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FORM 10-K405

CVS HEALTH Corp - CVS

Filed: March 21, 2002 (period: December 29, 2001)

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

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 29, 2001

Commission file number 001-01011

CVS CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware	**050494040**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One CVS Drive Woonsocket, Rhode Island	**02895**
(Address of principal executive offices)	(Zip Code)

(401) 765-1500
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Exchange Act:

Common Stock, par value $0.01 per share	**New York Stock Exchange**
Title of each class	Name of each exchange on which registered

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. ☒

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $12,618,901,911 as of March 13, 2002, based on the closing price of the common stock on the New York Stock Exchange. For purposes of this calculation, only executive officers and directors are deemed to be the affiliates of the registrant.

As of March 13, 2002, the registrant had 391,686,076 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Filings made by companies with the Securities and Exchange Commission sometimes "incorporate information by reference." This means that the company is referring you to information that was previously filed with the SEC, and this information is considered to be part of the filing you are reading. The following materials are incorporated by reference into this Form 10-K:

- Information contained on pages 12 through 32 of our Annual Report to Stockholders for the fiscal year ended December 29, 2001 is incorporated by reference in response to Item 7 and 8 of Part II.
- Information contained in our Proxy Statement for the 2002 Annual Meeting of Stockholders is incorporated by reference in response to Items 10 through 13 of Part III.

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PART I

Item 1. — Business

OVERVIEW

CVS Corporation is a leader in the retail drugstore industry in the United States with net sales of $22.2 billion in fiscal 2001, making us the second largest retail drugstore chain based on sales. As of December 29, 2001, we operated 4,191 retail and specialty pharmacy stores in 33 states and the District of Columbia, making us the largest retail drugstore chain in the nation based on store count. We currently operate in 60 of the top 100 U.S. drugstore markets and hold the number one market share in 35 of these markets, more than any other retail drugstore chain. Overall, we hold the number one or number two market share in 73% of the markets in which we operate. During fiscal 2001, we filled over 309 million prescriptions, or approximately 11% of the U.S. retail market. Our current operations are grouped into two businesses: Retail Pharmacy and Pharmacy Benefit Management ("PBM"). Prior to 2001, our operations were grouped into four businesses: Retail Pharmacy, PBM, Specialty Pharmacy and the Internet Pharmacy business. During fiscal 2001, we changed our reporting structure and as a result, the Specialty Pharmacy and Internet Pharmacy businesses are no longer considered to be separate businesses. The Specialty Pharmacy business is now a component of the PBM business and the Internet Pharmacy business is a component of the Retail Pharmacy business.

> *Retail Pharmacy* ~ As of December 29, 2001, the Retail Pharmacy business included 4,145 retail drugstores and the online retail website, CVS.com. The retail drugstores are located in 26 states and the District of Columbia, operating under the CVS® or CVS/pharmacy® name. CVS/pharmacy stores sell prescription drugs and a wide assortment of general merchandise, including over-the-counter drugs, greeting cards, film and photofinishing services, beauty products and cosmetics, seasonal merchandise and convenience foods, which we refer to as "front store" products. Existing stores generally range in size from approximately 8,000 to 12,000 square feet, although most new stores are based on either an approximately 11,000 or 12,000 square foot prototype building, which typically include a drive-thru pharmacy. The Retail Pharmacy is our only reportable segment as it represented approximately 96% of consolidated net sales and operating profit in fiscal 2001.
>
> *Pharmacy Benefit Management* ~ The PBM business provides a full range of prescription benefit management services to managed care and other organizations. These services include plan design and administration, formulary management, mail order pharmacy services, claims processing and generic substitution. The PBM business, which currently manages more than 12 million lives, operates under the PharmaCare Management Services name and ranks as one of the top ten full service PBMs in the nation. The PBM business also includes our Specialty Pharmacy operations, which represent the largest integrated retail and mail provider of specialty pharmacy services in the nation. Specialty pharmacy focuses on supporting individuals that require complex and expensive drug therapies to treat conditions such as organ transplants, HIV/AIDS and genetic conditions such as infertility, multiple sclerosis and certain cancers. As of December 29, 2001, we operated 46 specialty pharmacies, located in 20 states and the District of Columbia, and two specialty mail order facilities. Specialty pharmacy stores, which operate under the CVS ProCare name, average 2,000 square feet in size and sell prescription drugs and a limited assorted of front store items such as alternative medications, homeopathic remedies and vitamins.

Our fiscal 2001 sales of $22.2 billion are grouped into two major categories, pharmacy and front store. Pharmacy sales have been growing, and we believe will continue to grow, at a faster pace than front store sales. Pharmacy sales represented 66% of total sales in fiscal 2001, compared to 63% in fiscal 2000 and 59% in fiscal 1999. Total pharmacy sales increased 14.5% to $14.8 billion, while front store sales, which are generally higher margin than pharmacy sales, increased 3.9% to $7.4 billion. We believe that our pharmacy operations will continue to represent a critical part of our business and strategy due to our ability to attract and retain managed care customers, favorable industry trends and our on-going program of purchasing customer lists from independent pharmacies. The U.S. retail pharmacy market is estimated to exceed $165 billion in sales for 2001 and is expected to continue to be among the fastest growing segments in the retail sector as it continues to benefit from favorable industry trends. These trends include an aging American population consuming a greater number of

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prescription drugs, pharmaceuticals being used more often as the first line of defense for managing illness and the introduction and direct to consumer marketing of new drugs.

Front store sales should continue to benefit from our strategy to be the first to market with new products and services, using innovative marketing, introducing more products which are unique to CVS and adjusting our mix of merchandise to match customer needs and preferences. Examples of this are our aggressive expansion of unique photo services, which has resulted in CVS becoming a leader in one-hour and online photo services and one of Kodak's largest online customers. The ExtraCare® card program, our relationship marketing program, is another example whereby we offer special promotions and incentives to our best customers to reward their patronage and encourage increased loyalty. Currently, over 25 million CVS customers have an ExtraCare card. We also continue to expand our private label product offers, particularly with the expansion of the Essence of Beauty® line of bath and body products.

Merger with Revco D.S., Inc. ~ On May 29, 1997, we completed a merger with Revco D.S. Inc., pursuant to which 120.6 million shares of CVS common stock were exchanged for all the outstanding common stock of Revco. The aggregate value of this transaction, including the assumption of $900 million of existing Revco debt, was $3.8 billion (based on stock market valuations at the time of the merger). The merger with Revco was a milestone event for our company in that it more than doubled our revenues and made us the nation's number one drugstore retailer in terms of store count. The merger brought us into high-growth, contiguous markets in the Mid-Atlantic, Southeast and Midwest regions of the United States.

Merger with Arbor Drugs, Inc. ~ On March 31, 1998, we completed a merger with Arbor Drugs, Inc., pursuant to which 37.8 million shares of CVS common stock were exchanged for all the outstanding common stock of Arbor. The aggregate value of this transaction, including the assumption of $17 million of existing Arbor debt, was $1.5 billion (based on stock market valuations at the time of the merger). The merger with Arbor made us the market share leader in metropolitan Detroit, the nation's fourth largest retail drugstore market at the time, and strengthened our position as the nation's top drugstore retailer in terms of store count and retail prescriptions dispensed.

Our common stock is listed on the New York Stock Exchange under the trading symbol "CVS". CVS Corporation is a Delaware corporation. Our Store Support Center (corporate office) is located at One CVS Drive, Woonsocket, Rhode Island 02895, telephone (401) 765-1500.

RETAIL PHARMACY BUSINESS

Operating Strategy ~ Our operating strategy is to provide a broad assortment of high-quality merchandise at competitive prices using a retail format that emphasizes service, innovation and convenience. One of the keys to our strategy is technology, which allows us to focus on constantly improving service and exploring ways to provide more personalized product offerings and services. We believe that continuing to be the first to market with new products and services, using innovative marketing, introducing more products which are unique to CVS and adjusting our mix of merchandise to match customer needs and preferences is very important to our ability to maintain customer satisfaction.

Products ~ A typical CVS/pharmacy store sells prescription drugs and a wide assortment of high-quality, nationally advertised brand name and private label merchandise. General merchandise categories include over-the-counter drugs, greeting cards, film and photofinishing services, beauty products and cosmetics, seasonal merchandise and convenience foods, which we refer to as "front store" products. We purchase our merchandise from numerous manufacturers and distributors. We believe that competitive sources are readily available for substantially all of the products we carry and the loss of any one supplier would not have a material effect on the business. Consolidated net sales by major product group are as follows:

	Percentage of Net Sales(1)		
	2001	2000	1999
Prescription drugs	66%	63%	59%
Over-the-counter and personal care	10	11	12
Beauty/cosmetics	7	7	6
General merchandise and other	17	19	23
	100%	100%	100%

(1) Percentages are estimates based on store scanning data.

To complement the national brand name products we offer, we also carry a full range of high-quality private label products that are only available through CVS. We carried over 1,500 CVS brand products, which accounted for approximately 12% of our front store sales during fiscal 2001. Due to the success of our private label program, we continue to assess opportunities to expand our range of private label product offerings.

Store Development ~ The addition of new stores has played, and will continue to play, a major role in our continued growth and success. Our store development program focuses on three areas: entering new markets, adding stores within existing markets and relocating stores to more convenient, freestanding sites. During 2001, we opened 126 new stores, relocated 122 stores and closed 68 stores. New store development included 43 stores in new markets, including: Miami and Ft. Lauderdale, Florida; Las Vegas, Nevada; and Dallas, Houston and Fort Worth, Texas. During the last five years we opened more than 1,700 new and relocated stores. Approximately half of our store base was opened or significantly remodeled within the last five years. During fiscal 2002, we expect to open approximately 150-175 new stores (including 75 in new markets), 100 relocations and 50 store closings in addition to the stores closing as a part of the restructuring announced during the fourth quarter of fiscal 2001. We believe that continuing to grow our store base and locating stores

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in desirable geographic markets are essential components to competing effectively in the current managed care environment. As a result, we believe that our store development program is an integral part of our ability to maintain our leadership position in the retail drugstore industry.

Information Systems ~ We have invested significantly in information systems to enable us to deliver a high level of customer service while lowering costs and increasing operating efficiency. We were one of the first in the industry to introduce Drug Utilization Review technology that checks for harmful interactions between prescription drugs, over-the-counter products, vitamins and herbal remedies. We were also one of the first in the industry to install a chain wide automatic prescription refill system, called Rapid Rx Refill, which enables customers to order prescription refills 24 hours a day using a touch-tone telephone. During fiscal 2001, we completed the rollout of EPIC®, a multiyear project that reengineered the way our pharmacists communicate and fill prescriptions. The project included integrated workflow improvements, proprietary systems technology and automated pill-counting machines in high volume stores. We expect EPIC will continue to improve quality assurance and customer service, while reducing labor costs. We also have several supply chain initiatives under way, including our Promotional Forecasting and Allocation system and an improved store-level Assisted Inventory Management system, which will more effectively link our stores and distribution centers with suppliers to speed the delivery of merchandise to our stores in a manner that both reduces out-of-stock positions and lowers our investment in inventory.

Customers ~ During fiscal 2001, we served an average of 2.5 million customers per day. Since our sales are to numerous customers, including managed care organizations, the loss of any one customer would not have a material effect on the business. No single customer accounts for 10% or more of our total sales.

Seasonality ~ The majority of our sales, particularly pharmacy sales, are generally not seasonal in nature. However, front store sales tend to be higher during the December holiday season. For additional information we refer you to the Note "Quarterly Financial Information" on page 30 of the "Notes to Consolidated Financial Statements" in our Annual Report to Stockholders for the fiscal year ended December 29, 2001.

Working Capital Practices ~ We fund the growth of our business through a combination of cash flow from operations, commercial paper and long-term borrowings. Our liquidity is not currently dependent on the use of off-balance sheet transactions other than normal operating leases. We currently expect to continue to utilize our commercial paper program during fiscal 2002 to support our working capital needs. We may also elect to use additional long-term borrowings and/or other financing sources in the future to support our continued growth. Due to the nature of the retail drugstore business, the majority of our non-pharmacy sales are in cash, while third party insurance programs, which typically settle in less than 30 days, represented 91% of our pharmacy sales in 2001. Our customer returns are not significant.

Associate Development ~ As of December 29, 2001, we employed approximately 107,000 associates, about 54,000 of whom are part-time employees working less than 30 hours per week. To deliver the highest levels of service to our customers and partners, we devote considerable time and attention to our people and service standards. We emphasize attracting and training friendly and helpful associates to work in our stores and throughout our organization. Our pharmacists consistently rank among the best in the industry on measurements of trust, relationship building and accessibility. This high level of service and expertise has played a key role in the growth of our company.

Intellectual Property and Licenses ~ We have registered or applied for registration of a variety of trade names, service marks, trademarks and business licenses for use in our business. We regard our intellectual property as having significant value and as being an important factor in the marketing of the Company and our stores. We are not aware of any facts that could negatively impact our continuing use of any of our intellectual property. Our pharmacies and pharmacists must be licensed by the appropriate state boards of pharmacy. Our pharmacies and distribution centers are also registered with the Federal Drug Enforcement Administration. Because of these licensing and registration requirements, we must comply with various statutes, rules and regulations, a violation of which could result in a suspension or revocation of these licenses or registrations.

Competition ~ The retail drugstore business is highly competitive. We believe that we compete principally on the basis of: (i) store location and convenience, (ii) customer service and satisfaction, (iii) product selection and variety and (iv) price. In each of the markets we serve, we compete with independent and other retail drugstore chains, supermarkets, convenience stores, mail order prescription providers, discount merchandisers and internet pharmacies.

Cautionary Statement Concerning Forward-Looking Statements ~ The Private Securities Litigation Reform Act of 1995 (the "Reform Act") provides a safe harbor for forward-looking statements made by or on behalf of CVS Corporation. The Company and its representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in the Company's filings with the Securities and Exchange Commission and in its reports to stockholders. Generally, the inclusion of the words "believe," "expect," "intend," "estimate," "anticipate," "will," and similar expressions identify statements that constitute "forward-looking statements". All statements addressing operating performance of CVS Corporation or any subsidiary, events, or developments that the Company expects or anticipates will occur in the future, including statements relating to sales growth, earnings or earnings per common share growth, free cash flow, inventory levels and turn rates, store development, relocations and new market entries, as well as statements expressing optimism or pessimism about future operating results or events, are forward-looking statements within the meaning of the Reform Act. The forward-looking statements are and will be based upon management's then-current views and assumptions regarding future events and operating performance, and are applicable only as of the dates of such statements. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. By their nature, all forward-looking statements involve risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements for a number of reasons, including but not limited to:

- The strength of the economy in general or in the markets served by CVS, including changes in consumer purchasing power and/or spending patterns;
- Increased competition from other drugstore chains, from alternative distribution channels such as supermarkets, membership clubs, mail order companies, discount retailers and internet companies (e-commerce) and from other third party plans;
- Changes in consumer preference or loyalties;
- Price reductions taken by the Company in response to competitive pressures, as well as price reductions taken to drive demand that may not result in anticipated sales levels;

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- Our ability to achieve projected levels of efficiencies, cost reduction measures and other benefits from the restructuring plan announced during the fourth quarter of fiscal 2001 and other initiatives;
- The effects of litigation and the creditworthiness of the purchasers of former businesses whose store leases are guaranteed by CVS;
- Our ability to generate sufficient cash flows to support capital expansion, and general operating activities, and our ability to obtain necessary financing at favorable interest rates;
- Changes in laws and regulations, including changes in accounting standards, taxation requirements, including tax rate changes, new tax laws and revised tax law interpretations;
- Interest rate fluctuations and other capital market conditions;

- The continued introduction of successful new prescription drugs;
- The continued efforts of health maintenance organizations, managed care organizations, pharmacy benefit management companies and other third party payers to reduce prescription drug costs;
- Our ability to continue to successfully implement new computer systems and technologies;
- Our ability to successfully attract customers through our customer reactivation program;
- Our ability to continue to secure suitable new store locations at favorable lease terms;
- Our ability to continue to purchase inventory on favorable terms;
- Our ability to attract, hire and retain suitable pharmacists and management personnel;
- Our ability to establish effective advertising, marketing and promotional programs (including pricing strategies) in the different geographic markets in which we operate; and
- Other risks and uncertainties detailed from time to time in our filings with the Securities and Exchange Commission.

The foregoing list is not exhaustive. There can be no assurance that the Company has correctly identified and appropriately assessed all factors affecting its business. Additional risks and uncertainties not presently known to the Company or that it currently believes to be immaterial also may adversely impact the Company. Should any risks and uncertainties develop into actual events, these developments could have material adverse effects on the Company's business, financial condition, and results of operations. For these reasons, you are cautioned not to place undue reliance on the Company's forward-looking statements.

Item 2. — Properties

We lease most of our stores under long-term leases that vary as to rental amounts, expiration dates, renewal options and other rental provisions. For additional information on the amount of our rental obligations for our leases, we refer you to the Note "Leases" on page 24 of "Notes to Consolidated Financial Statements" in our Annual Report to Stockholders for the fiscal year ended December 29, 2001.

As of December 29, 2001, we owned approximately 2% of our 4,191 retail and specialty pharmacy drugstores. Net selling space for our retail and specialty pharmacy drugstores increased approximately 2.5% to 31.5 million square feet as of December 29, 2001, from 30.8 million square feet as of December 30, 2000. Approximately half of our store base was opened or significantly remodeled within the last five years.

We own five distribution centers located in Alabama, North Carolina, Rhode Island, South Carolina and Tennessee and lease five additional facilities located in Indiana, New Jersey, Michigan, Pennsylvania and Virginia. The ten distribution centers total approximately 5,400,000 square feet as of December 29, 2001. During the fourth quarter of 2001, we announced our plan to close the Henderson, North Carolina distribution center. It is anticipated that the Henderson facility will be closed by May 2002 and its operations will be transferred among the remaining distribution centers.

We own our corporate headquarters building located in Woonsocket, Rhode Island, which contains approximately 552,000 square feet. We lease approximately 200,000 square feet of additional office space in Rhode Island. We also lease approximately 199,000 square feet in three mail order service facilities located in Columbus and Fairfield, Ohio and Pittsburgh, Pennsylvania. During the fourth quarter of fiscal 2001, we announced our intent to close the Columbus, Ohio mail order facility. The Columbus facility was closed in March 2002 and its operations were transferred to the Pittsburgh, Pennsylvania facility.

Following is a breakdown by state of our 4,191 retail and specialty pharmacy store locations as of December 29, 2001:

	Specialty Stores	Retail Stores	Total
Alabama	1	138	139
Arizona	1	—	1
California	7	—	7
Connecticut	—	129	129
Delaware	—	2	2
District of Columbia	2	48	50
Florida	8	37	45
Georgia	1	280	281
Hawaii	1	—	1
Illinois	1	89	90

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Indiana	—	268	268
Kentucky	—	66	66
Maine	—	18	18
Maryland	2	170	172
Massachusetts	3	324	327
Michigan	—	248	248
Minnesota	1	—	1
Missouri	1	—	1
Nevada	—	3	3
New Hampshire	—	29	29
New Jersey	—	219	219
New York	4	410	414
North Carolina	1	273	274
Ohio	—	375	375
Oregon	1	—	1
Pennsylvania	2	345	347
Rhode Island	1	53	54
South Carolina	1	174	175
Tennessee	1	139	140
Texas	5	6	11
Vermont	—	2	2
Virginia	—	245	245
Washington	1	—	1
West Virginia	—	55	55
	46	4,145	4,191

In addition, in connection with certain business dispositions completed between 1991 and 1997, we continue to guarantee lease obligations for approximately 1,100 former stores. We are indemnified for these guarantee obligations by the respective purchasers. These guarantees generally remain in effect for the initial lease term and any extension thereof pursuant to a renewal option provided for in the lease prior to the time of the disposition. For additional information, we refer you to the Note "Commitments & Contingencies" on page 28 of "Notes to Consolidated Financial Statements" in our Annual Report to Stockholders for the fiscal year ended December 29, 2001.

Management believes that its owned and leased facilities are suitable and adequate to meet the Company's anticipated needs. At the end of the existing lease terms, management believes the leases can be renewed or replaced by alternate space.

Item 3. — Legal Proceedings

On November 21, 2000, a collective action under the Fair Labor Standards Act (the "FLSA") styled Hill v. CVS Rx Services, Inc., Civil Action No. CV 00-HGD-3355-S, was filed against CVS in the Federal District Court of Alabama by certain current and former CVS pharmacists. The action contends that, as a result of CVS' pay practices, these pharmacists should not be treated as salaried exempt employees for purposes of the FLSA and, therefore, the Company violated the FLSA by failing to pay such pharmacists at a rate of time and one half for hours worked over 40 in any given week. Plaintiffs seek recovery of unpaid overtime as well as payment of liquidated damages, expenses and reasonable attorneys' fees. This action is in the discovery phase and it is not yet possible to predict the outcome or reasonably estimate the possible range of loss, if any, for this case.

The Company and Thomas M. Ryan, the chairman, chief executive officer and president of the Company, are named as defendants in six purported shareholder class action complaints that have been filed in the Federal District Court of Massachusetts that assert claims under the federal securities laws. By an order of the Court entered on February 6, 2002, those actions were consolidated under the caption In re CVS Corporation Securities Litigation, Civil Action No. 01-11464-JLT. The complaints in the constituent actions, which are substantially identical, alleged that several public statements by the Company between February and May 2001 failed to disclose that, as later reported by the Company in a June 27, 2001 press release, the Company's earnings per share for the second quarter and for the full year would be lower than previously anticipated. According to the complaints, following the June 27, 2001 announcement, the price of the Company's common stock fell from $44.10 to $36.51 per share. Plaintiffs asserted claims for alleged securities fraud under sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The complaint sought certification of similar classes of the Company's shareholders as well as recovery of monetary damages in an amount to be proven at trial plus plaintiffs' expenses (including reasonable attorneys fees). Under the Court's consolidation order, a lead plaintiff and lead plaintiff's counsel were appointed as provided under the Private Securities Litigation Reform Act of 1995, as amended, and plaintiffs were directed to file a consolidated amended complaint within 60 days of entry of that order. The consolidated amended complaint has not yet been filed. These actions are in their earliest stages. The Company and Mr. Ryan believe that the claims asserted in the actions are without merit and intend to defend against them vigorously.

The Company is also a party to other litigation arising in the normal course of its business, none of which is expected to be material to the Company.

Item 4. — Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 29, 2001.

Executive Officers of the Registrant

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Executive Officers of the Registrant

The following sets forth the name, age and biographical information for each of our executive officers as of December 29, 2001. In each case the officer's term of office extends to the date of the board of directors meeting following the next annual meeting of stockholders of the Company. Previous positions and responsibilities held by each of the executive officers over the past five years are indicated below:

Chris Bodine, age 46, Executive Vice President—Merchandising and Marketing of CVS Corporation and CVS Pharmacy, Inc. since February 1, 2002; Senior Vice President—Merchandising of CVS Pharmacy, Inc. from February 2000 to February 2002; Senior Vice President—Health Care Services of CVS Pharmacy, Inc. from August 1998 to February 2000 and Vice President—business Development of CVS Pharmacy, Inc. from November 1997 to August 1998.

Deborah G. Ellinger, age 43, Executive Vice President—Strategy and Business Development of CVS Corporation and CVS Pharmacy, Inc. since December 2001; Senior Vice President of Strategic Planning and Business Development, Staples, Inc. from June 1999 to October 2001; Partner, Boston Consulting Group from February 1990 to June 1999.

Rosemary Mede, age 55, Senior Vice President—Human Resources of CVS Corporation since April 2000 and Senior Vice President—Human Resources of CVS Pharmacy, Inc. since October 1997; Vice President/General Manager of Business Services, Becton Dickinson & Co. from December 1995 to September 1997.

Larry J. Merlo, age 46, Executive Vice President—Stores of CVS Corporation since April 2000 and Executive Vice President—Stores of CVS Pharmacy, Inc. since March 1998; Senior Vice President—Stores of CVS Pharmacy, Inc. from January 1994 to March 1998.

David B. Rickard, age 55, Executive Vice President and Chief Financial Officer of CVS Corporation and CVS Pharmacy, Inc. since September 1999; Senior Vice President and Chief Financial Officer of RJR Nabisco Holdings Corporation from March 1997 to August 1999; Executive Vice President, International Distillers and Vintners Americas, from November 1996 to March 1997.

Thomas M. Ryan, age 49, Chairman of the Board since April 1999 and Chief Executive Officer and President of CVS Corporation since May 1998; Vice Chairman of the Board and Chief Operating Officer of CVS Corporation from October 1996 to May 1998; Chief Executive Officer and President of CVS Pharmacy, Inc. from January 1994 to the present; director of FleetBoston Financial Corporation, Reebok International Ltd and TriCon Global Restaurant, Inc.

Douglas A. Sgarro, age 42, Senior Vice President and Chief Legal Officer of CVS Corporation since April 2000 and Senior Vice President and Chief Legal Officer of CVS Pharmacy, Inc. since September 1997; President of CVS Realty Co., a real estate development company and a division of CVS Pharmacy, Inc., since October 1999; partner in the New York City office of the law firm of Brown & Wood LLP from January 1993 to August 1997; director of Frontline Capital Group since June 2000; director of Rhode Island Economic Development Corporation (state instrumentality charged with promoting economic development in Rhode Island) since March 2000.

Larry D. Solberg, age 54, Senior Vice President—Finance and Controller of CVS Corporation since April 2000 and Senior Vice President—Finance and Controller of CVS Pharmacy, Inc. since March 1996.

Larry J. Zigerelli, age 43, Executive Vice President—Marketing of CVS Corporation and CVS Pharmacy, Inc. from April 2000 to January 2002; Executive Vice President, Corporate Development of CVS Pharmacy, Inc. from February 1999 to March 2000; Vice President and General Manager, Food and Beverage—Latin America, The Procter & Gamble Company ("Procter & Gamble") from June 1998 to January 1999; Vice President and General Manager, Puerto Rico and the Caribbean, Procter & Gamble from October 1994 to May 1998. Mr. Zigerelli resigned his position at CVS effective January 31, 2002 and was replaced by Mr. Bodine.

PART II

Item 5. — Market for Registrant's Common Equity and Related Stockholder Matters

Since October 16, 1996, our common stock has been listed on the New York Stock Exchange under the symbol "CVS." The table below sets forth the high and low sales prices of our common stock on the New York Stock Exchange Composite Tape as reported in The Wall Street Journal and the quarterly cash dividends declared per share of common stock during the periods indicated.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
2001:High	$ 62.10	$ 59.75	$ 40.48	$ 34.55	$ 62.10
Low	51.00	36.51	31.40	23.28	23.28
Cash dividends per common share	0.0575	0.0575	0.0575	0.0575	0.2300
2000:High	$ 40.63	$ 46.75	$ 46.31	$ 59.94	$ 59.94
Low	28.00	35.88	34.38	44.31	28.00
Cash dividends per common share	0.0575	0.0575	0.0575	0.0575	0.2300

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CVS has paid cash dividends every quarter since becoming a public company. Future dividend payments will depend on the Company's earnings, capital requirements, financial condition and other factors considered relevant by the Board of Directors. As of March 1, 2002, there were approximately 11,000 registered shareholders according to the records maintained by our transfer agent.

Item 6. — Selected Financial Data

The selected consolidated financial data of CVS Corporation as of and for the periods indicated in the five-year period ended December 29, 2001 have been derived from the audited consolidated financial statements of CVS Corporation, which consolidated financial statements have been audited by KPMG LLP. The selected consolidated financial data should be read in conjunction with the consolidated financial statements and the audit report of KPMG LLP, which are incorporated elsewhere herein.

	Fiscal Year				
	2001 (52 weeks)	2000 (52 weeks)	1999 (53 weeks)	1998 (52 weeks)	1997 (52 weeks)
	In millions, except per share amounts				
Statement of operations data:					
Net sales	$ 22,241.4	$ 20,087.5	$ 18,098.3	$ 15,273.6	$ 13,749.6
Gross margin(1)	5,691.0	5,361.7	4,861.4	4,129.2	3,718.3
Selling, general & administrative	4,256.3	3,761.6	3,448.0	2,949.0	2,776.0
Depreciation and amortization	320.8	296.6	277.9	249.7	238.2
Merger, restructuring and other nonrecurring charges and (gains)	343.3	(19.2)	—	178.6	422.4
Total operating expenses	4,920.4	4,039.0	3,725.9	3,377.3	3,436.6
Operating profit(2)	770.6	1,322.7	1,135.5	751.9	281.7
Other expense, net	61.0	79.3	59.1	60.9	44.1
Income tax provision	296.4	497.4	441.3	306.5	149.2
Earnings from continuing operations before extraordinary item(3)	$ 413.2	$ 746.0	$ 635.1	$ 384.5	$ 88.4
Per common share data:					
Earnings from continuing operations before extraordinary item:(3)					
Basic	$ 1.02	$ 1.87	$ 1.59	$ 0.96	$ 0.20
Diluted	1.00	1.83	1.55	0.95	0.19
Cash dividends per common share	0.230	0.230	0.230	0.225	0.220
Balance sheet and other data:					
Total assets	$ 8,628.2	$ 7,949.5	$ 7,275.4	$ 6,686.2	$ 5,920.5
Long-term debt	810.4	536.8	558.5	275.7	290.4
Total shareholders' equity	4,566.9	4,304.6	3,679.7	3,110.6	2,626.5

(1) Gross margin includes the pre-tax effect of the following nonrecurring charges: (i) in 2001, $5.7 million ($3.6 million after-tax) related to the markdown of certain inventory contained in the stores closing as part of the Action Plan, discussed in Note 2 to the consolidated financial statements, to its net realizable value, (ii) in 1998, $10.0 million ($5.9 million after-tax) related to the markdown of noncompatible Arbor Drugs, Inc. merchandise and (iii) in 1997, $75.0 million ($49.9 million after-tax) related to the markdown of noncompatible Revco D.S., Inc. merchandise.

(2) Operating profit includes the pre-tax effect of the charges discussed in Note (1) above and the following merger, restructuring, and other nonrecurring charges and gains: (i) in 2001, $346.8 million ($226.9 million after-tax) related to restructuring and asset impairment costs associated with the Action Plan and $3.5 million ($2.1 million after-tax) nonrecurring gain resulting from the net effect of the $50.3 million of settlement proceeds received from various lawsuits against certain manufacturers of brand name prescription drugs which was offset by the Company's contribution of $46.8 million of these settlement proceeds to the CVS Charitable Trust, Inc. to fund future charitable giving, (ii) in 2000, $19.2 million ($11.5 million after-tax) nonrecurring gain representing partial payment of our share of the settlement proceeds from a class action lawsuit against certain manufacturers of brand name prescription drugs, (iii) in 1998, $147.3 million ($101.3 million after-tax) charge related to the merger of CVS and Arbor and $31.3 million ($18.4 million after-tax) of nonrecurring costs incurred in connection with eliminating Arbor's information technology systems and Revco's noncompatible store merchandise fixtures and (iv) in 1997, $337.1 million ($229.8 million after-tax) charge related to the merger of CVS and Revco on May 29, 1997, $54.3 million ($32.0 million after-tax) of nonrecurring costs incurred in connection with eliminating Revco's information technology systems and noncompatible store merchandise fixtures and $31.0 million ($19.1 million after-tax) charge related to the restructuring of Big B, Inc.

(3) Earnings from continuing operations before extraordinary item and earnings per common share from continuing operations before extraordinary item include the after-tax effect of the charges and gains discussed in Notes (1) and (2) above.

Item 7. — Management's Discussion and Analysis of Financial Condition and Results of Operations

We refer you to the "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our Annual Report to Stockholders for the fiscal year ended December 29, 2001 on pages 12 through 15.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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We have not entered into any transactions using derivative financial instruments or derivative commodity instruments and we believe that our exposure to market risk associated with other financial instruments (such as fixed and variable rate borrowings), are not material.

Item 8. Financial Statements and Supplementary Data

We refer you to the "Consolidated Statements of Operations," "Consolidated Balance Sheets," "Consolidated Statements of Shareholders' Equity," "Consolidated Statements of Cash Flows," and "Notes to Consolidated Financial Statements" on pages 16 through 30 and "Independent Auditors' Report" on page 32 of our Annual Report to Stockholders for the fiscal year ended December 29, 2001.

Item 9. — Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

No events have occurred which would require disclosure under this Item.

PART III

Item 10. — Directors and Executive Officers of the Registrant

We refer you to our Proxy Statement for the 2002 Annual Meeting of Stockholders in Item 1 under the captions "Biographies of our Board Nominees," "Committees of the Board of CVS, " and in Item 3 under "Section 16(a) Beneficial Ownership Reporting Compliance." Biographical information on our executive officers is contained in Item I of this Annual Report on Form 10-K.

Item 11. — Executive Compensation

We refer you to our Proxy Statement for the 2002 Annual Meeting of Stockholders in Item 1 under the captions "Director Compensation," "Compensation Committee Interlocks and Insider Participation," "Management Planning and Development Committee Report on Executive Compensation," "Summary Compensation Table," "Stock Options," "Long Term Incentive Plan," "Stock Performance Graph" and "Certain Executive Arrangements."

Item 12. Security Ownership of Certain Beneficial Owners and Management

We refer you to our Proxy Statement for the 2002 Annual Meeting of Stockholders in Item 1 under the captions "Share Ownership of Directors and Certain Executive Officers" and "Share Ownership of Principal Stockholders."

Item 13. Certain Relationships and Related Transactions

We refer you to our Proxy Statement for the 2002 Annual Meeting of Stockholders in Item 1 under the caption "Transactions with Directors and Officers."

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

A. Documents filed as part of this report:

1. Financial Statements:

The following financial statements are incorporated by reference from pages 12 through 30 and page 32 of our Annual Report to Stockholders for the fiscal year ended December 29, 2001, as provided in Item 8 hereof:

Consolidated Statements of Operations for the fiscal years ended December 29, 2001, December 30, 2000 and January 1, 2000	16
Consolidated Balance Sheets as of December 29, 2001 and December 30, 2000	17
Consolidated Statements of Shareholders' Equity for the fiscal years ended December 29, 2001, December 30, 2000 and January 1, 2000	18
Consolidated Statements of Cash Flows for the fiscal years ended December 29, 2001 December 30, 2000 and January 1, 2000	19
Notes to Consolidated Financial Statements	20-30
Independent Auditors' Report	32
Management's Responsibility for Financial Reporting	32

2. Financial Statement Schedules

The following financial statement schedule is filed on page 16 of this report: Schedule II — Valuation and Qualifying Accounts. All other financial statement schedules are omitted because they are not applicable or the information is included in the financial statements or related notes.

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B. Reports on Form 8-K

There were no Current Reports on Form 8-K filed during the fourth quarter of fiscal 2001.

C. Exhibits

Exhibits marked with an asterisk (*) are hereby incorporated by reference to exhibits or appendices previously filed by the Registrant as indicated in brackets following the description of the exhibit.

Exhibit	Description
3.1*	Amended and Restated Certificate of Incorporation of the Registrant [incorporated by reference to Exhibit 3.1 of CVS Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1996].
3.1A*	Certificate of Amendment to the Amended and Restated Certificate of Incorporation, effective May 13, 1998 [incorporated by reference to Exhibit 4.1A to Registrant's Registration Statement No. 333-52055 on Form S-3/A dated May 18, 1998].
3.2*	By-laws of the Registrant, as amended and restated [incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1998].
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 with this report. 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].
4.2*	Indenture, dated as of February 11, 1999, between CVS Corporation and The Bank of New York [incorporated by reference to Exhibit 4.1 to Registrant's Registration Statement No. 333-78253 on Form S-4 dated May 11, 1999].
10.1*	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].

10.2*	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].
10.3*	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].
10.4*	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].
10.5*	Agreement and Plan of Merger dated as of February 6, 1997, as amended as of March 19, 1997, among the Registrant, Revco D.S., Inc. and North Acquisition, Corp. [incorporated by reference to Annex A to the Registrant's Registration Statement No. 333-24163 on Form S-4 filed March 28, 1997].
10.6*	Agreement and Plan of Merger dated as of February 8, 1998, as amended as of March 2, 1998, among the Registrant, Arbor Drugs, Inc. and Red Acquisition, Inc. [incorporated by reference to Exhibit 2 to the Registrant's Registration Statement No. 333-47193 on Form S-4 filed March 2, 1998].
10.7*	Stockholder Agreement dated as of December 2, 1996 between the Registrant, Nashua Hollis CVS, Inc. and Linens 'n Things, Inc. [incorporated by reference to Exhibit 10(i)(6) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997].
10.8*	Tax Disaffiliation Agreement dated as of December 2, 1996 between the Registrant and Linens 'n Things, Inc. and certain of their respective affiliates [incorporated by reference to Exhibit 10(i)(7) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997].
10.9*	Note Purchase Agreement dated June 7, 1989 by and among Melville Corporation and Subsidiaries Employee Stock Ownership Plan, as Issuer, Melville Corporation, as Guarantor, and the Purchasers listed therein [incorporated by reference to Exhibit 10(i)(9) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997].
10.10*	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].
10.11*	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].
10.12*	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].
10.13*	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].
10.14*	Profit Incentive Plan of Melville Corporation [incorporated by reference to Exhibit A to Melville Corporation's definitive Proxy Statement dated March 14, 1994].
10.15*	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].
10.16*	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].
10.17*	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].
10.18*	CVS Corporation 1996 Directors Stock Plan, as amended and restated [incorporated by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 1, 2000].

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10.19*	Form of Employment Agreements between the Registrant and the Registrant's executive officers [incorporated by reference to the Registrant's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1996].
10.20*	Deferred Stock Compensation Plan [incorporated by reference to Exhibit 10(iii)(A)(xi) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997].
10.21*	1997 Incentive Compensation Plan [incorporated by reference to Annex F to Amendment No. 1 to the Registrant's Registration Statement No. 333-24163 on Form S-4/A filed April 17, 1997].
10.22*	Deferred Compensation Plan [incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 27, 1998].
10.23*	Partnership Equity Program [incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 27, 1998].
10.24*	Form of Collateral Assignment and Executive Life Insurance Agreement between Registrant and the Registrant's executive officers [incorporated by reference to Exhibit 10.11(xv) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1998].
10.25*	Consulting Agreement between CVS Corporation and Eugene Applebaum [incorporated by reference to Exhibit 99(d) to Registrant's Registration Statement No. 333-47193 on Form S-4 filed March 2, 1998].
10.26*	Description of the Long-Term Performance Share Plan [incorporated by reference to Exhibit 10.27 to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 1, 2000].
10.27*	Description of the Executive Retention Program [incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2000].
10.28*	364-day Credit Agreement dated as of May 21, 2001 by and among the Registrant, the lenders party hereto, BNY Capital Markets and Fleet Securities, Inc., as Syndication Agent, Credit Suisse First Boston and First Union National Bank, as Co-Documentation Agents and Fleet National Bank, as Administrative Agent [incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001].
10.29*	Five-year Credit Agreement dated as of May 21, 2001 by and among the Registrant, the lenders party hearto, Credit Suisse First Boston and First Union National Bank, as Co-Documentation Agents, The Bank of New York, as Administrative Agent and BNY Capital Markets, Inc. and Fleet Securities, Inc., as Syndication Agent [incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001].
13	Portions of the 2001 Annual Report to Stockholders of CVS Corporation, which are specifically designated in this Form 10-K as being incorporated by reference.
21	Subsidiaries of the Registrant
23	Consent of KPMG LLP

Independent Auditors' Report

Board of Directors and Shareholders
CVS Corporation:

Under date of February 1, 2002, we reported on the consolidated balance sheets of CVS Corporation and subsidiaries as of December 29, 2001 and December 30, 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for the fifty-two week periods ended December 29, 2001 and December 30, 2000 and the fifty-three week period ended January 1, 2000. These consolidated financial statements and our report thereon are incorporated by reference in the December 29, 2001 Annual Report on Form 10-K of CVS Corporation. 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.

/s/ KPMG LLP
KPMG LLP

Providence, Rhode Island
February 1, 2002

Schedule II — Valuation and Qualifying Accounts

	Balance at	Additions Charged to Bad Debt	Write-offs Charged	Balance at

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	Beginning of Year	Expense	to Allowance	End of Year
		In millions		
Accounts Receivable — Allowance for Doubtful Accounts:				
Fiscal Year Ended December 29, 2001	$ 47.9	$ 42.9	$ 37.2	$ 53.6
Fiscal Year Ended December 30, 2000	$ 41.1	$ 29.2	$ 22.4	$ 47.9
Fiscal Year Ended January 1, 2000	39.8	22.8	21.5	41.1

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

CVS CORPORATION

Date: March 20, 2002

By: /s/ David B. Rickard
David B. Rickard
Executive Vice President, Chief Financial Officer and Chief Administrative 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/ Eugene Applebaum Eugene Applebaum	Director	March 20, 2002
/s/ W. Don Cornwell W. Don Cornwell	Director	March 20, 2002
/s/ Thomas P. Gerrity Thomas P. Gerrity	Director	March 20, 2002
/s/ Stanley P. Goldstein Stanley P. Goldstein	Director	March 20, 2002
/s/ Marian L. Heard Marian L. Heard	Director	March 20, 2002
/s/ William H. Joyce William H. Joyce	Director	March 20, 2002
/s/ Terry R. Lautenbach Terry R. Lautenbach	Director	March 20, 2002
/s/ Terrence Murray Terrence Murray	Director	March 20, 2002
/s/ David B. Rickard David B. Rickard	Executive Vice President, Chief Financial Officer and Chief Administrative Officer (Principal Financial Officer)	March 20, 2002
/s/ Sheli Z. Rosenberg Sheli Z. Rosenberg	Director	March 20, 2002
/s/ Thomas M. Ryan Thomas M. Ryan	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	March 20, 2002
/s/ Ivan G. Seidenberg Ivan G. Seidenberg	Director	March 20, 2002
/s/ Larry D. Solberg Larry D. Solberg	Senior Vice President and Controller (Principal Accounting Officer)	March 20, 2002

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Introduction

For an understanding of the significant factors that influenced our performance during the past three fiscal years, the following discussion should be read in conjunction with the audited consolidated financial statements and notes to the consolidated financial statements presented in this Annual Report.

Comprehensive Business Review

During the fourth quarter of 2001, management approved an Action Plan, which resulted from a comprehensive business review designed to streamline operations and enhance operating efficiencies. The Action Plan included the following initiatives:

- Closing 229 CVS/pharmacy and CVS ProCare stores;
- Closing our Henderson, North Carolina distribution center;
- Closing our Columbus, Ohio mail order facility;
- Closing two of our satellite office facilities;
- Consolidating our specialty pharmacy business, CVS ProCare, into our pharmacy benefit management business, PharmaCare; and consolidating our Internet business into our Retail Pharmacy business; and
- Staff reductions related to the above closings and other streamlining initiatives.

In accordance with Emerging Issues Task Force Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)," Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and Staff Accounting Bulletin No. 100, "Restructuring and Impairment Charges," we recorded a $346.8 million pre-tax ($226.9 million after-tax) charge to operating expenses during the fourth quarter of 2001 for restructuring and asset impairment costs associated with the Action Plan. In accordance with Accounting Research Bulletin No. 43, "Restatements and Revision of Accounting Research Bulletins," we also recorded a $5.7 million pre-tax charge ($3.6 million after-tax) to cost of goods sold during the fourth quarter of 2001 to reflect the markdown of certain inventory contained in the closing stores to its net realizable value. In total, the restructuring and asset impairment charge was $352.5 million pre-tax ($230.5 million after-tax), or $0.56 per diluted share in 2001 (the "Restructuring Charge"). Please read Note 2 to the consolidated financial statements for other important information about the Restructuring Charge.

Results of Operations

Fiscal 2001, which ended on December 29, 2001 and fiscal 2000, which ended on December 30, 2000, each included 52 weeks. Fiscal 1999, which ended on January 1, 2000, included 53 weeks.

Net sales ~ The following table summarizes our sales performance for the respective years:

	2001	2000	1999
Net sales (*in billions*)	**$ 22.2**	$ 20.1	$ 18.1
Net sales increase(1)	**10.7%**	11.0%	18.5%
Same store sales increase:			
Total	**8.6%**	10.9%	12.5%
Pharmacy	**13.0%**	17.7%	19.4%
Front store	**1.2%**	1.1%	3.6%
Pharmacy % of total sales	**66.1%**	62.7%	58.7%
Third party % of pharmacy sales	**90.9%**	89.2%	86.5%

(1) The increase in net sales during 2000 was negatively impacted by the 53rd week in 1999, while the increase in 1999 was positively impacted. Excluding the 53rd week in 1999, comparable net sales increased 13.4% in 2000 and 16.0% in 1999.

As you review our sales performance, we believe you should consider the following important information:

- Our pharmacy sales growth has benefited from our ability to attract and retain managed care customers and favorable industry trends. These trends include an aging American population consuming a greater number of prescription drugs, the increased use of pharmaceuticals as the first line of defense for healthcare and the introduction of a number of successful new prescription drugs in 1999 and 2000. However, the introduction of new prescription drugs had less of an impact on sales in 2001, compared to recent years, due to the lack of significant "blockbuster" drug introductions during 2001. It is possible that this trend will continue in 2002 as there is no way to predict with certainty the pace of new drug introductions. Further, sales in 2002 are expected to be negatively impacted by the expiration of patent protection on a number of popular branded pharmaceutical products, which will likely result in the introduction of lower priced generic equivalents. However, gross margins on generic drug sales are generally higher than on sales of equivalent higher priced branded drugs.

- Sales were negatively impacted during 2001 by a pharmacist shortage in certain markets combined with the weakening economy and an increasingly competitive environment that ultimately resulted in lower customer counts and lost sales during 2001. To address these issues, we intensified our pharmacist recruiting and retention efforts. These efforts significantly improved staffing levels and reduced turnover in our stores. As of the end of August 2001, we had returned to full staffing levels. We also initiated a customer reactivation program, which involved direct mailings and targeted incentives to former CVS customers. Further, we increased our promotional activity in response to the increasingly competitive environment. To the extent necessary, we expect to continue these programs in selected markets during 2002.

- We continued to relocate our existing shopping center stores to larger, more convenient, freestanding locations. Historically, we have achieved significant improvement in customer count and net sales from store relocations. Although the number of annual relocations has decreased, our relocation strategy will remain an important component of our overall growth strategy, as only approximately 43% of our existing stores will be freestanding following the above-mentioned 229 store closings. Our current long-term expectation is to have 70 to 80% of our stores located in freestanding locations. We cannot, however, guarantee that we will achieve this level or that future store relocations will deliver the same positive results as those historically achieved. Please read the "Cautionary Statement Concerning Forward-Looking Statements" section below.

Gross margin as a percentage of net sales was 25.6% in 2001. This compares to 26.7% in 2000 and 26.9% in 1999.

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Why has our gross margin rate been declining?

- Pharmacy sales grew and we believe will continue to grow at a faster pace than front store sales. On average, our gross margin on pharmacy sales is lower than our gross margin on front store sales. Pharmacy sales were 66% of total sales in 2001, compared to 63% in 2000 and 59% in 1999.

- Sales to customers covered by third party insurance programs have increased and we believe will continue to increase, and thus have become a larger part of our total pharmacy business. On average, our gross margin on third party pharmacy sales is lower than our gross margin on cash pharmacy sales. Third party prescription sales were 91% of pharmacy sales in 2001, compared to 89% in 2000 and 87% in 1999.

- Also contributing to the decline during 2001 was an increase in markdowns associated with the increased promotional activity discussed above and elevated physical inventory losses. To address the physical inventory loss trend, we initiated a number of programs, including, but not limited to, moving high-cost merchandise behind the counter or glass and improving our employee background screening and testing programs. We believe these efforts will begin to reduce inventory losses during 2002. However, we cannot guarantee that these programs will produce the desired results.

Total operating expenses were 22.1% of net sales in 2001. This compares to 20.1% of net sales in 2000 and 20.6% in 1999. As you review our performance in this area, please remember to consider the impact of the following nonrecurring charge and gains:

- During 2001, we recorded a $346.8 million pre-tax ($226.9 million after-tax) restructuring and asset impairment charge in connection with the Action Plan discussed above.

- During 2001, we received $50.3 million of settlement proceeds from various lawsuits against certain manufacturers of brand name prescription drugs. We elected to contribute $46.8 million of the settlement proceeds to the CVS Charitable Trust, Inc. to fund future charitable giving. The net effect of these nonrecurring items was a $3.5 million pre-tax ($2.1 million after-tax) increase in net earnings.

- During 2000, we recorded a $19.2 million pre-tax ($11.5 million after-tax) nonrecurring gain in total operating expenses, which represented a partial payment of our share of the settlement proceeds from a class action lawsuit against certain manufacturers of brand name prescription drugs.

If you exclude the impact of the nonrecurring items discussed above, comparable total operating expenses as a percentage of net sales were 20.6% in 2001, 20.2% in 2000 and 20.6% in 1999.

As you review our comparable operating expenses, we believe you should consider the following important information:

- Total operating expenses as a percentage of net sales increased during 2001 primarily due to higher store payroll expense resulting from market wage pressures and the shortage of pharmacists discussed above, as well as increased benefit costs due to rising healthcare costs and higher advertising expense as we implemented our customer reactivation program aimed at attracting lost customers and in response to the increasingly competitive environment.

- Total operating expenses as a percentage of net sales decreased during 2000 due to improved operating efficiencies, particularly at the store level, resulting from information technology initiatives and better leveraging of fixed operating expenses against our net sales growth in 2000.

Operating profit decreased $552.1 million in 2001 to $770.6 million as a consequence of the above factors. This compares to $1.3 billion in 2000 and $1.1 billion in 1999. If you exclude the effect of the Restructuring Charge, the $3.5 million net nonrecurring gain in 2001 and the $19.2 million litigation gain in 2000, our comparable operating profit decreased $183.9 million in 2001 to $1.1 billion. This compares to $1.3 billion in 2000 and $1.1 billion in 1999. Comparable operating profit as a percentage of net sales was 5.0% in 2001, 6.5% in 2000 and 6.3% in 1999.

Interest expense, net consisted of the following:

	2001	**2000**	**1999**
		In millions	
Interest expense	**$ 65.2**	$ 84.1	$ 66.1
Interest income	**(4.2)**	(4.8)	(7.0)
Interest expense, net	**$ 61.0**	$ 79.3	$ 59.1

The decrease in interest expense in 2001 was due to a combination of lower average interest rates and lower

average borrowing levels during 2001 compared to 2000. The increase in interest expense in 2000 was due to a combination of higher average interest rates and higher average borrowing levels during 2000 compared to 1999.

Income tax provision ~ Our effective income tax rate was 41.8% in 2001, 40.0% in 2000 and 41.0% in 1999. Our effective income tax rate was higher in 2001 because certain components of the Restructuring Charge were not deductible for income tax purposes. The decrease in our effective income tax rate in 2000 was primarily due to lower state income taxes. Excluding the impact of the Restructuring Charge, our effective income tax rate was 39.4% in 2001.

Net earnings decreased $332.8 million to $413.2 million (or $1.00 per diluted share) in 2001. This compares to $746.0 million (or $1.83 per diluted share) in 2000 and $635.1 million (or $1.55 per diluted share) in 1999. If you exclude the effect of the Restructuring Charge and the $2.1 million net nonrecurring gain (or $0.56 per diluted share) in 2001 and the $11.5 million litigation gain (or $0.03 per diluted share) in 2000, our comparable net earnings decreased $92.9 million to $641.6 million (or $1.56 per diluted share) in 2001. This compares to $734.5 million (or $1.80 per diluted share) in 2000 and $635.1 million (or $1.55 per diluted share) in 1999.

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Liquidity & Capital Resources

We fund the growth of our business through a combination of cash flow from operations, commercial paper and long-term borrowings. Our liquidity is not currently dependent on the use of off-balance sheet transactions other than normal operating leases.

We had $235.8 million of commercial paper outstanding at a weighted average interest rate of 2.1% as of December 29, 2001. In connection with our commercial paper program, we maintain a $650 million, five-year unsecured back-up credit facility, which expires on May 30, 2006 and a $650 million, 364-day unsecured back-up credit facility, which expires on May 30, 2002. We currently expect to replace the 364-day facility with a similar facility during 2002. The credit facilities allow for borrowings at various rates depending on our public debt rating. As of December 29, 2001, we had not borrowed against the credit facilities.

During 2001, we issued $300 million of 5.625% unsecured senior notes. The notes are due March 15, 2006 and pay interest semi-annually. We may redeem these notes at any time, in whole or in part, at a defined redemption price plus accrued interest. Net proceeds from the notes were used to repay outstanding commercial paper.

Our credit facilities and unsecured senior notes contain customary restrictive financial and operating covenants. We do not believe that the restrictions contained in the covenants materially affect our financial or operating flexibility.

Our liquidity is based, in part, on maintaining strong investment-grade debt ratings. During 2001, our debt ratings were upgraded by Moody's to 'A2' for long-term debt and 'P-1' for commercial paper, while Standard and Poor's affirmed our 'A' rating for long-term debt and 'A-1' for commercial paper. We do not currently foresee any reasonable circumstances under which we would lose our investment-grade debt ratings. However, if this were to occur, it could adversely impact, among other things, our future borrowing costs, access to capital markets and new store operating lease costs.

We believe that our cash on hand, cash provided by operations, our commercial paper program and our ability to obtain alternative sources of financing should be sufficient to cover our working capital needs, capital expenditures and debt service requirements for at least the next twelve months and beyond.

On March 6, 2000, the Board of Directors approved a common stock repurchase program, which allows the Company to acquire up to $1 billion of its common stock, in part, to fund employee benefit plans. During 2001, we repurchased 3.4 million shares at an aggregate cost of $129.0 million. Since inception of the program, we repurchased 8.1 million shares at an aggregate cost of $292.2 million.

Net cash provided by operating activities decreased to $680.6 million in 2001. This compares to $780.2 million in 2000 and $726.3 million in 1999. The decline in net cash provided by operations was primarily the result of lower net earnings. Cash provided by operating activities will be negatively impacted by future payments associated with the Restructuring Charge. The timing of future cash payments related to the Restructuring Charge depend on when, and if, early lease terminations can be reached. We currently anticipate that a majority of the lease obligations will be settled during 2002. As of December 29, 2001, the remaining payments, which primarily consist of noncancelable lease obligations extending through 2024, totaled $244.8 million.

Net cash used in investing activities decreased to $536.8 million in 2001. This compares to $640.5 million in 2000 and $566.4 million in 1999. The decline in net cash used in investing activities was primarily due to reduced acquisition activity. Additions to property and equipment totaled $713.6 million during 2001. This compares to $695.3 million in 2000 and $722.7 million in 1999. During 2001 we opened 126 new stores, relocated 122 stores and closed 68 stores. New store development included 43 stores in new markets, including: Miami and Ft. Lauderdale, Florida; Las Vegas, Nevada; and Dallas, Houston and Fort Worth, Texas. During 2002 we project approximately 150-175 new stores, including 75 in new markets, 100 relocations and 50 store closings in addition to the Restructuring Charge store closings. As of December 29, 2001, we operated 4,191 retail and specialty pharmacy stores in 33 states and the District of Columbia. This compares to 4,133 stores as of December 30, 2000.

We finance a portion of our new store development program through sale-leaseback transactions. Proceeds from sale-leaseback transactions totaled $323.3 million in 2001. This compares to $299.3 million in 2000 and $229.2 million in 1999. Typically, the properties are sold at net book value and the resulting leases qualify and are accounted for as operating leases. During 2001, we also completed a sale-leaseback transaction involving five of our distribution centers. The distribution centers were sold at fair market value resulting in a $35.5 million gain, which was deferred and is being amortized to offset rent expense over the life of the new operating leases. We also have an operating lease agreement totaling $200 million, under which the lessor purchases the properties, pays for the construction costs and we subsequently lease the store upon completion of construction. During 2001, we leased 26 stores constructed under this agreement. We do not consider the use of this agreement to be a critical component of our future financing and/or real estate development strategies.

The following table summarizes our future cash outflows resulting from financial contracts and commitments as of December 29, 2001:

	Payments Due by Period				
	Total	Within 1 Year	2-3 Years	4-5 Years	After 5 Years
			In millions		
Lease obligations(1)	$ 8,832.6	$ 756.6	$ 1,384.8	$ 1,183.0	$ 5,508.2
Long-term debt	836.8	26.4	355.6	362.6	92.2
Purchase commitments	269.0	38.4	76.8	76.8	77.0
Severance(1)	17.4	17.4	—	—	—
	$ 9,955.8	$ 838.8	$ 1,817.2	$ 1,622.4	$ 5,677.4

(1) The remaining cash payments associated with the Restructuring Charge include $227.4 million of lease obligations and $17.4 million of severance.

Critical Accounting Policies

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The preparation of our financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures of contingent assets and liabilities. We base our estimates on historical experience and on other assumptions that we believe to be relevant under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates under different assumptions and/or conditions. For a detailed discussion of our critical accounting policies and related estimates and judgments, see Note 1 to the consolidated financial statements.

Recent Accounting Pronouncements

In June 2001, SFAS No. 141, "Business Combinations" was issued. SFAS No. 141, which is effective for acquisitions initiated after June 30, 2001, prohibits the use of the pooling-of-interests method of accounting for business combinations and amends the accounting and financial reporting requirements for business combinations.

In June 2001, SFAS No. 142, "Goodwill and Other Intangible Assets" was issued. SFAS No. 142, addresses financial accounting and reporting for acquired goodwill and other intangible assets. Among other things, SFAS No. 142 requires that goodwill no longer be amortized, but rather tested annually for impairment. This statement is effective for fiscal years beginning after December 15, 2001. Accordingly, we will adopt SFAS No. 142 effective fiscal 2002 and are evaluating the effect such adoption may have on our consolidated results of operations and financial position. Amortization expense related to goodwill was $31.4 million in 2001 and $33.7 million in 2000.

Also in June 2001, SFAS No. 143, "Accounting for Asset Retirement Obligations" was issued. SFAS No. 143 applies to legal obligations associated with the retirement of certain tangible long-lived assets. This statement is effective for fiscal years beginning after June 15, 2002. Accordingly, we will adopt SFAS No. 143 effective fiscal 2003 and do not expect that the adoption will have a material impact on our consolidated results of operations or financial position.

In August 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" was issued. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. Accordingly, we will adopt SFAS No. 144 effective fiscal 2002 and do not expect that the adoption will have a material impact on our consolidated results of operations or financial position.

Cautionary Statement Concerning Forward-Looking Statements

Certain written and oral statements made by CVS Corporation and its subsidiaries or with the approval of an authorized executive officer of the Company may constitute "forward-looking statements" as defined under the Private Securities Litigation Reform Act of 1995. Words or phrases such as "should result," "are expected to," "we anticipate," "we estimate," "we project," "we believe" or similar expressions are intended to identify forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and present expectations or projections. These risks and uncertainties include, but are not limited to, general economic conditions; the impact of competition; benefits obtained from the restructuring and customer reactivation program; consumer preferences and spending patterns; cost containment efforts by third party payers; the ability to attract, train and retain highly-qualified associates; conditions affecting the availability, acquisition and development of real estate; and regulatory and litigation matters. Caution should be taken not to place undue reliance on any such forward-looking statements, since such statements speak only as of the date of the making of such statements. Additional information concerning these risks and uncertainties is contained in our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the fiscal year ended December 29, 2001.

Consolidated Statements of Operations

	December 29, 2001 (52 weeks)	December 30, 2000 (52 weeks)	January 1, 2000 (53 weeks)
		In million, except per share amounts	
Net sales	$ **22,241.4**	$ 20,087.5	$ 18,098.3
Cost of goods sold, buying and warehousing costs	**16,550.4**	14,725.8	13,236.9
Gross margin	**5,691.0**	5,361.7	4,861.4
Selling, general and administrative expenses	**4,599.6**	3,742.4	3,448.0
Depreciation and amortization	**320.8**	296.6	277.9
Total operating expenses	**4,920.4**	4,039.0	3,725.9
Operating profit	**770.6**	1,322.7	1,135.5
Interest expense, net	**61.0**	79.3	59.1
Earnings before income tax provision	**709.6**	1,243.4	1,076.4
Income tax provision	**296.4**	497.4	441.3
Net earnings	**413.2**	746.0	635.1
Preference dividends, net of income tax benefit	**14.7**	14.6	14.7
Net earnings available to common shareholders	$ **398.5**	$ 731.4	$ 620.4
Basic earnings per common share:			
Net earnings	**$ 1.02**	$ 1.87	$ 1.59
Weighted average common shares outstanding	**392.2**	391.0	391.3
Diluted earnings per common share:			
Net earnings	**$ 1.00**	$ 1.83	$ 1.55
Weighted average common shares outstanding	**408.3**	408.0	408.9
Dividends declared per common share	**$ 0.230**	$ 0.230	$ 0.230

See accompanying notes to consolidated financial statements.

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Consolidated Balance Sheets

	December 29, 2001	December 30, 2000
	In millions, except shares and per share amounts	
Assets:		
Cash and cash equivalents	$ **236.3**	$ 337.3
Accounts receivable, net	**966.2**	824.5
Inventories	**3,918.6**	3,557.6
Deferred income taxes	**242.6**	124.9
Other current assets	**90.4**	92.3
Total current assets	**5,454.1**	4,936.6
Property and equipment, net	**1,847.3**	1,742.1
Goodwill, net	**827.0**	818.5
Other assets	**499.8**	452.3
Total assets	$ **8,628.2**	$ 7,949.5
Liabilities:		
Accounts payable	$ **1,535.8**	$ 1,351.5
Accrued expenses	**1,267.9**	1,001.4
Short-term debt	**235.8**	589.6
Current portion of long-term debt	**26.4**	21.6
Total current liabilities	**3,065.9**	2,964.1
Long-term debt	**810.4**	536.8
Deferred income taxes	**35.3**	28.0
Other long-term liabilities	**149.7**	116.0
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Preferred stock, $0.01 par value: authorized 120,619 shares; no shares issued or outstanding	—	—
Preference stock, series one ESOP convertible, par value $1.00: authorized 50,000,000 shares; issued and outstanding 4,887,000 shares at December 29, 2001 and 5,006,000 shares at December 30, 2000	**261.2**	267.5
Common stock, par value $0.01: authorized 1,000,000,000 shares; issued 408,532,000 shares at December 29, 2001 and 407,395,000 shares at December 30, 2000	**4.1**	4.1
Treasury stock, at cost: 17,645,000 shares at December 29, 2001 and 15,073,000 shares at December 30, 2000	**(510.8)**	(404.9)
Guaranteed ESOP obligation	**(219.9)**	(240.6)
Capital surplus	**1,539.6**	1,493.8
Retained earnings	**3,492.7**	3,184.7
Total shareholders' equity	**4,566.9**	4,304.6
Total liabilities and shareholders' equity	$ **8,628.2**	$ 7,949.5

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

	Shares			Dollars		
	December 29, 2001	December 30, 2000	January 1, 2000	December 29, 2001	December 30, 2000	January 1, 2000
	In millions					
Preference stock:						
Beginning of year	**5.0**	5.2	5.2	$ **267.5**	$ 276.0	$ 280.0
Conversion to common stock	**(0.1)**	(0.2)	—	**(6.3)**	(8.5)	(4.0)
End of year	**4.9**	5.0	5.2	**261.2**	267.5	276.0
Common stock:						
Beginning of year	**407.4**	403.0	401.4	**4.1**	4.0	4.0
Stock options exercised and awards under stock plans	**1.1**	4.4	1.0	—	0.1	—
Other	—	—	0.6	—	—	—
End of year	**408.5**	407.4	403.0	**4.1**	4.1	4.0
Treasury stock:						
Beginning of year	**(15.1)**	(11.1)	(11.2)	**(404.9)**	(258.5)	(260.2)
Purchase of treasury shares	**(3.4)**	(4.7)	—	**(129.0)**	(163.2)	—
Conversion of preference stock	**0.3**	0.4	0.2	**7.5**	9.1	4.0
Other	**0.6**	0.3	(0.1)	**15.6**	7.7	(2.3)
End of year	**(17.6)**	(15.1)	(11.1)	**(510.8)**	(404.9)	(258.5)
Guaranteed ESOP obligation:						
Beginning of year				**(240.6)**	(257.0)	(270.7)
Reduction of guaranteed ESOP Obligation				**20.7**	16.4	13.7

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End of year	**(219.9)**	(240.6)	(257.0)
Capital surplus:			
Beginning of year	**1,493.8**	1,371.7	1,336.4
Conversion of preference stock	**(1.2)**	(0.7)	0.1
Stock options exercised and awards under stock plans	**42.8**	120.1	31.3
Other	**4.2**	2.7	3.9
End of year	**1,539.6**	1,493.8	1,371.7
Retained earnings:			
Beginning of year	**3,184.7**	2,543.5	2,021.1
Net earnings	**413.2**	746.0	635.1
Dividends:			
Preference stock, net of income tax benefit	**(14.7)**	(14.6)	(14.7)
Common stock	**(90.5)**	(90.2)	(90.0)
Immaterial pooling of interests	—	—	(8.0)
End of year	**3,492.7**	3,184.7	2,543.5
Total shareholders' equity	**$ 4,566.9**	$ 4,304.6	$ 3,679.7

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	December 29, 2001 (52 weeks)	December 30, 2000 (52 weeks)	January 1, 2000 (53 weeks)
		In millions	
Cash flows from operating activities:			
Net earnings	**$ 413.2**	$ 746.0	$ 635.1
Adjustments required to reconcile net earnings to net cash provided by operating activities:			
Restructuring charge	**352.5**	—	—
Depreciation and amortization	**320.8**	296.6	277.9
Deferred income taxes and other noncash items	**(83.5)**	43.8	124.8
Change in operating assets and liabilities providing/(requiring) cash, net of effects from acquisitions:			
Accounts receivable, net	**(141.7)**	(86.7)	(48.9)
Inventories	**(366.8)**	(98.1)	(255.0)
Other current assets	**4.1**	7.0	(16.7)
Other assets	**(13.9)**	(50.1)	(97.9)
Accounts payable	**184.4**	(133.6)	166.8
Accrued expenses	**11.6**	59.6	(37.7)
Other long-term liabilities	**(0.1)**	(4.3)	(22.1)
Net cash provided by operating activities	**680.6**	780.2	726.3
Cash flows from investing activities:			
Additions to property and equipment	**(713.6)**	(695.3)	(722.7)
Proceeds from sale-leaseback transactions	**323.3**	299.3	229.2
Acquisitions, net of cash	**(159.1)**	(263.3)	(101.1)
Proceeds from sale or disposal of assets	**12.6**	18.8	28.2
Net cash used in investing activities	**(536.8)**	(640.5)	(566.4)
Cash flows from financing activities:			
Additions to (reductions in) long-term debt	**295.9**	(0.9)	298.1
Proceeds from exercise of stock options	**47.3**	97.8	20.4
Dividends paid	**(105.2)**	(104.8)	(104.7)
Purchase of treasury shares	**(129.0)**	(163.2)	—
(Reductions in) additions to short-term borrowings	**(353.8)**	138.7	(324.5)
Net cash used in financing activities	**(244.8)**	(32.4)	(110.7)
Net (decrease) increase in cash and cash equivalents	**(101.0)**	107.3	49.2
Cash and cash equivalents at beginning of year	**337.3**	230.0	180.8
Cash and cash equivalents at end of year	**$ 236.3**	$ 337.3	$ 230.0

See accompanying notes to consolidated financial statements.

1 Significant Accounting Policies

Description of business ~ CVS Corporation, together with its subsidiaries ("CVS" or the "Company") is principally in the retail drugstore business. As of December 29, 2001, the Company operated 4,191 retail and specialty pharmacy drugstores and various mail order facilities located in 33 states and the District of Columbia. See Note 10 for further information about the Company's business segments.

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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.

Fiscal Year ~ The Company operates on a "52/53 week" fiscal year. Fiscal year 2001 and 2000 ended December 29, 2001 and December 30, 2000, respectively and included 52 weeks. Fiscal 1999 ended January 1, 2000 and included 53 weeks. Unless otherwise noted, all references to years relate to the Company's fiscal year.

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 consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents ~ Cash and cash equivalents consist of cash and temporary investments with maturities of three months or less when purchased.

Accounts receivable ~ Accounts receivable are stated net of an allowance for uncollectible accounts of $53.6 million and $47.9 million as of December 29, 2001 and December 30, 2000, respectively. The balance primarily includes amounts due from third party providers (e.g., pharmacy benefit managers, insurance companies and governmental agencies) and vendors.

Fair value of financial instruments ~ As of December 29, 2001, the Company's financial instruments include cash and cash equivalents, receivables, accounts payable and debt. Due to the short-term nature of cash and cash equivalents, receivables, accounts payable and commercial paper, the Company's carrying value approximates fair value. The carrying amount of long-term debt was $836.8 million and $558.4 million and the estimated fair value was $822.0 million and $530.6 million as of December 29, 2001 and December 30, 2000, respectively. The fair value of long-term debt was estimated based on rates currently offered to the Company for debt with similar maturities. The Company has no derivative financial instruments.

Inventories ~ Inventories are stated at the lower of cost or market using the first-in, first-out method. The Company utilizes the retail method of accounting to determine cost of sales and inventory. Independent physical inventory counts are taken on a regular basis in each location to ensure that the amounts reflected in the accompanying consolidated financial statements are properly stated. During the interim period between physical inventory counts, the Company accrues for anticipated physical inventory losses on a location-by-location basis based on historical results and current trends.

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 term of the lease, whichever is shorter. Estimated useful lives generally range from 10 to 40 years for buildings, building improvements and leasehold improvements and 5 to 10 years for fixtures, equipment and software.

Following are the components of property and equipment included in the consolidated balance sheets as of the respective balance sheet dates:

	December 29, 2001	December 30, 2000
	In millions	
Land	**$ 102.4**	$ 97.1
Building and improvements	**262.2**	333.1
Fixtures, equipment and software	**1,702.1**	1,536.6
Leasehold improvements	**749.3**	632.3
Capital leases	**2.1**	2.2
	2,818.1	2,601.3
Accumulated depreciation andamortization	**(970.8)**	(859.2)
	$ 1,847.3	$ 1,742.1

Impairment of long-lived assets ~ The Company groups and evaluates fixed and intangible assets for impairment at the individual store level, which is the lowest level at which individual cash flows can be identified. Goodwill is allocated to individual stores based on historical store contribution, while other intangible assets (primarily customer lists and purchased lease interests) are typically store specific. When evaluating assets for potential impairment, the Company first compares the carrying amount of the asset to the asset's estimated future cash flows (undiscounted and without interest charges). If the estimated future cash flows used in this analysis are less than the carrying amount of the asset, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the asset to the asset's estimated future cash flows (discounted and with interest charges). If the carrying amount exceeds the asset's estimated future cash flows (discounted and with interest charges), then the intangible assets are written down first, followed by the other long-lived assets, to fair value.

Intangible assets ~ Goodwill represents the excess of the purchase price over the fair value of net assets acquired and is being amortized on a straight-line basis generally over 40 years. Accumulated amortization associated with goodwill was $149.9 million as of December 29, 2001 and $127.3 million as of December 30, 2000. Purchased customer lists are amortized on a straight-line basis over their estimated useful lives. Purchased leases are amortized on a straight-line basis over the remaining life of the lease.

Revenue recognition ~ The Company recognizes revenue from the sale of merchandise at the time the merchandise is sold. Service revenue from the Company's pharmacy benefit management segment is recognized at the time the service is provided.

Vendor allowances ~ The total value of any up-front or other periodic payments received from vendors that are linked to purchase commitments is initially deferred. The deferred amounts are then amortized to reduce cost of goods sold over the life of the contract based upon periodic purchase volume. The total value of any up-front or other periodic payments received from vendors that are not linked to purchase commitments is also initially deferred. The deferred

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amounts are then amortized to reduce cost of goods sold on a straight-line basis over the life of the related contract. Funds that are directly linked to advertising commitments are recognized as a reduction of advertising expense when the related advertising commitment is satisfied.

Store opening and closing costs ~ New store opening costs are charged directly to expense when incurred. When the Company closes a store, the estimated unrecoverable costs, including the remaining lease obligation, are charged to expense.

Advertising costs ~ Advertising costs are expensed when the related advertising takes place.

Stock-based compensation ~The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation." Under SFAS No. 123, companies can elect to account for stock-based compensation using a fair value based method or continue to measure compensation expense using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." The Company has elected to continue to account for its stock-based compensation plans under APB Opinion No. 25. See Note 7 for further information about the Company's stock incentive plans.

Interest expense, net ~ Interest expense was $65.2 million, $84.1 million and $66.1 million and interest income was $4.2 million, $4.8 million and $7.0 million in 2001, 2000 and 1999, respectively.

Insurance ~ The Company is self-insured for general liability, workers' compensation and automobile liability claims up to $500,000. Third party insurance coverage is maintained for claims that exceed this amount. The Company's self-insurance accruals are calculated using standard insurance industry actuarial assumptions and the Company's historical claims experience.

Nonrecurring gains ~ During 2001, the Company received $50.3 million of settlement proceeds from various lawsuits against certain manufacturers of brand name prescription drugs. The Company elected to contribute $46.8 million of the settlement proceeds to the CVS Charitable Trust, Inc. to fund future charitable giving. The net effect of the two nonrecurring items was a $3.5 million pre-tax ($2.1 million after-tax) increase in net earnings (the "Net Litigation Gain"). During 2000, the Company recorded a $19.2 million pre-tax ($11.5 million after-tax) nonrecurring gain in total operating expenses, which represented a partial payment of the Company's share of the settlement proceeds from a class action lawsuit against certain manufacturers of brand name prescription drugs.

Income taxes ~ Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes as well as for the deferred tax effects of tax credit carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recoverable or settled.

Earnings per common share ~ Basic earnings per common share is computed by dividing: (i) net earnings, after deducting the after-tax ESOP preference dividends, by (ii) the weighted average number of common shares outstanding during the year (the "Basic Shares").

When computing diluted earnings per common share, the Company assumes that the ESOP preference stock is converted into common stock and all dilutive stock options are exercised. After the assumed ESOP preference stock conversion, the ESOP trust would hold common stock rather than ESOP preference stock and would receive common stock dividends (currently $0.23 per share) rather than ESOP preference stock dividends (currently $3.90 per share). Since the ESOP Trust uses the dividends it receives to service its debt, the Company would have to increase its contribution to the ESOP trust to compensate it for the lower dividends. This additional contribution would reduce the Company's net earnings, which in turn, would reduce the amounts that would be accrued under the Company's incentive compensation plans.

Diluted earnings per common share is computed by dividing: (i) net earnings, after accounting for the difference between the dividends on the ESOP preference stock and common stock and after making adjustments for the incentive compensation plans by (ii) Basic Shares plus the additional shares that would be issued assuming that all dilutive stock options are exercised and the ESOP preference stock is converted into common stock.

New Accounting Pronouncements ~ In June 2001, SFAS No. 141, "Business Combinations" was issued. SFAS No. 141, which is effective for acquisitions initiated after June 30, 2001, prohibits the use of the pooling-of-interests method of accounting for business combinations and amends the accounting and financial reporting requirements for business combinations.

In June 2001, SFAS No. 142, "Goodwill and Other Intangible Assets" was issued. SFAS No. 142, addresses financial accounting and reporting for acquired goodwill and other intangible assets. Among other things, SFAS No. 142 requires that goodwill no longer be amortized, but rather tested annually for impairment. This statement is effective for fiscal years beginning after December 15, 2001. Accordingly, the Company will adopt SFAS No. 142 effective fiscal 2002 and is evaluating the effect such adoption may have on its consolidated results of operations and financial position. Amortization expense related to goodwill was $31.4 million in 2001 and $33.7 million in 2000.

Also in June 2001, SFAS No. 143, "Accounting for Asset Retirement Obligations" was issued. SFAS No. 143 applies to legal obligations associated with the retirement of certain tangible long-lived assets. This statement is effective for fiscal years beginning after June 15, 2002. Accordingly, the Company will adopt SFAS No. 143 effective fiscal 2003 and does not expect that the adoption will have a material impact on its consolidated results of operations or financial position.

In August 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" was issued. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. Accordingly, the Company will adopt SFAS No. 144 effective fiscal 2002 and does not expect that the adoption will have a material impact on its consolidated results of operations or financial position.

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2 Restructuring & Asset Impairment Charge

During the fourth quarter of 2001, management approved an Action Plan, which resulted from a comprehensive business review designed to streamline operations and enhance operating efficiencies.

Following is a summary of the specific initiatives contained in the Action Plan:

1. 229 CVS/pharmacy and CVS ProCare store locations (the "Stores") would be closed by no later than March 2002. Since these locations were leased facilities, management planned to either return the premises to the respective landlords at the conclusion of the current lease term or negotiate an early termination of the contractual obligations. As of March 2002, all of the Stores had been closed.

2. The Henderson, North Carolina distribution center (the "D.C.") would be closed and its operations would be transferred to the Company's remaining distribution centers by no later than May 2002. Since this location was owned, management planned to sell the property upon closure. As of March 2002, the D.C. is in the final stages of shutdown and will be completely closed in May 2002.

3. The Columbus, Ohio mail order facility (the "Mail Facility") would be closed and its operations would be transferred to the Company's Pittsburgh, Pennsylvania mail order facility by no later than April 2002. Since this location was a leased facility, management planned to either return the premises to the landlord at the conclusion of the lease or negotiate an early termination of the contractual obligation. The Mail Facility was closed in March 2002.

4. Two satellite office facilities (the "Satellite Facilities") would be closed and their operations would be consolidated into the Company's Woonsocket, Rhode Island corporate headquarters by no later than December 2001. Since these locations were leased facilities, management planned to either return the premises to the landlords at the conclusion of the leases or negotiate an early termination of the contractual obligations. The Satellite Facilities were closed in December 2001.

5. Staff reductions related to the above closings and other streamlining initiatives.

In accordance with, Emerging Issues Task Force ("EITF") Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)," SFAS No. 121, and Staff Accounting Bulletin No. 100, "Restructuring and Impairment Charges," the Company recorded a $346.8 million pre-tax charge ($226.9 million after-tax) to operating expenses during the fourth quarter of

2001 for restructuring and asset impairment costs associated with the Action Plan. In accordance with Accounting Research Bulletin No. 43, "Restatement and Revision of Accounting Research Bulletins," the Company also recorded a $5.7 million pre-tax charge ($3.6 million after-tax) to cost of goods sold during the fourth quarter of 2001 to reflect the markdown of certain inventory contained in the Stores to its net realizable value. In total, the restructuring and asset impairment charge was $352.5 million pre-tax ($230.5 million after-tax), or $0.56 per diluted share in 2001 (the "Restructuring Charge").

Following is a summary of the significant components of the Restructuring Charge:

		In millions
Noncancelable lease obligations	$	227.4
Asset write-offs		105.6
Employee severance and benefits		19.5
Total(1)	$	352.5

(1) The Restructuring Charge is comprised of $5.7 million recorded in cost of goods sold and $346.8 million recorded in selling, general and administrative expenses.

The Restructuring Charge will require total cash payments of $246.9 million, which primarily consist of noncancelable lease obligations extending through 2024. As of December 29, 2001, the remaining future cash payments total $244.8 million.

Noncancelable lease obligations included $227.4 million for the estimated continuing lease obligations of the Stores, the Mail Facility and the Satellite Facilities. As required by EITF Issue 88-10, "Costs Associated with Lease Modification or Termination," the estimated continuing lease obligations were reduced by estimated probable sublease rental income.

Asset write-offs included $59.0 million for fixed asset write-offs, $40.9 million for intangible asset write-offs and $5.7 million for the markdown of certain inventory to its net realizable value. The fixed asset and intangible asset write-offs relate to the Stores, the Mail Facility and the Satellite Facilities. Management's decision to close the above locations was considered to be an event or change in circumstances as defined in SFAS No. 121. Since management intended to use the Stores and the Mail Facility on a short-term basis during the shutdown period, impairment was measured using the "Assets to Be Held and Used" provisions of SFAS No. 121. The analysis was prepared at the individual location level, which is the lowest level at which individual cash flows can be identified. The analysis first compared the carrying amount of the location's assets to the location's estimated future cash flows (undiscounted and without interest charges) through the anticipated closing date. If the estimated future cash flows used in this analysis were less than the carrying amount of the location's assets, an impairment loss calculation was prepared. The impairment loss calculation compared the carrying value of the location's assets to the location's estimated future cash flows (discounted and with interest charges). Since these locations will continue to be operated until closed, any remaining net book value after the impairment write down, will be depreciated over their revised useful lives. Impairment of the Satellite Facilities was measured using the

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"Assets to Be Disposed Of" provisions of SFAS No. 121, since management intended to vacate the locations immediately. The entire $3.5 million net book value of the Satellite Facilities was considered to be impaired since management intended to discard the assets located in the facilities. The inventory markdown resulted from the liquidation of certain front store inventory contained in the Stores. Since management intended to liquidate the inventory below its cost, an adjustment was made to reduce the inventory's cost to its net realizable value.

Employee severance and benefits included $19.5 million for severance pay, healthcare continuation costs and outplacement service costs related to approximately 1,500 managerial, administrative and store employees in the Company's Woonsocket, Rhode Island corporate headquarters; Columbus, Mail Facility; Henderson, D.C. and the Stores. As of March 2002, approximately 90% of the employees had been terminated. The remaining employees, which are primarily located in the D.C., will be terminated during the second quarter of 2002.

Following is a reconciliation of the beginning and ending liability balances as of December 29, 2001:

	Noncancelable Lease Obligations(1)	Asset Write-Offs	Employee Severance & Benefits	Total
		In millions		
Restructuring charge	$ 227.4	$ 105.6	$ 19.5	$ 352.5
Utilized — Cash	—	—	(2.1)	(2.1)
Utilized — Non-cash	—	(105.6)	—	(105.6)
Balance at 12/29/01(2)	$ 227.4	$ —	$ 17.4	$ 244.8

(1) Noncancelable lease obligations extend through 2024.

(2) The Company believes that the reserve balances as of December 29, 2001 are adequate to cover the remaining liabilities associated with the Restructuring Charge.

3 Leases

The Company leases most of its retail locations and five of its distribution centers under noncancelable operating leases, whose initial terms are typically 22 years, along with options that permit renewals for additional periods. The Company also leases certain equipment and other assets under noncancelable operating leases, whose initial terms typically range from 3 to 10 years. Minimum rent is expensed on a straight-line basis over the term of the lease. In addition to minimum rental payments, certain leases require additional payments based on sales volume, as well as reimbursements for real estate taxes, maintenance and insurance.

Following is a summary of the Company's net rental expense for operating leases for the respective years:

	2001	2000	1999
		In millions	
Minimum rentals	**$ 758.2**	$ 684.9	$ 572.4
Contingent rentals	**67.6**	66.3	64.8
	825.8	751.2	637.2
Less: sublease income	**(9.1)**	(9.2)	(13.2)
	$ 816.7	$ 742.0	$ 624.0

Following is a summary of the future minimum lease payments under capital and operating leases as of December 29, 2001:

	Capital Leases	Operating Leases
	In millions	
2002	$ 0.2	$ 756.4
2003	0.2	712.5
2004	0.2	671.9
2005	0.2	623.2
2006	0.2	559.4
Thereafter	0.7	5,507.5
	1.7	$ 8,830.9
Less: imputed interest	(0.7)	
Present value of capital lease obligations	$ 1.0	

The Company finances a portion of its store development program through sale-leaseback transactions. Typically, the properties are sold at net book value and the resulting leases qualify and are accounted for as operating leases. Proceeds from sale-leaseback transactions totaled $323.3 million in 2001 and $299.3 million in 2000. During 2001, the Company completed a sale-leaseback transaction involving five of our distribution centers. The distribution centers were sold at fair market value resulting in a $35.5 million gain, which was deferred and is being amortized to offset rent expense over the life of the new operating leases. The operating leases that resulted from these transactions are included in the above table.

4 Borrowing and Credit Agreements

Following is a summary of the Company's borrowings as of the respective balance sheet dates:

December 29, 2001 December 30, 2000

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	December 29, 2001	December 30, 2000
	In millions	
Commercial paper	$ **235.8**	$ 589.6
8.52% ESOP notes due 2008(1)	**219.9**	240.6
5.5% senior notes due 2004	**300.0**	300.0
5.625% senior notes due 2006	**300.0**	—
Mortgage notes payable	**15.9**	16.6
Capital lease obligations	**1.0**	1.2
	1,072.6	1,148.0
Less:		
Short-term debt	**(235.8)**	(589.6)
Current portion of long-term debt	**(26.4)**	(21.6)
	$ **810.4**	$ 536.8

(1) See Note 5 for further information about the Company's ESOP Plan.

In connection with our commercial paper program the Company maintains a $650 million, five-year unsecured back-up credit facility, which expires on May 30, 2006 and a $650 million, 364-day unsecured back-up credit facility, which expires on May 30, 2002. The credit facilities allow for borrowings at various rates depending on our public debt ratings and require the Company to pay a quarterly facility fee of 0.08%, regardless of usage. As of December 29, 2001, the Company had not borrowed against the credit facilities. Interest paid totaled $75.2 million in 2001, $98.3 million in 2000 and $69.0 million in 1999. The weighed average interest rate for short-term debt was 2.1% as of December 29, 2001 and 6.9% as of December 30, 2000.

In March 2001, the Company issued $300 million of 5.625% unsecured senior notes. The notes are due March 15, 2006 and pay interest semi-annually. The Company may redeem these notes at any time, in whole or in part, at a defined redemption price plus accrued interest. Net proceeds from the notes were used to repay outstanding commercial paper.

The Credit Facilities and unsecured senior notes contain customary restrictive financial and operating covenants. The covenants do not materially affect the Company's financial or operating flexibility.

The aggregate maturities of long-term debt for each of the five years subsequent to December 29, 2001 are $26.4 million in 2002, $32.2 million in 2003, $323.4 million in 2004, $28.1 million in 2005 and $334.5 million in 2006.

5 Employee Stock Ownership Plan

The Company sponsors a defined contribution Employee Stock Ownership Plan (the "ESOP") that covers full-time employees with at least one year of service.

In 1989, the ESOP Trust issued and sold $357.5 million of 20-year, 8.52% notes due December 31, 2008 (the "ESOP Notes"). The proceeds from the ESOP Notes were used to purchase 6.7 million shares of Series One ESOP Convertible Preference Stock (the "ESOP Preference Stock") from the Company. Since the ESOP Notes are guaranteed by the Company, the outstanding balance is reflected as long-term debt and a corresponding guaranteed ESOP obligation is reflected in shareholders' equity in the accompanying consolidated balance sheets.

Each share of ESOP Preference Stock has a guaranteed minimum liquidation value of $53.45, is convertible into 2.314 shares of common stock and is entitled to receive an annual dividend of $3.90 per share. The ESOP Trust uses the dividends received and contributions from the Company to repay the ESOP Notes. As the ESOP Notes are repaid, ESOP Preference Stock is allocated to participants based on: (i) the ratio of each year's debt service payment to total current and future debt service payments multiplied by (ii) the number of unallocated shares of ESOP Preference Stock in the plan. As of December 29, 2001, 4.9 million shares of ESOP Preference Stock were outstanding, of which 2.3 million shares were allocated to participants and the remaining 2.6 million shares were held in the ESOP Trust for future allocations.

Annual ESOP expense recognized is equal to (i) the interest incurred on the ESOP Notes plus (ii) the higher of (a) the principal repayments or (b) the cost of the shares allocated, less (iii) the dividends paid. Similarly, the guaranteed ESOP obligation is reduced by the higher of (i) the principal payments or (ii) the cost of shares allocated.

Following is a summary of the ESOP activity for the respective years:

	2001	2000	1999
		In millions	
ESOP expense recognized	$ **22.1**	$ 18.8	$ 16.6
Dividends paid	**19.1**	19.5	20.1
Cash contributions	**22.1**	18.8	16.6
Interest payments	**20.5**	21.9	23.1
ESOP shares allocated	**0.4**	0.3	0.3

6 Pension Plans and Other Postretirement Benefits

The Company sponsors a noncontributory defined benefit pension plan that covers certain full-time employees of Revco, D.S., Inc. who were not covered by collective bargaining agreements. On September 20, 1997, the Company suspended future benefit accruals under this plan. Benefits paid to retirees are based upon age at retirement, years of credited service and average compensation during the five year period ending September 20, 1997. The plan is funded based on actuarial calculations and applicable federal regulations.

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Pursuant to various labor agreements, the Company is also required to make contributions to certain union-administered pension and health and welfare plans that totaled $11.1 million, $9.3 million and $8.4 million in 2001, 2000 and 1999, respectively. The Company also has nonqualified supplemental executive retirement plans in place for certain key employees for whom it has purchased cost recovery variable life insurance.

Defined Contribution Plans

The Company sponsors a voluntary 401(k) Savings Plan that covers substantially all employees who meet plan eligibility requirements. The Company makes matching contributions consistent with the provisions of the plan. At the participant's option, account balances, including the Company's matching contribution, can be moved without restriction among various investment options, including the Company's common stock. The Company also maintains a nonqualified, unfunded Deferred Compensation Plan for certain key employees. This plan provides participants the opportunity to defer portions of their compensation and receive matching contributions that they would have otherwise received under the 401(k) Savings Plan if not for certain restrictions and limitations under the Internal Revenue Code. The Company's contributions under the above defined contribution plans totaled $26.7 million, $23.0 million and $17.0 million in 2001, 2000 and 1999, respectively. The Company also sponsors an Employee Stock Ownership Plan. See Note 5 for further information about this plan.

Other Postretirement Benefits

The Company provides postretirement healthcare and life insurance benefits to certain retirees who meet eligibility requirements. The Company's funding policy is generally to pay covered expenses as they are incurred.

Following is a reconciliation of the benefit obligation, fair value of plan assets and funded status of the Company's defined benefit and other postretirement benefit plans as of the respective balance sheet dates:

	Defined Benefit Plans		Other Postretirement Benefits	
	2001	**2000**	**2001**	**2000**
		In millions		
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ 267.2**	$ 254.8	**$ 13.4**	$ 14.0
Service cost	**0.5**	0.9	**—**	—
Interest cost	**20.9**	19.8	**0.9**	1.0
Actuarial loss (gain)	**9.3**	9.6	**(0.1)**	(0.5)
Benefits paid	**(14.8)**	(17.9)	**(1.3)**	(1.1)
Benefit obligation at end of year	**$ 283.1**	$ 267.2	**$ 12.9**	$ 13.4
Change in plan assets:				
Fair value at beginning of year	**$ 234.7**	$ 248.8	$ —	$ —
Actual return on plan assets	**(16.0)**	(3.3)	—	—
Company contributions	**14.5**	7.1	**1.3**	1.1
Benefits paid	**(14.8)**	(17.9)	**(1.3)**	(1.1)
Fair value at end of year(1)	**$ 218.4**	$ 234.7	$ —	$ —
Funded status:				
Funded status	**$ (64.7)**	$ (32.5)	**$ (12.9)**	$ (13.4)
Unrecognized prior service cost	**0.9**	1.0	**(0.7)**	(0.8)
Unrecognized (gain)	**(3.5)**	(27.7)	**(0.3)**	(0.4)
Accrued pension costs	**$ (67.3)**	$ (59.2)	**$ (13.9)**	$ (14.6)

(1) Plan assets consist primarily of mutual funds, common stock and insurance contracts.

Following is a summary of the net periodic pension cost for the defined benefit and other postretirement benefit plans for the respective years:

	Defined Benefit Plans			Other Postretirement Benefits		
	2001	**2000**	**1999**	**2001**	**2000**	**1999**
			In millions			
Service cost	**$ 0.5**	$ 0.9	$ 0.7	$ —	$ —	$ —
Interest cost on benefit obligation	**20.9**	19.8	19.8	**0.9**	1.0	0.9
Expected return on plan assets	**(20.2)**	(18.6)	(16.6)	—	—	—
Amortization of net (gain) loss	**(0.3)**	(0.1)	1.3	**(0.2)**	(0.2)	—
Amortization of prior service cost	**0.1**	0.1	0.1	**(0.1)**	(0.1)	(0.1)
Settlement gain	**(0.2)**	—	—	—	—	—
Net periodic pension cost	**$ 0.8**	$ 2.1	$ 5.3	**$ 0.6**	$ 0.7	$ 0.8
Weighted average assumptions:						
Discount rate	**7.50%**	7.75%	8.00%	**7.25%**	7.75%	7.75%
Expected return on plan assets	**9.25%**	9.25%	9.00%	—	—	—
Rate of compensation increase	**4.00%**	4.00%	4.00%	—	—	—

For measurement purposes, future healthcare costs are assumed to increase at an annual rate of 9.0%, decreasing to an annual growth rate of 5.0% in 2006 and thereafter. A one percent change in the assumed healthcare cost trend rate would change the accumulated postretirement benefit obligation by $0.7 million and the total service and interest costs by $0.1 million.

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7 **Stock Incentive Plans**

The 1997 Incentive Compensation Plan provides for the granting of up to 42.9 million shares of common stock in the form of stock options and other awards to selected officers and employees of the Company. All grants under the plan are awarded at fair market value on the date of grant. Generally, options become exercisable over a four-year period from the grant date and expire ten years after the date of grant. As of December 29, 2001, there were 27.3 million shares available for future grants.

The 1996 Directors Stock Plan provides for the granting of up to 346,460 shares of common stock to the Company's nonemployee directors. The plan allows the nonemployee directors to elect to receive shares of common stock or stock options in lieu of cash compensation. As of December 29, 2001, there were 204,005 shares available for future grants under the plan.
Following is a summary of the stock option activity for the respective years:

	2001		2000		1999	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	**14,646,990**	**$ 31.11**	12,964,600	$ 27.38	11,982,122	$ 23.31
Granted(1)	**5,380,520**	**59.55**	6,964,015	33.84	2,175,342	48.02
Exercised	**(1,083,533)**	**23.13**	(3,510,785)	19.55	(927,080)	18.87
Canceled	**(1,317,253)**	**43.14**	(1,770,840)	37.37	(265,784)	37.65
Outstanding at end of year	**17,626,724**	**39.48**	14,646,990	31.11	12,964,600	27.38
Exercisable at end of year	**4,608,595**	**$ 25.09**	4,048,842	$ 18.85	6,065,351	$ 17.92

(1) During 2001 and 2000, the Company granted 3.0 million and 5.1 million stock options, respectively, to substantially all full-time pharmacists and store managers.

Following is a summary of the stock options outstanding and exercisable as of December 29, 2001:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
Under $15	314,984	3.5	$ 12.54	314,846	$ 12.54
$15.01 to $25.00	3,184,768	3.7	18.65	2,864,758	18.16
25.01 to35.00	4,328,424	8.1	31.75	45,814	29.11
35.01 to50.00	4,920,863	6.7	40.70	1,381,844	42.16
50.01 to61.23	4,877,685	9.0	60.44	1,333	51.38
Total	17,626,724	7.1	$ 39.48	4,608,595	$ 25.09

Restricted shares issued under the 1997 Incentive Compensation Plan totaled 76,164, 952,251 and 59,908 shares in 2001, 2000 and 1999, respectively. Fair market value on the date of grant was $4.6 million in 2001, $29.1 million in 2000 and $3.1 million in 1999. Compensation costs are recognized over the restricted period and totaled $5.4 million in 2001, $5.9 million in 2000 and $2.3 million in 1999.

The 1999 Employee Stock Purchase Plan provides for the granting of up to 7.4 million shares of common stock. Under the plan, eligible employees may purchase common stock at the end of each six-month offering period, at a purchase price equal to 85% of the lower of the fair market value on the first day or the last day of the offering period. As of December 29, 2001, 1.7 million shares of common stock have been issued under the plan.

The Company applies APB Opinion No. 25 to account for its stock incentive plans. Accordingly, no compensation cost has been recognized for stock options granted. Had compensation cost been recognized based on the fair value of stock options granted consistent with SFAS No. 123, net earnings and net earnings per common share ("EPS") would approximate the pro forma amounts shown below:

		2001	2000	1999
		In millions, except per share amounts		
Net earnings:	As reported	**$ 413.2**	$ 746.0	$ 635.1
	Pro forma	**357.1**	717.7	614.7
Basic EPS:	As reported	**$ 1.02**	$ 1.87	$ 1.59
	Pro forma	**0.87**	1.80	1.53
Diluted EPS:	As reported	**$ 1.00**	$ 1.83	$ 1.55
	Pro forma	**0.86**	1.76	1.50

The fair value of each stock option grant was estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	2001	2000	1999
Dividend yield	**0.77%**	0.40%	0.58%
Expected volatility	**29.79%**	27.92%	25.86%
Risk-free interest rate	**5.00%**	6.25%	6.50%
Expected life	**7.0**	6.5	6.0

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8 Income Taxes

The income tax provision consisted of the following for the respective years:

		2001	2000	1999
			In millions	
Current:	Federal	**$ 360.3**	$ 397.2	$ 289.6
	State	**53.9**	73.9	68.4
		414.2	471.1	358.0
Deferred:	Federal	**(111.8)**	21.9	72.6
	State	**(6.0)**	4.4	10.7
		(117.8)	26.3	83.3
Total		**$ 296.4**	$ 497.4	$ 441.3

Following is a reconciliation of the statutory income tax rate to the Company's effective tax rate for the respective years:

	2001	2000	1999
Statutory income tax rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal tax benefit	**3.4**	4.1	4.8
Goodwill and other	**1.0**	0.9	1.2
Effective tax rate before Restructuring Charge	**39.4**	40.0	41.0
Restructuring Charge(1)	**2.4**	—	—
Effective tax rate	**41.8%**	40.0%	41.0%

(1) Includes state tax effect.

Following is a summary of the significant components of the Company's deferred tax assets and liabilities as of the respective balance sheet dates:

	December 29, 2001	December 30, 2000
	In millions	
Deferred tax assets:		
Employee benefits	**$ 53.2**	$ 65.1
Inventory	**9.8**	—
Restructuring Charge	**122.0**	—
Other	**136.4**	137.4
Total deferred tax assets	**321.4**	202.5
Deferred tax liabilities:		
Accelerated depreciation	**(114.1)**	(98.6)
Inventory	—	(7.0)
Total deferred tax liabilities	**(114.1)**	(105.6)
Net deferred tax assets	**$ 207.3**	$ 96.9

Income taxes paid were $397.0 million, $342.5 million and $354.5 million for 2001, 2000 and 1999, respectively.

Based on historical pre-tax earnings, the Company believes it is more likely than not that the deferred tax assets will be realized.

9 Commitments & Contingencies

In connection with certain business dispositions completed between 1991 and 1997, the Company continues to guarantee lease obligations for approximately 1,100 former stores. The respective purchasers indemnify the Company for these obligations. 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 $760 million as of December 29, 2001.

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 the defendant in a collective action under the Fair Labor Standards Act (the "FLSA"), which has been filed against CVS in the Federal District Court of Alabama by certain current and former CVS pharmacists. The action contends that, as a result of CVS' pay practices, these pharmacists should not be treated as salaried exempt employees for purposes of the FLSA and, therefore, the Company violated the FLSA by failing to pay such pharmacists at a rate of time and one-half for hours worked over 40 in any given work week. Plaintiffs seek recovery of unpaid overtime as well as payment of liquidated damages, expenses and reasonable attorneys' fees. This action is in the discovery phase and it is not yet possible to predict the outcome or reasonably estimate the possible range of loss, if any, for this case.

The Company is also a party to other litigation arising in the normal course of its business, none of which is expected to be material to the Company.

As of December 29, 2001, the Company had outstanding commitments to purchase $269 million of merchandise inventory for use in the normal course of business. The Company currently expects to satisfy these purchase commitments by 2008.

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10 Business Segments

The Company currently operates two business segments, Retail Pharmacy and Pharmacy Benefit Management ("PBM"). During 2001, the Company changed its reporting structure and as a result, the Specialty Pharmacy business and the Internet Pharmacy business are no longer considered to be business segments. The Specialty Pharmacy business is now a component of the PBM segment and the Internet Pharmacy business a component of the Retail Pharmacy segment. Prior year amounts have been reclassified to reflect the current year presentation.

The operating segments are segments of the Company for which separate financial information is available and for which operating results are evaluated regularly by executive management in deciding how to allocate resources and in assessing performance.

As of December 29, 2001, the Retail Pharmacy segment included 4,145 retail drugstores and the Company's online retail website, CVS.com. The retail drugstores are located in 25 states and the District of Columbia and operate under the CVS/pharmacy name. The Retail Pharmacy segment is the Company's only reportable segment.

The PBM segment provides a full range of prescription benefit management services to managed care providers and other organizations. These services include plan design and administration, formulary management, mail order pharmacy services, claims processing and generic substitution. The PBM segment also includes the Company's specialty pharmacy business, which focuses on supporting individuals that require complex and expensive drug therapies. The PBM segment operates under the PharmaCare Management Services name, while the specialty pharmacy mail order facilities and 46 retail pharmacies, located in 20 states and the District of Columbia, operate under the CVS ProCare name.

The accounting policies of the segments are substantially the same as those described in Note 1. The Company evaluates segment performance based on operating profit before the effect of nonrecurring charges and gains and intersegment profits.

Following is a reconciliation of the significant components of the Retail Pharmacy segment's net sales for the respective years:

	2001	2000	1999
Pharmacy	**66.1%**	62.7%	58.7%
Front store	**33.9**	37.3	41.3
Total net sales	**100.0%**	100.0%	100.0%

Following is a reconciliation of the Company's business segments to the consolidated financial statements:

	Retail Pharmacy Segment	All Other Segments	Other Adjustments(1)	Consolidated Totals
			In millions	
2001:	**$ 21,328.7**	**$ 912.7**	**$ —**	**$ 22,241.4**
Net sales				
Operating profit	**1,079.9**	**39.7**	**(349.0)**	**770.6**
Depreciation and amortization	**301.7**	**19.1**	**—**	**320.8**
Total assets	**8,123.7**	**504.5**	**—**	**8,628.2**
Additions to property and equipment	**705.3**	**8.3**	**—**	**713.6**
2000:				
Net sales	$ 19,382.1	$ 705.4	$ —	$ 20,087.5
Operating profit	1,268.5	35.0	19.2	1,322.7
Depreciation and amortization	289.4	7.2	—	296.6
Total assets	7,514.4	435.1	—	7,949.5
Additions to property and equipment	687.1	8.2	—	695.3
1999:				
Net sales	$ 17,627.7	$ 470.6	$ —	$ 18,098.3
Operating profit	1,107.9	27.6	—	1,135.5
Depreciation and amortization	275.4	2.5	—	277.9
Total assets	7,158.5	116.9	—	7,275.4
Additions to property and equipment	713.3	9.4	—	722.7

(1) In 2001, other adjustments relate to the $352.5 million Restructuring Charge and the $3.5 million Net Litigation Gain. See Note 2 for further information on the Restructuring Charge and Note 1 for further information on the Net Litigation Gain. In 2000, other adjustments relate to the settlement proceeds received from a class action lawsuit against certain manufacturers of brand name prescription drugs. Nonrecurring charges and gains are not considered when management assesses the stand-alone performance of the Company's business segments.

11 Reconciliation of Earnings Per Common Share

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Following is a reconciliation of basic and diluted earnings per common share for the respective years:

	2001	2000	1999
	In millions, except per share amounts		
Numerator for earnings per common share calculation:			
Net earnings	**$ 413.2**	$ 746.0	$ 635.1
Preference dividends, net of income tax benefit	**(14.7)**	(14.6)	(14.7)
Net earnings available to common shareholders, basic	**$ 398.5**	$ 731.4	$ 620.4
Net earnings	**$ 413.2**	$ 746.0	$ 635.1
Dilutive earnings adjustment	**(4.8)**	(0.7)	—
Net earnings available to common shareholders, diluted	**$ 408.4**	$ 745.3	$ 635.1
Denominator for earnings per common share calculation:			
Weighted average common shares, basic	**392.2**	391.0	391.3
Effect of dilutive securities:			
Preference stock	**10.8**	10.8	10.7
Stock options	**5.3**	6.2	6.9
Weighted average common shares, diluted	**408.3**	408.0	408.9
Basic earnings per common share:			
Net earnings	**$ 1.02**	$ 1.87	$ 1.59
Diluted earnings per common share:			
Net earnings	**$ 1.00**	$ 1.83	$ 1.55

12 Quarterly Financial Information (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
	Dollars in millions, except per share amounts				
2001:					
Net sales	**$ 5,385.9**	**$ 5,494.2**	**$ 5,410.8**	**$ 5,950.5**	**$ 22,241.4**
Gross margin	**1,453.4**	**1,458.4**	**1,371.8**	**1,407.4**	**5,691.0**
Operating profit (loss)	**381.4**	**342.0**	**220.2**	**(173.0)**	**770.6**
Net earnings (loss)	**221.7**	**198.0**	**123.7**	**(130.2)**	**413.2**
Net earnings per common share, basic	**0.56**	**0.49**	**0.31**	**(0.34)**	**1.02**
Net earnings per common share, diluted(1)	**0.54**	**0.48**	**0.30**	**(0.34)**	**1.00**
Dividends per common share	**0.0575**	**0.0575**	**0.0575**	**0.0575**	**0.2300**
Stock price: (New York Stock Exchange)					
High	**62.10**	**59.75**	**40.48**	**34.55**	**62.10**
Low	**51.00**	**36.51**	**31.40**	**23.28**	**23.28**
Registered shareholders at year-end					**11,000**
2000:					
Net sales	$ 4,739.5	$ 4,942.8	$ 4,916.4	$ 5,488.8	$ 20,087.5
Gross margin	1,300.0	1,335.8	1,297.4	1,428.5	5,361.7
Operating profit	334.9	333.9	284.7	369.2	1,322.7
Net earnings	191.3	186.5	158.7	209.5	746.0
Net earnings per common share, basic	0.48	0.47	0.40	0.53	1.87
Net earnings per common share, diluted	0.47	0.46	0.39	0.51	1.83
Dividends per common share	0.0575	0.0575	0.0575	0.0575	0.2300
Stock price: (New York Stock Exchange)					
High	40.63	46.75	46.31	59.94	59.94
Low	28.00	35.88	34.38	44.31	28.00

(1) In accordance with SFAS No. 128, "Earnings per Share", the assumed conversion of ESOP preference stock and outstanding stock options were excluded from the diluted earnings per common share calculation in the fourth quarter of 2001 since their effect would be antidilutive. This results in diluted earnings per common share equal to basic earnings per common share for the fourth quarter of 2001.

Five-Year Financial Summary

	2001 (52 weeks)	2000 (52 weeks)	1999 (53 weeks)	1998 (52 weeks)	1997 (52 weeks)
	In millions, except per share amounts				
Statement of operations data:					
Net sales	**$ 22,241.4**	$ 20,087.5	$ 18,098.3	$ 15,273.6	$ 13,749.6
Gross margin(1)	**5,691.0**	5,361.7	4,861.4	4,129.2	3,718.3
Selling, general and administrative expenses	**4,256.3**	3,761.6	3,448.0	2,949.0	2,776.0
Depreciation and amortization	**320.8**	296.6	277.9	249.7	238.2
Merger, restructuring and other nonrecurring charges and (gains)	**343.3**	(19.2)	—	178.6	422.4
Total operating expenses	**4,920.4**	4,039.0	3,725.9	3,377.3	3,436.6
Operating profit(2)	**770.6**	1,322.7	1,135.5	751.9	281.7
Other expense (income), net	**61.0**	79.3	59.1	60.9	44.1

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Income tax provision	**296.4**	497.4	441.3	306.5	149.2
Earnings from continuing operations before extraordinary item(3)	**$ 413.2**	$ 746.0	$ 635.1	$ 384.5	$ 88.4
Per common share data:					
Earnings from continuing operations before extraordinary item(3)					
Basic	**$ 1.02**	$ 1.87	$ 1.59	$ 0.96	$ 0.20
Diluted	**1.00**	1.83	1.55	0.95	0.19
Cash dividends per common share	**0.230**	0.230	0.230	0.225	0.220
Balance sheet and other data:					
Total assets	**$ 8,628.2**	$ 7,949.5	$ 7,275.4	$ 6,686.2	$ 5,920.5
Long-term debt	**810.4**	536.8	558.5	275.7	290.4
Total shareholders' equity	**4,566.9**	4,304.6	3,679.7	3,110.6	2,626.5
Number of stores (at end of period)	**4,191**	4,133	4,098	4,122	4,094

(1) Gross margin includes the pre-tax effect of the following nonrecurring charges: (i) in 2001, $5.7 million ($3.6 million after-tax) related to the markdown of certain inventory contained in the stores closing as part of the Action Plan, discussed in Note 2 to the consolidated financial statements, to its net realizable value, (ii) in 1998, $10.0 million ($5.9 million after-tax) related to the markdown of noncompatible Arbor Drugs, Inc. merchandise and (iii) in 1997, $75.0 million ($49.9 million after-tax) related to the markdown of noncompatible Revco D.S., Inc. merchandise.

(2) Operating profit includes the pre-tax effect of the charges discussed in Note (1) above and the following merger, restructuring, and other nonrecurring charges and gains: (i) in 2001, $346.8 million ($226.9 million after-tax) related to restructuring and asset impairment costs associated with the Action Plan and $3.5 million ($2.1 million after-tax) nonrecurring gain resulting from the net effect of the $50.3 million of settlement proceeds received from various lawsuits against certain manufacturers of brand name prescription drugs which was offset by the Company's contribution of $46.8 million of these settlement proceeds to the CVS Charitable Trust, Inc. to fund future charitable giving, (ii) in 2000, $19.2 million ($11.5 million after-tax) nonrecurring gain representing partial payment of our share of the settlement proceeds from a class action lawsuit against certain manufacturers of brand name prescription drugs, (iii) in 1998, $147.3 million ($101.3 million after-tax) charge related to the merger of CVS and Arbor and $31.3 million ($18.4 million after-tax) of nonrecurring costs incurred in connection with eliminating Arbor's information technology systems and Revco's noncompatible store merchandise fixtures and (iv) in 1997, $337.1 million ($229.8 million after-tax) charge related to the merger of CVS and Revco on May 29, 1997, $54.3 million ($32.0 million after-tax) of nonrecurring costs incurred in connection with eliminating Revco's information technology systems and noncompatible store merchandise fixtures and $31.0 million ($19.1 million after-tax) charge related to the restructuring of Big B, Inc.

(3) Earnings from continuing operations before extraordinary item and earnings per common share from continuing operations before extraordinary item include the after-tax effect of the charges and gains discussed in Notes (1) and (2) above.

Management's Responsibility for Financial Reporting

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

The Company maintains a system of internal 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 the recommendations of the Company's internal auditors and independent auditors.

KPMG LLP, independent auditors, were engaged to render an opinion regarding the fair presentation of the consolidated financial statements of the Company. Their accompanying report is based upon an audit conducted in accordance with auditing standards generally accepted in the United States of America and included a review of the system of internal controls to the extent they considered necessary to support their opinion.

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.

/s/ THOMAS M. RYAN

Thomas M. Ryan
Chairman of the Board, President and
Chief Executive Officer

/s/ DAVID B. RICKARD

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Executive Vice President, Chief Financial Officer and
Chief Administrative Officer

February 1, 2002

Independent Auditors' Report
KPMG LLP

Board of Directors and Shareholders
CVS Corporation:

We have audited the accompanying consolidated balance sheets of CVS Corporation and subsidiaries as of December 29, 2001 and December 30, 2000, and the related consolidated statements of operations, shareholders' equity, and cash flows for the fifty-two week periods ended December 29, 2001 and December 30, 2000 and the fifty-three week period ended January 1, 2000. 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 auditing standards generally accepted in the United States of America. 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 and subsidiaries as of December 29, 2001 and December 30, 2000, and the results of their operations and their cash flows for the fifty-two week periods ended December 29, 2001 and December 30, 2000 and the fifty-three week period ended January 1, 2000, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

KPMG LLP
Providence, Rhode Island

February 1, 2002

Officers

Thomas M. Ryan
Chairman of the Board, President and
Chief Executive Officer

David B. Rickard
Executive Vice President,
Chief Financial Officer and
Chief Administrative Officer

Chris W. Bodine
Executive Vice President – Merchandising and Marketing

Deborah G. Ellinger
Executive Vice President – Strategy and Business Development

Larry J. Merlo
Executive Vice President — Stores

Douglas A. Sgarro
Senior Vice President and Chief Legal Officer

President
CVS Realty Co.

Rosemary Mede
Senior Vice President — Human Resources and Corporate Communications

Philip C. Galbo
Senior Vice President and Treasurer

Larry D. Solberg
Senior Vice President — Finance and Controller

Nancy R. Christal
Vice President — Investor Relations

Zenon P. Lankowsky
Secretary

Directors

Eugene Applebaum(3)
President
Arbor Investments Group, LLC,
a consulting firm

W. Don Cornwell(1)
Chairman of the Board and

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Chief Executive Officer
Granite Broadcasting Corporation

Thomas P. Gerrity(1)
Professor of Management
The Wharton School of the University of Pennsylvania

Stanley P. Goldstein
Retired; formerly Chairman of the Board and Chief Executive Officer
CVS Corporation

Marian L. Heard (1)(3)
President and Chief Executive Officer
United Way of Massachusetts Bay

Chief Executive Officer
United Ways of New England

William H. Joyce (1)(3)
Chairman of the Board and Chief Executive Officer
Hercules, Incorporated

Terry R. Lautenbach (2)(3)
Retired; formerly Senior Vice President
International Business Machines Corporation

Terrence Murray (3)
Chairman of the Board
FleetBoston Financial Corporation

Sheli Z. Rosenberg (2)(3)
Vice Chairman
Equity Group Investments, LLC

Thomas M. Ryan
Chairman of the Board, President and
Chief Executive Officer
CVS Corporation

Ivan G. Seidenberg (2)
President and Co-Chief Executive Officer
Verizon Communications Corporation

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(1) Member of the Audit Committee.
(2) Member of the Management Planning and Development Committee.
(3) Member of Nominating and Corporate Governance Committee.

Shareholder Information

Corporate Headquarters
CVS Corporation
One CVS Drive, Woonsocket, RI 02895
(401) 765-1500

Annual Shareholders' Meeting
10:00 a.m. April 17, 2002
CVS Corporate Headquarters

Stock Market Listing
New York Stock Exchange
Symbol: CVS

Transfer Agent and Registrar
Questions regarding stock holdings, certificate replacement/transfer, dividends and address changes should be directed to:
The Bank of New York
Shareholder Relations Department
P.O. Box 11258
Church Street Station
New York, NY 10286
Toll-free: (877) CVSPLAN (287-7526)
E-mail: shareowner-svcs@bankofny.com

Direct Stock Purchase/Dividend Reinvestment Program

BuyDIRECT[sm] provides a convenient and economical way for you to purchase your first shares or additional shares of CVS common stock. The program is sponsored and administered by The Bank of New York. For more information, including an enrollment form, please contact:
The Bank of New York at (877) 287-7526

Financial and Other Company Information
The Company's Annual Report on Form
10-K will be sent without charge to any shareholder upon request by contacting:
Nancy R. Christal
Vice President - Investor Relations
CVS Corporation
670 White Plains Road - Suite 210
Scarsdale, NY 10583
(800) 201-0938

In addition, financial reports and recent filings with the Securities and Exchange Commission, including our Form 10-K, as well as other Company information, are available via the Internet at http://www.cvs.com.

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EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

As of December 29, 2001, CVS Corporation had the following significant subsidiaries:

CVS Rhode Island, Inc. (a Rhode Island corporation)
CVS Center, Inc. (a New Hampshire corporation)
CVS Foreign, Inc. (a New York corporation)
CVS Pharmacy, Inc. (a Rhode Island corporation)
Nashua Hollis CVS, Inc. (a New Hampshire corporation)(1)
CVS Vanguard, Inc. (a Minnesota corporation)
CVS Meridian, Inc. (a New York corporation)
CVS New York, Inc. (a New York corporation)
CVS Revco D.S., Inc. (a Delaware corporation)
Revco Discount Drug Centers, Inc. (a Michigan corporation)(2)
Hook-SupeRx, Inc. (a Delaware corporation)(3)
Big B, Inc. (an Alabama corporation)(4)
Arbor Drugs, Inc. (a Michigan corporation)(5)
PharmaCare Management Services, Inc. (a Delaware corporation)(6)
ProCare Pharmacy, Inc. (a Rhode Island corporation)(7)
CVS Washington, Inc. (a Washington corporation, formerly Soma Corporation)
CVS Rx Services, Inc. (a New York corporation)

____

(1) Nashua Hollis CVS, Inc. is the immediate parent corporation of approximately 1,500 corporations that operate drugstores, all of which drugstores are in the United States. CVS of DC and VA, Inc. (formerly Peoples Drug Stores, Inc.), a Maryland corporation and a direct subsidiary of Nashua Hollis CVS, Inc., is, in turn, the immediate parent of approximately 12 corporations that operate drugstores, all of which drugstores are in the United States.

(2) Revco Discount Drug Centers, Inc. (a Michigan corporation) is the immediate parent corporation of two corporations that operate drugstores, all of which drugstores are in the United States. Revco Discount Drug Centers, Inc. (an Ohio corporation), a direct subsidiary of Revco Discount Drug Centers, Inc. (a Michigan corporation) is, in turn, the immediate parent corporation of one corporation that operates drugstores, all of which drugstores are in the United States.

(3) Hook-SupeRx, Inc. is the immediate parent corporation of one corporation that operates drugstores, all of which drugstores are in the United States.

(4) Big B, Inc. is the immediate parent corporation of one corporation that operates drugstores, all of which drugstores are in the United States.

(5) Arbor Drugs, Inc. is the immediate parent corporation of two corporations that operate drugstores and is the majority owner of two corporations that operate apothecaries, all of which drugstores or apothecaries are in the United States.

(6) PharmaCare Management Services, Inc., the Registrant's pharmacy benefits management subsidiary, is wholly owned by subsidiaries of the Registrant. PharmaCare Management Services, Inc. is, in turn, the immediate parent corporation of several PBM subsidiaries and PharmaCare Direct, Inc., a mail order pharmacy corporation.

(7) ProCare Pharmacy, Inc. is a 93% owned subsidiary of Nashua Hollis CVS, Inc. and operates apothecaries focused on specialty pharmaceuticals, all of which apothecaries are in the United States. It is the direct parent of ProCare Pharmacy Direct, Inc., a mail order specialty pharmacy corporation, and several store corporations and limited liability companies that operate specialty pharmacies.

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EXHIBIT 23

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
of CVS Corporation:

We consent to incorporation by reference in the Registration Statements Numbers 333-49407, 33-40251, 333-34927, 333-28043, 33-17181, 2-97913, 2-77397, 2-53766, 333-91253 and 333-63664 on Form S-8 and 333-52055 on Form S-3 and 333-78253 on Form S-4 of CVS Corporation of our report dated February 1, 2002, with respect to the consolidated balance sheets of CVS Corporation and subsidiaries as of December 29, 2001, December 30, 2000 and January 1, 2000, and the related consolidated statement of operations, shareholders' equity and cash flows for the fifty-two week periods ended December 29, 2001 and December 30, 2000, and the fifty-three week period ended January 1, 2000 and the related financial statement schedule, which report appears in the December 29, 2001 Annual Report on Form 10-K of CVS Corporation.

/s/ KPMG LLP
KPMG LLP

Providence, Rhode Island
March 19, 2002

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