# FORM 10-K

## CVS HEALTH Corp - CVS

**Filed: March 29, 1995 (period: December 31, 1994)**

Annual report with a comprehensive overview of the company

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# FORM 10-K

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

For the fiscal year ended December 31, 1994
Commission File Number 1-1011

MELVILLE CORPORATION
(Exact name of registrant as specified in its charter)

| New York | 04-1611460 |
|---|---|
| (State of incorporation) | (IRS Employer Identification No.) |

One Theall Road, Rye, NY 10580
(Address of principal executive offices)

Registrant's telephone number, including area code: (914) 925-4000

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common stock (par value $1 per share) | New York Stock Exchange |
| 4-7/8% Convertible Subordinated Debentures due June 1, 1996 | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the 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 the definitive proxy statement incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K. Yes (No disclosures are contained herein) X No ---

Page 1 of --- Pages

Exhibit Index on Pages 28-30

Page 1 of 2 page Cover Page

As of March 1, 1995, the aggregate market value of the voting stock* held by non-affiliates** which was computed by reference to the price at which the stock was last traded was $3,382,598,081.

Number of shares outstanding of the issuer's Common Stock (par value $1 per share) at March 1, 1995: 104,808,840.

Documents Incorporated by Reference

1. Annual Report to Shareholders for the year ended December 31, 1994: Part I, Item 1; Part II, Items 5, 6, 7 and 8; and Part IV, Item 14.

2. Proxy Statement dated March 7, 1995 issued in connection with the annual meeting of shareholders: Part III, Items 10, 11, 12 and 13.

* Does not include 6,368,249 outstanding shares of Series One ESOP Convertible Preference Stock ("ESOP Preference Stock"). As of March 1, 1995, each share of ESOP Preference Stock is entitled to one vote per share on all matters submitted to a vote of the holders of Common Stock.

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



PART I

Item 1. Business

Melville Corporation, a New York corporation (in this Item 1 called the "Company"), is one of the largest diversified specialty retailers in the United States. On December 31, 1994, the Company, through its subsidiaries (which together with the Company throughout this Item 1 are collectively called the "Companies"), operated a total of 7,378 retail stores and leased departments throughout the United States, Puerto Rico, the U.S. Virgin Islands, Canada, the United Kingdom, the Czech Republic, Slovakia, Mexico and Singapore. During 1994 the Companies also manufactured men's and women's footwear in two factories and furniture in seven factories.

The Companies market products in chains of specialty retail stores operating under various trade names. Prescription drugs, health and beauty care items are sold in chains of stores operated under the "CVS" trade name. Apparel and accessories are sold in chains of stores under the "Marshalls", "Wilsons Suede & Leather", "Wilsons The Leather Experts", "Bermans", "Bermans The Leather Experts", "Pelle Cuir", "Tannery West", "Snyder Leather Outlet", "Georgetown Leather Design" and "Bob's" trade names. Footwear is sold in chains of stores operated under the "FOOTACTION USA", "FOOTACTION For Kids", "Thom McAn" and "B.O.Q." trade names and in leased departments in Kmart discount department stores and Pay Less Drug stores. Toy and hobby products are sold in chains of stores operating under the "Kay-Bee Toys", "Toy Works", "K & K Toys" and "Circus World" trade names. Domestics are sold in a chain of stores operated under the "Linens 'n Things" trade name.



Furniture is sold in a chain of stores under the "This End Up" and "Wood's End" trade names.

In general, the retailing business is seasonal in nature with each particular business of the Company affected, to varying degrees, by certain peak selling periods. The peak selling periods are characterized by inventory build-ups prior to such periods. The build-ups are financed, in part, with the issuance of commercial paper and bank loan participation notes. To maintain financial flexibility, the Company also has on file with the Securities and Exchange Commission a shelf registration statement for the issuance of up to $300 million in debt securities, including medium-term notes. No debt securities have been issued to date. The Company is currently exploring several alternatives for managing its financing requirements and the costs thereof.

The Christmas holiday is the most significant seasonal selling period for the Company overall and the peak selling period for its toy and leather apparel businesses. The peak selling periods, other than the Christmas holiday, for the Company's non-leather apparel and footwear businesses coincide with the Easter holiday and the opening of school in the fall. Competition is based upon such factors as price, style, quality and design of product and the layout and location of stores.

The Company's principal office is located in Rye, New York. As of December 31, 1994, the Companies had approximately 117,000 full and part-time associates.



## BUSINESS SEGMENT INFORMATION

The Company is principally a specialty retailer conducting business in four major segments:

- Prescription drugs, health and beauty care retailing.
- Apparel retailing, which includes men's and women's specialty and leather apparel, and brand name and private label apparel for men, women and children.
- Footwear, which includes retailing of both discount and popular-priced shoes; retailing of brand name shoes and athletic footwear for men, women and children.

- Toys and home furnishings, which include retailing of toys, domestics and furniture (as well as furniture manufacturing).

The financial information concerning industry segments required by Item 101(b) of Regulation S-K is set forth on page 47 of the Company's Annual Report to Shareholders for the year ended December 31, 1994, and is incorporated herein by reference.

PRESCRIPTION DRUGS, HEALTH AND BEAUTY CARE RETAILING

On December 31, 1994, the Companies operated 1,328 prescription drugs, health and beauty care stores in 15 states and the District of Columbia under the name "CVS" 1,137 of which have pharmacies. Net sales for these stores for 1994 represented approximately 38% of the Companies' consolidated net sales.

These stores are considered "destination" stores and are located primarily in "strip" shopping centers and freestanding units. In the prescription drugs, health and beauty care retailing business, the Company counts itself among the



largest retailers in terms of number of stores in its primary marketing territories, which is the mid-Atlantic and Northeast United States. The monthly business periodical entitled "Chain Drug Review" has ranked CVS fourth in number of stores and fifth in dollar volume and among the top ten drug store chains in the United States based upon dollar volume and store count. These stores also compete with general merchandise stores, supermarkets and mail order pharmacies.

In 1994, the Company started its PharmaCare division, which manages pharmacy services and managed care drug programs. PharmaCare currently manages prescription drug care for approximately one million people.

APPAREL RETAILING

On December 31, 1994, the Companies operated 484 off-price quality brand name family apparel stores in 40 states and Puerto Rico under the name "Marshalls". These stores are located primarily in "strip" shopping centers in which Marshalls is an "anchor" tenant. Marshalls' net sales for 1994 represented approximately 25% of the Companies' consolidated net sales.

On December 31, 1994, the Companies operated 628 men's and women's leather and suede apparel and accessory stores, which are located primarily in regional shopping malls, in 46 states, the District of Columbia and the United Kingdom under the names "Wilsons Suede & Leather", "Wilsons The Leather Experts", "Tannery West", "Bermans The Leather Experts", "Bermans", "Snyder Leather Outlets", "Pelle Cuir" and "Georgetown Leather Design". Net sales for 1994 in



these stores represented approximately 4% of the Companies' consolidated net sales.

On December 31, 1994, the Companies operated 20 stores selling casual clothing and footwear for the entire family under the name "Bob's", principally in "strip" shopping centers located in Connecticut, Massachusetts, New York, New Jersey and Rhode Island. Net sales at Bob's stores for 1994 represented approximately 3% of the Companies' consolidated net sales.

In the apparel retailing business, the Company believes it has a significant presence in the markets for the products which it carries; however, such products represent only a small portion of the total apparel market.

FOOTWEAR

On December 31, 1994, the Companies operated 2,778 leased footwear departments, 439 stores under the names "FOOTACTION USA" and "FOOTACTION For Kids" and 323 stores under the names "Thom McAn" and "B.O.Q.". Collectively, these leased departments and retail stores are located in all 50 states, Puerto Rico, the U.S. Virgin Islands, the Czech Republic, Slovakia, Mexico and Singapore.

Each of the leased departments is operated by the Company's Meldisco division which sells footwear for the entire family. All but 409 of the leased departments operated during the fiscal year ended December 31, 1994 were located in Kmart discount department stores in the United States, Puerto Rico, the Czech Republic, Slovakia, Mexico and Singapore. These 409 leased departments were located in Pay Less Drug Stores, which are owned by Pay Less Drug Stores, Inc.



(formerly known as Pay Less Drug Stores Northwest, Inc.) ("Pay Less").

Pursuant to an agreement between the Company and Kmart Corporation ("Kmart" then known as S.S. Kresge Company) entered into as of January 1, 1975, and an agreement between the Company and Pay Less dated October 10, 1988, the Company has the exclusive right to operate the footwear departments in Kmart and Pay Less stores. All license agreements relating to such leased departments have terms of 25 years, subject to certain performance standards. Rental payments under all such license agreements are based on a percentage of sales, with additional payments to be made under certain of the license agreements with Kmart based on profits. The Company has a 51% equity interest, and Kmart has a 49% equity interest, in all the subsidiaries which operate leased departments in Kmart stores, with the exception of 38 such subsidiaries in which the Company has a 100% equity interest. The Company has a 100% equity interest in all the subsidiaries which operate leased departments in Pay Less Drug Stores. Aggregate net sales for 1994 of Meldisco leased departments represented approximately 11% of the Companies' consolidated net sales.

The agreement with Pay Less giving the Company the exclusive right to operate footwear departments in all newly opened stores expires in October, 2013. The agreement with Kmart giving the Company the exclusive right to operate footwear departments in all newly opened stores expires in May, 1995, by which time the Company expects a new agreement will be in place.

Footaction stores are located primarily in regional shopping malls. These



stores specialize in brand name casual and athletic footwear and related apparel for the entire family. Footaction's net sales for 1994 represented approximately 3% of the Companies' consolidated net sales.

A majority of the Thom McAn stores are also located in regional shopping malls and substantially all of such stores sell footwear and related items for men and women. Excluded from the Thom McAn chain were stores designated to be closed or redeployed under the Company's strategic realignment program announced in 1992. Of the stores excluded, 95 were closed or redeployed in 1994. Thom McAn's net sales for 1994 represented approximately 2% of the Companies' consolidated net sales.

The Companies' footwear retailing is primarily in the discount and popular-price categories. However, with the growth of its Footaction division, the Company continues to increase its presence in brand name casual and athletic footwear.

In the footwear retailing business the Companies, through their retail stores and leased departments, compete with footwear chain store operators and many other types of footwear retailers, e.g., general merchandise stores, traditional department stores, mail order businesses and apparel stores. According to research data provided to the Company by Footwear Market Insights, a management consulting and marketing research company specializing in footwear, the seven largest footwear chain store and leased department operators in the United States, ranked according to the number of pairs of footwear sold and



number of retail outlets, account for approximately [40.1%] of total footwear pair sales, and the Companies are among such seven largest operators.

Manufacturing

As of July, 1994, the Company ceased operating its remaining two factories in the Southeast United States which produced shoes and contained facilities for product development, product testing and quality control. During 1994, the manufactured footwear represented an insignificant percentage of the total footwear sold by the Companies.

TOYS AND HOME FURNISHINGS

On December 31, 1994, the Companies operated 996 toy and hobby stores in all 50 states and Puerto Rico under the names "Kay-Bee Toys", "Toy Works", "Circus World" and "K & K Toys". The "Kay-Bee Toys", "Circus World" and "K & K Toys" stores are located primarily in regional shopping malls. The "Toy Works" stores are located primarily in "strip" shopping centers and freestanding units. Excluded from operating results were stores that the Company designated to close or not renew under its strategic realignment program announced in 1992. Of the stores excluded, 61 were closed in 1994. Net sales in toy and hobby stores for 1994 represented approximately 9% of the Companies' consolidated net sales.

On December 31, 1994, the Companies operated 145 quality brand name linens, towels, bath and other household items stores, which are located primarily in "strip" shopping centers in 27 states under the name "Linens 'n Things". Linens



'n Things' net sales for 1994 represented approximately 4% of the Companies' consolidated net sales.

On December 31, 1994, the Companies operated 237 stores retailing a distinctive line of casual furniture and coordinated accessories for residential and commercial use, located primarily in regional shopping malls in 34 states and Canada, under the names "This End Up" and "Wood's End". Net sales of furniture for 1994 represented approximately 1% of the Companies' consolidated net sales.

In the toy retailing business, the Company is among the largest toy and hobby chain store operators in the United States in terms of sales, as well as number of retail outlets. Based upon sales volume, the business periodical

"Discount Store News" has ranked Kay-Bee among the top toy specialty chains in the United States.

In the home furnishings retailing business, the Company believes itself to be a significant factor in the markets for the products which it carries. Based on total revenues, This End Up has been ranked by "Furniture Today", a weekly business periodical, the 19th largest home furnishing retailer in the United States.

Manufacturing

During 1994, the Company, through This End Up Furniture Company, manufactured a distinctive line of casual furniture in seven factories located in the Southeast United States. Approximately 99% of the furniture manufactured is sold through the Company's This End Up division. The Company believes that these factories have the capacity to supply all of the sales volume requirements of its "This End Up" and "Wood's End" retail stores and currently these



factories supply substantially all of such requirements.

This End Up Furniture Company manufactures a large portion of its furniture from southern yellow pine, which is in plentiful supply in the Southeastern United States. Southern yellow pine is a renewable resource and most producers have reforestation programs in effect.

ACQUISITIONS

During 1994, the Company acquired the assets of 11 prescription drugs, health and beauty care stores, 12 apparel stores and 3 stores selling branded athletic footwear and apparel.

Item 2. Properties

The registrant and its subsidiaries lease various retail stores and warehouse, plant and office facilities. Most of these leases contain initial terms ranging from 5 to 25 years and many have options for extension beyond the initial term ranging from 5 to 15 years. Retail stores and office facilities are leased in nearly all cases.

In the fiscal year ended December 31, 1994, the registrant and its subsidiaries operated 47 distribution centers, located in 18 states, containing an aggregate of approximately 9,468,000 square feet. All such distribution centers are leased with the exception of 14 distribution centers containing an aggregate of approximately 5,054,000 square feet which are owned by the registrant or one of its subsidiaries. Fifteen distribution centers (comprising approximately 3,324,000 square feet) are used in the prescription drugs, health and beauty care business; seven distribution centers (comprising approximately 2,911,000 square feet) are used in the apparel businesses; seven distribution



centers (comprising approximately 1,542,000 square feet) are used in the footwear businesses; and 18 distribution centers (comprising approximately 1,691,000 square feet) are used in the toys and home furnishings businesses.

During the fiscal year ended December 31, 1994, the registrant and its subsidiaries operated nine factories, all of which were located in North Carolina. Two were footwear factories that were closed as of July, 1994 and the property has since been sold. Seven are furniture factories with the total capacity to produce approximately 1,092,000 pieces of furniture annually. The registrant or one of its subsidiaries own all such factories remaining in operation at the end of the year.

Item 3. Legal Proceedings

There are no material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the registrant or any of its subsidiaries is a party or of which any of its or their property is the subject.

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

There were no matters submitted to a vote of security holders, through solicitation of proxies or otherwise, during the fourth quarter of the fiscal year ending December 31, 1994.



EXECUTIVE OFFICERS OF THE REGISTRANT

The following is included as an unnumbered item in Part I of this report since the registrant did not furnish such information in its definitive proxy statement dated March 7, 1995.

| Name/Office | Age | Date Appointed to Present Office | Date First Appointed an Officer of the Registrant |
|---|---|---|---|
| James E. Alward<br>Vice President | 51 | 3/17/92 | 3/17/92 |
| Norman Axelrod<br>Vice President<br>(President and Chief Executive Officer of Linens 'n Things) | 42 | 3/07/88 | 3/07/88 |
| Gary L. Crittenden<br>Senior Vice President and Acting Chief Financial Officer | 41 | 1/11/95 | 1/11/95 |
| Kenneth A. DellaRocco<br>Vice President | 42 | 7/13/94 | 7/13/94 |
| Warren D. Feldberg<br>Vice President<br>(Chairman and Chief Executive Officer of Marshalls) | 45 | 10/18/91 | 10/18/91 |
| Michael A. Friedheim<br>Vice President<br>(Chairman and Chief Executive Officer of | 51 | 1/01/94 | 7/14/82 |

| | | | |
|---|---|---|---|
| Bob's) | | | |
| Philip C. Galbo<br>Vice President and Treasurer | 44 | 7/13/94 | 8/01/89 |
| Stanley P. Goldstein<br>Chairman of the Board and Chief Executive Officer | 60 | 1/01/87 | 4/13/71 |



| Name/Office | Age | Date Appointed to Present Office | Date First Appointed an Officer of the Registrant |
|---|---|---|---|
| Thomas E. Harms<br>Vice President | 48 | 3/10/94 | 3/10/94 |
| Robert G. House<br>Vice President | 48 | 9/11/91 | 9/11/91 |
| Ann Iverson<br>Vice President (President and Chief Executive Officer of Kay-Bee) | 51 | 7/13/94 | 7/13/94 |
| Daniel B. Katz<br>Senior Vice President (President of Melville Realty Company, Inc.) | 49 | 2/19/91 | 3/12/86 |
| Peggy Kelston<br>Vice President | 45 | 12/7/94 | 12/7/94 |
| Robert A. Kemeny<br>Vice President (President and Chief Executive Officer of This End Up) | 39 | 7/13/94 | 7/13/94 |
| William C. Kingsford<br>Vice President | 48 | 3/12/86 | 7/13/79 |
| Jerald L. Maurer<br>Senior Vice President | 52 | 1/01/94 | 1/01/94 |
| Larry A. McVey<br>Vice President (President and Chief Executive Officer of Thom McAn) | 53 | 3/14/84 | 3/14/84 |
| John I. Mitchell, Jr.<br>Vice President and Chief Information Officer | 55 | 10/12/88 | 10/12/88 |

| Name/Office | Age | Date Appointed to Present Office | Date First Appointed an Officer of the Registrant |
|---|---|---|---|
| Ralph T. Parks<br>Vice President<br>(President and Chief Executive Officer of Footaction) | 49 | 3/10/94 | 3/10/94 |
| Jerald S. Politzer<br>Executive Vice President | 49 | 10/09/91 | 6/21/89 |
| Arthur V. Richards<br>Vice President and Corporate Secretary | 56 | 9/13/89 | 4/12/77 |
| J. M. Robinson<br>Vice President<br>(President and Chief Executive Officer of Meldisco) | 48 | 7/13/88 | 7/13/88 |
| Harvey Rosenthal<br>President and Chief Operating Officer | 52 | 1/01/94 | 10/17/84 |
| Thomas M. Ryan<br>Vice President<br>(President and Chief Executive Officer of CVS) | 42 | 1/01/94 | 1/01/94 |
| Joel N. Waller<br>Vice President<br>(Chairman and Chief Executive Officer of Wilsons) | 54 | 3/11/87 | 3/11/87 |
| Jeffery A. Warzel<br>Vice President | 38 | 1/11/95 | 1/11/95 |

In each case the term of office extends to the date of the board of directors meeting following the next annual meeting of shareholders of the registrant. In addition to the office(s) which they hold in the registrant as shown above, each of the individuals listed (with the exception of Messrs.



Crittenden, Harms, House, Kingsford, Maurer, Warzel and Ms. Kelston) hold various offices in certain subsidiaries of the registrant. Previous positions and responsibilities held by each of the above officers with the registrant and for each of the above officers who have not held the same office(s) with the same responsibilities for more than the past five years, are indicated below:

James E. Alward - Director of Taxation (January, 1979 to Present) of the registrant.

Gary L. Crittenden - Executive Vice President and Chief Financial Officer (October, 1992 to December, 1994) and Senior Vice President (December, 1990 to October, 1992) of Filene's Basement; Senior Partner (1979 to December, 1990) of Bain & Company.

Kenneth A. DellaRocco - Director of Legal Affairs and Counsel (September, 1990 to July, 1994) and Director of Special Projects and Counsel (March, 1990 to September, 1990) of the registrant.

Warren D. Feldberg - President (January, 1991 to November, 1991) of Target Stores, a division of Dayton Hudson Corporation, Executive Vice President (December, 1988 to January, 1991) of Target Stores.

Michael A. Friedheim - Executive Vice President (February, 1986 to January, 1994) of the registrant.

Philip C. Galbo - Treasurer (July, 1989 to Present) of the registrant.

Thomas E. Harms - Vice President Human Resources (July, 1993 to March, 1994) and Director Human Resources (September, 1990 to July, 1993) of the CVS division of the registrant; Director of Personnel (August, 1988 to August, 1990) of Marshall Field's.

Robert G. House - Consultant (January, 1988 to July, 1991) Temple, Barker & Sloane, general management consultants.



Ann Iverson - Chief Executive Officer (1989 to July, 1994) of Mothercare U.K., a division of Storehouse PLC.

Daniel B. Katz - Vice President (March, 1986 to February, 1991) of the registrant; President (March, 1978 to Present) of Melville Realty Company, Inc., a subsidiary of the registrant.

Robert A. Kemeny - Independent Salesman (January, 1991 to July, 1994); President (September, 1988 to January, 1991) of Barker Brothers Furniture.

Peggy Kelston - Vice President Human Resources (July, 1989 to September, 1994) of Calbro Corp.

Jerald L. Maurer - Corporate Vice President of Strategic Human Resource Management (January, 1992 to January, 1994); of Aetna Life and Casualty Company; Vice President of Human Resources (January, 1991 to January, 1992) of Medstat Systems, Inc.; Senior Vice President of Human Resources (1988 to January, 1991) of John Wiley & Sons, Inc.

Ralph T. Parks - President of the Footaction division of the registrant (November, 1991 to Present); Executive Vice President and Chief Operating Officer (March, 1987 to November, 1991) of Footaction, Inc.

Jerald S. Politzer - Group Vice President (June, 1989 to October, 1991) of the registrant.

Arthur V. Richards - Secretary (April, 1977 to Present), General Counsel (September, 1989 to October, 1990) of the registrant.

Harvey Rosenthal - President and Chief Executive Officer (October, 1984 to January, 1994) of the CVS division of the registrant.

Thomas M. Ryan - Executive Vice President (January, 1990 to January, 1994) of the CVS division of the registrant.

Jeffery A. Warzel - Director of Process Improvement (September, 1992 to January, 1995) of the registrant; Senior Manager (April, 1988 to August, 1992) of Deloitte & Touche LLP.



## Part II

### Item 5. Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters

The number of holders of the registrant's Common Stock, based upon the number of record holders, was approximately 7,200 as of December 31, 1994. All other information required by this item is included in the registrant's Annual Report to Shareholders for the year ended December 31, 1994 on pages 1 and 46 and is incorporated herein by reference.

### Item 6. Selected Financial Data

The information required by this item is included in the registrant's Annual Report to Shareholders for the year ended December 31, 1994 on page 48 and is incorporated herein by reference.

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

The information required by this item is included in the registrant's Annual Report to Shareholders for the year ended December 31, 1994 on pages 30 through 33 and is incorporated herein by reference.

### Item 8. Financial Statements and Supplementary Data

The information required by this item is included in the registrant's Annual Report to Shareholders for the year ended December 31, 1994 on pages 35 through 47, and is incorporated herein by reference.

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

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

## PART III

### Item 10. Directors and Executive Officers of the Registrant

Information regarding the executive officers is furnished under the heading "EXECUTIVE OFFICERS OF THE REGISTRANT" in Part I of this report since the registrant did not furnish such information in its definitive proxy statement dated March 7, 1995.

The other information required by this item is included in the registrant's definitive proxy statement dated March 7, 1995 on pages 1 through 4 and is incorporated herein by reference.

### Item 11. Executive Compensation

The information required by this item is included in the registrant's definitive proxy statement dated March 7, 1995 on pages 5 through 11 and pages 14 and 15 and is incorporated herein by reference.

### Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this item is included in the registrant's definitive proxy statement dated March 7, 1995 on pages 1 through 5 and is incorporated herein by reference.



### Item 13. Certain Relationships and Related Transactions

No information is required to be reported by this item.

## PART IV

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

(a) Documents filed as part of this report:

1. and 2. Financial Statements and Financial Statement Schedules.

The consolidated financial statements of Melville Corporation and its subsidiary companies incorporated herein by reference to the Annual Report to Shareholders for the fiscal year ended December 31, 1994 and the related consolidated financial statement schedule are set forth in the index to consolidated financial statements and consolidated schedules on page 27 hereof.

3. Exhibits

(a) The Exhibits filed as part of this report are listed below:

Exhibit
Table
Number:
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3 (a)    Restated Certificate of Incorporation, as amended as of April 18, 1990 (incorporated by reference to Exhibit 3 filed with the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1990).

3 (b)    By-Laws, as amended through March 8, 1995.



Exhibit
Table
Number:
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4        No instrument which defines the rights of holders of long and intermediate debt of the registrant and its subsidiaries is filed herewith pursuant to Regulation S-K, Item 601(b)(4)(iii)(A) other than the June 23, 1989 amendment to the Restated Certificate of Incorporation defining the rights of the holders of the Series One ESOP Convertible Preference Stock (see above exhibit table number 3(a)). The registrant hereby agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.

EXECUTIVE COMPENSATION PLANS AND ARRANGEMENTS

10 (iii) (A)   (i)  1973 Stock Option Plan (incorporated by reference to Exhibit (10) (iii) (A) (i) to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1987).

(ii)  1987 Stock Option Plan (incorporated by reference to Exhibit (10) (iii) (A) (iii) to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1987).

(iii)  1989 Directors Stock Option Plan (incorporated by reference to Exhibit B to the registrant's



Exhibit
Table
Number:
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Annual Report on Form 10-K for the fiscal year ended December 31, 1988).

(iv)  Melville Corporation Omnibus Stock Incentive Plan (incorporated by reference to Exhibit B to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1989).

(v)  Directors Retirement Plan (incorporated by reference to Exhibit 10(iii)(A)(vi) to registrant's Annual Report on Form 10-K for year ended December 31, 1992).

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

(vii) Supplemental Retirement Plan for Select Senior Management of Melville Corporation as amended through May 12, 1989.

(viii) Income Continuation Policy for Select Senior Executives of Melville Corporation as amended through May 12, 1988.

(ix) Description of Agreement between Jerald L. Maurer and the registrant.

(x) Description of Agreement between Harvey Rosenthal and the registrant.



| Exhibit Table Number: | |
|---|---|
| 11 | Statement re: Computation of Per Share Earnings. |
| 12 | Statement re: Computation of Ratios. |
| 13 | Annual Report to Shareholders for the year ended December 31, 1994. (Except for the portions incorporated herein by reference, such report is furnished for the information of the SEC and is not deemed "filed" as part of this Form 10-K report.) |
| 22 | Subsidiaries of the registrant. |
| 27 | Financial Data Schedule. |

(b) No reports on Form 8-K were filed in the last fiscal quarter ending December 31, 1994.



## SIGNATURES

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

MELVILLE CORPORATION

By /S/ ARTHUR V. RICHARDS
-----------------------------------------
Arthur V. Richards
Vice President and Secretary

March 29, 1995

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

| Signature | Title | Date |
|---|---|---|
| /S/ STANLEY P. GOLDSTEIN<br>(Stanley P. Goldstein) | Chairman of the Board and Director (Chief Executive Officer) | March 29, 1995 |
| /S/ GARY L. CRITTENDEN<br>(Gary L. Crittenden) | Senior Vice President and Acting Chief Financial Officer | March 29, 1995 |
| /S/ HYMAN L. BATTLE, JR.<br>(Hyman L. Battle, Jr.) | Director | March 29, 1995 |
| /S/ ALLAN J. BLOOSTEIN<br>(Allan J. Bloostein) | Director | March 29, 1995 |
| /S/ W. DON CORNWELL<br>(W. Don Cornwell) | Director | March 29, 1995 |
| /S/ JOHN J. CREEDON<br>(John J. Creedon) | Director | March 29, 1995 |
| /S/ WILLIAM H. JOYCE<br>(William H. Joyce) | Director | March 29, 1995 |



| Signature | Title | Date |
|---|---|---|
| /S/ MICHAEL H. JORDAN<br>(Michael H. Jordan) | Director | March 29, 1995 |
| /S/ TERRY R. LAUTENBACH | Director | March 29, 1995 |

(Terry R. Lautenbach)

| | | |
|---|---|---|
| /S/ THEODORE LEVITT<br>----------------------------<br>(Theodore Levitt) | Director | March 29, 1995 |
| /S/ DONALD F. MCCULLOUGH<br>----------------------------<br>(Donald F. McCullough) | Director | March 29, 1995 |
| /S/ HARVEY ROSENTHAL<br>----------------------------<br>(Harvey Rosenthal) | President, Chief Operating Officer and Director | March 29, 1995 |
| /S/ IVAN G. SEIDENBERG<br>----------------------------<br>(Ivan G. Seidenberg) | Director | March 29, 1995 |
| /S/ PATRICIA CARRY STEWART<br>----------------------------<br>(Patricia Carry Stewart) | Director | March 29, 1995 |
| /S/ M. CABELL WOODWARD, JR.<br>----------------------------<br>(M. Cabell Woodward, Jr.) | Director | March 29, 1995 |



MELVILLE CORPORATION AND SUBSIDIARY COMPANIES

Index to Consolidated Financial Statements and Schedules

The consolidated financial statements of Melville Corporation and Subsidiary Companies together with the report on such consolidated financial statements of KPMG Peat Marwick LLP dated February 16, 1995, which appear on the pages listed below of the 1994 Annual Report to shareholders, are incorporated by reference in this Annual Report on Form 10-K.

Page Number

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



INDEX TO EXHIBITS

| Exhibit Table Number: | |
|---|---|
| 3 (a) | Restated Certificate of Incorporation, as amended as of April 18, 1990 (incorporated by reference to Exhibit 3 filed with the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1990). |
| 3 (b) | By-Laws, as amended through March 8, 1995. |
| 4 | No instrument which defines the rights of holders of long and intermediate debt of the registrant and its subsidiaries is filed herewith pursuant to Regulation S-K, Item 601(b)(4)(iii)(A) other than the June 23, 1989 amendment to the Restated Certificate of Incorporation defining the rights of the holders of the Series One ESOP Convertible Preference Stock (see above exhibit table number 3(a)). The registrant hereby agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request. |

EXECUTIVE COMPENSATION PLANS AND ARRANGEMENTS

10 (iii)(A) (i) 1973 Stock Option Plan (incorporated by reference to Exhibit (10) (iii) (A) (i) to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1987).

(ii) 1987 Stock Option Plan (incorporated by



Exhibit
Table
Number:
-------

reference to Exhibit (10) (iii) (A) (iii) to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1987).

(iii) 1989 Directors Stock Option Plan (incorporated by reference to Exhibit B to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1988).

(iv) Melville Corporation Omnibus Stock Incentive Plan (incorporated by reference to Exhibit B to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1989).

(v) Directors Retirement Plan (incorporated by reference to Exhibit 10(iii)(A)(vi) to registrant's Annual Report on Form 10-K for year ended December 31, 1992).

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

(vii) Supplemental Retirement Plan for Select Senior Management of Melville Corporation as amended through May 12, 1989.



Exhibit
Table
Number:
-------

(viii) Income Continuation Policy for Select Senior Executives of Melville Corporation as amended through May 12, 1988.

(ix) Description of Agreement between Jerald L. Maurer and the registrant.

(x) Description of Agreement between Harvey Rosenthal and the registrant.

| | |
|---|---|
| 11 | Statement re: Computation of Per Share Earnings. |
| 12 | Statement re: Computation of Ratios. |
| 13 | Annual Report to Shareholders for the year ended December 31, 1994. (Except for the portions incorporated herein by reference, such report is furnished for the information of the SEC and is not deemed "filed" as part of this Form 10-K report.) |
| 22 | Subsidiaries of the registrant. |
| 27 | Financial Data Schedule. |



[Letterhead of KPMG Peat Marwick LLP]

Consent of Independent Auditors

The Board of Directors and Shareholders
Melville Corporation:

We consent to incorporation by reference in the Registration Statements Numbers 33-40251, 33-17181 and 2-97913 on Form S-8 and Numbers 33-62664 and 33-34946 on Form S-3 of Melville Corporation and subsidiary companies of our report dated February 16, 1995, relating to the consolidated balance sheets of Melville Corporation and subsidiary companies as of December 31, 1994 and 1993, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1994, and related financial statement schedule, which report appears in the December 31, 1994 annual report on Form 10-K of Melville Corporation and subsidiary companies.

Our reports refer to the adoption of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," in 1992 and to a change in the method of determining retail price indices used in the valuation of LIFO inventories in 1993.

Very truly yours,

/s/ KPMG PEAT MARWICK LLP
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KPMG Peat Marwick LLP

New York, New York
March 29, 1995

[Letterhead KPMG Peat Marwick LLP]

# Independent Auditors' Report

The Board of Directors and Shareholders
Melville Corporation:

Under the date of February 16, 1995, we reported on the consolidated balance sheets of Melville Corporation and subsidiary companies as of December 31, 1994 and 1993, and related consolidated statements of earnings, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1994, as contained in the 1994 annual report to shareholders. These consolidated financial statements and our report thereon are incorporated by reference in the annual report on Form 10-K for the year 1994. In connection with our audits of the aforementioned consolidated financial statements, we also have audited the related financial statement schedule as listed in the accompanying index. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

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

As discussed on page 44 of the Annual Report to Shareholders, the Company adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," in 1992. Also, as discussed on page 41, the Company changed its method of determining retail price indices used in the valuation of LIFO inventories in 1993.

/s/ KPMG PEAT MARWICK LLP
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KPMG Peat Marwick LLP

New York, New York
February 16, 1995



Schedule VIII

MELVILLE CORPORATION AND SUBSIDIARY COMPANIES
Valuation and Qualifying Accounts
Years ended December 31, 1994, 1993 and 1992
($ in Thousands)

| Description | Balance at Beginning of Year | Additions Charged to Costs and Expenses | Deductions (1) | Balance at End of Year |
|---|---|---|---|---|

Accounts Receivable:

Allowance for Doubtful Accounts:

| | | | | |
|---|---|---|---|---|
| Year Ended December 31, 1994 | $32,534 | $14,484 | $28,160 | $18,858 |
| | ======= | ======= | ======= | ======= |
| Year Ended December 31, 1993 | $25,131 | $23,173 | $15,770 | $32,534 |
| | ======= | ======= | ======= | ======= |
| Year Ended December 31, 1992 | $21,717 | $12,087 | $ 8,673 | $25,131 |
| | ======= | ======= | ======= | ======= |

(1) Write-offs, net of recoveries

Exhibit 3(b)

MELVILLE CORPORATION

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By-Laws

as amended to
March 8, 1995



# BY-LAWS
# OF
# MELVILLE CORPORATION

## ARTICLE I

## SHAREHOLDERS

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

SECTION 2. SPECIAL MEETINGS. Special meetings of the shareholders other than those regulated by statute may be held whenever called in writing by the Chairman of the Board of Directors, the President or by vote of a majority of the Board of Directors then holding office.

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

SECTION 3. NOTICE OF MEETING; WAIVER. Unless otherwise required by statute, the notice of every meeting of the shareholders shall be in writing and signed by the Chairman of the Board of Directors, the President or a Vice-

President or the Secretary or an Assistant Secretary, and shall state the time when and the place where it is to be held, and a copy thereof shall be served, either personally or by mail, upon each shareholder of record entitled to vote at such meeting, not less than ten nor more than fifty days before the meeting. If the meeting to be held is other than the annual meeting of shareholders, the notice shall also state the purpose or purposes for which the meeting is called and shall indicate that it is being issued by or at the direction of the person or persons calling the meeting. If, at any meeting, action is proposed to be taken which would, if taken, entitle shareholders to receive payment for their shares pursuant to Section 623 of the Business Corporation Law, the notice of such meeting shall include a statement of that purpose and to that effect. If the notice is mailed, it shall be directed to a shareholder at his address as it appears on the record of shareholders unless he shall have filed with the Secretary of the corporation a written request that notices intended for him be mailed to some other address, in which case it shall be mailed to the address designated in such request.



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

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

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

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

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

SECTION 6. VOTING. At each meeting of the shareholders every shareholder of record having the right to vote shall be entitled to vote either in person or by proxy.

SECTION 7. INSPECTORS OF ELECTION. The Board of Directors, in advance of any shareholders' meeting, may appoint one or more inspectors to act at the meeting or any adjournment thereof. If inspectors are not so appointed, the person presiding at a shareholders' meeting may, and on the request of any shareholder entitled to vote thereat, shall appoint one or more inspectors. In case any person appointed fails to appear or act, the vacancy may be filled by appointment made by the Board in advance of the meeting or at the meeting by the person presiding thereat. Inspectors shall be sworn.



SECTION 8. CONDUCT OF ELECTION. At each meeting of the shareholders, votes, proxies, consents and ballots shall be received, and all questions touching the qualification of voters, the validity of proxies, and the acceptance or rejection of votes, shall be decided by the Inspectors of Election.

## ARTICLE II

## BOARD OF DIRECTORS

SECTION 1. NUMBER OF DIRECTORS. The number of the directors of the corporation shall be fifteen [which number will be reduced to twelve effective at the annual meeting of shareholders on April 11, 1995.

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

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

Directors need not be shareholders.

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

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

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

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

SECTION 5. REGULAR MEETINGS. Regular Meetings of the Board of Directors shall be held at the principal office of the corporation in the County of

Westchester, Town of Rye, State of New York, or at such other place within or without the State of New York as shall be designated in the notice of the meeting as follows: One meeting shall be held immediately following the annual meeting of shareholders and further meetings shall be held at such intervals or on such dates as may from time to time be fixed by the directors, all of which meetings shall be held upon not less that four days' notice served upon each director by mailing such notice to him at his address as the same appears upon the records of the corporation, except the meeting which shall be held immediately following the annual meeting of shareholders which meeting shall be held without notice.

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

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

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

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

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

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

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



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

ARTICLE III

COMMITTEES

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

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

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

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

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

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

SECTION 2. OTHER COMMITTEES. The Board of Directors may appoint such other committees, of three or more, as the Board shall, from time to time, deem advisable, which committees shall have and may exercise such powers as shall be prescribed, from time to time, by resolution of the Board of Directors, except



that such committees shall have no authority as to the matters set out in Section 3 hereof.

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

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

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

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

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

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

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

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

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

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

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

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



## ARTICLE IV

## OFFICERS

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

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

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

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

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

SECTION 3. VICE CHAIRMAN. The Vice Chairman shall have such authority and perform such duties as the Board of Directors, the Executive Committee, or the Chairman of the Board of Directors may from time to time determine.

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

SECTION 5. EXECUTIVE VICE PRESIDENTS, GROUP VICE PRESIDENTS, SENIOR VICE PRESIDENTS and VICE PRESIDENTS. The Executive Vice Presidents, Group Vice Presidents and Senior Vice Presidents, if any shall be designated, and the Vice Presidents shall have such powers and perform such duties as may be assigned to them by the Board of Directors, the Executive Committee, the Chairman of the Board of Directors or the President. They shall, in order of their seniority or



in such other orders as may be designated by the Board of Directors, the Executive Committee, the Chairman of the Board of Directors and the President during the absence or inability to act of the Chairman of the Board of Directors and the President.

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

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

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

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

SECTION 10. SECRETARY. The Secretary shall keep the minutes of all



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

He shall keep at the office of the corporation, or at the office of the transfer agent or registrar of the corporation's capital stock, a record containing the names, alphabetically arranged, of all persons who are shareholders of the corporation, showing their places of residence, the number of shares of stock held by them, respectively, the time when they respectively became the owners thereof, and the amount paid thereon, and such record shall be open for inspection as prescribed by Section 624 of the Business Corporation Law. He shall in general perform all the duties incident to the office of Secretary, subject to the control of the Board of Directors, the Executive Committee, the Chairman of the Board of Directors and the President.

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

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

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

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

## ARTICLE V

## STOCK-RECORD DATE

SECTION 1. CERTIFICATES FOR STOCK. The certificates for shares of the stock of the corporation shall be in such form, not inconsistent with the certificate filed according to law, as shall be proper or approved by the Board of Directors. Each certificate shall state (i) that the corporation is formed under the laws of the State of New York, (ii) the name of the person or persons to whom issued, (iii) the number and class of shares and the designation of the series, if any, which such certificate represents and (iv) the par value of each share represented by such certificate. Each certificate shall be signed by the Chairman of the Board of Directors, the President, the Executive Vice President or a Vice- President, and also by the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary and sealed with the corporation's seal; provided, however, that if such certificates are signed by a transfer agent or transfer clerk and by a registrar the signature of the Chairman of the Board of Directors, the President, the Executive Vice-President, Vice-President, Treasurer, Assistant Treasurer, Secretary and Assistant Secretary and the seal of the corporation upon such certificates may be facsimiles, engraved or printed.

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

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

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

SECTION 5. RECORD DATE. For the purpose of determining the shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or to express consent to or dissent from any proposal without a meeting, or for the purpose of determining shareholders entitled to



receive payment of any dividend or the allotment of any rights, or for the purpose of any other action, the Board of Directors shall fix in advance a date as the record date for any such determination of shareholders. Such date shall not be more than fifty nor less than ten days before the date of such meeting, nor more than fifty days prior to any other action.

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

SECTION 7. Dividends may be declared and paid out of the surplus of the corporation as often and at such times and to such extent as the Board of Directors may determine, consistent with the provisions of the certificate of incorporation of the corporation or other certificate of the corporation filed pursuant to law.

ARTICLE VI

CORPORATE SEAL

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

ARTICLE VII

INDEMNIFICATION OF OFFICERS AND DIRECTORS

The corporation shall indemnify any person to the fullest extent permitted by applicable law against any and all expenses (including, without limitation, investigation expenses and expert witnesses' and attorneys' fees and expenses), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person (net of any related insurance proceeds received by or paid on behalf of such person) in connection with any present or future threatened, pending or completed claim, action, suit or proceeding, whether civil, criminal, administrative or investigative, whether or not such claim, action, suit or proceeding is by or in the right of the corporation based upon, arising from, relating to, or by reason of the fact that such person was, is, shall be or shall have been a director or an officer of the corporation, or is or was serving, shall serve or shall have served at the request of the corporation as director, officer, partner, trustee, employee or agent of another corporation, partnership, joint venture, trust employee benefit plan or other enterprise; provided that no indemnification may be made to or on behalf of any person if a judgment or other final adjudication adverse to such person establishes that his acts were committed in bad faith or were the result of active and deliberate



dishonesty and were material to the cause of action so adjudicated, or that he personally gained in fact a financial profit or other advantage to which he was not legally entitled.

For the purpose of this section, a corporation shall be deemed to have requested a person to serve an employee benefit plan where the performance by such person of his duties to the corporation also imposes duties on, or otherwise involves services by, such person to the plan or participants or beneficiaries of the plan; excise taxes assessed on a person with respect to an employee benefit plan pursuant to applicable law shall be considered fines; and action taken or omitted by a person with respect to an employee benefit plan in the performance of such person's duties for a purpose reasonable believed, by such person to be in the interest of the participants and beneficiaries of the plan shall be deemed to be for a purpose which is not opposed to the best interest of the corporation.

A person entitled to indemnity under the first paragraph of this section who has been successful, on the merits or otherwise, in the defense of a civil or criminal action or proceeding of the character described in such paragraph shall be entitled to indemnification as authorized in such paragraph. Any other indemnification under such paragraph, unless awarded by a court, shall be made by the corporation only if authorized in the specific case,

1. by the Board of Directors acting by a quorum of Directors who are not parties to such action or proceeding upon a finding that the director or officer has met the standard of conduct set forth in such paragraph, or

2. if such a quorum is not obtainable or, even if obtainable, a quorum of disinterested directors so directs, (i) by the Board of Directors upon the opinion in writing of independent legal counsel that indeminification is proper in the circumstances because the applicable standard of conduct set forth in such paragraph has been met by such person, or (ii) by the shareholders upon a finding that such person has met the applicable standard of conduct set forth in such paragraph.

Expenses incurred by a person in defending a civil or criminal action, suit or proceeding shall be paid by the corporation promptly as incurred and in advance of the final disposition of such action upon receipt of an undertaking by or on behalf of such person to repay such amount to the extent the expenses so advanced exceed the indemnification to which it is ultimately determined that he is entitled.

The termination of any such civil, or criminal action or proceeding by judgment, settlement, conviction or upon a plea of nolo contendere, or its equivalent, shall not in itself create a presumption that a director's or officer's acts were committed in bad faith or were the result of active and deliberate dishonesty and were material to the cause of action or that he personally gained in fact a financial profit or other advantage to which he was not legally entitled.



If under the foregoing provisions any expenses or other amounts are paid by way of indemnification, otherwise than by court order or action by the shareholders, the corporation shall, not later than the next annual meeting of shareholders unless such meeting is held within three months from the date of such payment, and in any event, within fifteen months from the date of such payment, mail to its shareholders of record at the time entitled to vote for the election of Directors a statement specifying the persons paid, the amounts paid, and the nature and status at the time of such payment of the litigation or threatened litigation.

The indemnification provided by this section shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any by-law, agreement, vote of stockholders or disinterested directors or otherwise, both as to his action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors and administrators of such a person.

## ARTICLE VIII

## AMENDMENTS

SECTION 1. These by-laws may be amended, repealed or adopted by the affirmative vote of the holders of a majority of all the shares outstanding and entitled to vote at any regular or special meeting of the shareholders, if notice of the proposed alteration or amendment be contained in the notice of the meeting, provided, however, that no change in the time or place for the election of directors shall be made within fifty days next preceding the date on which such election is to be held and that in case of any change of such time or place, notice thereof shall be given to each shareholder in person or by letter mailed to his last known post office address, at least fifty days before the election is held.

The Board of Directors shall have the power to amend or repeal these by-laws, or any of them, or to adopt any new by-law, but any such action of the Board may be amended or repealed by the shareholders, provided, however, that any amendment which changes the number of directors shall require the vote of a majority of the entire board.

If any by-law regulating an impending election of directors is adopted or amended or repealed by the Board of Directors, there shall be set forth in the notice of the next meeting of the shareholders for the election of directors the by-law so adopted or amended or repealed, together with a concise statement of the changes made.

ARTICLE IX

DIVISIONS

SECTION 1. ORGANIZATION. The Board of Directors may cause the business



and operations of this corporation to be divided into divisions based upon character or type of operations, operating units, or upon such other basis of division as the Board of Directors may from time to time determine to be advisable, any may cause the business and operations of any such division to be further divided into subdivisions or departments if deemed advisable by the Board of Directors and upon such basis of subdivision as the Board of Directors may determine.

SECTION 2. OFFICERS OF DIVISIONS. The Board of Directors of the corporation may provide for the appointment of officers for each division into which any of the activities of this corporation may be divided, with such duties as the Board of Directors of the corporation may from time to time determine. Officers of a division may be designated by such titles as President, Executive Vice President, Senior Vice President, Vice President, Secretary, Assistant Secretary, Treasurer, Assistant Treasurer, or Controller, as the Board of Directors of the corporation may from time to time determine. The authority of the officers of each division shall be subject to the control of, and shall be limited to acts and transactions in conformity with the policies of, the Board of Directors of the corporation, and may be further limited to acts and transactions pertaining to the business of this corporation which such division is authorized to transact and perform. Individuals shall be appointed as divisional officers, and may be removed as such, by the Chairman of the Board of Directors, who shall report all such appointments and removals to the Board of Directors of the corporation. One person may hold more than one of divisional or departmental offices. Any general officer of the corporation shall be eligible for appointment to one or more offices in one or more divisions or departments, but a divisional or departmental officer, as such, shall not be an officer of the corporation.

SECTION 3. BY-LAWS OF DIVISIONS. The Board of Directors of the corporation may establish and amend from time to time by-laws for each division. Such by-laws may contain provisions setting forth the titles, duties and responsibilities of the Board of Directors, Executive Committee and officers of each division and such other rules relating to the operation of the division as the Board of Directors shall provide.

Exhibit 10(iii)(A)(vii)

# SUPPLEMENTAL RETIREMENT PLAN FOR

# SELECT SENIOR MANAGEMENT OF

# MELVILLE CORPORATION

as amended through
May 12, 1989



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Article 1. Definitions

1.01 (a) "Annual Benefit" shall mean, with respect to a Member who became or becomes a Retiree after December 31, 1985, the amount by which 50%, or such lesser percentage specified in clause (b) below, of such Member's Compensation exceeds the sum of

(i) the aggregate annualized value of any retirement and/or deferred profit sharing benefits in respect of such Member which have previously been received or which such Member of any other person has a vested right to receive at the time of the commencement of payment of such Member's benefit under Section 3.04 of the Plan, under any arrangement maintained by the Corporation other than the Plan, computed pursuant to clause (c) below, and

(ii) the Annual Benefit used in computing any lump sum payment previously made pursuant to Section 3.04 to such a Member becoming entitled to a recomputation of the Annual Benefit pursuant to Section 3.05.

(b) In the case of any Member whose retirement allowance under Section 3.04 of the Plan commences to be paid on



or after his reaching age 55 years but prior to his reaching age 60 years, there shall be substituted for "50%" in clause (a) above that lower percentage which results from subtracting that percentage which is the product of 5 times the number of whole and partial years (treating a partial year as a whole year) until such Member's 60th birthday so that, for example, the applicable percentage for a Member age 58-1/2 years would be 40% (50% - (5 X 2)% = 40%).

(c) The annualized value of a Member's retirement and deferred profit sharing benefits shall be computed as follows:

(i) with respect to any benefit which such Member is thereupon commencing to receive at the time of such computation in the form of an annuity, the annual payment to which such Member would be entitled under the terms of the plan under which such benefit is to be paid, were such benefit to be paid in the form of a single life annuity for the Member's life,

(ii) with respect to any other benefit, the annual amount of the actuarial equivalent of such benefit computed as if such benefit were to be paid in the form of a single life annuity to such Member commencing at the time of such computation. In computing such actuarial equivalents, the



actuarial assumptions to be used shall be (i) the mortality tables used in calculating actuarial equivalents under the Melville Corporation Retirement Plan at the time of such calculation and (ii) an interest rate assumption equal to the applicable interest rate (expressed as a percentage) used by the Pension Benefit Guaranty Corporation for valuing benefits for single employer plans that terminate on the date of such calculation, minus .5%.

1.02 "Board of Directors" shall mean the Board of Directors of Melville Corporation.

1.03 "Change in Control" shall mean any of the following occurrences: (a) any "person" or "group of persons" as such terms are used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934 (the "Exchange Act") purchases or otherwise becomes "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act) directly or indirectly, of securities representing 25% or more of the combined voting power of Melville Corporation (including, without limitation, securities which may be acquired upon the exercise of any option or options owned by such person or group of persons to purchase any such voting securities, or conversion of securities convertible into such voting securities, whether or not



such option or options or convertible securities were outstanding on the date hereof and whether or not such options are exercisable or such securities are convertible at the time of the Change in Control); (b) during any period of two consecutive years, the individuals who at the beginning of such period constitute the Board of Directors cease for any reason to constitute at least a majority thereof, unless (i) there are four or more directors then still in office who were directors at the beginning of the period and (ii) the election, or the nomination for election, by Melville Corporation's shareholders of each new director was approved by a vote of at least two thirds of the directors then still in office who were directors at the beginning of the period; (c) the shareholders of Melville Corporation shall have voted to approve an agreement to merge or consolidate Melville Corporation with or into another corporation as a result of which less than 50% of the outstanding voting securities of the surviving or resulting entity are or are to be owned by the former shareholders of Melville Corporation (excluding from former shareholders a shareholder who is an "affiliate," as defined in Rule 12b-2 under the Exchange Act, of any party to such consolidation or merger); or (d) the shareholders of Melville Corporation approve the sale



of all or substantially all of Melville Corporation's business and/or assets to a person or entity which is not a wholly-owned subsidiary of Melville Corporation; provided, however, that none of the foregoing shall be deemed to constitute a Change in Control if in connection therewith it shall be necessary to file a Schedule 13E-3 pursuant to Rule 13e-3 under the Securities Exchange Act of 1934, unless immediately prior to such event the Board of Directors shall determine such event to constitute a Change in Control.

1.04 "Compensation" shall mean the greater of (i) a Member's annual base pay rate plus full annual normal incentive compensation award as in effect on such Member's Compensation Measurement Date and (ii) the average of such Member's actual base pay and incentive compensation received during the 5 full calendar years immediately prior to such Member's Compensation Measurement Date. A Member's Compensation Measurement Date shall be the date on which such Member terminates employment with the Corporation for any reason, including retirement, death or disability, unless using the date of a Change in Control as of which such Member was a Member would result in a higher amount in which case the date of such Change in Control shall be such Member's Compensation Measurement Date.



1.05 "Corporation" shall mean Melville Corporation and any subsidiary or other entity at any time at which 50% or more of the voting power or beneficial interest of such subsidiary or other entity, is owned directly or indirectly by Melville Corporation. References in the Plan to Melville Corporation shall be deemed to include successors to Melville Corporation.

1.06 "Executive Employee" shall mean the Chairman, Vice Chairman, President or any corporate Vice President or more senior officer of Melville Corporation.

1.07 "Lump Sum Benefit" shall mean

(a) with respect to a Member to whom payment of benefits under Section 3.04 has not commenced or, if previously commenced, has been discontinued pursuant to Section 3.05, and who has made no election under Section 3.04 or has elected a form of benefit under Section 3.04 making no provision for the Spouse, the lump sum actuarial equivalent of a single life annuity for the Member commencing at such date (but not prior to such Member's attaining age 60) as of which such Member would have had 15 years of Service assuming no termination of employment with the Corporation following a Change in Control (the "Presumed Starting Date"), under which annuity the annual payment is equal to the Projected Annual Benefit times a fraction, the numerator of which is such Member's years of Service as



of such Member's Termination of Employment (but not more than 15) and the denominator of which is 15,

(b) with respect to (i) a Member to whom payment of benefits under Section 3.04 has not commenced or, if previously commenced, has been discontinued pursuant to Section 3.05 and who has elected an optional form of benefit under Section 3.04 making a provision for the Spouse and (ii) the Spouse of such Member, the lump sum actuarial equivalent of that part of the benefit described in clause (a) to be paid to such Member, or to such Spouse, respectively, pursuant to the optional form of benefit elected by such Member under Section 3.04, or

(c) with respect to (i) a Spouse to whom payment of benefits under Section 3.03 has commenced, (ii) a Member to whom payment of benefits under Section 3.04 has commenced and has not been discontinued pursuant to Section 3.05 and (iii) the Spouse of such a Member, the lump sum actuarial equivalent of all future benefits, if any, payable to such Member or to such Spouse, as the case may be, under the Plan.

The amount of such actuarial equivalents computed under this Section 1.07 shall be determined by the Compensation Committee of the Board of Directors with sole discretion using the actuarial assumptions described in Section 1.01(c).



1.08 "Member" shall mean any person included in the membership of the Plan as provided in Article 2.

1.09 "Normal Retirement Date" shall mean the first day of the calendar month next succeeding the month in which the Member's 65th birthday occurs.

1.10 "Plan" shall mean the Supplemental Retirement Plan for Select Senior Management of Melville Corporation, as described herein or as hereafter amended.

1.11 "Projected Annual benefit" shall mean

(a) with respect to a Member of the Plan at the time of a Change in Control to whom payment of benefits under Section 3.04 has not commenced, the amount by which 50% of such Member's Compensation exceeds the sum of

(i) the aggregate annualized value of any retirement and deferred profit sharing benefits in respect of such Member which have previously been received or which such Member or any other person has a vested right to receive at the time of such Member's termination of employment under any arrangement maintained by the Corporation, other than the Plan, computed in the manner described in Section 1.01 (c), assuming payment of such benefits will commence at such Member's Presumed Starting Date, as defined in Section 1.07, and

(ii) the Annual Benefit used in computing any lump sum payment previously made to such Member pursuant to



Section 3.04; or

(b) with respect to a Member of the Plan at the time of a Change in Control to whom payment of benefits under Section 3.04 has previously commenced but who has been restored to employment with the Corporation, the amount computed pursuant to (a) above, but in no event less than such Member's Annual Benefit computed pursuant to Section 3.05 as if such Member had then terminated employment with the Corporation.

1.12 "Retiree" shall mean a Member who has 15 or more years of Service and terminates employment with the Corporation at or after age 55 for any reason, including disability but excluding death, provided, however, that if such Member shall be eligible upon such termination of employment to commence to receive payments under the Retirement Plan in which he is a participant, if any, he shall not be a Retiree unless he commences to receive such payment upon such termination of employment.

1.13 "Retirement Administration Committee" shall mean the Retirement Administration Committee of the Retirement Plan.

1.14 "Retirement Plan" shall mean, with respect to a participant in the Melville Corporation Retirement Plan, said Plan or, with respect to a Member who is not participant in said Plan, such other pension plan,



maintained by the Corporation, meeting the requirements of Section 401 of the Internal Revenue Code of 1986, as amended, in which such Member shall be a participant, if any.

1.15 "Service" shall mean with respect to a Member the period of such Member's active employment with the Corporation, whether or not as an Executive Employee.

1.16 "Spouse" shall mean the Member's lawfully married spouse (1) at the time payments to the Member commence under the Plan or (2) in the case of benefits payable under Section 3.03, at the time of the Member's death.

1.17 "Termination of Employment" shall have the meaning assigned to such term in the Income Continuation Policy for Select Senior Executive of Melville Corporation.

Article 2. Membership

2.01 Every Member of the Plan on May 12, 1988 and every Executive Employee in the employ of the Corporation on May 12, 1988 who can complete 15 years of Service by his Normal Retirement Date shall continue to be or shall become a Member of the Plan on May 12, 1988, as the case may be.

2.02 Any other employee of the Corporation who becomes an Executive Employee shall thereupon become a Member of the Plan provided he can complete 15 years of Service by his Normal Retirement Date.



2.03 Any former employee of the Corporation who is a Retiree under the Plan on May 12, 1988 and any Member who thereafter becomes a Retiree shall continue to be a Member of the Plan until the later of (a) the termination of his employment and (b) the payment of all benefits in respect to such Retiree under the Plan.

2.04 The membership under the Plan of an Executive Employee who is not a Retiree shall terminate if his employment with the Corporation as an executive Employee terminates unless at the time of such termination, or within 60 days thereafter, he becomes a Retiree or unless upon such termination he continues to be entitled to a benefit hereunder pursuant to Section 3.06.

2.05 A Member whose membership in the Plan terminates pursuant to Section 2.03 or Section 2.04 shall be restored to membership in the Plan at such time as he is restored to employment as an Executive Employee of the Corporation, provided he meets the requirements of Section 2.01 at the time of such restoration to employment.

Article 3. Amount and Payment of Supplemental Benefits

3.01 Except as provided in Section 3.06, benefits under the Plan shall be payable by Melville Corporation only with respect to Members who are Retirees or become Retirees or, as provided in Section 3.03, to Spouses.



3.02 Payment of benefits to a Retiree under the Plan shall commence upon termination of employment with the Corporation.

3.03 In the event that a Member dies, after attaining age 55 with 15 years of Service, prior to becoming a Retiree, or dies after becoming a Retiree but prior to commencing to receive payments hereunder pursuant to Section 3.04, his Spouse shall be entitled to the immediate commencement of a single life annuity, with an annual payment equal to one-half of the Annual Benefit, if any, computed under Section 1.01, including any reduction under subsection (b) thereof, if applicable, for such Member as if the Member were a Retiree and had commenced to receive payment of benefits under Section 3.04 immediately prior to his death.

3.04 Except as provided in Section 3.06 and subject to the next succeeding sentence, the benefit payable under the Plan to a Retiree shall be a single life annuity for the life of the Retiree, with annual payments equal to the annual Benefit computed under Section 1.01 for such Member at the time of the commencement of payment of benefits under this Section 3.04, adjusted annually to reflect the excess, if any, of the annual retirement allowance for such year actually received by such Retiree under any Retirement Plan over the amount



deducted with respect to the vested benefit under such Retirement Plan in the calculation of such Member's Annual benefit under Section 1.01(a)(i). A Member may elect in a writing filed with the Retirement Administration Committee at least 12 months prior to the date of the commencement of benefits hereunder to receive such benefits (a) in an optional form permitted at the time of such election for the payment of benefits under the Melville Corporation Retirement Plan or (b) in a lump sum, provided, however, that (i) a Member may not name anyone as a beneficiary under the Plan other than his Spouse and (ii) a Member may not elect an optional form of benefit providing for a deferred commencement date. Any such optional form of benefit or lump sum shall be the actuarial equivalent of such single life annuity using the actuarial assumptions described in Section 1.01(c).

3.05 If a Retiree who has terminated employment with the Corporation is restored to employment after commencing to receive payments under Section 3.04 of the Plan, the payment of benefits under the Plan shall be discontinued (unless all such benefits have been previously paid in a lump sum) and, upon such Member's subsequent termination of employment with the Corporation for any reason, including retirement, death or disability, the Member's Annual Benefit under the

Plan or the Spouse's benefit under the Plan shall thereafter be recomputed in accordance with Section 1.01, Section 3.03, Section 3.04 or Section 3.06, as applicable, and shall be payable in accordance with the provisions of the Plan, provided, however, that such recomputation shall be based upon the higher of (i) such Member's Compensation at the time of such previous termination of employment and (ii) such Member's Compensation at the time of such subsequent termination of employment.

3.06 Notwithstanding the provisions of Section 3.01 and Section 3.02, if a Change in Control occurs:

(a) Each Member who is then a Retiree and each Spouse then entitled to benefits under Section 3.03 or Section 3.04 shall be entitled to receive an immediate payment in cash of such Retiree's or such Spouse's Lump Sum Benefit.

(b) Each Member at the time of such Change in Control who experiences a Termination of Employment, each Spouse of such a Member who has elected an optional form of benefit under Section 3.04 making a provision for such Spouse, and each Spouse of a Member at the time of such Change in Control who dies within 2 years following such Change in Control without having received a Lump Sum Benefit, shall, upon such Termination of Employment or death, as the case may be,



be entitled to receive an immediate payment in cash of such Member's or such Spouse's Lump Sum Benefit.

(c) Each Member at the time of such Change in Control who neither dies within 2 years following such Change in Control nor experiences a Termination of Employment shall, upon such Member's later termination of employment with the Corporation for any reason other than death, without becoming a Retiree and, with respect to each such Member who later dies, the Spouse of such Member is such Spouse is not otherwise entitled to a benefit under Section 3.03, shall nevertheless be entitled to a Benefit commencing at the Presumed Starting Date in the form specified in Section 3.04 or Section 3.03, as the case may be, provided that in computing such benefit there shall be substituted for the term Annual Benefit in Section 3.04 or Section 3.03, as the case may be, the following: the Projected Annual Benefit times a fraction, the numerator of which is such Member's years of Service as of such Change in Control (but not more than 15) and the denominator of which is 15.

(d) The benefits to be paid pursuant to paragraph (c) of this Section 3.06 shall not be payable from the assets of the trust to be established in connection with the Income Continuation Policy for Select Senior Executives of Melville Corporation pursuant to a



resolution of the Board of Directors on May 12, 1988.

Article 4. Administration

4.01 The administration of the Plan, the exclusive power to interpret it, and the responsibility for carrying out it provisions are vested in the Retirement Administration Committee, except that the determinations of whether any Member or Spouse is entitled to payment of a Lump Sum Benefit pursuant to Section 3.06 and the amount thereof shall be within the exclusive authority of the Investment Committee under the Trust Agreement to be established in connection with the Plan pursuant to a resolution of the Board of Directors on May 12, 1988.

4.02 The provisions of Article 11 of the Melville Corporation Retirement Plan concerning Retirement Administration Committee membership, meetings, maintenance of records and Retirement Administration Committee powers shall apply under the Plan. The expenses of the Retirement Administration Committee incurred in connection with the Plan shall be paid directly by the Corporation.

Article 5. General Provisions

5.01 Neither the establishment of the Plan nor the crediting of any Service under Section 4.01 shall be construed as conferring any legal rights upon any Executive Employee



or other person for a continuation of employment, nor shall such actions interfere with the rights of the Corporation to discharge or demote any Executive Employee and to treat him without regard to the effect which such treatment might have upon him as a Member of the Plan.

5.02 In the event that the Retirement Administration Committee shall find that a Member is unable to care for his affairs because of illness or accident, the Retirement Administration Committee may direct that any benefit payment due him, unless claim shall have been made therefor by a duly appointed legal representative, be paid to his spouse, a child, a parent or other blood relative, or to a person with whom he resides, and any such payment so made shall be a complete discharge of the liabilities of the Plan therefore.

5.03 Melville Corporation shall have the right to deduct from each payment to be made under the Plan any required withholding taxes.

5.04 Subject to any applicable law, no benefit under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any attempt so to do shall be void, nor shall any such benefit be in any manner liable for or subject to the debts, contracts, liabilities, engagements or torts of the Retiree.



5.05 In the event that a Member or Retiree shall at any time be convicted of a crime involving dishonesty or fraud on the part of such Member in his relationship with the Corporation, all benefits which would otherwise be payable to him under the Plan shall be forfeited.

5.06 The rights of any Member or Retiree to benefits under the Plan prior to the actual receipt of such benefits shall be limited to those of a general unsecured creditor of Melville Corporation.

5.07 The Plan shall be construed, regulated and administered under the laws of the State of New York. 5.08 The masculine pronoun shall mean the feminine wherever appropriate.

Article 6. Amendment or Termination

The Board of Directors reserves the right to modify or to amend, in whole or in part, or to terminate, this Supplemental Retirement Plan for Select Senior Management of Melville Corporation at any time; provided, however, that no such modification, amendment or termination shall adversely affect the right of any Member (or the Spouse of such Member) to receive the benefits such Member (or the Spouse of such Member) would have received under the Plan upon termination of employment with the Corporation for any reason, including retirement, death or disability, had the Plan not been so modified, amended or terminated, taking into account such Member's Service and age at



the time of such Member's actual termination of employment with the Corporation for any such reason.

Exhibit 10(iii)(A)(viii)

# INCOME CONTINUATION POLICY FOR
# SELECT SENIOR EXECUTIVES OF
# MELVILLE CORPORATION

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as amended

May 12, 1988

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ARTICLE 1. Purpose

The purpose of this Policy is to maximize the effort and contribution that can be made by selected executive personnel of the Corporation by relieving their concerns about employment security and income continuation in the event of a significant change in the ownership or control of the Corporation.

ARTICLE 2. Definitions

2.0l. "Benefit Event" shall have the meaning provided in Section 4.02(a).

2.02 "Board of Directors" shall mean the Board of Directors of Melville Corporation.

2.03. "Cause" shall have the meaning provided in Section 4.02(d).

2.04. "Committee" shall mean, prior to the occurrence of a Benefit Event, the committee appointed by the Board of Directors from those of its members who are not employees of the Corporation to administer the policy in accordance with Article 5. After the occurrence of a Benefit Event, the Investment Committee as constituted from time to time under the Trust Agreement shall be deemed to be the Committee.

2.05. "Compensation" shall mean the Member's annual base pay rate plus full normal annual incentive compensation award as in effect immediately



prior to a Termination of Employment, but in each case not less than the annual base pay rate and annual incentive compensation award as in effect immediately prior to the occurrence of the Benefit Event.

2.06. "Corporation" shall mean Melville Corporation and, with respect to any Executive Employee employed by any subsidiary or other entity 50% or more of the voting power or beneficial interest of which is owned directly or indirectly by Melville Corporation, such subsidiary or other entity. References in the Policy to Melville Corporation shall be deemed to include successors to Melville Corporation.

2.07. "Effective Date" shall mean January 1, 1987.

2.08. "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

2.09. "Executive Employee" shall mean the Chairman, Vice Chairman, President, or any corporate Vice President or more senior officer of Melville Corporation and any Divisional President of the Corporation (including Presidents of Divisions which are in corporate form).

2.10. "Good Reason" shall have the meaning provided by Section 4.02(c).

2.11. "Member" shall mean any person included in the membership of the Policy as provided in Article 3.

2.12. "Policy" shall mean the Income Continuation Policy for Select Senior Executives of Melville Corporation, as



described herein or as hereafter amended.

2.13. "Senior Executive Employee" shall mean the Chairman, Vice Chairman, President and Executive Vice Presidents of Melville Corporation.

2.14 "Termination of Employment" shall mean (i) termination by the Corporation of a Member's employment with the Corporation for any reason other than Cause and (ii) any voluntary termination by the Member of a Member's employment with the Corporation for Good Reason, which in each case occurs coincident with or within the twenty-four (24) month period immediately following the occurrence of a Benefit Event.

2.15 "Trust Agreement" shall mean the trust agreement to be established in connection with the Policy pursuant to a resolution of the Board of Directors on May __, 1988.

ARTICLE 3. Membership

3.01 Every Executive Employee in the employ of the Corporation on the Effective Date shall become a Member of the Policy on the Effective Date.

3.02 Any other employee of the Corporation who becomes an Executive Employee shall become a Member of the Policy on the date he shall become an Executive Employee.

ARTICLE 4. Amount and Payment of Benefits

4.01 (a) Upon the occurrence of a Benefit Event each Member shall (i) be fully vested in all shares previously awarded to the Member under the Melville Corporation 1980 Restricted Stock Plan without regard to any restrictions previously imposed under the terms of such plan, and (ii) become entitled to exercise any stock options on the Corporation Common Stock not then exercisable. In addition, each stock option then held by such Member shall remain exercisable during the period ending at the earlier of (A) six (6) months after such Member ceases to be employed by the Corporation, if permitted under the terms of the plan under which such option as granted, or (B) the expiration of the option period specified in such stock option.

(b) Upon the Termination of Employment of a Member, such Member shall be (i) in the case of a Senior Executive Employee, entitled to receive from the Corporation a single sum payment equal to three (3) times his Compensation, (ii) in the case of a Member who is not a Senior Executive Employee, entitled to receive from the Corporation a single sum payment equal to two (2) times his Compensation, and (ii) entitled to remain a full participant in all employee welfare benefit plans, as defined in section 3(1) of ERISA, maintained by the Corporation and in which such Member was a participant at the time of such Termination of Employment for a period of twenty- 333333four (24) months after such Termination of Employment (or if such



participation is not possible under the terms of any such plan, such Member shall be provided by the Corporation with benefits which are comparable to the coverage provided by such plan),

(c) Payment of the amount due under (b)(i) or (b)(ii) above shall be made as a single sum within fifteen (15) days after a Member's Termination of Employment. No reduction in any amount due, or benefit provided, under this Policy shall be affected by reason of any employment of the Member after his Termination of Employment.

4.02 For purposes of this Policy:

(a) Subject to clause (b) of this Section 4.02, a "Benefit Event" shall occur if:

(1) any "person" or "group of persons" as such terms are used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934 (the "Exchange Act") purchases or otherwise becomes "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act) directly or indirectly, of securities representing 25% or more of the combined voting power of Melville Corporation (including, without limitation, securities which may be acquired upon the exercise of any option or options owned by such person or group of persons to purchase any such voting securities, or conversion of securities convertible into such voting securities, whether or not such option or options or convertible securities were outstanding on January 1, 1987 and whether or not such options are exercisable or such securities are convertible

at the time of the Benefit Event); or

(2) during any period of two consecutive years, the individuals who at the beginning of such period constitute the Board of Directors cease for any reason to constitute at least a majority thereof, unless (A) there are four or more directors then still in office who were directors at the beginning of the period and (B) the election, or the nomination for election, by Melville Corporation's shareholders of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period; or

(3) the shareholders of Melville Corporation shall have voted to approve an agreement to merge or consolidate Melville Corporation with or into another corporation as a result of which less than 50% of the outstanding voting securities of the surviving or resulting entity are or are to be owned by the former shareholders of Melville Corporation (excluding from former shareholders, a shareholder who is an "affiliate," as defined in Rule 12b-2 under the Exchange Act of any party to such consolidation or merger); or

(4) the shareholders of Melville Corporation approve the sale of all or substantially all of Melville Corporation's business and/or assets to a person or entity which is not a wholly-owned subsidiary of the Corporation.

(b) Notwithstanding the foregoing provisions of Section 4.02(a), none



of the events listed therein shall be deemed to constitute a Benefit Event if in connection therewith it shall be necessary to file a Schedule 13E-3 pursuant to Rule 13e-3 under the Securities Exchange act of 1934, unless immediately prior to such event the Board of Directors shall determine such event to constitute a Benefit Event.

(c) "Good Reason" means any of the following which occur after the occurrence of a Benefit Event without the express written consent of the affected Member:

(1) the assignment to the Member of any duties inconsistent with his position, responsibilities, reporting relationships, authority or status with the Corporation as in effect immediately prior to a Benefit Event, or a material alteration or diminution of his position, duties, responsibilities, reporting relationships, authority or status (including corresponding perquisites) from those in effect, or otherwise accorded to him, immediately prior to such Benefit Event;

(2) the relocation of the Member's principal place of employment to a location more than fifty miles from the location of such place of employment at the time of a Benefit Event or the Corporation's requiring the Member to be based anywhere other than such principal place of employment except for required travel on the Corporation's business to an extent substantially consistent with his business travel obligations as in



effect immediately prior to such Benefit Event;

(3) a reduction in the Member's base salary as in effect immediately prior to a Benefit Event or as the same may be increased from time to time;

(4) a reduction in the annual incentive compensation paid or payable to the Member, including a reduction in the rate at which such incentive compensation is computed or a reduction in the level of such Member's incentive compensation, or potential incentive compensation, relative to other recipients or potential recipients of incentive compensation from the Corporation;

(5) the failure by the Corporation to continue to provide the member with benefits at least as favorable as those enjoyed by him under any employee benefit plan, as defined in Section 3(2) of ERISA, in which the member was participating at the time of a Benefit Event, the taking of any action by the Corporation which would directly or indirectly materially reduce any of such benefits, or the failure by the Corporation to provide the Member with the number of paid vacation day or other perquisites to which he was entitled prior to such Benefit Event;

(d) "Cause" shall mean, in connection with an involuntary termination by the Corporation of a Member's employment, a substantial failure by the Member



to perform the duties of his position, which failure involves dishonesty or conduct materially injurious to the financial condition or reputation of the Corporation, or the conviction of the Member of a crime which constitutes a felony under the laws of the State of New York.

4.03. (a) In the event that the Committee determines at the time of a Benefit Event or thereafter, or in the event it is established pursuant to a final determination of a court or an Internal Revenue Proceeding, that any payment to a Member by the Corporation upon the occurrence of a Benefit Event or upon a Member's Termination of Employment after a Benefit Event whether such payment is made pursuant to the Policy or otherwise, is subject to any tax under Section 4999 of the Internal Revenue Code of 1986, as amended, then the Corporation shall pay to such Member, within 15 days of such determination, an additional amount or amounts equal to that amount which, when reduced by Federal, state and local income taxes on such amount computed at the highest marginal applicable income tax rates for the year in which such additional payment is made to the Member, is equal to the amount of such tax under said Section 4999, plus any interest and penalties imposed on such tax in the event that the payment of such tax and the payment under this section 4.03 (a) with respect thereto are made after the date such tax is ultimately determined to have been due.

(b) The determination of whether any such additional payment



is required to be made pursuant to Section 4.03 (a) above and the amount thereof shall be made by the Committee with sole discretion, provided, however, that final determination of a court or an Internal Revenue proceeding with respect to the amount of tax imposed on such a payment under said Section 4999 shall be binding upon the Committee.

ARTICLE 5. Administration.

(a) Prior to a Benefit Event, the administration of the Policy, the exclusive power to interpret it, and the responsibility for carrying out its provisions are vested in the Committee. The Committee shall establish such rules, regulations and procedures as it shall deem necessary or advisable. The expenses of the committee shall be paid directly by Melville Corporation.

(b) Upon and after the occurrence of a Benefit Event, the responsibilities, authorities, rights and liabilities of the Committee shall be vested exclusively in the Investment Committee under the Trust Agreement.

ARTICLE 6. General Provisions.

6.01. (a) The establishment of the Policy shall not be construed as conferring any legal rights upon any Executive Employee or other person for a continuation of employment, nor shall it interfere with the rights of the



Corporation to discharge any Executive Employee and to treat him without regard to the effect which such treatment might have upon him as a Member of the Policy.

(b) Any benefits due or provided hereunder to a Member shall be in addition to, and not in substitution of, any benefit to which the Member is otherwise entitled without regard to this Policy.

6.02. In the event that the Committee shall find that a Member is unable to care for his affairs because of illness or accident, the Committee may direct that any payment due him, unless claim shall have been made therefor by a duly appointed legal representative, be paid to his spouse, a child, a parent or other blood relative, or to a person with whom he resides, and any such payment so made shall be a complete discharge of the liabilities under the Policy therefor.

6.03. The Corporation shall have the right to deduct from each payment to be made under the Policy any required withholding taxes.

6.04. Subject to any applicable law, no benefit under the policy shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any attempt so to do shall be void, nor shall any such benefit be in any manner liable for or subject to the debts, contracts, liabilities, engagements or torts of the Member.

6.05. The rights of any Member to benefits under the policy prior



to the actual receipt of such benefits shall be limited to those of a general unsecured creditor of the Corporation. Notwithstanding the foregoing, prior to the occurrence of a Benefit Event of which the Corporation has notice, or immediately after the occurrence of a Benefit Event of which the Corporation does not have prior notice, the Corporation shall transfer to the trustee then acting under the Trust Agreement that amount of cash which, when added to the other assets then held in said trust, the Committee deems with sole discretion to be sufficient to provide for the payment of benefits, including any and all contingent benefits, under the Policy as well as (a) the payments required to be made upon the ^Termination of Employment or death within 2 years following such Benefit Event of a Member of ^ the Supplemental Retirement Plan for Select Senior Management of Melville Corporation (hereinafter the "SERP Payments")^and (b) any and all expenses and contingent expenses under the Trust Agreement.

6.06 The Corporation will pay or reimburse each Member for all costs and expenses (including court costs and attorneys' fees) incurred by the Member as a result of any claim, order or proceeding arising out of, or challenging the validity, advisability or enforceability of this Policy, any provision hereof, or the SERP Payment, if any, to which such Member is entitled.

6.07 The Policy shall be construed, regulated and administered under the laws of the State of New York.



6.08. The masculine pronoun shall mean the feminine wherever appropriate.

ARTICLE 7. Amendment or Termination.

The Board of Directors reserves the right to modify or to amend, in whole or in part, or to terminate, this Policy at any time provided, however, no such modification or amendment or termination (except to improve benefits or increase eligibility) shall be effective until twenty-four (24) months after its adoption by the Board of Directors.

Exhibit 10(iii)(A)(ix)

Description of Agreement between
Jerald L. Maurer and
Melville Corporation

Melville Corporation ("Melville") has agreed to pay Jerald L. Maurer eighteen (18) months base salary if his employment is terminated other than for cause during his first three years of employment. Melville has also agreed to pay Mr. Maurer a retirement benefit of $48,000 a year beginning at age 62 if he remains employed by the Corporation until January 1, 1996. This benefit will be replaced when he reaches age 62, if he is still employed by the Corporation at such time, by the Supplemental Executive Retirement Plan except that the annual benefit payable under such plan shall be as follows: if he retires at age 62, he will be entitled to receive 35% of final compensation; if he retires at age 63, he will be entitled to receive 40% of final compensation; if he retires at age 64, he will be entitled to receive 45% of final compensation; and if he retires at age 65, he will be entitled to receive 50% of final compensation.

Exhibit 10(iii)(A)(x)

Description of Agreement between
Harvey Rosenthal and
Melville Corporation

In consideration of his acceptance of the position of President and Chief Operating Officer, in the event Melville Corporation ("Melville") terminates Harvey Rosenthal's employment at any time for other than cause, Melville has agreed to pay Mr. Rosenthal his then annual base salary for a period of two years commencing upon termination. Such payments shall be made in 24 monthly installments and medical and dental coverage shall continue during this period.

Exhibit 11

# MELVILLE CORPORATION AND SUBSIDIARY COMPANIES
## COMPUTATION OF PER SHARE EARNINGS
($ and shares in thousands, except per share data)

| | Twelve Months Ended December 31, 1994 | Twelve Months Ended December 31, 1993 | Twelve Months Ended December 31, 1992 |
|---|---|---|---|
| PRIMARY EARNINGS PER COMMON SHARE: | | | |
| Net earnings | $ 307,470 | $ 331,790 | $ 133,429 |
| Less: Preferred dividends, net | 17,027 | 16,807 | 15,724 |
| Net earnings used to calculate primary earnings per share | $ 290,443 | $ 314,983 | $ 117,705 |
| Weighted average number of shares outstanding | 105,481 | 105,069 | 104,418 |
| Add: Weighted average number of shares which could have been issued upon exercise of outstanding options | 47 | 281 | 510 |
| Weighted average number of shares used to compute primary earnings per share | 105,528 | 105,350 | 104,928 |
| Primary earnings per share | $ 2.75 | $ 2.99 | $ 1.12 |
| FULLY DILUTED EARNINGS PER COMMON SHARE: | | | |
| Net earnings | $ 307,470 | $ 331,790 | $ 133,429 |
| Less: Preferred dividends | 53 | 53 | 54 |
| Net earnings used to calculate fully diluted earnings per share, before adjustments | 307,417 | 331,737 | 133,375 |
| Less: Adjustments resulting principally from the assumed conversion of the Series One ESOP Convertible Preference Stock, net of tax benefit | 557 | 510 | 452 |
| Net earnings used to calculate fully diluted earnings per share | $ 306,860 | $ 331,227 | $ 132,923 |
| Weighted average number of shares used to compute primary earnings per share | 105,481 | 105,069 | 104,418 |
| Add: Weighted average shares of Series One Convertible Preference Stock assuming conversion | 7,339 | 6,830 | 6,602 |
| Add: Weighted average number of shares which could have been issued upon exercise of outstanding options | 47 | 293 | 652 |
| Add: Weighted average number of shares which could have been issued upon conversion of 4 7/8% debentures | 3 | 6 | 6 |
| Weighted average number of shares used to compute fully diluted earnings per share | 112,870 | 112,198 | 111,678 |
| Fully diluted earnings per share | $ 2.72 | $ 2.95 | $ 1.19 |

Exhibit 12

MELVILLE CORPORATION AND SUBSIDIARY COMPANIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
($ in thousands)

| | 1994 | 1993 | 1992 | 1991 | 1990 |
|---|---|---|---|---|---|
| Fixed Charges: (1) | | | | | |
| Interest Expense | $ 34,113 | $ 25,846 | $ 26,519 | $ 30,489 | $ 23,822 |
| Interest Capitalized | 305 | 583 | 124 | 748 | 1,930 |
| Interest Portion of Operating Leases | 180,000 | 166,000 | 160,000 | 149,000 | 124,000 |
| Interest Portion of Capital Leases | 2,973 | 3,390 | 4,030 | 4,507 | 4,983 |
| Amortization of Debt Expense | 127 | 127 | 127 | 127 | 127 |
| Total Fixed Charges | $ 217,518 | $ 195,946 | $ 190,800 | $ 184,871 | $ 154,862 |
| Adjusted Fixed Charges: | | | | | |
| Total Fixed Charges | $ 217,518 | $ 195,946 | $ 190,800 | $ 184,871 | $ 154,862 |
| Interest Capitalized | 305 | 583 | 124 | 748 | 1,930 |
| Adjusted Fixed Charges | $ 217,213 | $ 195,363 | $ 190,676 | $ 184,123 | $ 152,932 |
| Earnings: | | | | | |
| Earnings before Income Taxes, Minority Interests and Cumulative Effect of Change in Accounting Principle (2) | $ 578,106 | $ 599,527 | $ 335,496 | $ 640,098 | $ 687,338 |
| Adjusted Fixed Charges | 217,213 | 195,363 | 190,676 | 184,123 | 152,932 |
| | $ 795,319 | $ 794,890 | $ 526,172 | $ 824,221 | $ 840,270 |
| Ratio of Earnings to Fixed Charges | 3.66 | 4.06 | 2.76 | 4.46 | 5.43 |

(1) The Company formed an Employee Stock Ownership Plan effective January 1, 1989. On June 23, 1989, the ESOP Trust borrowed $357.5 million from qualified lenders, the proceeds of which were used to purchase a new series of preference stock issued by the Company. The loan to the ESOP Trust has been guaranteed by the Company. Annualized dividends on preference stock totaled $24.9 million in 1994, $25.3 million in 1993, $25.8 million in 1992, $26.0 million in 1991 and $26.1 million in 1990. These amounts are not reflected in the calculation above.

(2) 1992 reflects the impact of the strategic realignment charge of $346,979.

Exhibit 13

# FINANCIAL HIGHLIGHTS

Melville Corporation 1994 Annual Report

| ($ and shares in thousands, except per share data) | | | |
| --- | --- | --- | --- |
| Operating Results | 1994 | 1993 | % Change |
| Net Sales | $11,285,561 | $10,435,401 | 8.1 |
| Operating Profit | 610,742 | 623,337 | (2.0) |
| Earnings before Income Taxes and Minority Interests | 578,106 | 599,527 | (3.6) |
| Net Earnings | 307,470 | 331,790 | (7.3) |
| Dividends on Common Stock | 160,422 | 159,686 | 0.5 |
| Dividends on Preferred and Preference Stock | 24,929 | 25,248 | (1.3) |
| Per Share of Common Stock | | | |
| Net Earnings | $ 2.75 | $ 3.00 | (8.3) |
| Dividends | 1.52 | 1.52 | -- |
| Financial Position at Year End | | | |
| Cash and Cash Equivalents | $ 117,035 | $ 80,971 | 44.5 |
| Inventories | 2,138,243 | 1,858,772 | 15.0 |
| Working Capital | 1,007,757 | 1,091,323 | (7.7) |
| Shareholders' Equity | 2,381,605 | 2,246,846 | 6.0 |
| Key Percentages | | | |
| Operating Profit as a Percentage of Net Sales | 5.4 | 6.0 | |
| Earnings before Income Taxes and Minority Interests as a Percentage of Net Sales | 5.1 | 5.7 | |
| Net Earnings as a Percentage of Net Sales | 2.7 | 3.2 | |
| Return on Beginning Shareholders' Equity | 13.7 | 16.0 | |
| Statistics | | | |
| Weighted Average Common Shares Outstanding | 105,481 | 105,069 | 0.4 |
| Number of Stores | 7,378 | 7,282 | 1.3 |
| Number of Associates | 117,414 | 111,082 | 5.7 |
| Number of Common Shareholders | 7,200 | 7,600 | (5.3) |



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

Melville Corporation and Subsidiary Companies

## Financial Condition

| ($ in millions) | 1994 | 1993 | 1992 |
| --- | --- | --- | --- |
| Cash and cash equivalents | $117.0 | $ 81.0 | $145.1 |
| Cash flows provided by operating activities | 498.4 | 435.9 | 559.4 |
| Daily average of short-term borrowings | 567.4 | 464.8 | 542.2 |
| Maximum short-term borrowings | 948.5 | 875.0 | 820.0 |
| Short-term borrowings outstanding at year end | 200.0 | 90.0 | - |

| | | | |
|---|---|---|---|
| Net interest expense | 32.6 | 23.8 | 25.4 |

Ratios

| | | | |
|---|---|---|---|
| Long-term obligations to total capitalization | 12.8% | 14.0% | 15.3% |
| Long-term obligations to shareholders equity | 14.7% | 16.2% | 18.1% |
| Current ratio | 1.6 | 1.8 | 1.8 |

The Company's primary source of liquidity is cash provided from its operations. Since 70% of the Company's earnings occur in the fourth quarter, however, it utilizes short-term borrowings, primarily commercial paper issuances, to finance its seasonal inventory needs and capital expenditures throughout the year. Borrowing levels were higher in 1994 as compared to 1993 due to increased capital expenditures while earnings were lower.

Net interest expense is a function of interest rates and short-term borrowing levels. The increase in net interest expense in 1994 relative to 1993 and 1992 reflects higher interest rates as well as higher borrowing levels.

Current assets increased due primarily to a $279.5 million increase in inventories. The increase in inventories is due to new store openings, the early receipt of spring merchandise, opportunistic purchases and increased stock levels required for our larger store formats. Accounts receivable decreased despite higher sales due to the settlement of a disposition related receivable included in the 1993 balance. The allowance for doubtful accounts decreased due to CVS' new pharmacy system, which allows faster verification of third party coverage. Prepaid expenses decreased as utilization of realignment reserves resulted in decreased deferred taxes.

Current liabilities increased due to higher accounts payable and notes payable balances related to the higher inventories. In addition, the timing of payments, particularly the payment of the 1994 ESOP dividends made after year-end, as well as salaries, store rentals and state income taxes led to an increase in accrued expenses.

Capital Expenditures

| ($ in millions) | 1994 | 1993 | 1992 |
|---|---|---|---|
| Capital expenditures | $421.4 | $386.7 | $304.3 |

Expenditures in all years were principally for improvements to new and existing store locations, store equipment and information systems. Capital expenditures for 1995 are estimated at $325.0 million and are primarily for new store openings, continuing improvements to stores and continued investments in information systems and distribution centers.

Results of Operations

| ($ in millions, except per share amounts) | 1994 | 1993 | 1992 |
|---|---|---|---|
| Net sales | $11,285.6 | $10,435.4 | $10,432.8 |
| Same store sales increase | 3.3% | 0.1% | 3.2% |
| Operating profit before realignment charge | $ 610.7 | $ 623.3 | $ 707.9 |
| Realignment charge | - | - | 347.0 |
| Operating profit | 610.7 | 623.3 | 360.9 |
| Net earnings before realignment charge and accounting change | 307.5 | 331.8 | 381.4 |
| Net earnings | $ 307.5 | $ 331.8 | $ 133.4 |

| | | | |
|---|---|---|---|
| Net earnings per share before realignment charge and accounting change | $ 2.75 | $ 3.00 | $ 3.50 |
| Net earnings per share | 2.75 | 3.00 | 1.13 |
| Percentage of net sales | | | |
| Cost of goods sold, buying and warehousing costs | 64.3 | 63.9 | 62.6 |
| Store operating, selling, general and administrative expenses | 28.5 | 28.3 | 28.7 |

Net Sales

Consolidated net sales for the year ended December 31, 1994 were $11.3 billion representing an 8.1% increase over 1993. Sales for the fourth quarter of 1994, which included six fewer selling days than the fourth quarter of 1993, were $3.7 billion, an increase of 4.3% over the prior year. The consolidated operating results, however, exclude those of Chess King, Prints Plus and Accessory Lady after their dispositions on May 17, May 29, and October 16, 1993, respectively.



Adjusting for these factors, consolidated net sales would have increased 9.4% for the year and 4.4% for the quarter. CVS, Kay-Bee, and Linens 'n Things generated positive sales growth throughout the year while disappointing performances at Wilsons and Thom McAn offset these improvements.

Consolidated net sales in 1993 were impacted by the 1993 dispositions and the exclusion of sales of the stores designated to be closed by Thom McAn and Kay-Bee under the 1992 strategic realignment program. Adjusting for these factors, net sales in 1993 increased 4.8%.

Increases in consolidated net sales differ from same store sales increases mainly due to acquisitions, dispositions and store openings and closings. The 1994 increase in same store sales was due primarily to very strong performances at CVS and Kay-Bee offset by poor results at Marshalls and Wilsons. The lower same store sales increase in 1993 resulted primarily from weakness in the apparel and footwear segments.

Net Earnings

Consolidated net earnings for 1994 were negatively impacted by disappointing performances in our apparel and footwear segments, and by costs related to the Company's guarantees for leased properties of businesses sold to purchasers who subsequently filed for bankruptcy protection. In addition to the $5.8 million pre-tax reserve established last year for anticipated lease settlement costs for the remaining Freddy's leases, an additional pre-tax reserve of $17.5 million was set aside, $14.2 million of which was recorded in the fourth quarter, to cover anticipated future obligations. These obligations relate principally to Chess King leases rejected in bankruptcy by Merry-Go-Round Enterprises, the purchaser of Chess King. Management is confident that these reserves are adequate to cover the Company's obligations under these guarantees.

In 1993, net earnings were increased by $10.0 million due to a change in the Company's method of determining retail price indices used in the valuation of inventories valued on a last-in, first-out basis. This was offset by a disappointing performance in our apparel segment, a gross margin decline at CVS and a pre-tax $4.0 million reserve for the loss on sale of the note received in connection with the sale of Chess King.

Under the strategic realignment program formulated during the fourth quarter of 1992, the Company recorded an after-tax, non-cash charge of $222.0 million ($2.13 per share), and elected to record an after-tax, non-cash charge of $22.6 million ($0.21 per share) related to its change in accounting for postretirement benefits.

Net earnings per share declined due to the factors noted above. Adjusted to exclude the impact of the real estate costs, net earnings per share in 1994 would have been $2.86. Adjusted to exclude the impact of the two special charges, net earnings per share in 1992 would have been $3.50.

Strategy Development and Review

At year-end, the Company initiated a comprehensive strategic review, the objective of which is to maximize the Company's sales and profits by examining its mix of businesses.

By the end of 1994, the Company has completed many of the objectives of the 1992 strategic realignment program. To date, the Company has closed over 300 Thom McAn stores, and about 200 of the Kay-Bee and Linens 'n Things stores designated to be closed or converted under the program. In 1993, three divisions, Chess King, Prints Plus and Accessory Lady, were sold and accelerated remodeling programs at CVS and Marshalls were completed. To date, $301.6 million of the pre-tax amount recorded has been utilized.

Costs and Expenses

Cost of goods sold, buying and warehousing costs continue to increase as a percentage of consolidated net sales, reflecting the increased proportion of the prescription drugs, health and beauty care segment to total operations, compounded by continued pressure on third party providers to offer prescriptions at lower prices. In addition, lower initial markon and increased markdowns in our other segments have contributed to the erosion of gross margin.

Store operating, selling, general and administrative expenses increased as a percentage of consolidated net sales in 1994 as compared to a decrease in 1993. The 1994 increase resulted from fixed costs which were not adequately leveraged due to sales shortfalls at several divisions, which offset favorable trends in variable expense categories. Additionally, 1994 included lease settlement costs related to guarantees of Chess King and Freddy's stores sold. Excluding the effect of these one-time costs, the ratio of store operating, selling, general and administrative expenses as a percentage of consolidated net sales was flat with the prior year.

The decrease in the ratio of store operating, selling, general and administrative expenses as a percentage of consolidated net sales in 1993 stemmed from the success of the various cost containment programs underway which have enabled the Company to make significant progress in reducing its variable cost structure.

Accounting Changes

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 112, "Employers' Accounting for Postemployment Benefits", effective January 1, 1994, the impact of which was immaterial.

Effective January 1, 1993, the Company adopted SFAS No. 109, "Accounting for Income Taxes", the impact of which was also immaterial.

In 1992, the Company adopted SFAS No. 106,"Employers' Accounting for Postretirement Benefits Other Than Pensions", and recorded a one-time, after-tax, non-cash charge of $22.6 million to recognize the cumulative effect of the accounting change.

OF OPERATIONS

Melville Corporation and Subsidiary Companies

Prescription Drugs, Health and Beauty Care

| ($ in millions) | 1994 | 1993 | 1992 |
|---|---|---|---|
| Net sales | $4,330.1 | $3,948.2 | $3,632.1 |
| Operating profit before realignment charge | 227.7 | 195.7 | 208.6 |
| Operating profit | 227.7 | 195.7 | 149.2 |
| Percent change from prior year | | | |
| Net sales | 9.7 | 8.7 | 3.0 |
| Same store sales | 6.0 | 5.7 | 7.7 |
| Operating profit before realignment charge | 16.3 | (6.2) | 1.2 |
| Operating profit | 16.3 | 31.2 | (27.6) |
| Percent of consolidated total | | | |
| Net sales | 38.4 | 37.9 | 34.9 |
| Operating profit* | 35.2 | 30.8 | 40.3 |

*Before corporate expenses.

CVS achieved very favorable increases in both net sales and same store sales in 1994. Lower margined pharmacy sales increased 14.7% in 1994 and 24.1% in 1993 due to an expansion of the division's managed care business and the ability of the company to capitalize on its dominant market share. Various micro-marketing initiatives, and an expansion of private label merchandise lines, also helped to increase front store sales.

Net sales in 1993 reflect the success of the "Peoples Celebration Event" launched in late May, 1993 to reintroduce these stores to the Washington, D.C. market. Same store sales increased 7.0% in the fourth quarter of 1993 compared to 6.2% in 1992.

Net sales in 1992 exclude the Freddy's division sold in 1991 and the CVS stores in California sold in February, 1992. Adjusting for these dispositions, net sales would have increased 11.5% in 1992.

Operating profit in 1994 increased despite the larger proportion of pharmacy business as 1993 investments in technology yielded lower operating costs and better inventory control, resulting in lower markdowns.

Operating profit decreased in 1993 due to the impact of increased lower margined prescription sales and incremental costs of rolling out new point of sale and pharmacy systems.

The 1992 realignment charge related principally to the Peoples Drug Stores remodeling program which was completed in 1993.

Apparel

| ($ in millions) | 1994 | 1993 | 1992 |
|---|---|---|---|
| Net sales | $3,538.9 | $3,395.9 | $3,486.1 |
| Operating profit before realignment charge | 161.1 | 181.9 | 230.3 |
| Operating profit | 161.1 | 181.9 | 125.9 |
| Percent change from prior year | | | |
| Net sales | 4.2 | (2.6) | 7.5 |
| Same store sales | (1.5) | (3.6) | 3.1 |

| | | | |
|---|---|---|---|
| Operating profit before realignment charge | (11.5) | (21.0) | 3.3 |
| Operating profit | (11.5) | 44.5 | (43.5) |
| Percent of consolidated total | | | |
| Net sales | 31.3 | 32.5 | 33.4 |
| Operating profit* | 24.9 | 28.6 | 34.0 |

*Before corporate expenses.

The decline in same store sales for this segment reflects the prolonged nationwide slump in apparel sales, especially the off-price channel, as consumers shifted spending to durables, home related goods and consumer electronics. Underscoring the national trend, Marshalls' gifts and domestics departments experienced a 19.6% increase in net sales while its total sales increased 6.4% over 1993. The expansion of Bob's also contributed to the growth in net sales. Sales decreased at Wilsons for a second year due to weakness in the leather outerwear market which was compounded by overall warm temperatures in fall and early winter.

The 1993 decrease in net sales was due to the sale of Chess King and Accessory Lady and lower net sales at Wilsons. Adjusting for the divisions sold, net sales in the segment would have increased 2.3% in 1993.

Operating profit decreased in 1994 and 1993 because of lower same store sales and gross margins resulting from the heightened promotional activity throughout the apparel industry. This was partially offset by the exclusion of the unprofitable Chess King division and strong control of variable expenses at both Marshalls and Wilsons.

Despite the negative impact of decreased sales and profits at Chess King, operating profit in 1992 before the realignment charge increased due to strong sales at Marshalls, coupled with strict expense control.

The realignment charge recorded in 1992 related to the write-down of certain non-performing assets as well as an estimated loss on sale for the Chess King and Accessory Lady divisions.



Footwear

| ($ in millions) | 1994 | 1993 | 1992 |
|---|---|---|---|
| Net sales | $1,839.9 | $1,713.1 | $1,840.0 |
| Operating profit before realignment charge | 158.6 | 169.0 | 180.0 |
| Operating profit | 158.6 | 169.0 | 92.0 |
| Percent change from prior year | | | |
| Net sales | 7.4 | (6.9) | 5.3 |
| Same store sales | 2.4 | (2.5) | (1.8) |
| Operating profit before realignment charge | (6.2) | (6.1) | 11.2 |
| Operating profit | (6.2) | 83.7 | (43.2) |
| Percent of consolidated total | | | |
| Net sales | 16.3 | 16.4 | 17.6 |
| Operating profit* | 24.5 | 26.6 | 24.9 |

*Before corporate expenses.

Net sales increases in 1994 at Meldisco and Footaction were offset by a decline at Thom McAn, resulting from the discontinuation of its men's athletic and children's departments in late 1993 as well as the contraction of this chain.

Net sales decreased in 1993 due to the exclusion from operations of about 390 stores designated to be closed under the strategic realignment program and the discontinuation of product lines. Adjusting for stores excluded at Thom McAn, net sales would have increased 2.2% in 1993.

Net sales increased in 1992 due to the acquisition of Footaction in November, 1991 coupled with a modest sales increase at Meldisco, offset by a decline at Thom McAn. Adjusting to exclude the impact of Footaction, net sales would have decreased 0.1% in 1992.

Operating profit in 1994 decreased due to weak same store sales at Thom McAn, increased markdowns throughout the segment and higher operating costs incurred from the rapid rollout of 32 new Footaction superstores, 27 of which were opened in the second half of the year. In addition, about $5.0 million of one-time costs, principally at Meldisco related to Kmart store closings and other contingencies, negatively impacted profits.

Operating profit decreased in 1993 due to lower same store sales, particularly at Thom McAn, and higher markdowns, which offset an increase in initial markon at Meldisco. Meldisco's direct purchasing program in the Far East and Footaction's success in negotiating more favorable volume discounts, as well as strong expense control, contributed to the increase in operating profit before the realignment charge in 1992.

The realignment charge recorded in 1992 provided for the costs of closing or redeploying about 390 Thom McAn stores. Of the remaining stores designated to be closed, about 50 are planned for 1995.

Toys and Home Furnishings

| ($ in millions) | 1994 | 1993 | 1992 |
|---|---|---|---|
| Net sales | $1,576.7 | $1,378.2 | $1,474.7 |
| Operating profit before realignment charge | 99.4 | 89.1 | 98.1 |
| Operating profit | 99.4 | 89.1 | 2.9 |
| **Percent change from prior year** | | | |
| Net sales | 14.4 | (6.5) | 7.7 |
| Same store sales | 8.3 | (2.5) | 1.6 |
| Operating profit before realignment charge | 11.5 | (9.1) | 7.3 |
| Operating profit | 11.5 | 2,946.4 | (96.8) |
| **Percent of consolidated total** | | | |
| Net sales | 14.0 | 13.2 | 14.1 |
| Operating profit* | 15.4 | 14.0 | 0.8 |

*Before corporate expenses.

Significant increases in net sales were reported at Kay-Bee, as it enjoyed a strong year in most merchandise categories, and at Linens 'n Things, due to the successful rollout of its superstore format and increased consumer spending in home furnishings and related products.

Sales in 1993 benefitted from strong performances at Linens 'n Things and This End Up, offset by the disposition of Prints Plus and a decrease at Kay-Bee. The 1993 decline at Kay-Bee was due to the exclusion from operations of about 240 stores designated to be closed under the strategic realignment program and the lack of a "blockbuster" toy. Adjusting for the stores excluded and sold, net sales in 1993 would have increased 2.6% over 1992.

In 1992, net sales increased in all of the businesses in this segment except for a slight decrease at This End Up. Adjusting for the effect of K&K toy stores acquired in 1991, net sales would have increased 5.0% in 1992.

Operating profit improved in 1994 because of very strong sales growth and strict control of variable expenses. In addition, a favorable LIFO adjustment offset the decrease in gross margin caused by the implementation of sharper pricing strategies at Kay-Bee early in the year.

Operating profit declined in 1993 due to decreases in same store sales and initial markon at Kay-Bee, offset partially by a pre-tax LIFO adjustment of about $14.0 million and aggressive expense control at all divisions in this segment. Favorable economic trends in the housing industry and an expansion of merchandise offerings at Linens 'n Things and This End Up also contributed to an increase in operating profit before realignment in 1992.

The 1992 realignment charge provided primarily for costs of closing or redeploying about 240 stores at Kay-Bee and converting Linens 'n Things stores to its superstore format. Of the remaining Kay-Bee stores designated to be closed, about 25 are planned for 1995.



CONSOLIDATED STATEMENTS OF EARNINGS

Melville Corporation and Subsidiary Companies

($ in thousands, except per share data)

| Years Ended December 31 | 1994 | 1993 | 1992 |
|---|---|---|---|
| Net sales | $11,285,561 | $10,435,401 | $10,432,843 |
| Cost of goods sold, buying and warehousing cost | 7,252,568 | 6,664,395 | 6,529,239 |
| | 4,032,993 | 3,771,006 | 3,903,604 |
| Store operating, selling, general and administrative expenses | 3,215,985 | 2,956,081 | 2,994,723 |
| Depreciation and amortization | 206,266 | 191,588 | 201,008 |
| Realignment charge | -- | -- | 346,979 |
| | 3,422,251 | 3,147,669 | 3,542,710 |
| Operating profit | 610,742 | 623,337 | 360,894 |
| Interest expense, net | 32,636 | 23,810 | 25,398 |
| Earnings before income taxes, minority interests and cumulative effect of change in accounting principle | 578,106 | 599,527 | 335,496 |
| Provision for income taxes | 218,741 | 220,441 | 125,696 |
| Earnings before minority interests and cumulative effect of change in accounting principle | 359,365 | 379,086 | 209,800 |
| Minority interests in net earnings | 51,895 | 47,296 | 53,820 |
| Earnings before cumulative effect of change in accounting principle | 307,470 | 331,790 | 155,980 |
| Cumulative effect of change in accounting principle, net | -- | -- | 22,551 |
| Net earnings | $ 307,470 | $ 331,790 | $ 133,429 |

Per Share of Common Stock

| | | | |
|---|---|---|---|
| Earnings before cumulative effect of change in accounting principle | $ 2.75 | $ 3.00 | $ 1.34 |
| Cumulative effect of change in accounting principle, net | -- | -- | 0.21 |
| Net earnings per share of common stock | $ 2.75 | $ 3.00 | $ 1.13 |

See accompanying notes to consolidated financial statements.



CONSOLIDATED BALANCE SHEETS

Melville Corporation and Subsidiary Companies

($ in thousands)

| As of December 31 | 1994 | 1993 |
|---|---|---|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 117,035 | $ 80,971 |
| Accounts receivable, net | 229,833 | 243,998 |
| Inventories | 2,138,243 | 1,858,772 |
| Prepaid expenses | 165,388 | 200,290 |
| Total Current Assets | 2,650,499 | 2,384,031 |
| Property, plant, equipment and leasehold improvements, at cost: | | |
| Land | 32,917 | 25,584 |
| Buildings and improvements | 222,939 | 186,025 |
| Fixtures and equipment | 1,246,682 | 1,051,152 |
| Leasehold improvements | 687,095 | 623,403 |
| | 2,189,633 | 1,886,164 |
| Less accumulated depreciation and amortization | 674,727 | 583,964 |
| Net property, plant, equipment and leasehold improvements | 1,514,906 | 1,302,200 |
| Leased property under capital leases, net of accumulated amortization | 12,016 | 14,677 |
| Deferred charges and other assets | 109,641 | 113,455 |
| Goodwill, net of accumulated amortization of $94,987 in 1994 and $81,531 in 1993 | 448,427 | 443,678 |
| Total Assets | $4,735,489 | $4,258,041 |

See accompanying notes to consolidated financial statements.

($ and shares in thousands, except per share data)

| | 1994 | 1993 |
|---|---|---|
| **Liabilities** | | |
| Current Liabilities: | | |
| Accounts payable | $ 660,691 | $ 559,469 |
| Accrued expenses | 659,502 | 558,270 |
| Notes payable | 200,000 | 90,000 |
| Federal income taxes | 102,008 | 74,376 |
| Other current liabilities | 20,541 | 10,593 |
| Total Current Liabilities | 1,642,742 | 1,292,708 |
| Long-term debt | 331,340 | 341,763 |
| Deferred income taxes | 81,702 | 83,333 |
| Other long-term liabilities | 188,126 | 198,203 |
| Minority interests in subsidiaries | 108,644 | 93,858 |
| **Redeemable Preferred Stock** | | |
| Cumulative preferred stock, Series B, $4.00 dividend, par value $100, redeemable at par plus accrued dividends; authorized and issued 17 shares in 1994 and 1993; 4 shares held in treasury in 1994 and 1993 | 1,330 | 1,330 |
| **Shareholders' Equity** | | |
| Preference stock, par value $1.00, authorized 50,000 shares; Series One ESOP Convertible, liquidation value $53.45; issued and outstanding 6,379 in 1994 and 6,499 in 1993 | 340,948 | 347,346 |
| Guaranteed ESOP Obligation | (328,096) | (328,570) |
| Common stock, par value $1.00, authorized 300,000 shares, issued 111,454 and 111,278, outstanding 105,642 and 105,346, net of treasury shares, in 1994 and 1993, respectively | 111,454 | 111,278 |
| Capital surplus | 48,122 | 42,123 |
| Retained earnings | 2,494,383 | 2,364,322 |
| Cumulative translation adjustment | (1,421) | -- |
| Common stock in treasury, at cost; 5,812 and 5,932 shares in 1994 and 1993, respectively | (283,785) | (289,653) |
| Total Shareholders' Equity | 2,381,605 | 2,246,846 |
| Total Liabilities and Equity | $ 4,735,489 | $ 4,258,041 |



CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Melville Corporation and Subsidiary Companies

($ in thousands, except per share data)

| Years ended December 31, 1994, 1993 and 1992 | Preference Stock | Guaranteed ESOP Obligation | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock |
|---|---|---|---|---|---|---|
| Balance as of December 31, 1991 | $ 355,275 | $ (342,163) | $ 110,678 | $ 36,563 | $ 2,245,700 | $ (315,816) |
| Net earnings | | | | | 133,429 | |
| Purchase of Series B preferred shares for treasury (237 shares) | | | | 7 | | |
| Conversion of Series One ESOP Preference Stock through the reissuance of common stock held in treasury (50,358 shares) | (2,692) | | | 223 | | 2,469 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Dividends: | | | | | | |
| Series One ESOP Convertible Preference Stock ($3.90 per share), net | | | | | (15,670) | |
| Series B preferred ($4.00 per share) | | | | | (54) | |
| Common ($1.48 per share) | | | | | (154,530) | |
| Exercise of stock options and net shares awarded under stock plans | | | 469 | 16,491 | | (85) |
| Conversion of Subordinated Debentures | | | 3 | 18 | | |
| Reduction of Guaranteed ESOP Obligation | | 6,286 | | | | |
| Balance as of December 31, 1992 | 352,583 | (335,877) | 111,150 | 53,302 | 2,208,875 | (313,432) |
| Net earnings | | | | | 331,790 | |
| Reissuance of common stock held in treasury for business acquired (387,110 shares) | | | | (16,459) | 149 | 18,976 |
| Purchase of Series B preferred shares for treasury (75 shares) | | | | 3 | | |
| Conversion of Series One ESOP Preference Stock through the reissuance of common stock held in treasury (97,987 shares) | (5,237) | | | 434 | | 4,803 |
| Dividends: | | | | | | |
| Series One ESOP Convertible Preference Stock ($3.90 per share), net | | | | | (16,753) | |
| Series B preferred ($4.00 per share) | | | | | (53) | |
| Common ($1.52 per share) | | | | | (159,686) | |
| Exercise of stock options and net shares awarded under stock plans | | | 128 | 4,843 | | |
| Reduction of Guaranteed ESOP Obligation | | 7,307 | | | | |
| Balance as of December 31, 1993 | 347,346 | (328,570) | 111,278 | 42,123 | 2,364,322 | (289,653) |
| Net earnings | | | | | 307,470 | |
| Conversion of Series One ESOP Preference Stock through the reissuance of common stock held in treasury (119,696 shares) | (6,398) | | | 530 | | 5,868 |
| Dividends: | | | | | | |
| Series One ESOP Convertible Preference Stock ($3.90 per share), net | | | | | (16,934) | |
| Series B preferred ($4.00 per share) | | | | | (53) | |
| Common ($1.52 per share) | | | | | (160,422) | |
| Exercise of stock options and net shares awarded under stock plans | | | 173 | 5,447 | | |
| Conversion of Subordinated Debentures | | | 3 | 22 | | |
| Reduction of Guaranteed ESOP Obligation | | 474 | | | | |
| Balance as of December 31, 1994 | $ 340,948 | $ (328,096) | $ 111,454 | $ 48,122 | $ 2,494,383 | $ (283,785) |

See accompanying notes to consolidated financial statements.



## CONSOLIDATED STATEMENTS OF CASH FLOWS

Melville Corporation and Subsidiary Companies

($ in thousands)

| Years ended December 31 | 1994 | 1993 | 1992 |
|---|---|---|---|
| Cash Flows From Operating Activities: | | | |
| Net earnings | $ 307,470 | $ 331,790 | $ 133,429 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Realignment charge | -- | -- | 346,979 |
| Cumulative effect of change in accounting principle | -- | -- | 37,587 |
| Depreciation and amortization | 206,266 | 191,588 | 201,008 |
| Minority interests in net earnings | 51,895 | 47,296 | 53,820 |
| Increase (decrease) in deferred income taxes and other noncash items | 1,993 | 15,595 | (93,417) |
| Change in assets and liabilities, excluding acquisitions and dispositions: | | | |
| (Increase) decrease in accounts receivable, net | (15,013) | 33,484 | (31,728) |
| Increase in inventories | (266,069) | (86,344) | (25,184) |
| Increase in prepaid expenses, deferred charges and other assets | (14,123) | (14,392) | (26,239) |
| Increase (decrease) in accounts payable and accrued expenses | 125,849 | (125,150) | (10,335) |
| Increase (decrease) in Federal income taxes payable and other liabilities | 100,093 | 42,016 | (26,509) |
| Net Cash Provided by Operating Activities | 498,361 | 435,883 | 559,411 |
| Cash Flows From Investing Activities: | | | |
| Additions to property, plant, equipment and leasehold improvements | (421,375) | (386,724) | (304,345) |
| Proceeds from the sale or disposal of property, plant, equipment and leasehold improvements, leased property under capital leases, and operations or assets sold | 86,899 | 97,940 | 81,655 |
| Acquisitions, net of cash | (36,556) | (41,534) | (25,687) |
| Net Cash Used in Investing Activities | (371,032) | (330,318) | (248,377) |
| Cash Flows From Financing Activities: | | | |
| Dividends paid or payable | (225,500) | (245,635) | (239,467) |
| Additions to (reductions of) notes payable | 110,000 | 90,000 | (50,000) |
| Increase (decrease) in book overdrafts | 26,931 | (6,701) | 39,050 |
| Proceeds from the issuance of common stock | 3,152 | 5,799 | 15,537 |
| Reductions of long-term debt and obligations under capital leases | (4,423) | (13,190) | (9,641) |
| Effect of currency fluctuation | (1,421) | -- | -- |
| Other | (4) | (5) | (49) |
| Net Cash Used in Financing Activities | (91,265) | (169,732) | (244,570) |

| | | | |
|---|---|---|---|
| Net increase (decrease) in cash and cash equivalents | 36,064 | (64,167) | 66,464 |
| Cash and cash equivalents at beginning of year | 80,971 | 145,138 | 78,674 |
| Cash and Cash Equivalents at End of Year | $ 117,035 | $ 80,971 | $ 145,138 |

See accompanying notes to consolidated financial statements.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Melville Corporation and Subsidiary Companies

Summary of Significant Accounting Policies

Principles of Consolidation: The consolidated financial statements include the accounts of all subsidiary companies including foreign subsidiaries whose results of operations are not material. The minority interests represent the 49% participation of Kmart Corporation in the ownership of all retail subsidiaries formed or to be formed from July, 1967 until May 1, 1995 for the purpose of operating leased shoe departments in Kmart stores. All intercompany balances and transactions have been eliminated.

Cash and Cash Equivalents: Cash equivalents consist of highly liquid instruments with maturities of three months or less and are stated at cost which approximates market. The Company's cash management program utilizes zero balance accounts. Accordingly, all book overdraft balances have been reclassified to current liabilities.

Inventories: Inventories are stated at the lower of cost or market. Inventories of the retail operations are determined primarily by the retail method with 18.1% valued on a last-in, first-out ("LIFO") basis. Inventories of the manufacturing operations are determined on a first-in, first-out ("FIFO") basis.

Fixed Assets: Depreciation and amortization of property, plant, equipment and leasehold improvements is computed on a straight-line basis, generally over the estimated useful lives of the assets or, when applicable, the life of the lease, whichever is shorter. Amortization of leased property under capital leases is computed on a straight-line basis over the life of the lease. Capitalized software costs are amortized on a straight-line basis over their estimated useful lives.

Deferred Charges: Deferred charges, principally beneficial leasehold costs, are amortized on a straight-line basis, generally over the remaining life of the leasehold acquired.

Goodwill: The excess of acquisition cost over the fair value of net assets acquired is amortized on a straight-line basis over periods not to exceed forty years. Impairment is assessed based on profitability of the related business relative to planned levels and changes in useful life if disposition of a business is expected.

Maintenance and Repairs: Maintenance and repairs are charged directly to expense as incurred. Major renewals or replacements are capitalized after making necessary adjustments in the asset and accumulated depreciation accounts for the items renewed or replaced.

Store Opening and Closing Costs: New store opening costs are charged to expense as incurred. In the event a store is closed before its lease has expired, the total lease obligation, less sublease rental income, is provided for in the year of closing.

Advertising Costs: The Company charges production costs of advertising to expense the first time the advertising takes place.

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

Accounting Changes: Effective January 1, 1994, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 112, "Employers' Accounting for Postemployment Benefits", the cumulative effect of which was not material to the consolidated financial statements and is therefore not presented separately.

Effective January 1, 1993, the Company adopted SFAS No. 109, "Accounting for Income Taxes" ("SFAS No. 109"), the cumulative effect of which was also immaterial to the consolidated financial statements and is therefore not presented separately.

In 1993, the Company changed its method of determining retail price indices used in the valuation of LIFO inventories.

Effective January 1, 1992, the Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("SFAS No. 106").

Postretirement Benefits: The annual cost of postretirement benefits is funded as they arise and the cost is recognized over an employee's term of service with the Company.

Earnings Per Share: Primary earnings per share is computed by dividing net earnings, after deducting net preferred dividends on redeemable preferred stock and the ESOP Preference Stock, by the weighted average number of common shares outstanding during the year.

Fully diluted earnings per share is computed based upon the assumed conversion of the ESOP Preference Stock into common stock. Net earnings are reduced by the difference between the current dividend on the ESOP Preference Stock and the common stock, adjusted for certain nondiscretionary expenses based on net earnings.

Foreign Currency Translation: The Company translates foreign currency financial statements by translating balance sheet accounts at the current exchange rate and income statement accounts at the average rate for the year. Translation gains and losses are recorded in shareholders' equity, and realized gains and losses are reflected in income. The balance in the cumulative translation adjustment account of $1.4 million as of December 31, 1994 relates principally to the Company's operations in Mexico. Transaction gains and losses were insignificant.

Reclassifications: Certain reclassifications have been made to the consolidated financial statements of prior years to conform to the 1994 presentation.



## Acquisitions

During 1994, the Company acquired the assets of 11 prescription drugs, health and beauty care stores, 12 apparel stores and three stores selling branded athletic footwear and apparel, for an aggregate of $36.6 million in cash. These acquisitions have been accounted for using the purchase method and resulted in goodwill of $17.3 million. Results of operations are included in the consolidated financial statements from their respective dates of acquisition. Pro forma results have not been presented for the effect of these transactions as the operations are not material to the consolidated financial results of the Company.

## Strategic Realignment Charge

In 1992, the Company recorded a pre-tax strategic realignment charge of $347.0

million to reflect the anticipated costs associated with a program to close or convert to other formats duplicate or underperforming stores. The charge also included the write-down of fixed assets and other underperforming assets, losses from operations through the expected date of closure or lease settlement, severance and inventory liquidation costs.

Accounts Receivable

Accounts receivable at December 31 consisted of the following:

| ($ in thousands) | 1994 | 1993 |
|---|---|---|
| Trade accounts | $170,296 | $216,062 |
| Other | 78,395 | 60,470 |
| | 248,691 | 276,532 |
| Less allowance for doubtful accounts | 18,858 | 32,534 |
| | $229,833 | $243,998 |

Inventories

Inventories at December 31 consisted of the following:

| ($ in thousands) | 1994 | 1993 |
|---|---|---|
| Finished goods | $2,131,041 | $1,849,651 |
| Work-in-process | 645 | 1,616 |
| Raw materials and supplies | 6,557 | 7,505 |
| | $2,138,243 | $1,858,772 |

Prior to 1993, the Company used the U.S. Bureau of Labor Statistics indices to measure inflation or deflation in the valuation of its LIFO inventories. In 1993, internally developed indices were used to more accurately measure price fluctuations. The net earnings impact of this change on prior years, individually and cumulatively, is not determinable. The change increased 1993 net earnings by $10.0 million.

Had the FIFO method been used, the carrying value of inventories valued on a LIFO basis would have increased by $8.1 million and $22.4 million at December 31, 1994 and 1993, respectively.

Prepaid Expenses

Prepaid expenses at December 31 consisted of the following:

| ($ in thousands) | 1994 | 1993 |
|---|---|---|
| Deferred income taxes | $ 97,668 | $133,362 |
| Other | 67,720 | 66,928 |
| | $165,388 | $200,290 |

Accrued Expenses

Accrued expenses at December 31 consisted of the following:

| ($ in thousands) | 1994 | 1993 |
|---|---|---|

| | | |
|---|---|---|
| Taxes other than Federal income taxes | $143,801 | $114,627 |
| Rent | 87,811 | 77,475 |
| Other | 427,890 | 366,168 |
| | $659,502 | $558,270 |

Short-Term Borrowing Arrangements

Information regarding short-term borrowings outstanding at December 31 was as follows:

| ($ in millions) | 1994 | 1993 |
|---|---|---|
| Commercial paper | $200.0 | $ 90.0 |
| Weighted average interest rate | 6.0% | 3.3% |
| Lines of credit available | $693.5 | $630.0 |
| Letters of credit outstanding | 433.9 | 323.4 |

The Company has available lines of credit with various banks which permit borrowings at prime or other negotiated interest rates. There were no short-term borrowings outstanding under these lines of credit at December 31, 1994 and 1993. The Company can also obtain short-term financing through the issuance of commercial paper and bank loan participation notes, and is not obligated under any formal or informal compensating balance agreements.

Long-Term Debt

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

| ($ in thousands) | 1994 | 1993 |
|---|---|---|
| Guaranteed ESOP note, 8.52%, payable in various installments through 2008* | $340,100 | $340,100 |
| Other notes and mortgages payable | 8,637 | 8,944 |
| | 348,737 | 349,044 |
| Less current installments | 17,397 | 7,281 |
| | $331,340 | $341,763 |

*See Employee Stock Ownership Plan footnote.





A $7.0 million payment for the guaranteed ESOP note was made on January 3, 1995, due to the 1994 calendar. The aggregate long-term debt maturing during each of the next five years is as follows: $10.4 million in 1995, $13.8 million in 1996, $17.5 million in 1997, $21.7 million in 1998 and $13.9 million in 1999.

Net interest expense for the years ended December 31 included the following:

| ($ in thousands) | 1994 | 1993 | 1992 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Interest expense* | $34,113 | $25,846 | $26,681 |
| Interest income and capitalized interest | 1,477 | 2,036 | 1,283 |
| Net interest expense | $32,636 | $23,810 | $25,398 |

* Excludes interest related to the guaranteed ESOP note but includes interest costs recognized in connection with the Company's contribution to the ESOP.

Leases

The Company and its subsidiaries lease retail stores and warehouse, plant and office facilities over periods generally ranging from 5 to 25 years with options to renew such terms ranging from 5 to 15 years.

At December 31, 1994, the future minimum lease payments under capital leases, rental payments required under operating leases, and future minimum sublease rentals excluding lease obligations for closed facilities were as follows:

| ($ in thousands) | Capital Leases | Operating Leases |
|---|---|---|
| 1995 | $ 5,974 | $ 505,180 |
| 1996 | 5,650 | 478,941 |
| 1997 | 5,128 | 445,175 |
| 1998 | 4,420 | 406,847 |
| 1999 | 4,264 | 365,259 |
| Thereafter | 12,385 | 1,711,868 |
| Total | $37,821 | $3,913,270 |
| Less amount representing interest | 15,586 | |
| Present value of minimum lease payments | $22,235 | |
| Total future minimum sublease rentals | $ 554 | $ 43,671 |

Net rental expense for all operating leases for the years ended December 31 was as follows:

| ($ in thousands) | 1994 | 1993 | 1992 |
|---|---|---|---|
| Minimum rentals | $538,772 | $496,555 | $480,505 |
| Contingent rentals | 206,906 | 192,905 | 207,106 |
| | 745,678 | 689,460 | 687,611 |
| Less sublease rentals | 9,928 | 6,286 | 5,085 |
| | $735,750 | $683,174 | $682,526 |

Contingent rentals are principally those for leased shoe departments operated under license agreements with Kmart Corporation. These agreements are for terms of 25 years and provide for rental payments based on sales and profits. The remaining terms of license agreements in existence at December 31, 1994 ranged from 5 to 25 years.

The balance of contingent rentals relate to other Company operations and are based only on sales.

Leased property under capital leases at December 31 included:

| ($ in thousands) | 1994 | 1993 |
|---|---|---|
| Retail facilities | $20,399 | $25,262 |
| Warehouse, plant and office facilities | 21,809 | 22,603 |
| | 42,208 | 47,865 |
| Less accumulated amortization | 30,192 | 33,188 |
| | $12,016 | $14,677 |

Contingencies

In connection with dispositions completed in 1991, 1992 and 1993, Melville Realty Company, Inc. ("MRC"), a wholly owned subsidiary of the Company, continued to guarantee rental and other lease-related charges on 501 leases for retail stores and warehouse and office facilities. The present value of these minimum rental payments at December 31, 1994 was approximately $117.7 million. This amount includes $27.5 million related to the sale of Chess King to Merry-Go-Round Enterprises ("MGRE"), which filed for protection under Chapter 11 of the United States Bankruptcy Code. Pursuant to the terms of sale to a third party of a note receivable from MGRE, the Company will be indemnified for 52.5% of costs incurred under any guarantees for the duration of MGRE's bankruptcy. As of February 28, 1995, MGRE has rejected 119 leases guaranteed by MRC, which are not included in the figures above. Although the ultimate liability under these guarantees is uncertain, reserves totaling $15.0 million remain for potential losses as of December 31, 1994.



Stock Incentive Plans

The Company's 1990 Omnibus Stock Incentive Plan (the "Plan") provides for the granting of options, restricted stock and other stock-based awards for a maximum of 5,000,000 shares of common stock to key employees. The Plan replaced the Company's 1973 and 1987 Stock Option Plans and the 1980 Restricted Stock Plan ("Previous Plans").

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

The 1989 Directors' Stock Option Plan ("Directors' Plan") for non-employee directors ("eligible directors") provides for the granting of options to purchase a maximum of 150,000 shares of common stock. Any person who becomes an eligible director receives an initial option grant to purchase 2,000 shares of common stock, and, on each January 11 after such initial grant through January 11, 1998, is automatically granted an additional option to purchase 1,000 shares. All options are awarded at the fair value on the date of grant.

The right to exercise options granted under the Directors' Plan generally commences six months from the date of grant and expires ten years after the grant date, provided the director has served continuously during the exercise period.

Information with respect to stock option activity under the Plan, the Previous Plans and the Directors' Plan is as follows:

| | Number of Shares | Option Price Range Per Share |
|---|---|---|
| Outstanding at | | |

| | | |
|---|---|---|
| December 31, 1991 | 2,814,640 | $ 12.41 /$54.75 |
| Granted | 717,325 | 44.63 / 48.44 |
| Exercised | 460,090 | 12.41 / 52.00 |
| Cancelled | 44,650 | 36.00 / 52.00 |
| Outstanding at December 31, 1992 | 3,027,225 | $ 18.19 /$54.75 |
| Granted | 709,650 | 41.13 / 53.50 |
| Exercised | 126,400 | 18.19 / 52.00 |
| Cancelled | 139,875 | 39.38 / 52.00 |
| Outstanding at December 31, 1993 | 3,470,600 | $ 18.19 /$54.75 |
| Granted | 201,000 | 30.25 / 41.00 |
| Exercised | 76,428 | 18.19 / 39.38 |
| Cancelled | 7,000 | 45.00 |
| Outstanding at December 31, 1994 | 3,588,172 | $ 26.72 /$54.75 |
| Exercisable at December 31, 1994 | 3,399,172 | $ 26.72 /$54.75 |

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

Information regarding performance shares and performance based restricted shares is as follows:

| ($ in millions) | 1994 | 1993 | 1992 |
|---|---|---|---|
| Units awarded | 77,376 | 54,301 | 70,745 |
| Fair market value of units awarded | $ 2.9 | $ 2.6 | $ 3.4 |
| Shares granted related to units previously awarded | 42,051 | - | - |
| Fair market value of shares granted | $ 1.6 | $ - | $ - |

Restricted stock awards are currently granted under the Plan only in connection with the hiring or retention of key executives and are subject to certain conditions. Restrictions are lifted generally three years after the grant date, provided the executive continues to be employed by the Company. Information with respect to the restricted shares is as follows:

| ($ in millions) | 1994 | 1993 | 1992 |
|---|---|---|---|
| Shares granted | 55,050 | 2,225 | 12,265 |
| Fair market value of shares granted | $ 1.9 | $ 0.1 | $ 0.6 |
| Shares cancelled | 1,535 | 420 | 2,030 |

At December 31, 1994 shares available for grant under the Plan totaled 1,959,660 and 68,000 shares of stock were available for grant under the Directors' Plan.

Redeemable Preferred Stock

The Company is required to provide $279,000 annually, on December 1, as a sinking fund to repurchase shares of Series B preferred stock at prices not to exceed $100 per share. Any balance not so applied within one year is returned to the general funds of the Company. The difference between the cost of shares repurchased and par value is reflected in capital surplus.



Postretirement Benefits

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

Effective January 1, 1992, the Company adopted SFAS No. 106, and recorded an accumulated postretirement benefit obligation ("APBO") of $37.6 million for active employees and retirees.

The weighted average discount rate used to determine the APBO was 8.67% and 6.90% at December 31, 1994 and 1993, respectively. The following table reflects the accrued postretirement benefit cost as of December 31:

| ($ in thousands) | 1994 | 1993 |
|---|---|---|
| Retirees | $14,335 | $19,400 |
| Fully eligible active plan participants | 1,987 | 2,800 |
| Other active plan participants | 8,078 | 12,000 |
| APBO | 24,400 | 34,200 |
| Unrecognized prior service gain | 14,163 | 15,200 |
| Unrecognized net gain (loss) | 6,817 | (4,000) |
| Accrued Postretirement Benefit Cost | $45,380 | $45,400 |

Effective December, 1992, the Company amended these plans to terminate certain benefits, resulting in a prior service gain of $16.7 million to be amortized over 13 years. The net periodic cost recorded for the years ended December 31 was as follows:

| ($ in thousands) | 1994 | 1993 | 1992 |
|---|---|---|---|
| Interest expense | $2,000 | $2,200 | $3,300 |
| Service cost | (500)* | (1,000)* | 2,100 |
| | $1,500 | $1,200 | $5,400 |

* Net of prior service gain amortization.

For measurement purposes, an 11.0% increase in the cost of covered health-care benefits was assumed for 1994; the rate was assumed to decline gradually to 6.0% in 2010, and remain at that level thereafter. A 1.0% increase in the health-care cost trend rate would increase the APBO at December 31, 1994 by $3.1 million, and the 1994 annual expense by $0.4 million.

401(k) Profit Sharing Plan

The Company has a qualified 401(k) Profit Sharing Plan available to full-time employees who meet the plan's eligibility requirements. This plan, which is also a defined contribution plan, contains a profit sharing component, with tax-deferred contributions to each employee based on certain performance criteria, and also permits employees to make contributions up to the maximum limits allowed by Internal Revenue Code Section 401(k). Under the 401(k) component, the Company matches a portion of the employee's contribution under a predetermined formula based on the level of contribution and years of vesting service. Company contributions to the plan for both profit sharing and matching of employee contributions were $18.0 million, $20.3 million and $17.9 million in 1994, 1993 and 1992, respectively.

Employee Stock Ownership Plan

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

The ESOP Trust (the "Trust") borrowed $357.5 million through a 20-year loan guaranteed by the Company and used the proceeds to purchase 6,688,494 shares of ESOP Preference Stock from the Company. The original liquidation value of the ESOP Preference Stock is guaranteed by the Company. Dividends are cumulative at the stated rate or the common stock rate if higher. Information regarding the ESOP is as follows:

| ($ in millions) | 1994 | 1993 | 1992 |
|---|---|---|---|
| Dividends paid | $ - | $29.6 | $25.8 |
| Dividends accrued | 24.9 | - | 4.3 |
| Annualized dividends | 24.9 | 25.3 | 25.8 |
| Tax benefit of annualized dividends | 10.0 | 10.1 | 10.1 |
| Cash contributions* | 11.1 | 7.9 | 7.4 |
| Interest costs incurred by the Trust | 29.0 | 29.5 | 29.8 |
| Compensation expense recognized | 5.9 | 5.7 | 5.5 |
| Interest expense recognized | 5.3 | 5.9 | 4.7 |

* 1994 amount accrued; paid January, 1995.

Contributions to the ESOP, plus the dividends paid on the ESOP Preference Stock held by the Trust, are used to repay the loan principal and interest. The difference between the cash contribution and the aggregate expense recognized is credited to the Guaranteed ESOP Obligation.



Income Taxes

Effective January 1, 1993, the Company adopted SFAS No. 109. The cumulative effect of this accounting change was not material.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31 were as follows:

| ($ in thousands) | 1994 | 1993 |
|---|---|---|
| Deferred tax assets: | | |
| Employee benefits | $ 66,233 | $ 53,915 |

| | | |
|---|---|---|
| Inventories | 33,956 | 30,852 |
| Other assets | 7,895 | 21,920 |
| Total deferred tax assets | 108,084 | 106,687 |
| Deferred tax liabilities: | | |
| Property, plant and equipment | 92,118 | 56,658 |
| Net deferred tax assets | $ 15,966 | $ 50,029 |

The provision for income taxes for the years ended December 31 consisted of the following:

| ($ in millions) | 1994 | 1993 | 1992 |
|---|---|---|---|
| Federal | $166.6 | $170.2 | $ 99.1 |
| State | 52.1 | 50.2 | 26.6 |
| | $218.7 | $220.4 | $125.7 |

The provision for income taxes includes net deferred tax charges of $36.2 million and $103.4 million in 1994 and 1993, and a net deferred tax benefit of $97.6 million in 1992. For 1992, deferred income taxes relate principally to costs associated with the strategic realignment program, the capitalization of inventory costs, depreciation, employee related benefits, and leased property under capital leases.

Reconciliations of the effective tax rates to the U.S. statutory income tax rates are as follows:

| Percent of pre-tax income | 1994 | 1993 | 1992 |
|---|---|---|---|
| Effective tax rate | 37.8 | 36.8 | 37.5 |
| State income taxes, net of Federal tax benefit | (5.9) | (5.4) | (5.2) |
| 51% owned subsidiaries excluded from the consolidated Federal income tax return | 3.0 | 2.6 | 4.4 |
| Goodwill | (0.8) | (0.8) | (3.9) |
| Other | 0.9 | 1.8 | 1.2 |
| Statutory income tax rates | 35.0 | 35.0 | 34.0 |

Supplemental Cash Flow Information

During the years ended December 31, the Company had the following non-cash financing and investing activities:

| ($ in thousands) | 1994 | 1993 | 1992 |
|---|---|---|---|
| Fair value of assets acquired | $41,832 | $ 61,144 | $26,417 |
| Cash paid | 36,578 | 38,814 | 25,691 |
| Liabilities assumed | $ 5,254 | $ 22,330 | $ 726 |
| Book value of common stock issued in pooling of interests | $ - | $ 18,976 | $ - |
| Note received for | | | |

| | | | |
|---|---|---|---|
| operations sold | - | 29,413 | - |

Cash payments for income taxes and interest for the years ended December 31 were as follows:

| ($ in thousands) | 1994 | 1993 | 1992 |
|---|---|---|---|
| Income taxes | $ 140,789 | $157,240 | $236,975 |
| Interest (net of amounts capitalized) | 34,113 | 25,747 | 26,628 |



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Melville Corporation and Subsidiary Companies

Summary of Quarterly Results

(Unaudited; $ in thousands, except per share data)

| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
|---|---|---|---|---|
| **Net Sales** | | | | |
| 1994 | $2,379,839 | $2,507,469 | $2,737,016 | $3,661,237 |
| 1993 | 2,033,011 | 2,537,395 | 2,355,376 | 3,509,619 |
| **Gross Margin** | | | | |
| 1994 | $ 800,222 | $ 903,227 | $ 966,772 | $1,362,772 |
| 1993 | 694,749 | 926,835 | 853,159 | 1,296,263 |
| **Net Earnings (Loss)** | | | | |
| 1994 | $ (2,505) | $ 45,602 | $ 51,718 | $ 212,655 |
| 1993 | (21,686) | 74,525 | 41,504 | 237,447 |
| **Net Earnings (Loss) Per Share** | | | | |
| 1994 Primary | $ (0.06) | $ 0.39 | $ 0.45 | $ 1.97 |
| 1994 Fully Diluted* | (0.06) | 0.39 | 0.45 | 1.90 |
| 1993 Primary | (0.24) | 0.67 | 0.35 | 2.22 |
| 1993 Fully Diluted* | (0.24) | 0.67 | 0.35 | 2.12 |

*Dilutive effect in the fourth quarter due to the assumed conversion of the ESOP Preference Stock and the seasonality of earnings.

Market Information

Melville Corporation's common stock is listed on the New York Stock Exchange. Its trading symbol is MES. Information with respect to quarterly trading ranges (based on low/high stock prices) and dividends paid per share is as follows:

| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Year |
|---|---|---|---|---|---|
| **Market Price Per Share** | | | | | |
| 1994 | $ 35 3/4 - 41 3/4 | $ 37 1/8 - 41 5/8 | $ 34 1/2 - 39 7/8 | $ 29 1/2 - 36 5/8 | $ 29 1/2 - 41 3/4 |
| 1993 | 46 3/4 - 54 3/4 | 43 3/4 - 48 1/4 | 42 1/4 - 47 1/8 | 38 7/8 - 45 5/8 | 38 7/8 - 54 3/4 |
| **Dividends Paid Per Share** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| 1994 | $ 0.38 | $ 0.38 | $ 0.38 | $ 0.38 | $ 1.52 |
| 1993 | 0.38 | 0.38 | 0.38 | 0.38 | 1.52 |



Segment Information

The Company is a specialty retailer conducting business through retail stores in four business segments: prescription drugs, health and beauty care; apparel; footwear; and toys and home furnishings. Information about operations for each of these segments is summarized as follows:

| ($ in thousands) | 1994 | 1993 | 1992 |
|---|---|---|---|
| Prescription Drugs, Health and Beauty Care | | | |
| Net sales | $ 4,330,099 | $ 3,948,197 | $ 3,632,066 |
| Operating profit (a)(b) | 227,655 | 195,670 | 149,182 |
| Identifiable assets at December 31 (c) | 1,662,127 | 1,592,964 | 1,492,471 |
| Depreciation and amortization | 60,827 | 56,883 | 60,233 |
| Additions to property, plant, equipment and leasehold improvements (d) | 102,047 | 104,592 | 111,802 |
| Apparel | | | |
| Net sales | 3,538,928 | 3,395,926 | 3,486,065 |
| Operating profit (a)(b) | 161,087 | 181,922 | 125,893 |
| Identifiable assets at December 31 (c) | 1,528,693 | 1,334,026 | 1,366,191 |
| Depreciation and amortization | 79,210 | 75,963 | 78,566 |
| Additions to property, plant, equipment and leasehold improvements (d) | 145,032 | 154,247 | 105,037 |
| Footwear | | | |
| Net sales | 1,839,883 | 1,713,093 | 1,840,022 |
| Operating profit (a)(b) | 158,561 | 168,979 | 91,984 |
| Identifiable assets at December 31 (c) | 660,197 | 568,015 | 572,344 |
| Depreciation and amortization | 25,911 | 20,937 | 22,293 |
| Additions to property, plant, equipment and leasehold improvements (d) | 56,503 | 45,924 | 26,973 |
| Toys and Home Furnishings | | | |
| Net sales | 1,576,651 | 1,378,185 | 1,474,690 |
| Operating profit (a)(b) | 99,403 | 89,138 | 2,926 |
| Identifiable assets at December 31 (c) | 789,859 | 655,290 | 639,764 |
| Depreciation and amortization | 37,424 | 34,797 | 37,454 |
| Additions to property, plant, equipment and leasehold improvements | 92,332 | 70,948 | 47,191 |
| Consolidated | | | |
| Net sales | $11,285,561 | $10,435,401 | $10,432,843 |
| Operating profit before | | | |

| | | | |
|---|---|---|---|
| corporate expenses (a)(b) | 646,706 | 635,709 | 369,985 |
| Corporate expenses excluding depreciation and amortization (e) | 33,070 | 9,364 | 6,629 |
| Corporate depreciation and amortization | 2,894 | 3,008 | 2,462 |
| Interest expense, net | 32,636 | 23,810 | 25,398 |
| Earnings before income taxes and minority interests | $ 578,106 | $ 599,527 | $ 335,496 |
| Identifiable assets at December 31 (c) | $ 4,640,876 | $ 4,150,295 | $ 4,070,770 |
| Corporate assets | 94,613 | 107,746 | 131,392 |
| Total assets at December 31 | $ 4,735,489 | $ 4,258,041 | $ 4,202,162 |
| Depreciation and amortization | $ 206,266 | 191,588 | 201,008 |
| Corporate additions to property plant, equipment and leasehold improvements | 25,461 | 11,013 | 13,342 |
| Total additons to property, plant, equipment and leasehold improvements(d) | $ 421,375 | $ 386,724 | $ 304,345 |

(a) Operating profit is defined as total revenues less operating expenses.
(b) In 1992, includes the effect of the strategic realignment charge.
(c) Indentifiable assets include those assets directly related to each segment's operations.
(d) Excludes acquisition.
(e) Includes general corporate expenses as well as net expenses related to other corporate managed subsidiaries. Increase in 1994 relates to lease settlement reserves as well as expansion of centralized services for operating divisions.



FIVE-YEAR FINANCIAL SUMMARY

Melville Corporation and Subsidiary Companies

($ in thousands, except per share data)

| Results for the Year | 1994 | 1993 (a) | 1992 (b) | 1991 | 1990 |
|---|---|---|---|---|---|
| Net Sales | $11,285,561 | $10,435,401 | $10,432,843 | $ 9,886,183 | $ 8,686,765 |
| Wages and Compensation | 1,403,401 | 1,338,881 | 1,315,564 | 1,257,756 | 1,053,440 |
| Taxes | 448,890 | 435,033 | 318,162 | 439,272 | 419,038 |
| Earnings before Income Taxes, Minority Interests and Cumulative Effect of Change in Accounting Principle | 578,106 | 599,527 | 335,496 | 640,098 | 687,338 |
| Earnings before Cumulative Effect of Change in Accounting Principle | 307,470 | 331,790 | 155,980 | 346,681 | 385,261 |
| Net Earnings | 307,470 | 331,790 | 133,429 | 346,681 | 385,261 |
| Dividends Declared | 185,351 | 184,934 | 180,324 | 174,517 | 172,210 |
| **Per Share of Common Stock** | | | | | |
| Earnings before Cumulative Effect of Change in Accounting Principle | $ 2.75 | $ 3.00 | $ 1.34 | $ 3.20 | $ 3.59 |
| Net Earnings | 2.75 | 3.00 | 1.13 | 3.20 | 3.59 |
| Dividends | 1.52 | 1.52 | 1.48 | 1.44 | 1.42 |
| Book Value | 22.54 | 21.33 | 19.83 | 20.06 | 17.99 |
| **End of Year Position** | | | | | |
| Current Assets | $ 2,650,499 | $ 2,384,031 | $ 2,429,772 | $ 2,359,017 | 2,103,582 |
| Current Liabilities | 1,642,742 | 1,292,708 | 1,350,498 | 1,302,770 | 1,123,314 |
| Current Ratio | 1.6 | 1.8 | 1.8 | 1.8 | 1.9 |
| Total Assets | $ 4,735,489 | $ 4,258,041 | $ 4,202,162 | $ 4,074,259 | 3,652,504 |
| Total Long-Term Obligations and Redeemable Preferred Stock | 351,762 | 365,936 | 376,417 | 385,483 | 396,430 |
| Percentage of Long-Term Obligations to Total Capitalization | 12.8 | 14.0 | 15.3 | 15.5 | 17.6 |
| **Property, Plant, Equipment and Leasehold Improvements** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Net of Accumulated Depreciation and Amortization | $ 1,514,906 | $ 1,302,200 | $ 1,207,871 | $ 1,105,287 | $ 965,085 |
| Capital Additions(c) | 421,375 | 386,724 | 304,345 | 253,072 | 231,132 |
| Percentage of Net Sales | | | | | |
| Earnings before Income Taxes, Minority Interests and Cumulative Effect of Change in Accounting Principle | 5.1 | 5.7 | 3.2 | 6.5 | 7.9 |
| Earnings before Cumulative Effect of Change in Accounting Principle | 2.7 | 3.2 | 1.5 | 3.5 | 4.4 |
| Net Earnings | 2.7 | 3.2 | 1.3 | 3.5 | 4.4 |
| Return on Beginning Shareholders' Equity | 13.7% | 16.0% | 6.4% | 18.7% | 23.8% |
| Number of Stores | 7,378 | 7,282 | 8,213 | 8,293 | 7,754 |

(a) Excludes stores designated to be closed in connection with the 1992 strategic realignment program.
(b) Includes impact of strategic realignment charge.
(c) Excludes acquisitions.

EXHIBIT 22

PARENTS AND SUBSIDIARIES AS OF DECEMBER 31, 1994

The registrant is the direct parent corporation of the following Minnesota corporations, the majority of which also operate specialty retail chain stores; Smart Step H.C., Inc.; Meldisco H.C., Inc.; CVS H.C., Inc.; Bob's H.C., Inc., Rosedale Wilsons, Inc.; Rosedale This End Up, Inc.; Rosedale Open Country, Inc.; Bloomington, MN., L.T., Inc.; Apache-Minnesota Thom McAn, Inc.; Southdale Kay-Bee Toy, Inc., Marshalls of Roseville, MINN., Inc., Melville Foreign, Inc., Melville Mexico H.C., Inc. and Melville Altmex H.C., Inc.

Marshalls of Roseville, MINN., Inc. is the parent corporation of Marshalls of Richfield, MN., Inc., which is the parent corporation of 535 subsidiaries, all of which were formed to operate specialty retail stores, all located in the United States selling primarily apparel for men, women and children.

Southdale Kay-Bee Toy, Inc. is the parent corporation of Mall of America Kay-Bee Toy, Inc., which is the parent corporation of 680 subsidiaries, all of which were formed to operate specialty retail stores, all located in the United States or Puerto Rico, selling primarily toys, games and hobby products.

Rosedale Wilsons, Inc. is the parent corporation of River Hills Wilsons, Inc., which is the parent corporation of 449 subsidiaries, all of which were formed to operate specialty retail stores, all located in the United States, selling primarily leather and suede apparel and accessories.

Melville Foreign, Inc. is the parent corporation of Melville (UK) Holdings, a United Kingdom company which is the parent corporation of 2 United Kingdom subsidiaries which were formed to operate speciality retail stores in the United Kingdom, selling primarily leather and suede apparel and accessories.



Bloomington, MN., L.T., Inc. is the parent corporation of Rockford L.T., Inc., which is the parent corporation of 283 subsidiaries, all of which were formed to operate specialty retail stores, all located in the United States, selling quality brand name linens, towels, bath and other household items.

Rosedale This End Up, Inc., is the parent corporation of Jefferson Yorktown This End Up, Inc., which is the parent corporation of 183 subsidiaries, the majority of which were formed to operate specialty retail stores, located in the United States or Canada selling a line of casual furniture.

CVS H.C., Inc., is the parent corporation of Nashua Hollis CVS, Inc., which is the parent corporation of 1,205 subsidiaries, all of which were formed to operate specialty retail stores located in the United States, selling prescription drugs, health and beauty care products.

Rosedale Open Country, Inc., is the parent corporation of Mall of America Fan Club, Inc., which is the parent corporation of 304 subsidiaries all of which were formed to operate specialty retail stores located in the United States selling brand name athletic footwear and related apparel for men, women and children.

Apache-Minnesota Thom McAn, Inc., is the parent corporation of Pheasant Thom McAn, Inc., which is the parent corporation of 728 subsidiaries all of which were formed to operate specialty retail stores located in the United States, Puerto Rico or the U.S. Virgin Islands selling men's and women's footwear.

Meldisco H.C., Inc. is the parent corporation of Miles Shoes Meldisco Lakewood, Colorado, Inc., which is the parent corporation (owning 51% of the capital stock, except for 1,020 subsidiaries in which it owns 100% of all of the



capital stock) of 3,455 subsidiaries all of which were formed to operate leased footwear departments in Kmart or Pay Less Drug Stores all located in the United States, Puerto Rico or the Czech Republic or Slovakia.

Melville Mexico H.C., Inc. and Melville Altmex H.C., Inc., are the direct or indirect parent corporations of four Mexican subsidiaries formed in connection with the operation of leased footwear departments in Kmart Stores located in Mexico.

Melville Corporation Singapore Pte. Ltd., a Singapore corporation, is the parent corporation of Singapore subsidiaries formed to operate 2 leased footwear departments in Kmart Stores located in Singapore.

Bob's H.C., Inc., is the parent corporation of Amherst MRC, Inc., which is the parent corporation of 34 subsidiaries which were formed to operate specialty retail stores located in the United States, selling casual clothing and footwear for the entire family.

The registrant is also the direct parent corporation of Footaction, Inc., a Texas corporation, CVS, Inc., a Rhode Island corporation and Pharmacare Management Services, Inc., a Delaware corporation and the indirect parent corporation of Marshall's, Inc., a Massachusetts corporation, Kay-Bee Toy & Hobby Shops, Inc., a Massachusetts corporation, Wilsons House of Suede, Inc., a California corporation, Linens 'n Things, Inc., a New Jersey corporation, T.E.U., Incorporated, a Virginia corporation, This End Up, Inc., a Virginia corporation, This End Up Furniture Company, a North Carolina corporation, T.E.U. Transportation, Inc., a Virginia corporation, Bob's Inc., a Connecticut corporation, Peoples Drug Stores, Incorporated, a Maryland corporation, CW Kay-Bee, Inc., a New York corporation and K & K Kay-Bee, Inc., a Virginia corporation, all of which are included in the consolidated financial statements of the registrant.



Several of the subsidiaries referred to in this Exhibit have not yet opened their stores for business, and several no longer operate any stores. All of the subsidiaries referred to herein are included in the consolidated financial statements of the registrant.

The names of other subsidiaries are omitted as, considered in the aggregate as a single subsidiary, they would not constitute a significant subsidiary.

<ARTICLE> 5

<LEGEND>
Financial Date Schedule

THIS SCHEDULE CONTAINS DATA EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS, AND THE CONSOLIDATED STATEMENTS OF EARNINGS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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| <NET-INCOME> | 307,470 |
| <EPS-PRIMARY> | 2.75 |
| <EPS-DILUTED> | 0 |