Executive's termination of employment for any reason) he will not make statements or representations, or otherwise communicate, directly or indirectly, in writing, orally, or otherwise, or take any action which may, directly or indirectly, disparage the Company or any Subsidiary or their respective officers, directors, employees, advisors, businesses or reputations. The Company agrees that, during the Term of Employment and thereafter (including following the Executive's termination of employment for any reason), the Company will not make statements or representations, or otherwise communicate, directly or indirectly, in writing, orally, or otherwise,

or take any action which may, directly or indirectly, disparage the Executive or his business or reputation. Notwithstanding the foregoing, nothing in this Agreement shall preclude either the Executive or the Company from making truthful statements or disclosures that are required by applicable law, regulation or legal process.

## 12. NON-COMPETITION.

(a) During the Restriction Period (as defined in Section 12(b) below), the Executive shall not engage in Competition with the Company or any Subsidiary. "Competition" shall mean engaging in any activity, except as provided below, for a Competitor of the Company or any Subsidiary, whether as an employee, consultant, principal, agent, officer, director, partner, shareholder (except as a less than one percent shareholder of a publicly traded company) or otherwise. A "Competitor" shall mean any corporation or other entity engaged in the retail drug pharmacy chain store business, any corporation or other entity whose principal business is mail order pharmacy benefits management, or any joint venture partners or investors of the Company, including without limitation Eckerd Corporation, Revco D.S. Inc., Rite Aid Corporation and Walgreen Company or their successors. If the Executive commences employment or becomes a consultant, principal, agent, officer, director, partner, or shareholder of any entity that is not a Competitor at the time the Executive initially becomes employed or becomes a consultant, principal, agent, officer, director, partner, or shareholder of the entity, future activities of such entity shall not result in a violation of this provision unless (x) such activities were contemplated by the Executive at the time the Executive initially became employed or becomes a consultant, principal, agent, officer, director, partner, or shareholder of the entity or (y) the Executive commences directly or indirectly overseeing or managing the activities of an entity which becomes a Competitor during the Restriction Period, which activities are competitive with the activities of the Company or Subsidiary. The Executive shall not be deemed indirectly overseeing or managing the activities of such Competitor which are competitive with the activities of the Company or Subsidiary so long as he does not regularly participate in discussions with regard to the conduct of the competing business.

(b) For the purposes of this Section 12, "Restriction Period" shall mean the period beginning with the Effective Date and ending with:

- (i) in the case of a termination of the Executive's employment without Cause or a Constructive Termination Without Cause, in either case prior to a Change in Control, the earlier of (1) 24 months after such termination and (2) the occurrence of a Change in Control;
- (ii) in the case of a termination of the Executive's employment for Cause, the earlier of (1) 24 months after such termination and (2) the occurrence of a Change in Control;
- (iii) in the case of a voluntary termination of the Executive's employment pursuant to Section 10(d) above followed by the Company's election to pay the Executive (and subject to the payment of) 50% of his Base Salary, as provided in Section 10(d) above, the earlier of (1) 18 months after such termination and (2) the occurrence of a Change in Control;

- (iv) in the case of a voluntary termination of the Executive's employment pursuant to Section 10(d) above which is not followed by the Company's election to pay the Executive such 50% of Base Salary, the date of such termination;
- (v) in the case of Approved Early Retirement or Normal Retirement pursuant to Section 10(f) above, the remainder of the Term of Employment; or
- (vi) in the case of a termination of the Executive's employment without Cause or a Constructive Termination Without Cause, in either case following a Change in Control, immediately upon such termination of employment.

13. NON-SOLICITATION.

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During the period beginning with the Effective Date and ending 18 months following the termination of the Executive's employment, the Executive shall not induce employees of the Company or any Subsidiary to terminate their employment, nor shall the Executive solicit or encourage any of the Company's or any Subsidiary's non-retail customers or joint venture partners or investors to terminate or diminish their relationship with the Company or any Subsidiary or to violate any agreement with any of them. During such period, the Executive shall not hire, either directly or through any employee, agent or representative, any employee of the Company or any Subsidiary or any person who was employed by the Company or any Subsidiary within 180 days of such hiring.

14. REMEDIES.

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If the Executive breaches any of the provisions contained in Sections 11, 12 or 13 above, the Company (a) subject to Section 15, shall have the right to immediately terminate all payments and benefits due under this Agreement and (b) shall have the right to seek injunctive relief. The Executive acknowledges that such a breach of Sections 11,12 or 13 would cause irreparable injury and that money damages would not provide an adequate remedy for the Company; provided, however, the foregoing shall not prevent the Executive from contesting the issuance of any such injunction on the ground that no violation or threatened violation of Section 11, 12 or 13 has occurred.

15. RESOLUTION OF DISPUTES.

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Any controversy or claim arising out of or relating to this Agreement or any breach or asserted breach hereof or questioning the validity and binding effect hereof arising under or in connection with this Agreement, other than seeking injunctive relief under Section 14, shall be resolved by binding arbitration, to be held at an office closest to the Company's principal offices in accordance with the rules and procedures of the American Arbitration Association. Judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Pending the resolution of any arbitration or court proceeding, the Company shall continue payment of all amounts and benefits due the Executive under this Agreement. All costs and expenses of any arbitration or court proceeding (including fees and disbursements of counsel) shall be borne by the respective party incurring such costs and expenses, but the Company shall reimburse the Executive for such reasonable costs and expenses in the event he substantially

prevails in such arbitration or court proceeding. Notwithstanding the foregoing, following a Change in Control all reasonable costs and expenses (including fees and disbursements of counsel) incurred by the Executive pursuant to this Section 15 shall be paid on behalf of or reimbursed to the Executive promptly by the Company; PROVIDED, HOWEVER, that no reimbursement shall be made of such expenses if and to the extent the arbitrator(s) determine(s) that any of the Executive's litigation assertions or defenses were in bad faith or frivolous.

16. INDEMNIFICATION.  
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(a) COMPANY INDEMNITY. The Company agrees that if the Executive is made a party, or is threatened to be made a party, to any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that he is or was a director, officer or employee of the Company or any Subsidiary or is or was serving at the request of the Company or any Subsidiary as a director, officer, member, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether or not the basis of such Proceeding is the Executive's alleged action in an official capacity while serving as a director, officer, member, employee or agent, the Executive shall be indemnified and held harmless by the Company to the fullest extent legally permitted or authorized by the Company's certificate of incorporation or bylaws or resolutions of the Company's Board or, if greater, by the laws of the State of Delaware against all cost, expense, liability and loss (including, without limitation, attorney's fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by the Executive in connection therewith, and such indemnification shall continue as to the Executive even if he has ceased to be a director, member, officer, employee or agent of the Company or other entity and shall inure to the benefit of the Executive's heirs, executors and administrators. The Company shall advance to the Executive all reasonable costs and expenses to be incurred by him in connection with a Proceeding within 20 days after receipt by the Company of a written request for such advance. Such request shall include an undertaking by the Executive to repay the amount of such advance if it shall ultimately be determined that he is not entitled to be indemnified against such costs and expenses. The provisions of this Section 16(a) shall not be deemed exclusive of any other rights of indemnification to which the Executive may be entitled or which may be granted to him, and it shall be in addition to any rights of indemnification to which he may be entitled under any policy of insurance.

(b) NO PRESUMPTION REGARDING STANDARD OF CONDUCT. Neither the failure of the Company (including its Board, independent legal counsel or stockholders) to have made a determination prior to the commencement of any proceeding concerning payment of amounts claimed by the Executive under Section 16(a) above that indemnification of the Executive is proper because he has met the applicable standard of conduct, nor a determination by the Company (including its Board, independent legal counsel or stockholders) that the Executive has not met such applicable standard of conduct, shall create a presumption that the Executive has not met the applicable standard of conduct.

(c) LIABILITY INSURANCE. The Company agrees to continue and maintain a directors and officers' liability insurance policy covering the Executive to the extent the Company provides such coverage for its other executive officers.

## 17. EXCISE TAX GROSS-UP.

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If the Executive becomes entitled to one or more payments (with a "payment" including, without limitation, the vesting of an option or other non-cash benefit or property), whether pursuant to the terms of this Agreement or any other plan, arrangement, or agreement with the Company or any affiliated company (the "Total Payments"), which are or become subject to the tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code") (or any similar tax that may hereafter be imposed) (the "Excise Tax"), the Company shall pay to the Executive at the time specified below an additional amount (the "Gross-up Payment") (which shall include, without limitation, reimbursement for any penalties and interest that may accrue in respect of such Excise Tax) such that the net amount retained by the Executive, after reduction for any Excise Tax (including any penalties or interest thereon) on the Total Payments and any federal, state and local income or employment tax and Excise Tax on the Gross-up Payment provided for by this Section 17, but before reduction for any federal, state, or local income or employment tax on the Total Payments, shall be equal to the sum of (a) the Total Payments, and (b) an amount equal to the product of any deductions disallowed for federal, state, or local income tax purposes because of the inclusion of the Gross-up Payment in the Executive's adjusted gross income multiplied by the highest applicable marginal rate of federal, state, or local income taxation, respectively, for the calendar year in which the Gross-up Payment is to be made. For purposes of determining whether any of the Total Payments will be subject to the Excise Tax and the amount of such Excise Tax:

- (i) The Total Payments shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(b)(1) of the Code shall be treated as subject to the Excise Tax, unless, and except to the extent that, in the written opinion of independent compensation consultants, counsel or auditors of nationally recognized standing ("Independent Advisors") selected by the Company and reasonably acceptable to the Executive, the Total Payments (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code or are otherwise not subject to the Excise Tax;
- (ii) The amount of the Total Payments which shall be treated as subject to the Excise Tax shall be equal to the lesser of (A) the total amount of the Total Payments or (B) the total amount of excess parachute payments within the meaning of Section 280G(b)(1) of the Code (after applying clause (i) above); and
- (iii) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the Independent Advisors in accordance with the principles of Sections 280G(d)(3) and (4) of the Code.

For purposes of determining the amount of the Gross-up Payment, the Executive shall be deemed (A) to pay federal income taxes at the highest marginal rate of federal income taxation for the calendar year in which the Gross-up Payment is to be made; (B) to pay any applicable state and local income taxes at the highest marginal rate of taxation for the calendar

year in which the Gross-up Payment is to be made, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes if paid in such year (determined without regard to limitations on deductions based upon the amount of the Executive's adjusted gross income); and (C) to have otherwise allowable deductions for federal, state, and local income tax purposes at least equal to those disallowed because of the inclusion of the Gross-up Payment in the Executive's adjusted gross income. In the event that the Excise Tax is subsequently determined to be less than the amount taken into account hereunder at the time the Gross-up Payment is made, the Executive shall repay to the Company at the time that the amount of such reduction in Excise Tax is finally determined (but, if previously paid to the taxing authorities, not prior to the time the amount of such reduction is refunded to the Executive or otherwise realized as a benefit by the Executive) the portion of the Gross-up Payment that would not have been paid if such Excise Tax had been applied in initially calculating the Gross-up Payment, plus interest on the amount of such repayment at the rate provided in Section 1274(b)(2)(B) of the Code. In the event that the Excise Tax is determined to exceed the amount taken into account hereunder at the time the Gross-up Payment is made (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-up Payment), the Company shall make an additional Gross-up Payment in respect of such excess (plus any interest and penalties payable with respect to such excess) at the time that the amount of such excess is finally determined.

The Gross-up Payment provided for above shall be paid on the 30th day (or such earlier date as the Excise Tax becomes due and payable to the taxing authorities) after it has been determined that the Total Payments (or any portion thereof) are subject to the Excise Tax; PROVIDED, HOWEVER, that if the amount of such Gross-up Payment or portion thereof cannot be finally determined on or before such day, the Company shall pay to the Executive on such day an estimate, as determined by the Independent Advisors, of the minimum amount of such payments and shall pay the remainder of such payments (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code), as soon as the amount thereof can be determined. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to the Executive, payable on the fifth day after demand by the Company (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code). If more than one Gross-up Payment is made, the amount of each Gross-up Payment shall be computed so as not to duplicate any prior Gross-up Payment. The Company shall have the right to control all proceedings with the Internal Revenue Service that may arise in connection with the determination and assessment of any Excise Tax and, at its sole option, the Company may pursue or forego any and all administrative appeals, proceedings, hearings, and conferences with any taxing authority in respect of such Excise Tax (including any interest or penalties thereon); PROVIDED, HOWEVER, that the Company's control over any such proceedings shall be limited to issues with respect to which a Gross-up Payment would be payable hereunder, and the Executive shall be entitled to settle or contest any other issue raised by the Internal Revenue Service or any other taxing authority. The Executive shall cooperate with the Company in any proceedings relating to the determination and assessment of any Excise Tax and shall not take any position or action that would materially increase the amount of any Gross-Up Payment hereunder.

18. EFFECT OF AGREEMENT ON OTHER BENEFITS.  
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Except as specifically provided in this Agreement, the existence of this Agreement shall not be interpreted to preclude, prohibit or restrict the Executive's participation in any other employee benefit or other plans or programs in which he currently participates.

19. ASSIGNABILITY; BINDING NATURE.  
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This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, heirs (in the case of the Executive) and permitted assigns. No rights or obligations of the Company under this Agreement may be assigned or transferred by the Company except that such rights or obligations may be assigned or transferred in connection with the sale or transfer of all or substantially all of the assets of the Company, provided that the assignee or transferee is the successor to all or substantially all of the assets of the Company and such assignee or transferee assumes the liabilities, obligations and duties of the Company, as contained in this Agreement, either contractually or as a matter of law. The Company further agrees that, in the event of a sale or transfer of assets as described in the preceding sentence, it shall take whatever action it legally can in order to cause such assignee or transferee to expressly assume the liabilities, obligations and duties of the Company hereunder. No rights or obligations of the Executive under this Agreement may be assigned or transferred by the Executive other than his rights to compensation and benefits, which may be transferred only by will or operation of law, except as provided in Section 25 below.

20. REPRESENTATION.  
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The Company represents and warrants that it is fully authorized and empowered to enter into this Agreement and that the performance of its obligations under this Agreement will not violate any agreement between it and any other person, firm or organization.

21. ENTIRE AGREEMENT.  
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This Agreement contains the entire understanding and agreement between the Parties concerning the subject matter hereof and, as of the Effective Date, supersedes all prior agreements, understandings, discussions, negotiations and undertakings, whether written or oral, between the Parties with respect thereto, including, without limitation, the Income Continuation Policy for Select Senior Executives of CVS Corporation.

22. AMENDMENT OR WAIVER.  
-----

No provision in this Agreement may be amended unless such amendment is agreed to in writing and signed by the Executive and an authorized officer of the Company. Except as set forth herein, no delay or omission to exercise any right, power or remedy accruing to any Party shall impair any such right, power or remedy or shall be construed to be a waiver of or an acquiescence to any breach hereof. No waiver by either Party of any breach by the other Party of any condition or provision contained in this Agreement to be performed by such other Party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and signed by the Executive or an authorized officer of the Company, as the case may be.

23. SEVERABILITY.  
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In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, in whole or in part, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect to the fullest extent permitted by law.

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24. SURVIVORSHIP.

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The respective rights and obligations of the Parties hereunder shall survive any termination of the Executive's employment to the extent necessary to the intended preservation of such rights and obligations.

25. BENEFICIARIES/REFERENCES.

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The Executive shall be entitled, to the extent permitted under any applicable law, to select and change a beneficiary or beneficiaries to receive any compensation or benefit payable hereunder following the Executive's death by giving the Company written notice thereof. In the event of the Executive's death or a judicial determination of his incompetence, reference in this Agreement to the Executive shall be deemed, where appropriate, to refer to his beneficiary, estate or other legal representative.

26. GOVERNING LAW/JURISDICTION.

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This Agreement shall be governed by and construed and interpreted in accordance with the laws of Rhode Island without reference to principles of conflict of laws. Subject to Section 15, the Company and the Executive hereby consent to the jurisdiction of any or all of the following courts for purposes of resolving any dispute under this Agreement: (i) the United States District Court for Rhode Island or (ii) any of the courts of the State of Rhode Island. The Company and the Executive further agree that any service of process or notice requirements in any such proceeding shall be satisfied if the rules of such court relating thereto have been substantially satisfied. The Company and the Executive hereby waive, to the fullest extent permitted by applicable law, any objection which it or he may now or hereafter have to such jurisdiction and any defense of inconvenient forum.

27. NOTICES.

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Any notice given to a Party shall be in writing and shall be deemed to have been given when delivered personally or sent by certified or registered mail, postage prepaid, return receipt requested, duly addressed to the Party concerned at the address indicated below or to such changed address as such Party may subsequently give such notice of:

If to the Company:        CVS Corporation  
                                 One CVS Drive  
                                 Woonsocket, Rhode Island 02895  
                                 Attention: Secretary

If to the Executive        \_\_\_\_\_  
                                 \_\_\_\_\_  
                                 \_\_\_\_\_

28. HEADINGS.

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The headings of the sections contained in this Agreement are for



convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this Agreement.

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26

29. COUNTERPARTS.  
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This Agreement may be executed in two or more counterparts.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first written above.

CVS CORPORATION

By:

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Name:

Title:

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## EXHIBIT 11

## CVS CORPORATION

## COMPUTATION OF EARNINGS PER SHARE

	Years Ended December 31,		
In millions, except per share amounts	1996	1995	1994
<b>PRIMARY EARNINGS (LOSS) PER SHARE:</b>			
Net earnings (loss)	\$ 75.4	\$ (657.1)	\$307.5
Less: Preference dividends, net	14.5	17.0	17.0
Net earnings (loss) used to calculate primary earnings (loss) per share	\$ 60.9	\$ (674.1)	\$290.5
Weighted average number of shares outstanding	105.7	105.1	105.5
Add: Weighted average number of shares which could have been issued upon exercise of outstanding options	0.6	--	--
Weighted average number of shares used to compute primary earnings (loss) per share	106.3	105.1	105.5
Primary earnings (loss) per share	\$ 0.57	\$ (6.41)	\$2.75
<b>FULLY DILUTED EARNINGS (LOSS) PER SHARE:</b>			
Net earnings (loss)	\$ 75.4	\$ (657.1)	\$307.5
Less: Preferred dividends	--	0.1	0.1
Net earnings (loss) used to calculate fully diluted earnings (loss) per share, before adjustments	75.4	(657.2)	307.4
Less: Adjustments, assuming conversion of the Series One ESOP Convertible Preference Stock, for the following: (i) additional contributions to the ESOP to cover the shortfall between the Series One ESOP Convertible Preference Stock and Common Stock dividends and (ii) reductions in incentive bonuses and profit sharing, net of tax benefits	8.0	(1.2)	0.6

Net earnings (loss) used to calculate fully diluted earnings (loss) per share	\$ 67.4	\$ (656.0)	\$306.8
-----			
Weighted average number of shares outstanding	105.7	105.1	105.5
Add: Weighted average shares of Series One Convertible Preference Stock assuming conversion	5.9	7.4	7.3
Add: Weighted average number of shares which could have been issued upon exercise of outstanding options	0.7	0.0	0.0
-----			
Weighted average number of shares used to compute fully diluted earnings (loss) per share	112.3	112.5	112.8
-----			
Fully diluted earnings (loss) per share	\$ 0.60	\$ (5.83)	\$ 2.72
-----			

NOTE - Fully diluted earnings per share presentation is not required on the face of the consolidated statements of operations due to the results of the materiality tests mandated by APB Opinion No. 15.

## EXHIBIT 12

CVS CORPORATION  
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

Dollars in millions	1996	1995	1994	1993	1992
<b>FIXED CHARGES: (1)</b>					
Interest expense	\$ 30.6	\$ 53.7	\$ 31.6	\$ 24.4	\$ 23.6
Interest capitalized	0.1	0.2	0.2	0.6	0.1
Interest portion of operating leases	58.7	56.9	51.4	47.5	38.4
Interest portion of capital leases	0.3	0.4	0.4	0.5	0.6
Amortization of debt expense	0.1	0.1	0.1	0.1	0.1
<b>Total fixed charges</b>	<b>\$ 89.8</b>	<b>\$111.3</b>	<b>\$ 83.7</b>	<b>\$ 73.1</b>	<b>\$ 62.8</b>
<b>ADJUSTED FIXED CHARGES:</b>					
Total fixed charges	\$ 89.8	\$111.3	\$ 83.7	\$ 73.1	\$ 62.8
Interest capitalized	(0.1)	(0.2)	(0.2)	(0.6)	(0.1)
<b>Adjusted fixed charges</b>	<b>\$ 89.7</b>	<b>\$111.1</b>	<b>\$ 83.5</b>	<b>\$ 72.5</b>	<b>\$ 62.7</b>
<b>EARNINGS (LOSS) (1) (2) (3) (4) (5):</b>					
Net earnings (loss) from continuing operations before income taxes	\$403.4	\$ (44.9)	\$153.0	\$155.8	\$111.4
Adjusted fixed charges	89.7	111.1	83.5	72.5	62.7
<b>Adjusted earnings</b>	<b>\$493.1</b>	<b>\$ 66.2</b>	<b>\$236.5</b>	<b>\$228.3</b>	<b>\$174.1</b>
<b>RATIO OF EARNINGS TO FIXED CHARGES</b>	<b>5.50</b>	<b>0.60</b>	<b>2.83</b>	<b>3.15</b>	<b>2.78</b>

(1) The results of operations of the former footwear, apparel and toys and home-furnishing segments have been classified as discontinued operations in the Consolidated Statement of Operations for all periods presented

(2) The Company formed an Employee Stock Ownership Plan effective January 1, 1989. On June 23, 1989, the ESOP Trust borrowed \$357.5 million from qualified lenders, the proceeds

of which were used to purchase a new series

of preference stock issued by the Company. The loan to the ESOP Trust has been guaranteed by the Company. Annualized dividends on preference stock totaled \$ 21.8 million in 1996, \$24.3 million in 1995, \$24.9 million in 1994, \$25.3 million in 1993 and \$25.8 million in 1992. These amounts are not reflected in the calculations above.

(3) Net earnings (loss) from continuing operations before income taxes for 1992 includes the effect of \$59.4 million of restructuring charges.

(4) Net earnings (loss) from continuing operations before income taxes for 1995 includes the effect of \$165.6 million of restructuring and asset impairment charges and \$49.4 million of non-recurring operating charges.

(5) Net earnings (loss) from continuing operations before income taxes for 1996 includes the effect of \$121.4 million gain on sale of securities.

## EXHIBIT 13

## 1996 Financial Report

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Management's Discussion and Analysis of  
Financial Condition and Results of Operations

## STRATEGIC RESTRUCTURING PROGRAM

## THE 1995 PLAN

On October 23, 1995 (the "1995 Measurement Date"), the Board of Directors of CVS Corporation ("CVS" or the "Company") approved a comprehensive restructuring plan that was the product of a strategic review initiated in 1994. The restructuring plan included, among other things, (i) the continued operation of CVS (which includes CVS, and initially the Linens 'n Things and Bob's divisions), (ii) the disposal of the Marshalls, Kay-Bee Toys, Wilsons and This End Up divisions (collectively, the "Dispositions"), (iii) the spin-off of Footstar, Inc. ("Footstar"), which includes the Meldisco, Footaction and Thom McAn divisions, and (iv) the elimination of certain corporate overhead costs (the "Cost Reduction Program").

In connection with the approval of the 1995 Plan, the Company recorded a pre-tax charge of \$872.0 million in the fourth quarter of 1995 (the "1995 Charge") and discontinued the footwear segment in accordance with APB Opinion No. 30, "Reporting the Results of Operations--Reporting the effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." As a result of the 1996 Plan discussed below, the apparel segment and toys and home furnishings segment were also discontinued. Accordingly, the portion of the 1995 Charge that pertains to these segments, \$711.4 million, is reflected as a component of discontinued operations and the remainder, \$160.6 million, is included in continuing operations. The amount recorded in continuing operations primarily includes costs associated with (i) exiting certain geographic markets, (ii) closing duplicate warehouse facilities

and (iii) closing Melville's Corporate Headquarters. These costs primarily include asset write-offs, closed store and warehouse lease liabilities and employee severance. Management determined the amount of (i) asset write-offs by comparing the carrying value of the assets to be disposed of to the anticipated proceeds, (ii) closed store and warehouse lease liabilities by calculating the present value of the future minimum lease payments and (iii) employee severance based on an employee's compensation and years of service with the Company. The Company applied the provisions of EITF 94-3 to determine the appropriate accounting treatment for these charges.

Asset write-offs included in the 1995 Charge totaled \$659.7 million. The balance of the charge, \$212.3 million, will require cash outlays of which \$85.7 million had been incurred as of December 31, 1996. The remaining cash outlays are expected to be incurred primarily in 1997.

In connection with various components of the 1995 Plan, positions for approximately 1,200 store employees and 400 administrative employees have been eliminated.

At December 31, 1996, the 1995 Plan had been completed without significant changes to the Board approved plan. As a result, the Company expects that earnings from continuing operations before income taxes will improve by approximately \$38 million on an annual basis (projected 1997 versus 1995) primarily due to the elimination of certain corporate overhead costs.

#### THE 1996 PLAN

On May 29, 1996 (the "1996 Measurement Date"), the Board of Directors approved further refinements to the restructuring plan. The refinements included (i) a formal plan to separate the Linens 'n Things and Bob's divisions from CVS and (ii) a formal plan to convert 80 to 100 of Thom McAn's stores to the Footaction store format and to exit the Thom McAn business by mid-1997.

In connection with the approval of the 1996 Plan, the Company recorded, as a component of discontinued operations, a pre-tax charge of \$235.0 million during the second quarter of 1996 (the "1996 Charge"), substantially all of which related to asset write-offs that will not require net cash outlays. As a result of adopting the plan to separate the Linens 'n Things and Bob's divisions from CVS, the apparel and toys and home furnishings segments were discontinued in accordance with APB Opinion No. 30.

The Company expects that the 1996 Plan will be completed during 1997 without significant changes to the Board approved plan.

The asset write-offs of \$659.7 million and \$235.0 million included in the 1995 Charge and 1996 Charge, respectively, primarily relate to the write-down of the operating divisions to be disposed of to estimated fair value. The significant judgement included in the above write-offs relates to the estimation of fair value for each division. These estimates were prepared by independent third parties.

#### THE DISPOSALS

On November 17, 1995, the Company completed the sale of the Marshalls division to The TJX Companies, Inc. for total proceeds of approximately \$600 million.

On May 4, 1996, the Company completed the sale of the Kay-Bee Toys division to Consolidated Stores Corporation for total proceeds of approximately \$285.7 million.

On May 25, 1996, the Company completed the sale of the Wilsons division to an investor group led by Wilsons' management for total proceeds of approximately \$69.7 million.

On May 31, 1996, the Company completed the sale of the This End Up division to

an investor group for approximately \$18.2 million.

On October 12, 1996, the Company completed the spin-off of Footstar by distributing 100% of the shares of Footstar common stock held by CVS to its shareholders of record as of the close of business on October 2, 1996 (the "Footstar Distribution"). See Note 20 for further information about the Footstar Distribution.

On December 2, 1996, the Company completed the initial public offering of 67.5% of Linens 'n Things, Inc. (the "Linens IPO") for net proceeds of approximately \$189.4 million.

The gain and losses that resulted from the above disposals are reflected in the "Discontinued Operations" section of the Consolidated Statements of Operations. The 1996 Charge includes approximately \$47 million related to finalizing certain disposals accrued for in the 1995 Charge. The Company has no continuing involvement with the divested operations.

#### OTHER EVENTS

On October 16, 1996, the Company's trading symbol on the New York Stock Exchange was changed to "CVS" from "MES."

On November 20, 1996, the Company officially changed its name to CVS Corporation from Melville Corporation.

See Note 2 to the consolidated financial statements for further information about the Company's strategic restructuring program.

#### AGREEMENT TO ACQUIRE REVCO D.S., INC.

On February 6, 1997, CVS signed a definitive merger agreement to acquire Revco D.S., Inc. ("Revco") in a stock-for-stock merger valued at approximately \$2.8 billion. CVS will also assume approximately \$900 million of existing Revco debt as part of this transaction.

The combination of CVS and Revco, which has been approved by the Boards of Directors of both companies, will bring together two of the leading companies in the chain-drug industry to create the nation's largest chain drugstore company based on store count, with approximately 4,000 locations in 24 states and the District of Columbia. The combination will bring the combined company into high-growth, contiguous markets in the Northeast, Mid-Atlantic, Southeast and Midwest regions; and the combined enterprise is expected to rank second in annual retail drugstore revenues in 1997.

Under the terms of the merger agreement, CVS will combine with Revco in an exchange of stock that is expected to qualify for treatment as a pooling of interests transaction, tax free to Revco shareholders. If the merger is completed, for each share of Revco common stock held, Revco shareholders will receive the sum of (i) 0.4692 shares of CVS common stock and (ii) the number of shares of CVS common stock equal to the quotient obtained by dividing \$20 by the average closing price of CVS common stock during ten trading days randomly selected out of the twenty trading days ending on the fifth trading day preceding the closing date (collectively, the "Exchange Ratio"), provided that, under no circumstances will the Exchange Ratio exceed 1.0097 or be less than 0.8837.

The transaction is subject to approval by the shareholders of both companies, expiration of the applicable waiting period under the Hart-Scott Rodino Antitrust Improvements Act of 1976, as amended, and certain other customary closing conditions. If all the closing conditions have been met, it is expected that the transaction will be completed by mid-year 1997.

#### REVISED DIVIDEND

On January 10, 1996, the Board of Directors approved a reduction in the Company's quarterly dividend from \$.38 per share to \$.11 per share (the "Revised Dividend"). Management believes that the Revised Dividend is consistent with chain-drug industry practice and the Company's anticipated capital requirements.

## RESULTS OF OPERATIONS

As a result of the Company's strategic restructuring plan, the results of operations of the former footwear segment, apparel segment and toys and home furnishings segment have been classified as discontinued operations in the accompanying consolidated statements of operations for all periods presented. The following management discussion, therefore, focuses primarily on continuing operations.

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Net sales increased 13.6% to \$5.5 billion in 1996, compared to increases of 12.4% in 1995 and 9.7% in 1994. The increase in net sales resulted from strong performances in both the front store (which increased \$262.3 million or 9.3% from 1995 to 1996, compared to an increase of \$241.0 million or 9.3% from 1994 to 1995) and pharmacy (which increased \$376.0 million or 18.4% from 1995 to 1996, compared to an increase of \$294.5 million or 16.9% from 1994 to 1995). The growth in front store sales was primarily driven by increases in greeting cards, film and photofinishing, upscale beauty and cosmetics, convenience foods, private label products and seasonal merchandise. Growth in pharmacy sales was primarily driven by (i) increased penetration into managed care markets, (ii) the purchase of prescription files from independent pharmacies and (iii) favorable trends, including an aging American population, greater demand for retail formats that provide easy access and convenience, discovery of new drug therapies and a need for cost-effective healthcare solutions.

Same store sales, consisting of sales from stores that have been open for more than one year, rose 10.9% in 1996, compared to increases of 8.8% in 1995 and 6.1% in 1994. Pharmacy same store sales grew 16.9% in 1996, compared to 13.9% in 1995 and 11.5% in 1994. Pharmacy sales were 43.9% of total sales in 1996, compared to 42.0% in 1995 and 40.4% in 1994. Third party prescription sales were 81.8% of pharmacy sales in 1996, compared to 76.1% in 1995 and 69.1% in 1994.

Gross margin as a percentage of net sales was 28.04% in 1996, compared to 27.92% in 1995 and 28.68% in 1994. The 12 basis point improvement as a percentage of net sales in 1996 was primarily due to sales increases in the following higher gross margin categories: greeting cards, film and photofinishing, upscale beauty and cosmetics, convenience foods, private label products and seasonal merchandise. The benefit realized from the expansion of these categories in 1996 was offset partially by expected increases in lower gross margin third party prescription sales and increases in pharmacy sales as a percentage of total sales (collectively, the "Pharmacy Trends"). The 76 basis point decrease in gross margin as a percentage of net sales in 1995 is primarily due to the Pharmacy Trends.

Selling, general and administrative expenses were 21.24% of net sales in 1996, compared to 22.88% in 1995 and 22.96% in 1994. When comparing 1996 to 1995, it is important to note that \$49.4 million of non-recurring operating charges, which primarily included costs associated with (i) the Company changing its policy from capitalizing internally developed software costs to expensing the costs as incurred, (ii) outsourcing certain administrative functions and (iii) retaining certain employees at Melville's Corporate Headquarters, were recorded in the fourth quarter of 1995. Excluding the effect of these charges, comparable selling, general and administrative expenses were 21.87% of net sales in 1995. The comparable 63 and 109 basis point improvements in 1996 and 1995, respectively, were primarily due to (i) the benefit derived from sales in our existing store base growing at a faster rate than operating costs, (ii) the Cost Reduction Program, which included closing Melville's Corporate Headquarters and (iii) the benefits derived from key technology investments such as our RX 2000 Pharmacy System, Interactive Voice Response System for prescription



refills, Pharmacy Data Warehouse, Point-of-Sale System, Retail Data Warehouse and Field Management System. These systems have collectively allowed the Company to reduce the labor costs associated with filling prescriptions, managing third party healthcare plans, managing promotional events and scheduling employees.

Depreciation and amortization expense as a percentage of net sales was 1.38% in 1996, compared to 1.46% in 1995 and 1.47% in 1994. The eight basis point improvement in 1996 was primarily due to the write-off of certain corporate assets as part of the Company's strategic restructuring plan.

Operating profit for 1996 increased to \$299.6 million from \$8.6 million in 1995. When comparing 1996 to 1995, it is important to note that \$165.6 million of restructuring and asset impairment charges and \$49.4 million of non-recurring operating charges included in selling, general and administrative expenses, were recorded in 1995 (collectively, the "Special Charges"). Excluding the effect of the Special Charges, comparable operating profit increased 34.0% in 1996.

Comparable operating profit as a percentage of net sales was 5.42% in 1996, compared to 4.60% in 1995 and 4.24% in 1994. The 82 basis point improvement in operating profit as a percentage of net sales in 1996 was primarily due to (i) leveraging sales growth, (ii) improving gross margin as a percentage of net sales, (iii) the benefits derived from key technology investments, (iv) controlling ongoing fixed costs and (v) the Cost Reduction Program. The 36 basis point improvement in 1995 was primarily due to controlling ongoing fixed costs, offset partially by a decrease in gross margin as a percentage of net sales.

During 1996, the Company completed the sale of 1.75 million shares of The TJX Companies, Inc. Series D and Series E preferred stock (the "TJX Securities") for \$296.4 million (the "TJX Preferred Sales"). These transactions resulted in a pre-tax gain of \$121.4 million (the "TJX Gain"). The Company originally received the TJX Securities as a portion of the proceeds from the sale of the Marshalls division.

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During 1996, the Company recognized dividend income of approximately \$5.6 million on the TJX Securities.

Interest expense totaled \$30.7 million in 1996, compared to \$53.9 million in 1995 and \$31.8 million in 1994. The decrease in interest expense in 1996 was primarily due to a \$573.7 million reduction in average daily short-term borrowings, offset partially by higher average daily short-term borrowing rates. The decrease in average daily short-term borrowings in 1996 was primarily due to the favorable impact of (i) the Dispositions, (ii) the Linens IPO, (iii) the TJX Preferred Sales and (iv) cash provided by continuing operations. The \$22.1 million increase in interest expense in 1995 was primarily due to a \$188.7 million increase in average daily short-term borrowings that resulted largely from operating losses and disappointing cash flow results at certain former divisions.

Interest income totaled \$7.5 million in 1996, compared to \$.4 million in 1995 and \$1.0 million in 1994. The increase in interest income in 1996 was primarily due to interest earned on notes receivable that were received as a portion of the proceeds from certain of the Dispositions and to an increase in available cash that resulted from (i) the Dispositions, (ii) the Linens IPO, (iii) the TJX Preferred Sales and (iv) cash provided by continuing operations. The decrease in interest income in 1995 was primarily due to a decrease in available cash that resulted from operating losses and disappointing cash flow results at certain former divisions.

The Company's effective income tax rate for continuing operations was 40.6% in 1996, compared to 41.0% in 1995 and 1994. The 40 basis point decrease in 1996

was primarily due to the TJX Gain.

Earnings from continuing operations increased to \$239.6 million in 1996 from a net loss of \$26.5 million in 1995. Excluding the TJX Gain in 1996, earnings from continuing operations were \$167.5 million, or \$1.44 per share. Excluding the Special Charges in 1995, earnings from continuing operations were \$100.3 million, or \$.79 per share. In 1994, earnings from continuing operations were \$90.3 million, or \$.70 per share.

Discontinued operations consists of (i) (loss) earnings from operations, net of income tax benefit (provision), which represents the earnings or loss for a segment from the date of the earliest period presented to the respective segment's measurement date, and (ii) estimated loss on disposal, net of income tax benefit, which represents the estimated loss on disposal plus the segment's operating income or loss during the phase-out period. The phase-out period is defined as the period from the segment's measurement date to the date of disposal. The estimated loss on disposal was based on the difference between the carrying value of the segment affected and the estimated proceeds the Company expects to realize upon disposition. The estimated proceeds were the result of analyses prepared by independent third parties.

Net earnings including (i) continuing operations which includes the TJX Gain and (ii) discontinued operations which includes an after-tax restructuring charge of \$148.0 million, or \$1.40 per share, were \$75.4 million, or \$.57 per share in 1996. This compares to a net loss of \$657.1 million, or \$6.41 per share in 1995 and net earnings of \$307.5 million, or \$2.75 per share in 1994. The decrease in net earnings in 1995 was primarily due to the Special Charges.

As of December 31, 1996, CVS operated 1,408 stores in 14 states and the District of Columbia, an increase of 3.1% from 1,366 stores as of December 31, 1995.

#### LIQUIDITY AND CAPITAL RESOURCES

The following discussion regarding liquidity and capital resources should be read in conjunction with the Company's consolidated balance sheets as of December 31, 1996 and 1995, and the related consolidated statements of operations and cash flows for each of the years in the three-year period ended December 31, 1996.

The Company has four primary sources of liquidity: (i) cash and cash equivalents, (ii) cash provided by operations, (iii) commercial paper and (iv) bank loan participation notes. The Company's commercial paper program is supported by a \$320 million, five-year unsecured revolving credit facility (the "Credit Facility"). The Credit Facility contains customary financial and operating covenants. Management believes that the restrictions contained in these covenants do not materially affect the Company's financial flexibility.

The Company issues commercial paper to finance, in part, its seasonal inventory requirements and capital expenditures. Borrowing levels throughout the year are typically higher than those reflected in the Company's year-end balance sheet. Management believes that the Company's cash on hand and cash provided by operations, together with its ability to secure short-term financing through commercial paper and bank loan participation notes, will be sufficient to cover its working capital, capital expenditure and debt service requirements.

Following is a summary of the Company's liquidity as of and for the years ended December 31:

In millions, except ratios	1996	1995	1994
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Cash and cash equivalents	\$ 423.9	\$ 129.6	\$ 117.0
Net cash provided by (used in)			
investing activities	501.8	23.8	(371.1)
Net cash used in			
financing activities	(341.2)	(356.7)	(91.3)
Average daily short-term			
borrowings	182.4	756.1	567.4
Maximum short-term borrowings	543.1	1,196.2	948.5
Short-term borrowings at year-end	--	52.0	200.0
Net interest expense	23.2	53.5	30.8

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Ratios:

Net investments			
(long-term obligations)			
to total capitalization(1)	19.3%	(1.2)%	(7.9)%
Inventory turns--			
continuing operations	4.10	3.93	3.69
Current ratio	1.6	1.4	1.6

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- (1) The ratio of net investments (long-term obligations) to total capitalization was calculated by dividing (i) long-term debt less the sum of cash and cash equivalents plus investments by (ii) the sum of long-term debt plus total shareholders' equity.

Cash and cash equivalents increased \$294.3 million to \$423.9 million in 1996 primarily due to the favorable impact of (i) the Dispositions, (ii) the Linens IPO, (iii) the TJX Preferred Sales, (iv) the Revised Dividend and (v) cash provided by continuing operations. The cash flow benefit derived from these sources was offset partially by the settlement of certain obligations that were established as part of the Company's strategic restructuring plan and by certain contributions made in connection with the Footstar Distribution and the Linens IPO. Cash and cash equivalents did not change materially in 1995 from 1994.

Net cash provided by operating activities decreased \$211.8 million to \$133.7 million in 1996 primarily due to the timing of (i) the Dispositions, (ii) the Footstar Distribution, (iii) the Linens IPO and (iv) the settlement of certain obligations that were established as part of the strategic restructuring plan. Net cash provided by operating activities decreased \$152.9 million to \$345.5 million from 1994 to 1995 primarily due to the timing of the sale of the Marshalls division and operating losses and disappointing cash flow results at certain former divisions.

Net cash provided by investing activities increased \$478.0 million to \$501.8 in 1996 primarily due to (i) the Dispositions other than the sale of the Marshalls division, (ii) the Linens IPO, and (iii) the TJX Preferred Sales. Net cash provided by investing activities increased \$394.9 million from 1994 to 1995 primarily due to the sale of the Marshalls division.

Net cash used in financing activities decreased \$15.5 million to \$341.2 million in 1996 primarily due to (i) the Revised Dividend, (ii) a reduction of the amount of cash used to reduce notes payable and (iii) the proceeds received from the exercise of stock options. The favorable impact of these changes was offset partially by a decrease in book overdrafts. Net cash used in financing activities increased \$265.4 million to \$356.7 million from 1994 to 1995 primarily due to a \$148 million reduction in notes payable and the repurchase of approximately \$26.3 million of the Company's common stock in connection with managing the Company's stock incentive plans.

During 1997, the Company intends to sell the note receivable that was received as a portion of the proceeds from the sale of the Kay-Bee Toys division. In addition, the Company intends to sell, subject to market conditions, its remaining 32.5% ownership interest in Linens 'n Things, Inc. See Note 5 to the consolidated financial statements for further information about these

investments.

Management believes that the Company's cash on hand and cash provided by operations, together with its ability to secure short-term financing through commercial paper and bank loan participation notes, will be sufficient to cover the combined working capital, capital expenditure and debt service requirements of CVS and Revco in the event the contemplated merger is completed.

#### CAPITAL EXPENDITURES

Capital expenditures were \$224.4 million, \$395.0 million and \$421.4 million in 1996, 1995 and 1994, respectively. These expenditures were primarily for (i) new stores, (ii) improvements to existing stores, (iii) store equipment, (iv) information systems and (v) distribution and office facilities. The lower capital expenditure level in 1996 was primarily due to the Dispositions.

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#### Accounting Changes

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation." While SFAS No. 123 established financial accounting and reporting standards for stock-based employee compensation plans using a fair value method of accounting, it allows companies to continue to measure compensation using the intrinsic value method of accounting prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." The Company will continue to use its present APB No. 25 accounting treatment for stock-based compensation. See Note 14 to the consolidated financial statements for further information about SFAS No. 123.

Effective October 1, 1995, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and recorded a pre-tax asset impairment charge of \$110.4 million (\$5.0 million of which pertained to continuing operations) in connection with the write-down of certain fixed and intangible assets. See Note 1 to the consolidated financial statements for further information.

During the fourth quarter of 1995, the Company changed its policy from capitalizing internally developed software costs to expensing the costs as incurred and recorded a charge of \$74.5 million (\$37.8 million of which pertained to continuing operations). The effect of the change in accounting principle has been treated as a change in accounting principle that is inseparable from the effect of the change in accounting estimate. As a result, the entire amount has been treated as a change in accounting estimate. The effect of this charge was to reduce net earnings by \$45.8 million, or \$.44 per common share in 1995.

#### CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

We have made forward-looking statements in this Annual Report that are subject to risks and uncertainties. Forward-looking statements include the information concerning future results of operations of CVS after completion of the merger with Revco; the information concerning CVS' ability to continue to achieve significant sales growth; the information concerning CVS' ability to continue to reduce selling, general and administrative expenses as a percentage of net sales; the information concerning CVS' intention to sell a certain note receivable in 1997; and the information concerning CVS' intention to sell its remaining 32.5% ownership interest in Linens 'n Things, Inc. in 1997; as well as those preceded by, followed by or that otherwise include the words: "believes," "expects," "anticipates," "intends" "estimates" or other similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform

Act of 1995. You should understand that the following important factors, in addition to those discussed elsewhere in this Annual Report (including in the notes to the consolidated financial statements included herein) and in our Annual Report on Form 10-K for the year ended December 31, 1996, could affect the future results of CVS and could cause those results to differ materially from those expressed in our forward-looking statements: materially adverse changes in economic conditions generally or in the markets served by CVS; material changes in inflation; a significant delay in the expected closing of the merger with Revco; future regulatory actions affecting the chain-drug industry; competition from other drugstore chains, from alternative distribution channels such as supermarkets, mass merchants, membership clubs, other retailers and mail order companies; and from third party plans; and the continued efforts of health maintenance organizations, managed care organizations, patient benefit management companies and other third party payors to reduce prescription drug costs. The forward-looking statements referred to above are also subject to uncertainties and assumptions relating to the operations and results of operations of CVS, including: risks relating to CVS' ability to combine the businesses of CVS and Revco and the challenges inherent in diverting CVS' management focus and resources from other strategic opportunities and from operational matters for an extended period of time during the integration process; CVS' ability to secure suitable new store locations on favorable lease terms, CVS' ability to continue to purchase inventory on favorable terms; and CVS' ability to attract, hire and retain suitable pharmacists and management personnel.

#### Management's Responsibility for Financial Reporting

The integrity and objectivity of the financial statements and related financial information in this report are the responsibility of the management of the Company. The financial statements have been prepared in conformity with generally accepted accounting principles and include, when necessary, the best estimates and judgments of management.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance, at appropriate cost, that assets are safeguarded, transactions are executed in accordance with management's authorization, and the accounting records provide a reliable basis for the preparation of the financial statements. The system of internal accounting controls is continually reviewed by management and improved and modified as necessary in response to changing business conditions and recommendations of the Company's internal auditors and independent auditors.

The Audit Committee of the Board of Directors, consisting solely of outside directors, meets periodically with management, internal auditors and the independent auditors to review matters relating to the Company's financial reporting, the adequacy of internal accounting controls and the scope and results of audit work. The internal auditors and independent auditors have free access to the Audit Committee.

KPMG Peat Marwick LLP, certified public accountants, are engaged to audit the consolidated financial statements of the Company. Their Independent Auditors' Report, which is based on an audit made in accordance with generally accepted auditing standards, expresses an opinion as to the fair presentation of these financial statements.

/s/ Stanley P. Goldstein

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Stanley P. Goldstein

Chairman of the Board and Chief Executive Officer

/s/ Thomas M. Ryan

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Thomas M. Ryan  
Vice Chairman and Chief Operating Officer

/s/ Charles C. Conaway

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Charles C. Conaway  
Executive Vice President and Chief Financial Officer

February 6, 1997

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Independent Auditors' Report

To the Board of Directors and Shareholders of CVS Corporation:

We have audited the accompanying consolidated balance sheets of CVS Corporation as of December 31, 1996 and 1995 and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects the financial position of CVS Corporation at December 31, 1996 and 1995 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1996 in conformity with generally accepted accounting principles.

As discussed in notes to consolidated financial statements, the Company has adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" effective October 1, 1995.

/s/ KPMG Peat Marwick LLP

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KPMG Peat Marwick LLP  
Providence, Rhode Island

February 6, 1997

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Consolidated Statements of Operations  
CVS Corporation

In millions, except per share amounts	Years Ended December 31,		
	1996	1995	1994
Net sales	\$5,528.1	\$4,865.0	\$4,330.1
Cost of goods sold, buying and warehousing costs	3,978.1	3,506.4	3,088.2
Gross margin	1,550.0	1,358.6	1,241.9
Selling, general and administrative expenses	1,174.1	1,113.3	994.4
Depreciation and amortization	76.3	71.1	63.7
Restructuring and asset impairment charges	--	165.6	--
Total operating expenses	1,250.4	1,350.0	1,058.1
Operating profit	299.6	8.6	183.8
Gain on sale of securities	121.4	--	--
Dividend income	5.6	--	--
Interest expense, net	(23.2)	(53.5)	(30.8)
Other income (expense), net	103.8	(53.5)	(30.8)
Earnings (loss) from continuing operations before income taxes	403.4	(44.9)	153.0
Income tax (provision) benefit	(163.8)	18.4	(62.7)
Earnings (loss) from continuing operations	239.6	(26.5)	90.3
Discontinued operations:			
(Loss) earnings from operations, net of income tax benefit (provision) of \$31.0, \$171.4 and \$(156.0) in 1996, 1995 and 1994, respectively and minority interest of \$51.9 in 1994	(54.8)	(607.4)	217.2
Estimated loss on disposal, net of income tax benefit of \$56.2 and \$9.9 and minority interest of \$22.2 and \$38.4 in 1996 and 1995, respectively	(109.4)	(23.2)	--
(Loss) earnings from discontinued operations	(164.2)	(630.6)	217.2
Net earnings (loss)	75.4	(657.1)	307.5
Preferred dividends, net	(14.5)	(17.0)	(17.0)
Net earnings (loss) available to common shareholders	\$ 60.9	\$ (674.1)	\$ 290.5
PER COMMON SHARE:			
Earnings (loss) from continuing operations	\$ 2.12	\$ (.41)	\$ .70
(Loss) earnings from discontinued operations	(1.55)	(6.00)	2.05
Net earnings (loss)	\$ .57	\$ (6.41)	\$ 2.75
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	105.7	105.1	105.5
DIVIDENDS PER COMMON SHARE	\$ .44	\$ 1.52	\$ 1.52

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets  
CVS Corporation

In millions	December 31,	
	1996	1995
Assets:		
Cash and cash equivalents	\$ 423.9	\$ 129.6
Investments	179.4	175.0
Accounts receivable, net	160.8	296.4
Inventories	1,031.4	1,673.0
Prepaid expenses	177.2	286.0
Total current assets	1,972.7	2,560.0
Property and equipment, net	606.5	1,114.4
Deferred charges and other assets	131.9	91.6
Goodwill, net	120.7	195.6
Total assets	\$2,831.8	\$3,961.6

Liabilities:

Accounts payable	\$ 507.7	\$ 690.7
Accrued expenses	639.9	1,039.8
Notes payable	--	52.0

Federal income taxes	16.1	--
Other current liabilities	18.2	15.2

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 Total current liabilities 1,181.9 1,797.7

Long-term debt	303.7	327.7
Deferred income taxes	20.6	9.1
Other long-term liabilities	80.5	184.2
Minority interest in subsidiaries	--	93.8
Redeemable preferred stock	--	1.3

Shareholders' equity:

Preference stock	298.6	334.9
Common stock	1.1	111.7
Treasury stock	(273.2)	(304.6)
Guaranteed ESOP obligation	(292.1)	(309.7)
Capital surplus	199.1	54.9
Retained earnings	1,314.0	1,660.4
Other	(2.4)	.2

-----  
 Total shareholders' equity 1,245.1 1,547.8

-----  
 Total liabilities and shareholders' equity \$2,831.8 \$3,961.6  
 =====

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity  
 CVS Corporation

In millions	Shares			Dollars		
	1996	1995	1994	1996	1995	1994
PREFERENCE STOCK:						
Beginning of year	6.3	6.4	6.5	\$ 334.9	\$ 340.9	\$ 347.3
Conversion to common stock	(.7)	(.1)	(.1)	(36.3)	(6.0)	(6.4)
End of year	5.6	6.3	6.4	298.6	334.9	340.9
COMMON STOCK:						
Beginning of year	111.6	111.4	111.2	111.7	111.5	111.3
Stock options exercised and awards under stock plans	.8	.2	.2	.8	.2	.2
Effect of change in par value	--	--	--	(111.4)	--	--
End of year	112.4	111.6	111.4	1.1	111.7	111.5
TREASURY STOCK:						
Beginning of year	(6.5)	(5.8)	(5.9)	(304.6)	(283.8)	(289.7)
Repurchase of common stock	--	(.8)	--	--	(26.3)	--
Conversion of preference stock	.7	.1	.1	31.7	5.5	5.9
Other	--	--	--	(.3)	--	--
End of year	(5.8)	(6.5)	(5.8)	(273.2)	(304.6)	(283.8)
GUARANTEED ESOP OBLIGATION:						
Beginning of year				(309.7)	(328.1)	(328.6)
Reduction of guaranteed ESOP obligation				17.6	18.4	.5
End of year				(292.1)	(309.7)	(328.1)
CAPITAL SURPLUS:						
Beginning of year				54.9	48.1	42.1
Conversion of preference stock				4.6	.5	.5
Stock options exercised and awards under stock plans				27.4	6.3	5.5
Issuance of additional shares due to Footstar Distribution				.8	--	--
Effect of change in par value				111.4	--	--
End of year				199.1	54.9	48.1
RETAINED EARNINGS:						
Beginning of year				1,660.4	2,494.4	2,364.3
Net earnings (loss)				75.4	(657.1)	307.5
Dividends:						
Preference stock, net				(14.4)	(16.9)	(16.9)
Redeemable preferred stock				(.1)	(.1)	(.1)
Common stock				(46.5)	(159.9)	(160.4)



Footstar Distribution	(360.8)	--	--
End of year	1,314.0	1,660.4	2,494.4
OTHER:			
Beginning of year	.2	(1.4)	--
Cumulative translation adjustment	(.2)	1.6	(1.4)
Unrealized loss on investments, net	(2.4)	--	--
End of year	(2.4)	.2	(1.4)
TOTAL SHAREHOLDERS' EQUITY	\$1,245.1	\$1,547.8	\$2,381.6

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows  
CVS Corporation

In millions	Years Ended December 31,		
	1996	1995	1994
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net earnings (loss)	\$ 75.4	\$ (657.1)	\$ 307.5
Adjustments required to reconcile net earnings (loss) to net cash provided by operating activities:			
Restructuring and asset impairment charges	235.0	982.4	--
Depreciation and amortization	133.7	228.3	206.3
Gain on sale of securities	(121.4)	--	--
Minority interest in net earnings	22.2	38.4	51.9
Income from unconsolidated subsidiary	(4.5)	--	--
Deferred income taxes and other non-cash items	84.1	(130.3)	2.0
Change in assets and liabilities, excluding acquisitions and dispositions:			
Decrease (increase) in accounts receivable, net	37.0	(30.0)	(15.0)
(Increase) in inventories	(247.6)	(214.3)	(266.1)
(Increase) in prepaid expenses, deferred charges and other assets	(98.9)	(21.5)	(14.1)
Increase in accounts payable	293.0	179.1	74.0
(Decrease) increase in accrued expenses	(257.4)	46.4	51.8
(Decrease) increase in Federal incomes taxes payable and other liabilities	(16.9)	(75.9)	100.1
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>133.7</b>	<b>345.5</b>	<b>498.4</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Additions to property and equipment	(224.4)	(395.0)	(421.4)
Proceeds from sale of divisions and other property and equipment	240.4	423.6	86.9
Proceeds from initial public offering of Linens 'n Things, Inc.	189.4	--	--
Proceeds from sale of securities	296.4	--	--
Acquisitions, net of cash	--	(4.8)	(36.6)
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>501.8</b>	<b>23.8</b>	<b>(371.1)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Dividends paid or payable	(132.2)	(240.0)	(225.5)
(Reductions in) additions to notes payable	(52.0)	(148.0)	110.0
(Decrease) increase in book overdrafts	(170.3)	65.8	26.9
Repurchase of common stock	--	(26.3)	--
Reductions of long-term debt and obligations under capital leases	(13.3)	(10.5)	(4.4)
Proceeds from exercise of stock options and other issuances of stock	27.9	.7	--
Other	(1.3)	1.6	1.7
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(341.2)</b>	<b>(356.7)</b>	<b>(91.3)</b>
Net increase in cash and cash equivalents	294.3	12.6	36.0
Cash and cash equivalents at beginning of year	129.6	117.0	81.0
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$423.9</b>	<b>\$ 129.6</b>	<b>\$ 117.0</b>

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

CVS Corporation

1 SIGNIFICANT ACCOUNTING POLICIES

**BUSINESS**--CVS Corporation ("CVS" or the "Company"), formerly known as Melville Corporation ("Melville"), primarily operates as a single business segment, 1,408 retail drugstores in 13 Northeast and Middle Atlantic states, Georgia and the District of Columbia. CVS offers customers convenience, selection, and superior customer service as well as comprehensive prescription and pharmacy services.

**BASIS OF PRESENTATION**--The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material

intercompany balances and transactions have been eliminated.

As a result of the Company's strategic restructuring plan, the results of operations of the former (i) footwear segment (which includes the Meldisco, Footaction and Thom McAn divisions), (ii) apparel segment (which includes the Marshalls, Wilsons, and Bob's divisions) and (iii) toys and home furnishings segment (which includes the Kay-Bee Toys, This End Up and Linens 'n Things divisions) have been classified as discontinued operations in the accompanying consolidated statements of operations for all periods presented.

At December 31, 1996, the Company continues to own 32.5% of its former wholly-owned subsidiary Linens 'n Things, Inc. This investment is being accounted for using the equity method. The Company has announced its intention to dispose of, subject to market conditions, its remaining ownership interest in Linens 'n Things, Inc. during 1997. As a result, this investment has been classified as a current asset in the accompanying December 31, 1996 consolidated balance sheet.

See Note 2 for further information about the Company's strategic restructuring plan.

USE OF ESTIMATES--The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS--Cash and cash equivalents, which consist of cash and temporary investments with maturities of three months or less when purchased, are stated at cost which approximates market.

INVENTORIES--Inventories are stated at the lower of cost or market using the first-in, first-out ("FIFO") method. At December 31, 1995, certain inventories at the Kay-Bee Toys, Thom McAn and This End Up divisions were accounted for using the last-in, first out (LIFO) method. As discussed in Note 2, these divisions were disposed of during 1996.

PROPERTY AND EQUIPMENT--Depreciation of property and equipment is computed on a straight line basis, generally over the estimated useful lives of the assets or, when applicable, the life of the lease, whichever is shorter. Estimated useful lives generally range from 10 to 40 years for buildings and improvements, 5 to 10 years for fixtures and equipment, and 5 to 10 years for leasehold improvements.

IMPAIRMENT OF LONG-LIVED ASSETS--An impairment loss is recognized whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company primarily groups and evaluates assets at an individual store level, which is the lowest level at which independent cash flows can be identified. When evaluating assets for potential impairment, the Company considers historical performance and, in addition, estimates future results. If the carrying amount of the related assets exceed the expected future cash flows, the Company considers the assets to be impaired and records an impairment loss.

DEFERRED CHARGES AND OTHER ASSETS--Deferred charges, consisting primarily of beneficial leasehold costs, are amortized on a straight-line basis, over the remaining life of the leasehold acquired. Other assets primarily include notes receivable that were received as a portion of the proceeds from the sale of certain former divisions. The Company intends to hold these notes until maturity.

GOODWILL--Goodwill is the excess of the cost of net assets acquired in business combinations over their fair value. It is amortized on a straight-line basis generally over periods of forty years. Accumulated amortization was \$22.3 million at December 31, 1996 and \$28.2 million at December 31, 1995. The Company evaluates goodwill for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In completing its evaluation, the Company compares estimated future cash flows to the carrying amount of goodwill. If the carrying amount of goodwill exceeds the expected

future cash flows, the Company considers the goodwill to be impaired and records an impairment loss.

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FINANCIAL INSTRUMENTS--The Company's financial instruments primarily include cash and cash equivalents, accounts receivable, accounts payable and accrued expenses. Due to the short-term maturity of these instruments, their carrying amounts approximate fair value.

MAINTENANCE AND REPAIRS--Maintenance and repair costs are charged directly to expense as incurred. Major renewals or replacements that substantially extend the useful life of an asset are capitalized and depreciated.

STORE OPENING AND CLOSING COSTS--New store opening costs are charged directly to expense as incurred. In the event a store closes before its lease expires, the remaining lease obligation, less anticipated sublease rental income, is provided for in the year of closing.

ADVERTISING COSTS--External costs incurred to produce media advertising are charged to expense when the advertising takes place.

FEDERAL INCOME TAXES--The Company and its wholly-owned subsidiaries file a consolidated Federal income tax return. The tax benefit for dividends on unallocated shares of Series One ESOP Convertible Preference Stock is recorded as a credit to retained earnings.

POSTRETIREMENT BENEFITS--The annual cost of postretirement benefits is funded in the period incurred and the cost is recognized over an employee's term of service with the Company.

EARNINGS PER COMMON SHARE--Primary earnings per share is computed by dividing (i) net earnings, after deducting net dividends on redeemable preferred stock and ESOP preference stock ("Primary Earnings") by (ii) the weighted average number of common shares outstanding during the year assuming the exercise of stock options ("Primary Shares").

Fully diluted earnings per share assumes that the ESOP preference stock is converted into common stock. Fully diluted earnings per share is computed by dividing (i) Primary Earnings, after accounting for the difference between the current dividends on the ESOP preference stock and the common stock and after making adjustments for certain non-discretionary expenses that are based on net earnings such as incentive bonuses and profit sharing by (ii) Primary Shares plus the number of additional common shares that would be issued upon the conversion of the ESOP preference stock. Fully diluted earnings per share presentation is not required on the face of the consolidated statements of operations due to the results of the materiality tests mandated by Accounting Principles Board ("APB") Opinion No. 15, "Earnings Per Share."

ACCOUNTING CHANGES--Effective January 1, 1996, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation." While SFAS No. 123 established financial accounting and reporting standards for stock-based employee compensation plans using a fair value method of accounting, it allows companies to continue to measure compensation using the intrinsic value method of accounting as prescribed in APB Opinion No. 25, "Accounting for Stock Issued to Employees." The Company will continue to use its present APB No. 25 accounting treatment for stock-based compensation. See Note 14 for further information about SFAS No. 123.

Effective October 1, 1995, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and recorded a pre-tax asset impairment charge of \$110.4 million (\$5.0 million of which pertained to continuing operations) in connection with the write-down of certain fixed and intangible assets. The above charge resulted when the Company began identifying and measuring impairment at a lower level under SFAS No. 121 than under its previous accounting policy. Under the

Company's previous policy, each of the Company's operating divisions' long-lived assets were evaluated as a group for impairment at the division level if the division was either incurring operating losses or was expecting to incur operating losses in the future. Since the expected future cash flows measured at the division level were in excess of the carrying value of the related divisional assets, no previous impairment losses were recorded.

During the fourth quarter of 1995, the Company changed its policy from capitalizing internally developed software costs to expensing the costs as incurred and recorded a charge of \$74.5 million (\$37.8 million of which pertained to continuing operations). The effect of the change in accounting principle has been treated as a change in accounting principle that is inseparable from the effect of the change in accounting estimate. As a result, the entire amount has been treated as a change in accounting estimate. The effect of this charge was to reduce net earnings by \$45.8 million, or \$.44 per common share in 1995.

RECLASSIFICATIONS--Certain reclassifications have been made to the consolidated financial statements of prior years to conform to the 1996 presentation.

## 2 STRATEGIC RESTRUCTURING PROGRAM

### THE 1995 PLAN

On October 24, 1995 (the "1995 Measurement Date"), the Board of Directors approved a comprehensive restructuring plan that was the product of a strategic review initiated in 1994. The restructuring plan included, among other things, (i) the continued operation of CVS (which includes CVS, and initially the Linens 'n Things and Bob's divisions), (ii) the disposal of the Marshalls, Kay-Bee Toys, Wilsons and This End Up divisions, (iii) the spin-off of Footstar, Inc. ("Footstar"), which includes the Meldisco, Footaction and Thom McAn divisions, and (iv) the elimination of certain corporate overhead costs.

In connection with the approval of the 1995 Plan, the Company recorded a pre-tax charge of \$872.0 million in the fourth quarter of 1995 (the "1995 Charge") and discontinued the footwear segment in accordance with APB Opinion No. 30, "Reporting the Results of Operations--Reporting the effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." As a result of the 1996 Plan discussed below, the apparel segment and toys and home furnishings segment were also discontinued. Accordingly, the portion of the 1995 Charge that pertains to these segments, \$711.4 million, is reflected as a component of discontinued operations and the remainder, \$160.6 million, is included in continuing operations. The amount recorded in continuing operations primarily includes costs associated with (i) exiting certain geographic markets, (ii) closing duplicate warehouse facilities and (iii) closing Melville's Corporate Headquarters. These costs primarily include asset write-offs, closed store and warehouse lease liabilities and employee severance. Management determined the amount of (i) asset write-offs by comparing the carrying value of the assets to be disposed of to the anticipated proceeds, (ii) closed store and warehouse lease liabilities by calculating the present value of the future minimum lease payments and (iii) employee severance based on an employee's compensation and years of service with the Company. The Company applied the provisions of EITF 94-3 to determine the appropriate accounting treatment for these charges.

Asset write-offs included in the 1995 Charge totaled \$659.7 million. The balance of the charge, \$212.3 million, will require cash outlays of which \$85.7 million had been incurred as of December 31, 1996. The remaining cash outlays are expected to be incurred primarily in 1997.

In connection with various components of the 1995 Plan, positions for approximately 1,200 store employees and 400 administrative employees have been eliminated.

At December 31, 1996, the 1995 Plan had been completed without significant

changes to the Board approved plan. As a result, the Company expects that earnings from continuing operations before income taxes will improve by approximately \$38 million on an annual basis (projected 1997 versus 1995) primarily due to the elimination of certain corporate overhead costs.

#### The 1996 Plan

On May 29, 1996 (the "1996 Measurement Date"), the Board of Directors approved further refinements to the restructuring plan. The refinements included (i) a formal plan to separate the Linens 'n Things and Bob's divisions from CVS and (ii) a formal plan to convert 80 to 100 of Thom McAn's stores to the Footaction store format and to exit the Thom McAn business by mid-1997.

In connection with the approval of the 1996 Plan, the Company recorded, as a component of discontinued operations, a pre-tax charge of \$235.0 million during the second quarter of 1996 (the "1996 Charge"), substantially all of which related to asset write-offs that will not require net cash outlays. As a result of adopting the plan to separate the Linens 'n Things and Bob's divisions from CVS, the apparel and toys and home furnishings segments were discontinued in accordance with APB Opinion No. 30.

The Company expects that the 1996 Plan will be completed during 1997 without significant changes to the Board approved plan.

The asset write-offs of \$659.7 million and \$235.0 million included in the 1995 Charge and 1996 Charge, respectively, primarily relate to the write-down of the operating divisions to be disposed of to estimated fair value. The significant judgement included in the above write-offs relates to the estimation of fair value for each division. These estimates were prepared by independent third parties.

#### THE DISPOSALS

On November 17, 1995, the Company completed the sale of the Marshalls division to The TJX Companies, Inc. for total proceeds of approximately \$600 million.

On May 4, 1996, the Company completed the sale of the Kay-Bee Toys division to Consolidated Stores Corporation for total proceeds of approximately \$285.7 million.

On May 25, 1996, the Company completed the sale of the Wilsons division to an investor group led by Wilsons' management for total proceeds of approximately \$69.7 million.

On May 31, 1996, the Company completed the sale of the This End Up division to an investor group for approximately \$18.2 million.

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On October 12, 1996, the Company completed the spin-off of Footstar by distributing 100% of the shares of Footstar common stock held by CVS to its shareholders of record as of the close of business on October 2, 1996 (the "Footstar Distribution"). See Note 20 for further information about the Footstar Distribution.

On December 2, 1996, the Company completed the initial public offering of 67.5% of Linens 'n Things, Inc. (the "Linens IPO") for net proceeds of approximately \$189.4 million.

The gain and losses that resulted from the above disposals are reflected in the "Discontinued Operations" section of the Consolidated Statements of Operations. The 1996 Charge includes approximately \$47 million related to finalizing certain disposals accrued for in the 1995 Charge. The Company has no continuing involvement with the divested operations.

#### OTHER EVENTS

On October 16, 1996, the Company's trading symbol on the New York Stock Exchange was changed to "CVS" from "MES."

On November 20, 1996, the Company officially changed its name to CVS Corporation from Melville Corporation.

Following is a summary of the significant components of the 1995 Charge and the 1996 Charge:

In millions	1995 Charge	Utilized in 1995 (1)	Reserve Balance at 12/31/95 (4)	1996 Charge	Utilized in 1996 (1) (2) (3)
Loss on sale of divisions	\$587.1	\$382.2	\$204.9	\$134.7	\$177.1
Lease obligations and asset write-offs relating to store, office and warehouse closings	146.7	66.4	80.3	5.7	30.5
Contract termination costs and asset write-offs relating to outsourcing certain administrative functions	64.3	40.3	24.0	--	19.2
Severance and employee benefits	48.0	.2	47.8	10.6	23.3
Costs relating to the consolidation of the footwear divisions and exit from Thom McAn	20.0	.4	19.6	84.0	103.6
Other	5.9	5.9	--	--	--
	\$872.0	\$495.4	\$376.6	\$235.0	\$353.7

	Reserve Balance at 12/31/96 (4)
Loss on sale of divisions	\$162.5
Lease obligations and asset write-offs relating to store, office and warehouse closings	55.5
Contract termination costs and asset write-offs relating to outsourcing certain administrative functions	4.8
Severance and employee benefits	35.1
Costs relating to the consolidation of the footwear divisions and exit from Thom McAn	--
Other	--
	\$257.9

<FN>

- (1) \$6.1 million and \$79.6 million of the amounts utilized in 1995 and 1996, respectively, required cash outlays.  
(2) \$80.0 million of the amount utilized in 1996 represents reserve balances that were retained by Footstar.  
(3) \$2.4 million of the amount utilized in 1996 represents reserve balances that were retained by Linen 'n Things, Inc.  
(4) \$36.8 million and \$12.0 million of the reserve balance at December 31, 1995 and 1996, respectively, is included in balance sheet classifications other than accrued expenses.

The Company believes that the reserve balance at December 31, 1996 is adequate to cover the remaining costs associated with the strategic restructuring plan.

### 3 DISCONTINUED OPERATIONS

Following is a summary of discontinued operations by reporting segment for the years ended December 31:

In millions	1996	1995	1994
Net sales:			
Footwear	\$1,391.1	\$1,827.3	\$1,839.9
Apparel	526.4	3,055.7	3,538.9
Toys and Home Furnishings	900.3	1,768.4	1,576.7
	\$2,817.8	\$6,651.4	\$6,955.5
Operating (loss) profit: (1)			
Footwear	\$ (12.4)	\$ 47.5	\$ 160.5
Apparel	(171.3)	(704.0)	161.1
Toys and Home Furnishings	(49.7)	(115.9)	99.4
	\$ (233.4)	\$ (772.4)	\$ 421.0

<FN>

- (1) Includes the effect of the 1995 Charge and the 1996 Charge.

Following is a summary of the assets and liabilities of discontinued operations by reporting segment as of December 31:

In millions	1996	1995
<b>Assets:</b>		
Footwear	\$ --	\$ 650.5
Apparel	141.0	313.9
Toys and Home Furnishings	--	811.3
	\$141.0	\$1,775.7
<b>Liabilities:</b>		
Footwear	\$ --	\$ 347.6
Apparel	61.0	125.5
Toys and Home Furnishings	--	356.8
	\$ 61.0	\$ 829.9

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4 ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31:

In millions	1996	1995
Trade	\$145.1	\$159.5
Federal income taxes	--	22.4
Other	25.8	147.9
	170.9	329.8
Less allowance for doubtful accounts	(10.1)	(33.4)
	\$160.8	\$296.4

5 INVESTMENTS

Investments consisted of the following at December 31:

In millions	1996	1995
Note receivable	\$100.0	\$ --
Investment in Linens 'n Things, Inc.	83.2	--
TJX preferred stock	--	175.0
	183.2	175.0
Unrealized loss on note receivable	(3.8)	--
	\$179.4	\$175.0

The note receivable, which matures on May 4, 2000, was received as a portion of the proceeds from the sale of the Kay-Bee Toys division. The Company intends to

sell this note to a third party in 1997. At December 31, 1996, the fair market value of this investment was approximately \$96.2 million which represents the present value of the expected future cash flows discounted at an interest rate that the Company considers to be appropriate for a loan that would currently be offered to a company with comparable credit risk.

As discussed in Notes 1 and 2, the Company continues to own 32.5% of Linens 'n Things, Inc. At December 31, 1996, the fair market value of this investment was approximately \$123 million based on quoted market prices.

During 1996, the Company completed the sale of the TJX preferred stock for total proceeds of approximately \$296.4 million. The sale of these securities resulted in a gain of \$121.4 million.

Except for the investment in Linens 'n Things, Inc., the above assets are classified as available-for-sale securities and are recorded at fair value. Unrealized holding gains and losses, net of the related tax effect, are reported as a separate component of shareholders' equity until realized.

6 INVENTORIES

Inventories consisted of the following at December 31:

In millions	1996	1995
Finished goods	\$1,031.4	\$1,661.7
Work-in-process	--	.8
Raw materials and supplies	--	10.5
	\$1,031.4	\$1,673.0

7 PREPAID EXPENSES

Prepaid expenses consisted of the following at December 31:

In millions	1996	1995
Deferred income taxes	\$154.8	\$228.1
Other	22.4	57.9
	\$177.2	\$286.0

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8 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

In millions	1996	1995
Land	\$ 55.6	\$ 56.7
Buildings and improvements	160.9	244.3
Fixtures and equipment	461.4	910.1
Leasehold improvements	237.1	483.3



Capital leases	3.3	13.5
-----		
	918.3	1,707.9
Accumulated depreciation and amortization	(311.8)	(593.5)
-----		
	\$ 606.5	\$1,114.4
=====		

#### 9 ACCRUED EXPENSES

Accrued expenses consisted of the following at December 31:

In millions	1996	1995
-----		
Restructuring reserves	\$245.9	\$ 339.8
Taxes other than Federal income taxes	58.9	121.0
Salaries and wages	49.7	70.7
Rent	40.8	78.0
Other	244.6	430.3
-----		
	\$639.9	\$1,039.8
=====		

#### 10 SHORT-TERM BORROWING ARRANGEMENTS

Following is a summary of short-term borrowings outstanding at December 31:

In millions	1996	1995
-----		
Commercial paper	\$ --	\$ 52.0
Weighted average interest rate	--	5.9%
-----		
Lines of credit available	\$ 320.0	\$1,148.0
Letters of credit outstanding	\$ 11.9	\$ 331.4
=====		

The Company primarily uses commercial paper to finance its seasonal inventory requirements and capital expenditures. The Company's commercial paper program is supported by a \$320 million, five-year unsecured revolving credit facility. The Company can also obtain short-term financing through the issuance of bank loan participation notes.

There were no short-term borrowings outstanding at December 31, 1996. The Company is not obligated under any formal or informal compensating balance agreements.

#### 11 LONG-TERM DEBT

Long-term debt consisted of the following at December 31:

In millions	1996	1995
-----		
Guaranteed ESOP note, 8.52%, payable in various installments through 2008(1)	\$309.4	\$323.0
Other notes and mortgages payable	12.2	19.0
-----		
	321.6	342.0

Less current installments	(17.9)	(14.3)
-----		
	\$303.7	\$327.7
=====		

<FN>

(1) See Note 18 for further information about the Company's ESOP Plan.

At December 31, 1996, the aggregate long-term debt maturing during each of the next five years was as follows: \$17.9 million in 1997, \$21.5 million in 1998, \$13.8 million in 1999, \$16.5 million in 2000 and \$20.8 million in 2001.

Following is a summary of net interest expense for the years ended December 31:

	=====		
In millions	1996	1995	1994
-----			
Interest expense(1)	\$30.7	\$53.9	\$31.8
Less interest income and capitalized interest	(7.5)	(.4)	(1.0)
-----			
Net interest expense	\$23.2	\$53.5	\$30.8
=====			

<FN>

(1) In accordance with the provisions of Statement of Position 76-3, "Accounting Practices for Certain Employee Stock Ownership Plans" and allowable under the transition provisions of Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans," interest expense excludes interest related to the guaranteed ESOP note, but includes interest recognized in connection with the Company's contribution to the ESOP Plan.

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## 12 LEASES

The Company and its subsidiaries lease retail stores, warehouse facilities and office facilities over periods generally ranging from 5 to 20 years and generally have options to renew such terms over periods ranging from 5 to 15 years.

Following is a summary of the future minimum lease payments under capital leases, rental payments required under operating leases, and future minimum sublease rentals, excluding lease obligations for closed stores, at December 31, 1996:

	=====	
In millions	Capital Leases	Operating Leases
-----		
1997	\$ .6	\$ 190.3
1998	.6	183.4
1999	.6	171.2
2000	.4	161.8
2001	.4	148.4
Thereafter	1.6	908.3
-----		
	\$ 4.2	\$1,763.4
Less amount representing interest	(2.1)	
-----		
Present value of minimum lease payments	\$ 2.1	
=====		
Total future minimum sublease rentals	\$ --	\$ 30.8

Following is a summary of net rental expense for operating leases relating to continuing operations for the years ended December 31:

In millions	1996	1995	1994
Minimum rentals	\$176.0	\$170.7	\$154.1
Contingent rentals based on sales	30.2	25.2	21.9
	206.2	195.9	176.0
Less sublease rentals	(10.1)	(7.7)	(7.7)
	\$196.1	\$188.2	\$168.3

### 13 CONTINGENCIES

In connection with certain dispositions completed between 1991 and 1996, the Company continues to guarantee lease obligations for approximately 2,600 former stores. The Company is indemnified for these obligations by the respective purchasers. Assuming that each respective purchaser became insolvent, an event which the Company believes to be highly unlikely, management estimates that it could settle these obligations for approximately \$1.3 billion at December 31, 1996. In the opinion of management, the ultimate disposition of these guarantees will not have a material adverse effect on the Company's consolidated financial condition, results of operations or future cash flows.

The Company is also a defendant in various lawsuits arising in the ordinary course of business. In the opinion of management and the Company's outside counsel, the ultimate disposition of these lawsuits, exclusive of potential insurance recoveries, will not have a material adverse effect on the Company's consolidated financial condition, results of operations or future cash flows.

### 14 STOCK INCENTIVE PLANS

As discussed in Note 1, the Company applies APB Opinion No. 25 and related interpretations to account for its stock incentive plans. Pro forma disclosures as if the Company adopted the cost recognition requirements of SFAS No. 123 are presented below.

The Company's 1990 Omnibus Stock Incentive Plan (the "Omnibus Plan"), as amended, provides for the granting of up to 9,238,942 shares of common stock to key employees in the form of options, restricted stock and other stock-based awards. In 1996, the maximum number of shares available for grant was adjusted for the effect of the Footstar Distribution. The Omnibus Plan replaced the Company's 1973 and 1987 Stock Option Plans and the 1980 Restricted Stock Plan (collectively, the "Previous Employee Plans").

Stock options granted under the Omnibus Plan are awarded at fair market value on the date of the grant. The right to exercise these options generally commences between one and three years from the date of the grant and expires ten years after the date of the grant, provided that the option holder continues to be employed by the Company.

The 1996 Directors Stock Plan (the "1996 Directors Plan"), provides for the granting of up to 173,230 shares of common stock to the Company's non-employee directors (the "Eligible Directors"). In 1996, the maximum number of shares available for grant was adjusted for the effect of the Footstar Distribution. Eligible Directors (i) are entitled to receive an annual grant of

347 shares of common stock, (ii) are paid one-half of their annual retainer fee in shares of common stock and (iii) may elect to receive common stock as compensation for certain other services rendered. In addition, Eligible Directors may elect to defer compensation payable in common stock until their service as a director concludes. In this case, Eligible Directors are entitled to receive dividend equivalent credits on their deferred shares. The 1996 Directors Plan replaced the Company's 1989 Directors Stock Option Plan (the "Previous Directors Plan").

In connection with the termination of certain retirement benefits, the 1996 Directors Plan provided each Eligible Director the option to receive the actuarial present value of these benefits in the form of a common stock grant in lieu of receiving the previously accrued benefit in pension payments upon retirement. All Eligible Directors elected to receive the common stock grant and to defer the grant until their service as a director concludes. The impact of this grant was immaterial to the results of operations.

Following is a summary of the activity in the Omnibus Plan, the 1996 Directors Plan, the Previous Employee Plans and the Previous Directors Plan:

	1996		1995		1994	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	7,616,005	\$35.27	4,143,867	\$38.08	4,008,084	\$38.12
Granted	1,108,673	33.45	3,519,719	31.89	232,128	32.35
Exercised	(910,640)	30.78	(20,095)	27.16	(88,261)	24.57
Canceled	(2,210,456)	37.58	(27,486)	32.37	(8,084)	38.97
Outstanding at end of year	5,603,582	\$34.73	7,616,005	\$35.27	4,143,867	38.08
Options exercisable at year-end	3,403,940		4,108,217		3,925,594	

Following is a summary of fixed stock options outstanding at December 31, 1996:

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Years of Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$23.14 to 35.72	4,128,253	7.59	\$32.53	1,928,611	\$32.11
36.85 to 39.72	786,632	5.76	39.14	786,632	39.14
40.05 to 47.41	688,697	4.71	42.85	688,697	42.85
\$23.14 to 47.41	5,603,582	6.98	\$34.73	3,403,940	\$35.91

The number of shares and the weighted-average exercise prices included in the above tables have been restated to reflect the effect of the Footstar Distribution.

At December 31, 1996, approximately 1.6 million of the 5.6 million stock options outstanding were held by employees of divisions sold or to be sold, or by employees terminated under the Company's strategic restructuring plan. These individuals may exercise their options for a 90 day period following termination.

The Omnibus Plan also permits the granting of performance share awards, representing rights to receive common stock grants based upon certain performance criteria over a three-year performance period, and performance based restricted share awards, representing rights to receive common stock grants based upon certain performance criteria over a one-year performance period. Compensation expense related to grants under these provisions is based on the current market price of the Company's common stock and the extent to which the performance criteria is being met.

Following is a summary of performance shares and performance based restricted shares for the years ended December 31:

Dollars in millions	1996	1995	1994
Units awarded	--	32,297	77,376
Fair market value of units awarded	--	\$1.2	\$2.9
Shares granted related to units previously awarded	35,380	60,807	42,051
Fair market value of shares granted	\$1.3	\$2.2	\$1.6

The weighted-average grant date fair value of performance shares and performance based restricted shares granted in 1996, 1995 and 1994 was \$37.01, \$35.79 and \$37.19, respectively.

Restricted stock awards are currently granted under the Omnibus Plan only in connection with the hiring or retention of key executives and are subject to certain conditions. Restrictions are lifted generally three or four years after the date of grant, provided that the executive continues to be employed by the Company.

Following is a summary of restricted stock awards for the years ended December 31:

Dollars in millions	1996	1995	1994
Shares granted	52,042	112,773	55,050
Fair market value of shares granted	\$1.8	\$4.1	\$1.9
Shares canceled	58,680	11,452	1,535

The weighted-average grant date fair value of restricted stock granted in 1996, 1995 and 1994 was \$34.93, \$32.54 and \$34.97, respectively.

At December 31, 1996, there were 3,072,183 shares available for grant under the Omnibus Plan and 150,078 shares available for grant under the 1996 Directors Plan.

Compensation cost recognized in net earnings under the Company's stock-based compensation plans amounted to \$1.4 million in 1996, \$3.1 million in 1995 and \$1.4 million in 1994. Had compensation cost for the Company's 1996 and 1995 grants under its stock-based compensation plans been determined consistent with SFAS No. 123, the Company's net earnings and net earnings per common share for 1996 and 1995 would approximate the pro forma amounts below:

In millions, except per share amounts	1996	1995
Net earnings (loss):		
As reported	\$ 75.4	\$(657.1)
Pro forma	69.8	(662.2)
Net earnings (loss) per common share:		
As reported	\$ .57	\$(6.41)
Pro forma	.52	(6.46)

=====

The weighted-average grant date fair value of options granted during 1996 and 1995 was \$10.07 and \$8.01 per option, respectively. The fair value of each option grant was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions for 1996 and 1995: a dividend yield of 1.07%; an expected volatility of 20.51%, a risk free interest rate of 7.0% and an expected life of 5.0 years and 4.1 years, respectively. The effects of applying SFAS No. 123 in this pro forma disclosure are not indicative of future amounts. SFAS No. 123 does not apply to awards prior to 1995.

#### 15 Capital Structure

On November 20, 1996, the Company changed its state of incorporation from New York to Delaware. The Certificate of Incorporation of CVS provides for the authorization of 350,120,619 shares of capital stock of which 300,000,000 shares are common stock, \$.01 par value per share, 120,619 are cumulative preferred stock, \$.01 par value per share and 50,000,000 shares are preference stock, \$1.00 par value per share.

In connection with managing the Company's stock incentive plans, 842,900 shares of common stock were reacquired in 1995 at a cost of \$26.3 million. No shares were reacquired in 1996.

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#### 16 REDEEMABLE PREFERRED STOCK

At December 31, 1995, 17,269 shares of cumulative preferred stock, Series B, \$4.00 dividend, redeemable at \$100 plus accrued dividends were issued and outstanding. During 1996, the Company redeemed these shares at a cost of \$1.3 million plus accrued dividends.

#### 17 POSTRETIREMENT BENEFITS

The Company provides postretirement health benefits for retirees who meet certain eligibility requirements.

The weighted average discount rate used to determine the accumulated postretirement benefit obligation (the "APBO") was 7.5% and 6.9% at December 31, 1996 and 1995, respectively.

Following is a summary of the accrued postretirement benefit cost at December 31:

In millions	1996	1995
Retirees	\$3.8	\$16.6
Fully eligible active plan participants	.1	1.4
Other active plan participants	.1	10.8
APBO	4.0	28.8
Unrecognized prior service gain	1.2	13.1
Unrecognized net gain	1.7	8.0
Accrued postretirement benefit cost	\$6.9	\$49.9

In 1992, the Company amended these plans to terminate certain benefits. The

amendment resulted in a prior service gain of \$16.7 million. The prior service gain is being amortized over 13 years. The decrease in the accrued postretirement benefit cost from December 31, 1995 to December 31, 1996 is primarily due to the Footstar Distribution.

Following is a summary of the net periodic cost recorded for the years ended December 31:

In millions	1996	1995	1994
Interest expense	\$1.6	\$2.0	\$2.0
Service cost(1)	(.7)	(.9)	(.5)
	\$ .9	\$1.1	\$1.5

<FN>

(1) Net of prior service gain amortization.

For measurement purposes, a 9.3% increase in the cost of covered healthcare benefits was assumed for 1996. The rate was assumed to decline gradually to 5% in 2005, and remain level thereafter. A one percent increase in the healthcare cost trend would increase the APBO by \$.3 million at December 31, 1996 and the annual expense for 1996 by \$.03 million.

#### 18 EMPLOYEE STOCK OWNERSHIP PLAN

The Company sponsors a defined contribution plan for full-time employees which includes its Employee Stock Ownership Plan (the "ESOP").

In 1989, the ESOP Trust borrowed \$357.5 million through a 20-year loan that is guaranteed by the Company. The proceeds from the loan were used to purchase 6,688,494 shares of ESOP convertible preference stock from the Company. The original liquidation value of the ESOP convertible preference stock (\$53.45) is guaranteed by the Company. Each share of ESOP convertible preference stock is convertible into 1.157 shares of common stock. The total number of new shares to be allocated each year is calculated by multiplying the ratio of each year's debt service payment to total current and future debt service payments by the number of unallocated shares of ESOP preference stock in the plan. At December 31, 1996, 5.6 million shares were outstanding, of which, 1.2 million shares were allocated to participants, .4 million were committed to be released and the remaining 4.0 million shares were held in the ESOP trust for future allocations. At December 31, 1996, the fair value of the allocated shares was approximately \$64 million. The Company is required to repurchase at the original liquidation value, for cash or common stock at the Company's option, the ESOP convertible preference stock allocated to participants upon distribution to the participant. Dividends are cumulative at the stated rate or the common rate if higher.

Following is a summary of the ESOP for the years ended December 31:

In millions	1996	1995	1994
Dividends paid	\$21.8	\$49.2	\$ --
Dividends accrued	--	--	24.9
Annual dividends	21.8	24.3	24.9

Tax benefit of annual dividends	8.8	9.8	10.0
Cash contributions	19.3	14.2	11.1
Interest costs incurred by the ESOP Trust	27.5	28.4	29.0
Compensation expense recognized(1)	3.4	6.2	5.9
Interest expense recognized(1)	12.0	6.4	5.3

<FN>

(1) Amounts include discontinued operations.

The Company's contribution to the ESOP, plus the dividends paid on the ESOP convertible preference stock held by the ESOP Trust, are used to repay the loan principal and interest. The Company has reflected the guaranteed ESOP obligation as long-term debt on the balance sheet. The ESOP obligation is collateralized by the unallocated shares of ESOP convertible preference stock. A corresponding amount of "Guaranteed ESOP obligation" is recorded as a reduction of shareholders' equity. The ESOP convertible preference stock is not considered when computing primary earnings per share, but is considered when computing fully diluted earnings per share. In connection with the Company's strategic restructuring plan, approximately 300,000 shares of ESOP convertible preference stock will be converted to common stock in 1997. Based on the market price of the Company's common stock at December 31, 1996, these conversions will result in an expense of \$3.5 million. This expense was provided for in the 1995 restructuring charge.

#### 19 401 (K) PROFIT SHARING PLAN

The Company has a qualified 401(k) Profit Sharing Plan available to full-time employees who meet the plan's eligibility requirements. This plan, which is also a defined contribution plan, contains a profit sharing component that makes tax deferred contributions to each employee based on certain performance criteria. The plan permits employees to make contributions up to the maximum limits allowed by Internal Revenue Code Section 401(k). Under the 401(k) component, the Company matches a portion of the employee's contribution under a predetermined formula based on the employee's contribution level and years of vesting service. Company contributions to the plan for both profit sharing and matching employee contributions totaled \$22.4 million, \$21.7 million and \$18.0 million in 1996, 1995 and 1994, respectively. These amounts include contributions made on behalf of employees of the Company's former divisions.

#### 20 INCOME TAXES

Deferred income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Following is a summary of the significant components of the Company's deferred tax assets and liabilities as of December 31:

In millions	1996	1995
Deferred tax assets:		
Property and equipment	\$ 57.5	\$112.5
Employee benefits	57.6	75.9
Inventories	6.9	22.7
Other assets	12.2	7.8
Total deferred tax assets	134.2	218.9
Deferred tax liabilities	--	--
Net deferred tax assets	\$134.2	\$218.9



Based on historical pre-tax earnings, the Company believes it is more likely than not that the deferred tax assets will be realized.

The Company's income tax (provision) benefit for continuing operations for the years ended December 31 consisted of the following:

In millions	1996	1995	1994
Federal	\$ (129.6)	\$14.6	\$ (47.7)
State	(34.2)	3.8	(15.0)
	\$ (163.8)	\$18.4	\$ (62.7)

The income tax (provision) benefit includes a net deferred tax benefit of \$.2 million and \$123.9 million in 1996 and 1995, respectively and a net deferred tax charge of \$15.3 million in 1994.

Following is a reconciliation of the Company's effective tax rate to the U.S. statutory income tax rates for the years ended December 31:

	1996	1995	1994
Percent of pre-tax income	40.6%	41.0%	41.0%
State income taxes, net of Federal tax benefit	(5.5)	(5.9)	(6.4)
Goodwill and other	(.1)	(.1)	.4
Statutory income tax rate	35.0%	35.0%	35.0%

As discussed in Note 2, the Company completed the Footstar Distribution on October 12, 1996. The Company believes that the Footstar Distribution should be tax-free to the Company and its shareholders, based on a legal opinion provided by outside counsel. However, since opinions of counsel are not binding on the Internal Revenue Service or the courts, it could ultimately be determined that the Footstar Distribution does not qualify as a tax-free distribution. If such occurred, the Company would be required to recognize a capital gain for tax purposes equal to the difference between the fair market value of the shares of Footstar stock distributed and the Company's basis in such shares. The Company, however, believes the likelihood of the Footstar Distribution not qualifying as a tax-free distribution to be remote.

#### 21 SUPPLEMENTAL CASH FLOW INFORMATION

During the years ended December 31, the Company had the following non-cash financing activities:

In millions	1996	1995	1994
-------------	------	------	------

Fair value of assets acquired	\$ --	\$ 4.8	\$41.8
Cash paid	--	4.8	36.6
-----			
Liabilities assumed	\$ --	\$ --	\$ 5.2
-----			
Stock or notes received for divisions sold	\$172.4	\$175.0	\$ --
=====			

Cash payments for income taxes and interest for the years ended December 31 were as follows:

=====			
In millions	1996	1995	1994
-----			
Income tax refund (payment)	\$ 3.8	\$(141.5)	\$(122.4)
Interest, net of amounts capitalized	\$31.5	\$ 55.5	\$ 34.1
=====			

#### 22 SUBSEQUENT EVENT (UNAUDITED)

On February 6, 1997, the Company signed a definitive merger agreement to acquire Revco D.S., Inc. ("Revco") in a stock-for-stock merger valued at approximately \$2.8 billion. CVS will also assume approximately \$900 million of existing Revco debt as part of this transaction.

Under the terms of the merger agreement, CVS will combine with Revco in an exchange of stock that is expected to qualify for treatment as a pooling of interests transaction, tax free to Revco shareholders. If the merger is completed, for each share of Revco common stock held, Revco shareholders will receive the sum of (i) 0.4692 shares of CVS common stock and (ii) the number of shares of CVS common stock equal to the quotient obtained by dividing \$20 by the average closing price of CVS common stock during ten trading days randomly selected out of the twenty trading days ending on the fifth trading day preceding the closing date (collectively, the "Exchange Ratio"), provided that, under no circumstances will the Exchange Ratio exceed 1.0097 or be less than 0.8837.

The transaction is subject to approval by the shareholders of both companies, expiration of the applicable waiting period under the Hart-Scott Rodino Antitrust Improvements Act of 1976, as amended, and certain other customary closing conditions. If all the closing conditions have been met, it is expected that the transaction will be completed by mid-year 1997.

#### 23 SUMMARY OF QUARTERLY RESULTS

-----				
Unaudited; in millions, except per share amounts	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
-----				
Net sales:				
1996	\$1,258.4	\$1,363.5	\$1,356.3	\$1,549.9
1995	1,128.1	1,202.9	1,170.0	1,364.0
-----				
Gross margin:				
1996	\$ 362.0	\$ 388.5	\$ 374.1	\$ 425.4
1995	322.3	342.8	330.4	363.1
-----				
Earnings (loss) from continuing operations:				
1996	\$ 40.6	\$ 90.9	\$ 44.8	\$ 63.3
1995	28.0	33.3	12.8	(100.6)
-----				
Net earnings (loss):				
1996	\$ 14.2	\$ (62.5)	\$ 63.6	\$ 60.1
-----				

	1995	(26.4)	30.6	(5.2)	(656.1)
Earnings (loss) per share from continuing operations:					
1996 Primary	\$ .35		\$ .83	\$ .39	\$ .55
1996 Fully diluted	.35		.83	.38	.55
1995	.23		.28	.08	(1.00)
Net earnings (loss) per share:					
1996 Primary	\$ .10		\$ (.62)	\$ .57	\$ .53
1996 Fully diluted	.10		(.62)	.55	.53
1995	(.29)		.25	(.09)	(6.28)

## 24 MARKET INFORMATION

CVS Corporation's common stock is listed on the New York Stock Exchange. Its trading symbol is CVS. Information with respect to quarterly trading ranges (based on low/high sales prices), dividends paid per share and the number of record shareholders is summarized as follows:

Unaudited	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year
Market price per share(1):					
1996	\$27 1/4-\$36 3/8	\$35 1/4-\$44 1/2	\$36 3/8-\$46	\$36 3/8-\$44 3/4	\$27 1/4-\$46
1995	30 3/8- 37 1/2	33 5/8- 39 7/8	32 3/4- 37 1/4	28 3/8- 37 1/8	28 5/8- 39 7/8
Dividends paid per share:					
1996	\$.11	\$.11	\$.11	\$.11	\$.44
1995	.38	.38	.38	.38	1.52
Number of common shareholders:					
1996					5,700
1995					6,500

<FN>

(1) The stock prices shown in the table above are actual trading prices and do not reflect any adjustment for the effect of the Footstar Distribution which was completed on October 12, 1996.

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### Five-Year Financial Summary CVS Corporation

Dollars in millions, except per share amounts	1996	1995	1994	1993	1992
Results of operations:					
Net sales	\$5,528.1	\$4,865.0	\$4,330.1	\$3,948.2	\$3,632.1
Operating profit(1)(2)	299.6	223.6	183.8	177.1	193.8
Earnings (loss) from continuing operations	239.6	(26.5)	90.3	91.9	65.7
Comparable earnings from continuing operations(1)(2)(3)	167.5	100.3	90.3	91.9	100.8
Net earnings (loss)	75.4	(657.1)	307.5	331.8	133.4
Net earnings (loss) available to common shareholders	60.9	(674.1)	290.5	75.1	85.1
Dividends declared	68.6	184.3	185.4	184.9	180.3
Per common share:					
Earnings (loss) from continuing operations	\$ 2.12	\$ (.41)	\$ .70	\$ .71	\$ .48
Comparable earnings from continuing operations(1)(2)(3)	1.44	.79	.70	.71	.81
Net earnings (loss)	.57	(6.41)	2.75	3.00	1.13
Dividends	.44	1.52	1.52	1.52	1.48
Financial Position:					
Current assets	\$1,972.7	\$2,560.0	\$2,650.5	\$2,384.0	\$2,429.8
Total assets	2,831.8	3,961.6	4,735.5	4,258.0	4,202.2
Current liabilities	1,181.9	1,797.7	1,642.7	1,292.7	1,350.5
Total long-term obligations and redeemable preferred stock	305.6	336.0	351.8	365.9	376.4
Percentage of net sales:					
Operating profit(1)(2)	5.4%	4.6%	4.2%	4.5%	5.3%
Comparable earnings from continuing operations(1)(2)(3)	3.0	2.1	2.1	2.3	2.8
Net earnings (loss)	1.4	(13.5)	7.1	8.4	3.7

<FN>

- (1) For comparative purposes, operating profit for 1995 excludes the effect of \$165.6 million of restructuring and asset impairment charges and \$49.4 million of non-recurring operating charges. Comparable earnings from continuing operations and comparable earnings per common share from continuing operations for 1995 excludes the after-tax effect of these charges.
- (2) For comparative purposes, operating profit for 1992 excludes the effect of \$59.4 million of restructuring charges. Comparable earnings from continuing operations and comparable earnings per common share from continuing operations for 1992 excludes the after-tax effect of this charge.
- (3) For comparative purposes, comparable earnings from continuing operations and comparable earnings per common share

from continuing operations for 1996 excludes the after-tax effect of the \$121.4 million gain on sale of securities.

## SUBSIDIARIES OF THE REGISTRANT

The Registrant is the parent corporation of CVS New York, Inc. ("CVS New York"), a New York corporation. CVS New York is the direct parent corporation of CVS Center, Inc., a New Hampshire corporation, and the indirect parent of CVS Pharmacy, Inc., a Rhode Island corporation, and CVS H.C., Inc., a Minnesota corporation.

CVS Pharmacy, Inc. is the direct parent of CVS H.C., Inc. which is the parent corporation of Nashua Hollis CVS, Inc. ("Nashua Hollis"), a New Hampshire corporation. Nashua Hollis is the parent corporation of approximately 1,145 subsidiaries, most of which operate CVS stores located in the United States, selling prescription drugs, health and beauty care products.

Nashua Hollis is also the parent corporation of Bob's Stores Center, Inc., which is the parent corporation of Bob's H.C., Inc. Bob's H.C., Inc. is the parent corporation of Amherst NY Bob's, Inc., which is the parent corporation of 59 subsidiaries which were formed to operate specialty retail stores located in the United States, selling casual clothing and footwear for the entire family.

CVS Pharmacy, Inc. (formerly known as CVS, Inc.) is the parent corporation of Melville Realty Company, Inc., a New York corporation, which is the parent corporation of Melville Realty Management Corporation, MREFC, Inc., Danbury MRC, Inc., MRC Manchester Devco, Inc., Amherst MRC Devco, Inc., MRC Woodlands Devco, Inc., MRC Henderson Devco, Inc., MRC Westbury Devco, Inc., MRC Norwalk Devco, Inc., and MRC Staten Island Devco, Inc.

The Registrant is also an indirect parent corporation of Bob's, Inc., a Connecticut corporation and CVS of DC & VA, Inc., a Maryland corporation, which are included in the consolidated financial statements of the Registrant.

Several of the subsidiaries referred to in this Exhibit have not yet opened their stores for business, and several no longer operate any stores. All of the subsidiaries referred to herein are included in the consolidated financial statements of the Registrant.

The names of other subsidiaries are omitted as, considered in the aggregate as a single subsidiary, they would not constitute a significant subsidiary.

<ARTICLE> 5

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND THE CONSOLIDATED STATEMENTS OF OPERATIONS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND THE CONSOLIDATED STATEMENTS OF OPERATIONS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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<PERIOD-START>	JAN-01-1995	
<PERIOD-END>	DEC-31-1995	
<CASH>		129,600
<SECURITIES>		175,000
<RECEIVABLES>		159,500
<ALLOWANCES>		33,400
<INVENTORY>		1,673,000
<CURRENT-ASSETS>		2,560,000
<PP&E>		1,707,900
<DEPRECIATION>		593,500
<TOTAL-ASSETS>		3,961,600
<CURRENT-LIABILITIES>		1,797,700
<BONDS>		327,700
<PREFERRED-MANDATORY>		1,300
<PREFERRED>		0
<COMMON>		111,700
<OTHER-SE>		1,436,100
<TOTAL-LIABILITY-AND-EQUITY>		3,961,600
<SALES>		4,865,000
<TOTAL-REVENUES>		4,865,000
<CGS>		3,506,400
<TOTAL-COSTS>		3,506,400
<OTHER-EXPENSES>		1,350,000
<LOSS-PROVISION>		0
<INTEREST-EXPENSE>		53,500
<INCOME-PRETAX>		(44,900)
<INCOME-TAX>		(18,400)
<INCOME-CONTINUING>		(26,500)
<DISCONTINUED>		(630,600)
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		(657,100)
<EPS-PRIMARY>		(6.41)
<EPS-DILUTED>		0

<ARTICLE> 5

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED CONDENSED BALANCE SHEETS AND THE CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<MULTIPLIER> 1,000

<PERIOD-TYPE>	9-MOS	
<FISCAL-YEAR-END>		DEC-31-1995
<PERIOD-START>		JAN-01-1995
<PERIOD-END>		SEP-30-1995
<CASH>		80,100
<SECURITIES>		0
<RECEIVABLES>		278,500
<ALLOWANCES>		14,300
<INVENTORY>		2,584,200
<CURRENT-ASSETS>		3,098,900
<PP&E>		2,360,500
<DEPRECIATION>		809,100
<TOTAL-ASSETS>		5,207,100
<CURRENT-LIABILITIES>		2,368,700
<BONDS>		332,100
<PREFERRED-MANDATORY>		1,300
<PREFERRED>		0
<COMMON>		111,600
<OTHER-SE>		2,089,400
<TOTAL-LIABILITY-AND-EQUITY>		5,207,100
<SALES>		3,501,000
<TOTAL-REVENUES>		3,501,000
<CGS>		2,505,500
<TOTAL-COSTS>		2,505,500
<OTHER-EXPENSES>		840,500
<LOSS-PROVISION>		0
<INTEREST-EXPENSE>		37,200
<INCOME-PRETAX>		117,800
<INCOME-TAX>		43,700
<INCOME-CONTINUING>		74,100
<DISCONTINUED>		(75,100)
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		(1,000)
<EPS-PRIMARY>		(.13)
<EPS-DILUTED>		0



<ARTICLE> 5

<LEGEND>

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</LEGEND>

<MULTIPLIER> 1,000

<PERIOD-TYPE>	6-MOS	
<FISCAL-YEAR-END>		DEC-31-1995
<PERIOD-START>		JAN-01-1995
<PERIOD-END>		JUL-01-1995
<CASH>		82,700
<SECURITIES>		0
<RECEIVABLES>		233,500
<ALLOWANCES>		13,900
<INVENTORY>		2,284,800
<CURRENT-ASSETS>		2,757,200
<PP&E>		2,255,300
<DEPRECIATION>		760,200
<TOTAL-ASSETS>		4,810,900
<CURRENT-LIABILITIES>		1,935,900
<BONDS>		331,200
<PREFERRED-MANDATORY>		1,300
<PREFERRED>		0
<COMMON>		111,500
<OTHER-SE>		2,132,100
<TOTAL-LIABILITY-AND-EQUITY>		4,810,900
<SALES>		2,331,000
<TOTAL-REVENUES>		2,331,000
<CGS>		1,665,900
<TOTAL-COSTS>		1,665,900
<OTHER-EXPENSES>		540,600
<LOSS-PROVISION>		0
<INTEREST-EXPENSE>		20,600
<INCOME-PRETAX>		103,900
<INCOME-TAX>		42,600
<INCOME-CONTINUING>		61,300
<DISCONTINUED>		(57,100)
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		4,200
<EPS-PRIMARY>		(.04)
<EPS-DILUTED>		0

<ARTICLE> 5

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</LEGEND>

<MULTIPLIER> 1,000

<PERIOD-TYPE>	3-MOS	
<FISCAL-YEAR-END>		DEC-31-1995
<PERIOD-START>		JAN-01-1995
<PERIOD-END>		APR-01-1995
<CASH>		88,300
<SECURITIES>		0
<RECEIVABLES>		260,700
<ALLOWANCES>		15,900
<INVENTORY>		2,341,600
<CURRENT-ASSETS>		2,846,600
<PP&E>		2,203,000
<DEPRECIATION>		738,000
<TOTAL-ASSETS>		4,872,300
<CURRENT-LIABILITIES>		1,948,500
<BONDS>		331,300
<PREFERRED-MANDATORY>		1,300
<PREFERRED>		0
<COMMON>		111,500
<OTHER-SE>		2,136,200
<TOTAL-LIABILITY-AND-EQUITY>		4,872,300
<SALES>		1,128,100
<TOTAL-REVENUES>		1,128,100
<CGS>		805,800
<TOTAL-COSTS>		805,800
<OTHER-EXPENSES>		266,800
<LOSS-PROVISION>		0
<INTEREST-EXPENSE>		8,100
<INCOME-PRETAX>		47,400
<INCOME-TAX>		19,400
<INCOME-CONTINUING>		28,000
<DISCONTINUED>		(54,400)
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		(26,400)
<EPS-PRIMARY>		(.29)
<EPS-DILUTED>		0