FORM 10-K

CVS HEALTH Corp - CVS

Filed: March 19, 2001 (period: December 30, 2000)

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 30, 2000

COMMISSION FILE NUMBER 001-01011
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:

COMMON STOCK, PAR VALUE $0.01 PER SHARE	NEW YORK STOCK EXCHANGE
Title of each class	Name of each exchange on which registered

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes /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. /X/

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $23,208,276,572 as of March 9, 2001, based on the closing price of the common stock on the New York Stock Exchange. For purposes of this calculation, only executive officers and directors are deemed to be the affiliates of the registrant. This amount excludes the value of 4,982,970 shares of Series One ESOP Convertible Preference Stock.

As of March 9, 2001, the registrant had 392,925,516 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

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

- Information contained on pages 18 through 38 of our 2000 Annual Report to Stockholders is incorporated by reference in response to Item 7 and 8 of Part II.

- Portions of our Proxy Statement for the 2001 Annual Meeting of Stockholders are incorporated by reference in response to Items 10 through 13 of Part III.

TABLE OF CONTENTS

		PAGE
PART I		
Item 1:	Business	2
Item 2:	Properties	7
Item 3:	Legal Proceedings	8
Item 4:	Submission of Matters to a Vote of Security Holders	8
Executive Officers of the Registrant		8
PART II		
Item 5:	Market for Registrant's Common Equity and Related Stockholder Matters	9
Item 6:	Selected Financial Data	10
Item 7:	Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Item 7A:	Quantitative and Qualitative Disclosures About Market Risk	11
Item 8:	Financial Statements and Supplementary Data	11
Item 9:	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	11
PART III		
Item 10:	Directors and Executive Officers of the Registrant	11
Item 11:	Executive Compensation	11
Item 12:	Security Ownership of Certain Beneficial Owners and Management	11
Item 13:	Certain Relationships and Related Transactions	11
PART IV		
Item 14:	Exhibits, Financial Statement Schedules, and Reports on Form 8-K	12
Independent Auditors' Report		15
Schedule II - Valuation and Qualifying Accounts		16
Signatures		17

PART I

ITEM 1. -- BUSINESS

OVERVIEW ~ CVS Corporation is a leader in the retail drugstore industry in the United States with net sales of $20.1 billion in fiscal 2000. We are the largest retail drugstore chain in the nation based on store count and hold the number one market share in 34 of the top 100 U.S. drugstore markets, more than any other retail drugstore chain. We also filled more prescriptions than any other retail drugstore chain in America during fiscal 2000. Our current operations are grouped into four businesses: Retail Pharmacy, Pharmacy Benefit Management ("PBM"), Specialty Pharmacy and Internet Pharmacy.

RETAIL PHARMACY ~ As of December 30, 2000, the Retail Pharmacy business included 4,087 retail drugstores, located in 24 states and the District of Columbia, operating under the CVS or CVS/pharmacy name. CVS/pharmacy stores sell prescription drugs and a wide assortment of general merchandise, including over-the-counter drugs, greeting cards, film and photofinishing services, beauty products and cosmetics, seasonal merchandise and convenience foods. Existing stores generally range in size from approximately 8,000 to 12,000 square feet, although most new stores are based on our standard 10,880 square foot freestanding buildings, which typically include a drive-thru pharmacy. The Retail Pharmacy is our only reportable segment as it represented approximately 97% of consolidated net sales and operating profit in fiscal 2000.

PHARMACY BENEFIT MANAGEMENT ~ The PBM business provides a full range of prescription benefit management services to managed care and other organizations. These services include plan design and administration, formulary management, mail order pharmacy services, claims processing and generic substitution. The PBM business operates under the PharmaCare Management Services name. One feature that sets PharmaCare apart from other prescription benefit management providers is its proprietary Clinical Information Management System. CIMS is a unique communication system designed to help PharmaCare's clients manage pharmaceutical utilization by facilitating clinical communications between the payer, patient, physician and pharmacist. The improved communication enables physicians to direct utilization to the more clinically effective therapy. PharmaCare currently manages more than 9 million lives and ranks as one of the top ten PBMs in the nation.

SPECIALTY PHARMACY ~ As of December 30, 2000, the Specialty Pharmacy business includes mail order facilities and 46 retail pharmacies, located in seventeen states and the District of Columbia, operating under the CVS ProCare name. CVS ProCare is the leading player in the highly fragmented $14 billion market for patients requiring complex and expensive drug therapies for long-term health conditions, including treatments for HIV/AIDS, organ transplants, infertility, and conditions such as multiple sclerosis and growth hormone deficiency. With its September 2000 acquisition of Stadtlander Pharmacy of Pittsburgh Pennsylvania, a subsidiary of Bergen Brunswig Corporation, CVS ProCare established itself as the leading specialty mail order pharmacy, and the only one offering integrated retail and mail order services. Stores are typically 1,500 square feet and include a limited general merchandise offering targeted to this specific patient population.

INTERNET PHARMACY ~ The Internet Pharmacy business includes a mail order facility and a complete online retail pharmacy, operating under the CVS.com name. CVS.com enables customers to order prescriptions and general merchandise over the internet for in-store pickup or mail delivery and receive the latest health news and general health information.

CVS Corporation is a Delaware corporation. Our Store Support Center (corporate office) is located at One CVS Drive, Woonsocket, Rhode Island 02895, telephone (401) 765-1500.

CVS/PHARMACY STORES

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

CUSTOMERS ~ During fiscal 2000, we served an average of 2.5 million customers per day. Since our sales are to numerous customers, including managed care organizations, the loss of any one customer would not have a material effect on the business. No single customer, including managed care organizations, accounts for more than ten percent of our total sales.

PRODUCTS ~ A typical CVS/pharmacy store sells prescription drugs and a wide assortment of high-quality, nationally advertised brand name and private label merchandise. General merchandise categories include over-the-counter drugs, greeting cards, film and photofinishing services, beauty products and cosmetics, seasonal merchandise and convenience foods.

We centrally purchase most of our merchandise, including prescription drugs, directly from numerous manufacturers and distributors. This purchasing strategy allows us to take advantage of the promotional and volume discount programs that certain manufacturers and distributors offer to retailers. During fiscal 2000, approximately 85% of the merchandise we purchased was received by our distribution centers for redistribution to our stores, while the balance was shipped directly to the stores. We believe that competitive sources are readily available for substantially all of the products we carry and the loss of any one supplier would not have a material effect on the business.

To complement the national brand name products we offer, we also carry a full range of high-quality private label products that are only available through CVS. We carried over 1,500 CVS brand products, which accounted for approximately 12% of our front store sales during fiscal 2000. Due to the success of our private label program, we will continue to assess opportunities to expand our range of private label product offerings.

OPERATIONS ~ As of December 30, 2000, we operated 4,087 CVS and CVS/pharmacy stores, approximately a fourth of which operated on an extended hour or 24-hour basis. Store operations are divided into two areas, pharmacy and front store:

PHARMACY ~ Retail pharmacy sales increased 18.2% to $12.6 billion, representing 63% of total sales in fiscal 2000, compared to 59% in fiscal 1999 and 58% in fiscal 1998. During fiscal 2000, we filled 297 million prescriptions, or approximately 11% of the U.S. retail market, which was more than any other retailer. We believe that our pharmacy operations will continue to represent a critical part of our business and strategy due to our ability to attract and retain managed care customers, favorable industry trends and our on-going program of purchasing patient prescription files from independent pharmacies.

The growth in managed care has substantially increased the use of prescription drugs. Managed care providers have made the cost of prescription drugs more affordable to a greater number of people and supported prescription drug therapy as an alternative to more expensive forms of treatment, such as surgery. Payments by third party managed care providers under prescription drug plans represented 89% of our total pharmacy sales in fiscal 2000, compared to 87% in fiscal 1999 and 84% in fiscal 1998.

In a typical third party payment plan, we contract with a third party payer (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 payers and the increasing competition among pharmacies for this business. To address this trend, we have dropped and/or renegotiated a number of third party programs that fell below our minimum profitability standards. These continuing efforts have resulted in a stabilization of third party rates. However, in the event this trend were to continue 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.

The U.S. retail pharmacy market is estimated to exceed $143 billion in sales for 2000. The pharmacy market is expected to continue to be among the fastest growing segments in the retail sector as it continues to benefit from favorable industry trends. These trends include an aging American population consuming a greater number of prescription drugs, pharmaceuticals being used more often as the first line of defense for managing illness and the introduction and aggressive marketing of several successful new drugs. Each of these trends is contributing to a strong prescription drug industry, which we believe will continue to fuel the future growth of our pharmacy sales.

Our pharmacy business also benefits from a program, in which we purchase prescription files from independent pharmacies. During fiscal 2000, we purchased patient prescription files from over 300 independent pharmacies. We believe that these prescription files are productive investments. In many cases, the independent pharmacist will join CVS, thereby providing continuity in the pharmacist-patient relationship.

FRONT STORE ~ Front store sales, which are generally higher margin than pharmacy sales, increased to $7.2 billion, representing 37% of total sales in fiscal 2000, compared to 41% in fiscal 1999 and 42% in fiscal 1998. We believe that effective management of the mix of merchandise in our stores has been a primary factor in our front store sales gains and will continue to fuel front store sales growth and increase customer satisfaction. We intend to continue our front store growth by continuing to be the first to market with new products and services, using innovative marketing, introducing more products which are unique to CVS and adjusting our mix of merchandise to match customer needs and preferences. Examples of this are our aggressive expansion of unique photo services, which has resulted in CVS becoming a leader in one-hour and online photo services and one of Kodak's largest online customers. After thorough testing in certain markets, we are currently beginning the chain wide rollout of our new relationship marketing program, the ExtraCare Card. Through the ExtraCare Card, we will offer special promotions and incentives to our best customers to reward their patronage and encourage increased loyalty.

STORE DEVELOPMENT ~ The addition of new stores has played, and will continue to play, a major role in our continued growth and success. Our store development program focuses on three areas: entering new markets, adding stores within existing markets and relocating stores to more convenient, freestanding sites. During fiscal 2000, we opened 388 new stores, which included 35 CVS ProCare stores and 230 relocations. During the last three years we opened over 1,200 new and relocated stores, or over a quarter of our existing store base. We expect to open approximately 300 new stores during fiscal 2001 about half of which are expected to be relocations. During fiscal 2000, we entered four new markets: Chicago, the 2nd largest U.S. drugstore market; Tampa, Florida, the 16th largest U.S. drugstore market; Orlando, Florida, the 27th largest U.S. drugstore market and Grand Rapids, Michigan, the 69th largest U.S. drugstore market. During fiscal 2001, we plan to enter Fort Lauderdale, Florida, the 23rd largest U.S. drugstore market and Las Vegas, Nevada, the 38th largest U.S. drugstore market. Going forward, we expect to enter at least two to three new markets each year. As we open new stores, we maintain our objective of securing a strong position in each market that our stores serve. In fiscal 2000, we held the number one or number two market position in approximately 75% of the 59 top 100 U.S. drugstore markets we served. Our strong market positions provide us with several important advantages, including an ability to save on advertising and distribution costs and an ability to attract managed care providers, who want to provide their members with convenient access to pharmacy services.

A key part of our store development program is our relocation effort. Our relocation program actively seeks to relocate many of our strip shopping center locations to freestanding sites. 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 only 39% of our existing stores were freestanding as of December 30, 2000. We currently expect to have approximately 44% of our stores in freestanding locations by the end of fiscal 2001. Our long-term goal is to have approximately 80% of our stores located in freestanding sites. We cannot, however, guarantee that future store relocations will achieve similar results as those historically achieved.

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 integral part of our ability to maintain our leadership position in the retail drugstore industry.

WORKING CAPITAL PRACTICES ~ We generally finance our inventory and capital expenditure requirements with internally generated funds and our commercial paper program. We currently expect to continue to utilize our commercial paper program during fiscal 2001 to support our working capital needs. In addition, we may elect to use additional long-term borrowings and/or other financing sources in the future to support our continued growth. Due to the nature of the retail drugstore business, the majority of our non-pharmacy sales are in cash, while third party insurance programs, which typically settle in less than 30 days, represented 89% of our pharmacy sales in fiscal 2000. Our customer returns are not significant.

INFORMATION SYSTEMS ~ We have invested significantly in information systems to enable us to deliver a high level of customer service while lowering costs and increasing operating efficiency. 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. We also continue to make significant progress on our Excellence in Pharmacy Innovation and Care ("EPIC") program. EPIC is a multiyear project that is reengineering the way our pharmacies communicate and fill prescriptions. The project includes integrated workflow improvements, proprietary systems technology and automated pill-counting machines in high volume stores. We expect EPIC to improve quality assurance and customer service, while reducing labor costs. We were one of the first in the industry to introduce Drug Utilization Review technology that checks for harmful interactions between prescription drugs, other-the-counter products, vitamins and herbal remedies. We were also one of the first in the industry to install a chain wide automatic prescription refill system, called Rapid Rx Refill, which enables customers to order prescription refills 24 hours a day using a touch-tone telephone. Together, these initiatives are expected to continue to enhance pharmacy productivity, increase capacity, lower costs and improve service by lowering customer wait times and enabling pharmacists to spend more time with customers.

FRONT STORE SYSTEMS ~ Our point-of-sale scanning technology has enabled us to develop an advanced retail database 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. Our supply chain initiatives, including our Promotional Forecasting and Allocation system and an improved store-level Assisted Inventory Management system, 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. We have already begun to experience tangible benefits from our supply chain initiatives and we expect to continue to do so.

ASSOCIATE DEVELOPMENT ~ As of December 30, 2000, we employed approximately 99,000 associates, about 48,000 of whom are part-time employees working less than 30 hours per week. To deliver the highest levels of service to our customers and partners, we devote considerable time and attention to our people and service standards. We emphasize attracting and training friendly and helpful associates to work in our stores and throughout our organization. Our pharmacists consistently rank among the best in the industry on measurements of trust, relationship building and accessibility. This high level of service and expertise has played a key role in the growth of our company.

INTELLECTUAL PROPERTY AND LICENSES ~ We have registered or applied for registration of a variety of trade names, service marks and trademarks for use in our business. We regard our intellectual property as having significant value and as being an important factor in the marketing of the Company and our stores. We are not aware of any facts that could negatively impact our continuing use of any of our intellectual property.

Our pharmacies and pharmacists must be licensed by the appropriate state boards of pharmacy. Our pharmacies and distribution centers are also registered with the Federal Drug Enforcement Administration. Because of these licensing and registration requirements, we must comply with various statutes, rules and regulations, a violation of which could result in a suspension or revocation of these licenses or registrations.

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

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS ~ Certain statements we make in this Annual Report on Form 10-K (as well as in other public filings, our 2000 Annual Report and Letter to Our Shareholders, our web site, press releases and oral statements made by Company management and/or representatives), constitute forward-looking statements, which are subject to risks and uncertainties. Forward-looking statements include information concerning:

- our belief concerning future sales and net earnings growth;

- our belief concerning the growth and profitability of CVS ProCare;

- our belief concerning the growth of our free cash flow;

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

- our belief that we have sufficient cash flows to support working capital needs, capital expenditures and debt service requirements;

- our planned store development, including store openings, number of freestanding locations, new market entries and capital expenditures;

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

- our belief concerning the profitability of CVS.com;

- our belief that we can continue to reduce inventory levels and improve inventory turnover; and

- our future results of operations, including sales and earnings per common share growth and cost savings and synergies following the Revco and Arbor mergers.

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 and/or representatives), could cause actual 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;

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

- changes in accounting policies and practices, including taxation requirements.

OPERATING FACTORS

- our ability to continue to implement new computer systems and technologies;
- our ability to continue to secure suitable new store locations at favorable lease terms;
- the creditworthiness of the purchasers of former businesses whose store leases are guaranteed by CVS;
- our ability to continue to purchase inventory on favorable terms;
- adverse determinations with respect to litigation or other claims;
- our ability to attract, hire and retain suitable pharmacists and management personnel; and
- our ability to establish effective advertising, marketing and promotional programs (including pricing strategies) in the different geographic markets in which we operate.

ITEM 2. -- PROPERTIES

We lease most of our stores under long-term leases that vary as to rental amounts, expiration dates, renewal options and other rental provisions. 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 our leases, we refer you to the caption Leases on page 29 of "Notes to Consolidated Financial Statements" in our Annual Report to Stockholders for the fiscal year ended December 30, 2000.

Following is a breakdown by state of our 4,133 retail and specialty pharmacy store locations as of December 30, 2000:

Alabama*	137	Maine	19	Oregon*	1
California*	9	Maryland*	172	Pennsylvania*	342
Connecticut	125	Massachusetts*	324	Rhode Island*	55
Delaware	2	Michigan	240	South Carolina*	177
District of Columbia*	50	Minnesota*	1	Tennessee*	141
Florida*	31	Missouri*	1	Texas*	4
Georgia*	280	New Hampshire	29	Vermont	2
Hawaii*	1	New Jersey	209	Virginia	244
Illinois	73	New York*	404	Washington*	1
Indiana	274	North Carolina	275	West Virginia	55
Kentucky	67	Ohio	388		

* State store totals include CVS ProCare stores, which totaled 46 stores located in 17 States and the District of Columbia as of December 30, 2000.

As of December 30, 2000, we owned approximately two percent of our 4,133 retail and specialty pharmacy drugstores. Net selling space for our retail and specialty pharmacy drugstores increased from 30.3 million square feet as of January 1, 2000, to 30.8 million square feet as of December 30, 2000.

Our stores are supported by ten company-owned distribution centers, which are located in Rhode Island, New Jersey, Virginia, Indiana, Alabama, Pennsylvania, Tennessee, North Carolina, South Carolina and Michigan. These distribution centers 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 also lease approximately 199,000 square feet in mail order service facilities located in Ohio and Pennsylvania.

We own our corporate headquarters located in Woonsocket, Rhode Island, which contains an aggregate of approximately 552,000 square feet. We also lease approximately 352,000 square feet in office buildings in Rhode Island, Massachusetts and Washington state.

In addition, in connection with certain business dispositions completed between 1991 and 1997, we continue to guarantee lease obligations for approximately 1,300 former stores. We are indemnified for these guarantee obligations by the respective purchasers. These guarantees generally remain in effect for the initial lease term and any extension thereof pursuant to a renewal option provided for in the lease prior to the time of the disposition. For additional information, we refer you to the caption Commitments & Contingencies on page 33 of "Notes to Consolidated Financial Statements" in our Annual Report to Stockholders for the fiscal year ended December 30, 2000.

We believe that at the end of existing lease terms, our current leased space can be either re-leased or replaced by alternate space for lease or purchase that is readily available.

ITEM 3. -- LEGAL PROCEEDINGS

We have litigation arising from 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 fiscal year ended December 30, 2000.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following is included as an unnumbered item in Part I of this Report and set forth the name, age and biographical information for each of our executive officers as of December 30, 2000. In each case the officer's term of office extends to the date of the board of directors meeting following the next annual meeting of stockholders of the Company. Previous positions and responsibilities held by each of the executive officers over the past five years are indicated below:

ROSEMARY MEDE, age 54, Senior Vice President--Human Resources of CVS Corporation since April 2000 and Senior Vice President--Human Resources of CVS Pharmacy, Inc. since October 1997; Vice President/General Manager of Business Services, Becton Dickinson & Co. from December 1995 to September 1997.

LARRY J. MERLO, age 45, Executive Vice President--Stores of CVS Corporation since April 2000 and Executive Vice President--Stores of CVS Pharmacy, Inc. since March 1998; Senior Vice President--Stores of CVS Pharmacy, Inc. from January 1994 to March 1998.

DAVID B. RICKARD, age 54, Executive Vice President and Chief Financial Officer of CVS Corporation and CVS Pharmacy, Inc. since September 1999; Senior Vice President and Chief Financial Officer of RJR Nabisco Holdings Corporation from March 1997 through August 1999; Executive Vice President, International Distillers and Vintners Americas, November 1996 through March 1997; Finance Director, International Distillers and Vintners, August 1995 to November 1996.

THOMAS M. RYAN, age 48, Chairman of the Board and Chief Executive Officer of CVS Corporation and CVS Pharmacy, Inc. since April 1999 and President of CVS Corporation and CVS Pharmacy, Inc. since May 2000; Chief Executive Officer and President of CVS Corporation from May 1998 to April 1999; Vice Chairman of the Board and Chief Operating Officer of CVS Corporation from October 1996 to May 1998; Chief Executive Officer and President of CVS Pharmacy, Inc. from January 1994 to April 1999; director of FleetBoston Financial Corporation and Reebok International Ltd.

DOUGLAS A. SGARRO, age 41, Senior Vice President--Administration and Chief Legal Officer of CVS Corporation since April 2000 and Senior Vice President--Administration and Chief Legal Officer of CVS Pharmacy, Inc. since September 1997; President of CVS Realty Co., a real estate development company and a division of CVS Pharmacy, Inc., since October 1999; partner in the New York City office of the law firm of Brown & Wood LLP from January 1993 to August 1997; director of Frontline Capital Group since June 2000; director of Rhode Island Economic Development Corporation (state instrumentality charged with promoting economic development in Rhode Island) since March 2000.

LARRY D. SOLBERG, age 53, Senior Vice President--Finance and Controller of CVS Corporation since April 2000 and Senior Vice President--Finance and Controller of CVS Pharmacy, Inc. since March 1996; Vice President and Controller of CVS Pharmacy, Inc. from October 1994 to March 1996.

LARRY J. ZIGERELLI, age 42, Executive Vice President--Marketing of CVS Corporation and CVS Pharmacy, Inc. since April 2000; Executive Vice President, Corporate Development of CVS Pharmacy, Inc. from February 1999 to March 2000; Vice President and General Manager, Food and Beverage--Latin America, The Procter & Gamble Company ("Procter & Gamble") from June 1998 until January 1999; Vice President and General Manager, Puerto Rico and the Caribbean, Procter & Gamble from October 1994 to May 1998.

PART II

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

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
2000:					
High	$ 40.63	$ 46.75	$ 46.31	$ 59.94	$ 59.94
Low	28.00	35.88	34.38	44.31	28.00
Dividends per common share(1)	0.0575	0.0575	0.0575	0.0575	0.2300
1999:					
High	$ 56.44	$ 52.06	$ 53.00	$ 45.75	$ 56.44
Low	45.50	40.50	37.75	30.31	30.31
Dividends per common share(1)	0.0575	0.0575	0.0575	0.0575	0.2300

(1) Future dividend payments will depend on the Company's earnings, capital requirements, financial condition and other factors considered relevant by the Board of Directors.

As of March 9, 2001, there were approximately 12,100 registered shareholders according to the records maintained by our transfer agent.

ITEM 6. -- SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with "Item 8. -- Financial Statements and Supplementary Data" and "Item 7. -- Management's Discussion and Analysis of Financial Condition and Results of Operations." The selected consolidated financial data of CVS Corporation as of and for the periods indicated in the five-year period ended December 30, 2000 have been derived from the audited consolidated financial statements of CVS Corporation, which consolidated financial statements have been audited by KPMG LLP.

	FISCAL YEAR				
IN MILLIONS, EXCEPT PER SHARE AMOUNTS	2000 (52 WEEKS)	1999 (53 WEEKS)	1998 (52 WEEKS)	1997 (52 WEEKS)	1996 (52 WEEKS)
STATEMENT OF OPERATIONS DATA:					
Net sales	$ 20,087.5	$ 18,098.3	$ 15,273.6	$ 13,749.6	$ 11,831.6
Gross margin(1)	5,361.7	4,861.4	4,129.2	3,718.3	3,300.9
Selling, general & administrative	3,742.4	3,448.0	2,949.0	2,776.0	2,490.8
Depreciation and amortization	296.6	277.9	249.7	238.2	205.4
Merger, restructuring and other nonrecurring charges	--	--	178.6	422.4	12.8
Operating profit(2)	1,322.7	1,135.5	751.9	281.7	591.9
Other expense (income), net	79.3	59.1	60.9	44.1	(51.5)
Income tax provision	497.4	441.3	306.5	149.2	271.0
Earnings from continuing operations before extraordinary item(3)	$ 746.0	$ 635.1	$ 384.5	$ 88.4	$ 372.4
PER COMMON SHARE DATA:					
Earnings from continuing operations before extraordinary item:(3)					
Basic	$ 1.87	$ 1.59	$ 0.96	$ 0.20	$ 0.98
Diluted	1.83	1.55	0.95	0.19	0.95
Cash dividends per common share	0.230	0.230	0.225	0.220	0.220
BALANCE SHEET AND OTHER DATA:					
Total assets	$ 7,949.5	$ 7,275.4	$ 6,686.2	$ 5,920.5	$ 6,014.9
Long-term debt	536.8	558.5	275.7	290.4	1,204.8
Total shareholders' equity	4,304.6	3,679.7	3,110.6	2,626.5	2,413.8
Number of stores (at end of period)	4,133	4,098	4,122	4,094	4,204

(1) Gross margin includes the pre-tax effect of the following nonrecurring charges: (i) in 1998, $10.0 million ($5.9 million after-tax) related to the markdown of noncompatible Arbor merchandise and (ii) in 1997, $75.0 million ($49.9 million after-tax) related to the markdown of noncompatible Revco merchandise.

(2) Operating profit includes the pre-tax effect of the charges discussed in Note (1) above and the following merger, restructuring and other nonrecurring charges and gain: (i) in 2000, $19.2 million ($11.5 million after-tax) nonrecurring gain in total operating expenses, which represented a partial payment of our share of the settlement proceeds from a class action lawsuit against certain manufacturers of brand name prescription drugs, (ii) in 1998, $147.3 million ($101.3 million after-tax) charge related to the merger of CVS and Arbor and $31.3 million ($18.4 million after-tax) of nonrecurring costs incurred in connection with eliminating Arbor's information technology systems and Revco's noncompatible store merchandise fixtures, (iii) in 1997, $337.1 million ($229.8 million after-tax) charge related to the merger of CVS and Revco, $54.3 million ($32.0 million after-tax) of nonrecurring costs incurred in connection with eliminating Revco's information technology systems and noncompatible store merchandise fixtures and $31.0 million ($19.1 million after-tax) charge related to the restructuring of Big B, Inc., (iv) in 1996, $12.8 million ($6.5 million after-tax) charge related to the write-off of costs incurred in connection with the failed merger of Rite Aid Corporation and Revco.

(3) Earnings from continuing operations before extraordinary item and earnings per common share from continuing operations before extraordinary item include the after-tax effect of the charges and gain discussed in Notes (1) and (2) above and a $121.4 million ($72.1 million after-tax) gain realized

during 1996 upon the sale of equity securities received as partial proceeds from the sale of Marshalls during 1995.

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

We refer you to the "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our Annual Report to Stockholders for the fiscal year ended December 30, 2000 on pages 18 through 20.

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 believe that our exposure to market risk associated with other financial instruments (such as fixed and variable rate borrowings), are not material.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

We refer you to the "Consolidated Statements of Operations," "Consolidated Balance Sheets," "Consolidated Statements of Shareholders' Equity," "Consolidated Statements of Cash Flows," "Notes to Consolidated Financial Statements" and "Independent Auditors' Report" contained in our Annual Report to Stockholders for the fiscal year ended December 30, 2000 on pages 21 through 38.

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

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

PART III

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

We refer you to our Proxy Statement for the 2001 Annual Meeting of Stockholders in Item 1 under the captions "Biographies of our Board Nominees," "Committees of the Board of CVS," and in Item 4 under "Section 16(a) Beneficial Ownership Reporting Compliance." Biographical information on our executive officers is contained in Item I of this Annual Report on Form 10-K.

ITEM 11. -- EXECUTIVE COMPENSATION

We refer you to our Proxy Statement for the 2001 Annual Meeting of Stockholders in Item 1 under the captions "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."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

We refer you to our Proxy Statement for the 2001 Annual Meeting of Stockholders in Item 1 under the captions "Share Ownership of Directors and Certain Executive Officers" and "Share Ownership of Principal Stockholders."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

We refer you to our Proxy Statement for the 2001 Annual Meeting of Stockholders in Item 1 under the caption "Transactions with Directors and Officers."

PART IV

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

A. DOCUMENTS FILED AS PART OF THIS REPORT:

1. FINANCIAL STATEMENTS:

The following financial statements are incorporated by reference from pages 21 through 38 of our Annual Report to Stockholders for the fiscal year ended December 30, 2000, as provided in Item 8. hereof:

Management's Responsibility for Financial Reporting..	21
Independent Auditor's Report..	21
Consolidated Statements of Operations for the fiscal years ended December 30, 2000, January 1, 2000 and December 26, 1998..	22
Consolidated Balance Sheets as of December 30, 2000 and January 1, 2000.......................	23
Consolidated Statements of Shareholders' Equity for the fiscal years ended December 30, 2000, January 1, 2000 and December 26, 1998................................	24
Consolidated Statements of Cash Flows for the fiscal years ended December 30, 2000 January 1, 2000 and December 26, 1998..	25
Notes to Consolidated Financial Statements...	26 - 38

2. FINANCIAL STATEMENT SCHEDULES

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

B. REPORTS ON FORM 8-K

There were no Current Reports on Form 8-K filed during the fourth quarter of fiscal 2000.

C. EXHIBITS

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

EXHIBIT	DESCRIPTION
3.1*	Amended and Restated Certificate of Incorporation of the Registrant [incorporated by reference to Exhibit 3.1 of CVS Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1996].
3.1A*	Certificate of Amendment to the Amended and Restated Certificate of Incorporation, effective May 13, 1998 [incorporated by reference to Exhibit 4.1A to Registrant's Registration Statement No. 333-52055 on Form S-3/A dated May 18, 1998].
3.2*	By-laws of the Registrant, as amended and restated [incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1998].
4	Pursuant to Regulation S-K, Item 601(b)(4)(iii)(A), no instrument which defines the rights of holders of long-term debt of the Registrant and its subsidiaries is filed with this report. The Registrant hereby agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.
4.1*	Specimen common stock certificate [incorporated by reference to Exhibit 4.1 to the Registration Statement of the Registrant on Form 8-B dated November 4, 1996].
4.2*	Indenture, dated as of February 11, 1999, between CVS Corporation and The Bank of New York

EXHIBIT	DESCRIPTION
	[incorporated by reference to Exhibit 4.1 to Registrant's Registration Statement No. 333-78253 on Form S-4 dated May 11, 1999].
10.1*	Stock Purchase Agreement dated as of October 14, 1995 between The TJX Companies, Inc. and Melville Corporation, as amended November 17, 1995 [incorporated by reference to Exhibits 2.1 and 2.2 to Melville's Current Report on Form 8-K dated December 4, 1995].
10.2*	Stock Purchase Agreement dated as of March 25, 1996 between Melville Corporation and Consolidated Stores Corporation, as amended May 3, 1996 [incorporated by reference to Exhibits 2.1 and 2.2 to Melville's Current Report on Form 8-K dated May 5, 1996].
10.3*	Distribution Agreement dated as of September 24, 1996 among Melville Corporation, Footstar, Inc. and Footstar Center, Inc. [incorporated by reference to Exhibit 99.1 to Melville's Current Report on Form 8-K dated October 28, 1996].
10.4*	Tax Disaffiliation Agreement dated as of September 24, 1996 among Melville Corporation, Footstar, Inc. and certain subsidiaries named therein [incorporated by reference to Exhibit 99.2 to Melville's Current Report on Form 8-K dated October 28, 1996].
10.5*	Agreement and Plan of Merger dated as of February 6, 1997, as amended as of March 19, 1997, among the Registrant, Revco D.S., Inc. and North Acquisition, Corp. [incorporated by reference to Annex A to the Registrant's Registration Statement No. 333-24163 on Form S-4 filed March 28, 1997].
10.6*	Agreement and Plan of Merger dated as of February 8, 1998, as amended as of March 2, 1998, among the Registrant, Arbor Drugs, Inc. and Red Acquisition, Inc. [incorporated by reference to Exhibit 2 to the Registrant's Registration Statement No. 333-47193 on Form S-4 filed March 2, 1998].
10.7*	Stockholder Agreement dated as of December 2, 1996 between the Registrant, Nashua Hollis CVS, Inc. and Linens `n Things, Inc. [incorporated by reference to Exhibit 10(i)(6) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997].
10.8*	Tax Disaffiliation Agreement dated as of December 2, 1996 between the Registrant and Linens `n Things, Inc. and certain of their respective affiliates [incorporated by reference to Exhibit 10(i)(7) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997].
10.9*	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*	1973 Stock Option Plan [incorporated by reference to Exhibit (10)(iii)(A)(i) to Melville Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1987].
10.12*	1987 Stock Option Plan [incorporated by reference to Exhibit (10)(iii)(A)(iii) to Melville Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1987].
10.13*	1989 Directors Stock Option Plan [incorporated by reference to Exhibit B to Melville Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1988].
10.14*	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].

EXHIBIT	DESCRIPTION
10.15*	Profit Incentive Plan of Melville Corporation [incorporated by reference to Exhibit A to Melville Corporation's definitive Proxy Statement dated March 14, 1994].
10.16*	Supplemental Retirement Plan for Select Senior Management of Melville Corporation I as amended through July 1995 [incorporated by reference to Exhibit 10(iii)(A)(vii) to Melville's Annual Report on Form 10-K for the fiscal year ended December 31, 1995].
10.17*	Supplemental Retirement Plan for Select Senior Management of Melville Corporation II as amended through July 1995 [incorporated by reference to Exhibit 10(iii)(A)(viii) to Melville's Annual Report on Form 10-K for the fiscal year ended December 31, 1995].
10.18*	Income Continuation Policy for Select Senior Executives of Melville Corporation as amended through May 12, 1988 [incorporated by reference to Exhibit 10 (viii) to Melville's Annual

	Report on Form 10-K for the fiscal year ended December 31, 1994].
10.19*	CVS Corporation 1996 Directors Stock Plan, as amended and restated [incorporated by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 1, 2000].
10.20*	Form of Employment Agreements between the Registrant and the Registrant's executive officers [incorporated by reference to the Registrant's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1996].
10.21*	Deferred Stock Compensation Plan [incorporated by reference to Exhibit 10(iii)(A)(xi) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997].
10.22*	1997 Incentive Compensation Plan [incorporated by reference to Annex F to Amendment No. 1 to the Registrant's Registration Statement No. 333-24163 on Form S-4/A filed April 17, 1997].
10.23*	Deferred Compensation Plan [incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 27, 1998].
10.24*	Partnership Equity Program [incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 27, 1998].
10.25*	Form of Collateral Assignment and Executive Life Insurance Agreement between Registrant and the Registrant's executive officers [incorporated by reference to Exhibit 10.11(xv) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1998].
10.26*	Consulting Agreement between CVS Corporation and Eugene Applebaum [incorporated by reference to Exhibit 99(d) to Registrant's Registration Statement No. 333-47193 on Form S-4 filed March 2, 1998].
10.27*	Description of the Long-Term Performance Share Plan [incorporated by reference to Exhibit 10.27 to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 1, 2000].
10.28*	Description of the Executive Retention Program [incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2000].
10.29*	364-day Credit Agreement dated as of May 26, 2000 by and among the Registrant, the lenders party hereto, Fleet National Bank, as Syndication Agent, Credit Suisse First Boston, as Documentation Agent and The Bank of New York, as Administrative Agent [incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2000].
13	Portions of the 2000 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

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
CVS Corporation:

Under date of February 1, 2001, we reported on the consolidated balance sheets of CVS Corporation and subsidiaries as of December 30, 2000 and January 1, 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for the fifty-two week period ended December 30, 2000, the fifty-three week period ended January 1, 2000 and the fifty-two week period ended December 26, 1998. These consolidated financial statements and our report thereon are incorporated by reference in the December 30, 2000 Annual Report on Form 10-K of CVS Corporation. 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

KPMG LLP

Providence, Rhode Island
February 1, 2001

CVS CORPORATION
SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS

IN MILLIONS	BALANCE AT BEGINNING OF YEAR	ADDITIONS CHARGED TO BAD DEBT EXPENSE	WRITE-OFFS CHARGED TO ALLOWANCE	BALANCE AT END OF YEAR
ACCOUNTS RECEIVABLE -- ALLOWANCE FOR DOUBTFUL ACCOUNTS:				
Fiscal Year Ended December 30, 2000	$ 41.1	$ 29.2	$ 22.4	$ 47.9
Fiscal Year Ended January 1, 2000	39.8	22.8	21.5	41.1
Fiscal Year Ended December 26, 1998	39.2	22.4	21.8	39.8

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 19, 2001

By: /s/ DAVID B. RICKARD
David B. Rickard
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/ EUGENE APPLEBAUM Eugene Applebaum	Director	March 19, 2001
/s/ W. DON CORNWELL W. Don Cornwell	Director	March 19, 2001
/s/ THOMAS P. GERRITY Thomas P. Gerrity	Director	March 19, 2001
/s/ STANLEY P. GOLDSTEIN Stanley P. Goldstein	Director	March 19, 2001

/s/ MARIAN L. HEARD ------------------- Marian L. Heard	Director	March 19, 2001
/s/ WILLIAM H. JOYCE -------------------- William H. Joyce	Director	March 19, 2001
/s/ TERRY R. LAUTENBACH ----------------------- Terry R. Lautenbach	Director	March 19, 2001
/s/ TERRENCE MURRAY ------------------- Terrence Murray	Director	March 19, 2001
/s/ DAVID B. RICKARD -------------------- David B. Rickard	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 19, 2001
/s/ SHELI Z. ROSENBERG ---------------------- Sheli Z. Rosenberg	Director	March 19, 2001
/s/ THOMAS M. RYAN ------------------ Thomas M. Ryan	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 19, 2001
/s/ IVAN G. SEIDENBERG ---------------------- Ivan G. Seidenberg	Director	March 19, 2001
/s/ LARRY D. SOLBERG -------------------- Larry D. Solberg	Vice President and Controller (Principal Accounting Officer)	March 19, 2001

INTRODUCTION

We strongly recommend that you read our accompanying audited consolidated financial statements and footnotes along with this important discussion and analysis.

RESULTS OF OPERATIONS

Fiscal 2000, which ended on December 30, 2000 and fiscal 1998, which ended on December 26, 1998, each included 52 weeks. Fiscal 1999, which ended on January 1, 2000, included 53 weeks.

NET SALES increased 11.0% in 2000 to $20.1 billion. This compares to increases of 18.5% in 1999 and 11.1% in 1998. Same store sales, consisting of sales from stores that have been open for more than one year, rose 10.9% in 2000, 12.5% in 1999 and 10.8% in 1998. Pharmacy same store sales increased 17.7% in 2000, 19.4% in 1999 and 16.5% in 1998. Our pharmacy sales as a percentage of total net sales were 63% in 2000, 59% in 1999 and 58% in 1998. Our third party prescription sales as a percentage of total pharmacy sales were 89% in 2000, 87% in 1999 and 84% in 1998.

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 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 strong performance in the general merchandise, health and beauty, convenience foods and film and photofinishing categories.

- The increase in net sales in 2000 was negatively affected by the 53rd week in 1999. Excluding the impact of the 53rd week in 1999, comparable net sales increased 13.4% in 2000 when compared to 1999.

- The increase in net sales in 1999 was positively affected by the 53rd week in 1999. Excluding the impact of the 53rd week in 1999, comparable net sales increased 16.0% in 1999 when compared to 1998.

- The increase in net sales in 1998 was positively affected by our efforts to improve the performance of the Revco stores, which we acquired in 1997. To do this, we converted the retained Revco stores to the CVS store format and relocated certain stores. Our performance during the conversion period was positively affected by temporary promotional events.

- We continued 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 only 39% of our existing stores are freestanding. We currently expect to have approximately 44% of our stores in freestanding locations by the end of 2001. Our long-term goal is to have 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 26.7% in 2000. This compares to 26.9% in 1999 and 27.0% in 1998. As you review our gross margin performance, please remember to consider the impact of the following nonrecurring charge:

- During 1998, we recorded a $10.0 million charge to cost of goods sold to reflect markdowns on noncompatible Arbor merchandise, which resulted from the CVS/Arbor merger transaction. Please read Note 10 to the consolidated financial statements for other important information about the CVS/Arbor merger.

If you exclude the effect of this nonrecurring charge, our comparable gross margin as a percentage of net sales was 26.7% in 2000, 26.9% in 1999 and 27.1% in 1998.

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. On average, our gross margin on third party pharmacy sales is lower than our gross margin on cash pharmacy sales.

- Our third party gross margin rates have historically reflected varying degrees of pressure 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 and/or renegotiated a number of third party programs that fell below our minimum profitability standards. These continuing efforts have resulted in a stabilization of third party rates. However, in the event this trend were to continue 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 20.1% of net sales in 2000. This compares to 20.6% of net sales in 1999 and 22.1% in 1998. As you review our performance in this area, please remember to consider the impact of the following nonrecurring gain and charge:

- During 2000, we recorded a $19.2 million pre-tax ($11.5 million after-tax) nonrecurring gain in total operating expenses, which represented a partial payment of our share of the settlement proceeds from a class action lawsuit against certain manufacturers of brand name prescription drugs. The timing and amount of any future payments have yet to be determined.

- During 1998, we recorded a $147.3 million pre-tax ($101.3 million after-tax) charge in total operating expenses for direct and other merger-related costs pertaining to the CVS/Arbor merger transaction and related restructuring activities. In addition, we incurred $31.3 million of nonrecurring costs ($18.4 million after-tax) in connection with eliminating Arbor's information technology systems and Revco's noncompatible store merchandise fixtures. Please read Note 10 to the consolidated financial statements for other important information about the CVS/Arbor merger.

If you exclude the effect of the nonrecurring gain and charges we recorded in 2000 and 1998, respectively, comparable total operating expenses as a percentage of net sales were 20.2% in 2000, 20.6% in 1999 and 20.9% in 1998.

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

- 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, particularly at the store level.

OPERATING PROFIT increased $187.2 million in 2000 to $1.3 billion. This compares to $1.1 billion in 1999 and $751.9 million in 1998. If you exclude the effect of the nonrecurring gain we recorded in total operating expenses in 2000 and the nonrecurring charges we recorded in gross margin and in total operating expenses in 1998, our comparable operating profit increased $168.0 million in 2000 to $1.3 billion (or 14.8%). This compares to $1.1 billion in 1999 and $940.5 million in 1998. Comparable operating profit as a percentage of net sales was 6.5% in 2000, 6.3% in 1999 and 6.2% in 1998.

INTEREST EXPENSE, NET consisted of the following:

	FISCAL YEAR		
IN MILLIONS	2000	1999	1998
Interest expense	$ 84.1	$ 66.1	$ 69.7
Interest income	(4.8)	(7.0)	(8.8)
Interest expense, net	$ 79.3	$ 59.1	$ 60.9

The increase in interest expense in 2000 was primarily due to higher average interest rates and higher average borrowing during the year.

INCOME TAX PROVISION ~ Our effective income tax rate was 40.0% in 2000, 41.0% in 1999 and 44.4% in 1998. The decrease in our effective income tax rate in 2000 and 1999 was primarily due to lower state income taxes. Our effective income tax rate was higher in 1998 because certain components of the nonrecurring charges we recorded in conjunction with the CVS/Arbor merger transaction were not deductible for income tax purposes.

NET EARNINGS increased $110.9 million to $746.0 million (or $1.83 per diluted share) in 2000. This compares to $635.1 million (or $1.55 per diluted share) in 1999 and $384.5 million (or $0.95 per diluted share) in 1998. If you exclude the effect of the nonrecurring gain we recorded in total operating expenses in 2000 and the nonrecurring charges we recorded in gross margin and in total operating expenses in 1998, our comparable net earnings increased $99.4 million to $734.5 million (or $1.80 per diluted share) in 2000. This compares to $635.1 million (or $1.55 per diluted share) in 1999 and $510.1 million (or $1.26 per diluted share) in 1998.

LIQUIDITY & CAPITAL RESOURCES

LIQUIDITY ~ We generally finance our working capital and capital expenditure requirements with internally generated funds and our commercial paper program. In addition, we may elect to use additional long-term borrowings and/or other financing sources in the future to support our continued growth.

Our commercial paper program is supported by a $670 million, five-year unsecured revolving credit facility, which expires on May 30, 2002 and a $995 million unsecured revolving credit facility, which expires on May 25, 2001. We can also obtain short-term financing through various uncommitted lines of credit. As of December 30, 2000, we had $589.6 million of commercial paper outstanding at a weighted average interest rate of 6.9%.

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

On March 6, 2000, the Board of Directors approved a common stock repurchase program, which allows the Company to acquire up to $1 billion of its common stock. During 2000, we repurchased 4.7 million shares of common stock at an aggregate cost of $163.2 million.

On September 18, 2000, the Company completed the acquisition of certain assets of Stadtlander Pharmacy of Pittsburgh, Pennsylvania, a subsidiary of Bergen Brunswig Corporation, for $124 million in cash plus the assumption of certain liabilities. The results of operations of Stadtlander have been included in the consolidated financial statements since this date.

CAPITAL RESOURCES ~ 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 2001. 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 for at least the next 12 months.

NET CASH PROVIDED BY OPERATIONS ~ Net cash provided by operations increased to $780.2 million in 2000. This compares to $726.3 million in 1999 and $292.4 million in 1998. The improvement in net cash provided by operations was primarily the result of higher net earnings. As of December 30, 2000, the future cash payments associated with various restructuring programs totaled $105.2 million, which primarily consists of continuing lease obligations extending through 2020.

CAPITAL EXPENDITURES ~ Our capital expenditures, before the effect of the sale-leaseback transactions discussed below, totaled $695.3 million in 2000. This compared to $722.7 million in 1999 and $502.3 million in 1998. During 2000, we opened 158 new stores, relocated 230 existing stores and closed 123 stores. This includes 34 new ProCare stores and 1 relocation. We also entered three new major markets in 2000 including Chicago, Illinois, Tampa and Orlando, Florida. As of December 30, 2000, we operated 4,133 retail and specialty pharmacy stores in 31 states and the District of Columbia. This compares to 4,098 stores as of January 1, 2000. The Company finances a portion of its store development program through sale-leaseback transactions. Proceeds from sale-leaseback transactions totaled $299.3 million in 2000 and $229.2 million in 1999. The properties were sold at net book value and the resulting leases are being accounted for as operating leases.

RECENT ACCOUNTING PRONOUNCEMENTS

Effective fiscal 2001, we adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities-an amendment to FASB Statement No. 133." These statements, which establish the accounting and financial reporting requirements for derivative instruments, require companies to recognize derivatives as either assets or liabilities on the balance sheet and measure those instruments at fair value. The adoption of this standard did not have a material effect on our consolidated financial statements.

During the fourth quarter of 2000, we adopted the Staff Accounting Bulletin 101, "Revenue Recognition in Financial Statements." This bulletin summarizes the application of generally accepted accounting principles to revenue recognition in financial statements. The adoption of this standard did not have a material effect on our consolidated financial statements.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

We have made forward-looking statements in this Annual Report that are subject to risks and uncertainties that could cause actual results to differ materially. 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 30, 2000.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The integrity and objectivity of the financial statements and related financial information in this Annual Report are the responsibility of the management of the Company. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and include, when necessary, the best 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, were engaged to render an opinion regarding the fair presentation of the consolidated financial statements of the Company. Their accompanying report is based upon an audit conducted in accordance with auditing standards generally accepted in the United States of America and included a review of the system of internal controls to the extent they considered necessary to support their opinion.

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

/s/ Thomas M. Ryan

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

/s/ David B. Rickard

David B. Rickard
Executive Vice President and Chief Financial Officer

February 1, 2001

INDEPENDENT AUDITORS' REPORT

KPMG LLP

Board of Directors and Shareholders
CVS Corporation:

We have audited the accompanying consolidated balance sheets of CVS Corporation and subsidiaries as of December 30, 2000 and January 1, 2000, and the related consolidated statements of operations, shareholders' equity, and cash flows for the fifty-two week period ended December 30, 2000, the fifty-three week period ended Janaury 1, 2000 and the fifty-two week period ended December 26, 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CVS Corporation and subsidiaries as of December 30, 2000 and January 1, 2000, and the results of their operations and their cash flows for the fifty-two week period ended December 30, 2000, the fifty-three week period ended January 1, 2000 and the fifty-two week period ended December 26, 1998, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

KPMG LLP
Providence, Rhode Island

February 1, 2001

CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Year Ended		
In Millions, Except Per Share Amounts	December 30, 2000 (52 Weeks)	January 1, 2000 (53 Weeks)	December 26, 1998 (52 Weeks)
Net sales	$ 20,087.5	$ 18,098.3	$ 15,273.6
Cost of goods sold, buying and warehousing costs	14,725.8	13,236.9	11,144.4
Gross margin	5,361.7	4,861.4	4,129.2
Selling, general and administrative expenses	3,742.4	3,448.0	2,949.0
Depreciation and amortization	296.6	277.9	249.7
Merger, restructuring and other nonrecurring charges	--	--	178.6
Total operating expenses	4,039.0	3,725.9	3,377.3
Operating profit	1,322.7	1,135.5	751.9
Interest expense, net	79.3	59.1	60.9
Earnings before income tax provision	1,243.4	1,076.4	691.0
Income tax provision	497.4	441.3	306.5
Net earnings	746.0	635.1	384.5
Preference dividends, net of income tax benefit	14.6	14.7	13.6
Net earnings available to common shareholders	$ 731.4	$ 620.4	$ 370.9

BASIC EARNINGS PER COMMON SHARE:			
Net earnings	$ 1.87	$ 1.59	$ 0.96
Weighted average common shares outstanding	391.0	391.3	387.1
DILUTED EARNINGS PER COMMON SHARE:			
Net earnings	$ 1.83	$ 1.55	$ 0.95
Weighted average common shares outstanding	408.0	408.9	405.2
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.230	$ 0.230	$ 0.225

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

In Millions, Except Shares and Per Share Amounts	December 30, 2000	January 1, 2000
ASSETS:		
Cash and cash equivalents	$ 337.3	$ 230.0
Accounts receivable, net	824.5	699.3
Inventories	3,557.6	3,445.5
Deferred income taxes	124.9	139.4
Other current assets	92.3	93.8
TOTAL CURRENT ASSETS	4,936.6	4,608.0
Property and equipment, net	1,742.1	1,601.0
Goodwill, net	818.5	706.9
Other assets	452.3	359.5
TOTAL ASSETS	$ 7,949.5	$ 7,275.4
LIABILITIES:		
Accounts payable	$ 1,351.5	$ 1,454.2
Accrued expenses	1,001.4	967.4
Short-term borrowings	589.6	451.0
Current portion of long-term debt	21.6	17.3
TOTAL CURRENT LIABILITIES	2,964.1	2,889.9
Long-term debt	536.8	558.5
Deferred income taxes	28.0	27.2
Other long-term liabilities	116.0	120.1
Commitments and contingencies (Note 8)		
SHAREHOLDERS' EQUITY:		
Preferred stock, $0.01 par value: authorized 120,619 shares; no shares issued or outstanding	--	--
Preference stock, series one ESOP convertible, par value $1.00: authorized 50,000,000 shares; issued and outstanding 5,006,000 shares at December 30, 2000, and 5,164,000 shares at January 1, 2000	267.5	276.0
Common stock, par value $0.01: authorized 1,000,000,000 shares; issued 407,395,000 shares at December 30, 2000, and 403,047,000 shares at January 1, 2000	4.1	4.0
Treasury stock, at cost: 15,073,000 shares at December 30, 2000, and 11,051,000 shares at January 1, 2000	(404.9)	(258.5)
Guaranteed ESOP obligation	(240.6)	(257.0)
Capital surplus	1,493.8	1,371.7
Retained earnings	3,184.7	2,543.5
TOTAL SHAREHOLDERS' EQUITY	4,304.6	3,679.7
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 7,949.5	$ 7,275.4

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

In Millions	Shares December 30, 2000	Shares January 1, 2000	Shares December 26, 1998	Dollars December 30, 2000	Dollars January 1, 2000	Dollars December 26, 1998
PREFERENCE STOCK:						
Beginning of year	5.2	5.2	5.3	$ 276.0	$ 280.0	$ 284.6
Conversion to common stock	(0.2)	--	(0.1)	(8.5)	(4.0)	(4.6)
End of year	5.0	5.2	5.2	267.5	276.0	280.0
COMMON STOCK:						
Beginning of year	403.0	401.4	393.7	4.0	4.0	3.9
Stock options exercised and awards under stock plans	4.4	1.0	7.5	0.1	--	0.1
Other	--	0.6	0.2	--	--	--
End of year	407.4	403.0	401.4	4.1	4.0	4.0
TREASURY STOCK:						
Beginning of year	(11.1)	(11.2)	(11.3)	(258.5)	(260.2)	(262.9)
Purchase of treasury shares	(4.7)	--	--	(163.2)	--	--
Conversion of preference stock	0.4	0.2	0.2	9.1	4.0	4.2
Other	0.3	(0.1)	(0.1)	7.7	(2.3)	(1.5)
End of year	(15.1)	(11.1)	(11.2)	(404.9)	(258.5)	(260.2)
GUARANTEED ESOP OBLIGATION:						
Beginning of year				(257.0)	(270.7)	(292.2)
Reduction of guaranteed ESOP obligation				16.4	13.7	21.5
End of year				(240.6)	(257.0)	(270.7)
CAPITAL SURPLUS:						
Beginning of year				1,371.7	1,336.4	1,154.0
Conversion of preference stock				(0.7)	0.1	0.3
Stock options exercised and awards under stock plans				120.1	31.3	176.2
Other				2.7	3.9	5.9
End of year				1,493.8	1,371.7	1,336.4
RETAINED EARNINGS:						
Beginning of year				2,543.5	2,021.1	1,739.1
Net earnings				746.0	635.1	384.5
Dividends:						
Preference stock, net of income tax benefit				(14.6)	(14.7)	(13.6)
Common stock				(90.2)	(90.0)	(88.9)
Immaterial pooling of interests				--	(8.0)	--
End of year				3,184.7	2,543.5	2,021.1
TOTAL SHAREHOLDERS' EQUITY				$ 4,304.6	$ 3,679.7	$ 3,110.6

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In Millions	Fiscal Year Ended December 30, 2000 (52 Weeks)	January 1, 2000 (53 Weeks)	December 26, 1998 (52 Weeks)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 746.0	$ 635.1	$ 384.5
Adjustments required to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	296.6	277.9	249.7
Merger, restructuring and other nonrecurring charges	--	--	188.6
Deferred income taxes and other noncash items	43.8	124.8	80.6
Change in operating assets and liabilities providing/(requiring) cash, net of effects from acquisitions:			
Accounts receivable, net	(86.7)	(48.9)	(197.9)
Inventories	(98.1)	(255.0)	(315.0)
Other current assets	7.0	(16.7)	(18.5)
Other assets	(50.1)	(97.9)	7.2
Accounts payable	(133.6)	166.8	52.6
Accrued expenses	59.6	(37.7)	(134.5)
Other long-term liabilities	(4.3)	(22.1)	(4.9)
NET CASH PROVIDED BY OPERATING ACTIVITIES	780.2	726.3	292.4
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property and equipment	(695.3)	(722.7)	(502.3)
Proceeds from sale-leaseback transactions	299.3	229.2	--
Acquisitions, net of cash	(263.3)	(101.1)	(133.6)
Proceeds from sale or disposal of assets	18.8	28.2	50.5
NET CASH USED IN INVESTING ACTIVITIES	(640.5)	(566.4)	(585.4)

CASH FLOWS FROM FINANCING ACTIVITIES:			
Additions to (reductions in) short-term borrowings	138.7	(324.5)	304.6
Proceeds from exercise of stock options	97.8	20.4	121.1
(Reductions in) additions to long-term debt	(0.9)	298.1	(41.9)
Dividends paid	(104.8)	(104.7)	(102.5)
Purchase of treasury shares	(163.2)	--	--
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(32.4)	(110.7)	281.3
Net increase (decrease) in cash and cash equivalents	107.3	49.2	(11.7)
Cash and cash equivalents at beginning of year	230.0	180.8	192.5
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 337.3	$ 230.0	$ 180.8

See accompanying 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 30, 2000, the Company operated 4,133 retail and specialty pharmacy drugstores and various mail order facilities located in 31 states and the District of Columbia. See Note 9 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.

FISCAL YEAR ~ The Company operates on a "52/53 week" fiscal year. Fiscal year 2000 ended December 30, 2000 and included 52 weeks. Fiscal 1999 and 1998 ended on January 1, 2000 and December 26, 1998 and included 53 weeks and 52 weeks, respectively. Unless otherwise noted, all references to years relate to the Company's fiscal year.

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

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

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 $47.9 million and $41.1 million as of December 30, 2000 and January 1, 2000, respectively. The balance primarily includes amounts due from third party providers (e.g., pharmacy benefit managers, insurance companies and governmental agencies) and vendors.

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

FINANCIAL INSTRUMENTS ~ Financial instruments include cash and cash equivalents, accounts receivable, accounts payable and short-term borrowings. Due to the short-term nature of these instruments, the Company's carrying value approximates fair value. The fair value of long-term debt was $290 million as of December 30, 2000. The Company has no investments in derivative financial instruments.

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, equipment and software and 5 to 10 years for leasehold improvements.

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

In Millions	December 30, 2000	January 1, 2000
Land	$ 97.1	$ 89.6
Buildings and improvements	333.1	239.1
Fixtures, equipment and software	1,536.6	1,488.4
Leasehold improvements	632.3	585.3
Capital leases	2.2	2.2
	2,601.3	2,404.6
Accumulated depreciation and amortization	(859.2)	(803.6)
	$1,742.1	$1,601.0

IMPAIRMENT OF LONG-LIVED ASSETS ~ The Company primarily groups and evaluates fixed and intangible assets at an individual store level, which is the lowest level at which individual cash flows can be identified. Goodwill is allocated to individual stores based on historical store contribution, which approximates store cash flow. Other intangible assets (i.e., patient prescription files and favorable lease interests) are typically store specific and, therefore, are directly assigned to individual stores. When evaluating assets for potential impairment, the Company first compares the carrying amount of the asset to the asset's estimated future cash flows (undiscounted and without interest charges). If the estimated future cash flows used in this analysis are less than the carrying amount of the asset, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the asset to the asset's estimated future cash flows (discounted and with interest charges). If the carrying amount exceeds the asset's estimated future cash flows (discounted and with interest charges), an impairment loss is recorded.

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 $127.3 million and $105.0 million as of December 30, 2000 and January 1, 2000, 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.

OTHER ASSETS ~ Other assets primarily include patient prescription file purchases, which are amortized on a straight-line basis over their estimated useful life, cash surrender values of certain Company-owned life insurance policies and favorable leases, which are amortized on a straight-line basis over the life of the lease.

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

VENDOR ALLOWANCES ~ The total value of any up-front or other periodic payments received from vendors that are linked to purchase commitments is initially deferred. The deferred amounts are then amortized to reduce cost of goods sold over the life of the contract based upon periodic purchase volume. The total value of any up-front or other periodic payments received from vendors that are not linked to purchase commitments is also initially deferred. The deferred amounts are then amortized to reduce cost of goods sold on a straight-line basis over the life of the related contract. Funds that are directly linked to advertising commitments are recognized as a reduction of advertising expense when the related advertising commitment is satisfied.

STORE OPENING AND CLOSING COSTS ~ New store opening costs are charged directly to expense when incurred. When the Company closes a store, the estimated unrecoverable costs, including the remaining lease obligation, are charged to expense.

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

STOCK-BASED COMPENSATION ~ The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation." Under SFAS No. 123, companies can elect to account for stock-based compensation using a fair value based method or continue to measure compensation expense using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." The Company has elected to continue to account for its stock-based compensation plans under APB Opinion No. 25. See Note 5 for further information about the Company's stock incentive plans.

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

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

INTEREST EXPENSE, NET ~ Interest expense was $84.1 million, $66.1 million and $69.7 million and interest income was $4.8 million, $7.0 million and $8.8 million in 2000, 1999 and 1998, respectively.

NONRECURRING GAIN ~ During 2000, the Company recorded a $19.2 million pre-tax ($11.5 million after-tax) nonrecurring gain in total operating expenses, which represented a partial payment of the Company's share of the settlement proceeds from a class action lawsuit against certain manufacturers of brand name prescription drugs. The timing and amount of any future payments have yet to be determined.

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").

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

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

NEW ACCOUNTING PRONOUNCEMENTS ~ Effective fiscal 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities-an amendment to FASB Statement No. 133." These statements, which establish the accounting and financial reporting requirements for derivative instruments, require companies to recognize derivatives as either assets or liabilities on the balance sheet and measure those instruments at fair value. The adoption of this standard did not have a material effect on the Company's consolidated financial statements.

During the fourth quarter of 2000, the Company adopted Staff Accounting Bulletin 101, "Revenue Recognition in Financial Statements." This bulletin summarizes the application of generally accepted accounting principles to revenue recognition in financial statements. The adoption of this standard did not have a material effect on the Company's consolidated financial statements.

2 BORROWINGS AND CREDIT AGREEMENTS

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

IN MILLIONS	DECEMBER 30, 2000	January 1, 2000
Commercial paper	$ 589.6	$ 451.0
ESOP note payable(1)	240.6	257.0
5.5% unsecured senior notes	300.0	300.0
Mortgage notes payable	16.6	17.3
Capital lease obligations	1.2	1.5
	1,148.0	1,026.8
Less:		
Short-term borrowings	(589.6)	(451.0)
Current portion of long-term debt	(21.6)	(17.3)
	$ 536.8	$ 558.5

(1) See Note 4 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 $995 million unsecured revolving credit facility, which expires on May 25, 2001 (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. Interest paid totaled $98.3 million in 2000, $69.0 million in 1999 and $70.7 million in 1998. The weighted average interest rate for short-term borrowings was 6.9% as of December 30, 2000 and 6.2% as of January 1, 2000.

In February 1999, the Company issued $300 million of 5.5% unsecured senior notes due February 15, 2004. The proceeds from the issuance were used to repay outstanding commercial paper borrowings.

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

As of December 30, 2000, the aggregate long-term debt maturing during the next five years, excluding capital lease obligations, is $21.6 million in 2001, $26.3 million in 2002, $32.1 million in 2003, $323.3 million in 2004 and $28.0 million in 2005.

3 LEASES

The Company and its subsidiaries lease retail stores, warehouse facilities, office facilities and equipment under noncancelable operating leases typically over periods ranging from 5 to 25 years, along with options that permit renewals for additional periods.

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

	Fiscal Year		
In Millions	2000	1999	1998
Minimum rentals	$ 684.9	$ 572.4	$ 459.1
Contingent rentals	66.3	64.8	60.3
	751.2	637.2	519.4
Less: sublease income	(9.2)	(13.2)	(14.0)
	$ 742.0	$ 624.0	$ 505.4

Following is a summary of the future minimum lease payments under capital and operating leases as of December 30, 2000:

IN MILLIONS	Capital Leases	Operating Leases
2001	$ 0.4	$ 718.6
2002	0.2	679.8
2003	0.2	637.7
2004	0.2	597.0
2005	0.2	542.7
Thereafter	0.9	4,955.3

	2.1	$ 8,131.1
Less: imputed interest	(0.9)	
Present value of capital lease obligations	$ 1.2	

The Company finances a portion of its store development program through sale-leaseback transactions. Proceeds from sale-leaseback transactions totaled $299.3 million in 2000 and $229.2 million in 1999. The properties were sold at net book value and the resulting leases are being accounted for as operating leases and are included in the above table.

The future cash payments associated with the noncancelable lease obligations related to various restructuring programs totaled $83.6 million at December 30, 2000 and $98.5 million at January 1, 2000. The Company believes that the reserve balances as of December 30, 2000 are adequate to cover the remaining noncancelable lease liabilities associated with the various restructuring programs. These leases are included in the above table.

4 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 30, 2000, 5.0 million shares of ESOP Preference Stock were outstanding, of which 2.0 million shares were allocated to participants and the remaining 3.0 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 activity for the respective years:

	FISCAL YEAR		
IN MILLIONS	2000	1999	1998
ESOP expense recognized	$ 18.8	$ 16.6	$ 25.8
Dividends paid	19.5	20.1	20.5
Cash contributions	18.8	16.6	25.8
Interest payments	21.9	23.1	24.9

ESOP shares allocated	0.3	0.3	0.4

5 STOCK INCENTIVE PLANS

As of December 30, 2000, the Company had the following stock incentive plans:

1997 INCENTIVE COMPENSATION PLAN

The 1997 Incentive Compensation Plan (the "1997 ICP") provides for the granting of up to 23,382,245 shares of common stock in the form of stock options, stock appreciation rights, 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 30, 2000, there were 11,930,278 shares available for future grants under the 1997 ICP.

Restricted shares issued under the 1997 ICP may not exceed 3.6 million shares. In 2000, 1999 and 1998, 952,251, 59,908 and 155,400 shares of restricted stock were granted at a weighted average grant date fair value of $30.58, $51.26 and $37.80, respectively. Participants are entitled to vote and receive dividends on their restricted shares, although they are subject to certain transfer restrictions. Compensation costs, which are recognized over the restricted period, totaled $5.9 million in 2000, $2.3 million in 1999 and $3.1 million in 1998.

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 nonemployee 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. As of December 30, 2000, there were 230,416 shares available for future grant under the 1996 DSP.

Following is a summary of the stock option activity for the respective years:

	2000		1999		1998	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of year	12,964,600	$ 27.38	11,982,122	$ 23.31	16,070,146	$ 16.95
Granted(1)	6,964,015	33.84	2,175,342	48.02	3,119,410	37.16
Exercised	(3,510,785)	19.55	(927,080)	18.87	(7,137,027)	15.01
Canceled	(1,770,840)	37.37	(265,784)	37.65	(70,407)	26.48
Outstanding at end of year	14,646,990	31.11	12,964,600	27.38	11,982,122	23.31
Exercisable at end of year	4,048,842	$ 18.85	6,065,351	$ 17.92	6,127,402	$ 17.16

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

Following is a summary of the stock options outstanding and exercisable as of December 30, 2000:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING LIFE	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
Under $15	398,062	4.2	$ 11.84	386,920	$ 12.13
$15.01 to $20.00	2,631,166	3.9	16.65	2,631,166	16.65
20.01 to 25.00	1,355,267	5.5	22.80	710,526	22.60
25.01 to 40.00	8,586,392	8.6	34.43	304,831	36.44
40.01 to 51.56	1,676,103	7.7	48.13	15,399	42.52
TOTAL	14,646,990	7.2	$ 31.11	4,048,842	$ 18.85

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:

IN MILLIONS, EXCEPT PER SHARE AMOUNTS	FISCAL YEAR 2000	1999	1998
Net earnings:			
As reported	$ 746.0	$ 635.1	$ 384.5
Pro forma	717.7	614.7	359.0
Basic EPS:			
As reported	$ 1.87	$ 1.59	$ 0.96
Pro forma	1.80	1.53	0.89
Diluted EPS:			
As reported	$ 1.83	$ 1.55	$ 0.95
Pro forma	1.76	1.50	0.88

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

	FISCAL YEAR 2000	1999	1998
Dividend yield	0.40%	0.58%	0.40%
Expected volatility	27.92%	25.86%	22.49%
Risk-free interest rate	6.25%	6.50%	5.75%
Expected life of options	6.5	6.0	7.0

1999 EMPLOYEE STOCK PURCHASE PLAN

The 1999 Employee Stock Purchase Plan provides for the granting of up to

7,400,000 shares of common stock. Under the plan, eligible employees may purchase common stock at the end of each six month offering period, at a purchase price equal to 85% of the lower of the fair market value on the first day or the last day of the offering period.

Employees pay for the shares ratably over each offering period through payroll deductions. As of December 30, 2000, approximately 875,000 shares of common stock have been issued under the plan.

6 PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

The Company sponsors a noncontributory 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. Benefits paid to retirees are based upon age at retirement, years of credited service and average compensation during the five year period ending September 20, 1997. The plan is funded based on actuarial calculations and applicable federal regulations.

Pursuant to various labor agreements, the Company is also required to make contributions to certain union-administered pension and health and welfare plans that totaled $9.3 million, $8.4 million and $7.5 million in 2000, 1999 and 1998, respectively. The Company also has nonqualified supplemental executive retirement plans in place for certain key employees for whom it has purchased cost recovery variable life insurance.

DEFINED CONTRIBUTION PLANS

The Company sponsors a voluntary 401(k) Savings Plan that covers substantially all employees who meet plan eligibility requirements. The Company makes matching contributions consistent with the provisions of the plan. The Company also maintains a nonqualified, unfunded Deferred Compensation Plan for certain key employees. This plan provides participants the opportunity to defer portions of their compensation and receive matching contributions that they would have otherwise received under the 401(k) Savings Plan if not for certain restrictions and limitations under the Internal Revenue Code. The Company's contributions under the above defined contribution plans totaled $23.0 million, $17.0 million and $26.4 million in 2000, 1999 and 1998, respectively. The Company also sponsors an Employee Stock Ownership Plan. See Note 4 for further information about this plan.

OTHER POSTRETIREMENT BENEFITS

The Company provides postretirement healthcare 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 as of the respective balance sheet dates:

	DEFINED BENEFIT PLANS		OTHER POSTRETIREMENT BENEFITS	
IN MILLIONS	2000	1999	2000	1999
CHANGE IN BENEFIT OBLIGATION:				
Benefit obligation at beginning of year	$ 254.8	$ 297.6	$ 14.0	$ 14.0
Service cost	0.9	0.7	--	--
Interest cost	19.8	19.8	1.0	0.9
Actuarial loss (gain)	9.6	(40.3)	(0.5)	1.1
Benefits paid	(17.9)	(23.0)	(1.1)	(2.0)
Benefit obligation at end of year	$ 267.2	$ 254.8	$ 13.4	$ 14.0
CHANGE IN PLAN ASSETS:				
Fair value at beginning of year	$ 248.8	$ 223.1	$ --	$ --
Actual return on plan assets	(3.3)	37.3	--	--
Company contributions	7.1	11.4	1.1	2.0
Benefits paid	(17.9)	(23.0)	(1.1)	(2.0)
Fair value at end of year(1)	$ 234.7	$ 248.8	$ --	$ --

FUNDED STATUS:				
Funded status	$ (32.5)	$ (6.0)	$ (13.4)	$ (14.0)
Unrecognized prior service cost	1.0	1.1	(0.8)	(0.9)
Unrecognized net (gain) loss	(27.7)	(60.6)	(0.4)	0.8
Accrued pension costs	$ (59.2)	$ (65.5)	$ (14.6)	$ (14.1)

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

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

	DEFINED BENEFIT PLANS			OTHER POSTRETIREMENT BENEFITS		
IN MILLIONS	2000	1999	1998	2000	1999	1998
Service cost	$ 0.9	$ 0.7	$ 0.5	$ --	$ --	$ --
Interest cost on benefit obligation	19.8	19.8	19.5	1.0	0.9	1.0
Expected return on plan assets	(18.6)	(16.6)	(16.4)	--	--	--
Amortization of net (gain) loss	(0.1)	1.3	1.2	(0.2)	--	(0.2)
Amortization of prior service cost	0.1	0.1	0.1	(0.1)	(0.1)	(0.1)
Net periodic pension cost	$ 2.1	$ 5.3	$ 4.9	$ 0.7	$ 0.8	$ 0.7
WEIGHTED AVERAGE ASSUMPTIONS:						
Discount rate	7.75%	8.00%	6.75%	7.75%	7.75%	6.75%
Expected return on plan assets	9.25%	9.00%	9.00%	--	--	--
Rate of compensation increase	4.00%	4.00%	4.50%	--	--	--

For measurement purposes, future healthcare costs are assumed to increase at an annual rate of 8.0%, decreasing to an annual growth rate of 5.0% in 2004 and thereafter. A one percent change in the assumed health care cost trend rate would change the accumulated postretirement benefit obligation by $0.8 million and the total service and interest costs by $0.1 million.

7 INCOME TAXES

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

		FISCAL YEAR		
IN MILLIONS		2000	1999	1998
Current:	Federal	$ 397.2	$ 289.6	$ 197.3
	State	73.9	68.4	41.4
		471.1	358.0	238.7
Deferred:	Federal	21.9	72.6	44.1
	State	4.4	10.7	23.7
		26.3	83.3	67.8
Total		$ 497.4	$ 441.3	$ 306.5

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

	FISCAL YEAR 2000	1999	1998
Statutory income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	4.1	4.8	5.8
Goodwill and other	0.9	1.2	1.2
Effective tax rate before merger-related costs	40.0	41.0	42.0
Merger-related costs (1)	--	--	2.4
Effective tax rate	40.0%	41.0%	44.4%

(1) Includes state tax effect.

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

IN MILLIONS	DECEMBER 30, 2000	January 1, 2000
Deferred tax assets:		
Employee benefits	$ 65.1	$ 56.7
Other	137.4	135.1
Total deferred tax assets	202.5	191.8
Deferred tax liabilities:		
Accelerated depreciation	(98.6)	(68.9)
Inventory	(7.0)	(10.7)
Total deferred tax liabilities	(105.6)	(79.6)
Net deferred tax assets	$ 96.9	$ 112.2

Income taxes paid were $342.5 million, $354.5 million and $102.6 million for 2000, 1999 and 1998, respectively.

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

8 COMMITMENTS & CONTINGENCIES

In connection with certain business dispositions completed between 1991 and 1997, the Company continues to guarantee lease obligations for approximately 1,300 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 $876 million as of December 30, 2000.

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.

As of December 30, 2000, the Company had outstanding commitments to purchase $335 million of merchandise inventory for use in the normal course of business. The Company currently expects to satisfy these purchase commitments by 2003.

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.

9 BUSINESS SEGMENTS

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

The Retail Pharmacy segment, which includes 4,087 retail drugstores located in 24 states and the District of Columbia, operates under the CVS/pharmacy name. The Retail Pharmacy segment is the Company's only reportable segment.

The PBM segment provides a full range of prescription benefit management services to managed care providers and other organizations. These services include plan design and administration, formulary management, mail order pharmacy services, claims processing and generic substitution. The PBM segment operates under the PharmaCare Management Services name.

The Specialty Pharmacy segment, which includes mail order facilities and 46 retail pharmacies located in 17 states and the District of Columbia, operates under the CVS ProCare name. The Specialty Pharmacy segment focuses on supporting individuals that require complex and expensive drug therapies.

The Internet Pharmacy segment, which includes a mail order facility and a complete online retail pharmacy, operates under the CVS.com name.

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

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

	2000	1999	1998
Pharmacy	62.7%	58.7%	57.6%
Front store	37.3	41.3	42.4
Total net sales	100.0%	100.0%	100.0%

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

IN MILLIONS	Retail Pharmacy Segment	All Other Segments	Intersegment Eliminations(1)	Other Adjustments(2)	Consolidated Totals
2000:					
Net sales	$ 19,372.4	$ 975.8	$ (260.7)	$ --	$ 20,087.5
Operating profit	1,290.7	12.8	--	19.2	1,322.7
Depreciation and amortization	285.4	11.2	--	--	296.6
Total assets	7,498.8	478.7	(28.0)	--	7,949.5
Capital expenditures(3)	679.2	16.1	--	--	695.3
1999:					
Net sales	$ 17,625.7	$ 888.4	$ (415.8)	$ --	$ 18,098.3
Operating profit	1,120.4	15.1	--	--	1,135.5
Depreciation and amortization	274.6	3.3	--	--	277.9
Total assets	7,146.1	173.4	(44.1)	--	7,275.4
Capital expenditures(3)	706.3	16.4	--	--	722.7
1998:					
Net sales	$ 15,081.1	$ 488.4	$ (295.9)	$ --	$ 15,273.6
Operating profit	927.8	12.7	--	(188.6)	751.9
Depreciation and amortization	248.6	1.1	--	--	249.7
Total assets	6,602.1	119.6	(35.5)	--	6,686.2
Capital expenditures(3)	498.0	4.3	--	--	502.3

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

(2) In 1998, other adjustments relate to merger, restructuring and other nonrecurring charges associated with the Revco and Arbor mergers. In 2000, other adjustments relate to the nonrecurring gain representing a partial payment of the settlement proceeds from a class action lawsuit against certain manufacturers of brand name prescription drugs. The charges and gain are not considered when management assesses the stand-alone performance of the Company's business segments.

(3) Capital expenditure amounts are shown before the effect of sale-leaseback transaction proceeds. See the Consolidated Statements of Cash Flows and Note 3 for additional information.

10 BUSINESS COMBINATIONS

CVS/ARBOR MERGER

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 the outstanding common stock of Arbor. The merger was a tax-free reorganization that was accounted for as a pooling of interests under APB Opinion No. 16, "Business Combinations."

In accordance with APB Opinion No. 16, Emerging Issues Task Force ("EITF") Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)" and SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," CVS recorded a $147.3 million charge to operating expenses during the second quarter of 1998 for direct and other merger-related costs pertaining to the CVS/Arbor merger transaction and certain restructuring activities (the "CVS/Arbor Charge"). 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.

Following is a summary of the significant components of the CVS/Arbor Charge:

IN MILLIONS	

Merger transaction costs	$ 15.0
Restructuring costs:	
Employee severance and benefits	27.1
Exit Costs:	
Noncancelable lease obligations	40.0
Duplicate facility	16.5
Asset write-offs	41.2
Contract cancellation costs	4.8
Other	2.7
Total	$ 147.3

MERGER TRANSACTION COSTS included $12.0 million for estimated investment banker fees, $2.5 million for estimated professional fees, and $0.5 million for estimated filing fees, printing costs and other costs associated with furnishing information to shareholders.

EMPLOYEE SEVERANCE AND BENEFITS included $15.0 million for estimated excess parachute payment excise taxes and related income tax gross-ups, $11.0 million for estimated employee severance and $1.1 million for estimated employee outplacement costs. The excess parachute payment excise taxes and related income tax gross-ups relate to employment agreements that Arbor had in place with 22 senior executives. Employee severance and benefits and employee outplacement costs relate to 236 employees that were located in Arbor's Troy, Michigan corporate headquarters, including the 22 senior executives that were covered by employment agreements.

EXIT COSTS ~ In conjunction with the merger transaction, management made the decision to close Arbor's Troy, Michigan corporate headquarters and 55 Arbor store locations. As a result, the following exit plan was executed:

1. Arbor's Troy, Michigan corporate headquarters would be closed as soon as possible after the merger. Management anticipated that this facility would be closed by no later than December 31, 1998. Since this location was a leased facility, management returned the premises to the landlord at the conclusion of the current lease term, which extended through 1999. This facility was closed in December 1998.

2. Arbor's Troy, Michigan corporate headquarters employees would be terminated as soon as possible after the merger. Management anticipated that these employees would be terminated by no later than December 31, 1998. However, significant headcount reductions were planned and occurred throughout the transition period. As of December 31, 1998, all of the employees had been terminated.

3. The 55 Arbor store locations discussed above would be closed as soon as practical after the merger. As of December 30, 2000, all of these locations have been closed or are in the process of being closed. Since these locations were leased facilities, management planned to either return the premises to the respective landlords at the conclusion of the current lease term or negotiate an early termination of the contractual obligations.

NONCANCELABLE LEASE OBLIGATIONS included $40.0 million for the estimated continuing lease obligations of the 55 Arbor store locations discussed above. As required by EITF Issue 88-10, "Costs Associated with Lease Modification or Termination," the estimated continuing lease obligations were reduced by estimated probable sublease rental income.

DUPLICATE FACILITY included the estimated costs associated with Arbor's Troy, Michigan corporate headquarters during the shutdown period. This facility was considered to be a duplicate facility that was not required by the combined company. Immediately after the merger transaction, the Company assumed all decision-making responsibility for Arbor and Arbor's corporate employees. The combined company did not retain these employees since they were incremental to their CVS counterparts. During the shutdown period, these employees primarily worked on shutdown activities. The $16.5 million charge included $1.8 million for the estimated cost of payroll and benefits that would be incurred in connection with complying with the Federal Worker Adjustment and Retraining Act (the "WARN Act"), $6.6 million for the estimated cost of payroll and benefits that would be incurred in connection with shutdown activities, $1.5 million for the estimated cost of temporary labor that would be incurred in connection with shutdown activities and $6.6 million for the estimated occupancy-related costs that would be incurred in connection with closing the duplicate corporate headquarters facility.

ASSET WRITE-OFFS included $38.2 million for estimated fixed asset write-offs and $3.0 million for estimated intangible asset write-offs. The Company allocates goodwill to individual stores based on historical store contribution, which approximates store cash flow. Other intangibles (i.e., favorable lease interests and prescription files) are typically store specific and, therefore, are directly assigned to stores. The asset write-offs relate to the 55 store locations discussed above and the Troy, Michigan corporate headquarters. Management's decision to close the store locations was considered to be an event or change in circumstances as defined in SFAS No. 121. Since management intended to use these locations on a short-term basis during the shutdown period, impairment was measured using the "Assets to Be Held and Used" provisions of SFAS No. 121. The analysis was prepared at the individual store level, which is the lowest level at which individual cash flows can be identified. The analysis first compared the carrying amount of the store's assets to the store's estimated future cash flows (undiscounted and without interest charges) through the anticipated closing date. If the estimated future cash flows used in this analysis were less than the carrying amount of the store's assets, an impairment loss calculation was prepared. The impairment loss calculation compared the carrying value of the store's assets to the store's estimated future cash flows (discounted and with interest charges).

Management's decision to close Arbor's Troy, Michigan corporate headquarters was also considered to be an event or change in circumstances as defined in SFAS No. 121. Since management intended to dispose of these assets, impairment was measured using the "Assets to Be Disposed Of" provisions of SFAS No. 121. Since management intended to discard the assets located in this facility, their entire net book value was considered to be impaired.

CONTRACT CANCELLATION COSTS included $4.8 million for estimated termination fees and/or penalties associated with terminating various contracts that Arbor had in place prior to the merger, which would not be used by the combined company.

OTHER COSTS included $1.3 million for the estimated write-off of Arbor's Point-of-Sale software and $1.4 million for travel and related expenses that would be incurred in connection with closing Arbor's corporate headquarters and store facilities.

The above costs did not provide future benefit to the retained stores or corporate facilities.

Following is a reconciliation of the beginning and ending liability balances as of the respective balance sheet dates:

in Millions	Merger Transaction Costs	Employee Severance & Benefits(1)	Noncancelable Lease Obligations(2)	Duplicate Facility	Asset Write-Offs	Contract Cancellation Costs	Other	Total
CVS/Arbor Charge	$ 15.0	$ 27.1	$ 40.0	$ 16.5	$ 41.2	$ 4.8	$ 2.7	$ 147.3
Utilization - Cash	(15.9)	(16.8)	(2.7)	(15.1)	--	(1.2)	(3.4)	(55.1)
Utilization - Non-cash	--	--	--	--	(41.2)	--	--	(41.2)
Transfer(3)	0.9	--	--	(1.4)	--	(0.2)	0.7	--
Balance at 01/01/00	--	10.3	37.3	--	--	3.4	--	51.0
Utilization - Cash	--	(0.9)	(3.4)	--	--	--	--	(4.3)
Balance at 12/30/00(4)	$ --	$ 9.4	$ 33.9	$ --	$ --	$ 3.4	$ --	$ 46.7

(1) Employee benefits extend for a number of years to coincide with the payment of excess parachute payment excise taxes and related income tax gross-ups.

(2) Noncancelable lease obligations extend through 2020.

(3) The transfers between the components of the plan were recorded in the same period that the changes in estimates were determined. These amounts are considered to be immaterial.

(4) The Company believes that the reserve balances as of December 30, 2000 are adequate to cover the remaining liabilities associated with the CVS/Arbor Charge.

OTHER BUSINESS COMBINATIONS The Company also acquired other businesses that were accounted for as purchase business combinations and immaterial pooling of interests. These acquisitions did not have a material effect on the Company's consolidated financial statements either individually or in the aggregate. The results of operations of these businesses have been included in the consolidated financial statements since their respective dates of acquisition.

11 RECONCILIATION OF EARNINGS PER COMMON SHARE

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

	FISCAL YEAR		
IN MILLIONS, EXCEPT PER SHARE AMOUNTS	2000	1999	1998
NUMERATOR FOR EARNINGS PER COMMON SHARE CALCULATION:			
Net earnings	$ 746.0	$ 635.1	$ 384.5
Preference dividends, net of income tax benefit	(14.6)	(14.7)	(13.6)
Net earnings available to common shareholders, basic	$ 731.4	$ 620.4	$ 370.9
Net earnings	$ 746.0	$ 635.1	$ 384.5
Effect of dilutive securities:			
Dilutive earnings adjustments	(0.7)	--	(0.8)
Net earnings available to common shareholders, diluted	$ 745.3	$ 635.1	$ 383.7
DENOMINATOR FOR EARNINGS PER COMMON SHARE CALCULATION:			
Weighted average common shares, basic	391.0	391.3	387.1
Effect of dilutive securities:			
Preference stock	10.8	10.7	10.5
Stock options	6.2	6.9	7.6
Weighted average common shares, diluted	408.0	408.9	405.2
BASIC EARNINGS PER COMMON SHARE:			
Net earnings	$ 1.87	$ 1.59	$ 0.96
DILUTED EARNINGS PER COMMON SHARE:			
Net earnings	$ 1.83	$ 1.55	$ 0.95

12 QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Following is a summary of the unaudited quarterly results of operations and common stock prices for the respective quarters:

DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year

2000:					
Net sales	$ 4,739.5	$ 4,942.8	$ 4,916.4	$ 5,488.8	$20,087.5
Gross margin	1,300.0	1,335.8	1,297.4	1,428.5	5,361.7
Operating profit	334.9	333.9	284.7	369.2	1,322.7
Net earnings	191.3	186.5	158.7	209.5	746.0
Net earnings per common share, basic	0.48	0.47	0.40	0.53	1.87
Net earnings per common share, diluted	0.47	0.46	0.39	0.51	1.83
Dividends per common share	0.0575	0.0575	0.0575	0.0575	0.2300
Stock price: (New York Stock Exchange)					
High	40.63	46.75	46.31	59.94	59.94
Low	28.00	35.88	34.38	44.31	28.00
Registered shareholders at year-end					12,100
1999:					
Net sales	$ 4,240.5	$ 4,362.4	$ 4,311.8	$ 5,183.6	$18,098.3
Gross margin	1,169.4	1,190.4	1,141.1	1,360.5	4,861.4
Operating profit	293.2	290.2	219.7	332.4	1,135.5
Net earnings	164.6	162.6	121.6	186.3	635.1
Net earnings per common share, basic	0.41	0.41	0.30	0.47	1.59
Net earnings per common share, diluted	0.40	0.40	0.30	0.46	1.55
Dividends per common share	0.0575	0.0575	0.0575	0.0575	0.2300
Stock price: (New York Stock Exchange)					
High	56.44	52.06	53.00	45.75	56.44
Low	45.50	40.50	37.75	30.31	30.31
Registered shareholders at year-end					11,200

FIVE-YEAR FINANCIAL SUMMARY

	FISCAL YEAR				
IN MILLIONS, EXCEPT PER SHARE AMOUNTS	2000 (52 WEEKS)	1999 (53 WEEKS)	1998 (52 WEEKS)	1997 (52 WEEKS)	1996 (52 WEEKS)
STATEMENT OF OPERATIONS DATA:					
Net sales	$ 20,087.5	$ 18,098.3	$ 15,273.6	$ 13,749.6	$ 11,831.6
Gross margin(1)	5,361.7	4,861.4	4,129.2	3,718.3	3,300.9
Selling, general & administrative	3,742.4	3,448.0	2,949.0	2,776.0	2,490.8
Depreciation and amortization	296.6	277.9	249.7	238.2	205.4
Merger, restructuring and other nonrecurring charges	--	--	178.6	422.4	12.8
Operating profit(2)	1,322.7	1,135.5	751.9	281.7	591.9
Other expense (income), net	79.3	59.1	60.9	44.1	(51.5)
Income tax provision	497.4	441.3	306.5	149.2	271.0
Earnings from continuing operations before extraordinary item(3)	$ 746.0	$ 635.1	$ 384.5	$ 88.4	$ 372.4
PER COMMON SHARE DATA:					
Earnings from continuing operations before extraordinary item:(3)					
Basic	$ 1.87	$ 1.59	$ 0.96	$ 0.20	$ 0.98
Diluted	1.83	1.55	0.95	0.19	0.95
Cash dividends per common share	0.230	0.230	0.225	0.220	0.220
BALANCE SHEET AND OTHER DATA:					
Total assets	$ 7,949.5	$ 7,275.4	$ 6,686.2	$ 5,920.5	$ 6,014.9
Long-term debt	536.8	558.5	275.7	290.4	1,204.8
Total shareholders' equity	4,304.6	3,679.7	3,110.6	2,626.5	2,413.8
Number of stores (at end of period)	4,133	4,098	4,122	4,094	4,204

(1) Gross margin includes the pre-tax effect of the following nonrecurring charges: (i) in 1998, $10.0 million ($5.9 million after-tax) related to the markdown of noncompatible Arbor merchandise and (ii) in 1997, $75.0 million ($49.9 million after-tax) related to the markdown of noncompatible Revco merchandise.

(2) Operating profit includes the pre-tax effect of the charges discussed in Note (1) above and the following merger, restructuring and other nonrecurring charges and gain: (i) in 2000, $19.2 million ($11.5 million after-tax) nonrecurring gain in total operating expenses, which represented a partial payment of our share of the settlement proceeds from a class action lawsuit against certain manufacturers of brand name prescription drugs, (ii) in 1998, $147.3 million ($101.3 million after-tax) charge related to the merger of CVS and Arbor and $31.3 million ($18.4 million

after-tax) of nonrecurring costs incurred in connection with eliminating Arbor's information technology systems and Revco's noncompatible store merchandise fixtures, (iii) in 1997, $337.1 million ($229.8 million after-tax) charge related to the merger of CVS and Revco on May 29, 1997, $54.3 million ($32.0 million after-tax) of nonrecurring costs incurred in connection with eliminating Revco's information technology systems and noncompatible store merchandise fixtures and $31.0 million ($19.1 million after-tax) charge related to the restructuring of Big B, Inc. and (iv) in 1996, $12.8 million ($6.5 million after-tax) charge related to the write-off of costs incurred in connection with the failed merger of Rite Aid Corporation and Revco.

(3) Earnings from continuing operations before extraordinary item and earnings per common share from continuing operations before extraordinary item include the after-tax effect of the charges and gain discussed in Notes (1) and (2) above and a $121.4 million ($72.1 million after-tax) gain realized during 1996 upon the sale of equity securities received as partial proceeds from the sale of Marshalls during 1995.

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

As of December 30, 2000, CVS Corporation had the following significant subsidiaries:

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

----

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

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

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

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

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

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

(7) ProCare Pharmacy, Inc. is a 95% owned subsidiary of Nashua Hollis CVS, Inc. and operates apothecaries focused on specialty pharmaceuticals, all of which apothecaries are in the United States. It is the direct parent of ProCare Pharmacy Direct, Inc., a mail order specialty pharmacy corporation, and several store corporations and limited liability companies that operate specialty pharmacies.

EXHIBIT 23

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
of CVS Corporation:

We consent to incorporation by reference in the Registration Statements Numbers 333-49407, 33-40251, 333-34927, 333-28043, 33-17181, 2-97913, 2-77397, 2-53766 and 333-91253 on Form S-8 and 333-52055 on Form S-3 and 333-78253 on Form S-4 of CVS Corporation of our reports dated February 1, 2001, relating to the consolidated balance sheets of CVS Corporation and subsidiaries as of December 30, 2000 and January 1, 2000, and the related consolidated statement of operations, shareholders' equity and cash flows for the fifty-two week period ended December 30, 2000, the fifty-three week period ended January 1, 2000 and the fifty-two week period ended December 26, 1998, and the related financial statement schedule, which report appears in the December 30, 2000 Annual Report on Form 10-K of CVS Corporation.

/s/ KPMG LLP

KPMG LLP

Providence, Rhode Island
March 16, 2001