FORM 10-K

CVS HEALTH Corp - CVS

Filed: March 31, 1999 (period: December 31, 1998)

Annual report with a comprehensive overview of the company

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 31, 1998

Commission file number 1-1011

CVS CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware	05-0494040
(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:

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

Securities registered pursuant to Section 12(g) of the Exchange Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes [X] 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 voting stock* held by non-affiliates** of the registrant (without admitting that any person whose shares are not included in this calculation is an affiliate) on March 17, 1999 was approximately $19,895,631,210, based on the closing price on the New York Stock Exchange.

As of March 17, 1999, the registrant had 390,601,264 shares of common stock outstanding.

* Does not include 5,224,367 outstanding shares of Series One ESOP Convertible Preference Stock. As of March 17, 1999, each share of ESOP Preference Stock was entitled to 2.3 votes per share on all matters submitted to a vote of the holders of common stock, voting with the common stock as a single class.

** Only voting stock held by directors and executive officers is excluded.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents (or specified parts thereof) are incorporated by reference into this Annual Report on Form 10-K as indicated: CVS Corporation's 1998 Annual Report to Shareholders is incorporated by reference into Part II: Items 5, 6, 7 and 8 and Part IV: Item 14 and CVS Corporation's 1999 Proxy Statement is incorporated by reference into Part III: Items 10, 11, 12 and 13.

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PART I

ITEM 1. BUSINESS

Overview of CVS' Business	CVS Corporation is a leader in the chain drugstore industry in the United States, with revenues of $15.3 billion in 1998. As of December 31, 1998, we were the largest drugstore chain in the nation in terms of store count, operating 4,122 stores in 24 states in the Northeast, Mid-Atlantic, Midwest and Southeast regions and in the District of Columbia. Our stores are well positioned and operate in 66 of the top 100 drugstore markets in the country. We now hold the number one market share in six of the top ten drugstore markets. We are also among the industry leaders in terms of store productivity and operating profit margin. Pharmacy Operations ~ A primary focus of our operations is our pharmacy business. In 1998, total pharmacy sales increased 17.0% to $8.8 billion, representing 58% of total sales for the year, compared to 55% of total sales in 1997. As of December 31, 1998, we were the largest drugstore chain in the nation in terms of prescriptions filled and pharmacy sales, dispensing over 251 million prescriptions (approximately 10.5% of the U.S. retail prescription market). We believe that our pharmacy operations will continue to represent a critical part of our business and strategy due to favorable trends. These trends include an aging American population, greater responsibility being borne by Americans for their healthcare, an increasing demand for retail formats that provide easy access and convenience, discovery of new and better drug therapies and the need for cost effective healthcare solutions.

Our pharmacy business also benefits from an "independent file buy" program, in which we purchase prescription files from independent pharmacies. During 1998, we purchased approximately 350 prescription files, each containing an average weekly prescription count of nearly 560. We believe that independent file buys are productive investments. In many cases, the independent pharmacist will move to CVS, thereby providing continuity in the pharmacist-patient relationship.

Front Store Operations ~ In addition to prescription drugs and services, we offer a broad selection of general merchandise, presented in a well-organized fashion, in stores that are designed to be customer-friendly, inviting and easy to shop. Merchandise categories include: over-the-counter drugs, greeting cards, film and photofinishing services, beauty and cosmetics, seasonal merchandise and convenience foods. We also offer over 1,400 products under the CVS private label brand, which represented about 11% of our front store sales in 1998. In 1998, front store sales, which are generally higher margin than pharmacy sales, increased 3.9% to $6.5 billion, representing 42% of total sales for the year, compared to 45% of total sales in 1997.

CVS Corporation is a Delaware corporation. Our principal executive offices are located at One CVS Drive, Woonsocket, Rhode Island 02895, telephone (401) 765-1500. As of December 31, 1998, CVS and its subsidiaries had about 97,000 employees.

Strategic Restructuring Program

In November 1997, we completed the final phase of our comprehensive strategic restructuring program, first announced in October 1995 and subsequently refined in May 1996 and June 1997. The strategic restructuring program included: (i) the sale of Marshalls, Kay-Bee Toys, Wilsons, This End Up and Bob's Stores, (ii) the spin-off of Footstar, Inc., which included Meldisco, Footaction and Thom McAn, (iii) the initial and secondary public offerings of Linens `n Things and (iv) the elimination of certain corporate overhead costs.

For more information about our strategic restructuring program, see Note 4 of "Notes to Consolidated Financial Statements" on page 30 of our 1998 Annual Report to Shareholders that is incorporated by reference into Item 8 "Financial Statements and Supplementary Data."

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. We also converted Revco's stock options into options to purchase 6.6 million shares of CVS common stock. The merger of CVS and Revco was a tax-free reorganization that we treated as a pooling of interests for accounting purposes. Accordingly, we have restated our historical consolidated financial statements and footnotes to include Revco as if it had always been owned by CVS.

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. We also converted Arbor's stock options into options to purchase 5.3 million shares of CVS common stock. The merger of CVS and Arbor was also a tax-free reorganization that we treated as a pooling of interests for accounting purposes. Accordingly, we have restated our historical consolidated financial statements and footnotes to include Arbor as if it had always been owned by CVS.

The merger with Arbor made us the market share leader in metropolitan Detroit, the nation's fourth largest retail drugstore market and strengthened our position as the nation's top drugstore retailer in terms of store count and retail prescriptions dispensed.

PharmaCare

In order to provide patients with the best possible care at the lowest cost, we follow an integrated healthcare approach that brings together industry participants such as physicians, pharmaceutical companies, managed care providers and pharmacies. Our primary efforts in this area include the operation and expansion of PharmaCare, our prescription benefit management subsidiary, and the creation of strategic alliances with healthcare partners.

PharmaCare 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. In December 1997, PharmaCare strengthened its services network by merging with Revco's prescription benefit management subsidiary, Rx Connections, and assuming Revco's mail order pharmacy operations. At the end of 1998, PharmaCare managed healthcare services for about 6 million people through a preferred national pharmacy network of over 40,000 pharmacies. In addition, PharmaCare plays an increasing role in healthcare management through integrated partnerships with several large managed care providers.

One feature that sets PharmaCare apart from other prescription benefit management providers is its proprietary Clinical Information Management System ("CIMS"). CIMS is a unique communication system that links physicians, patients and pharmacists to facilitate clinical management. It is a leading formulary management tool for directing utilization to the most clinically appropriate and cost-effective medications. More than 30,000 physicians are currently using CIMS, which began with only 500 physicians in 1994.

Relationships with Managed Care Providers

The growth in managed care has substantially increased the use of prescription drugs. Managed care providers have (i) made the cost of prescription drugs more affordable to a greater number of people and (ii) supported prescription drug therapy as an alternative to more expensive forms of treatment, such as surgery. Payments by third party providers under prescription drug plans represented 84% of total pharmacy sales in 1998, compared to 81% in 1997.

In a typical third party payment plan, we contract with a third party payor (such as an insurance company, a prescription benefit management company, a governmental agency, a private employer, a health maintenance organization or other managed care provider) that agrees to pay for all or a portion of a customer's eligible prescription purchases in exchange for reduced prescription rates. Although third party payment plans provide a high volume of prescription drug sales, these sales typically generate lower gross margins than other sales due to the cost containment efforts of third party payors and the increasing competition among pharmacies for this business.

The cost containment efforts and increased competition has also caused a continued decline of gross margins on third party sales. To address this trend, we have dropped a number of third party programs that fell below our minimum profitability standards. In the event this trend continues and we elect to drop additional programs and/or decide not to participate in future programs that fall below our minimum profitability standards, we may not be able to sustain our current rate of sales growth.

CVS Stores

We are the nation's largest chain drugstore company based on store count, operating 4,122 stores in 24 states and the District of Columbia as of December 31, 1998. The majority of our existing stores range in size from approximately 8,000 to 10,000 square feet, although most new stores are based on our 10,125 square foot freestanding prototype, which typically includes a drive-thru pharmacy.

As of December 31, 1998, 23% of our stores were freestanding as opposed to being located in strip shopping center sites. Over 700 CVS stores were operated on an extended hour or 24-hour basis and 900 stores offered one-hour photo service. We also operated 360 stores with drive-thru pharmacies, and plan to add over 400 more in 1999. During 1998, we opened 382 new stores, including 198 relocations, and in 1999 we expect to open approximately 440 new stores, including about 300 relocations. Net selling space for our 4,122 stores was 30.6 million square feet at the end of 1998.

The following is a breakdown by state of the locations of CVS stores at December 31, 1998:

Alabama	144	New Hampshire	29
Connecticut	122	New Jersey	183
Delaware	3	New York	363
District of Columbia	47	North Carolina	296
Florida	22	Ohio	414
Georgia	304	Pennsylvania	319
Illinois	70	Rhode Island	52
Indiana	291	South Carolina	196
Kentucky	71	Tennessee	146
Maine	20	Vermont	2
Maryland	170	Virginia	253
Massachusetts	321	West Virginia	59
Michigan	225		

Store Development

The addition of new stores has played, and will continue to play, a major role in our continued growth. As we open new stores, we maintain our objective of securing a strong position in each market that our stores serve. Our strong market positions provide us with several important advantages, including (i) an ability to save on advertising and distribution costs and (ii) an ability to attract managed care providers, who want to provide their members with convenient access to pharmacy services.

In addition, we are actively seeking to relocate many of our strip shopping center locations to freestanding sites. We expect that relocations of existing shopping center stores to freestanding locations will account for about two-thirds of store openings over the next several years. Because of their more convenient locations and larger size, relocated stores have typically realized significant improvements in customer count and revenues, driven largely by increased sales of higher margin front store merchandise. We believe our relocation program offers a significant opportunity for future growth as approximately 23% of our existing stores are freestanding. We currently expect to have approximately 35% of our stores in freestanding locations by the end of 1999. Our long-term goal is to have 70-80% of our stores located in freestanding sites. We cannot, however, guarantee that future store relocations will achieve similar results as those historically achieved. See "Cautionary Statement Concerning Forward-Looking Statements" below.

We also have an active remodeling and remerchandising program which seeks to remodel 20% of our existing stores and remerchandise another 20% each year. During 1998, we also completed the process of converting all 1,900 retained Revco stores into the CVS store format, converted Arbor stores to CVS' accounting and store systems and closed Arbor's Troy, Michigan corporate headquarters facility.

We believe that continuing to grow our store base and locating stores 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 important part of our ability to maintain our leadership position in the chain drugstore industry.

Information Systems We have invested significantly in information systems to enable us to deliver an exceptional level of customer service while lowering costs and increasing operating efficiency. Our client-server based systems permit rapid and flexible system development to meet changing business needs, while our scaleable technical architecture enables us to efficiently expand our network to accommodate new stores.

Pharmacy Systems ~ The Rx2000 computer system enables our pharmacists to fill prescriptions more efficiently, giving the pharmacists more time to spend with customers. The system facilitates the management of third party healthcare plans and enables us to provide managed care providers with a level of information which we believe is unmatched by our competitors. By analyzing the data captured by the Rx2000 computer system, we and our managed care partners are able to evaluate treatment outcomes with an eye toward improving care and containing costs.

We also continue to make significant progress on our next generation Rx2000 Pharmacy Delivery System, which will reengineer the way we fill prescriptions. The project includes integrated workflow improvements and automated pill-counting machines in high volume stores.

During 1997, we implemented Rapid Rx Refill, which enables customers to order prescription refills 24 hours a day using a touch-tone telephone. In just over 18 months after its debut, Rapid Rx Refill now accounts for approximately 50% of refills.

Overall, these initiatives are expected to continue to enhance pharmacy productivity, lower the costs to fill prescriptions and improve service by enabling our pharmacists to spend more time with customers.

Front Store Systems ~ Our point-of-sale scanning technology has enabled us to develop an advanced retail data warehouse of information. We use this information to quickly analyze data on a store-by-store basis to develop targeted marketing and merchandising strategies. We can also analyze the impact of pricing, promotion and mix on a category's sales and profitability, enabling us to develop tactical merchandising plans for each category by market. We believe that effective category management increases customer satisfaction and that our category management approach has been a primary factor in front store comparable sales gains and improved gross margins.

We are also beginning the final phase of a multi-year supply chain initiative which will transform the way we receive, distribute and sell merchandise. Our supply chain initiatives 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. The first two phases focused on improving category management and maximizing gross profit through price elasticity and promotional allocations. The final phase will help us to more effectively tailor our product mix in specific markets. We have already begun to experience tangible benefits from our supply chain initiatives and we expect to continue to do so.

Relationships with Suppliers

We centrally purchase most of our merchandise, including prescription drugs, directly from manufacturers. This purchasing strategy allows us to take advantage of the promotional and volume discount programs that certain manufacturers offer to retailers. During 1998, about 85% of the merchandise purchased by us was received by one of our distribution centers for redistribution to our stores. The balance of our store merchandise is shipped directly to our stores from manufacturers and distributors at prices negotiated at the corporate level. We believe that the loss of any one supplier or group of suppliers under common control would not materially affect our business.

Customer Service

We strive to provide the highest levels of service to our customers and partners. As a result, we devote considerable time and attention to people, systems and service standards. We emphasize attracting and training friendly and helpful associates to work in our stores and throughout our organization. Each CVS store receives a formal customer service evaluation twice per year, based on a mystery shopper program, customer letters and calls, and market research. Our priority on customer service extends into the managed care portion of our business as well. In every market, a Managed Care Service Team ensures that managed care partners receive high levels of service. 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 pharmacy operations.

Government Regulation

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. Under the Omnibus Budget Reconciliation Act of 1990, our pharmacists are required to offer counseling, without charge, to customers covered by Medicare about medication, dosage, delivery system, potential side effects and other information deemed significant by our pharmacists. Our pharmacists routinely offer such counseling to all customers.

We also market products under various trademarks and tradenames which have been registered in the United States. Our rights in these trademarks endure for as long as they are used or registered.

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. We experience active competition not only from independent and other chain drugstores, but also from health maintenance organizations, hospitals, mail order organizations, supermarkets, discount drugstores and discount general merchandisers. The deep discount drug segment has grown significantly over the past several years as drug chains, and food, discount and specialty retailers have entered the business. Major retail companies now operate deep discount drugstores in the most competitive retailing markets. "Combo" stores, which consist of grocery, drugstore and several other operations under the same roof, have also grown significantly over the past several years as consumers have become more attracted to one-stop shopping. Retail mass merchandisers with prescription departments have also grown in popularity.

Cautionary Statement Concerning Forward-Looking Statements

In this report and in the documents incorporated by reference (as well as in other public filings, press releases and oral statements made by Company management), we make forward-looking statements about future events that have not yet happened. These statements are subject to risks and uncertainties. Forward-looking statements include information concerning:

- our future results of operations, cost savings and synergies following the Revco and Arbor mergers;

- our ability to elevate the performance level of Revco stores following the Revco merger;

- our ability to continue to achieve significant sales growth;

- our belief that we can continue to improve operating performance by relocating existing in-line stores to freestanding locations;

- our ability to continue to reduce selling, general and administrative expenses as a percentage of net sales; and

- the ability of the Company and our key vendors and suppliers to successfully manage issues presented by the Year 2000.

In addition, statements that include the words "believes", "expects", "anticipates", "intends", "estimates" or similar expressions are forward-looking statements. For all of these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

You should understand that the following important factors, in addition to those discussed elsewhere in this report and in the documents which are incorporated by reference (and in our other public filings, press releases and oral statements made by Company management), could affect the future results of CVS and could cause those results to differ materially from those expressed in the forward-looking statements:

What Factors Could Affect the Outcome of Our Forward-Looking Statements?

Industry and Market Factors

- changes in economic conditions generally or in the markets served by CVS;

- future federal and/or state regulatory and legislative actions affecting CVS and/or the chain drugstore industry;

- consumer preferences and spending patterns;

- competition from other drugstore chains, from alternative distribution channels such as supermarkets, membership clubs, mail order companies and internet companies (e-commerce) and from other third party plans; and

- the continued efforts of health maintenance organizations, managed care organizations, pharmacy benefit management companies and other third party payors to reduce prescription drug costs.

Operating Factors

- our ability to combine the businesses of CVS, Revco and Arbor and maintain current operating performance levels during the integration period(s) and the challenges inherent in diverting the Company's management focus and resources from other strategic opportunities and from operational matters for an extended period of time during the integration process(es);

- our ability to implement new computer systems and technologies;

- our ability to continue to secure suitable new store locations on favorable lease terms as we seek to open new stores and relocate a portion of our existing store base to freestanding locations;

- the creditworthiness of the purchasers of former businesses whose store leases are guaranteed by CVS as described under Item 2. "Properties" below;

- 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 promotional and pricing strategies in the different geographic markets in which we operate; and

- our relationships with suppliers.

ITEM 2. PROPERTIES

We lease most of our stores under long-term leases that vary as to rental amounts and payments, expiration dates, renewal options and other rental provisions. We do not think that any individual store lease is significant in relation to our overall business. For additional information on the amount of our rental obligations for retail store leases, see Note 6 of "Notes to Consolidated Financial Statements" on page 30 of our 1998 Annual Report to Shareholders that is incorporated by reference into Item 8 "Financial Statements and Supplementary Data."

Our stores are supported by 10 distribution centers located in Rhode Island, New Jersey, Virginia, Indiana, Alabama, Pennsylvania, Tennessee, North Carolina, South Carolina and Michigan, which contain an aggregate of approximately 5,400,000 square feet. In addition, we lease additional space near our distribution centers to handle certain distribution needs.

We own our corporate headquarters, located in three buildings in Woonsocket, Rhode Island, which contain an aggregate of approximately 345,000 square feet. Additionally, a fourth headquarters building, expected to contain approximately 207,000 square feet, is currently under construction on a site adjacent to our existing corporate headquarters. We also lease approximately 352,000 square feet in seven office buildings in Rhode Island and Massachusetts.

In addition, in connection with certain business dispositions completed between 1991 and 1997, we continue to guarantee lease obligations for approximately 1,600 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. Assuming that each respective purchaser became insolvent, an event which we believe to be highly unlikely, management estimates that it could settle these obligations for approximately $1.1 billion as of December 31, 1998.

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company and its subsidiaries are involved in the assertion of claims and in litigation incidental to the normal course of business. In the opinion of management and our independent counsel, we do not believe that any existing claims or litigation will have a material adverse effect on our consolidated financial condition, results of operations or future cash flows.

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 year ended December 31, 1998.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following is an unnumbered Item in Part I of this report.

Name and Current Position	Five-Year Business History	Age
Charles C. Conaway Executive Vice President and Chief Financial Officer, CVS Corporation and CVS Pharmacy, Inc.	Executive Vice President and Chief Financial Officer of CVS Corporation since July 1996; Executive Vice President and Chief Financial Officer of CVS Pharmacy, Inc. since February 1995; Senior Vice President - Pharmacy of CVS Pharmacy, Inc., September 1992 - February 1995	38
Stanley P. Goldstein Chairman of the Board, CVS Corporation	Chairman of the Board of CVS Corporation since January 1987; Chief Executive Officer of CVS Corporation, October 1996 - May 1998; President and Chief Executive Officer of Melville Corporation, January 1987 - October 1996	64
Rosemary Mede Vice President, CVS Corporation Senior Vice President - Human Resources, CVS Pharmacy, Inc.	Vice President of CVS Corporation and Senior Vice President - Human Resources of CVS Pharmacy, Inc. since October 1997; Vice President/General Manager of Business Services, Becton Dickinson & Co., December 1995 - September 1997; Various management positions in human resources, Becton Dickinson & Co., 1998 - November 1995	52
Larry J. Merlo Vice President, CVS Corporation Executive Vice President - Stores, CVS Pharmacy, Inc.	Vice President of CVS Corporation since October 1996; Executive Vice President - Stores of CVS Pharmacy, Inc. since March 1998; Senior Vice President - Stores of CVS Pharmacy, Inc., January 1994 - March 1998	43
Daniel C. Nelson Vice President, CVS Corporation Executive Vice President - Marketing, CVS Pharmacy, Inc.	Vice President of CVS Corporation since October 1996; Executive Vice President - Marketing of CVS Pharmacy, Inc., since September 1993	49
Thomas M. Ryan President and Chief Executive Officer, CVS Corporation and CVS Pharmacy, Inc.	President and Chief Executive Officer of CVS Corporation since May 1998; Vice Chairman and Chief Operating Officer of CVS Corporation, October 1996 - May 1998; President and Chief Executive Officer of CVS Pharmacy, Inc. since January 1994; Executive Vice President - Stores of CVS Pharmacy, Inc., January 1990 - January 1994	46
Douglas A. Sgarro Vice President, CVS Corporation Senior Vice President - Administration and Chief Legal Officer, CVS Pharmacy, Inc.	Vice President of CVS Corporation and Senior Vice President - Administration and Chief Legal Officer of CVS Pharmacy, Inc. since September 1997; Partner in the New York City office of the law firm of Brown & Wood LLP, January 1993 - August 1997	39
Larry D. Solberg Vice President and Controller, CVS Corporation Senior Vice President - Finance and Controller, CVS Pharmacy, Inc.	Vice President of CVS Corporation since October 1996; Senior Vice President - Finance and Controller of CVS Pharmacy, Inc. since March 1996; Vice President and Controller of CVS Pharmacy, Inc., October 1994 - March 1996; Senior Vice President of PIMMS Corp., September 1993 - October 1994	51

In each case, the individual's term of office extends to the date of the board of directors meeting following the next annual meeting of CVS stockholders. In addition to the office(s) which they hold in CVS Corporation and CVS Pharmacy, Inc. as shown above, each of the individuals listed holds various offices in certain CVS subsidiaries.

PART II

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

The information required by this item is included in our 1998 Annual Report to Shareholders on page 38 under the caption "Quarterly Financial Information," and is incorporated into this report by reference.

Since October 16, 1996, the common stock of the Company has been listed on the New York Stock Exchange under the symbol "CVS." As of February 22, 1999, the record date for the 1999 Annual Meeting of Stockholders, there were 10,500 CVS stockholders of record. On May 13, 1998, the Company's stockholders approved an increase in the number of authorized common shares from 300 million to one billion. Also on that date, the Board of Directors authorized a two-for-one common stock split, which was effected by the issuance of one additional share of common stock for each share of common stock outstanding on May 25, 1998. All share and per share amounts were restated to reflect the effect of the stock split.

ITEM 6. SELECTED FINANCIAL DATA

The information required by this item is included in our 1998 Annual Report to Shareholders on page 39 under the caption "Five-Year Financial Summary," and is incorporated into this report by reference.

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

Except for as set forth in the following paragraph, the information required by this item is included in our 1998 Annual Report to Shareholders on pages 14 through 19 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," and is incorporated into this report by reference.

Recent Development:
On February 11, 1999, we sold 5.50% unsecured senior notes due February 15, 2004 in the aggregate principal amount of $300 million in a private placement. Proceeds from the notes were used to repay outstanding commercial paper.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have not entered into any transactions using derivative financial instruments or derivative commodity instruments and we do not believe that there is any material market risk exposure with respect to other financial instruments (such as fixed and variable rate borrowings) which would require disclosure under this Item.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is included in our 1998 Annual Report to Shareholders on pages 20 through 38, and is incorporated into this report by reference.

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

The information required by this item, with the exception of the information relating to our executive officers, which is presented in Part I under "Executive Officers of the Registrant", appears in our 1999 Proxy Statement on pages 4 through 6 and page 27 under the captions Item 1: "Biographies of our Board Nominees" and Item 5: "Section 16(a) Beneficial Ownership Reporting Compliance" and is incorporated into this report by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item appears in our 1999 Proxy Statement on pages 7, 8 and 10 through 21 under the captions Item 1: "Director Compensation", "Compensation Committee Interlocks and Insider Participation", "Compensation Committee Report on Executive Compensation", "Summary Compensation Table", "Stock Options", "Stock Performance Graph" and "Certain Executive Arrangements" and is incorporated into this report by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item appears in our 1999 Proxy Statement on pages 8 through 10 under the captions Item 1: "Share Ownership of Directors and Certain Executive Officers" and "Share Ownership of Principal Stockholders" and is incorporated into this report by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item appears in our 1999 Proxy Statement on page 21 under the caption Item 1: "Transactions with Directors and Officers" and is incorporated into this report by reference.

PART IV

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

A. Financial Statements, Schedules and Exhibits

1. Financial Statements

The following appear in our 1998 Annual Report to Shareholders at the pages indicated below and are incorporated into Part II of this report by reference:

	Page

2. Schedules

The following schedule appears on page 17 of this report.

Schedule II -- Valuation and Qualifying Accounts

We did not include other financial statement schedules because they are not applicable or the information is included in the financial statements or related notes.

3. 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, filed herewith.
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].
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].

Exhibit	Description
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*		Five Year Credit Agreement dated as of May 23, 1997 by and among the Registrant, the Lenders party thereto, Fleet National Bank, as Documentation Agent, JP Morgan Securities, Inc., as Syndication Agent; and The Bank of New York, as Administrative Agent [incorporated by reference to Exhibit 10(i)(8) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997].
10.10*		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].
10.11	(i)*	1973 Stock Option Plan [incorporated by reference to Exhibit (10)(iii)(A)(i) to Melville Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1987].
	(ii)*	1987 Stock Option Plan [incorporated by reference to Exhibit (10)(iii)(A)(iii) to Melville Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1987].
	(iii)*	1989 Directors Stock Option Plan [incorporated by reference to Exhibit B to Melville Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1988].
	(iv)*	Melville Corporation Omnibus Stock Incentive Plan [incorporated by reference to Exhibit B to Melville Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1989 and Exhibit A to Melville's definitive Proxy Statement dated March 7, 1995].

(v)* Profit Incentive Plan of Melville Corporation [incorporated by reference to Exhibit A to Melville Corporation's definitive Proxy Statement dated March 14, 1994].

(vi)* Supplemental Retirement Plan for Select Senior Management of Melville Corporation I as amended through July 1995 [incorporated by reference to Exhibit 10(iii)(A)(vii) to Melville's Annual Report on Form 10-K for the fiscal year ended December 31, 1995].

(vii)* Supplemental Retirement Plan for Select Senior Management of Melville Corporation II as amended through July 1995 [incorporated by reference to Exhibit 10(iii)(A)(viii) to Melville's Annual Report on Form 10-K for the fiscal year ended December 31, 1995].

(viii)* Income Continuation Policy for Select Senior Executives of Melville Corporation as amended through May 12, 1988 [incorporated by reference to Exhibit 10 (viii) to Melville's Annual Report on Form 10-K for the fiscal year ended December 31, 1994].

(ix)* Melville Corporation 1996 Directors Stock Plan [incorporated by reference to Exhibit A to Melville's definitive Proxy Statement dated March 7, 1996].

(x)* Form of Employment Agreements between the Registrant and each of Messrs. Ryan, Conaway, Nelson and Merlo [incorporated by reference to the Registrant's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1996].

(xi)* 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].

(xii)* 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].

(xiii)* 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].

(xiv)* 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].

(xv) Form of Collateral Assignment and Executive Life Insurance Agreement between Registrant and each of Messrs. Ryan, Conaway, Nelson and Merlo, filed herewith.

11 Computation of Earnings per Common Share [incorporated by reference to the portion of the 1998 Annual Report to Shareholders on page 37 under the caption "Reconciliation of Earnings Per Common Share," which is filed herewith in Exhibit 13].

13 Portions of the 1998 Annual Report to Shareholders 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.

27 Financial Data Schedule.

B. Reports on Form 8-K

On February 9, 1999, the Registrant filed a Current Report on Form 8-K in connection with CVS' announcement that it privately placed $300 million of 5.50% unsecured senior notes due 2004 as described in Item 7 above.

On February 11, 1999, the Registrant filed a Current Report on Form 8-K in connection with CVS' announcement that effective April 14, 1999, Stanley P. Goldstein, Chairman of the Board of Directors, will retire as chairman although he will remain a Director. In connection with the retirement, Thomas M. Ryan, currently President and Chief Executive Officer, will be named Chairman of the Board of Directors and Chief Executive Officer and Charles C. Conaway, currently Executive Vice President and Chief Financial Officer, will be named President and Chief Operating Officer.

WHERE YOU CAN FIND MORE INFORMATION

CVS files annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). You may read and copy any reports, statements or other information that we file at the SEC's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public from commercial document retrieval services and at the web site maintained by the SEC at "http://www.sec.gov."

The SEC allows us to "incorporate by reference", which means that we can disclose important information to you by referring you to other documents that we file with the SEC. The information incorporated by reference is legally considered to be a part of this report.

We incorporate by reference into Part II (Items 5, 6, 7 and 8) and Part IV (Item 14) specified portions of our 1998 Annual Report to Shareholders. We also incorporate by reference into Part III (Items 10, 11, 12 and 13) specified portions of our Proxy Statement for the 1999 Annual Meeting of Shareholders, scheduled to be held on April 14, 1999.

If you are a shareholder, we may have sent you some of the documents incorporated by reference, but you can obtain any of them through us or the SEC. Documents incorporated by reference are available from us without charge, excluding all exhibits unless we have specifically incorporated by reference an exhibit in this report. Shareholders may obtain documents incorporated by reference in this report by requesting them in writing or by telephone from:

CVS Corporation
Investor Relations
670 White Plains Road - Suite 210
Scarsdale, NY 10583
Telephone: (800) 201-0938

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
CVS Corporation:

Under date of January 27, 1999, we reported on the consolidated balance sheets of CVS Corporation and subsidiaries as of December 31, 1998 and 1997, and related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1998, as contained in the 1998 Annual Report to Shareholders. These consolidated financial statements and our report thereon are incorporated by reference in the annual report on Form 10-K for the fiscal year ended 1998. In connection with our audits of the aforementioned consolidated financial statements, we also audited the 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
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KPMG LLP

Providence, Rhode Island
January 27, 1999

CVS CORPORATION
Schedule II -- Valuation and Qualifying Accounts

In millions	Balance at Beginning of Year	Additions Charged to Profit & Loss	Deductions Charged to Reserve(1)	Balance at End of Year
Accounts Receivable Allowance for Doubtful Accounts:				
Year Ended December 31, 1998	$ 39.2	$ 6.3	$ 5.7	$ 39.8
Year Ended December 31, 1997	36.9	7.9	5.6	39.2
Year Ended December 31, 1996	59.3	11.6	34.0	36.9

(1) 1996 includes a deduction of $21.2 million that relates to the actual write-off of certain receivables of former operating businesses that were retained by the Company subsequent to the sale of the related operating businesses.

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 25, 1999

By: /s/ CHARLES C. CONAWAY
Charles C. Conaway
Executive Vice President and
Chief Financial 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/ THOMAS M. RYAN Thomas M. Ryan	President, Chief Executive Officer and Director (Principal Executive Officer)	March 25, 1999
/s/ CHARLES C. CONAWAY Charles C. Conaway	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 25, 1999
/s/ LARRY D. SOLBERG Larry D. Solberg	Vice President and Controller (Principal Accounting Officer)	March 25, 1999
/s/ EUGENE APPLEBAUM Eugene Applebaum	Director	March 25, 1999
/s/ ALLAN J. BLOOSTEIN Allan J. Bloostein	Director	March 25, 1999
/s/ W. DON CORNWELL W. Don Cornwell	Director	March 25, 1999
/s/ THOMAS P. GERRITY Thomas P. Gerrity	Director	March 25, 1999
/s/ STANLEY P. GOLDSTEIN Stanley P. Goldstein	Chairman of the Board and Director	March 25, 1999
/s/ WILLIAM H. JOYCE William H. Joyce	Director	March 25, 1999
/s/ TERRY R. LAUTENBACH Terry R. Lautenbach	Director	March 25, 1999
/s/ TERRENCE MURRAY Terrence Murray	Director	March 25, 1999
/s/ SHELI Z. ROSENBERG Sheli Z. Rosenberg	Director	March 25, 1999
/s/ IVAN G. SEIDENBERG Ivan G. Seidenberg	Director	March 25, 1999

/s/ THOMAS O. THORSEN - ---------------------------- Thomas O. Thorsen	Director	March 25, 1999

EXHIBIT INDEX

3.2	By-Laws of the Registrant, as amended and restated [Filed electronically with SEC only].
10.11(xv)	Form of Collateral Assignment and Executive Life Insurance Agreement between Registrant and each of Messrs. Ryan, Conaway, Nelson and Merlo [Filed electronically with SEC only].
13	Portions of the 1998 Annual Report to Shareholders of CVS Corporation which are specifically designated in this Form 10-K as being incorporated by reference. [Filed electronically with SEC only].
21	List of Subsidiaries of the Registrant.
23	Consent of Independent Auditors.
27	Financial Data Schedule [Filed electronically with SEC only].

BY-LAWS
OF
CVS CORPORATION

(as amended through January 12, 1999)

ARTICLE I

STOCKHOLDERS

Section 1. ANNUAL MEETING. The annual meeting of the stockholders of the corporation, for the purpose of electing directors and for the transaction of such other business as may be brought before the meeting, shall be held at the principal office of the corporation, or at such other place within or without the State of Delaware stated in the notice of the meeting as the Board of Directors may determine, on such day in the month of April or May as the Board of Directors may determine, at 10:00 o'clock in the forenoon, Rhode Island time, or at such other hour stated in the notice of the meeting as the Board of Directors may determine.

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE II

BOARD OF DIRECTORS

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

Section 2. TERM AND VACANCIES. Directors shall be elected at the annual meeting of stockholders to hold office until the next annual meeting and until their respective successors have been duly elected and have qualified.

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

Directors need not be stockholders.

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

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

Any action required or permitted to be taken by the Board of Directors may be taken without a meeting if all of the directors consent in writing to the adoption of a

resolution authorizing the action, and in such event the resolution and the written consent of all directors thereto shall be filed with the minutes of the proceedings of the Board of Directors.

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

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

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

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

Section 8. QUORUM. One-third of the total number of directors shall constitute a quorum for the transaction of business, but if at any meeting of the Board there be less than a quorum present, the majority of those present may adjourn the meeting from time to time.

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

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

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

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

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

ARTICLE III

COMMITTEES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE IV

OFFICERS

Section 1. TITLES AND TERMS OF OFFICE. The executive officers of the corporation shall be a Chairman of the Board of Directors, a Chief Executive Officer and a President, each of whom shall be a member of the Board of

Directors, such number of Executive Vice Presidents, Senior Vice Presidents and Vice Presidents as the Board of Directors shall determine, and a Controller, a Treasurer and a Secretary, all of whom shall be chosen by the Board of Directors.

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

Any two or more offices except President and Vice President may be held by the same person.

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

Section 2. CHAIRMAN OF THE BOARD. The Board of Directors shall designate a Chairman of the Board (or one or more Co-Chairmen of the Board). The Chairman of the Board shall preside over the meetings of the Board of Directors and of the stockholders at which he will be present. If there be more than one, the Co-Chairmen

designated by the Board of Directors will perform such duties. The Chairman or Chairmen of the Board shall perform such other duties as may be assigned to him or them by the Board of Directors.

Section 3. CHIEF EXECUTIVE OFFICER. The Chief Executive Officer of the corporation shall have general management and control over the policy, business and affairs of the corporation and shall have such other authority and perform such other duties as usually appertain to a chief executive officer of a business corporation. He shall exercise the powers of the Chairman of the Board of Directors during his absence or inability to act.

Section 4. PRESIDENT. The President, if any, shall have such authority and shall perform such duties as the Board of Directors, the Executive Committee, or the Chief Executive Officer may from time to time determine.

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

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

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

Section 8. TREASURER. The Treasurer shall have custody of the funds and securities of the corporation which come into his hands. When necessary or proper, he may endorse on behalf of the corporation for collection, checks, notes, and other instruments and obligations and shall deposit the same to the credit of the corporation in such bank or banks or depositories as the Board of Directors or the Executive Committee

shall designate; whenever required by the Board of Directors or the Executive Committee, he shall render a statement of his cash account; he shall keep, or cause to be kept, books of account, in which shall be entered and kept full and accurate accounts of all monies received and paid out on account of the corporation; he shall perform all acts incident to the position of Treasurer, subject to the control of the Board of Directors, the Executive Committee, the Chief Executive Officer, the President and the Chief Financial Officer; he shall give bond for the faithful discharge of his duties, if, as, and when the Board of Directors or the Executive Committee may require. He shall perform such other duties as from time to time may be assigned to him by the Board of Directors, the Executive Committee, the Chief Executive Officer, the President or the Chief Financial Officer.

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

Section 10. SECRETARY. The Secretary shall keep the minutes of all meetings of the Board of Directors and the minutes of all meetings of the stockholders and of the Executive Committee, in books provided for that purpose; he shall attend to the giving and serving of all notices of the corporation; and he shall have charge of the certificate books, transfer books and records of stockholders and such other books and records as the Board of Directors or Executive Committee may direct, all of which shall at all reasonable times be open to the inspection of any director upon application during the usual business hours.

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

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

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

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

Section 13. EXECUTION OF CHECKS, ETC. All checks, notes, drafts or other instruments for the payment of money shall be signed on behalf of this corporation by such person or persons and in such manner as the Board of Directors or Executive Committee may prescribe by resolution from time to time.

ARTICLE V

STOCK; RECORD DATE

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

Section 2. TRANSFER OF SHARES. Shares of the stock of the corporation may be transferred on the record of stockholders of the corporation by the holder thereof in

person or by his duly authorized attorney upon surrender of a certificate therefor properly endorsed.

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

Section 4. TRANSFER AGENTS AND REGISTRARS. The Board of Directors or Executive Committee may appoint one or more transfer agents and one or more registrars of transfer and may require all stock certificates to be countersigned by such transfer agent and registered by such registrar of transfers. One person or organization may serve as both transfer agent and registrar.

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

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

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

ARTICLE VI

CORPORATE SEAL

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

ARTICLE VII

AMENDMENTS

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

COLLATERAL ASSIGNMENT AGREEMENT

This AGREEMENT made the _______ day of ________________, 19____, by and between CVS CORPORATION, a Rhode Island corporation (hereinafter "the corporation" and ______________ (hereinafter "The Employee").

WHEREAS, the Employee is currently a valued employee of the Employer and the Employer wishes to assist the Employee with his/her personal life insurance program and the Employee desires to accept such assistance:

NOW, THEREFORE, in consideration of the mutual covenants contained herein, it is agreed between the parties as follows:

Part I - Individual Life Insurance Agreement

1. Application for Insurance. The Employee will apply to Metropolitan Life Insurance Company (hereinafter called "the Insurer") for a policy of life insurance of his/her life that provides a death benefit during active employment equal to four times annual salary, capped at $2 million and that provides for a post-retirement death benefit equal to two times final salary, capped at $2 million. The death benefit shall be adjusted periodically to reflect changes in the Employee's coverage amount.

2. Ownership of Insurance. The Employee shall be the owner of the Policy and the Employee may exercise all rights of ownership with respect to the policy except as otherwise provided in this Agreement.

3. Payment of Premiums on Policy. The total premium cost of the Plan is paid by CVS Corporation.

4. Employee's Obligation to Corporation. The Employee shall be obligated to repay to the Corporation the aggregate amount which the Corporation pays on behalf of the Employee under Section 3 of this Agreement. This obligation of the Employee to the Corporation shall be payable as provided in Section 8 and 10 of this Agreement.

5. Collateral Assignment of Policy. Part II of this Agreement provides for an assignment of the Policy (hereinafter "the Collateral Assignment") to the Corporation to secure the Employee's obligation under Section 4.

6. Surrender of Termination of Policy. While this Agreement is in force and effect, the Employee will not sell, surrender or terminate the Policy without the Corporation's consent.

7. Assignment of Employee's Interest. In the Event the Employee transfers his/her rights in the Policy (other than rights assigned to the Corporation pursuant to this Agreement), then all of the Employee's rights in the Policy and this Agreement shall pass to his/her transferee (subject to the terms of this Agreement), and the Employee shall have no further rights in the Policy or this Agreement.

8. Death Claims

(a) If the Employee dies while this Agreement is in effect, the beneficiary or beneficiaries named by the Employee shall be entitled to receive a death benefit equal to four times annual salary, capped at $2 million. If the employee dies after retirement, the Employee's beneficiary or beneficiaries shall be entitled to receive a death benefit equal to two times final salary, capped at $2 million (in either cash reduced by an amount paid by the Corporation under Section 4).

(b) If the Employee dies while this Agreement is in effect, the Corporation shall be entitled to receive the amount of death benefits provided under the Policy in excess of the amount payable to the Employee's beneficiaries under paragraph (a) of this Section 8. The Employee understands that the amount received by the Corporation under this paragraph (b) may be less than or exceed the amount which the Corporation paid on behalf of the Employee under Section 3 of this Agreement. The receipt of this amount by the Corporation shall satisfy the Employee's obligations under Section 4 of this Agreement.

9. Termination of Agreement. This Agreement shall be terminated on the occurrence of any of the following events:

(a) The Employee's retirement from the Corporation, or, if later fifteen years from the date of issuance of the Policy.

(b) The Employee's termination of the employment from the Corporation

(c) Either party's submission of written notice to the other party, of intent to terminate Part I of this Agreement.

(d) The discontinuance by the Corporation, for any reason, of premium payments required under Section 3 of this Agreement.

10. Disposition of Policy on Termination of Agreement. If this Agreement is terminated under Section 9 of this Agreement, then the Employee shall have thirty days in which to repay the Corporation the aggregate amounts paid by the Corporation under Section 3 above. However, the Employee's obligation to repay the Corporation shall not exceed the cash surrender value of the policy at the time this Agreement is terminated. Upon payment in full by the Employee, the Corporation shall execute all documents required by the Insurer to release the Collateral Assignment of the Policy. If the Employee does not repay such amounts, the Corporation may enforce any rights which it has under the Collateral Assignment of the Policy.

11. Insurance Company Not a Party The Insurer:

(a) shall not be deemed to be a party to this Agreement for any purpose nor be in any way responsible for its validity; and

(b) shall have no liability except as set forth in the Policy and in any assignment of the Policy filed with it.

COLLATERAL ASSIGNMENT AGREEMENT

Part II - Assignment of Life Insurance Policy as Collateral

1. In return for the premium payments made by the Corporation as set forth in Section 3 of Part I hereof, the Employee hereby assigns to the Corporation, its successors and assigns, the Policy issued by the Insurer upon the life of the Employee and all rights thereunder (except as provided in Section 3 of Part II below), subject to all the terms and conditions of the policy

and to all superior liens, if any, which the Insurer may have against the Policy.

2. The Employee and the Corporation agree that the following specific rights are included in this Agreement and Collateral Assignment:

   (a) The sole right to collect from the Insurer the net proceeds of the Policy when it becomes a claim by death or maturity;

   (b) The sole right to surrender the Policy and receive the surrender value thereof at any time provided by the terms of the Policy and at such other times as the Insurer may allow; and

   (c) The sole right to collect and receive all distributions made under the Policy, and to exercise any and all options contained in the Policy with respect to the distributions; unless and until the Corporation notifies the Insurer in writing to the contrary, the distributions or shares of surplus, dividend deposits and additions shall continue on the Policy in force at the time of this assignment; and

   (d) The sole right to direct investment allocations under the policy

3. It is agreed that the following specific rights, so long as the Policy has not been surrendered, are reserved and excluded from this Agreement and Collateral Assignment.

   (a) The right to designate any change in beneficiary; and

   (b) The right to elect any optional form of settlement permitted by the Policy or allowed by the Insurer.

Any designation or change of beneficiary or election of a form of settlement shall be made subject to this Agreement and Collateral Assignment and to the rights of the Corporation under this Agreement.

4. This Collateral Assignment is made and the Policy is to be held as collateral security for any and all liabilities of the Employee to the Corporation arising under this Agreement.

5. The corporation covenants and agrees with the Employee as follows:

   (a) That the Corporation will not exercise the right to surrender the Policy until there has been a failure to repay the Corporation the aggregate amounts paid by the Corporation under Section 3 of Part I of this Agreement within the thirty day period described in Section 10 of Part I of this Agreement; and

   (b) That the Corporation will, upon request, forward without unreasonable delay to the Insurer the Policy for endorsement of any designation or change of beneficiary or any election of any optional form of settlement.

6. The Employee declares that no proceedings in bankruptcy are pending against him/her and that his/her property is not subject to any assignment for the benefit of creditor.

`COLLATERAL ASSIGNMENT AGREEMENT

Provisions Applicable to Parts I and II

A. Amendment of Agreement. This Agreement shall not be modified or amended except by a writing signed by the Corporation and the Employee. This

Agreement shall be binding upon the heirs, administrators or executors and the successors and assigns to each party to this Agreement.

B. State Law. This Agreement shall be subject to and shall be construed under the laws of Rhode Island.

CVS CORPORATION

By: _________________________

Title: _________________________

EMPLOYEE:

____

TRUSTEE (if applicable):

____

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

We strongly recommend that you read our audited consolidated financial statements and footnotes found on pages 22 through 38 of this Annual Report along with this important discussion and analysis.

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Bar Graph:

	1998	1997	1996
Net Sales (In billions)	($15.3,	$13.7,	$11.8)
Operating Profit Percentage*	(6.2%,	5.7%,	5.1%)
Diluted Earning Per Share**	($1.26,	$1.05,	$0.78)

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* Percent of net sales before non-recurring charges and gain.
** Earnings from continuing operations before non-recurring charges and gains.

Introduction

1998 was an excellent year for CVS. We are pleased to report that despite the significant challenges our company faced in integrating the operations of Arbor Drugs, Inc. and Revco D.S., Inc., we achieved another record year in terms of net sales, operating profit and diluted earnings per share, excluding the effect of the non-recurring charges and gain.

Our strong performance in 1998 translated into a 72.7% return to our shareholders. This compares to a total return of 18.1% for the Dow Jones Industrial Average and 28.6% for the S&P 500. While we are extremely proud of this accomplishment, we cannot guarantee that our future performance will result in similar returns to shareholders. Our total market capitalization grew to more than $21 billion at December 31, 1998.

As a result of the significant increase in our stock price, on May 13, 1998, the Board of Directors approved a two-for-one common stock split, effective June 15, 1998. At that time, the Board also approved an increase in our annual post-split cash dividend to $0.23 per share, underscoring their continued optimism in our prospects for future growth.

Mergers

As you review our consolidated financial statements and footnotes, you should carefully consider the impact of the following merger transactions and the non-recurring charges that we recorded:

CVS/Arbor Merger

On March 31, 1998, we completed a merger with Arbor pursuant to which 37.8 million shares of CVS common stock were exchanged for all of the outstanding common stock of Arbor. We also converted Arbor's stock options into options to purchase 5.3 million shares of our common stock. The merger of CVS and Arbor was a tax-free reorganization, which we treated as a pooling of interests under Accounting Principles Board Opinion No. 16, "Business Combinations." Accordingly, we have restated our historical consolidated financial statements and footnotes to include Arbor as if it had always been owned by CVS.

The merger with Arbor made us the market share leader in metropolitan Detroit, the nation's fourth largest retail drugstore market, and strengthened our position as the nation's top drugstore retailer in terms of store count and retail prescriptions dispensed. We believe that we can achieve cost savings from the combined operations of approximately $30 million annually. This will come primarily from closing Arbor's corporate headquarters, achieving economies of scale in advertising, distribution and other operational areas, and spreading our investment in information technology over a larger store base. Please read the "Cautionary Statement Concerning Forward-Looking Statements" section below.

CVS/Revco Merger

On May 29, 1997, we completed a merger with Revco pursuant to which 120.6 million shares of CVS common stock were exchanged for all of the outstanding common stock of Revco. We also converted Revco's stock options into options to purchase 6.6 million shares of our common stock. The merger of CVS and Revco was also a tax-free reorganization that we treated as a pooling of interests. Accordingly, we have restated our historical consolidated financial statements and footnotes to include Revco as if it had always been owned by CVS.

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 Charges

During the second quarter of 1998, we recorded a $158.3 million charge to operating expenses for direct and other merger-related costs pertaining to the CVS/Arbor merger transaction and related restructuring activities. At that time, we also recorded a $10.0 million charge to cost of goods sold to reflect markdowns on non-compatible Arbor merchandise.

During the second quarter of 1997, we recorded a $411.7 million charge to operating expenses for direct and other merger-related costs pertaining to the CVS/Revco merger transaction and related restructuring activities. At that time, we also recorded a $75.0 million charge to cost of goods sold to reflect markdowns on non-compatible Revco merchandise.

Integration Update

We are pleased to report that the integration of Arbor is well underway. We have already converted Arbor to CVS' accounting and store systems and closed the Troy, Michigan corporate headquarters facility. With respect to merger synergies, we achieved approximately $20 million of cost savings in 1998 and we believe we are on track to realize at least $30 million of cost savings in 1999 from the Arbor merger. Please read the "Cautionary Statement Concerning Forward Looking Statements" section below. We are further pleased to report that the integration of Revco is now complete and we have accomplished our goal of achieving at least $100 million of annual cost savings from the Revco merger.

Where You Can Find More Information About the Mergers

Please read the "Results of Operations" and "Cautionary Statement Concerning Forward-Looking Statements" sections below and Notes 2 and 3 to the consolidated financial statements for other important information about the mergers and the non-recurring charges that we recorded.

Results of Operations

Net sales increased 11.1% in 1998 to $15.3 billion. This compares to increases of 16.2% in 1997 and 12.5% in 1996. Same store sales, consisting of sales from stores that have been open for more than one year, rose 10.8% in 1998, 9.7% in 1997 and 8.9% in 1996. Pharmacy same store sales increased 16.5% in 1998, 16.5% in 1997 and 13.5% in 1996. Our pharmacy sales as a percentage of total sales were 58% in 1998, 55% in 1997 and 52% in 1996. Our third party prescription sales as a percentage of total pharmacy sales were 84% in 1998, 81% in 1997 and 80% in 1996.

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

- Our pharmacy sales growth continued to benefit from our ability to attract and retain managed care customers, our ongoing program of purchasing prescription files from independent pharmacies and favorable industry trends. These trends include an aging American population; many "baby boomers" are now in their fifties and are 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 also contributed to the growing demand for pharmacy services.

- Our front store sales growth was driven by solid performance in categories such as cosmetics, private label, seasonal, vitamins/nutrition, greeting cards, skin care, film and photofinishing, and convenience foods.

- The increase in net sales in 1998 was positively affected by our efforts to improve the performance of the Revco stores. To do this, we converted the retained Revco stores to the CVS store format and relocated certain stores. We are pleased to report that we are seeing improvements, especially in front store sales. However, the improved performance has been aided by temporary promotional events and the rate of progress has varied and, we expect it to continue to vary, on a market-by-market basis.

- The increase in net sales in 1997 was positively affected by our acquisition of Big B, Inc., effective November 16, 1996. Excluding the positive impact of the Big B acquisition, net sales increased 11.3% in 1997 when compared to 1996. Please read Notes 2 and 3 to the consolidated financial statements for other important information about the Big B acquisition.

- We have an active program in place to relocate our existing shopping center stores to larger, more convenient, freestanding locations. Historically, we have achieved significant improvements in customer count and net sales when we do this. The resulting increase in net sales has typically been driven by an increase in front store sales, which normally have a higher gross margin. We believe that our relocation program offers a significant opportunity for future growth, as 23% of our existing stores are freestanding. We currently expect to have 35% of our stores in freestanding locations by the end of 1999. Our long-term goal is to have 70-80% of our stores located in freestanding sites. We cannot, however, guarantee that future store relocations will deliver the same 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 27.0% in 1998. This compares to 27.0% in 1997 and 27.9% in 1996. As you review our gross margin performance, please remember to consider the impact of the $10.0 million charge we recorded in 1998 to reflect markdowns on non-compatible Arbor merchandise and the $75.0 million charge we recorded in 1997 to reflect markdowns on non-compatible Revco merchandise. If you exclude the effect of these non-recurring charges, our comparable gross margin as a percentage of net sales was 27.1% in 1998, 27.6% in 1997 and 27.9% in 1996.

Why has our comparable gross margin rate been declining?

- Pharmacy sales are growing 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.

- Sales to customers covered by third party insurance programs have continued to increase and, thus, have become a larger part of our total pharmacy business. Our gross margin on third party sales has continued to decline largely due to the efforts of managed care organizations and other pharmacy benefit managers to reduce prescription drug costs. To address this trend, we have dropped a number of third party programs that fell below our minimum profitability standards. In the event this trend continues and we elect to drop additional programs and/or decide not to participate in future programs that fall below our minimum profitability standards, we may not be able to sustain our current rate of sales growth.

Total operating expenses were 22.0% of net sales in 1998. This compares to 25.1% in 1997 and 22.9% in 1996. As you review our performance in this area, please remember to consider the impact of the following non-recurring charges:

- During 1998, we recorded the $158.3 million charge associated with the Arbor merger.

- During 1997, we recorded the $411.7 million charge associated with the Revco merger. We also recorded a $31.0 million charge for certain costs associated with the restructuring of Big B. Please read Note 3 to the consolidated financial statements for other important information about this charge.

- During 1996, we recorded a $12.8 million charge when Rite Aid Corporation announced that it had withdrawn its tender offer to acquire Revco. This event took place before we merged with Revco.

If you exclude the effect of these non-recurring charges, comparable total operating expenses as a percentage of net sales were 20.9% in 1998, 21.9% in 1997 and 22.8% in 1996.

What have we done to improve our comparable total operating expenses as a percentage of net sales?

- We eliminated most of Arbor's existing corporate overhead in 1998 and most of Revco's in 1997.

- Our strong sales performance has consistently allowed our net sales to grow at a faster pace than total operating expenses.

- Our information technology initiatives have led to greater productivity, which has resulted in lower operating costs and improved sales. Our major IT initiatives include: Supply Chain Management, Rx2000 Pharmacy Delivery Project, and Rapid Refill.

As a result of combining the operations of CVS, Arbor and Revco, we were able to achieve substantial annual operating cost savings in 1998 and 1997. Although we are extremely proud of this accomplishment, we strongly advise you not to rely on the resulting operating expense improvement trend to predict our future performance.

Operating profit increased $510.8 million to $772.2 million in 1998. This compares to $261.4 million in 1997 and $591.9 million in 1996. If you exclude the effect of the non-recurring charges we recorded in gross margin and in total operating expenses, our comparable operating profit increased $161.4 million (or 20.7%) to $940.5 million in 1998. This compares to $779.1 million in 1997 and $604.7 million in 1996. Comparable operating profit as a percentage of net sales was 6.2% in 1998, 5.7% in 1997 and 5.1% in 1996.

Other expense (income), net consisted of the following for the years ended December 31:

In millions	1998	1997	1996
Gain on sale of securities	$ --	$ --	$(121.4)
Dividend income	--	--	(5.6)
Interest expense	69.7	59.1	84.7
Interest income	(8.8)	(15.0)	(9.2)
Other expense (income), net	$ 60.9	$ 44.1	$ (51.5)

- ---

During 1998, our other expense (income), net increased $16.8 million due to higher interest expense and lower interest income. Our interest expense increased because we maintained higher average borrowing levels during 1998 to finance, in part, additional inventory. You should be aware that we purchased the additional inventory to support several initiatives. First we converted the Revco stores to the CVS merchandise mix. We also held promotional name change events in most Revco markets and realigned our stores and distribution centers. In order to properly support these important initiatives, we decided to temporarily increase our inventory levels during

1998. We believe that our inventory levels were back to "normal" at December 31, 1998.

During 1997, our other expense (income), net increased $95.6 million to a net other expense of $44.1 million from a net other income of $51.5 million in 1996. As you review this change, you should consider the impact of the following information:

- During 1997, we recognized interest income on a note receivable that we received when we sold Kay-Bee Toys in 1996. This note was sold in 1997. We also had lower interest expense in 1997 because we retired most of the higher interest rate debt we absorbed as part of the CVS/Revco Merger.

- During 1996, we recognized a $121.4 million gain when we sold certain equity securities that we received when we sold Marshalls in 1995.

Income tax provision - Our effective income tax rate was 44.3% in 1998. This compares to 64.8% in 1997 and 42.1% in 1996. Our effective income tax rates were higher in 1998 and 1997 because certain components of the charges we recorded in conjunction with the CVS/Arbor and CVS/Revco merger transactions were not deductible for income tax purposes.

Earnings from continuing operations before extraordinary item increased $319.9 million to $396.4 million (or $0.98 per diluted share) in 1998. This compares to $76.5 million (or $0.16 per diluted share) in 1997 and $372.4 million (or $0.95 per diluted share) in 1996. If you exclude the effect of the non-recurring charges we recorded in cost of goods sold and total operating expenses and the gain on sale of securities included in other expense (income), net, our comparable earnings from continuing operations before extraordinary item increased 21.7% to $510.1 million (or $1.26 per diluted share) in 1998. This compares to $419.2 million (or $1.05 per diluted share) in 1997 and $306.8 million (or $0.78 per diluted share) in 1996.

Discontinued Operations - In November 1997, we completed the final phase of a comprehensive strategic restructuring program, under which we sold Marshalls, Kay-Bee Toys, Wilsons, This End Up and Bob's Stores. As part of this program, we also completed the spin-off of Footstar, Inc., which included Meldisco, Footaction and Thom McAn, completed the initial and secondary public offerings of Linens `n Things and eliminated certain corporate overhead costs. As part of completing this program, we recorded an after-tax charge of $20.7 million during the second quarter of 1997 and $148.1 million during the second quarter of 1996 to finalize our original liability estimates. Please read Note 4 to the consolidated financial statements for other important information about this program.

Extraordinary item - During the second quarter of 1997, we retired $865.7 million of the debt we absorbed when we acquired Revco. As a result, we recorded a charge for an extraordinary item, net of income taxes, of $17.1 million. The extraordinary item included the early retirement premiums we paid and the balance of our deferred financing costs.

Net earnings were $396.4 million (or $0.98 per diluted share) in 1998. This compares to $76.9 million (or $0.16 per diluted share) in 1997 and $208.2 million (or $0.52 per diluted share) in 1996.

Liquidity & Capital Resources

Liquidity ~ The Company has three primary sources of liquidity: cash provided by operations, commercial paper and uncommitted lines of credit. Our commercial paper program is supported by a $670 million, five-year unsecured revolving credit facility that expires on May 30, 2002 and a $460 million, 364 day unsecured revolving credit facility that expires on June 26, 1999. Our credit facilities contain customary financial and operating covenants. We believe that the restrictions contained in these covenants do not materially affect our financial or operating flexibility. We can also obtain up to $35 million of short-term financing through various uncommitted lines of credit. As of December 31, 1998, we had $736.6 million of commercial paper outstanding at a weighted average interest rate of 5.8% and $34.5 million outstanding under our uncommitted lines of credit at a weighted average interest rate of 4.8%.

Capital Resources ~ With a total debt to capitalization ratio of 25.4% at December 31, 1998, we are pleased to report that our financial condition remained strong at year-end. Although there can be no assurance and assuming market interest rates remain favorable, we currently believe that we will continue to have access to capital at attractive interest rates in 1999. We further believe that our cash on hand and cash provided by operations, together with our ability to obtain additional short-term and long-term financing, will be sufficient to cover our future working capital needs, capital expenditures and debt service requirements. Please read the "Cautionary Statement Concerning Forward-Looking Statements" section below.

Capital Expenditures

Our capital expenditures totaled $502.3 million in 1998. This compares to $341.6 million in 1997 and $328.9 million in 1996. During 1998, we opened 184 new stores, relocated 198 existing stores and closed 156 stores. During 1999, we expect that our capital expenditures will total approximately $450-$500 million. This currently includes a plan to open 140 new stores, relocate 300 existing stores and close 130 stores. As of December 31, 1998, we operated 4,122 stores in 24 states and the District of Columbia. This compares to 4,094 stores as of December 31, 1997.

Goodwill

In connection with various acquisitions which were accounted for as purchase transactions, we recorded goodwill, which represented the excess of the purchase price we paid over the fair value of the net assets we acquired. The goodwill we recorded in these transactions is being amortized on a straight-line basis, generally over periods of 40 years.

We evaluate goodwill for impairment whenever events or changes in circumstances suggest that the carrying amount may not be recoverable. Under these conditions, we would compare our estimated future cash flows to our carrying amounts. If our carrying amounts exceeded our expected future cash flows, we would consider the goodwill to be impaired and we would record an impairment loss. We do not currently believe that any of our goodwill is impaired.

Recent Accounting Pronouncements

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," effective for fiscal years beginning after December 15, 1998. This statement defines which costs incurred to develop or purchase internal-use software should be capitalized and which costs should be expensed. We are in the process of determining what impact, if any, this pronouncement will have on our consolidated financial statements.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires companies to record derivative instruments on their balance sheet at fair value and establishes new accounting practices for hedge instruments. This statement is effective for years beginning after June 15, 1999. We are in the process of determining what impact, if any, this pronouncement will have on our consolidated financial statements.

Discriminatory Pricing Litigation Against Drug Manufacturers and Wholesalers

The Company is a party to two lawsuits which have been filed against various pharmaceutical manufacturers and wholesalers:

- The first lawsuit is a class action that alleges that manufacturers and wholesalers conspired to fix and/or stabilize the price of the prescription drugs sold to retail pharmacies in violation of the Sherman Antitrust Act. In this lawsuit, CVS is a member of the plaintiff class.

- The second lawsuit was filed by individual chain pharmacies, including Revco, as plaintiffs. This lawsuit alleges unlawful price discrimination against retail pharmacies by manufacturers and wholesalers in violation of the Robinson-Patman Act, and asserts a conspiracy in violation of the Sherman Act. CVS became a party to this lawsuit when it acquired Revco.

With respect to the first lawsuit, fifteen defendants have agreed to settlements totaling $720 million. The class plaintiffs were not able to reach settlements with the four remaining defendants. As a result, a trial of the claims was commenced in September 1998. The trial resulted in a directed verdict in favor of the remaining defendents. The court has yet to approve a formula for distributing the settlement proceeds to class members. While we believe that our portion of the distribution could be significant, we can not predict an exact dollar amount at this time.

With respect to the second lawsuit, a few settlements have been reached to date and the case is expected to go to trial in the latter part of 1999. Our portion of any settlement or judgment in this lawsuit could also be significant, but we can not predict an exact dollar amount at this time.

Year 2000 Compliance Statement

The "Year 2000 Issue" relates to the inability of certain computer hardware and software to properly recognize and process date-sensitive information for the Year 2000 and beyond. Without corrective measures, our computer applications could fail and/or produce erroneous results. To address this concern, we have a work plan in place to identify the potential issues that could affect our business. The following discussion will provide you with an update on where we stand on this important matter.

Information Technology ("IT") Systems - We have completed the assessment phase for each of our critical information technology systems. Our IT business systems include point-of-sale, Rx2000 pharmacy, supply chain management, financial accounting and other corporate office systems. To date, we have modified or replaced approximately 85% of our critical IT business systems. We currently expect to modify or replace the remaining critical business systems by the end of the second quarter of 1999 and complete our systems testing by the end of the third quarter of 1999.

Non-IT Systems - We are currently in the process of completing the assessment phase for each of our critical non-IT business systems, including those with embedded chip technology. Our non-IT business systems include distribution center logistics, HVAC, energy management, facility alarms and key entry systems. To date, we have modified or replaced approximately 30% of our critical non-IT business systems. We currently expect to modify or replace the remaining critical non-IT business systems and complete our systems testing by the end of the third quarter of 1999.

Business Partners - As part of our project work plan, we have been communicating with our key business partners, including our vendors, suppliers, financial institutions, managed care organizations, pharmacy benefit managers, third party insurance programs and governmental agencies to determine the status of their Year 2000 compliance programs. Although there can be no assurance that we will not be adversely affected by the Year 2000 issues of our business partners, we believe that ongoing communication will continue to minimize our risk.

Potential Risks - The potential risks associated with failing to remediate our Year 2000 issues include: temporary disruptions in store operations; temporary disruptions in the ordering, receiving and shipping of merchandise and in the ordering and receiving of other goods and services; temporary disruptions in the billing and collecting of accounts receivable; temporary disruptions in services provided by banks and other financial institutions; temporary disruptions in communication services; and temporary disruptions in utility services.

Incremental Cost -We currently estimate that the incremental cost associated with completing our Year 2000 work plan will be approximately $10 million, about half of which had been incurred through December 31, 1998. This estimate could change as additional information becomes available. The cost to resolve our Year 2000 issues will be funded through our operating cash flows.

Contingency Plan - We are currently in the process of developing a contingency plan for each area in our organization that could be affected by the Year 2000 issue. Although we currently anticipate minimal business disruption, the failure of either the Company or one or more of our major business partners to remediate critical Year 2000 issues could have a materially adverse impact on our business, operations and financial condition. Please read the "Cautionary Statement Concerning Forward Looking Statements" section below.

Cautionary Statement Concerning Forward-Looking Statements

We have made forward-looking statements in this Annual Report that are subject to risks and uncertainties. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. We strongly recommend that you become familiar with the specific risks and uncertainties that we have outlined for you under the caption "Cautionary Statement Concerning Forward-Looking Statements" in our Annual Report on Form 10-K for the year ended December 31, 1998.

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 generally accepted accounting principles and include, when necessary, the best estimates 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, are 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 generally accepted auditing standards 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
President and Chief Executive Officer

/s/ Charles C. Conaway
- ----------------------

Charles C. Conaway
Executive Vice President and Chief Financial Officer

January 27, 1999

Independent Auditors' Report

[LOGO: KPMG LOGO]

Board of Directors and Shareholders
CVS Corporation:

We have audited the accompanying consolidated balance sheets of CVS Corporation and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three year period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CVS Corporation and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 1998, in conformity with generally accepted accounting principles.

/s/ KPMG LLP
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KPMG LLP
Providence, Rhode Island

January 27, 1999

Consolidated Statements of Operations

In millions, except per share amounts	Years Ended December 31, 1998	1997	1996
Net sales	$15,273.6	$13,749.6	$11,831.6
Cost of goods sold, buying and warehousing costs	11,144.4	10,031.3	8,530.7
Gross margin	4,129.2	3,718.3	3,300.9
Selling, general and administrative expenses	2,949.0	2,776.0	2,490.8
Depreciation and amortization	249.7	238.2	205.4
Merger, restructuring and other non-recurring charges	158.3	442.7	12.8
Total operating expenses	3,357.0	3,456.9	2,709.0
Operating profit	772.2	261.4	591.9
Gain on sale of securities	--	--	(121.4)
Dividend income	--	--	(5.6)
Interest expense, net	60.9	44.1	75.5
Other expense (income), net	60.9	44.1	(51.5)
Earnings from continuing operations before income taxes and extraordinary item	711.3	217.3	643.4
Income tax provision	(314.9)	(140.8)	(271.0)
Earnings from continuing operations before extraordinary item	396.4	76.5	372.4
Discontinued operations:			
Loss from operations, net of tax benefit of $31.0	--	--	(54.8)
Gain (loss) on disposal, net of tax provision (benefit) of $12.4, and $(56.2) in 1997 and 1996, respectively and minority interest of $22.2 in 1996	--	17.5	(109.4)
Earnings (loss) from discontinued operations	--	17.5	(164.2)
Earnings before extraordinary item	396.4	94.0	208.2
Extraordinary item, loss related to early retirement of debt, net of income tax benefit of $11.4	--	(17.1)	--
Net earnings	396.4	76.9	$ 208.2
Preference dividends, net of income tax benefit	(13.6)	(13.7)	(14.5)
Net earnings available to common shareholders	$ 382.8	$ 63.2	$ 193.7
Basic earnings per common share:			
Earnings from continuing operations before extraordinary item	$ 0.99	$ 0.17	$ 0.98
Earnings (loss) from discontinued operations	--	0.05	(0.45)
Extraordinary item, net of tax benefit	--	(0.05)	--
Net earnings	$ 0.99	$ 0.17	$ 0.53
Weighted average common shares outstanding	387.1	377.2	366.9
Diluted earnings per common share:			
Earnings from continuing operations before extraordinary item	$ 0.98	$ 0.16	$ 0.95
Earnings (loss) from discontinued operations	--	0.05	(0.43)
Extraordinary item, net of tax benefit	--	(0.05)	--
Net earnings	$ 0.98	$ 0.16	$ 0.52
Weighted average common shares outstanding	405.2	385.1	383.6
Dividends per common share	$ 0.225	$ 0.220	$ 0.220

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

In millions, except per share amounts	December 31, 1998	1997
Assets:		
Cash and cash equivalents	$ 180.8	$ 192.5
Accounts receivable, net	650.3	452.4
Inventories	3,190.2	2,882.4
Other current assets	327.9	364.8
Total current assets	4,349.2	3,892.1
Property and equipment, net	1,351.2	1,072.3
Goodwill, net	724.6	711.5
Deferred charges and other assets	311.2	303.0
Total assets	$6,736.2	$5,978.9
Liabilities:		
Accounts payable	$1,286.3	$1,233.7
Accrued expenses	1,111.3	1,168.6
Short-term borrowings	771.1	466.4
Current maturities of long-term debt	14.6	41.9
Total current liabilities	3,183.3	2,910.6
Long-term debt	275.7	290.4
Other long-term liabilities	166.6	163.3
Commitments and contingencies (Note 14)		
Shareholders' equity:		
Preferred stock, $0.01 par value: authorized 120,619 shares; 0 shares issued and outstanding	--	--
Preference stock, series one ESOP convertible, par value $1.00: authorized 50,000,000 shares; issued and outstanding 5,239,000 shares at December 31, 1998 and 5,324,000 shares at December 31, 1997	280.0	284.6
Common stock, par value $0.01: authorized 1,000,000,000 shares; issued 401,380,000 shares at December 31, 1998 and 393,734,000 shares at December 31, 1997	4.0	3.9
Treasury stock, at cost: 11,169,000 shares at December 31, 1998 and 11,278,0000 shares at December 31, 1997	(260.2)	(262.9)
Guaranteed ESOP obligation	(270.7)	(292.2)
Capital surplus	1,336.4	1,154.0
Retained earnings	2,021.1	1,727.2
Total shareholders' equity	3,110.6	2,614.6
Total liabilities and shareholders' equity	$6,736.2	$5,978.9

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

	Years Ended December 31, Shares			Dollars		
In millions	1998	1997	1996	1998	1997	1996
Preference stock:						
Beginning of year	5.3	5.6	6.3	$ 284.6	$ 298.6	$ 334.9
Conversion to common stock	(0.1)	(0.3)	(0.7)	(4.6)	(14.0)	(36.3)
End of year	5.2	5.3	5.6	280.0	284.6	298.6
Common stock:						
Beginning of year	393.7	369.3	357.5	3.9	3.7	357.5
Stock options exercised and awards under stock plans	7.5	10.9	4.1	0.1	0.1	4.1
Effect of change in par value	--	--	--	--	--	(365.6)
Other	0.2	13.5	7.7	--	0.1	7.7
End of year	401.4	393.7	369.3	4.0	3.9	3.7
Treasury stock:						
Beginning of year	(11.3)	(11.7)	(13.1)	(262.9)	(273.1)	(304.6)
Conversion of preference stock	0.2	0.5	1.4	4.2	12.2	31.6
Other	(0.1)	(0.1)	--	(1.5)	(2.0)	(0.1)
End of year	(11.2)	(11.3)	(11.7)	(260.2)	(262.9)	(273.1)
Guaranteed ESOP obligation:						
Beginning of year				(292.2)	(292.2)	(309.7)
Reduction of guaranteed ESOP obligation				21.5	--	17.5
End of year				(270.7)	(292.2)	(292.2)

Capital surplus:			
Beginning of year	1,154.0	941.2	532.4
Conversion of preference stock	0.3	1.8	4.7
Stock options exercised and awards under stock plans	176.2	195.9	56.7
Effect of change in par value	--	--	365.6
Other	5.9	15.1	(18.2)
End of year	1,336.4	1,154.0	941.2
Retained earnings:			
Beginning of year	1,727.2	1,737.9	1,956.7
Net earnings	396.4	76.9	208.2
Dividends:			
Preference stock, net of tax benefit	(13.6)	(13.7)	(14.4)
Redeemable preferred stock	--	--	(0.1)
Common stock	(88.9)	(73.9)	(51.7)
Footstar distribution	--	--	(360.8)
End of year	2,021.1	1,727.2	1,737.9
Other:			
Beginning of year	--	(2.4)	0.2
Cumulative translation adjustment	--	--	(0.2)
Unrealized holding gain (loss) on investments, net	--	2.4	(2.4)
End of year	--	--	(2.4)
Total shareholders' equity	$3,110.6	$2,614.6	$2,413.7

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

In millions	Years Ended December 31, 1998	1997	1996
Cash flows from operating activities:			
Net earnings	$ 396.4	$ 76.9	$ 208.2
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Depreciation and amortization	249.7	242.6	262.8
Merger, restructuring and other non-recurring charges	168.3	486.7	235.0
Deferred income taxes and other non-cash items	81.8	(218.5)	116.4
Net operating loss carryforwards utilized	7.2	69.4	15.3
Gain on sale of securities	--	--	(121.4)
Extraordinary item, loss on early retirement of debt, net of tax	--	17.1	--
Income (loss) from unconsolidated subsidiary	--	0.3	(4.5)
Minority interest in net earnings	--	--	22.2
Change in assets and liabilities, excluding acquisitions and dispositions:			
(Increase) in accounts receivable, net	(197.9)	(82.5)	(0.8)
(Increase) in inventories	(315.0)	(566.1)	(251.0)
(Increase) in other current assets, deferred charges and other assets	(82.7)	(74.2)	(99.1)
Increase in accounts payable	52.6	174.7	176.5
(Decrease) in accrued expenses	(280.4)	(220.3)	(215.5)
Increase (decrease) in federal income taxes payable and other liabilities	141.0	(11.9)	(16.9)
Net cash provided by (used in) operating activities	221.0	(105.8)	327.2
Cash flows from investing activities:			
Additions to property and equipment	(502.3)	(341.6)	(328.9)
Acquisitions, net of cash	(62.2)	--	(373.9)
Proceeds from sale of businesses and other property and equipment	50.5	192.7	240.4
Proceeds from sale of investments	--	309.7	485.8
Net cash (used in) provided by investing activities	(514.0)	160.8	23.4
Cash flows from financing activities:			
Additions to (reductions in) short-term borrowings	304.6	466.4	(52.0)
Proceeds from exercise of stock options	121.1	169.1	62.1
(Reductions in) additions to long-term debt	(41.9)	(917.2)	128.5
Dividends paid	(102.5)	(87.6)	(137.5)
Other	--	--	(25.8)
Net cash provided by (used in) financing activities	281.3	(369.3)	(24.7)
Net (decrease) increase in cash and cash equivalents	(11.7)	(314.3)	325.9
Cash and cash equivalents at beginning of year	192.5	506.8	180.9
Cash and cash equivalents at end of year	$ 180.8	$ 192.5	$ 506.8

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1 Significant Accounting Policies

Description of business ~ CVS Corporation ("CVS" or the "Company") is principally in the retail drugstore business. As of December 31, 1998, the Company operated 4,122 retail drugstores, located in 24 Northeast, Mid-Atlantic, Southeast and Midwest states and the District of Columbia. See Note 12 for further information about the Company's business segments.

Basis of presentation ~ The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated. As a result of the Company's strategic restructuring program, the results of operations of the former Footwear, Apparel, and Toys and Home Furnishings segments have been classified as discontinued operations in the accompanying consolidated statements of operations. See Note 4 for further information about the Company's strategic restructuring program and discontinued operations.

Stock split ~ On May 13, 1998, the Company's shareholders approved an increase in the number of authorized common shares from 300 million to one billion. Also on that date, the Board of Directors authorized a two-for-one common stock split, which was effected by the issuance of one additional share of common stock for each share of common stock outstanding. These shares were distributed on June 15, 1998 to shareholders of record as of May 25, 1998. All share and per share amounts presented herein have been restated to reflect the effect of the stock split.

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 $39.8 million and $39.2 million as of December 31, 1998 and 1997, respectively. The balance primarily includes trade receivables due from managed care organizations, pharmacy benefit management companies, insurance companies, governmental agencies and vendors.

Inventories ~ Inventories are stated at the lower of cost or market using the first-in, first-out method.

Financial instruments ~ The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and short-term borrowings. Due to the short-term nature of these instruments, the Company's carrying value approximates fair value. The Company also utilizes letters of credit to guarantee certain foreign purchases. As of December 31, 1998 and 1997, approximately $62.4 million and $58.2 million, respectively, was outstanding under letters of credit.

Property and equipment ~ Depreciation of property and equipment is computed on a straight-line basis, generally over the estimated useful lives of the asset or, when applicable, the term of the lease, whichever is shorter. Estimated useful lives generally range from 10 to 40 years for buildings and improvements, 3 to 10 years for fixtures and equipment, and 3 to 10 years for leasehold improvements. Maintenance and repair costs are charged directly to expense as incurred. Major renewals or replacements that substantially extend the useful life of an asset are capitalized and depreciated.

Impairment of long-lived assets ~ The Company primarily groups and evaluates assets at an individual store level, which is the lowest level at which individual cash flows can be identified. When evaluating assets for potential impairment, the Company considers historical performance and estimated undiscounted future cash flows. If the carrying amount of the related assets exceed the expected future cash flows, the Company considers the assets to be impaired and records an impairment loss.

Deferred charges and other assets ~ Deferred charges and other assets primarily include beneficial leasehold costs, which are amortized on a straight-line basis over the shorter of 15 years or the remaining life of the leasehold acquired, and reorganization goodwill, which is amortized on a straight-line basis over 20 years. The reorganization goodwill is the value of Revco D.S., Inc., in excess of identifiable assets, as determined during its 1992 reorganization under Chapter 11 of the United States Bankruptcy Code. See Note 11 for further information about reorganization goodwill.

Goodwill ~ Goodwill, which represents the excess of the purchase price over the fair value of net assets acquired, is amortized on a straight-line basis generally over periods of 40 years. Accumulated amortization was $85.6 million and $65.6 million at December 31, 1998 and 1997, respectively. The Company evaluates goodwill for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. If the carrying amount of the goodwill exceeds the expected undiscounted future cash flows, the Company records an impairment loss.

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 in the year of the closing.

Advertising costs ~ External costs incurred to produce media advertising are expensed when the advertising takes place.

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 enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Stock-based compensation ~ During 1996, the Company 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 Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees." The Company has elected to continue to account for its stock-based compensation plans under APB No. 25. See Note 7 for further information about the Company's stock incentive plans.

Insurance ~ The Company is self-insured up to certain limits for general liability, workers compensation and automobile liability claims. The Company accrues for projected losses in the year the claim is incurred based on actuarial assumptions followed in the insurance industry and the Company's past experience.

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.

Reclassifications ~ Certain reclassifications have been made to the consolidated financial statements of prior years to conform to the current year presentation.

Earnings per common share ~ During the fourth quarter of 1997, the Company adopted SFAS No. 128, "Earnings Per Share" and restated previously reported earnings per common share. Basic earnings per common share is computed by dividing: (i) net earnings, after deducting the after-tax dividends on the ESOP Preference Stock, by (ii) the weighted average number of common shares outstanding during the year (the "Basic Shares").

Diluted earnings per common share normally assumes that the ESOP Preference Stock is converted into common stock and all dilutive stock options are exercised. Diluted earnings per common share is computed by dividing: (i) net earnings, after accounting for the difference between the current dividends on the ESOP Preference Stock and the common stock and after making adjustments for certain non-discretionary expenses that are based on net earnings such as incentive bonuses and profit sharing by (ii) 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. In 1997, the assumed conversion of the ESOP Preference Stock would have increased diluted earnings per common share and, therefore, was not considered.

New accounting pronouncements ~ During 1998, the Company adopted: (i) SFAS No. 130, "Reporting Comprehensive Income," which established standards for the reporting and display of comprehensive income and its components, (ii) SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which requires companies to report financial information based on how management internally organizes data to make operating decisions and assess performance and (iii) SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," which revises the disclosure requirements for pensions and other postretirement benefit plans. Adoption of the above disclosure standards did not affect the Company's financial results. Comprehensive income does not differ from the consolidated net earnings presented in the accompanying consolidated statements of operations.

2 Business Combinations

Merger Transactions

On March 31, 1998, CVS completed a merger with Arbor Drugs, Inc. ("Arbor"), pursuant to which 37.8 million shares of CVS common stock were exchanged for all of the outstanding common stock of Arbor (the "CVS/Arbor Merger"). Each outstanding share of Arbor common stock was exchanged for 0.6364 shares of CVS common stock. In addition, outstanding Arbor stock options were converted at the same exchange ratio into options to purchase 5.3 million shares of CVS common stock.

On May 29, 1997, CVS completed a merger with Revco D.S., Inc. ("Revco"), pursuant to which 120.6 million shares of CVS common stock were exchanged for all of the outstanding common stock of Revco (the "CVS/Revco Merger"). Each outstanding share of Revco common stock was exchanged for 1.7684 shares of CVS common stock. In addition, outstanding Revco stock options were converted at the same exchange ratio into options to purchase 6.6 million shares of CVS common stock.

The CVS/Arbor Merger and CVS/Revco Merger (collectively, the "Mergers") constituted tax-free reorganizations and have been accounted for as pooling of interests under Accounting Principles Board Opinion No. 16, "Accounting for Business Combinations." Accordingly, all prior period financial statements presented have been restated to include the combined results of operations, financial position and cash flows of Arbor and Revco as if they had always been owned by CVS.

Prior to the Mergers, Arbor's fiscal year ended on July 31 and Revco's fiscal year ended on the Saturday closest to May 31. These fiscal year-ends have been restated to a December 31 year-end to conform to CVS' fiscal year-end. Arbor's and Revco's cost of sales and inventories have been restated from the last-in, first-out method to the first-in, first-out method to conform to CVS' accounting method for inventories. The impact of the restatement was to increase earnings from continuing operations by $0.5 million in 1998, $1.2 million in 1997 and $15.5 million in 1996.

There were no material transactions between CVS, Arbor and Revco prior to the Mergers. Certain reclassifications have been made to Arbor's and Revco's historical stand-alone financial statements to conform to CVS' presentation.

Following are the results of operations for the separate companies prior to the Mergers and the combined amounts presented in the consolidated financial statements:

In millions	Three Months Ended March 28, 1998	Three Months Ended March 29, 1997	Years Ended December 31, 1997	Years Ended December 31, 1996
Net sales:				
CVS	$3,333.6	$ 1,515.0	$12,738.2	$ 5,528.1
Arbor	267.9	237.0	1,011.4	886.8
Revco	--	1,645.8	--	5,416.7
	$3,601.5	$ 3,397.8	$13,749.6	$11,831.6
Earnings from continuing operations:				
CVS	$ 121.3	$ 58.5	$ 37.3	$ 239.6
Arbor	10.7	9.4	39.2	31.6
Revco	--	24.2	--	101.2
	$ 132.0	$ 92.1	$ 76.5	$ 372.4

Purchase Transactions

On December 23, 1996, the Company completed the cash purchase of Big B, Inc. ("Big B") by acquiring all of the outstanding shares of Big B common stock. The aggregate transaction value, including the assumption of $49.3 million of Big B debt, was $423.2 million. The Big B acquisition was accounted for as a purchase business combination. The resulting excess of purchase price over net assets acquired, $248.9 million, is being amortized on a straight-line basis over 40 years. For financial reporting purposes, Big B's results of operations have been included in the consolidated financial statements since November 16, 1996.

The Company also acquired other retail drugstore businesses that were accounted for as purchase business combinations. These acquisitions did not have a material effect on the consolidated financial statements either individually or in the aggregate. The results of operations of these companies have been included in the consolidated financial statements since their respective dates of acquisition.

3 Merger & Restructuring Charges

In accordance with Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)" and SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the Company recorded the following charges in connection with the Mergers.

In connection with the CVS/Arbor Merger, the Company recorded a $158.3 million charge to operating expenses during the second quarter of 1998 for direct and other merger-related costs pertaining to the merger transaction and certain restructuring activities (the "CVS/Arbor Charge"). Asset write-offs included in this charge totaled $41.2 million. The balance of the charge, $117.1 million, will require cash outlays of which $60.1 million had been incurred as of December 31, 1998. The remaining cash outlays primarily include noncancelable lease commitments and severance. The Company also recorded a $10.0 million charge to cost of goods sold during the second quarter of 1998 to reflect markdowns on noncompatible Arbor merchandise (the "Arbor Inventory Markdown").

In connection with the CVS/Revco Merger, the Company recorded a $411.7 million charge to operating expenses during the second quarter of 1997 for direct and other merger-related costs pertaining to the merger transaction and certain restructuring activities (the "CVS/Revco Charge"). Asset write-offs included in this charge totaled $82.2 million. The balance of the charge, $329.5 million, will require cash outlays of which $269.3 million had been incurred as of December 31, 1998. The remaining cash outlays primarily include non-cancelable lease commitments and severance. The Company also recorded a $75.0 million charge to cost of goods sold during the second quarter of 1997 to reflect markdowns on noncompatible Revco merchandise (the "Revco Inventory Markdown").

Merger transaction costs primarily include fees for investment bankers, attorneys, accountants, financial printing and other related charges. Employee severance and benefits primarily include costs associated with terminating approximately 200 Arbor and 1,000 Revco employees, all of which had occurred as of December 31, 1998. Noncancelable lease obligations and duplicate facilities primarily include noncancelable lease commitments and shut down costs. These costs did not provide future benefit to the retained stores or corporate facilities.

In accordance with EITF 94-3 and SFAS No. 121, the Company also recorded a $31.0 million charge to operating expenses during the first quarter of 1997 for certain costs associated with the restructuring of Big B (the "Big B Charge"). This charge included accrued liabilities related to certain exit plans for identified stores and duplicate corporate facilities, such as the cancellation of lease agreements and the write-down of unutilized fixed assets. Asset write-offs included in this charge totaled $5.1 million. The balance of the charge, $25.9 million, will require cash outlays of which $10.0 million had been incurred as of December 31, 1998. The remaining cash outlays primarily include noncancelable lease commitments. These exit plans did not provide future benefit to the retained stores or corporate facilities.

Following is a summary of the significant components of the above charges:

	CVS/Arbor Charge				CVS/Revco and Big B Charges			
In millions	Total 1998 Charge	Utilized to Date	Transfer	Balance at 12/31/98(1)	Total 1997 Charges	Utilized to Date	Transfer	Balance at 12/31/98(1)
Merger transaction costs	$ 15.0	$ (15.9)	$ 0.9	$ --	$ 35.0	$ (32.4)	$ (2.6)	$ --
Restructuring costs:								
Employee severance and benefits	27.1	(13.8)	0.3	13.6	89.8	(77.4)	--	12.4
Exit costs:								
Noncancelable lease obligations and duplicate facilities	67.5	(25.8)	(1.9)	39.8	211.6	(147.9)	--	63.7
Fixed asset write-offs	41.2	(41.2)	--	--	87.3	(87.3)	--	--
Contract cancellation costs	4.8	(1.2)	--	3.6	7.4	(7.4)	--	--
Other	2.7	(3.4)	0.7	--	11.6	(14.2)	2.6	--
	$ 158.3	$ (101.3)	$ --	$ 57.0	$ 442.7	$ (366.6)	$ --	$ 76.1

(1) The Company believes that the reserve balances at December 31, 1998 are adequate to cover the remaining liabilities associated with these charges.

4 Strategic Restructuring Program & Discontinued Operations

In November 1997, the Company completed the final phase of its comprehensive strategic restructuring program, first announced in October 1995 and subsequently refined in May 1996 and June 1997. The strategic restructuring program included: (i) the sale of Marshalls, Kay-Bee Toys, Wilsons, This End Up and Bob's Stores, (ii) the spin-off of Footstar, Inc., which included Meldisco, Footaction and Thom McAn (the "Footstar Distribution"), (iii) the initial and secondary public offerings of Linens `n Things and (iv) the elimination of certain corporate overhead costs.

The strategic restructuring program was completed without significant changes to the Board approved plan. As part of completing this program, the Company recorded, as a component of discontinued operations, an after-tax charge of $20.7 million during the second quarter of 1997 and $148.1 million during the second quarter of 1996 to finalize original liability estimates. The Company believes that the remaining pre-tax reserve balance of $84.7 million at December 31, 1998 is adequate to cover the remaining liabilities associated with this program.

Following is a summary of the strategic restructuring reserve:

In millions	Total Reserve	Utilized to Date	Transfer	Balance
Loss on disposal	$ 721.8	$ (710.6)	$38.8	$50.0
Lease obligations	187.4	(124.6)	(32.8)	30.0
Severance	58.6	(47.9)	(6.0)	4.7
Other	174.2	(174.2)	--	--
	$1,142.0	$(1,057.3)	$ --	$84.7

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

In millions	1997	1996
Net sales:		
Footwear	$ --	$1,391.1
Apparel	348.3	526.4
Toys and Home Furnishings	--	900.3
	$348.3	$2,817.8
Operating (loss):		
Footwear	$ --	$ (12.4)
Apparel	--	(171.3)
Toys and Home Furnishings	--	(49.7)
	$ --	$ (233.4)

As of December 31, 1998 and 1997, there were no assets or liabilities of the discontinued operations reflected in the accompanying consolidated balance sheets.

5 Borrowings and Credit Agreements

Following is a summary of the Company's borrowings at December 31:

In millions	1998	1997
Commercial paper	$736.6	$450.0
ESOP note payable(1)	270.7	292.1
Uncommitted lines of credit	34.5	16.4
9.125% senior notes	--	19.2
Mortgage notes payable	16.1	17.1
Capital lease obligations and other	3.5	3.9
	1,061.4	798.7
Less:		
Short-term borrowings	(771.1)	(466.4)
Current portion of long-term debt	(14.6)	(41.9)
	$ 275.7	$ 290.4

(1) See Note 9 for further information about the Company's ESOP Plan.

The Company's commercial paper program is supported by a $670 million, five-year unsecured revolving credit facility, which expires on May 30, 2002 and a $460 million, 364 day unsecured revolving credit facility, which expires on June 26, 1999 (collectively, the "Credit Facilities"). The Credit Facilities require the Company to pay a quarterly facility fee of 0.07%, regardless of usage. The Company can also obtain up to $35.0 million of short-term financing through various uncommitted lines of credit. The weighted average interest rate for short-term borrowings was 5.7% as of December 31, 1998 and 1997.

The Company was not obligated under any formal or informal compensating balance agreements.

During the second quarter of 1997, the Company extinguished $865.7 million of the debt it absorbed as part of the CVS/Revco Merger using cash on hand and commercial paper borrowings. As a result, the Company recorded an extraordinary loss, net of income taxes, of $17.1 million, which consisted of early retirement premiums and the write-off of unamortized deferred financing costs. On January 15, 1998, the Company redeemed the remaining $19.2 million of 9.125% senior notes.

At December 31, 1998, the aggregate long-term debt maturing during the next five years is as follows: $14.6 million in 1999, $17.3 million in 2000, $21.6 million in 2001, $26.5 million in 2002, $32.3 million in 2003, $178.0 million in 2004 and thereafter. Interest paid was approximately $70.7 million in 1998, $58.4 million in 1997 and $79.8 million in 1996.

6 Leases

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

Following is a summary of the Company's net rental expense for operating leases for the years ended December 31:

In millions	1998	1997	1996
Minimum rentals	$ 459.1	$ 409.6	$ 337.4
Contingent rentals	60.3	60.2	73.6
	519.4	469.8	411.0
Less: sublease income	(14.0)	(9.5)	(12.8)
	$ 505.4	$ 460.3	$ 398.2

Following is a summary of the future minimum lease payments under capital and operating leases, excluding lease obligations for closed stores, at December 31, 1998:

In millions	Capital Leases	Operating Leases
1999	$ 0.4	$ 402.6
2000	0.4	381.1
2001	0.4	348.3
2002	0.2	323.3
2003	0.2	297.7
Thereafter	1.3	2,485.7
	2.9	$ 4,238.7
Less: imputed interest	(1.4)	
Present value of capital lease obligations	$ 1.5	

7 Stock Incentive Plans

As of December 31, 1998, the Company had the following stock incentive plans (including the pre-merger plans of Arbor and Revco). Effective with the Mergers, outstanding Arbor and Revco stock options were exchanged for options to purchase CVS common stock.

1997 Incentive Compensation Plan

The 1997 Incentive Compensation Plan (the "1997 ICP"), superseded the 1990 Omnibus Stock Incentive Plan, the 1987 Stock Option Plan and the 1973 Stock Option Plan (collectively, the "Preexisting Plans"). Upon approval of the 1997 ICP, authority to make future grants under the Preexisting Plans was terminated, although previously granted awards remain outstanding in accordance with their terms and the terms of the Preexisting Plans.

As of December 31, 1998, the 1997 ICP provided for the granting of up to 23,321,821 shares of common stock in the form of stock options, stock appreciation rights ("SARs"), restricted shares, deferred shares and performance-based awards to selected officers, employees and directors of the Company. All grants under the 1997 ICP are awarded at fair market value on the date of grant. The right to exercise or receive these awards generally commences between one and five years from the date of the grant and expires not more than ten years after the date of the grant, provided that the holder continues to be employed by the Company. As of December 31, 1998, there were 19,730,690 shares available for grant under the 1997 ICP.

Restricted shares issued under the 1997 ICP may not exceed 3.6 million shares. In 1998, 1997 and 1996, 155,400, 44,610 and 633,100 shares of restricted stock were granted at a weighted average grant date fair value of $37.80, $23.02 and $13.14, respectively. Participants are entitled to vote and receive dividends on their restricted shares, although they are subject to certain transfer restrictions. Performance-based awards, which are subject to the achievement of certain business performance goals, totaled 56,346 at a weighted average grant date fair value of $36.70 in 1998. No awards were granted in 1997 and 1996. Compensation cost, which is based on the fair value at the date of grant, is recognized over the restricted or performance period. This cost totaled $3.1 million in 1998, $3.5 million in 1997 and $3.9 million in 1996.

The 1996 Directors Stock Plan

The 1996 Directors Stock Plan (the "1996 DSP"), provides for the granting of up to 346,460 shares of common stock to the Company's non-employee directors (the "Eligible Directors"). The 1996 DSP allows the Eligible Directors to elect to receive shares of common stock in lieu of cash compensation. Eligible Directors may also elect to defer compensation payable in common stock until their service as a director concludes. The 1996 DSP replaced the Company's 1989 Directors Stock Option Plan. As of December 31, 1998, there were 263,554 shares available for grant under the 1996 DSP.

Following is a summary of the fixed stock option activity under the 1997 ICP, the Preexisting Plans and the pre-merger plans of Arbor and Revco for the years ended December 31:

	1998		1997		1996	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	16,070,146	$ 16.95	23,569,930	$ 13.96	25,782,040	$ 14.06
Granted	3,119,410	37.16	3,695,530	23.62	6,609,229	14.80
Exercised	(7,137,027)	15.01	(10,756,726)	12.99	(3,534,729)	11.62
Canceled	(70,407)	26.48	(438,588)	14.48	(5,286,610)	17.35
Outstanding at end of year	11,982,122	23.31	16,070,146	16.95	23,569,930	13.96
Exercisable at end of year	6,127,402		11,729,688		10,011,179	

Following is a summary of the fixed stock options outstanding and exercisable as of December 31, 1998:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 5.00 to $20.00	6,024,451	5.5	$16.29	5,358,465	$16.24
20.01 to 35.00	2,857,611	7.1	23.10	697,787	22.20
35.01 to 46.50	3,100,060	9.1	37.16	71,150	37.45
$ 5.00 to $46.50	11,982,122	6.8	$23.31	6,127,402	$17.16

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 for the years ended December 31.

In millions, except per share amounts	1998	1997	1996
Net earnings:			
As reported	$396.4	$76.9	$208.2
Pro forma	370.9	58.7	196.2
Basic EPS:			
As reported	$ 0.99	$0.17	$ 0.53
Pro forma	0.92	0.12	0.50
Diluted EPS:			
As reported	$ 0.98	$0.16	$ 0.52
Pro forma	0.91	0.12	0.49

Beginning with grants made on or after January 1, 1995, the fair value of each stock option grant was estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	1998	1997	1996
Dividend yield	0.40%	0.70%	1.07%
Expected volatility	22.49%	22.77%	20.51%
Risk-free interest rate	5.75%	5.50%	7.00%
Expected life	7.0	5.5	5.0

8 Pension Plans and Other Postretirement Benefits

The Company sponsors various retirement programs, including defined benefit, defined contribution and other plans that cover most full-time employees.

Defined Benefit Plans

The Company sponsors a non-contributory defined benefit pension plan that covers certain full-time employees of Revco who are not covered by collective bargaining agreements. On September 20, 1997, the Company suspended future benefit accruals under this plan. As a result of the plan's suspension, the Company realized a $6.0 million curtailment gain in 1997. 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. It is the Company's policy to fund this plan based on actuarial calculations and applicable federal regulations.

Pursuant to various labor agreements, the Company is required to make contributions to certain union-administered pension plans that totaled $1.5 million in 1998, $1.6 million in 1997 and $1.2 million in 1996. The Company may be liable for its share of the plans' unfunded liabilities if the plans are terminated. The Company also has non-qualified supplemental executive retirement plans ("SERPs") in place for certain key employees for whom it has purchased cost recovery variable life insurance.

Defined Contribution Plans

The Company sponsors a Profit Sharing Plan and a 401(k) Savings Plan that cover substantially all employees who meet plan eligibility requirements. The Company also maintains a non-qualified, unfunded Deferred Compensation Plan for certain key employees. The Company's contributions under the above defined contribution plans totaled $26.4 million in 1998, $24.1 million in 1997 and $19.5 million in 1996. The Company also sponsors an Employee Stock Ownership Plan. See Note 9 for further information about this plan.

Other Postretirement Benefits

The Company provides postretirement health care and life insurance benefits to 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:

In millions	Defined Benefit Plans 1998	1997	Other Postretirement Benefits 1998	1997
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 253.3	$ 255.1	$ 14.4	$ 15.5
Service cost	0.5	7.6	--	--
Interest cost	19.5	19.2	1.0	1.0
Actuarial loss (gain)	49.3	(10.4)	0.5	(0.7)
Benefits paid	(25.0)	(18.2)	(1.9)	(1.4)
Benefit obligation at end of year	$ 297.6	$ 253.3	$ 14.0	$ 14.4
Change in plan assets:				
Fair value at beginning of year	$ 201.5	$ 172.8	$ --	$ --
Actual return on plan assets	28.4	20.0	--	--
Company contributions	18.2	26.9	1.9	1.4
Benefits paid	(25.0)	(18.2)	(1.9)	(1.4)
Fair value at end of year(1)	$ 223.1	$ 201.5	$ --	$ --
Funded status:				
Funded status	$ (74.5)	$ (51.8)	$ (14.0)	$ (14.5)
Unrecognized prior service cost	1.3	1.6	(1.0)	(1.1)
Unrecognized net loss (gain)	1.6	(8.4)	(0.3)	(1.0)
Accrued pension costs	$ (71.6)	$ (58.6)	$ (15.3)	$ (16.6)
Weighted average assumptions:				
Discount rate	6.75%	7.25%	6.75%	7.25%
Expected return on plan assets	9.00%	9.00%	--	--
Rate of compensation increase	4.50%	4.50%	--	--

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

For measurement purposes, future health care costs are assumed to increase at an annual rate of 6.5% during 1999, decreasing to an annual growth rate of 5.0% in 2002 and thereafter. A one percent change in the assumed health care cost trend rate would change the accumulated postretirement benefit obligation by $1.0 million and the total service and interest costs by $0.1 million.

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

In millions	Defined Benefit Plans 1998	1997	1996	Other Postretirement Benefits 1998	1997	1996
Service cost(1)	$ 0.5	$ 7.6	$ 9.2	$ --	$ --	$ 0.4
Interest cost on benefit obligation	19.5	19.2	16.8	1.0	1.0	2.5
Expected return on plan assets	(16.4)	(14.9)	(18.2)	--	--	--
Amortization of net loss (gain)	1.2	0.3	6.1	(0.2)	--	(1.1)
Amortization of prior service cost	0.1	0.3	0.4	(0.1)	(0.3)	--
Curtailment gain	--	(6.0)	(1.3)	--	--	--
Net periodic pension cost	$ 4.9	$ 6.5	$ 13.0	$ 0.7	$ 0.7	$ 1.8

(1) The decrease in total service cost is primarily due to the suspension of future benefit accruals under the Revco pension plan during 1997.

9 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 borrowed $357.5 million through a 20-year note (the "ESOP Note"). The proceeds from the ESOP Note 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 Note is 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 Note. As the ESOP Note is 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 31, 1998, 5.2 million shares of ESOP Preference Stock were outstanding, of which 1.6 million shares were allocated to participants and the remaining 3.6 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 Note 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 for the years ended December 31:

In millions	1998	1997	1996
ESOP expense recognized	$25.8	$13.8	$15.4
Dividends paid	20.5	20.8	21.8
Cash contributions	25.8	22.9	19.3
Interest costs incurred on ESOP loan	24.9	26.4	27.5
ESOP shares allocated	0.4	0.4	0.4

10 Supplemental Information

Following are the components of amounts included in the consolidated balance sheets as of December 31:

In millions	1998	1997
Other current assets:		
Deferred income taxes	$ 248.7	$ 304.2
Supplies	16.8	13.6
Other	62.4	47.0
	$ 327.9	$ 364.8
Property and equipment:		
Land	$ 91.0	$ 78.7
Buildings and improvements	290.2	231.5

Fixtures and equipment	1,178.4	938.9
Leasehold improvements	477.4	443.7
Capital leases	2.8	3.3
	2,039.8	1,696.1
Accumulated depreciation and amortization	(688.6)	(623.8)
	$1,351.2	$1,072.3
Accrued expenses:		
Taxes other than federal income taxes	$ 130.8	$ 127.5
Salaries and wages	99.4	99.6
Rent	92.2	84.8
Strategic restructuring reserve	84.7	102.8
Employee benefits	82.7	84.3
CVS/Revco/ Big B reserve	76.1	233.0
CVS/Arbor reserve	57.0	--
Other	488.4	436.6
	$1,111.3	$1,168.6

Following is a summary of the Company's non-cash financing activities for the years ended December 31:

In millions	1998	1997	1996
Fair value of assets acquired	$62.2	$ --	$423.2
Cash paid	62.2	--	373.9
Liabilities assumed	$ --	$ --	$ 49.3
Equity securities or notes received from sale of businesses	$ --	$52.0	$172.4

Interest expense was $69.7 million in 1998, $59.1 million in 1997 and $84.7 million in 1996. Interest income was $8.8 million in 1998, $15.0 million in 1997 and $9.2 million in 1996.

11 Income Taxes

Deferred income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The Company's income tax (provision) benefit for continuing operations for the years ended December 31 consisted of the following:

In millions	Federal	State	Total

1998:			
Current	$(197.3)	$(41.4)	$(238.7)
Deferred	(51.2)	(25.0)	(76.2)
	$(248.5)	$(66.4)	$(314.9)
1997:			
Current	$(182.5)	$(68.5)	$(251.0)
Deferred	82.1	28.1	110.2
	$(100.4)	$(40.4)	$(140.8)
1996:			
Current	$(195.6)	$(54.9)	$(250.5)
Deferred	(17.7)	(2.8)	(20.5)
	$(213.3)	$(57.7)	$(271.0)

Following is a reconciliation of the statutory income tax rate to the Company's effective tax rate for the years ended December 31:

	1998	1997	1996
Statutory income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	5.8	6.6	5.5
Goodwill and other	1.2	1.4	1.6
Effective tax rate before merger related costs	42.0	43.0	42.1
Merger related costs (1)	2.3	21.8	--
Effective tax rate	44.3%	64.8%	42.1%

(1) Includes state tax effect.

Income taxes paid (refunded) were $102.6 million, $258.9 million and $(33.8) million during the years ended December 31, 1998, 1997 and 1996, respectively.

Following is a summary of the significant components of the Company's deferred tax assets and liabilities as of December 31:

In millions	1998	1997
Deferred tax assets:		
Employee benefits	$ 84.5	$119.0
Other assets	185.5	253.8
Total deferred tax assets	$270.0	$372.8
Deferred tax liabilities:		
Property and equipment	$(44.0)	$(27.0)
Inventories	(1.6)	(29.9)

Other liabilities	--	(10.7)
Total deferred tax liabilities	(45.6)	(67.6)
Net deferred tax assets	$224.4	$305.2

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

As of December 31, 1998, the Company had federal net operating loss carryforwards ("NOLs") of $3.7 million that are attributable to Revco for periods prior to its emergence from Chapter 11. The benefits realized from these NOLs should reduce reorganization goodwill. Accordingly, the tax benefit of such NOLs utilized during the three years ended December 31, 1998, $7.2 million, $69.4 million and $15.3 million for 1998, 1997 and 1996, respectively, has not been included in the computation of the Company's income tax provision, but instead has been reflected as reductions of reorganization goodwill.

On October 12, 1996, the Company completed the Footstar Distribution which is believed to be tax-free to the Company and its shareholders based on a legal opinion provided by outside counsel. However, since opinions of counsel are not binding on the Internal Revenue Service or the courts, it could ultimately be determined that the Footstar Distribution does not qualify as a tax-free distribution. If such occurred, the Company would be required to recognize a capital gain for tax purposes equal to the difference between the fair market value of the shares of Footstar stock distributed and the Company's basis in such shares. The Company, however, believes the likelihood of the Footstar Distribution not qualifying as a tax-free distribution to be remote.

12 Business Segments

The Company currently operates a Retail segment and a Pharmacy Benefit Management ("PBM") segment. The Company's business segments are operating units that offer different products and services, and require distinct technology and marketing strategies.

The Retail segment, which is described in Note 1, is the Company's only reportable segment.

The PBM segment 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 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 non-recurring charges and gains and intersegment profits.

Following is a reconciliation of the significant components of the Company's consolidated net sales for the years ended December 31:

	1998	1997	1996
Pharmacy(1)	57.6%	54.7%	51.6%
Front store	42.4	45.3	48.4

Consolidated net sales	100.0%	100.0%	100.0%

(1) Pharmacy sales includes the Retail segment's pharmacy sales, the PBM segment's total sales and the effect of the intersegment sales elimination discussed in the table below.

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

In millions	Retail Segment	PBM Segment	Intersegment Eliminations(1)	Other Adjustments(2)	Consolidated Totals
1998:					
Net sales	$15,081.1	$488.4	$(295.9)	$ --	$15,273.6
Operating profit	927.8	12.7	--	(168.3)	772.2
Depreciation and amortization	248.6	1.1	--	--	249.7
Total assets	6,652.1	119.6	(35.5)	--	6,736.2
Capital expenditures	498.0	4.3	--	--	502.3
1997:					
Net sales	$13,649.4	$320.7	$(220.5)	$ --	$13,749.6
Operating profit	771.2	7.9	--	(517.7)	261.4
Depreciation and amortization	237.8	0.4	--	--	238.2
Total assets	5,937.3	60.6	(19.0)	--	5,978.9
Capital expenditures	339.6	2.0	--	--	341.6
1996:					
Net sales	$11,766.3	$208.9	$(143.6)	$ --	$11,831.6
Operating profit	602.5	2.2	--	(12.8)	591.9
Depreciation and amortization	205.2	0.2	--	--	205.4
Total assets	6,003.5	32.8	(21.4)	--	6,014.9
Capital expenditures	326.9	2.0	--	--	328.9

(1) Intersegment eliminations relate to intersegment sales and accounts receivables that occur when a PBM segment customer uses a Retail segment store to purchase covered merchandise. When this occurs, both segments record the sale on a stand-alone basis.

(2) Other adjustments relate to the merger and restructuring charges discussed in Note 3 and a $12.8 million charge that was recorded when Rite Aid Corporation withdrew its tender offer to acquire Revco. This event took place in 1996 before the CVS/Revco Merger. The merger and restructuring charges are not considered when management assesses the stand-alone performance of the Company's business segments.

13 Reconciliation of Earnings Per Common Share

Following is a reconciliation of basic and diluted earnings per common share for the years ended December 31:

In millions, except per share amounts	1998	1997	1996
Numerator for earnings per common share calculation:			
Earnings from continuing operations before extraordinary item	$396.4	$ 76.5	$ 372.4
Preference dividends, net of tax benefit	(13.6)	(13.7)	(14.5)
Earnings from continuing operations available to common shareholders, basic	$382.8	$ 62.8	$ 357.9
Earnings (loss) from discontinued operations	--	17.5	(164.2)
Extraordinary loss	--	(17.1)	--
Net earnings available to common shareholders, basic	$382.8	$ 63.2	$ 193.7
Earnings from continuing operations before extraordinary item	$396.4	$ 76.5	$ 372.4
Effect of dilutive securities:			
Preference dividends, net of tax benefit	--	(13.7)	--
Dilutive earnings adjustments	(0.8)	--	(7.5)

Earnings from continuing operations available to common shareholders, diluted	$395.6	$ 62.8	$ 364.9
Earnings (loss) from discontinued operations	--	17.5	(164.2)
Extraordinary loss	--	(17.1)	--
Net earnings available to common shareholders, diluted	$395.6	$ 63.2	$ 200.7
Denominator for earnings per common share calculation:			
Weighted average common shares, basic	387.1	377.2	366.9
Effect of dilutive securities:			
Preference stock	10.5	--	11.7
Stock options	7.6	7.9	5.0
Weighted average common shares, diluted	405.2	385.1	383.6
Basic earnings per common share:			
Earnings from continuing operations before extraordinary item	$ 0.99	$ 0.17	$ 0.98
Earnings (loss) from discontinued operations	--	0.05	(0.45)
Extraordinary item, net of tax benefit	--	(0.05)	--
Net earnings	$ 0.99	$ 0.17	$ 0.53
Diluted earnings per common share:			
Earnings from continuing operations before extraordinary item	$ 0.98	$ 0.16	$ 0.95
Earnings (loss) from discontinued operations	--	0.05	(0.43)
Extraordinary item, net of tax benefit	--	(0.05)	--
Net earnings	$ 0.98	$ 0.16	$ 0.52

14 Commitments & Contingencies

In connection with certain business dispositions completed between 1991 and 1997, the Company continues to guarantee lease obligations for approximately 1,600 former stores. The Company is indemnified for these obligations by the respective purchasers. Assuming that each respective purchaser became insolvent, an event which the Company believes to be highly unlikely, management estimates that it could settle these obligations for approximately $1.1 billion as of December 31,1998. In the opinion of management, the ultimate disposition of these guarantees will not have a material adverse effect on the Company's consolidated financial condition, results of operations or future cash flows.

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

15 Quarterly Financial Information (Unaudited)

In millions, except per share amounts	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales:				
1998	$ 3,601.5	$ 3,755.9	$ 3,725.1	$ 4,191.1
1997	3,397.8	3,406.8	3,328.7	3,616.3
Gross margin:				
1998	$ 1,006.9	$ 1,020.5	$ 995.3	$ 1,106.5
1997	967.9	873.0	905.6	971.8
Earnings (loss) from continuing operations before extraordinary item:				
1998	$ 132.0	$ 16.2	$ 102.4	$ 145.8
1997	92.1	(221.4)	82.2	123.6
Net earnings (loss):				
1998	$ 132.0	$ 16.2	$ 102.4	$ 145.8
1997	92.2	(221.1)	82.2	123.6
Earnings (loss) per common share from continuing operations before extraordinary item:				
1998: Basic	$ 0.34	$ 0.03	$ 0.25	$ 0.37
Diluted	0.33	0.03	0.25	0.36
1997: Basic	0.24	(0.60)	0.21	0.31
Diluted	0.23	(0.60)	0.20	0.31
Net earnings (loss) per common share:				
1998: Basic	$ 0.34	$ 0.03	$ 0.25	$ 0.37
Diluted	0.33	0.03	0.25	0.36
1997: Basic	0.24	(0.60)	0.21	0.31
Diluted	0.23	(0.60)	0.20	0.31
Market price per common share (New York Stock Exchange):				
1998: High	$ 37-7/16	$ 39-5/8	$ 46-1/2	$ 55-11/16

Low	31-1/16	33-3/8	36-3/8	42-1/16
1997: High	24	26-7/8	30	35
Low	19-1/2	22-1/8	25-7/16	27-5/16
Dividends declared per common share:				
1998	$ 0.0550	$ 0.0550	$ 0.0575	$ 0.0575
1997	0.0550	0.0550	0.0550	0.0550
Number of registered common shareholders at year-end:				
1998				10,500

Five Year Financial Summary

In millions, except per share amounts	1998	1997	1996	1995	1994
Results of operations:(3)					
Net sales	$15,273.6	$13,749.6	$11,831.6	$10,513.1	$9,469.1
Operating profit	772.2	261.4	591.9	271.7	416.8
Comparable operating profit(1)	940.5	779.1	604.7	486.8	416.8
Earnings from continuing operations before extraordinary item	396.4	76.5	372.4	83.4	185.9
Comparable earnings from continuing operations before extraordinary item(2)	510.1	419.2	306.8	210.2	185.9
Net earnings (loss)	396.4	76.9	208.2	(547.1)	400.2
Per common share:					
Earnings from continuing operations before extraordinary item:					
Basic	$ 0.99	$ 0.17	$ 0.98	$ 0.18	$ 0.47
Diluted	0.98	0.16	0.95	0.18	0.47
Comparable earnings from continuing operations before extraordinary item:(2)					
Basic	1.28	1.08	0.80	0.53	0.47
Diluted	1.26	1.05	0.78	0.53	0.47
Weighted average number of common shares outstanding used to calculate comparable diluted earnings per common share	405.2	396.0	383.6	364.8	361.6
Cash dividends	0.225	0.220	0.220	0.760	0.760
Financial position and other data:					
Total assets	$ 6,763.2	$ 5,978.9	$ 6,014.9	$ 6,614.4	$7,202.9
Total long-term debt	275.7	290.4	1,204.8	1,056.3	1,012.3
Shareholders' equity	3,110.6	2,614.6	2,413.8	2,567.4	3,341.4
Depreciation and amortization	249.7	238.2	205.4	186.4	169.5
Number of stores	4,122	4,094	4,204	3,715	3,617
Percentage of net sales:					
Operating profit	5.1%	1.9%	5.0%	2.6%	4.4%
Comparable operating profit(1)	6.2%	5.7%	5.1%	4.6%	4.4%
Earnings from continuing operations before extraordinary item	2.6%	0.6%	3.1%	0.8%	2.0%
Comparable earnings from continuing operations before extraordinary item(2)	3.3%	3.0%	2.6%	2.0%	2.0%
Net earnings (loss)	2.6%	0.6%	1.8%	(5.2%)	4.2%

(1) Comparable operating profit excludes the pre-tax effect of the following non-recurring charges: (i) in 1998, $158.3 million ($107.8 million after-tax) related to the merger of CVS and Arbor and $10.0 million ($5.9 million after-tax) related to the markdown of non-compatible Arbor merchandise, (ii) in 1997, $411.7 million ($273.7 million after-tax) related to the merger of CVS and Revco, $75.0 million ($49.9 million after-tax) related to the markdown of non-compatible Revco merchandise and $31.0 million ($19.1 million after-tax) related to the restructuring of Big B, Inc., (iii) in 1996, $12.8 million ($6.5 million after-tax) related to the write-off of costs incurred in connection with the failed merger of Rite Aid Corporation and Revco and (iv) in 1995, $165.5 million ($97.7 million after-tax) related to the Company's strategic restructuring program and the early adoption of SFAS No. 121, and $49.5 million ($29.1 million after-tax) related to the Company changing its policy from capitalizing internally developed software costs to expensing the costs as incurred, outsourcing certain technology functions and retaining certain employees until their respective job functions were transitioned.

(2) Comparable earnings from continuing operations before extraordinary item and comparable earnings per common share from continuing operations before extraordinary item exclude the after-tax effect of the charges discussed in Note (1) above and a $121.4 million ($72.1 million after-tax) gain realized during 1996 upon the sale of certain equity securities received from the sale of Marshalls.

(3) Prior to the Mergers, Arbor's fiscal year ended on July 31 and Revco's

fiscal year ended on the Saturday closest to May 31. In recording the business combinations, Arbor's and Revco's historical stand-alone consolidated financial statements have been restated to a December 31 year-end, to conform with CVS' fiscal year-end. As permitted by the rules and regulations of the Securities and Exchange Commission, Arbor's fiscal year ended July 31, 1995 and Revco's fiscal year ended June 3, 1995 have been combined with CVS' fiscal year ended December 31, 1994.

EXHIBIT 21

CVS CORPORATION
SUBSIDIARIES OF THE REGISTRANT

As of December 31, 1998, CVS Corporation had the following significant subsidiaries:

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 New York, Inc. (a New York corporation, formerly Melville Corporation)
CVS Revco D.S., Inc. (a Delaware corporation, formerly Revco D.S., Inc.)
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)

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(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. ProCare Pharmacy, Inc. (formerly Specialty Pharmacy, Inc.), a Rhode Island corporation and a direct subsidiary of Nashua Hollis CVS, Inc., operates several apothecaries focused on specialty pharmaceuticals, all of which apothecaries 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 one corporation that operates 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 prescription benefits management subsidiary, is 95.8% owned by subsidiaries of the Registrant. PharmaCare Management Services, Inc. is, in turn, the immediate parent corporation of PharmaCare Direct, Inc., a mail order pharmacy corporation.

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 and 2-53766 on Form S-8 and 333-52055 on Form S-3 of CVS Corporation of our report dated January 27, 1999, relating to the consolidated balance sheets of CVS Corporation and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statement of operations, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1998, which report is incorporated by reference in the December 31, 1998 annual report on Form 10-K of CVS Corporation and to our report dated January 27, 1999 on the related financial statement schedule, which report appears in the December 31, 1998 annual report on Form 10-K of CVS Corporation.

/s/ KPMG LLP
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KPMG LLP

Providence, Rhode Island
March 29, 1999

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This schedule contains summary financial information extracted from the consolidated balance sheet and the consolidated statement of operations for the year ended December 31, 1998 and is qualified in its entirety by reference to such financial statements.
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