

Morningstar<sup>®</sup> Document Research<sup>SM</sup>

## **FORM 10-K**

**CVS HEALTH Corp - CVS**

**Filed: March 29, 1996 (period: December 31, 1995)**

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, 1995

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

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 \_\_\_\_

As of March 1, 1996, 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 \$3,433,331,349.

Number of shares outstanding of the issuer's Common Stock (par value \$1 per share) at March 1, 1996: 105,218,990.

Documents Incorporated by Reference

1. Annual Report to Shareholders for the year ended December 31, 1995: Part I, Item 1; Part II, Items 5, 6, 7 and 8; and Part IV, Item 14.

2. Proxy Statement dated March 7, 1996 issued in connection with the annual meeting of shareholders: Part III, Items 10, 11, 12 and 13.

\* Does not include 6,160,405 outstanding shares of Series One ESOP

Convertible Preference Stock ("ESOP Preference Stock"). As of March 1, 1996, 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.

#### Item 1. Business

Melville Corporation, a New York corporation (in this Item 1 called the "Company" and together with its subsidiaries, collectively called the "Companies"), is one of the largest diversified specialty retailers in the United States. On October 24, 1995, the Company announced a comprehensive strategic restructuring program which would result in the creation of three independent publicly traded retailing companies in the chain drug, footwear and toy industries. As part of its restructuring, the Company also completed the sale of its Marshalls business on November 17, 1995, and announced its intention to try and sell its Wilsons and This End Up businesses. The chain drug holding company will include the Company's CVS and, initially, its Linens 'n Things and Bob's Stores businesses. The footwear company will be comprised of the Company's Meldisco, Footaction and Thom McAn businesses. Because the footwear company constitutes an entire segment, it has been classified as discontinued operations in this report and in the Company's financial statements. The Kay-Bee Toy business was to be the separate toy company. As discussed in more detail below, the Company subsequently announced that it had reached an agreement to sell its Kay-Bee Toy business. All of these actions are expected to be completed by the summer of 1996.

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

2

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 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, 1995, the Companies had approximately 97,000 full and part-time associates.

#### BUSINESS SEGMENT INFORMATION

The Company is principally a specialty retailer conducting business in the three major segments listed below:

3

- 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.

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

Because the Company announced its intention to spin-off its footwear segment to shareholders in 1996 as part of its restructuring plan, the results of operations for these footwear businesses have been classified as discontinued operations for all periods presented in the consolidated statements of operations in the Company's Annual Report to Shareholders incorporated herein by reference. The financial information concerning industry segments required by Item 101(b) of Regulation S-K is set forth on page 36 of the Company's Annual Report to Shareholders for the year ended December 31, 1995, and is incorporated herein by reference.

#### PRESCRIPTION DRUGS, HEALTH AND BEAUTY CARE RETAILING

On December 31, 1995, the Companies operated 1,366 prescription drugs, health and beauty care stores in 14 states and the District of Columbia under the name "CVS", substantially all of which have pharmacies. Net sales for these

4

stores for 1995 represented approximately 50.2% of the net sales of the Companies' continuing operations.

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 sixth in dollar volume 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.

PharmaCare started in 1994 as a full service prescription benefits management company that markets and administers prescription benefit programs directly to managed care organizations, employers, and other health insurance companies. PharmaCare was formed to serve as the strategic marketing arm of CVS. It has developed a range of service offerings to distinguish CVS and PharmaCare in the prescription management market.

#### APPAREL RETAILING

On December 31, 1995, the Companies operated 548 men's and women's leather and suede apparel and accessory stores, which are located primarily in regional

5

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 1995 in these stores represented approximately 4.7% of the net sales of the Companies' continuing operations.

On December 31, 1995, the Companies operated 34 stores selling casual clothing and footwear for the entire family under the name "Bob's Stores", principally in "strip" shopping centers located in Connecticut, Massachusetts, New York, New Jersey, Rhode Island, Pennsylvania, New Hampshire, Virginia and Maryland. Net sales at Bob's stores for 1995 represented approximately 3.6% of the net sales of the Companies' continuing operations.

#### TOYS AND HOME FURNISHINGS

On December 31, 1995, the Companies operated 1,004 toy and hobby stores in all 50 states and Puerto Rico under the names "Kay-Bee Toys" and "Toy Works". As

discussed in more detail below, the Company announced on March 25, 1996, that it expects to complete the sale of this toy business to Consolidated Stores Corporation in May 1996. The Kay-Bee Toys stores are located primarily in regional shopping malls. The Toy Works stores are located primarily in "strip" shopping centers

6

and freestanding units. Net sales in toy and hobby stores for 1995 represented approximately 11.1% of the net sales of the Companies' continuing operations.

On December 31, 1995, the Companies operated 155 quality brand name linens, towels, bath and other household items stores, which are located primarily in "strip" shopping centers in 29 states under the name "Linens 'n Things". Linens 'n Things' net sales for 1995 represented approximately 5.7% of the net sales of the Companies' continuing operations.

On December 31, 1995, the Companies operated 228 stores carrying a distinctive line of casual furniture and coordinated accessories for residential and commercial use, located primarily in regional shopping malls in 33 states, under the names "This End Up" and "Wood's End". Net sales of furniture for 1995 represented approximately 1.4% of the net sales of the Companies' continuing operations.

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

7

business periodical, as the 17th largest home furnishing retailer in the United States.

#### Manufacturing

During 1995, 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.

#### FOOTWEAR - DISCONTINUED OPERATIONS

As part of the Company's restructuring plan, it plans to spin-off its footwear operations to shareholders during 1996. As of December 31, 1995, these included 2,568 leased footwear departments, 439 retail stores under the names "FOOTACTION USA" and "FOOTACTION For Kids" and 315 retail stores under the names "Thom McAn" and "B.O.Q.". Collectively, these leased departments and retail

8

stores are located in all 50 states, Puerto Rico, the U.S. Virgin Islands, the

Czech Republic, Slovakia, Mexico, Guam and Singapore.

Each of the leased departments is operated by the Company's Meldisco division which sells footwear for the entire family. All but 390 of the leased departments operated during the fiscal year ended December 31, 1995 were located in Kmart discount department stores in the United States, Puerto Rico, the Czech Republic, Slovakia, Mexico, Guam and Singapore. The 390 leased departments are located in Pay Less or Thrifty Drug Stores, and are owned by Thrifty Pay Less, Inc.

Pursuant to an agreement between the Company and Kmart Corporation ("Kmart") entered into effective July 1, 1995, and an agreement between the Company and Pay Less Drug Stores Northwest, Inc. dated October 10, 1988, the Company has the exclusive right to operate the footwear departments in Kmart and Pay Less Drug stores. All license agreements relating to the Kmart leased departments expire July 1, 2012 and all agreements relating to Pay Less and Thrifty Drug stores have terms of 25 years and are 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 35 such subsidiaries in which the Company

9

has a 100% equity interest. The Company has a 100% equity interest in all the subsidiaries which operate leased departments in Pay Less or Thrifty Drug Stores. Aggregate net sales for 1995 of Meldisco leased departments represented approximately 10.3% of the Companies' net sales, including the businesses classified as discontinued operations.

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 1995 represented approximately 3.7% of the Companies' net sales, including the businesses classified as discontinued operations.

A majority of the Thom McAn stores are also located in regional shopping malls and sell footwear and related items for men and women. Thom McAn's net sales for 1995 represented approximately 1.8% of the Companies' net sales, including the businesses classified as discontinued operations.

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.

10

#### DISPOSITIONS

During 1995, the Company sold its Marshalls division to The TJX Companies, Inc. for a total purchase price of approximately \$600 million, consisting of \$375 million in cash and \$175 million in TJX convertible preferred stock, with the balance representing an adjustment to the purchase price based on the final accounting for working capital. Net sales for the Marshalls division in 1995 through its date of disposition represented approximately 23.3% of the net sales of the Companies' continuing operations.

#### RECENT DEVELOPMENTS

On March 25, 1996, the Company announced that it reached a definitive agreement for the sale of its Kay-Bee Toys division to Consolidated Stores Corporation for approximately \$315 million, including \$215 million in cash and \$100 million in a four-year subordinated note. This transaction, which is

subject to regulatory approval and certain closing conditions, is expected to close in May, 1996.

## 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.

11

The Company operated twenty-nine distribution centers located in thirteen states containing an aggregate of approximately 4,375,000 square feet that are used in the health and beauty aids, linens, furniture and apparel business. All such distribution centers are leased with the exception of 10 distribution centers containing an aggregate of approximately 3,324,000 square feet, which are owned by the registrant or one of its subsidiaries. During 1995, the Company operated 9 distribution centers located in 7 states containing an aggregate of approximately 2,189,000 square feet for use in connection with its footwear operating units. All such distribution centers are leased with the exception of 3 distribution centers containing an aggregate of approximately 909,000 square feet, which are owned by the registrant or one of its subsidiaries. By the end of 1996, four of the distribution centers used by these footwear operating will be closed. Six distribution centers, located in 5 states comprising approximately 1,238,000 square feet are used in the toy business. All such distribution centers are leased with the exception of (2) distribution centers containing an aggregate of approximately, 610,000 square feet, which are owned by the registrant or one of its subsidiaries.

During the fiscal year ended December 31, 1995, the registrant and its subsidiaries operated seven factories, all of which were located in North Carolina and are furniture factories with the total capacity to produce approximately 1,092,000 pieces of furniture annually. The registrant or one of

12

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 ended December 31, 1995.

13

## 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, 1996.

Date	Date First
Appointed	Appointed an
to Present	Officer of

Name/Office - - - - -	Age ---	Office -----	the Registrant -----
Carlos E. Alberini Vice President and Acting Chief Financial Officer	40	1/10/96	7/12/95
James E. Alward Vice President	52	3/17/92	3/17/92
Norman Axelrod Vice President (President and Chief Executive Officer of Linens 'n Things)	43	3/07/88	3/07/88
Nancy R. Christal Vice President	37	10/11/95	10/11/95
Michael A. Friedheim Vice President (Chairman and Chief Executive Officer of Bob's Stores)	52	1/01/94	7/14/82
Philip C. Galbo Vice President and Treasurer	45	7/13/94	8/01/89
Stanley P. Goldstein Chairman of the Board and Chief Executive Officer	61	1/01/87	4/13/71

14

Name/Office - - - - -	Age ---	Date Appointed to Present Office -----	Date First Appointed an Officer of the Registrant -----
Peggy Kelston Vice President	46	12/7/94	12/7/94
Robert A. Kemeny Vice President (President and Chief Executive Officer of This End Up)	40	7/13/94	7/13/94
William C. Kingsford Vice President	49	3/12/86	7/13/79
Jerald L. Maurer Senior Vice President	53	1/01/94	1/01/94
Larry A. McVey Vice President (President and Chief Executive Officer of Thom McAn)	54	3/14/84	3/14/84
Ralph T. Parks	50	3/10/94	3/10/94

Vice President  
(President and Chief  
Executive Officer of  
Footaction)

Jerald S. Politzer Executive Vice President	50	10/09/91	6/21/89
Arthur V. Richards Vice President and Corporate Secretary	57	9/13/89	4/12/77
Maureen Richards Vice President and Assistant Corporate Secretary	39	10/11/95	10/9/91

15

Name/Office - - - - -	Age ---	Date Appointed to Present Office -----	Date First Appointed an Officer of the Registrant -----
J. M. Robinson Vice President (President and Chief Executive Officer of Meldisco)	49	7/13/88	7/13/88
Harvey Rosenthal President and Chief Operating Officer	53	1/01/94	10/17/84
Thomas M. Ryan Vice President (President and Chief Executive Officer of CVS)	43	1/01/94	1/01/94
Joel N. Waller Vice President (Chairman and Chief Executive Officer of Wilsons)	55	3/11/87	3/11/87
Jeffery A. Warzel Vice President	39	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. Kingsford, Maurer, Warzel, Ms. Christal 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:

16

Carlos A. Alberini - Senior Vice President and Chief Financial Officer  
(1990 to May, 1995) of the Bon Ton Stores Inc.

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

Nancy R. Christal - Vice President of Investor Relations (January, 1992 to September, 1995) and Director of Investor Relations (January 1991 to December, 1991) of Ogden Corporation.

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.

Robert A. Kemeny - Independent Salesman (January, 1991 to July, 1994)

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.

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) of the Registrant

Maureen Richards - Corporate and Trademark Counsel and Assistant Corporate Secretary (October, 1991 to October, 1995) of the registrant.

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

17

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.

18

## 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 6,500 as of December 31, 1995. All other information required by this item is included in the registrant's Annual Report to Shareholders for the year ended December 31, 1995 on page 35 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, 1995 on page 37 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, 1995 on pages 18 through 22 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, 1995 on pages 24 through 36, and is incorporated herein by reference.

19

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, 1996.

The other information required by this item is included in the registrant's definitive proxy statement dated March 7, 1996 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, 1996 on pages 5 through 11 and page 14 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, 1996 on pages 1 through 5 and is incorporated herein by reference.

20

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, 1995 and the related consolidated financial statement schedule are set forth in the Index to Consolidated Financial Statements and Schedule on page 28 hereof.

21

### 3. Exhibits

Exhibit  
Table  
Number:

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

- 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 (incorporated by reference to Exhibit 3 (b) filed with the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1994).
- 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.

22

Exhibit  
Table  
Number:

### 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 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 and Exhibit A to the registrant's definitive Proxy Statement dated March 7, 1995).
- (v) Directors Retirement Plan (incorporated by reference to Exhibit 10(iii)(A)(vi) to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1992).
- (vi) Profit Incentive Plan of Melville Corporation (incorporated by reference to Exhibit A to the registrant's definitive Proxy Statement dated March 14, 1994).

Exhibit  
Table  
Number:

- (vii) Supplemental Retirement Plan for Select Senior Management of Melville Corporation I as amended through July, 1995.
- (viii) Supplemental Retirement Plan for Select Senior Management of Melville Corporation II as amended through July, 1995.
- (ix) Income Continuation Policy for Select Senior Executives of Melville Corporation as amended through May 12, 1988 (incorporated by reference to Exhibit 10 (viii) to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1994).
- (x) Employment Agreement between Jerald L. Maurer and the registrant.
- (xi) Employment Agreement between Harvey Rosenthal and the registrant.
- (xii) Employment Agreement between Jerald S. Politzer and the registrant.

- 11 Statement re: Computation of Per Share Earnings.
- 12 Statement re: Computation of Ratios.
- 13 Annual Report to Shareholders for the fiscal year ended December 31, 1995. (Except for the portions incorporated herein by reference, such report is furnished for the information of the Securities and Exchange Commission (SEC) and is not deemed "filed" as part of this Form 10-K report.)
- 18 Letter re: Change in Accounting Principle.
- 22 Subsidiaries of the registrant.

Exhibit  
Table  
Number:

- - - - -

- 27 Financial Data Schedule.
- 27A Restated Financial Data Schedule - September 30, 1995
- 27B Restated Financial Data Schedule - July 1, 1995
- 27C Restated Financial Data Schedule - April 1, 1995
- 27D Restated Financial Data Schedule - December 31, 1994
- 27E Restated Financial Data Schedule - October 1, 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, 1996

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 ----- (Stanley P. Goldstein)	Chairman of the Board and Director (Chief Executive Officer)	March 29, 1996
/S/ CARLOS E. ALBERINI ----- (Carlos E. Alberini)	Vice President and Acting Chief Financial Officer	March 29, 1996
/S/ ALLAN J. BLOOSTEIN ----- Allan J. Bloostein)	Director	March 25, 1996
/S/ W. DON CORNWELL ----- (W. Don Cornwell)	Director	March 25, 1996
/S/ THOMAS P. GERRITY ----- (Thomas P. Gerrity)	Director	March 23, 1996
/S/ MICHAEL H. JORDAN ----- (Michael H. Jordan)	Director	March 25, 1996

26

Signature -----	Title -----	Date ----
/S/ WILLIAM H. JOYCE ----- (William H. Joyce)	Director	March 23, 1996
/S/ TERRY R. LAUTENBACH ----- (Terry R. Lautenbach)	Director	March 23, 1996
/S/ DONALD F. MCCULLOUGH -----	Director	March 25, 1996

(Donald F. McCullough)

/S/ HARVEY ROSENTHAL President, Chief  
----- Operating Officer  
(Harvey Rosenthal) and Director March 29, 1996

/S/ IVAN G. SEIDENBERG Director March 23, 1996  
-----  
(Ivan G. Seidenberg)

/S/ PATRICIA CARRY STEWART Director March 23, 1996  
-----  
(Patricia Carry Stewart)

/S/ M. CABELL WOODWARD, JR. Director March 24, 1996  
-----  
(M. Cabell Woodward, Jr.)

MELVILLE CORPORATION AND SUBSIDIARY COMPANIES

Index to Consolidated Financial Statements and Schedule

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 15, 1996, which appear on the pages listed below of the 1995 Annual Report to shareholders, are incorporated by reference in this Annual Report on Form 10-K.

	Page Number in 1995 Annual Report to Shareholders -----
Independent Auditors' Report .....	23
Consolidated Statements of Operations for the years ended December 31, 1995, 1994 and 1993 .....	24
Consolidated Balance Sheets as of December 31, 1995 and 1994 .....	25
Consolidated Statements of Shareholders' Equity for the years ended December 31, 1995, 1994 and 1993 .....	26
Consolidated Statements of Cash Flows for the years ended December 31, 1995, 1994 and 1993 .....	27
Notes to Consolidated Financial Statements .....	28-36
Included in Part IV of this report:	Page ----
Consent of Independent Auditors for Melville Corporation and Subsidiary Companies .....	F-1
Independent Auditors' Report on Consolidated	

Consolidated Financial Statement Schedule of Melville Corporation and Subsidiary  
Companies for the years ended December 31, 1995, 1994 and 1993:

II - Valuation and Qualifying Accounts ..... S-1

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.

28

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 (incorporated by reference to Exhibit 3(b) filed with the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1994).
- 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).

1

Exhibit  
Table  
Number:

- - - - -

- (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 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 and Exhibit A to the registrant's definitive Proxy Statement dated March 7, 1995).

- (v) Directors Retirement Plan (incorporated by reference to Exhibit 10(iii)(A)(vi) to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1992).
- (vi) Profit Incentive Plan of Melville Corporation (incorporated by reference to Exhibit A to the registrant's definitive Proxy Statement dated March 14, 1994).
- (vii) Supplemental Retirement Plan for Select Senior Management of Melville Corporation I as amended through July, 1995.
- (viii) Supplemental Retirement Plan for Select Senior Management of Melville Corporation II as amended through July, 1995.

2

Exhibit  
Table  
Number:  
- -----

- (ix) Income Continuation Policy for Select Senior Executives of Melville Corporation as amended through May 12, 1988 (incorporated by reference to Exhibit 10 (viii) to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1994).
  - (x) Employment Agreement between Jerald L. Maurer and the registrant.
  - (xi) Employment Agreement between Harvey Rosenthal and the registrant.
  - (xii) Employment Agreement between Jerald S. Politzer and the registrant.
- 11 Statement re: Computation of Per Share Earnings.
- 12 Statement re: Computation of Ratios.
- 13 Annual Report to Shareholders for the fiscal year ended December 31, 1995. (Except for the portions incorporated herein by reference, such report is furnished for the information of the Securities and Exchange Commission (SEC) and is not deemed "filed" as part of this Form 10-K report.)
- 18 Letter re: Change in Accounting Principle.
- 22 Subsidiaries of the registrant.
- 27 Financial Data Schedule.
- 27A Restated Financial Data Schedule - September 30, 1995
- 27B Restated Financial Data Schedule - July 1, 1995
- 27C Restated Financial Data Schedule - April 1, 1995
- 27D Restated Financial Data Schedule - December 31, 1994
- 27E Restated Financial Data Schedule - October 1, 1994

3

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 Number 33-34946 on Form S-3 of Melville Corporation of our report dated February 15, 1996, relating to the consolidated balance sheets of Melville Corporation and subsidiary companies as of December 31, 1995 and 1994, and the related consolidated statement of operations, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1995, which report is incorporated by reference in the December 31, 1995 annual report on Form 10-K of Melville Corporation and to our report dated February 15, 1996 on the related financial statement schedule, which report appears in the December 31, 1995 annual report on Form 10-K of Melville Corporation.

Our reports refer to the adoption of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" in 1995, a change in the method of accounting for internally developed software costs in 1995, and a change in the method of determining retail price indices used in the valuation of LIFO inventories in 1993.

KPMG Peat Marwick LLP

New York, New York  
March 29, 1996

F-1

#### Independent Auditors' Report

The Board of Directors and Shareholders  
Melville Corporation:

Under date of February 15, 1996, we reported on the consolidated balance sheets of Melville Corporation and subsidiary companies as of December 31, 1995 and 1994, and related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1995, as contained in the 1995 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 1995. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule as listed in the accompanying index. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

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

As discussed on page 28 of the Annual Report to Shareholders, the Company adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of," in 1995, and as discussed on page 28, the Company changed its policy for accounting for internally developed software costs in 1995. Also, as discussed on page 30, the Company changed its method of determining retail prices indices used in the valuation of LIFO inventories in 1993.

New York, New York  
February 15, 1996

F-2

SCHEDULE II

MELVILLE CORPORATION AND SUBSIDIARY COMPANIES  
Valuation and Qualifying Accounts  
Years ended December 31, 1995, 1994 and 1993  
(\$ 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, 1995	\$18,858	\$33,836	\$19,256	\$33,438
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

(1) Write-offs, net of recoveries

S-1

SUPPLEMENTAL RETIREMENT PLAN I FOR  
SELECT SENIOR MANAGEMENT OF  
MELVILLE CORPORATION

As Amended Through  
July 1, 1995

SUPPLEMENTAL RETIREMENT PLAN I FOR  
SELECT SENIOR MANAGEMENT OF  
MELVILLE CORPORATION

TABLE OF CONTENTS  
-----

	Page
	----
ARTICLE 1. Definition.....	1
ARTICLE 2. Membership.....	11
ARTICLE 3. Amount and Payment of Supplemental Benefits.....	12
ARTICLE 4. Special Contributions.....	16
ARTICLE 5. Administration.....	19
ARTICLE 6. General Provisions.....	20
ARTICLE 7. Amendment or Termination.....	22

SUPPLEMENTAL RETIREMENT PLAN I FOR  
SELECT SENIOR MANAGEMENT OF  
MELVILLE CORPORATION

ARTICLE 1. DEFINITIONS

1.01 "Accumulated Contribution Account" shall mean the bookkeeping account maintained for a Contribution Account Member to record the amount of company contribution credited on behalf of such Member during the period he is designated as a Contribution Account Member in accordance with Section 4.01, as adjusted pursuant to Section 4.02.

1.02 Annual Benefit

(a) "Annual Benefit" shall mean, with respect to a Member who became or becomes a Retiree after June 30, 1995, the amount by which 50%, or such lesser percentage specified in clause (b) below, of such Member's Compensation exceeds the sum of (i), (ii), and (iii) where:

(i) equals the aggregate annualized value of any retirement and/or deferred profit sharing benefits in respect of such Member (excluding the value of any benefits attributable to pre-tax or after-tax contributions made by or on behalf of the Member) which

have previously been received or which such Member or 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 (A) any arrangement maintained by the Corporation other than the Plan (including any annuity contracts purchased with respect to benefits accrued under the Melville Corporation Retirement Plan), or (B) any arrangement which constitutes a qualified plan under Section 401(a) of the Internal Revenue Code of 1986, as amended, maintained

Page 2

by any entity other than the Corporation, computed pursuant to clause (c) below,

- (ii) equals 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, and
  - (iii) equals the annual benefit (as defined in Section 1.01 of the Supplemental Retirement Plan II for Select Senior Management of Melville Corporation (SERP II)), if any, payable to the Member pursuant to the provisions of SERP II.
- (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% ( $50\% - (5 \times 2)\% = 40\%$ ).
- (c) Notwithstanding the foregoing, the Annual Benefit computed under this Section 1.02 shall not be less than annualized value of a Member's Accumulated Contribution Account, as computed at the time such Member becomes a Retiree on the basis of the actuarial assumptions set forth in clause (d) below.
- (d) The annualized value of a Member's retirement and deferred profit sharing benefits shall be computed as follows:

Page 3

- (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, or
- (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 (A) the 1983 Group Annuity Mortality Table and (B) an interest rate assumption equal to the applicable interest rate (expressed as a percentage) used by the Pension Benefit Guaranty Corporation for valuing lump sum benefits for single employer plans that terminate on the date of such calculation, minus .5%.

1.03 "Beneficiary" shall mean the person named by the Member (i) at the time payments to the Member commence under the Plan or (ii) in the case of benefits payable under Section 3.03, at the time of the Member's death, by written designation filed with the Retirement Administration Committee, to receive payments after the Member's death. In the absence of a beneficiary

designation, the Participant's Beneficiary for purposes of Section 3.03 shall be his spouse, if any, or his estate.

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

1.05 "Change in Control" shall mean any of the following occurrences:

Page 4

- (a) any "person" or "group of persons" as such terms are used in Sections 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

Page 5

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.
- 1.06 "Company Contributions" shall mean the amount credited to a Member's Accumulated Contribution Account pursuant to Section 4.01.
- 1.07 "Compensation" shall mean a Member's annual base pay rate as in effect on such Member's Compensation Measurement Date plus the Member's Serp Incentive Target. 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.

Page 6

- 1.08 "Contribution Account Member" shall mean an Executive Employee listed on Appendix B who has been selected by the Compensation Committee of the Board of Directors to be a Contribution Account Member.
- 1.09 "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.
- 1.10 "Executive Employee" shall mean an employee of the Corporation who is a senior officer of the Corporation and who has been listed on Appendix A as amended from time to time by the Compensation Committee of the Board of Directors.
- 1.11 "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 Beneficiary, the lump sum actuarial equivalent of a single life annuity for the Member commencing at the date as of which such Member would have had 10 years of Service assuming no termination of employment with the Corporation following a Change in Control, but not prior to such Member's attaining age 60, (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 actual years of

Page 7

Service as of such Member's Termination of Employment (but not more than 10) and the denominator of which is 10,

- (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 provision for the Beneficiary and (ii) the Beneficiary 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 Beneficiary, respectively, pursuant to the optional form of benefit elected by such Member under Section 3.04, or
- (c) with respect to (i) a Beneficiary 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 Beneficiary of such a Member, the lump sum actuarial equivalent of all future benefits, if any, payable to such Member or to such Beneficiary, as the case may be, under the Plan.
- (d) Notwithstanding the foregoing, the Lump Sum Benefit determined under this Section 1.11 shall not be less than the vested portion of the Member's Accumulated Contribution Account determined pursuant to Section 4.03.

The amount of such actuarial equivalents computed under this Section 1.11 shall be determined by the Compensation Committee of the Board of Directors with sole discretion using the actuarial assumptions described in Section 1.02(d).

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

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

1.14 "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 (excluding the value of any benefits attributable to pre-tax or after-tax contributions made by or on behalf of a 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 (A) any arrangement maintained by the Corporation, other than the Plan (including any annuity contracts purchased with respect to benefits accrued under the Melville Corporation Retirement Plan), or (B) any arrangement which constitutes a qualified plan under Section 401(a) of the Internal Revenue Code of 1986, as amended, maintained by any entity other than the Corporation, computed in the manner described

in Section 1.02(d), assuming payment of such benefits will commence at such Member's Presumed Starting Date, as defined in Section 1.11, 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.

1.15 "Retiree" shall mean a Member who has 10 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 payments upon such termination of employment.

1.16 "Retirement Administration Committee" shall mean the Committee of the 401(k) Profit Sharing Plan of Melville Corporation and Affiliated Companies.

- 1.17 "Retirement Plan" shall mean, any defined benefit 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 or was a participant.
- 1.18 "Serp Incentive Target" shall mean the Member's full annual target incentive compensation award as last in effect under the Profit Incentive Plan of Melville Corporation or the Profit Incentive Plan for the divisions immediately prior to such Member's Compensation Measurement Date (as defined in Section 1.07).
- 1.19 "Service" shall mean with respect to a Member the sum of (a) in the case of an Executive Employee who became a Member prior to July 1, 1995, the period of such Member's active employment with the Corporation, whether or not as an Executive Employee, or in the case of an Executive Employee who became a Member on or after July 1, 1995, the period of such Member's active employment with the Corporation as an Executive Employee, excluding, in each case, unless otherwise provided by the Retirement Administration Committee, any period during which the Member

was engaged as a consultant or

received salary continuance or severance payments and (b) any Service credited to such Member by the Compensation Committee of the Board of Directors pursuant to Article 5.

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

## ARTICLE 2. MEMBERSHIP

- 2.01 Every Member of the Plan on June 30, 1995 who is designated as an Executive Employee on July 1, 1995 and every Executive Employee in the employ of the Corporation on July 1, 1995 shall continue to be or shall become a Member of the Plan on July 1, 1995, 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.
- 2.03 Any former employee of the Corporation who is a Retiree under the Plan on June 30, 1995 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 of 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.

## ARTICLE 3. AMOUNT AND PAYMENT OF SUPPLEMENTAL BENEFITS

- 3.01 Except as provided in Section 3.06 and Article 4, benefits under the Plan shall be payable by the Corporation only with respect to Members who are Retirees or become Retirees or, as provided in Section 3.03, to Beneficiaries.
- 3.02 Except as provided in Section 3.06, a Retiree shall be entitled to commencement of payment of benefits hereunder pursuant to Section 3.04 upon the first of the month following his termination of employment with the Corporation.
- 3.03 In the event that a Member dies, after attaining age 55 with 10 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 Beneficiary 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 1.02, including any reduction under subsection (b) thereof, if applicable, for such Member as if the Member was a Retiree and had commenced to receive payment of benefits under Section 3.04 immediately prior to his death. In the event the age difference between the Member and his Beneficiary is greater than 5 years, the benefit payable pursuant to this Section 3.03 shall be actuarially adjusted to reflect the differences in the life expectancy of the Participant and the Beneficiary.

Notwithstanding any Plan provisions to the contrary, in the event the Participant's Beneficiary is his estate, the benefit otherwise payable under this Section 3.03 shall be commuted into a single lump sum amount of

actuarial equivalent value, which amount shall be determined by assuming the Beneficiary had been a person of the same age as the Member at the Member's date of death.

The amount of such actuarial equivalents computed under this Section 3.03 shall be determined by the Compensation Committee of the Board of Directors with sole discretion using the actuarial assumptions described in Section 1.02(d).

- 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 1.02 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 1.02(a)(i). A Member may make an irrevocable election in 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 a joint and survivor annuity form which provides a reduced benefit payable to the Member during his life, and after his death providing that 100% or 50% of the reduced benefit will continue to be paid during the life of and to his Beneficiary or (b) in a lump sum; provided, however, 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 1.02(d).

- 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 shall thereafter be recomputed in accordance with Section 1.02, 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 Beneficiary 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 Beneficiary's Lump Sum Benefit,
  - (b) Each Member at the time of such Change in Control who experiences a Termination of Employment, each Beneficiary of such a Member who has elected an optional form of benefit under Section 3.04 making a

provision for such Beneficiary, and each Beneficiary 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 Beneficiary'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 Beneficiary of such Member if such Beneficiary 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 10) and the denominator of which is 10.
- (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. SPECIAL CONTRIBUTIONS

4.01

- (a) A special contribution shall be deemed made to a Member's Accumulated Contribution Account by the Corporation with respect to each calendar year and during which the Member is designated as a Contribution Account Member.
- (b) The special contribution with respect to each calendar year shall be equal to either the applicable percentage as specified in Appendix B of the eligible Member's Eligible Compensation for the calendar year or the designated dollar amount as specified in Appendix B. For purposes of this Article 4, Eligible Compensation shall mean the sum of the Contribution Account Member's annual base rate as in effect for such calendar year, plus the full annual target incentive compensation award under the Profit Incentive Plan of Melville Corporation or the Profit Incentive Plan for the divisions as last in effect immediately prior to the last day of such calendar year.
- (c) The special contribution shall be credited to an eligible Member's Accumulated Contribution Account no later than the March 31st following the calendar year for which the contribution is deemed made.

4.02

- (a) As of the end of each month, a Member's Accumulated Contribution Account shall be credited or debited with the amount of earnings or losses which the account would have been credited or debited assuming it had been invested in the Moderate Lifestyle Fund as

provided under the 401(k) Profit Sharing Plan of Melville Corporation and Affiliated Companies.

- (b) The Retirement Administration Committee shall maintain, or cause to be maintained on the books of the Corporation, records showing the individual balance of each eligible Member's Accumulated Contribution Account. At least once a year, each eligible Member shall be furnished with a statement setting forth the value of his Accumulated Contribution Account.

4.03 Unless otherwise provided in Appendix B, an eligible Member shall be vested in and have a nonforfeitable right to the special contribution credited to his Accumulated Contribution Account (adjusted in accordance with Section 4.02) in accordance with the following schedule:

Completed Years of Vesting Service	Percentage Vested
-----	-----
1	10%
2	20
3	30
4	40
5	50
6	60
7	70
8	80
9	90
10	100

A Member shall be credited with one year of Vesting Service for each

complete calendar year during which the Member is in the employ of the Corporation following the calendar year for which the initial contribution

Page 20

was deemed allocated to his Accumulated Contribution Account pursuant to Section 4.01(b).

4.04

- (a) If a Member terminates employment with the Corporation prior to the attainment of age 55 for any reason, he (or in the event of his death, his Beneficiary) shall be entitled to receive a distribution of the vested portion of his Accumulated Contribution Account determined pursuant to Section 4.03. The distribution of such vested portion of a Member's Accumulated Contribution Account shall be made in a single cash lump sum as soon as practicable following the end of the month coincident with or next following the Member's termination of employment with the Corporation.
- (b) Notwithstanding any Plan provision to the contrary, if a Member terminates employment with the Corporation as a Retiree, or dies after attaining age 55 with 10 years of Service but prior to becoming a Retiree or in the event of a Change in Control, the provisions of this Section 4.04 shall be inapplicable and Plan benefits payable to or on behalf of the Member's termination shall be determined pursuant to the provisions of Article 3.

Page 21

#### ARTICLE 5. ADMINISTRATION

- 5.01 The Compensation Committee of the Board of Directors shall select which senior officers of the Corporation shall be designated as an Executive Employee and which Executive Employee, if any, shall be designated as a Contribution Account Member.
- 5.02 The Compensation Committee of the Board of Directors shall have discretion to grant credit for service to any Executive Employee.
- 5.03 Except as provided in Section 5.01 or 5.02 the administration of the Plan, the exclusive power to interpret it, and the responsibility for carrying out its provisions are vested in the Retirement Administration Committee, except that the determinations of whether any Member or Beneficiary 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.
- 5.04 The provisions of Article 9 of the 401(k) Profit Sharing Plan of Melville Corporation and Affiliated Companies 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.

Page 22

#### ARTICLE 6. GENERAL PROVISIONS

- 6.01 The establishment of the Plan shall not 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.

6.02 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 therefor.

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

6.04 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.

Page 23

6.05 Notwithstanding any other provision of the Plan to the contrary, 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.

6.06 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.

6.07 The Plan shall be construed, regulated and administered under the laws of the State of New York to the extent such laws are not superseded by applicable federal law.

6.08 The masculine pronoun shall mean the feminine wherever appropriate.

Page 24

#### ARTICLE 7. AMENDMENT OR TERMINATION

The Compensation Committee of the Board of Directors reserves the right to modify or to amend, in whole or in part, or to terminate, this Supplemental Retirement Plan I 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 Beneficiary of such Member) to receive the benefits such Member (or the Beneficiary of such Member) should 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 reason.

SUPPLEMENTAL RETIREMENT PLAN II FOR  
SELECT SENIOR MANAGEMENT OF  
MELVILLE CORPORATION

Effective July 1, 1995

SUPPLEMENTAL RETIREMENT PLAN II FOR  
SELECT SENIOR MANAGEMENT OF  
MELVILLE CORPORATION

TABLE OF CONTENTS

	Page
ARTICLE 1. Definitions.....	1
ARTICLE 2. Membership.....	11
ARTICLE 3. Amount and Payment of Supplemental Benefits.....	12
ARTICLE 4. Special Contributions.....	16
ARTICLE 5. Administration.....	19
ARTICLE 6. General Provisions.....	20
ARTICLE 7. Amendment or Termination.....	22

SUPPLEMENTAL RETIREMENT PLAN II FOR  
SELECT SENIOR MANAGEMENT OF  
MELVILLE CORPORATION

ARTICLE 1. DEFINITIONS

1.01 "Accumulated Contribution Account" shall mean the bookkeeping account maintained for a Contribution Account Member to record the amount of company contribution credited on behalf of such Member during the period he is designated as a Contribution Account Member in accordance with Section 4.01, as adjusted pursuant to Section 4.02.

1.02 "Annual Benefit"

(a) "Annual Benefit" shall mean, with respect to a Member who became or becomes a Retiree after June 30, 1995, the amount by which 35%, or such lesser percentage specified in clause (b) below, of such Member's Compensation exceeds the sum of (i) and (ii) where

(i) equals the aggregate annualized value of any retirement and deferred profit sharing benefits in respect of such Member (excluding the value of any benefits attributable to pre-tax or after-tax contributions made by or on behalf of the Member) which have previously been received or which such Member or 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 (A) any arrangement maintained by the Corporation other than the Plan (including any annuity contracts purchased with respect to benefits accrued under the Melville Corporation Retirement Plan), or (B) any arrangement which constitutes a qualified plan under Section 401(a) of the Internal Revenue Code of 1986, as amended, maintained by any entity other than the Corporation, computed pursuant to clause (d) below, and

Page 2

(ii) equals 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 "35%" in clause (a) above that lower percentage which results from subtracting that percentage which is the product of 4 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 27% ( $35\% - (4 \times 2)\% = 27\%$ ).

(c) Notwithstanding the foregoing, the Annual Benefit computed under this Section 1.02 shall not be less than annualized value of a Member's Accumulated Contribution Account, as computed at the time such Member becomes a Retiree on the basis of the actuarial assumptions set forth in clause (d) below.

(d) 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, or

Page 3

(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 (A) the 1983 Group Annuity Mortality Table and (B) 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%.

1.03 "Beneficiary" shall mean the person named by the Member (i) at the time payments to the Member commence under the Plan or (ii) in the case of benefits payable under Section 3.03, at the time of the Member's death, by written designation filed with the Retirement Administration Committee, to receive payments after the Member's death. In the absence of a beneficiary designation, the Participant's Beneficiary for purposes of Section 3.03 shall be his spouse, if any, or his estate.

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

1.05 "Change in Control" shall mean any of the following occurrences:

(a) any "person" or "group of persons" as such terms are used in Sections 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

Page 4

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

Page 5

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.

- 1.06 "Company Contributions" shall mean the amount credited to a Member's Accumulated Contribution Account pursuant to Section 4.01.
- 1.07 "Compensation" shall mean a Member's annual base pay rate as in effect on such Member's Compensation Measurement Date plus the Member's Serp Incentive Target. 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.
- 1.08 "Contribution Account Member" shall mean an Eligible Executive listed on Appendix B who has been selected by the Compensation Committee of the Board of Directors to be a Contribution Account Member.

Page 6

- 1.09 "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.
- 1.10 "Eligible Executive" shall mean an employee of the Corporation who occupies a position of senior management with the Corporation and who has been listed on Appendix A as amended from time to time by the Compensation Committee of the Board of Directors.
- 1.11 "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 a Beneficiary, the lump sum actuarial equivalent of a single life annuity for the Member commencing at the date as of which such Member would have had 10 years of Service assuming no termination of employment with the Corporation following a Change in Control, but not prior to such Member's attaining age 60, (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 actual years of Service as of such Member's Termination of Employment (but not more than 10) and the denominator of which is 10,

Page 7

- (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 provision for a Beneficiary and (ii) the Beneficiary 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 Beneficiary, respectively, pursuant to the optional form of benefit elected by such Member under Section 3.04, or
- (c) with respect to (i) a Beneficiary 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 Beneficiary of such a Member, the lump sum actuarial equivalent of all future benefits, if any, payable to such Member or to such Beneficiary, as the case may be, under the Plan.
- (d) Notwithstanding the foregoing, the Lump Sum Benefit determined under this

Section 1.11 shall not be less than the vested portion of the Member's Accumulated Contribution Account determined pursuant to Section 4.03.

The amount of such actuarial equivalents computed under this Section 1.11 shall be determined by the Compensation Committee of the Board of Directors with sole discretion using the actuarial assumptions described in Section 1.02(d).

Page 8

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

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

1.14 "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 35% 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 (excluding the value of any benefits attributable to pre-tax or after-tax contributions made by or on behalf of a 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 (A) any arrangement maintained by the Corporation, other than the Plan (including any annuity contracts purchased with respect to benefits accrued under the Melville Corporation Retirement Plan), or (B) any arrangement which constitutes a qualified plan under Section 401(a) of the Internal Revenue Code of 1986, as amended, maintained by any entity other than the Corporation, computed in the manner described in Section 1.02(c), assuming payment of such benefits will commence at such Member's Presumed Starting Date, as defined in Section 1.11,

(ii) the Projected Annual Benefit used in computing any Lump Sum Benefit payment previously made to such Member pursuant to Section 3.06, and

Page 9

(iii) the Annual Benefit used in computing any lump sum payment previously made to such Member pursuant to Section 3.05; 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.

1.15 "Retiree" shall mean a Member who has 10 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 payments upon such termination of employment.

1.16 "Retirement Administration Committee" shall mean Committee of the 401(k) Profit Sharing Plan of Melville Corporation and Affiliated Companies.

1.17 "Retirement Plan" shall mean, any defined benefit plan, meeting the requirements of Section 401 of the Internal Revenue Code of 1986, as

amended, in which such Member shall be or was a participant.

Page 10

1.18 "Serp Incentive Target" shall mean the Member's full annual target incentive compensation award as last in effect under the Profit Incentive Plan of Melville Corporation or the Profit Incentive Plan for the divisions immediately prior to such Member's Compensation Measurement Date (as defined in Section 1.07).

1.19 "Service" shall mean with respect to a Member the sum of (a) the period of such Member's active employment with the Corporation, as an Executive Employee, excluding, unless otherwise provided by the Retirement Administration Committee, any period during which the Member (i) was engaged as a consultant or (ii) received salary continuance or severance payments and (b) any Service credited to such Member by the Compensation Committee of the Board of Directors pursuant to Article 5.

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

Page 11

## ARTICLE 2. MEMBERSHIP

2.01 Every Eligible Executive in the employ of the Corporation on July 1, 1995 shall become a Member of the Plan on July 1, 1995.

2.02 Any other employee of the Corporation who becomes an Eligible Executive shall thereupon become a Member of the Plan.

2.03 Any Member who 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 of such Retiree under the Plan.

2.04 The membership under the Plan of an Eligible Executive who is not a Retiree shall terminate if his employment with the Corporation as an Eligible Executive terminates unless at the time of such termination, or within 60 days thereafter, he becomes a Retiree or he is entitled to a benefit pursuant to Section 4.04, in which event his membership shall cease upon the payment of all Plan benefits, 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 Eligible Executive of the Corporation.

Page 12

## ARTICLE 3. AMOUNT AND PAYMENT OF SUPPLEMENTAL BENEFITS

3.01 Except as provided in Section 3.06 and Article 4, benefits under this Article 3 shall be payable by the Corporation only with respect to Members who are Retirees or become Retirees or, as provided in Section 3.03, to Beneficiaries.

3.02 Except as provided in Section 3.06, a Retiree shall be entitled to commencement of payment of benefits hereunder pursuant to Section 3.04 upon the first of the month following his termination of employment with the Corporation.

3.03 In the event that a Member dies, after attaining age 55 with 10 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 Beneficiary 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 1.02, including any reduction under subsection (b) thereof, if applicable, for such Member as if the Member was a Retiree and had commenced to receive payment of benefits under Section 3.04 immediately prior to his death. In the event the age difference between the Member and his Beneficiary is greater than 5 years, the benefit payable pursuant to this Section 3.03 shall be actuarially adjusted to reflect the differences in the life expectancy of the Participant and the Beneficiary.

Notwithstanding any Plan provisions to the contrary, in the event the Participant's Beneficiary is his estate, the benefit otherwise payable under this Section 3.03 shall be commuted into a single lump sum amount of

Page 13

actuarial equivalent value, which amount shall be determined by assuming the Beneficiary had been a person of the same age as the Member at the Member's date of death.

The amount of such actuarial equivalents computed under this Section 3.03 shall be determined by the Compensation Committee of the Board of Directors with sole discretion using the actuarial assumptions described in Section 1.02(d).

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 1.02 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 1.02(a)(i). A Member may make an irrevocable election in 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 a joint and survivor annuity form which provides a reduced benefit payable to the Member during his life, and after his death providing that 100% or 50% of the reduced benefit will continue to be paid during the life of and to his Beneficiary or (b) in a lump sum; provided, however, that a Member may not elect an optional form of benefit providing

Page 14

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 1.02(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 shall thereafter be recomputed in accordance with Section 1.02, Section 3.03 or Section 3.04, 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 Beneficiary 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 Beneficiary's Lump Sum Benefit,
- (b) Each Member at the time of such Change in Control who experiences a Termination of Employment, each Beneficiary of such a Member who has elected an optional form of benefit under Section 3.04 making a provision for such Beneficiary, and each Beneficiary of a Member at the time of such

Page 15

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 Beneficiary'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 Beneficiary of such Member if such Beneficiary 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 10) and the denominator of which is 10.

Page 16

#### ARTICLE 4. SPECIAL CONTRIBUTIONS

##### 4.01

- (a) A special contribution shall be deemed made to a Member's Accumulated Contribution Account by the Corporation with respect to each calendar year prior to the calendar year in which the Member attains age 46 and during which the Member is designated as a Contribution Account Member.
- (b) The special contribution with respect to each calendar year shall be equal to either the applicable percentage as specified in Appendix B of the eligible Member's Eligible Compensation for the calendar year or the designated dollar amount as specified in Appendix B. For purposes of this Article 4, Eligible Compensation shall mean the sum of the Contribution Account Member's annual base rate as in effect for such calendar year, plus the full annual target incentive compensation award under the Profit Incentive Plan of Melville Corporation or the Profit Incentive Plan for the divisions as last in effect immediately prior to the last day of such calendar year.
- (c) The special contribution shall be credited to an eligible Member's Accumulated Contribution Account no later than the March 31st following the calendar year for which the contribution is deemed made.

##### 4.02

- (a) As of the end of each month, a Member's Accumulated Contribution Account shall be credited or debited with the amount of earnings or losses which the account would have been credited or debited assuming it had been invested in the Moderate Lifestyle Fund as provided under the 401(k) Profit Sharing Plan of Melville Corporation and Affiliated Companies.

(b) The Retirement Administration Committee shall maintain, or cause to be maintained on the books of the Corporation, records showing the individual balance of each eligible Member's Accumulated Contribution Account. At least once a year, each eligible Member shall be furnished with a statement setting forth the value of his Accumulated Contribution Account.

4.03 Unless otherwise provided in Appendix B, an eligible Member shall be vested in and have a nonforfeitable right to the special contributions credited to his Accumulated Contribution Account (adjusted in accordance with Section 4.02) in accordance with the following schedule:

Completed Years of Vesting Service	Percentage Vested
1	10%
2	20
3	30
4	40
5	50
6	60

7	70
8	80
9	90
10	100

A Member shall be credited with one year of Vesting Service for each complete calendar year during which the Member is in the employ of the Corporation following the calendar year for which the initial contribution was deemed allocated to his Accumulated Contribution Account pursuant to Section 4.01(b).

4.04

(a) If a Member terminates employment with the Corporation prior to the attainment of age 55 for any reason, he (or in the event of his death, his Beneficiary) shall be entitled to receive a distribution of the vested portion of his Accumulated Contribution Account determined pursuant to Section 4.03. The distribution of such vested portion of a Member's Accumulated Contribution Account shall be made in a single cash lump sum as soon as practicable following the end of the month coincident with or next following the Member's termination of employment with the Corporation.

(b) Notwithstanding any Plan provision to the contrary, if a Member terminates employment with the Corporation as a Retiree, or dies after attaining age 55 with 10 years of Service but prior to becoming a Retiree or in the event of a Change in Control, the provisions of this Section 4.04 shall be inapplicable and Plan benefits payable to or on behalf of the Member's termination shall be determined pursuant to the provisions of Article 3.

#### ARTICLE 5. ADMINISTRATION

5.01 The Compensation Committee of the Board of Directors shall select which employees who occupy a position of senior management with the Corporation shall be designated as an Eligible Executive and which Eligible Executive, if any, shall be designated as a Contribution Account Member.

5.02 The Compensation Committee of the Board of Directors shall have discretion to grant credit for Service to any Eligible Executive.

5.03 Except as provided in Section 5.01 and 5.02, the administration of the Plan, the exclusive power to interpret it, and the responsibility for carrying out its provisions are vested in the Retirement Administration Committee.

5.04 The provisions of Article 9 of the 401(k) Profit Sharing Plan of Melville Corporation and Affiliated Companies 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.

Page 20

#### ARTICLE 6. GENERAL PROVISIONS

6.01 The establishment of the Plan shall not be construed as conferring any legal rights upon any Eligible Executive or other person for a continuation of employment, nor shall such actions interfere with the rights of the Corporation to discharge or demote any Eligible Executive and to treat him without regard to the effect which such treatment might have upon him as a Member of the Plan.

6.02 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 therefor.

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

6.04 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 or the Member.

Page 21

6.05 Notwithstanding any other provision of the Plan to the contrary, 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.

6.06 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.

6.07 The Plan shall be construed, regulated and administered under the laws of the State of New York to the extent such laws are not superseded by applicable federal law.

6.08 The masculine pronoun shall mean the feminine wherever appropriate.

Page 22

#### ARTICLE 7. AMENDMENT OR TERMINATION

The Compensation Committee of the Board of Directors reserves the right to modify or to amend, in whole or in part, or to terminate, this Supplemental Retirement Plan II 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 Beneficiary of such Member) to receive the benefits such Member (or the Beneficiary of such Member) should 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 reason, including retirement, death or disability.

EMPLOYMENT AGREEMENT

AGREEMENT, made and entered into as of the [21] day of December, 1995 by and between Melville Corporation, a New York corporation (together with its successors and assigns permitted under this Agreement, the "Company"), and Mr. Jerald L. Maurer (the "Executive").

W I T N E S S E T H :

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

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

1. Definitions.

- (a) "Base Salary" shall have the meaning set forth in Section 4 below.
- (b) "Board" shall have the meaning set forth in Section 4 below.
- (c) "Cause" shall have the meaning set forth in Section 10(b) below.
- (d) "Confidential Information" shall have the meaning set forth in Section 11 below.
- (e) "Constructive Termination Without Cause" shall have the meaning set forth in Section 10(c) below.
- (f) "Effective Date" shall have the meaning set forth in Section 2 below.
- (g) "ICP" shall have the meaning set forth in Section 7 below.
- (h) "Non-renewal Severance Period" shall have the meaning set forth in Section 10 (d) below.
- (i) "Original Term of Employment" shall have the meaning set forth in Section 2 below.
- (j) "MIP" shall have the meaning set forth in Section 5 below.
- (k) "Renewal Term" shall have the meaning set forth in Section 2 below.
- (l) "Restriction Period" shall have the meaning set forth in Section 12 below.
- (m) "SERP I" shall have the meaning set forth in Section 7 below.
- (n) "Severance Period" shall have the meaning set forth in Section 10(c) (ii) below.
- (o) "Subsidiary" shall have the meaning set forth in Section 11 below.
- (p) "Term of Employment" shall have the meaning set forth in Section 2 below.
- (q) "Termination Without Cause" shall have the meaning set forth in Section 10 (c) .

## 2. Term of Employment.

(a) The term of the Executive's employment under this Agreement shall commence immediately upon the execution of this Agreement (the "Effective Date") and end on the fifth anniversary of such date (the "Original Term of Employment"). The Original Term of Employment shall be automatically renewed for successive one-year terms (the "Renewal Terms") unless at least 180 days prior to the expiration of the Original Term of Employment or any Renewal Term, either Party notifies the other Party in writing that he or it is electing to terminate this Agreement at the expiration of the then current Term of Employment. "Term of Employment" shall mean the Original Term of Employment and all Renewal Terms.

(b) In the event that this Agreement is not renewed because the Company has given the 180-day notice prescribed in the preceding paragraph on or before the expiration of the Original Term of Employment or any Renewal Term, such non-renewal shall be treated as a termination following non-renewal pursuant to Section 10 (d) below.

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

2

## 3. Position, Duties and Responsibilities.

(a) Commencing on the Effective Date, and continuing for the remainder of the Term of Employment, the Executive shall be employed as Senior Vice President Human Resources of the Company and shall report to the Chairman of the Board.

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

## 4. Base Salary.

The Executive shall be paid an annualized salary, payable in accordance with the regular payroll practices of the Company, of not less than \$390,000, subject to annual review for increase at the discretion of the Compensation Committee of the Board.

## 5. Annual Incentive Awards.

The Executive shall participate in the Company's Profit Incentive Plan ("MIP") with a target bonus opportunity of no less than 40% of Base Salary or in a successor plan to MIP with an equivalent opportunity. Payment of annual incentive awards shall be made at the same time that other senior-level executives receive their incentive awards.

## 6. Long-Term Stock Incentive Programs.

(a) General. The Executive shall be eligible to participate in and to receive stock incentive awards under the long-term stock incentive programs of the Company referred to in Section 6(b) below and any successor programs.

(b) Stock Option Award. As part of the award approved by the Compensation Committee of the Board on April 11, 1995, the Company has granted the Executive an option pursuant to the terms and conditions set forth in the attached Exhibit A to purchase 125,000 shares of common stock of the Company at an exercise price equal to the fair market value of the shares on the date of grant, contingent on the execution of this Agreement.

(c) Loan Agreement. Executive will be given a \$400,000 loan within 30 days of his request, to be used for relocation purposes either in connection with his commencement of employment for the Company, or any subsequent relocation which occurs during the Term of

3

Employment. Such loan shall be payable in accordance with terms set forth in the form of loan agreement and promissory note attached as Exhibit B.

(d) Retirement Benefit. Executive will be provided with a retirement benefit commencing at the age of 62 payable in the form of a joint and 100% survivor annuity. Such benefits shall be payable in all events, regardless of his years of service upon termination of his employment from the Company, without reduction by reason of any other retirement benefit for which the Executive may qualify; provided, however, that if the Executive is still employed by the Company when he reaches age 62, and if he is then entitled to an unreduced retirement benefit payable in the form of a joint and survivor annuity under SERP I of at least \$48,000, then the benefit payable under SERP I shall be in lieu of and in full satisfaction of the Company's obligation under this Section 6(d).

#### 7. Employee Benefit Programs.

(a) General Benefits. During the Term of Employment, the Executive shall be entitled to participate in such employee pension and welfare benefit plans and programs of the Company as are made available to senior-level executives or to its employees generally, as such plans or programs may be in effect from time to time, including, without limitation, Future Fund, health, medical, dental, salary continuation program, long-term disability, travel accident and life insurance plans. In addition, the Executive shall be entitled to 4 weeks of paid vacation per year.

(b) Designated Benefits. During the Term of Employment, the Executive shall be entitled to participate in the Income Continuation Policy for Select Senior Executives of the Company ("ICP") (which provides benefits to the Executive in the event of a change in control of the Company), the Deferred Compensation Plan and the Supplemental Retirement Plan I for Select Senior Management of the Company ("SERP I"). For the purposes of SERP I, the Executive's SERP Incentive Target shall be 40% of Base Salary. In addition, during the Term of Employment, the Company shall, effective 1996, provide the Executive, in accordance with the terms adopted by the Company, with personal financial and tax planning.

#### 8. Disability.

(a) During the Term of Employment, as well as during the Severance Period, the Executive shall be entitled to disability coverage as described in this Section 8(a). In the event the Executive becomes disabled, as that term is defined under the Company's Long-Term Disability Plan, the Executive shall be entitled to receive, in place of his Base Salary, an amount equal to 60% of his Base Salary, at the annual rate in effect at the commencement date of his Company long-term disability benefit ("Commencement Date") for a period beginning on the Commencement Date and ending with the earlier to occur of (A) the Executive's attainment of age 65 or (B) the Executive's commencement of benefits under SERP I upon his election to receive such benefits. If when the

4

Executive ceases to be disabled his position is then vacant and the Company requests in writing that he resume such position, he may elect to resume such position by written notice to the Company within 15 days after the Company delivers its request. If he resumes such position, he shall thereafter be entitled to his Base Salary at the annual rate in effect at the Commencement

Date and, for the year he resumes his position, a pro rata annual incentive award. If he ceases to be disabled and does not resume his position in accordance with the preceding sentence, he shall be treated as if he voluntarily terminated his employment pursuant to Section 10(e) as of the date the Executive ceases to be disabled. If the Executive is not offered a position after he ceases to be disabled, he shall be treated as if his employment was terminated Without Cause pursuant to Section 10(c) as of the date the Executive ceases to be disabled.

(b) The Executive shall be entitled to a pro rata annual incentive award for the year in which the Commencement Date occurs equal to 40% of annualized Base Salary for such year prior to the Commencement Date, payable in a lump sum promptly after the Commencement Date. The Executive shall not be entitled to any annual incentive awards with respect to the period following the Commencement Date.

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

#### 9. Reimbursement of Business and Other Expenses; Perquisites.

(a) The Executive is authorized to incur reasonable expenses in carrying out his duties and responsibilities under this Agreement and the Company shall promptly reimburse him for all business expenses incurred in connection therewith, subject to documentation in accordance with the Company's policy.

(b) The Company shall pay all reasonable legal expenses up to \$10,000 incurred by the Executive in connection with the negotiation of this Agreement.

#### 10. Termination of Employment.

(a) Termination Due to Death. In the event the Executive's employment is terminated due to his death, his estate or his beneficiaries, as the case may be, shall be entitled to:

(i) Base Salary through the date of death and thereafter at the annualized rate in effect on the date of death for a period of one year;

5

(ii) pro rata annual incentive award for the year in which the Executive's death occurs equal to 40% of annualized Base Salary for such year, payable in a lump sum promptly after his death;

(iii) lapse of all restrictions on any restricted stock award (including any performance-based restricted stock) outstanding at the time of his death;

(iv) Company common stock, issued without restrictions, equal to any outstanding award of contingent shares as of the date of death;

(v) the right to exercise any stock option vested at the time of his death for a period of one year following death or for the remainder of the exercise period if less;

(vi) the balance of any incentive awards earned (but not yet paid);

(vii) any amounts earned, accrued or owing to the Executive but not yet paid under Section 6, 7, 8 or 9 above;

(viii) other or additional benefits then due or earned in accordance

with applicable plans and programs of the Company; and

(b) Termination by the Company for Cause.

(i) "Cause" shall mean:

(A) the Executive is convicted of a felony involving moral turpitude; or

(B) the Executive engages in conduct that constitutes willful gross neglect or willful gross misconduct in carrying out his duties under this Agreement, resulting, in either case, in material harm to the financial condition of the Company.

(ii) A termination for Cause shall not take effect unless the provisions of this paragraph (ii) are complied with. The Executive shall be given written notice by the Company of its intention to terminate him for Cause, such notice (A) to state in detail the particular act or acts or failure or failures to act that constitute the grounds on which the proposed termination for Cause is based and (B) to be given within six months of the Company's learning of such act or acts or failure or failures to act. The Executive shall have 30 days after the date that such written notice has been given to him in which to cure such conduct, to the extent such cure is possible. If he fails to cure such conduct, the Executive shall then be entitled to a hearing before the Compensation Committee of the Board. Such hearing shall be held within 45 days of such notice to the Executive, provided he requests such hearing within 35 days of the written notice from the Company of the intention to terminate him for Cause. If, within five days following such hearing, the Executive is furnished written notice by the Board confirming that, in its judgment, grounds for Cause on the basis of the original notice exist, he shall thereupon be terminated for Cause.

6

(iii) In the event the Company terminates the Executive's employment for Cause, he shall be entitled to:

(A) Base Salary through the date of the termination of his employment for Cause;

(B) any incentive awards earned (but not yet paid);

(C) any amounts earned, accrued or owing to the Executive but not yet paid under Section 6, 7, 8 or 9 above; and

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

(c) Termination Without Cause or Constructive Termination Without Cause. In the event the Executive's employment is terminated without Cause (which termination shall be effective as of the date specified by the Company in a written notice to the Executive), other than due to death, or in the event there is a Constructive Termination Without Cause (as defined below), the Executive shall be entitled to and his sole remedies under this Agreement shall be:

(i) Base Salary through the date of termination of the Executive's employment;

(ii) Base Salary, at the annualized rate in effect on the date of termination of the Executive's employment (or in the event a reduction in Base Salary is the basis for a Constructive Termination Without Cause, then the Base Salary in effect immediately prior to such reduction), for a period of 36 months following such termination (the "Severance Period"); provided that except as set forth in the last paragraph of this Section 10(c) the salary continuation payment under this Section 10(c)(ii) shall be in lieu of any salary continuation

arrangements under any other severance program of the Company or any other agreement between the Executive and the Company;

(iii) pro rata annual incentive award for the year in which termination occurs equal to 40% of annualized Base Salary, payable in a lump sum promptly following termination;

(iv) an amount equal to 40% of Base Salary at the annualized rate in effect on the date of termination of the Executive's employment (or in the event of a reduction in Base Salary is the basis for a Constructive Termination Without Cause, then the Base Salary in effect immediately prior to such reduction) multiplied by three, payable in equal monthly payments over the Severance Period;

(v) during the Severance Period, continued lapse of all restrictions on any restricted stock award (including any performance-based restricted stock) outstanding at the time of such termination of employment in accordance with the schedule of such lapses of restrictions set forth in the award;

7

(vi) Company common stock, issued without restrictions, equal to any outstanding award of contingent shares as of the date of termination;

(vii) the right to exercise any stock option held by the Executive at the date of his termination (with continued vesting of any options not yet exercisable during the Severance Period in accordance with its original schedule), such option to be exercisable during the Severance Period and for 90 days thereafter or for the remainder of the exercise period if less, provided, however, that options granted pursuant to the Company's 1987 Stock Option Plan shall in no event be exercisable after three years following termination and provided further that the Executive shall not be entitled to receive any additional stock incentive awards during the Severance Period;

(viii) the balance of any incentive awards earned (but not yet paid);

(ix) any amounts earned, accrued or owing to the Executive but not yet paid under Section 6, 7, 8 or 9 above;

(x) continued participation in all medical, dental, health and life insurance plans and in other employee benefit plans or programs (but excluding SERP I and Future Fund) at the same benefit level at which he was participating on the date of the termination of his employment until the earlier of:

(A) the end of the Severance Period; or

(B) the date, or dates, he receives equivalent coverage and benefits under the plans and programs of a subsequent employer (such coverage and benefits to be determined on a coverage-by-coverage, or benefit-by-benefit, basis);

provided that (x) if the Executive is precluded from continuing his participation in any employee benefit plan or program as provided in this clause (x) of this Section 10(c), he shall receive cash payments equal on an after-tax basis to the cost to him of obtaining the benefits provided under the plan or program in which he is unable to participate for the period specified in this clause (x) of this Section 10(c), (y) such cost shall be deemed to be the lowest cost that would be incurred by the Executive in obtaining such benefit himself on an individual basis, and (z) payment of such amounts shall be made quarterly in advance; and

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

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

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

"Constructive Termination Without Cause" shall mean a termination of the Executive's employment at his initiative as provided in this Section 10(c)

8

following the occurrence, without the Executive's written consent, of one or more of the following events (except as a result of a prior termination):

(A) a reduction in the Executive's then current Base Salary or his target bonus opportunity under MIP or any successor plan;

(B) the loss of any of the Executive's titles or positions;

(C) a material diminution in the Executive's duties or the assignment to the Executive of duties which are materially inconsistent with his duties; or

(D) a "Benefit Event" as defined in paragraph 4 or 5 of Section 4.02(a) of the ICP, unless within 15 days of such event the Company obtains the written agreement of any person or entity to which the assets or business involved in such Benefit Event are transferred to perform all the obligations of this Agreement, or such person or entity is otherwise bound by operation of law to perform all the obligations of this Agreement.

Notwithstanding the provisions of this Section 10(c), in the event that the Executive receives a payment under Section 4.01(b) of the ICP, the amounts due under Sections 10(c)(ii) and (iv) above shall be reduced by the amount of such payment, such reduction to be effected by eliminating installments due under Sections 10(c)(ii) and (iv) above in reverse order. Notwithstanding the elimination of such installments, the Severance Period shall continue to be 36 months.

(d) Termination following Non-renewal. In the event that the Company notifies the Executive in writing at least 180 days prior to the expiration of the Original Term of Employment or any Renewal Term that it is electing to terminate this Agreement at the expiration of the then current Term of Employment and the executive's employment terminates upon such expiration, at the Company's initiative, the Executive shall be entitled to:

(i) Base Salary through the date of termination of the Executive's employment;

(ii) Base Salary, at the annualized rate in effect on the date of termination of the Executive's employment, for a period of 18 months following such termination (the "Non-renewal Severance Period"); provided that the salary continuation payment under this Section 10 (d) (ii) shall be in lieu of any salary continuation arrangements under any other severance program of the Company or any other agreement between the Executive and the Company other than benefits to which the Executive is entitled under Section 4.01 (b) of the ICP, provided that any such ICP benefits shall reduce the payments due under this Section 10(d) (ii) in the same manner as is provided in the last paragraph of Section 10(c);

(iii) pro rata annual incentive award for the year in which termination occurs equal to 40% of annualized Base Salary, payable in a lump sum promptly following termination;

9

(iv) the right to exercise any stock option held by the Executive at the date of his termination to the extent vested at such date during the Non-renewal Severance Period and for 90 days thereafter or for the remainder of the exercise period if less, provided, however, that the Executive shall not be entitled to receive any additional stock incentive awards during the Non-renewal Severance Period;

(v) the balance of any incentive awards earned (but not yet paid);

(vi) any amount earned, accrued or owing to the Executive but not yet paid under Section 6,7,8 or 9 above;

(vii) continued participation in all medical and dental plans at the same benefit level at which he was participating on the date of the termination of his employment until the earlier of:

(A) the end of the Non-renewal Severance Period; or

(B) the date, or dates, he receives equivalent coverage and benefit under the plans and programs of a subsequent employer (such coverage and benefits to be determined on a coverage-by-coverage, or benefit-by-benefit, basis);

provided that (x) if the Executive is precluded from continuing his participation in any employee benefit plan or program as provided in this clause (vii) of this Section 10 (d), he shall receive cash payments equal on an after-tax basis to the cost to him of obtaining the benefits provided under the plan or program in which he is unable to participate for the period specified in this clause (vii) of this Section 10 (d), (y) such cost shall be deemed to be the lowest cost that would be incurred by the Executive in obtaining such benefit himself on an individual basis, and (z) payment of such amounts shall be made quarterly in advance; and

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

(e) Voluntary Termination. In the event of a termination of employment by the Executive on his own initiative, other than a termination due to death or a Constructive Termination Without Cause, the Executive shall have the same entitlements as provided in Section 10(b)(iii) above for a termination for Cause. A voluntary termination under this Section 10(e) shall be effective upon 30 days prior written notice to the Company or such shorter period as may be determined by the Company and shall not be deemed a breach of this Agreement.

(f) No Mitigation; No Offset. In the event of any termination of employment under this Section 10, the Executive shall be under no obligation to seek other employment; amounts due the Executive under this Agreement shall not be offset by any remuneration attributable to any subsequent employment that he may obtain.

10

(g) Nature of Payments. Any amounts due under this Section 10 are in the nature of severance payments considered to be reasonable by the Company and are not in the nature of a penalty.

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

#### 11. Confidentiality.

(a) During the Term of Employment and thereafter, the Executive shall not,

without the prior written consent of the Company, disclose to anyone other than in the normal course of carrying out his responsibilities under this Agreement or make use of any Confidential Information, except when required to do so by a court of law, by any governmental agency having supervisory authority over the business of the Company or any Subsidiary or by any administrative or legislative body (including a committee thereof) that orders him to divulge, disclose or make accessible such information. In the event that the Executive is so ordered, he shall give prompt written notice to the Company in order to allow the Company the opportunity to object to or otherwise resist such order.

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

(c) "Confidential Information" shall mean all information that is not known or available to the public concerning the business of the Company or any Subsidiary relating to any of their products, product development, trade secrets, customers, suppliers, finances, and business plans and strategies. For this purpose, information known or available generally within the trade or industry of the Company or any Subsidiary shall be deemed to be known or available to the public. Confidential Information shall include information that is, or becomes, known to the public as a result of a breach by the Executive of the provisions of Section 11(a) above.

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

## 12. Non-solicitation of Employees.

(a) During the portion of the Restriction Period as defined below following the termination of the Executive's employment, the Executive shall not induce employees of the Company or any Subsidiary, to terminate their employment. During the portion of the Restriction Period following the termination of the Executive's employment, the Executive shall not directly or indirectly hire any employee of the Company or any Subsidiary or any person who was employed by the Company or any Subsidiary within 180 days of such hiring.

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

(i) in the case of a termination of the Executive's employment without Cause or a Constructive Termination Without Cause, the end of the Severance Period;

(ii) in the case of a termination of the Executive's employment for Cause, the first anniversary of such termination;

(iii) in the case of a termination of the Executive's employment upon the expiration of the Original Term of Employment or any Renewal Term that results in the commencement of the Non-renewal Severance Period pursuant to Section 10 (d) above, the end of the Non-renewal Severance Period;

(iv) in the case of a voluntary termination of the Executive's employment, the date of such termination.

### 13. Remedies.

In addition to whatever other rights and remedies the Company may have at equity or in law, if the Executive breaches any of the provisions contained in Section 11 or 12 above, the Company (a) shall have the right to immediately terminate all payments and benefits due under this Agreement contingent upon a judicial determination that a violation has occurred and (b) shall have the right to seek injunctive relief. The Executive acknowledges that such a breach would cause irreparable injury and that money damages would not provide an adequate remedy for the Company.

### 14. Resolution of Disputes.

Any disputes arising under or in connection with this Agreement shall be resolved by binding arbitration, to be held at the location of the Company's principal offices in accordance with the rules and procedures of the American Arbitration Association, except that disputes arising under or in connection with Section 11 and 12 above shall be submitted to the federal or state courts

12

in the State of New York. Judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Each party shall bear his or its own costs of the arbitration or litigation, including, without limitation, attorneys' fees. Pending the resolution of any arbitration or court proceeding, the Company shall continue payment of all amounts and benefits due the Executive under this Agreement.

### 15. Indemnification.

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

(b) Neither the failure of the Company (including its board of directors, independent legal counsel or stockholders) to have made a determination prior to the commencement of any proceeding concerning payment of amounts claimed by the Executive under Section 16(a) above that indemnification of the Executive is proper because he has met the applicable standard of conduct, nor a determination by the Company (including its board of directors, independent legal counsel or stockholders) that the Executive has not met such applicable standard of conduct, shall create a presumption that the Executive has not met

the applicable standard of conduct.

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

13

16. Effect of Agreement on Other Benefits.

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

17. Assignability; Binding Nature.

This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, heirs (in the case of the Executive) and permitted assigns. No rights or obligations of the Company under this Agreement may be assigned or transferred by the Company except that such rights or obligations may be assigned or transferred in connection with the sale or transfer of all or substantially all of the assets of the Company, provided that the assignee or transferee is the successor to all or substantially all of the assets of the Company and such assignee or transferee assumes the liabilities, obligations and duties of the Company, as contained in this Agreement, either contractually or as a matter of law. The Company further agrees that, in the event of a sale or transfer of assets as described in the preceding sentence, it shall take whatever action it legally can in order to cause such assignee or transferee to expressly assume the liabilities, obligations and duties of the Company hereunder. No rights or obligations of the Executive under this Agreement may be assigned or transferred by the Executive other than his rights to compensation and benefits, which may be transferred only by will or operation of law, except as provided in Section 24 below.

18. Representation.

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

19. Entire Agreement.

This Agreement contains the entire understanding and agreement between the Parties concerning the subject matter hereof and supersedes all prior agreements, understandings, discussions, negotiations and undertakings, whether written or oral, between the Parties with respect thereto.

20. Amendment or Waiver.

No provision in this Agreement may be amended unless such amendment is agreed to in writing and signed by the Executive and an authorized officer of the Company. No waiver by either Party of any breach by the other Party of any condition or provision contained in this Agreement to be performed by such other Party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and signed by the Executive or an authorized officer of the Company, as the case may be.

14

21. Severability.

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

22. Survivorship.

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

23. Beneficiaries/References.

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

24. Governing Law/Jurisdiction.

This Agreement shall be governed by and construed and interpreted in accordance with the laws of New York without reference to principles of conflict of laws.

25. Notices.

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

If to the Company:           Melville Corporation  
                                  One Theall Road  
                                  Rye, New York 10580

If to the Executive:        Mr. Jerald L. Maurer  
                                  115 Pomeroy Road  
                                  Madison, New Jersey 07940

26. Headings.

The headings of the sections contained in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this Agreement.

27. Counterparts.

This Agreement may be executed in two or more counterparts.

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

Melville Corporation

By: /s/ Stanley P. Goldstein

-----  
Stanley P. Goldstein

/s/ Jerald L. Maurer

-----  
Mr. Jerald L. Maurer

## EMPLOYMENT AGREEMENT

AGREEMENT, made and entered into as of the 2nd day of November, 1995 by and between Melville Corporation, a New York corporation (together with its successors and assigns permitted under this Agreement, the "Company"), and Mr. Harvey Rosenthal (the "Executive").

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

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

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

#### 1. Definitions.

- (a) "Base Salary" shall have the meaning set forth in Section 4 below.
- (b) "Board" shall have the meaning set forth in Section 4 below.
- (c) "Cause" shall have the meaning set forth in Section 10(b) below.
- (d) "Confidential Information" shall have the meaning set forth in Section 11 below.
- (e) "Constructive Termination Without Cause" shall have the meaning set forth in Section 10(c) below.
- (f) "Effective Date" shall have the meaning set forth in Section 2 below.
- (g) "ICP" shall have the meaning set forth in Section 7 below.
- (h) "Non-renewal Severance Period" shall have the meaning set forth in Section 10(d) below.
- (i) "Original Term of Employment" shall have the meaning set forth in Section 2 below.
- (j) "MIP" shall have the meaning set forth in Section 5 below.
- (k) "Renewal Term" shall have the meaning set forth in Section 2 below.
- (l) "Restriction Period" shall have the meaning set forth in Section 12 below.
- (m) "SERP I" shall have the meaning set forth in Section 7 below.
- (n) "Severance Period" shall have the meaning set forth in Section 10(c)(ii) below.
- (o) "Subsidiary" shall have the meaning set forth in Section 11 below.
- (p) "Term of Employment" shall have the meaning set forth in Section 2 below.
- (q) "Termination Without Cause" shall have the meaning set forth in Section 10(c) below.

#### 2. Term of Employment.

(a) The term of the Executive's employment under this Agreement shall commence immediately upon the execution of this Agreement (the "Effective Date") and end on the third anniversary of such date (the "Original Term of Employment"). The Original Term of Employment shall be automatically renewed for successive one-year terms (the "Renewal Terms") unless at least 180 days prior to the expiration of the Original Term of Employment or any Renewal Term, either Party notifies the other Party in writing that he or it is electing to terminate this Agreement at the expiration of the then current Term of Employment. "Term of Employment" shall mean the Original Term of Employment and all Renewal Terms.

(b) In the event that this Agreement is not renewed because the Company has given the 180-day notice prescribed in the preceding paragraph on or before the expiration of the Original Term of Employment or any Renewal Term, such non-renewal shall be treated as a termination following non-renewal pursuant to Section 10 (d) below.

2

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

### 3. Position, Duties and Responsibilities.

(a) Commencing on the Effective Date, the Executive is currently employed as the President and Chief Operating Officer of the Company and shall report to the Chairman of the Board, and will continue to be employed as a senior executive of the Company, reporting to the Chairman of the Board for the remainder of the Term of Employment, unless the Parties otherwise agree.

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

### 4. Base Salary.

The Executive shall be paid an annualized salary, payable in accordance with the regular payroll practices of the Company, of not less than \$800,000, subject to annual review for increase at the discretion of the Compensation Committee of the Board.

### 5. Annual Incentive Awards.

The Executive shall participate in the Company's Profit Incentive Plan ("MIP") with a target bonus opportunity of no less than 50% of Base Salary or in a successor plan to MIP with an equivalent opportunity. Payment of annual incentive awards shall be made at the same time that other senior-level executives receive their incentive awards.

### 6. Long-Term Stock Incentive Programs.

(a) General. The Executive shall be eligible to participate in and to receive stock incentive awards under the current long-term stock incentive programs of the Company and any successor programs.

(b) Stock Option Award. As part of the award approved by the Compensation Committee of the Board on April 11, 1995, the Company has granted the Executive an option pursuant to the terms and conditions set forth in the attached Exhibit A to purchase

350,000 shares of common stock of the Company at an exercise price equal to the fair market value of the shares on the date of grant, contingent on the execution of this Agreement.

#### 7. Employee Benefit Programs.

(a) General Benefits. During the Term of Employment, the Executive shall be entitled to participate in such employee pension and welfare benefit plans and programs of the Company as are made available to the Company's senior-level executives or to its employees generally, as such plans or programs may be in effect from time to time, including, without limitation, Future Fund, health, medical, dental, salary continuation program, long-term disability, travel accident and life insurance plans. In addition, the Executive shall be entitled to 4 weeks of paid vacation per year.

(b) Designated Benefits. During the Term of Employment, the Executive shall be entitled to participate in the Income Continuation Policy for Select Senior Executives of the Company ("ICP") (which provides benefits to the Executive in the event of a change in control of the Company), the Deferred Compensation Plan and the Supplemental Retirement Plan I for Select Senior Management of the Company ("SERP I"). For the purposes of SERP I, the Executive's SERP Incentive Target shall be 50% of Base Salary. In addition, during the Term of Employment, the Company shall, effective 1996, provide the Executive, in accordance with the terms adopted by the Company, with personal financial and tax planning.

#### 8. Disability.

(a) During the Term of Employment, as well as during the Severance Period, the Executive shall be entitled to disability coverage as described in this Section 8(a). In the event the Executive becomes disabled, as that term is defined under the Company's Long-Term Disability Plan, the Executive shall be entitled to receive, in place of his Base Salary, an amount equal to 60% of his Base Salary, at the annual rate in effect at the commencement date of his Company long-term disability benefit ("Commencement Date") for a period beginning on the Commencement Date and ending with the earlier to occur of (A) the Executive's attainment of age 65 or (B) the Executive's commencement of benefits under SERP I upon his election to receive such benefits. If, when the Executive ceases to be disabled, his position is then vacant and the Company requests in writing that he resume such position, he may elect to resume such position by written notice to the Company within 15 days after the Company delivers its request. If he resumes such position, he shall thereafter be entitled to his Base Salary at the annual rate in effect at the Commencement Date and, for the year he resumes his position, a pro rata annual incentive award. If he ceases to be disabled and does not resume his position in

accordance with the preceding sentence, he shall be treated as if he voluntarily terminated his employment pursuant to Section 10 (e) as of the date the Executive ceases to be disabled. If the Executive is not offered a position after he ceases to be disabled, he shall be treated as if his employment was terminated Without Cause pursuant to Section 10(c) as of the date the Executive ceases to be disabled.

(b) The Executive shall be entitled to a pro rata annual incentive award for the year in which the Commencement Date occurs based on 50% of Base Salary paid to him during such year prior to the Commencement Date, payable in a lump sum promptly after the Commencement Date. The Executive shall not be entitled to any annual incentive award with respect to the period following the Commencement

Date.

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

9. Reimbursement of Business and Other Expenses; Perquisites.

(a) The Executive is authorized to incur reasonable expenses in carrying out his duties and responsibilities under this Agreement and the Company shall promptly reimburse him for all business expenses incurred in connection therewith, subject to documentation in accordance with the Company's policy.

(b) The Company shall pay all reasonable legal expenses up to \$10,000 incurred by the Executive in connection with the negotiation of this Agreement.

(c) The Executive will be provided with a leased automobile and driver.

10. Termination of Employment.

(a) Termination Due to Death. In the event the Executive's employment is terminated due to his death, his estate or his beneficiaries, as the case may be, shall be entitled to:

(i) Base Salary through the date of death;

(ii) pro rata annual incentive award for the year in which the Executive's death occurs based on 50% of Base Salary for such year, payable in a lump sum promptly after his death;

5

(iii) lapse of all restrictions on any restricted stock award (including any performance-based restricted stock) outstanding at the time of his death;

(iv) Company common stock, issued without restrictions, equal to any outstanding award of contingent shares as of the date of death;

(v) the right to exercise any stock option vested at the time of his death for a period of one year following death or for the remainder of the exercise period, if less;

(vi) the balance of any incentive awards earned as of December 31 of the prior year (but not yet paid);

(vii) in the event that the Executive's death occurs before he has met the age and service requirements of SERP I, the Company will provide his spouse with an annuity pursuant to Section 3.03 of SERP I as if he had met such age and service requirements at the time of his death;

(viii) any amounts earned, accrued or owing to the Executive but not yet paid under Section 7, 8 or 9 above; and

(ix) other or additional benefits then due or earned in accordance with applicable plans and programs of the Company including but not limited to SERP I.

(b) Termination by the Company for Cause.

(i) "Cause" shall mean:

(A) the Executive is convicted of a felony involving moral turpitude; or

(B) the Executive engages in conduct that constitutes willful gross neglect or willful gross misconduct in carrying out his duties under this Agreement, resulting, in either case, in material harm to the financial condition or reputation of the Company.

(ii) A termination for Cause shall not take effect unless the provisions of this paragraph (ii) are complied with. The Executive shall be given written notice by the Company of its intention to terminate him for Cause, such notice (A) to state in detail the particular act or acts or failure or failures to act that constitute the grounds on which the proposed termination for Cause is based and (B) to be given within three months of the Company's learning of such act or acts or failure or failures to act. The Executive shall have 10 days after the date that such

6

written notice has been given to him in which to cure such conduct, to the extent such cure is possible. If he fails to cure such conduct, the Executive shall then be entitled to a hearing before the Compensation Committee of the Board at which the Executive is entitled to appear. Such hearing shall be held within 15 days of such notice to the Executive, provided he requests such hearing within 10 days of the written notice from the Company of the intention to terminate him for Cause. If, within five days following such hearing, the Executive is furnished written notice by the Board confirming that, in its judgment, grounds for Cause on the basis of the original notice exist, he shall thereupon be terminated for Cause. Such hearing shall not limit any other review as set forth in this Agreement on a de novo basis.

(iii) In the event the Company terminates the Executive's employment for Cause, he shall be entitled to:

(A) Base Salary through the date of the termination of his employment for Cause;

(B) any incentive awards earned as of December 31 of the prior year (but not yet paid);

(C) any amounts earned, accrued or owing to the Executive but not yet paid under Section 7, 8 or 9 above; and

(D) other or additional benefits then due or earned in accordance with applicable plans or programs of the Company including but not limited to SERP I.

(c) Termination Without Cause or Constructive Termination Without Cause. In the event the Executive's employment is terminated without Cause (which termination shall be effective as of the date specified by the Company in a written notice to the Executive), other than due to death, or in the event there is a Constructive Termination Without Cause (as defined below), the Executive shall be entitled to and his sole remedies under this Agreement shall be:

(i) Base Salary through the date of termination of the Executive's employment;

(ii) Base Salary, at the annualized rate in effect on the date of termination of the Executive's employment (or in the event a reduction in Base Salary is the basis for a Constructive Termination Without Cause, then the Base Salary in effect immediately prior to such reduction), for a period of 24 months following such termination (the "Severance Period"); provided that the salary continuation payment under this Section 10(c)(ii) shall be in lieu of any salary

continuation arrangements under any other severance program of the Company or any other agreement between the Executive and the Company other than the ICP;

7

(iii) pro rata annual incentive award for the year in which termination occurs based on 50% of Base Salary, payable in a lump sum promptly following termination;

(iv) an amount equal to 50% of Base Salary multiplied by two, payable in equal monthly payments over the Severance Period;

(v) lapse of all restrictions on any restricted stock award (including any performance-based restricted stock) outstanding at the time of such termination of employment;

(vi) Company common stock, issued without restrictions, equal to any outstanding award of contingent shares as of the date of termination;

(vii) the right to exercise any stock option held by the Executive at the date of his termination (with any option not yet exercisable becoming vested during the Severance Period in accordance with its original schedule, provided that any option held by the Executive on the date of this Agreement shall become fully vested on the last day of the Severance Period), such option to remain exercisable during the Severance Period and for 90 days thereafter or for the remainder of the exercise period if less, provided, however, that options granted pursuant to the Company's 1987 Stock Option Plan shall in no event be exercisable after three years following termination and provided further that the Executive shall not be entitled to receive any additional stock incentive awards during the Severance Period;

(viii) the balance of any incentive awards earned as of December 31 of the prior year (but not yet paid);

(ix) any amounts earned, accrued or owing to the Executive but not yet paid under Section 7, 8 or 9 above;

(x) in the event that his Termination Without Cause or Constructive Termination Without Cause occurs before the Executive has met the age and service requirements of SERP I, the Company will provide the Executive at age 55 with an Annual Benefit under SERP I equal to 25% of Compensation (as such terms are defined in SERP I);

(xi) continued participation in all medical, dental, health and life insurance plans and in other employee benefit plans or programs (but excluding SERP I and Future Fund) at the same benefit level at which he was participating on the date of the termination of his employment until the earlier of:

(A) the end of the Severance Period; or

8

(B) the date, or dates, he receives equivalent coverage and benefits under the plans and programs of a subsequent employer (such coverage and benefits to be determined on a coverage-by-coverage, or benefit-by-benefit, basis);

provided that (x) if the Executive is precluded from continuing his participation in any employee benefit plan or program as provided in this clause (xi) of this Section 10(c), he shall receive cash payments equal on an after-tax

basis to the cost to him of obtaining the benefits provided under the plan or program in which he is unable to participate for the period specified in this clause (xi) of this Section 10(c), (y) such cost shall be deemed to be the lowest reasonable cost that would be incurred by the Executive in obtaining such benefit himself on an individual basis, and (z) payment of such amounts shall be made quarterly in advance; and

(xii) other or additional benefits then due or earned in accordance with applicable plans and programs of the Company, including but not limited to SERP I.

"Termination Without Cause" shall mean the Executive's employment is terminated by the Company for any reason other than cause (as defined in Section 10 (b)) or due to death.

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

(A) a reduction in the Executive's then current Base Salary or his target bonus opportunity under MIP or any successor plan;

(B) the Executive is employed at a location other than the Company's principal place of business;

(C) a "Benefit Event" as defined in paragraph 4 or 5 of Section 4.02(a) of the ICP, unless within 15 days of such event the Company obtains the written agreement of any person or entity to which the assets or business involved in such Benefit Event are transferred to perform all the obligations of this Agreement, or such person or entity is otherwise bound by operation of law to perform all the obligations of this Agreement.

(D) reporting to other than the Chairman of the Board,

(E) any other material breach by the Company that it does not cure within 30 days

Nothing in this Agreement is intended to terminate any right of the Executive under the ICP or to provide the Executive with the same benefit or payment twice--both under the ICP and under this Agreement. The intent is that the Executive receive the better of the amounts, benefits and rights on a type-of-payment and type-of-benefit basis and that payments will be made upon the earlier of the respective payment dates under the ICP and this Agreement. Accordingly, without limiting the forgoing, notwithstanding the provisions of this Section 10(c), in the event that the Executive receives a payment under Section 4.01(b) of the ICP, the amounts due under Sections 10(c)(ii) and (iv) above shall be reduced by the amount of such payment, such reduction to be effected by eliminating installments due under Sections 10(c)(ii) and (iv) above in reverse order. Notwithstanding the elimination of such installments, the Severance Period shall continue to be 24 months. In the event Executive's title is changed during the Term of this Agreement, Executive will not receive under the ICP in the event the ICP becomes applicable, less than a single sum payment equal to three (3) times his annual Base Salary plus annual incentive award as set forth in Section 4.01(b) of the ICP. Such payment will be subject to reduction as set forth above.

(d) Termination following Non-renewal. In the event that the Company notifies the Executive in writing at least 180 days prior to the expiration of the Original Term of Employment or any Renewal Term that it is electing to terminate this Agreement at the expiration of the then current Term of Employment and the Executive's employment terminates upon such expiration, at the Company's initiative, the Executive shall be entitled to:

(i) Base Salary through the date of termination of the Executive's employment;

(ii) Base Salary, at the annualized rate in effect on the date of termination of the Executive's employment, for a period of 24 months following such termination (the "Non-renewal Severance Period"); provided that the salary continuation payment under this Section 10(d) (ii) shall be in lieu of any salary continuation arrangements under any other severance program of the Company or any other agreement between the Executive and the Company;

(iii) pro rata annual incentive award for the year in which termination occurs based on 50% of Base Salary, payable in a lump sum promptly following termination;

(iv) the right to exercise any stock option held by the Executive at the date of his termination to the extent vested at such date during the Non-renewal Severance Period and for 90 days

10

thereafter or for the remainder of the exercise period if less, provided, however, that the Executive shall not be entitled to receive any additional stock incentive awards during the Non-renewal Severance Period;

(v) the balance of any incentive awards earned as of December 31 of the prior year (but not yet paid);

(vi) any amounts earned, accrued or owing to the Executive but not yet paid under Section 7, 8 or 9 above;

(vii) continued participation in all medical and dental plans at the same benefit level at which he was participating on the date of the termination of his employment until the earlier of:

(A) the end of the Non-renewal Severance Period; or

(B) the date, or dates, he receives equivalent coverage and benefits under the plans and programs of a subsequent employer (such coverage and benefits to be determined on a coverage-by-coverage, or benefit-by-benefit, basis);

provided that (x) if the Executive is precluded from continuing his participation in any employee benefit plan or program as provided in this clause (vii) of this Section 10(d), he shall receive cash payments equal on an after-tax basis to the cost to him of obtaining the benefits provided under the plan or program in which he is unable to participate for the period specified in this clause (vii) of this Section 10 (d), (y) such cost shall be deemed to be the lowest reasonable cost that would be incurred by the Executive in obtaining such benefit himself on an individual basis, and (z) payment of such amounts shall be made quarterly in advance; and

(viii) other or additional benefits then due or earned in accordance with applicable plans and programs of the Company, including but not limited to SERP I.

(e) Voluntary Termination. In the event of a termination of employment by the Executive on his own initiative, other than a termination due to death, a Constructive Termination Without Cause, or agreed upon retirement pursuant to Section 10 (f) or 10 (g) below, or a non-renewal by the Executive pursuant to Section 2(a), the Executive shall have the same entitlements as provided in Section 10(b)(iii) above for a Termination for Cause, provided that at the Company's election, furnished in writing to the Executive within 30 days following such notice of termination, the Company shall in addition pay the

Executive 50% of his Base Salary for a period of 18 months following such

11

termination in exchange for the Executive not to engage in competition with the Company or any Subsidiary as set forth in Section 12(a) below. A voluntary termination under this Section 10(e) shall be effective upon 30 days prior written notice to the Company or such shorter period as may be determined by the Company and shall not be deemed a breach of this Agreement.

(f) Agreed Upon Retirement In First Two Years. In the event the Executive decides to retire within the first two years of the Term of Employment and the Company approves such decision in writing, which approval after the first year shall not be unreasonably withheld, the Executive shall be entitled to:

(i) Base Salary through the date of termination of the Executive's employment;

(ii) Base Salary, at the annualized rate in effect on the date of termination of the Executive's employment, for a period of 12 months following such termination (the "Agreed Upon Retirement Severance Period"); provided that the salary continuation payment under this Section 10(f) (ii) shall be in lieu of any salary continuation arrangements under any other severance program of the Company or any other agreement between the Executive and the Company;

(iii) pro rata annual incentive award for the year in which termination occurs based on 50% of Base Salary, payable in a lump sum promptly following termination;

(iv) continued vesting and exercisability of stock options as provided in Section 10 (h) below;

(v) the balance of any incentive awards earned as of December 31 of the prior year (but not yet paid);

(vi) any amounts earned, accrued or owing to the Executive but not yet paid under Section 7, 8 or 9 above;

(vii) in the event that his agreed upon retirement occurs before the Executive has met the age and service requirements of SERP I, the Company will provide the Executive at age 55, with an Annual Benefit equal to 25% of Compensation (as such terms are defined in SERP I);

(viii) continued participation in all medical and dental plans at the same benefit level at which he was participating on the date of the termination of his employment until the earlier of:

(A) the end of the Agreed Upon Retirement Severance Period; or

(B) the date, or dates, he receives equivalent coverage and benefits under the plans and programs of a

12

subsequent employer (such coverage and benefits to be determined on a coverage-by-coverage, or benefit-by-benefit, basis);

provided that (x) if the Executive is precluded from continuing his participation in any employee benefit plan or program as provided in this clause

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

(ix) other or additional benefits then due or earned in accordance with applicable plans and programs of the Company, including but not limited to SERP I.

(g) Agreed Upon Retirement In Third Year. In the event the Executive decides to retire in the third year of the Term of Employment and the Company approves such decision in writing, which approval shall not be unreasonably withheld, the Executive shall have the same entitlements as provided in Section 10(b) (iii) above for Termination For Cause and in addition, shall be entitled to the following which shall be in lieu of any salary continuation arrangements under any other severance program of the Company or any other agreement between the Executive and the Company:

(i) continued vesting and exercisability of stock options as provided in Section 10 (h) below; and

(ii) the Company will provide the Executive with an Annual Benefit under SERP I at age 55 or at his retirement, whichever is later, equal to at least 30% of Compensation (as such terms are defined in SERP I) whether or not he has met the age and service requirements of SERP I at the time of his retirement.

(h) Retirement. Notwithstanding anything to the contrary in this Section 10, in the event of any termination of employment under this Section 10, other than a termination for Cause, after the Executive becomes eligible to be classified as a Retiree under SERP I, or his termination constitutes an agreed upon retirement pursuant to Section 10 (f) or 10 (g), subject to approval of the Compensation Committee of the Board, any stock option held by the Executive at the time of such termination shall continue to vest in accordance with its original schedule for a period of four years following such termination and, to the extent so vested, shall remain exercisable during such four-year period or for the remainder of the exercise period, if less, provided, however, that options granted pursuant to the Company's 1987 Stock Option Plan shall in no event be exercisable after three years following termination.

13

(i) No Mitigation; No Offset. In the event of any termination of employment under this Section 10, the Executive shall be under no obligation to seek other employment; amounts due the Executive under this Agreement shall not be offset by any remuneration attributable to any subsequent employment that he may obtain.

(j) Nature of Payments. Any amounts due under this Section 10 are in the nature of severance payments considered to be reasonable by the Company and are not in the nature of a penalty.

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

## 11. Confidentiality.

(a) During the Term of Employment and thereafter, the Executive shall not, without the prior written consent of the Company, disclose to anyone except in good faith in the ordinary course of business to a person who will be advised by the Executive to keep such information confidential or make use of any Confidential Information, except when required to do so by legal process, by any governmental agency having supervisory authority over the business of the Company or by any administrative or legislative body (including a committee thereof) that requires him to divulge, disclose or make accessible such information. In the event that the Executive is so ordered, he shall give prompt written notice to the Company in order to allow the Company the opportunity to object to or otherwise resist such order.

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

14

(c) "Confidential Information" shall mean all information that is not known or available to the public concerning the business of the Company or any Subsidiary relating to any of their products, product development, trade secrets, customers, suppliers, finances, and business plans and strategies. For this purpose, information known or available generally within the trade or industry of the Company or any Subsidiary shall be deemed to be known or available to the public. Confidential Information shall include information that is, or becomes, known to the public as a result of a breach by the Executive of the provisions of Section 11(a) above.

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

## 12. Non-competition.

(a) During the Restriction Period (as defined in Section 12(b) below), the Executive shall not engage in Competition with the Company or any Subsidiary. "Competition" shall mean engaging in any activity, except as provided below, for a Competitor of the Company or any Subsidiary, whether as an employee, consultant, principal, agent, officer, director, partner, shareholder (except as a less than one percent shareholder of a publicly traded company or except in connection with the Executive's permitted employment, compensatory stock options or grants in any entity) or otherwise. A "Competitor" shall mean (i) Walgreens, Thrifty, PayLess, Eckerd, American Drug Stores, Rite Aid, Revco, Longs Drug Stores, Shoppers Drug Mart, Phar-Mor, Thrift Drug and (ii) the portion of any other corporation or other entity or start-up corporation or entity that is engaged in the Chain Drug Business within fifty (50) miles of any Chain Drug Business outlet in the United States of the Company or any Subsidiary, provided that a corporation or entity described in clause (ii) above shall not be deemed to be a Competitor if the Executive shall not either directly or indirectly oversee or manage the activities of such corporation or entity's division or unit engaged in the Chain Drug Business. All determinations shall be made at the time of the activity by the Executive provided, if the Executive commences employment or becomes a consultant, principal, agent, officer, director, partner, shareholder or acquires stock in any entity that is not a Competitor at

the time the Executive initially becomes employed or becomes a consultant, principal, agent, officer, director, partner, shareholder by the entity or acquires the stock of such entity, future activities of such entity shall not result in a violation of this provision unless (x) such activities were contemplated at the time the Executive initially became employed or becomes a consultant, principal, agent, officer, director, partner, shareholder or acquired stock (and the contemplation of such activities was known to the Executive) or (y) the Executive commences directly or indirectly overseeing or managing the activities which are competitive with the activities of the Company or Subsidiary. The Executive shall not be deemed indirectly overseeing or

15

managing the activities which are competitive with the activities of the Company or Subsidiary so long as he does not participate in discussions with regard to the competing business.

For purposes of the foregoing, "Chain Drug Business" shall mean a group of four or more stores which either (x) fills prescriptions or (y) primarily sells health and beauty aids.

(b) For the purposes of this Section 12 and Section 13 below, "Restriction Period" shall mean the period beginning with the Effective Date and ending with

(i) in the case of a termination of the Executive's employment without Cause or a Constructive Termination Without Cause, the end of the Severance Period;

(ii) in the case of a termination of the Executive's employment for Cause, the first anniversary of such termination;

(iii) in the case of a termination of the Executive's employment upon the expiration of the Original Term of Employment or any Renewal Term that results in the commencement of the Non-renewal Severance Period pursuant to Section 10(d) above, the end of the Non-renewal Severance Period;

(iv) in the case of a voluntary termination of the Executive's employment pursuant to Section 10(e) above followed by the Company's election to pay the Executive such 50% of Base Salary, as provided in Section 10 (e) above, the end of the 18-month period following such termination; or

(v) in the case of a voluntary termination of the Executive's employment pursuant to Section 10 (e) above which is not followed by the Company's election to pay the Executive such 50% of Base Salary, the date of such termination.

(vi) in the case of agreed upon retirement of the Executive's employment during the Term of Employment pursuant to Section 10(f) and (g) above, the remainder of the Term of Employment.

### 13. Non-solicitation of Employees.

During the portion of the Restriction Period following the termination of the Executive's employment, the Executive shall not induce employees of the Company with the exception of Executive's Administrative Assistant, or any Subsidiary to terminate their employment. During the portion of the Restriction Period following the termination of the Executive's employment, the Executive shall not directly or indirectly hire any employee of the Company with the exception of Executive's Administrative Assistant, or any Subsidiary or any person who was employed by the Company within 180 days of such hiring.

16

#### 14. Remedies.

In addition to whatever other rights and remedies the Company may have at equity or in law, if the Executive breaches any of the provisions contained in Section 11, 12 or 13 above, the Company (a) shall have the right to immediately terminate all payments and benefits due under this Agreement and (b) shall have the right to seek injunctive relief. The Executive acknowledges that such a breach would cause irreparable injury and that money damages would not provide an adequate remedy for the Company.

#### 15. Resolution of Disputes.

Any disputes arising under or in connection with this Agreement, other than seeking injunctive relief under Section 14, shall be resolved by binding arbitration, to be held at an office closest to the Company's principal offices in accordance with the rules and procedures of the American Arbitration Association, except that disputes arising under or in connection with Section 11, 12 and 13 above shall be submitted to the federal or state courts in the State of New York. Judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Each Party shall bear his or its own costs of the arbitration or litigation, including, without limitation, attorneys' fees. Pending the resolution of any arbitration or court proceeding, the Company shall continue payment of all amounts and benefits due the Executive under this Agreement.

#### 16. Indemnification.

(a) The Company agrees that if the Executive is made a party, or is threatened to be made a party, to any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that he is or was a director, officer or employee of the Company or any Subsidiary or is or was serving at the request of the Company or any Subsidiary as a director, officer, member, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether or not the basis of such Proceeding is the Executive's alleged action in an official capacity while serving as a director, officer, member, employee or agent, the Executive shall be indemnified and held harmless by the Company to the fullest extent legally permitted or authorized by the Company's certificate of incorporation or bylaws or resolutions of the Company's Board of Directors or, if greater, by the laws of the State of New York, against all cost, expense, liability and loss (including, without limitation, attorney's fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by the Executive in connection therewith, and such indemnification shall continue as to the Executive even if he has ceased to be a director, member, officer, employee or agent of the Company or other entity and shall inure to the benefit of the Executive's heirs, executors and administrators. The

Company shall advance to the Executive all reasonable costs and expenses incurred by him in connection with a Proceeding within 20 days after receipt by the Company of a written request for such advance. Such request shall include an undertaking by the Executive to repay the amount of such advance if it shall ultimately be determined that he is not entitled to be indemnified against such costs and expenses.

(b) Neither the failure of the Company (including its board of directors, independent legal counsel or stockholders) to have made a determination prior to the commencement of any proceeding concerning payment of amounts claimed by the Executive under Section 16(a) above that indemnification of the Executive is proper because he has met the applicable standard of conduct, nor a determination by the Company (including its board of directors, independent

legal counsel or stockholders) that the Executive has not met such applicable standard of conduct, shall create a presumption that the Executive has not met the applicable standard of conduct.

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

#### 17. Effect of Agreement on Other Benefits.

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

#### 18. Assignability; Binding Nature.

This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, heirs (in the case of the Executive) and permitted assigns. No rights or obligations of the Company under this Agreement may be assigned or transferred by the Company except that such rights or obligations may be assigned or transferred in connection with the sale or transfer of all or substantially all of the assets of the Company, provided that the assignee or transferee is the successor to all or substantially all of the assets of the Company and such assignee or transferee assumes the liabilities, obligations and duties of the Company, as contained in this Agreement, either contractually or as a matter of law. The Company further agrees that, in the event of a sale or transfer of assets as described in the preceding sentence, it shall take whatever action it legally can in order to cause such assignee or transferee to expressly assume the liabilities, obligations and duties of the Company hereunder. No rights or obligations of the Executive under this Agreement may be assigned or transferred by the Executive other than his rights to compensation and benefits, which may be transferred only by will or operation of law, except as provided in Section 24 below.

18

#### 19. Representation.

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

#### 20. Entire Agreement.

This Agreement contains the entire understanding and agreement between the Parties concerning the subject matter hereof and supersedes all prior agreements, understandings, discussions, negotiations and undertakings, whether written or oral, between the Parties with respect thereto. This Agreement is not intended to supersede the letter dated February 4, 1994, (providing for 24 months of severance in the event the Executive is terminated other than for cause as defined in this letter), in the event the Agreement has expired and the Executive has not retired pursuant to Section 10(f), 10(g) or 10(h) or his employment has otherwise terminated prior to such expiration.

#### 21. Amendment or Waiver.

No provision in this Agreement may be amended unless such amendment is agreed to in writing and signed by the Executive and an authorized officer of the Company. No waiver by either Party of any breach by the other Party of any condition or provision contained in this Agreement to be performed by such other Party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and signed by the Executive or an authorized officer of the Company, as the case may

be.

22. Severability.

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

23. Survivorship.

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

24. Beneficiaries/References.

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

25. Governing Law/Jurisdiction.

This Agreement shall be governed by and construed and interpreted in accordance with the laws of New York without reference to principles of conflict of laws.

26. Notices.

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

If to the Company: Melville Corporation  
One Theall Road  
Rye, New York 10580

Attention: Chairman

If to the Executive: Mr. Harvey Rosenthal  
26 Round Hill Road  
Greenwich, Connecticut 06831

and

Michael Sirkin, Esq.  
Proskauer Rose Goetz & Mendelsohn  
1585 Broadway  
New York, New York 10036-8299

27. Headings.

The headings of the sections contained in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or

construction of any provision of this Agreement.

20

28. Counterparts.

This Agreement may be executed in two or more counterparts.

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

Melville Corporation

By: /s/ Stanley P. Goldstein

-----  
Stanley P. Goldstein

/s/ Harvey Rosenthal

-----  
Mr. Harvey Rosenthal

21

EMPLOYMENT AGREEMENT

AGREEMENT, made and entered into as of the 6th day of October, 1995 by and between Melville Corporation, a New York corporation (together with its successors and assigns permitted under this Agreement, the "Company"), and Mr. Jerry Politzer (the "Executive").

W I T N E S S E T H :

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

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

1. Definitions.

- (a) "Base Salary" shall have the meaning set forth in Section 4 below.
- (b) "Board" shall have the meaning set forth in Section 4 below.
- (c) "Cause" shall have the meaning set forth in Section 10(b) below.
- (d) "Confidential Information" shall have the meaning set forth in Section 11 below.
- (e) "Constructive Termination Without Cause" shall have the meaning set forth in Section 10(c) below.
- (f) "Effective Date" shall have the meaning set forth in Section 2 below.
- (g) "ICP" shall have the meaning set forth in Section 7 below.
- (h) "Non-renewal Severance Period" shall have the meaning set forth in Section 10 (d) below.
- (i) "Original Term of Employment" shall have the meaning set forth in Section 2 below.
- (j) "MIP" shall have the meaning set forth in Section 5 below.
- (k) "Renewal Term" shall have the meaning set forth in Section 2 below.
- (l) "Restriction Period" shall have the meaning set forth in Section 12 below.
- (m) "SERP I" shall have the meaning set forth in Section 7 below.
- (n) "Severance Period" shall have the meaning set forth in Section 10(c) (ii) below.
- (o) "Subsidiary" shall have the meaning set forth in Section 11 below.
- (p) "Term of Employment" shall have the meaning set forth in Section 2 below.
- (q) "Termination Without Cause" shall have the meaning set forth in Section 10 (c) below.

## 2. Term of Employment.

(a) The term of the Executive's employment under this Agreement shall commence immediately upon the execution of this Agreement (the "Effective Date") and end on the fifth anniversary of such date (the "Original Term of Employment"). The Original Term of Employment shall be automatically renewed for successive one-year terms (the "Renewal Terms") unless at least 180 days prior to the expiration of the Original Term of Employment or any Renewal Term, either Party notifies the other Party in writing that he or it is electing to terminate this Agreement at the expiration of the then current Term of Employment. "Term of Employment" shall mean the Original Term of Employment and all Renewal Terms.

(b) In the event that this Agreement is not renewed because the Company has given the 180-day notice prescribed in the preceding paragraph on or before the expiration of the Original Term of Employment or any Renewal Term, such non-renewal shall be treated as a termination following non-renewal pursuant to Section 10 (d) below.

2

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

## 3. Position, Duties and Responsibilities.

(a) Commencing on the Effective Date and continuing for the remainder of the Term of Employment, unless the Parties otherwise agree, the Executive shall be employed as the Executive Vice President of the Company and shall report to the President of the Company.

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

## 4. Base Salary.

The Executive shall be paid an annualized salary, payable in accordance with the regular payroll practices of the Company, of not less than \$660,000, subject to annual review for increase at the discretion of the Compensation Committee of the Board.

## 5. Annual Incentive Awards.

The Executive shall participate in the Company's Profit Incentive Plan ("MIP") with a target bonus opportunity of no less than 42% of Base Salary or in a successor plan to MIP with an equivalent opportunity. Payment of annual incentive awards shall be made at the same time that other senior-level executives receive their incentive awards.

## 6. Long-Term Stock Incentive Programs.

(a) General. The Executive shall be eligible to participate in and to receive stock incentive awards under the current long-term stock incentive programs of the Company and any successor programs.

(b) Stock Option Award. As part of the award approved by the Compensation Committee of the Board on April 11, 1995, the Company has granted the Executive an option pursuant to the terms

and conditions set forth in the attached Exhibit A to purchase 200,000 shares of common stock of the Company at an exercise price equal to the fair market value of the shares on the date of grant, contingent on the execution of this Agreement.

#### 7. Employee Benefit Programs.

(a) General Benefits. During the Term of Employment, the Executive shall be entitled to participate in such employee pension and welfare benefit plans and programs of the Company as are made available to the Company's senior-level executives or to its employees generally, as such plans or programs may be in effect from time to time, including, without limitation, Future Fund, health, medical, dental, salary continuation program, long-term disability, travel accident and life insurance plans. In addition, the Executive shall be entitled to 4 weeks of paid vacation per year.

(b) Designated Benefits. During the Term of Employment, the Executive shall be entitled to participate in the Income Continuation Policy for Select Senior Executives of the Company ("ICP") (which provides benefits to the Executive in the event of a change in control of the Company), the Deferred Compensation Plan and the Supplemental Retirement Plan I for Select Senior Management of the Company ("SERP I"). For the purposes of SERP I, the Executive's SERP Incentive Target shall be 42% of Base Salary. In addition, during the Term of Employment, the Company shall, effective 1996, provide the Executive, in accordance with the terms adopted by the Company, with personal financial and tax planning.

#### 8. Disability.

(a) During the Term of Employment, as well as during the Severance Period, the Executive shall be entitled to disability coverage as described in this Section 8(a). In the event the Executive becomes disabled, as that term is defined under the Company's Long-Term Disability Plan, the Executive shall be entitled to receive, in place of his Base Salary, an amount equal to 60% of his Base Salary, at the annual rate in effect at the commencement date of his Company long-term disability benefit ("Commencement Date") for a period beginning on the Commencement Date and ending with the earlier to occur of (A) the Executive's attainment of age 65 or (B) the Executive's commencement of benefits under SERP I upon his election to receive such benefits.

(b) The Executive shall be entitled to a pro rata annual incentive award for the year in which the Commencement Date occurs based on 42% of Base Salary paid to him during such year prior to the Commencement Date, payable in a lump

sum promptly after the Commencement Date. The Executive shall not be entitled to any annual incentive award with respect to the period following the Commencement Date.

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

any new stock incentive awards following the Commencement Date.

9. Reimbursement of Business and Other Expenses; Perquisites.

(a) The Executive is authorized to incur reasonable expenses in carrying out his duties and responsibilities under this Agreement and the Company shall promptly reimburse him for all business expenses incurred in connection therewith, subject to documentation in accordance with the Company's policy.

(b) The Company shall pay all reasonable legal expenses up to \$10,000 incurred by the Executive in connection with the negotiation of this Agreement.

(c) The Executive will be provided with a leased automobile and driver.

10. Termination of Employment.

(a) Termination Due to Death. In the event the Executive's employment is terminated due to his death, his estate or his beneficiaries, as the case may be, shall be entitled to:

(i) Base Salary through the date of death;

(ii) pro rata annual incentive award for the year in which the Executive's death occurs based on 42% of Base Salary for such year, payable in a lump sum promptly after his death;

(iii) lapse of all restrictions on any restricted stock award (including any performance-based restricted stock) outstanding at the time of his death;

(iv) Company common stock, issued without restrictions, equal to any outstanding award of contingent shares as of the date of death;

(v) the right to exercise any stock option vested at the time of his

5

death for a period of one year following death or for the remainder of the exercise period, if less;

(vi) the balance of any incentive awards earned (but not yet paid);

(vii) in the event that the Executive's death occurs before he has met the age and service requirements of SERP I, the Company will provide his spouse with an annuity pursuant to Section 3.03 of SERP I as if he had met such age and service requirements at the time of his death;

(viii) any amounts earned, accrued or owing to the Executive but not yet paid under Section 7, 8 or 9 above; and

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

(b) Termination by the Company for Cause.

(i) "Cause" shall mean:

(A) the Executive is convicted of a felony involving moral turpitude; or

(B) the Executive engages in conduct that constitutes willful gross neglect or willful gross misconduct in carrying out his duties under this

Agreement, resulting, in either case, in material harm to the financial condition or reputation of the Company.

(ii) A termination for Cause shall not take effect unless the provisions of this paragraph (ii) are complied with. The Executive shall be given written notice by the Company of its intention to terminate him for Cause, such notice (A) to state in detail the particular act or acts or failure or failures to act that constitute the grounds on which the proposed termination for Cause is based and (B) to be given within six months of the Company's learning of such act or acts or failure or failures to act. The Executive shall have 10 days after the date that such written notice has been given to him in which to cure such conduct, to the extent such cure is possible. If he fails to cure such conduct, the Executive shall then be entitled to a hearing before the Compensation Committee of the Board. Such hearing shall be held within 15 days of such notice to the Executive, provided he requests such hearing within 10 days of the written notice from the Company of the intention to terminate him for Cause. If, within five days following such hearing, the Executive is furnished written notice by the Board confirming that, in its judgment, grounds for Cause on the basis of the original notice exist, he shall thereupon be terminated for Cause.

6

(iii) In the event the Company terminates the Executive's employment for Cause, he shall be entitled to:

(A) Base Salary through the date of the termination of his employment for Cause;

(B) any incentive awards earned (but not yet paid);

(C) any amounts earned, accrued or owing to the Executive but not yet paid under Section 7, 8 or 9 above; and

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

(c) Termination Without Cause or Constructive Termination Without Cause. In the event the Executive's employment is terminated without Cause (which termination shall be effective as of the date specified by the Company in a written notice to the Executive), other than due to death, or in the event there is a Constructive Termination Without Cause (as defined below), the Executive shall be entitled to and his sole remedies under this Agreement shall be:

(i) Base Salary through the date of termination of the Executive's employment;

(ii) Base Salary, at the annualized rate in effect on the date of termination of the Executive's employment (or in the event a reduction in Base Salary is the basis for a Constructive Termination Without Cause, then the Base Salary in effect immediately prior to such reduction), for a period of 24 months following such termination (the "Severance Period"); provided that the salary continuation payment under this Section 10(c) (ii) shall be in lieu of any salary continuation arrangements under any other severance program of the Company or any other agreement between the Executive and the Company;

(iii) pro rata annual incentive award for the year in which termination occurs based on 42% of Base Salary, payable in a lump sum promptly following termination;

(iv) an amount equal to 42% of Base Salary multiplied by two, payable in equal monthly payments over the Severance Period;

(v) lapse of all restrictions on any restricted stock award (including any performance-based restricted stock) outstanding at the time of such

termination of employment;

7

(vi) Company common stock, issued without restrictions, equal to any outstanding award of contingent shares as of the date of termination;

(vii) the right to exercise any stock option held by the Executive at the date of his termination (with any option not yet exercisable becoming vested during the Severance Period in accordance with its original schedule), such option to remain exercisable during the Severance Period and for 90 days thereafter or for the remainder of the exercise period if less, provided, however, that options granted pursuant to the Company's 1987 Stock Option Plan shall in no event be exercisable after three years following termination and provided further that the Executive shall not be entitled to receive any additional stock incentive awards during the Severance Period;

(viii) the balance of any incentive awards earned (but not yet paid);

(ix) any amounts earned, accrued or owing to the Executive but not yet paid under Section 7, 8 or 9 above;

(x) in the event that his Termination without Cause or Constructive Termination Without Cause occurs before the Executive has met the age and service requirements of SERP I, the Company will provide the Executive at age 55 with an Annual Benefit equal to 25% of Compensation (as such terms are defined in SERP I);

(xi) continued participation in all medical, dental, health and life insurance plans and in other employee benefit plans or programs (but excluding SERP I and Future Fund) at the same benefit level at which he was participating on the date of the termination of his employment until the earlier of:

(A) the end of the Severance Period; or

(B) the date, or dates, he receives equivalent coverage and benefits under the plans and programs of a subsequent employer (such coverage and benefits to be determined on a coverage-by-coverage, or benefit-by-benefit, basis); provided that (x) if the Executive is precluded from continuing his participation in any employee benefit plan or program as provided in this clause (xi) of this Section 10(c), he shall receive cash payments equal on an after-tax basis to the cost to him of obtaining the benefits provided under the plan or program in which he is unable to participate for the period specified in this clause (xi) of this Section 10(c), (y) such cost shall be deemed to be the lowest cost that would be incurred by the Executive in obtaining such benefit himself on an individual basis, and (z) payment of such amounts shall be made quarterly in advance; and

8

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

"Termination Without Cause" shall mean the Executive's employment is terminated by the Company for any reason other than cause (as defined in Section 10 (b)) or due to death.

"Constructive Termination Without Cause" shall mean a termination of

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

(A) a reduction in the Executive's then current Base Salary or his target bonus opportunity under MIP or any successor plan;

(B) the loss of any of the Executive's titles or positions;

(C) a material diminution in the Executive's duties or the assignment to the Executive of duties which are materially inconsistent with his duties; or

(D) a "Benefit Event" as defined in paragraph 4 or 5 of Section 4.02(a) of the ICP, unless within 15 days of such event the Company obtains the written agreement of any person or entity to which the assets or business involved in such Benefit Event are transferred to perform all the obligations of this Agreement, or such person or entity is otherwise bound by operation of law to perform all the obligations of this Agreement.

Notwithstanding the provisions of this Section 10(c), in the event that the Executive receives a payment under Section 4.02(b) of the ICP, the amounts due under Sections 10(c)(ii) and (iv) above shall be reduced by the amount of such payment, such reduction to be effected by eliminating installments due under Sections 10(c)(ii) and (iv) above in reverse order. Notwithstanding the elimination of such installments, the Severance Period shall continue to be 24 months.

(d) Termination following Non-renewal. In the event that the Company notifies the Executive in writing at least 180 days prior to the expiration of the Original Term of Employment or any Renewal Term that it is electing to terminate this Agreement at the expiration of the then current Term of Employment and the Executive's employment terminates upon such expiration at the Company's initiative, the Executive shall be entitled to:

(i) Base salary through the date of termination of the Executive's employment;

9

(ii) Base Salary, at the annualized rate in effect on the date of termination of the Executive's employment, for a period of 18 months following such termination (the "Non-renewal Severance Period"); provided that the salary continuation payment under this Section 10 (d) (ii) shall be in lieu of any salary continuation arrangements under any other severance program of the Company or any other agreement between the Executive and the Company;

(iii) pro rata annual incentive award for the year in which termination occurs based on 42% of Base Salary, payable in a lump sum promptly following termination;

(iv) the right to exercise any stock option held by the Executive at the date of his termination to the extent vested at such date during the Non-renewal Severance Period and for 90 days thereafter or for the remainder of the exercise period if less, provided, however, that the Executive shall not be entitled to receive any additional stock incentive awards during the Non-renewal Severance Period;

(v) the balance of any incentive awards earned (but not yet paid);

(vi) any amounts earned, accrued or owing to the Executive but not yet paid under Section 7, 8 or 9 above;

(vii) continued participation in all medical and dental plans at the same benefit level at which he was participating on the date of the termination

of his employment until the earlier of:

(A) the end of the Non-renewal Severance Period; or

(B) the date, or dates, he receives equivalent coverage and benefits under the plans and programs of a subsequent employer (such coverage and benefits to be determined on a coverage-by-coverage, or benefit-by-benefit, basis);

provided that (x) if the Executive is precluded from continuing his participation in any employee benefit plan or program as provided in this clause (vii) of this Section 10 (d), he shall receive cash payment equal on an after-tax basis to the cost to him of obtaining the benefits provided under the plan or program in which he is unable to participate for the period specified in this clause (vii) of this Section 10 (d), (y) such cost shall be deemed to be the lowest cost that would be incurred by the Executive in obtaining such benefit himself on an individual basis, and (z) payment of such amounts shall be made quarterly in advance; and

10

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

(e) Voluntary Termination. In the event of a termination of employment by the Executive on his own initiative, other than a termination due to death or a Constructive Termination Without Cause, the Executive shall have the same entitlements as provided in Section 10(b)(iii) above for a termination for Cause, provided that at the Company's election, furnished in writing to the Executive within 30 days following such termination, the Company shall in addition pay the Executive 50% of his Base Salary for a period of 18 months following such termination. A voluntary termination under this Section 10(d) shall be effective upon 30 days prior written notice to the Company or such shorter period as may be determined by the Company and shall not be deemed a breach of this Agreement.

(f) No Mitigation; No Offset. In the event of any termination of employment under this Section 10, the Executive shall be under no obligation to seek other employment; amounts due the Executive under this Agreement shall not be offset by any remuneration attributable to any subsequent employment that he may obtain.

(g) Nature of Payments. Any amounts due under this Section 10 are in the nature of severance payments considered to be reasonable by the Company and are not in the nature of a penalty.

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

#### 11. Confidentiality.

(a) During the Term of Employment and thereafter, the Executive shall not, without the prior written consent of the Company, disclose to anyone other than employees of the Company or any Subsidiary (as defined below) who agree to keep such information confidential or make use of any Confidential Information, except when required to do so by a court of law, by any governmental agency having supervisory authority over the business of the Company or by any administrative or legislative body (including a committee thereof) that orders him to divulge, disclose or make accessible such information. In the event that

the Executive is so ordered, he shall give prompt written notice to the Company in order to allow the Company the opportunity to object to or otherwise resist such order.

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

(c) "Confidential Information" shall mean all information that is not known or available to the public concerning the business of the Company or any Subsidiary relating to any of their products, product development, trade secrets, customers, suppliers, finances, and business plans and strategies. For this purpose, information known or available generally within the trade or industry of the Company or any Subsidiary shall be deemed to be known or available to the public. Confidential Information shall include information that is, or becomes, known to the public as a result of a breach by the Executive of the provisions of Section 11(a) above.

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

## 12. Non-competition.

(a) During the Restriction Period (as defined in Section 12(b) below), the Executive shall not engage in competition with the Company or any Subsidiary. "Competition" shall mean engaging in any activity for a "Competitor" of the Company or any Subsidiary, whether as an employee, consultant, partner, principal, agent, officer, director, partner, shareholder (except as a less than one percent shareholder of a publicly traded company) or otherwise. A "Competitor" shall mean (i) Bed, Bath & Beyond, Stroud's, Home Express, Pacific Linens, Lee Jay Bed & Bath, Linens too Wares, 3D Linens, Home Place, Home Goods, Sears, and JC Penney and (ii) any other corporation or other entity or start-up corporation or entity that is engaged in any business in the United States in which the Company or any Subsidiary was engaged during the Term of Employment and is engaged at the time in question.

(b) For the purposes of this Section 12 and Section 13 below, "Restriction Period" shall mean the period beginning with the Effective Date and ending with

(i) in the case of a termination of the Executive's employment without Cause or a Constructive Termination Without Cause, the end of the Severance Period;

(ii) in the case of a termination of the Executive's employment for Cause, the first anniversary of such termination;

(iii) in the case of a termination of the Executive's employment upon the expiration of the Original Term of Employment or any Renewal Term that results in the commencement of the Non-renewal Severance Period pursuant to

Section 10 (d) above, the end of the Non-renewal Severance Period:

(iv) in the case of a voluntary termination of the Executive's employment pursuant to Section 10(e) above followed by the Company's election to pay the Executive 50% of Base Salary as provided in Section 10(e) above, the end of the 18-month period following such termination; or

(v) in the case of a voluntary termination of the Executive's employment pursuant to Section 10(e) above which is not followed by the Company's election to pay the Executive such 50% of Base Salary, the date of such termination.

### 13. Non-solicitation of Employees.

During the portion of the Restriction Period following the termination of the Executive's employment, the Executive shall not induce employees of the Company or any Subsidiary to terminate their employment. During the portion of the Restriction Period following the termination of the Executive's employment, the Executive shall not directly or indirectly hire any employee of the Company or any Subsidiary or any person who was employed by the Company within 180 days of such hiring.

### 14. Remedies.

In addition to whatever other rights and remedies the Company may have at equity or in law, if the Executive breaches any of the provisions contained in Section 11, 12 or 13 above, the Company (a) shall have the right to immediately terminate all payments and benefits due under this Agreement and (b) shall have the right to seek injunctive relief. The Executive acknowledges that such a breach would cause irreparable injury and that money damages would not provide an adequate remedy for the Company.

13

### 15. Resolution of Disputes.

Any disputes arising under or in connection with this Agreement shall be resolved by binding arbitration, to be held at the location of the Company's principal offices in accordance with the rules and procedures of the American Arbitration Association, except that disputes arising under or in connection with Section 11, 12 and 13 above shall be submitted to the federal or state courts in the State of New York. Judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Each Party shall bear his or its own costs of the arbitration or litigation, including, without limitation, attorneys' fees. Pending the resolution of any arbitration or court proceeding, the Company shall continue payment of all amounts and benefits due the Executive under this Agreement.

### 16. Indemnification.

(a) The Company agrees that if the Executive is made a party, or is threatened to be made a party, to any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that he is or was a director, officer or employee of the Company or any Subsidiary or is or was serving at the request of the Company or any Subsidiary as a director, officer, member, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether or not the basis of such Proceeding is the Executive's alleged action in an official capacity while serving as a director, officer, member, employee or agent, the Executive shall be indemnified and held harmless by the Company to the fullest extent legally permitted or authorized by the Company's certificate of incorporation or bylaws or resolutions of the Company's Board of Directors or, if greater, by the laws of the State of New York, against all cost, expense, liability and loss (including, without limitation, attorney's fees, judgments, fines, ERISA excise taxes or

penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by the Executive in connection therewith, and such indemnification shall continue as to the Executive even if he has ceased to be a director, member, officer, employee or agent of the Company or other entity and shall inure to the benefit of the Executive's heirs, executors and administrators. The Company shall advance to the Executive all reasonable costs and expenses incurred by him in connection with a Proceeding within 20 days after receipt by the Company of a written request for such advance. Such request shall include an undertaking by the Executive to repay the amount of such advance if it shall ultimately be determined that he is not entitled to be indemnified against such costs and expenses.

(b) Neither the failure of the Company (including its board of directors, independent legal counsel or stockholders) to have made a determination prior to the commencement of any

14

proceeding concerning payment of amounts claimed by the Executive under Section 16(a) above that indemnification of the Executive is proper because he has met the applicable standard of conduct, nor a determination by the Company (including its board of directors, independent legal counsel or stockholders) that the Executive has not met such applicable standard of conduct, shall create a presumption that the Executive has not met the applicable standard of conduct.

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

#### 17. Effect of Agreement on Other Benefits.

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

#### 18. Assignability; Binding Nature.

This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, heirs (in the case of the Executive) and permitted assigns. No rights or obligations of the Company under this Agreement may be assigned or transferred by the Company except that such rights or obligations may be assigned or transferred in connection with the sale or transfer of all or substantially all of the assets of the Company, provided that the assignee or transferee is the successor to all or substantially all of the assets of the Company and such assignee or transferee assumes the liabilities, obligations and duties of the Company, as contained in this Agreement, either contractually or as a matter of law. The Company further agrees that, in the event of a sale or transfer of assets as described in the preceding sentence, it shall take whatever action it legally can in order to cause such assignee or transferee to expressly assume the liabilities, obligations and duties of the Company hereunder. No rights or obligations of the Executive under this Agreement may be assigned or transferred by the Executive other than his rights to compensation and benefits, which may be transferred only by will or operation of law, except as provided in Section 24 below.

#### 19. Representation.

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

15

20. Entire Agreement.

This Agreement contains the entire understanding and agreement between the Parties concerning the subject matter hereof and supersedes all prior agreements, understandings, discussions, negotiations and undertakings, whether written or oral, between the Parties with respect thereto.

21. Amendment or Waiver.

No provision in this Agreement may be amended unless such amendment is agreed to in writing and signed by the Executive and an authorized officer of the Company. No waiver by either Party of any breach by the other Party of any condition or provision contained in this Agreement to be performed by such other Party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and signed by the Executive or an authorized officer of the Company, as the case may be.

22. Severability.

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

23. Survivorship.

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

24. Beneficiaries/References.

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

25. Governing Law/Jurisdiction.

This Agreement shall be governed by and construed and interpreted in accordance with the laws of New York without reference to principles of conflict of laws.

26. Notices.

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

If to the Company: Melville Corporation  
One Theall Road  
Rye, New York 10580

Attention: Chairman

If to the Executive: Mr. Jerry Politzer

27. Headings.

The headings of the sections contained in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this Agreement.

28. Counterparts.

This Agreement may be executed in two or more counterparts.

17

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

Melville Corporation

By: /s/ Stanley P. Goldstein

-----  
Stanley P. Goldstein

/s/ Jerry Politzer

-----  
Mr. Jerry Politzer

18

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

	Twelve Months Ended December 31, 1995 ----	Twelve Months Ended December 31, 1994 ----	Twelve Months Ended December 31, 1993 ----
-----			
PRIMARY (LOSS) EARNINGS PER COMMON SHARE:			
-----			
Net (loss) earnings	(\$657,106)	\$307,470	\$331,790
Less: Preferred dividends, net	16,964	17,027	16,807
	-----	-----	-----
Net (loss) earnings used to calculate primary (loss) earnings per share	(\$674,070)	\$290,443	\$314,983
	=====	=====	=====
Weighted average number of shares outstanding	105,081	105,481	105,069
Add: Weighted average number of shares which could have been issued upon exercise of outstanding options	18	47	281
	-----	-----	-----
Weighted average number of shares used to compute primary (loss) earnings per share	105,099	105,528	105,350
	=====	=====	=====
Primary (loss) earnings per share	(\$6.41)	\$2.75	\$2.99
	=====	=====	=====
-----			
FULLY DILUTED (LOSS) EARNINGS PER COMMON SHARE:			
-----			
Net (loss) earnings	(\$657,106)	\$307,470	\$331,790
Less: Preferred dividends	53	53	53
	-----	-----	-----
Net (loss) earnings used to calculate fully diluted (loss) earnings per share, before adjustments	(657,159)	307,417	331,737
Less: Adjustments resulting principally from the assumed conversion of the Series One ESOP Convertible Preference Stock, net of tax benefit	(1,213)		
	557	510	
	-----	-----	-----
Net (loss) earnings used to calculate fully diluted (loss) earnings per share	(\$655,946)	\$306,860	\$331,227
	=====	=====	=====
Weighted average number of shares used to compute primary (loss) earnings per share	105,081	105,481	105,069
Add: Weighted average shares of Series One Convertible Preference Stock assuming conversion	7,344	7,339	6,830
Add: Weighted average number of shares which could have been issued upon exercise of outstanding options	19	47	293
Add: Weighted average number of shares which could have been issued upon conversion of 4 7/8% debentures	3	3	6
	-----	-----	-----
Weighted average number of shares used to compute fully diluted (loss) earnings per share	112,447	112,870	112,198
	=====	=====	=====
Fully diluted (loss) earnings per share	(\$5.83)	\$2.72	\$2.95
	=====	=====	=====

MELVILLE CORPORATION AND SUBSIDIARY COMPANIES  
 Computation of Ratio of Earnings to Fixed Charges  
 (\$ in thousands)

	1995 ----	1994 ----	1993 ----	1992 ----	1991 ----
Fixed Charges: (1)					
Interest Expense	\$55,334	\$33,453	\$25,586	\$25,605	\$31,055
Interest Capitalized	155	305	583	124	748
Interest Portion of Operating Leases	162,000	147,000	139,000	131,000	124,000
Interest Portion of Capital Leases	2,192	2,775	3,118	3,725	4,154
Amortization of Debt Expense	128	128	128	127	127
	-----	-----	-----	-----	-----
Total Fixed Charges	\$219,809	\$183,661	\$168,415	\$160,581	\$160,084
	=====	=====	=====	=====	=====
Adjusted Fixed Charges:					
Total Fixed Charges	\$219,809	\$183,661	\$168,415	\$160,581	\$160,084
Interest Capitalized	155	305	583	124	748
	-----	-----	-----	-----	-----
Adjusted Fixed Charges	\$219,654	\$183,356	\$167,832	\$160,457	\$159,336
	=====	=====	=====	=====	=====
(Loss) Earnings:					
(Loss) Earnings before Income Taxes, Minority Interests and Cumulative Effect of Change in Accounting Principle (2) (3)	(\$797,768)	\$417,879	\$432,247	\$242,764	\$475,832
Adjusted Fixed Charges	219,654	183,356	167,832	160,457	159,336
	-----	-----	-----	-----	-----
	(\$578,114)	\$601,235	\$600,079	\$403,221	\$635,168
	=====	=====	=====	=====	=====
Ratio of (Loss) Earnings to Fixed Charges	(2.63)	3.27	3.56	2.51	3.97
	=====	=====	=====	=====	=====

Note: All periods presented exclude the results of the footwear segment, which has been treated as discontinued operations due to its spin-off to shareholders in 1996.

- (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 \$24.3 million in 1995, \$24.9 million in 1994, \$25.3 million in 1993, \$25.8 million in 1992 and \$26.0 million in 1991. These amounts are not reflected in the calculation above.
- (2) 1992 reflects the impact of the strategic realignment charge of \$346,979.
- (3) 1995 reflects the impact of the restructuring and asset impairment charges of \$936,829.

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

Melville Corporation and Subsidiary Companies

RESULTS OF THE STRATEGIC REVIEW

In last year's Annual Report the Company announced the initiation of a strategic review, the objective of which was to increase the Company's sales and profits by examining its mix of businesses. This review resulted in the development of a comprehensive strategic program (the "Program") which was announced on October 24, 1995. The primary components of the Program, which management expects to be completed by the summer of 1996, are:

- o the creation of three independent, publicly-traded retailing companies in the chain drug, footwear and toy industries;

- o a revision of the Company's dividend to align payout ratios with each of the newly created entities' growth and capital needs as well as the prevailing practice in its industry;

- o the recording in the fourth quarter of an after-tax charge of \$753.1 million (\$235.8 million of which related to goodwill) which was comprised of the following components:

- o \$434.3 million for the estimated loss on sale of Marshalls, This End Up and Wilsons;

- o \$166.8 million for asset write-offs and severance costs associated with the strategic decisions to reposition and integrate certain divisions; to close the corporate headquarters; and to outsource data processing and telecommunications functions;

- o \$90.6 million for the early adoption of SFAS No. 121, "Accounting for the Impairment of Long-Lived Fixed Assets and for Long-Lived Assets to be Disposed Of" ("SFAS No. 121"); and

- o \$61.4 million for estimated tenancy and severance costs associated with the closure of 330 stores as well as several warehouses.

The Company also changed its accounting policy to expense internally developed software costs that were previously capitalized. After taxes, a charge of \$45.9 million was recorded in the first quarter of 1995 in connection with this change.

CREATION OF THREE INDEPENDENT COMPANIES

Upon completion of the Program, the following three companies will exist, each of which will be adequately capitalized to ensure that they will have the resources to finance their ongoing growth and to excel as free-standing units:

The Chain Drug Holding Company: This company will consist of CVS and, initially, Linens 'n Things and Bob's (as well as various corporate entities). Approximately 85% of this company's revenue will be derived from CVS.

The Footwear Company: This company will be comprised of Meldisco, Footaction and Thom McAn. Pending receipt of a favorable determination that a distribution to shareholders would be tax free, this new company will be spun-off during the summer of 1996. The back office operations of Thom McAn will be integrated into those of Meldisco prior to the spin-off. Meldisco, whose revenues will comprise 65% of the total company, primarily operates leased footwear departments in Kmart discount stores. The Company has sought, and expects to obtain, consent from Kmart to execute this transaction.

The Toy Store Company: Comprised of the Kay-Bee division, it is expected that this entity will be independent by the summer of 1996.

#### REVISED DIVIDEND

On January 10, 1996, the Board of Directors approved a reduction in the quarterly dividend from \$0.38 per share to \$0.11 per share. Management believes that this rate is consistent with both anticipated capital requirements and industry practice of the Chain Drug Holding Company. No decisions have been made regarding the future dividend policies of the Footwear and Toy Store companies.

#### SALES OF BUSINESSES

The sale of Marshalls was completed on November 17, 1995. The Company is currently negotiating the sales of Wilsons and This End Up. These transactions are anticipated to be completed by the summer of 1996.

#### STORE CLOSURE PROGRAM

As of January 31, 1996 the Company has closed approximately 270 stores and expects to close the balance of the designated stores as leases expire throughout 1996.

#### IMPACT OF THE PROGRAM ON PROFITABILITY

As a result of these collective actions, the Company expects that the net cash flow impact of the Program will be positive. Furthermore, among the three independent companies, pre-tax profit improvement of approximately \$100 million is expected over the next two years. These savings will be derived principally from reductions in corporate overhead, interest expense and depreciation and amortization expenses due to the write-off of goodwill, impaired assets and internally developed software costs.

18

#### RESULTS OF OPERATIONS

(\$ in millions, except per share amounts)	1995	1994	1993
Net sales	\$ 9,689.1	\$ 9,445.7	\$ 8,722.3
Same store sales increase	2.2%	3.5%	0.7%
Operating profit before special charges	\$ 194.0	\$ 450.3	\$ 456.0
Restructuring and asset impairment charges	936.8	--	--
Operating (loss) profit	(742.8)	450.3	456.0
Net earnings from continuing operations before special charges and accounting change	48.1	243.6	262.6
Net earnings before special charges and accounting change	100.1	307.5	331.8
Net (loss) earnings	\$ (657.1)	\$ 307.5	\$ 331.8
Earnings per share from continuing operations before special charges and accounting change	0.30	2.15	2.33
Net earnings per share before special charges and accounting change	0.79	2.75	3.00

Net (loss) earnings per share	\$ (6.41)	\$ 2.75	\$ 3.00
Percentage of net sales			
Cost of goods sold, buying and warehousing costs	67.9	66.0	65.6
Selling, general and administrative expenses	28.1	27.3	27.2
Net sales including discontinued operations	\$11,516.4	\$11,285.6	\$10,435.4
Same store sales increase including discontinued operations	1.4%	3.3%	0.1%

## NET SALES

Consolidated net sales reported were adjusted to exclude the footwear segment due to the Company's plan to spin it off in 1996. Sales in 1995 also exclude Marshalls after its disposition on November 17, 1995. Adjusting for Marshalls to exclude non-comparable periods, net sales from continuing operations increased 8.2% over 1994, while total company sales, including the footwear segment, increased 6.7%.

CVS, Linens 'n Things, Footaction and Kay-Bee generated positive sales growth throughout 1995, while disappointing performances at Marshalls and Wilsons offset these improvements.

Net sales for the fourth quarter of 1995, which had one more selling day than the fourth quarter of 1994, increased 8.5%, after adjusting for the disposition of Marshalls and the exclusion of the footwear segment.

Net sales for 1994 exclude the results of Chess King, Accessory Lady and Prints Plus, which were sold in 1993. Adjusting for these dispositions, the increase in net sales over 1993 was 9.4% for the year and 4.4% for the fourth quarter. Net sales in 1994 benefitted from strong performances at CVS, Kay-Bee and Linens 'n Things, while lower sales at Wilsons and Thom McAn partially offset these positive results.

Net sales in 1993 were impacted by the three dispositions and the exclusion of stores closed as part of the 1992 strategic realignment program. Adjusting for these factors, sales increased 4.8% over 1992 levels.

Increases in net sales differ from those of same store sales due to store openings, store closings, dispositions and acquisitions. The 1995 same store sales increase was due primarily to very strong performances at CVS and Footaction offset by poor results at Marshalls and Wilsons.

## Net Earnings

Net earnings in 1995 were significantly impacted by the restructuring and asset impairment charges ("special charges"), the change in accounting for internally developed software costs and other asset write-offs related to the repositioning of the Company and certain one-time charges. The one-time charges primarily relate to lease settlement costs, severance related costs, markdowns related to discontinued product lines and costs to outsource telecommunications and data processing functions. The lease settlement costs result principally from guarantees of Chess King stores sold to Merry-Go-Round Enterprises, which filed for a Chapter 7 liquidation in January, 1996. Adjusting net earnings to exclude the impact of all of these charges, earnings per share would have been \$1.26 as compared to \$2.75 in 1994.

Net earnings per share excluding special charges, the effect of the accounting change, one-time costs and asset write-offs declined in 1995, despite



Cash and cash equivalents	\$ 129.6	\$ 117.0	\$ 81.0
Cash flows provided by operating activities	345.5	498.4	435.9
Daily average of short-term borrowings	756.1	567.4	464.8
Maximum short-term borrowings	1,196.2	948.5	875.0
Short-term borrowings outstanding at year end	52.0	200.0	90.0
Net interest expense	55.0	32.4	23.8

-----  
Ratios  
-----

Long-term obligations to total capitalization	17.8%	12.8%	14.0%
Long-term obligations to shareholders' equity	21.6%	14.7%	16.2%
Current ratio	1.4	1.6	1.8

-----

The Company's primary source of liquidity is cash provided from its operations. The earnings stream of the Company's businesses is skewed heavily to the fourth quarter, when 70% of earnings are normally generated. Consequently, the Company must finance its seasonal inventory needs and capital expenditures through short-term borrowings, primarily commercial paper issuances, at substantially higher levels throughout the year than are reflected on the year-end balance sheets. Year-end borrowing levels were lower in 1995 as compared to 1994 due to the receipt of \$375.0 million in cash in connection with the sale of Marshalls on November 17, 1995. Average borrowings were higher in 1995 than in 1994 due to operating losses sustained by Marshalls and Thom McAn and the disappointing performances of several other businesses which generated lower than expected cash flows.

Net interest expense is a function of interest rates and short-term borrowing levels. The increase in net interest expense in 1995 relative to 1994 reflects higher short-term borrowings and higher interest rates, offset by the cash received for Marshalls and lower capital expenditures. Prior to the spin-off of the Footwear Company in 1996, the Company expects to pay to Kmart its undistributed minority interests in net earnings of Meldisco. Such distribution will have no impact on net earnings, but will require a cash outlay of approximately \$50.0 million.

Current assets decreased by \$90.6 million, due primarily to the sale of Marshalls, offset by the current and deferred tax impact of the special charges and other asset write-offs recorded in 1995, and receivable and investment balances recorded in connection with the disposition. The increase in inventories, excluding the impact of Marshalls, is due to new store openings, opportunistic purchases and increased stock levels required for our larger store formats.

20

Current liabilities increased due predominantly to restructuring accruals recorded in 1995, offset by lower short term borrowings and the recording of tax refunds receivable as compared to a liability in 1994. Accounts payable increased as a percentage of inventories due to improvements in inventory aging.

CAPITAL EXPENDITURES

(\$ in millions)	1995	1994	1993
Capital expenditures	\$395.0	\$421.4	\$386.7

-----

Expenditures in all years were principally for improvements to new and existing

store locations, store equipment and information systems. Capital expenditures for the continuing companies in 1996 are estimated at \$290.0 million, of which \$195.0 million pertains to the Chain Drug Holding Company, and are primarily for new store openings, continuing improvements to stores and continued investments in information systems and distribution centers.

PRESCRIPTION DRUGS, HEALTH AND BEAUTY CARE

(\$ in millions)	1995	1994	1993
Net sales	\$ 4,865.0	\$ 4,330.1	\$ 3,948.2
Operating profit before special charges	273.5	227.7	195.7
Operating profit	252.7	227.7	195.7
Percent change from prior year			
Net sales	12.4	9.7	8.7
Same store sales	8.8	6.0	5.7
Operating profit before special charges	20.1	16.3	(6.2)
Operating profit	11.0	16.3	31.2
Percent of total continuing operations*			
Net sales	50.2	45.8	45.3
Operating profit*	104.2	46.6	41.9

\* Before corporate expenses and special charges.

CVS achieved very favorable increases in both net sales and same store sales in 1995 and 1994. Lower margined pharmacy sales increased 16.9% in 1995 and 14.7% in 1994 due to an expansion of the company's managed care business and its ability 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.

Operating profit before special charges improved in 1995 despite the further growth in pharmacy sales as operating efficiencies and strong same store sales growth facilitated its leveraging of fixed costs.

Operating profit in 1994 increased as 1993 investments in technology yielded lower operating costs and better inventory control, resulting in fewer markdowns.

Special charges in 1995 related principally to the costs of closing stores and several unproductive warehouses as well as asset impairment charges.

APPAREL

(\$ in millions)	1995	1994	1993
Net sales	\$ 3,055.7	\$ 3,538.9	\$ 3,395.9
Operating (loss) profit before special charges	(72.6)	161.1	181.9
Operating (loss) profit	(672.8)	161.1	181.9
Percent change from prior year			
Net sales	(13.7)	4.2	(2.6)
Same store sales	(7.3)	(1.5)	(3.6)
Operating (loss) profit before special charges	(145.1)	(11.5)	(21.0)

Operating (loss) profit	(517.6)	(11.5)	44.5
-----			
Percent of total continuing operations*			
-----			
Net sales	31.5	37.5	38.9
Operating profit*	(27.7)	33.0	39.0
-----			

\*Before corporate expenses and special charges.

The decline in same store sales for this segment was primarily due to the weakness of off-price apparel sales which severely impacted Marshalls as consumer spending continued to shift toward hard lines. Total sales for the segment decreased due to the sale of Marshalls and store closings at Wilsons. Adjusting for the disposition of Marshalls, net sales increased 0.2% over 1994.

Same store sales in 1994 were also impacted by changes in consumer spending, whereby apparel sales slowed at Marshalls while gifts and domestics departments experienced strong increases. The expansion of Bob's contributed to the segment's growth while sales decreased at Wilsons due to unexpectedly warm temperatures in fall and early winter.

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

The operating loss in 1995 resulted from the sale of Marshalls prior to the profitable Christmas selling season, as well as higher markdowns throughout the segment during the year and declining same store sales.

Operating profit decreased in 1994 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.

The special charges recorded in 1995 relate to the estimated loss on sale for Marshalls and Wilsons (including \$191.4 million of goodwill), the cost of store closings and asset impairment charges.

21

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

Melville Corporation and Subsidiary Companies

TOYS AND HOME FURNISHINGS

(\$ in millions)	1995	1994	1993
-----			
Net sales	\$ 1,768.4	\$ 1,576.7	\$ 1,378.2
Operating profit before special charges	61.7	99.4	89.1
Operating (loss) profit	(115.7)	99.4	89.1
-----			
Percent change from prior year			
-----			
Net sales	12.2	14.4	(6.5)
Same store sales	1.7	8.3	(2.5)
Operating profit before special charges	(37.9)	11.5	(9.1)
Operating (loss) profit	(216.4)	11.5	2,946.4
-----			
Percent of total continuing operations*			

Net sales	18.3	16.7	15.8
Operating profit*	23.5	20.4	19.1

\* Before corporate expenses and special charges.

The 1995 increase in net sales for this segment reflects the continued expansion of Linens 'n Things superstores and its product offerings, and a solid performance by Kay-Bee.

Significant increases in net sales were reported at Kay-Bee in 1994 as it enjoyed a strong year in most merchandise categories, and at Linens 'n Things, due to the 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 due to the exclusion from operations of stores designated to be closed under the 1992 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.

Operating profit before special charges declined due to startup costs of a new distribution center for Linens 'n Things, higher markdowns to spur sales growth and asset write-offs related to the repositioning of the companies in connection with the Program.

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.

The 1995 special charges provided primarily for costs of store closings, asset impairment charges and outsourcing of data processing functions.

#### FOOTWEAR (DISCONTINUED OPERATIONS)

(\$ in millions)	1995	1994	1993
Net sales	\$ 1,827.3	\$ 1,839.9	\$ 1,713.1
Operating profit before special charges	102.0	160.5	167.3
Operating profit	53.5	160.5	167.3

#### Percent change from prior year

Net sales	(0.7)	7.4	(6.9)
Same store sales	(2.4)	2.4	(2.5)
Operating profit before special charges	(36.5)	(4.1)	(8.0)
Operating profit	(66.7)	(4.1)	78.4

Despite the very strong growth experienced by Footaction, which posted a 13.1% increase in same store sales, net sales declined in this segment during 1995. This was due to the impact of store closures by Kmart which resulted in a sales shortfall at Meldisco, and a disappointing performance at Thom McAn.

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 a reduction in its store base due to its store closing program.

Net sales decreased in 1993 due to the exclusion from operations of stores designated to be closed under the 1992 strategic realignment program and the discontinuation of product lines. Adjusting for stores excluded at Thom McAn, net sales for the segment would have increased 2.2% in 1993.

Operating profit before special charges declined in 1995 due mostly to an operating loss sustained by Thom McAn as contraction of the chain, coupled with increased markdowns, eroded store contribution levels. Additionally, the decline in contribution from Meldisco, due to the Kmart closings, offset very positive profit growth at Footaction.

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 Footaction superstores. In addition, about \$5.0 million of one-time costs, principally at Meldisco related to Kmart store closings and other contingencies, negatively impacted profits.

The special charges recorded in 1995 provided for the costs of store closings, the consolidation of back office operations of Thom McAn, the outsourcing of data processing functions and asset impairment charges.

22

-----  
Management's Responsibility  
For Financial Reporting  
-----

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

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

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

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

/s/ Stanley P. Goldstein	/s/ Carlos E. Alberini
Stanley P. Goldstein	Carlos E. Alberini
Chairman of the Board and	Vice President and Acting
Chief Executive Officer	Chief Financial Officer

February 15, 1996

-----  
Independent Auditors' Report  
-----

To the Board of Directors and Shareholders of Melville Corporation:

We have audited the accompanying consolidated balance sheets of Melville Corporation and subsidiary companies as of December 31, 1995 and 1994 and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1995. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Melville Corporation and subsidiary companies at December 31, 1995 and 1994 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1995 in conformity with generally accepted accounting principles.

As discussed in notes to consolidated financial statements, the Company has adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long - Lived Assets and for Long - Lived Assets to Be Disposed Of" effective October 1, 1995, changed its policy for accounting for internally developed software costs effective January 1, 1995 and changed its method of determining retail price indices used in the valuation of LIFO inventories in 1993.

/s/ KPMG Peat Marwick LLP  
 KPMG Peat Marwick LLP  
 New York, New York  
 February 15, 1996

23

-----  
 Consolidated Statements of Operations  
 -----

Melville Corporation and Subsidiary Companies

	(in thousands, except per share data)		
Years Ended December 31	1995	1994	1993
Net sales	\$ 9,689,062	\$ 9,445,678	\$ 8,722,308
Cost of goods sold, buying and warehousing costs	6,574,658	6,238,378	5,723,279
	3,114,404	3,207,300	2,999,029
Selling, general and administrative expenses	2,722,621	2,576,680	2,372,362
Depreciation and amortization	197,745	180,356	170,651
Restructuring and asset impairment charges	936,829	--	--
	3,857,195	2,757,036	2,543,013
Operating (loss) profit	(742,791)	450,264	456,016
Interest expense, net	54,977	32,385	23,769
(Loss) earnings from continuing operations before income taxes and cumulative effect of change in accounting principle	(797,768)	417,879	432,247
Income tax (benefit) provision	(182,070)	174,293	169,638
(Loss) earnings from continuing operations before cumulative effect of change in accounting principle	(615,698)	243,586	262,609
Earnings from discontinued operations, net of income taxes of \$10,952, \$44,448 and \$50,803, and minority interests in net earnings of \$38,351,			

	\$51,895 and \$47,296	547	63,884	69,181
(Loss) earnings before cumulative effect of change in accounting principle		(615,151)	307,470	331,790
Cumulative effect of change in accounting principle, net		41,955	--	--
Net (loss) earnings		\$ (657,106)	\$ 307,470	\$ 331,790
Per Share of Common Stock				
(Loss) earnings from continuing operations before cumulative effect of change in accounting principle		\$ (6.02)	\$ 2.15	\$ 2.33
Discontinued operations, net		0.01	0.60	0.67
(Loss) earnings before cumulative effect of change in accounting principle		(6.01)	2.75	3.00
Cumulative effect of change in accounting principle, net		(0.40)	--	--
Net (loss) earnings per share of common stock		\$ (6.41)	\$ 2.75	\$ 3.00
Pro forma net earnings assuming retroactive application of accounting change				
			\$ 291,552	\$ 317,232
Per share of common stock			\$ 2.60	\$ 2.86

See accompanying notes to consolidated financial statements.

24

## Consolidated Balance Sheets

### Melville Corporation and Subsidiary Companies

(in thousands except for share amounts and per share data)

As of December 31	1995	1994
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 129,583	\$ 117,035
Investments	175,000	--
Accounts receivable, net	296,393	229,833
Inventories	1,672,957	2,138,243
Prepaid expenses	285,995	165,388
<b>Total Current Assets</b>	<b>2,559,928</b>	<b>2,650,499</b>
Property and equipment, net	1,114,404	1,526,922
Deferred charges and other assets	91,612	109,641
Goodwill, net of accumulated amortization of \$28,152 in 1995 and \$94,987 in 1994	195,618	448,427
<b>Total Assets</b>	<b>\$3,961,562</b>	<b>\$4,735,489</b>
<b>Liabilities</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 690,651	\$ 660,691
Accrued expenses	1,039,825	659,502
Notes payable	52,000	200,000
Federal income taxes	--	102,008
Other current liabilities	15,212	20,541
<b>Total Current Liabilities</b>	<b>1,797,688</b>	<b>1,642,742</b>
Long-term debt	327,698	331,340
Deferred income taxes	9,103	81,702
Other long-term liabilities	184,150	188,126
Minority interests in subsidiaries	93,830	108,644
<b>Redeemable Preferred Stock</b>		

Cumulative preferred stock, Series B, \$4.00 dividend, par value \$100, redeemable at par plus accrued dividends; authorized and issued 17,269 shares in 1995 and 1994; 3,971 shares held in treasury in 1995 and 1994	1,330	1,330
Total Shareholders' Equity	1,547,763	2,381,605
Total Liabilities and Equity	\$3,961,562	\$4,735,489

See accompanying notes to consolidated financial statements.

25

### Consolidated Statements of Shareholders' Equity

#### Melville Corporation and Subsidiary Companies

Years ended December 31 (in thousands, except per share data)	1995		1994		1993	
	Shares	Amount	Shares	Amount	Shares	Amount
<b>Preference Stock (par value \$1.00, authorized 50,000 shares; Series One ESOP Convertible, liquidation value \$53.45)</b>						
Outstanding at beginning of year	6,379	\$ 340,948	6,499	\$ 347,346	6,597	\$ 352,583
Conversion to common stock	(112)	(6,001)	(120)	(6,398)	(98)	(5,237)
Outstanding at end of year	6,267	334,947	6,379	340,948	6,499	347,346
<b>Common Stock (par value \$1.00, authorized 300,000 shares)</b>						
Issued at beginning of year	111,454	111,454	111,278	111,278	111,150	111,150
Exercise of stock options and awards under stock plans	193	193	173	173	128	128
Conversion of Subordinated Debentures	2	2	3	3	--	--
Issued at end of year	111,649	111,649	111,454	111,454	111,278	111,278
<b>Treasury Stock</b>						
Balance at beginning of year	(5,812)	(283,785)	(5,932)	(289,653)	(6,417)	(313,432)
Reissuance of common stock for business acquired	--	--	--	--	387	18,976
Repurchase of common stock	(843)	(26,310)	--	--	--	--
Conversion of Preference Stock	112	5,504	120	5,868	98	4,803
Balance at end of year	(6,543)	(304,591)	(5,812)	(283,785)	(5,932)	(289,653)
<b>Common stock outstanding at end of year</b>						
	105,106	105,642	105,346			
<b>Guaranteed ESOP Obligation</b>						
Balance at beginning of year		(328,096)		(328,570)		(335,877)
Reduction of Guaranteed ESOP Obligation		18,421		474		7,307
Balance at end of year		(309,675)		(328,096)		(328,570)
<b>Capital Surplus</b>						
Balance at beginning of year		48,122		42,123		53,302
Reissuance of common stock for business acquired		--		--		(16,459)
Purchase of Series B preferred shares for treasury		--		--		3
Conversion of Preference Stock		497		530		434
Exercise of stock options and awards under stock plans		6,242		5,447		4,843
Conversion of Subordinated Debentures		17		22		--
Balance at end of year		54,878		48,122		42,123
<b>Retained Earnings</b>						
Balance at beginning of year		2,494,383		2,364,322		2,208,875
Net earnings		(657,106)		307,470		331,790
Retained earnings of business acquired		--		--		149
Dividends:						
Preference Stock (\$3.90 per share), net		(16,872)		(16,934)		(16,753)
Series B preferred (\$4.00 per share)		(53)		(53)		(53)
Common (\$1.52 per share)		(159,943)		(160,422)		(159,686)
Balance at end of year		1,660,409		2,494,383		2,364,322
<b>Cumulative Translation Adjustment</b>						
Balance at beginning of year		(1,421)		--		--
Effect of rate fluctuation		1,567		(1,421)		--
Balance at end of year		146		(1,421)		--

Total Shareholders' Equity	\$ 1,547,763	\$ 2,381,605	\$ 2,246,846
----------------------------	--------------	--------------	--------------

See accompanying notes to consolidated financial statements.

26

Consolidated Statements of Cash Flows

Melville Corporation and Subsidiary Companies

	(in thousands)		
Years ended December 31	1995	1994	1993
<b>Cash Flows From Operating Activities:</b>			
Net (loss) earnings	\$ (657,106)	\$ 307,470	\$ 331,790
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities:			
Restructuring and asset impairment charges	982,447	--	--
Cumulative effect of change in accounting principle	74,489	--	--
Depreciation and amortization	228,352	206,266	191,588
Minority interests in net earnings	38,351	51,895	47,296
Deferred income taxes and other noncash items	(204,841)	1,993	15,595
Change in assets and liabilities, excluding acquisitions and dispositions:			
(Increase) decrease in accounts receivable, net	(29,996)	(15,013)	33,484
Increase in inventories	(214,343)	(266,069)	(86,344)
Increase in prepaid expenses, deferred charges and other assets	(21,454)	(14,123)	(14,392)
Increase (decrease) in accounts payable and accrued expenses	225,462	125,849	(125,150)
(Decrease) increase in Federal income taxes payable and other liabilities	(75,899)	100,093	42,016
<b>Net Cash Provided by Operating Activities</b>	<b>345,462</b>	<b>498,361</b>	<b>435,883</b>
<b>Cash Flows From Investing Activities:</b>			
Additions to property and equipment	(394,951)	(421,375)	(386,724)
Proceeds from the sale or disposal of property and equipment and operations or assets sold	423,598	86,899	97,940
Acquisitions, net of cash	(4,809)	(36,556)	(41,534)
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>23,838</b>	<b>(371,032)</b>	<b>(330,318)</b>
<b>Cash Flows From Financing Activities:</b>			
Dividends paid or payable	(239,985)	(225,500)	(245,635)
(Reductions of) additions to notes payable	(148,000)	110,000	90,000
Increase (decrease) in book overdrafts	65,775	26,931	(6,701)
Repurchase of common stock	(26,310)	--	--
Reductions of long-term debt and obligations under capital leases	(10,518)	(4,423)	(13,190)
Other	2,286	1,727	5,794
<b>Net Cash Used in Financing Activities</b>	<b>(356,752)</b>	<b>(91,265)</b>	<b>(169,732)</b>
Net increase (decrease) in cash and cash equivalents	12,548	36,064	(64,167)
Cash and cash equivalents at beginning of year	117,035	80,971	145,138
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 129,583</b>	<b>\$ 117,035</b>	<b>\$ 80,971</b>

See accompanying notes to consolidated financial statements.

27

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. The minority interests principally represent the 49% participation of Kmart Corporation in the ownership of all retail subsidiaries formed or to be formed from July, 1967 until July 1, 2012 for the purpose of operating leased shoe departments in Kmart stores. All intercompany balances and transactions have been eliminated.

**Basis of Presentation:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and

liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**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.

**Investments:** Investments consist of available-for-sale securities whose carrying values approximate fair market value.

**Inventories:** Inventories are stated at the lower of cost or market. Inventories of the retail operations are determined primarily by the retail method with 12.8% 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 and equipment is computed on a straight-line basis, generally over the estimated useful lives of the assets or, when applicable, the life of the lease, whichever is shorter. 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.

**Impairment of Long - Lived Assets:** When changes in circumstances warrant measurement, impairment losses for store fixed assets are calculated by comparing projected store cash flows over the lease term to the asset carrying values.

**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.

**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.

**Interest Expense:** Interest costs charged to discontinued operations includes only third party interest and excludes interest related to intercompany balances.

**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, 1995, the Company changed its policy from capitalizing internally developed software costs to expensing them as incurred.

Effective October 1, 1995, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of

Long-Lived Assets and for Long-Lived Assets to Be Disposed Of".

Effective January 1, 1994, the Company adopted 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.

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 year-end exchange rate and income statement accounts at the average rate for the year. Translation gains and losses are recorded in shareholders' equity, and realized

28

gains and losses are reflected in income. The balance in the cumulative translation adjustment account relates principally to the Company's operations in Mexico. Transaction gains and losses were immaterial.

Reclassifications: Certain reclassifications have been made to the consolidated financial statements of prior years to conform to the 1995 presentation.

#### RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

On October 24, 1995, the Company announced a comprehensive restructuring plan comprising the spin-off of the Company's footwear and toy retailing businesses, the sale of the Marshalls, Wilsons and This End Up subsidiaries, the outsourcing of certain information processing and telecommunications functions, the closure of approximately 330 stores and the streamlining of the corporate overhead structure. In connection with the initiation of the plan, a pre-tax charge of \$872.0 million was recorded (of which \$837.2 related to continuing operations). Asset writeoffs included in the charge totaled \$659.7 million, while the balance will require cash outlays, primarily in 1996. In connection with the various components of the plan, positions for approximately 1,200 store employees and 400 administrative employees have been or will be eliminated.

The significant components of the restructuring charge, and the reserves remaining as of December 31, 1995, were as follows:

----- (\$ in thousands)	Recorded	Remaining
-----	-----	-----
Loss on sale of subsidiaries	\$587.1	\$204.9

Lease obligations and asset writeoffs for store closings, office closings and abandonment of warehouse facilities	146.7	80.3
Contract termination costs and asset writeoffs related to outsourcing	64.3	24.0
Severance and employee benefit vesting	48.0	47.8
Exit costs associated with the consolidation of footwear operations	20.0	19.6
Other	5.9	-
- - - - -	\$872.0	\$376.6
- - - - -		

Operations impacted by the plan accounted for 50.6% of 1995 sales and 15.5% of 1995 operating profit from all operations before special charges. These operations (including those classified as discontinued operations) accounted for 33.3% of total assets and 26.8% of total liabilities as of December 31, 1995.

Effective October 1, 1995, the Company adopted SFAS No. 121 and recorded a pre-tax asset impairment charge of \$110.4 million (of which \$99.6 million related to continuing operations) related to the write-down of fixed and intangible assets .

Total goodwill written off within the special charges was \$239.7 million.

On November 17, 1995, the Company completed the sale of its Marshalls subsidiary to The TJX Companies, Inc. ("TJX") for approximately \$600.0 million, consisting of \$375.0 million in cash, and \$175.0 million of TJX preferred stock, with the balance to be paid in cash during the first quarter of 1996. This transaction resulted in a pre-tax loss of \$245.0 million, which is included in the total restructuring charge recorded by the Company.

#### DISCONTINUED OPERATIONS

As part of its comprehensive restructuring program, the Company intends to spin-off its footwear segment to shareholders during 1996. Accordingly, the results of operations for these businesses have been classified as discontinued operations for all periods presented in the consolidated statements of operations.

Discontinued operations accounted for 16.4% of total assets and 14.4% of total liabilities as of December 31, 1995. The following table summarizes the financial results of the discontinued operations for the years ended December 31:

(\$ in millions)	1995	1994	1993
Net sales	\$1,827.3	\$1,839.9	\$1,713.1
Operating profit	53.5	160.5	167.3

Operating profit for 1995 reflects \$34.8 million of restructuring charges related to the consolidation of operations and the closure of stores, as well as an asset impairment charge of \$10.8 million related to the adoption of SFAS No. 121.

#### INVESTMENTS

In connection with the sale of Marshalls to TJX, the Company received 250,000 shares of TJX Series D Convertible Preferred Stock ("Series D Stock"), valued at

\$25.0 million and 1,500,000 shares of TJX Series E Convertible Preferred Stock ("Series E Stock"), valued at \$150.0 million. The Series D stock earns cash dividends at an annual rate of 1.814% and is automatically convertible in one year to between 1,343,988 and 2,024,291 shares of TJX common stock, depending upon the price of TJX common stock. The Series E stock earns cash dividends at an annual rate of 7.0% and is automatically convertible in three years to between 8,093,927 and 9,716,599 shares of TJX common stock, depending upon the price of TJX common stock on the conversion date.

Upon request of the Company, TJX must register the Series E stock unless such registration would interfere with any material transaction or securities underwriting. On December 8, 1995, the Company requested registration of these shares. Due to the automatic conversion of the Series D stock during 1996, and the Company's intention to sell the Series E stock during 1996, the securities have been classified as current assets in the accompanying consolidated balance sheet.

29

-----  
Notes to Consolidated Financial Statements  
-----

ACCOUNTS RECEIVABLE

Accounts receivable at December 31 consisted of the following:

(\$ in thousands)	1995	1994
Trade accounts	\$159,504	\$170,296
Federal income tax refund	22,432	-
Other	147,895	78,395
	329,831	248,691
Less allowance for doubtful accounts	33,438	18,858
	\$296,393	\$229,833

INVENTORIES

Inventories at December 31 consisted of the following:

(\$ in thousands)	1995	1994
Finished goods	\$1,661,677	\$2,131,041
Work-in-process	767	645
Raw materials and supplies	10,513	6,557
	\$1,672,957	\$2,138,243

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 \$4.6 million and \$8.1 million at December 31, 1995 and 1994, respectively.

PREPAID EXPENSES

Prepaid expenses at December 31 consisted of the following:

(\$ in thousands)	1995	1994
Deferred income taxes	\$228,072	\$ 97,668
Other	57,923	67,720
	\$285,995	\$165,388

PROPERTY AND EQUIPMENT

Property and equipment at December 31 consisted of the following:

(\$ in thousands)	1995	1994
Land	\$ 56,683	\$ 32,917
Buildings and improvements	244,273	222,939
Fixtures and equipment	910,101	1,246,682
Leasehold improvements	483,289	687,095
Capitalized leases	13,581	42,208
	1,707,927	2,231,841
Accumulated depreciation and amortization	593,523	704,919
	\$1,114,404	\$1,526,922

Effective January 1, 1995 the Company changed its policy to expense internally developed software costs as incurred. The accounting change resulted in an after-tax charge of \$45.9 million in 1995, including discontinued operations. The effect on earnings, had the new policy been in effect, would have been to reduce net earnings by \$15.9 million and \$14.6 million in 1994 and 1993, respectively.

ACCRUED EXPENSES

Accrued expenses at December 31 consisted of the following:

(\$ in thousands)	1995	1994
Restructuring accrual	\$ 296,874	\$ -
Taxes other than Federal income taxes	120,959	143,801
Salaries and wages	100,649	63,910
Rent	78,064	87,811
Other	443,279	363,980
	\$1,039,825	\$659,502

SHORT-TERM BORROWING ARRANGEMENTS

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

(\$ in millions)	1995	1994
Commercial paper	\$ 52.0	\$ 200.0
Weighted average interest rate	5.9%	6.0%

Lines of credit available	\$1,148.0	\$ 693.5
Letters of credit outstanding	331.4	433.9

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, 1995 and 1994.

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)	1995	1994
Guaranteed ESOP note, 8.52%, payable in various installments through 2008*	\$323,000	\$340,100
Other notes and mortgages payable	19,047	8,637
	342,047	348,737
Less current installments	14,349	17,397
	\$327,698	\$331,340

\*See Employee Stock Ownership Plan footnote.

30

The aggregate long-term debt maturing during each of the next five years is as follows: \$14.3 million in 1996, \$18.1 million in 1997, \$21.8 million in 1998, \$13.9 million in 1999 and \$16.6 million in 2000.

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

(\$ in thousands)	1995	1994	1993
Interest expense*	\$55,334	\$33,453	\$25,586
Interest income and capitalized interest	357	1,068	1,817
Net interest expense	\$54,977	\$32,385	\$23,769

\* 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 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, 1995, 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
1996	\$ 1,700	\$ 398,442
1997	1,354	373,913
1998	1,374	344,348
1999	1,336	312,899
2000	843	280,352
Thereafter	7,158	1,479,356
Total	\$13,765	\$3,189,310
Less amount representing interest	5,945	
Present value of minimum lease payments	\$ 7,820	
Total future minimum sublease rentals	\$ 454	\$ 29,030

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

(\$ in thousands)	1995	1994	1993
Minimum rentals	\$485,988	\$442,179	\$417,201
Contingent rentals based on sales	30,640	30,229	28,897
	516,628	472,408	446,098
Less sublease rentals	12,423	9,529	6,068
	\$504,205	\$462,879	\$440,030

#### CONTINGENCIES

In connection with certain dispositions completed between 1991 and 1995, Melville Realty Company, Inc. ("MRC"), a wholly owned subsidiary of the Company, continued to guarantee rental and other lease-related charges for 474 retail stores. The present value of these minimum rental payments at December 31, 1995 was approximately \$590.6 million. This amount does not include leases related to the sale of Chess King to Merry-Go-Round Enterprises ("MGRE"), which plans to liquidate in accordance with Chapter 7 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 Chess King stores. As of December 31, 1995, there are 250 leases guaranteed by MRC which have been rejected as part of the liquidation and have not yet been settled. The Company has accrued its unindemnified portion of the lease liability.

The Company is also a defendant in various lawsuits arising in the ordinary course of business. In the opinion of management and its outside counsel, the ultimate disposition of all lawsuits will not have a material adverse effect on the Company's consolidated financial position.

#### STOCK INCENTIVE PLANS

The Company's 1990 Omnibus Stock Incentive Plan (the "Plan"), as amended, provides for the granting of options, restricted stock and other stock-based awards for a maximum of 8,000,000 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 between one and three years 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.

31

-----  
Notes to Consolidated Financial Statements  
-----

Melville Corporation and Subsidiary Companies

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, 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
Granted	3,047,725	31.25 / 37.38
Exercised	17,400	28.69 / 36.00
Cancelled	23,800	37.38
-----		
Outstanding at		
December 31, 1995	6,594,697	\$ 26.72 / \$ 54.75
-----		
Exercisable at		
December 31, 1995	3,557,305	\$ 26.72 / \$ 54.75
-----		

Of the options outstanding at December 31, 1995, approximately 4.3 million are held by employees of operations to be sold or spun-off, or by employees to be terminated under the Company's restructuring plan. Such employees will be entitled to exercise their options for a 90 day period following termination.

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)	1995	1994	1993
Units awarded	32,297	77,376	54,301
Fair market value of units awarded	\$ 1.2	\$ 2.9	\$ 2.6
Shares granted related to units previously awarded	60,807	42,051	-
Fair market value of shares granted	\$ 2.2	\$ 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 or four 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)	1995	1994	1993
Shares granted	112,773	55,050	2,225
Fair market value of shares granted	\$ 4.1	\$ 1.9	\$ 0.1
Shares cancelled	11,452	1,535	420

At December 31, 1995 shares available for grant under the Plan totaled 1,901,254 and 57,000 shares of stock were available for grant under the Directors' Plan.

#### TREASURY STOCK

In connection with the management of the Company's stock incentive plans, the Company reacquired 842,900 shares of common stock during 1995 at a cost of \$26.3 million. No shares were reacquired during 1994 or 1993.

#### 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.

The weighted average discount rate used to determine the accumulated postretirement benefit obligation ("APBO") was 6.89% and 8.67% at December 31, 1995 and 1994, respectively. The following table reflects the accrued postretirement benefit cost as of December 31:

(\$ in thousands)	1995	1994
Retirees	\$16,625	\$14,335
Fully eligible active plan		

participants	1,439	1,987
Other active plan participants	10,709	8,078
-----		
APBO	28,773	24,400
-----		
Unrecognized prior service gain	13,130	14,163
Unrecognized net gain	7,955	6,817
-----		
Accrued Postretirement Benefit Cost	\$49,858	\$45,380
-----		

32

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)	1995	1994	1993
-----			
Interest expense	\$2,000	\$2,000	\$2,200
Service cost	(900)*	(500)*	(1,000)*
-----			
	\$1,100	\$1,500	\$1,200
-----			

\* Net of prior service gain amortization.

For measurement purposes, a 10.0% increase in the cost of covered health-care benefits was assumed for 1995; the rate was assumed to decline gradually to 5.0% in 2005, and remain at that level thereafter. A 1.0% increase in the health-care cost trend rate would increase the APBO at December 31, 1995 by \$3.5 million, and the 1995 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, including discontinued operations, were \$21.7 million, \$18.0 million and \$20.3 million in 1995, 1994 and 1993 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)	1995	1994	1993
-----			

Dividends paid	\$49.2	\$ -	\$29.6
Dividends accrued	-	24.9	-
Annualized dividends	24.3	24.9	25.3
Tax benefit of annualized dividends	9.8	10.0	10.1
Cash contributions (1)	14.2	11.1	7.9
Interest costs incurred by the Trust	28.4	29.0	29.5
Compensation expense recognized (2)	6.2	5.9	5.7
Interest expense recognized (2)	6.4	5.3	5.9

(1) 1994 amount accrued; paid January, 1995.

(2) Including discontinued operations.

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. In connection with the Company's restructuring plan, approximately one million shares of ESOP Preference Stock will be converted to common shares in 1996. Based on the market price of the Company's common stock on December 31, 1995, such conversions will result in an expense of \$23.0 million, which was provided as part of the 1995 restructuring charge.

#### 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)	1995	1994
Deferred tax assets:		
Property and equipment	\$112,479	\$ -
Employee benefits	75,944	66,233
Inventories	22,715	33,956
Other assets	7,831	7,895
Total deferred tax assets	218,969	108,084
Deferred tax liabilities:		
Property and equipment	-	92,118
Net deferred tax assets	\$218,969	\$ 15,966

33

#### Notes to Consolidated Financial Statements

#### Melville Corporation and Subsidiary Companies

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

The income tax (benefit) provision for the years ended December 31 consisted of the following:

(\$ in millions)	1995	1994	1993
Federal	\$ (187.3)	\$130.0	\$129.9
State	5.2	44.3	39.7
	\$ (182.1)	\$174.3	\$169.6

The income tax (benefit) provision includes a net deferred tax benefit of \$189.6 million in 1995 and net deferred tax charges of \$28.5 million and \$82.3 million in 1994 and 1993.

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

Percent of pre-tax income	1995	1994	1993
Effective tax rate	22.8	41.7	39.2
State income taxes, net of Federal tax benefit	0.4	(6.9)	(6.0)
Goodwill	11.8	(1.0)	(0.9)
Other	-	1.2	2.7
Statutory income tax rates	35.0	35.0	35.0

#### SUPPLEMENTAL CASH FLOW INFORMATION

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

(\$ in thousands)	1995	1994	1993
Fair value of assets acquired	\$ 4,809	\$ 41,832	\$61,144
Cash paid	4,809	36,578	38,814
Liabilities assumed	\$ -	\$ 5,254	\$22,330
Stock or note received for operations sold	\$175,000	\$ -	\$29,413
Book value of common stock issued in pooling of interests	-	-	18,976

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

(\$ in thousands)	1995	1994	1993
Income taxes	\$162,888	\$140,789	\$157,240
Interest (net of amounts capitalized)	55,500	34,113	25,747

#### RECENT ACCOUNTING PRONOUNCEMENTS

On October 23, 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). The provisions

of this statement are effective for fiscal years beginning after December 15, 1995.

As permitted under SFAS No. 123, the Company has elected not to adopt the fair value based method of accounting for its stock-based compensation plans, but will continue to account for such compensation under the provisions of APB Opinion No. 25. The Company will comply with the disclosure requirements of SFAS No. 123 in 1996.

34

SUMMARY OF QUARTERLY RESULTS (1)

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

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
<b>Net Sales</b>				
1995	\$ 2,124,714	\$ 2,292,165	\$ 2,351,216	\$ 2,920,967
1994	1,999,682	2,063,974	2,246,312	3,135,710
<b>Gross Margin</b>				
1995	\$ 655,057	\$ 738,436	\$ 741,775	\$ 979,136
1994	647,415	695,049	749,790	1,115,046
<b>(Loss) Earnings from Continuing Operations before Cumulative Effect of Change in Accounting Principle</b>				
1995	\$ (23,330)	\$ 13,792	\$ (18,990)	\$ (587,170)
1994	(1,665)	29,526	35,278	180,447
<b>Net (Loss) Earnings before Cumulative Effect of Change in Accounting Principle</b>				
1995	\$ (30,354)	\$ 30,665	\$ (5,104)	\$ (610,358)
1994	(2,505)	45,602	51,718	212,655
<b>Net (Loss) Earnings</b>				
1995	\$ (72,309)	\$ 30,665	\$ (5,104)	\$ (610,358)
1994	(2,505)	45,602	51,718	212,655
<b>(Loss) Earnings Per Share from Continuing Operations before Cumulative Effect of Change in Accounting Principle</b>				
1995 Primary	\$ (0.26)	\$ 0.09	\$ (0.22)	\$ (5.63)
1994 Primary	(0.06)	0.24	0.29	1.67
1994 Fully Diluted (2)	(0.06)	0.24	0.29	1.62
<b>(Loss) Earnings Per Share before Cumulative Effect of Change in Accounting Principle</b>				
1995 Primary	\$ (0.33)	\$ 0.25	\$ (0.09)	\$ (5.85)
1994 Primary	(0.06)	0.39	0.45	1.97
1994 Fully Diluted (2)	(0.06)	0.39	0.45	1.90
<b>Net (Loss) Earnings Per Share</b>				
1995 Primary	\$ (0.73)	\$ 0.25	\$ (0.09)	\$ (5.85)
1994 Primary	(0.06)	0.39	0.45	1.97
1994 Fully Diluted (2)	(0.06)	0.39	0.45	1.90

(1) Results of all quarters prior to fourth quarter 1995 have been restated to segregate the results of discontinued operations. 1995 quarters have also been restated to reflect the retroactive effect of the change in accounting principle.

(2) 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), dividends paid per share and number of shareholders is as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year
<b>Market Price Per Share</b>					
1995	\$ 30 5/8 - 37 1/2	\$ 33 5/8 - 39 7/8	\$ 32 3/4 - 37 1/4	\$ 28 5/8 - 37 1/8	\$ 28 5/8 - 39 7/8
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

Dividends Paid Per Share						
1995	\$	0.38	\$	0.38	\$	1.52
1994		0.38		0.38		1.52

  

Number of Common Shareholders	
1995	6,500
1994	7,200

Notes to Consolidated Financial Statements

Melville Corporation and Subsidiary Companies

SEGMENT INFORMATION

The Company is a specialty retailer conducting business through retail stores in four business segments: prescription drugs, health and beauty care; apparel; toys and home furnishings and footwear. In accordance with APB Opinion No. 30, the footwear segment has been segregated as discontinued operations. Information about each of the continuing operation segments is summarized as follows:

(\$ in thousands)	1995	1994	1993
<b>Prescription Drugs, Health and Beauty Care</b>			
Net sales	\$ 4,865,025	\$ 4,330,099	\$ 3,948,197
Operating profit (a) (b)	252,748	227,655	195,670
Identifiable assets at December 31 (c)	1,673,682	1,662,127	1,592,964
Depreciation and amortization	66,458	60,828	56,883
Additions to property and equipment (d)	78,019	102,047	104,592
<b>Apparel (e)</b>			
Net sales	3,055,651	3,538,928	3,395,926
Operating (loss) profit (a) (b)	(672,776)	161,087	181,922
Identifiable assets at December 31 (c)	318,991	1,528,693	1,334,026
Depreciation and amortization	85,571	79,210	75,963
Additions to property and equipment (d)	83,853	145,032	154,247
<b>Toys and Home Furnishings</b>			
Net sales	1,768,386	1,576,651	1,378,185
Operating (loss) profit (a) (b)	(115,688)	99,403	89,138
Identifiable assets at December 31 (c)	836,885	789,859	655,290
Depreciation and amortization	41,111	37,424	34,797
Additions to property and equipment (d)	93,183	92,332	70,948
<b>Total continuing operations</b>			
Net sales	\$ 9,689,062	\$ 9,445,678	\$ 8,722,308
Operating (loss) profit before corporate expenses (a) (b)	(535,716)	488,145	466,730
Corporate expenses excluding depreciation and amortization (b) (f)	202,470	34,987	7,706
Corporate depreciation and amortization	4,605	2,894	3,008
Interest expense, net	54,977	32,385	23,769
(Loss) earnings from continuing operations before income taxes	\$ (797,768)	\$ 417,879	\$ 432,247
Total identifiable assets of continuing operations at December 31 (c)	2,829,558	3,980,679	3,582,280
Corporate assets at December 31	481,479	94,613	107,746
Assets of discontinued operations	650,525	660,197	568,015
Total assets at December 31	\$ 3,961,562	\$ 4,735,489	\$ 4,258,041
Depreciation and amortization - continuing operations	\$ 197,745	\$ 180,356	\$ 170,651
Corporate additions to property and equipment	46,966	25,461	11,013
Additions of discontinued operations to property and equipment (d)	92,930	56,503	45,924
Total additions to property and equipment (d)	\$ 394,951	\$ 421,375	\$ 386,724

- (a) Operating (loss) profit is defined as total revenues less operating expenses.
- (b) In 1995, includes the effect of restructuring, asset impairment and other charges.
- (c) Identifiable assets include those assets directly related to each segment's operations.

- (d) Excludes acquisitions.
- (e) Includes Marshalls through November 17, 1995.
- (f) Includes general corporate expenses as well as net expenses related to other corporate managed subsidiaries.

36

-----  
 Five-Year Financial Summary  
 -----

Melville Corporation and Subsidiary Companies

(\$ in thousands, except per share data)

Results for the Year	1995 (a)	1994	1993	1992 (a)	1991
Net Sales	\$ 9,689,062	\$ 9,445,678	\$ 8,722,308	\$ 8,592,822	\$ 8,138,767
Wages and Compensation	1,204,285	1,176,629	1,127,056	1,083,184	1,033,393
Taxes	(36,258)	366,665	348,394	278,451	354,094
(Loss) Earnings from Continuing Operations before Income Taxes, and Cumulative Effect of Change in Accounting Principle	(797,768)	417,879	432,247	242,764	475,832
(Loss) Earnings from Continuing Operations before Cumulative Effect of Change in Accounting Principle	(615,698)	243,586	262,609	134,963	280,993
(Loss) Earnings before Cumulative Effect of Change in Accounting Principle	(615,151)	307,470	331,790	133,890	346,681
Net (Loss) Earnings	(657,106)	307,470	331,790	133,429	346,681
Dividends Declared	184,294	185,351	184,934	180,324	174,517
-----					
Per Share of Common Stock					
(Loss) Earnings from Continuing Operations before Cumulative Effect of Change in Accounting Principle	\$ (6.02)	\$ 2.15	\$ 2.33	\$ 1.14	\$ 2.55
(Loss) Earnings before Cumulative Effect of Change in Accounting Principle	(6.01)	2.75	3.00	1.13	3.20
Net (Loss) Earnings	(6.41)	2.75	3.00	1.13	3.20
Dividends	1.52	1.52	1.52	1.48	1.44
Book Value	14.73	22.54	21.33	19.83	20.06
-----					
End of Year Position					
Current Assets	\$ 2,559,928	\$ 2,650,499	\$ 2,384,031	\$ 2,429,772	\$ 2,359,017
Current Liabilities	1,797,688	1,642,742	1,292,708	1,350,498	1,302,770
Total Assets	\$ 3,961,562	\$ 4,735,489	\$ 4,258,041	\$ 4,202,162	\$ 4,074,259
Total Long-Term Obligations and Redeemable Preferred Stock	335,985	351,762	365,936	376,417	385,483
-----					
Property and Equipment					
Net of Accumulated Depreciation and Amortization	\$ 1,114,404	\$ 1,526,922	\$ 1,316,877	\$ 1,225,039	\$ 1,126,122
Capital Additions (b)	394,951	421,375	386,724	304,345	253,072
-----					
Percentage of Net Sales					
(Loss) Earnings from Continuing Operations before Income Taxes, and Cumulative Effect of Change in Accounting Principle	(8.2)	4.4	5.0	2.8	5.8
(Loss) Earnings before Cumulative Effect of Change in Accounting Principle	(6.3)	3.3	3.8	1.6	4.3
Net (Loss) Earnings	(6.8)	3.3	3.8	1.6	4.3
-----					
Return on Beginning Shareholders' Equity	(27.6)%	13.7%	16.0%	6.4%	18.7%
-----					

- (a) Includes impact of special charges.
- (b) Excludes acquisitions.

37

Exhibit 18

March 29, 1996

Melville Corporation  
One Theall Road  
Rye, New York 10580

Ladies and Gentlemen:

We have audited the consolidated balance sheets of Melville Corporation and subsidiary companies, as of December 31, 1995 and 1994, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1995, and have reported thereon under date of February 15, 1996. The aforementioned consolidated financial statements and our audit report thereon are incorporated by reference in the Company's annual report on Form 10-K for the year ended December 31, 1995. As stated on page 28 of the Company's Annual Report to Shareholders, which is incorporated by reference on Form 10-K for the year ended December 31, 1995, the Company changed its method of accounting for internally developed software costs, electing to expense such costs as incurred. On page 20 of the Company's 1995 annual report, the Company states that the newly adopted accounting principle is preferable in the circumstances because it believes that this change results in a better matching of revenues and expenses. In accordance with your request, we have reviewed and discussed with Company officials the circumstance and business judgment and planning upon which the decision to make this change in the method of accounting was based.

With regard to the aforementioned accounting change, authoritative criteria have not been established for evaluating the preferability of one acceptable method of accounting over another acceptable method. However, for purposes of Melville Corporation and subsidiary companies' compliance with the requirements of the Securities and Exchange Commission, we are furnishing this letter.

Based on our review and discussion, with reliance on management's business judgment and planning, we concur that the newly adopted method of accounting is preferable in the Company's circumstances.

Very truly yours,

/s/ KPMG Peat Marwick LLP

EXHIBIT 22

PARENTS AND SUBSIDIARIES AS OF DECEMBER 31, 1995

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., Melville Foreign, Inc., Melville Mexico H.C., Inc. and Melville Altmex H.C., Inc.

Southdale Kay-Bee Toy, Inc. is the parent corporation of Mall of America Kay-Bee Toy, Inc., which is the parent corporation of 698 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 445 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 273 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.

1

Rosedale This End Up, Inc., is the parent corporation of Jefferson Yorktown This End Up, Inc., which is the parent corporation of 190 subsidiaries, the majority of which were formed to operate specialty retail stores, located in the United States 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 1,165 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 323 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 558 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 1,014 subsidiaries in which it owns 100% of all of the capital stock) of 3,448 subsidiaries all of which were formed to operate leased footwear departments in Kmart or Pay Less or Thrifty Drug Stores all located in the United States, Puerto Rico, Guam 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.

2

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 NY Bob's, Inc., which is the parent corporation of 45 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, and the indirect parent corporation of 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, CVS of DC & VA, Inc., 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.

3

<ARTICLE>

5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED CONDENSED BALANCE SHEETS, AND THE CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<MULTIPLIER> 1,000

<PERIOD-TYPE>

12-MOS

<FISCAL-YEAR-END>	DEC-31-1995
<PERIOD-END>	DEC-31-1995
<CASH>	129,583
<SECURITIES>	175,000
<RECEIVABLES>	329,831
<ALLOWANCES>	33,438
<INVENTORY>	1,672,957
<CURRENT-ASSETS>	2,559,928
<PP&E>	1,707,927
<DEPRECIATION>	593,523
<TOTAL-ASSETS>	3,961,562
<CURRENT-LIABILITIES>	1,797,688
<BONDS>	327,698
<PREFERRED-MANDATORY>	1,330
<PREFERRED>	0
<COMMON>	111,649
<OTHER-SE>	1,436,114
<TOTAL-LIABILITY-AND-EQUITY>	3,961,562
<SALES>	9,689,062
<TOTAL-REVENUES>	9,689,062
<CGS>	6,574,658
<TOTAL-COSTS>	6,574,658
<OTHER-EXPENSES>	3,857,195
<LOSS-PROVISION>	0
<INTEREST-EXPENSE>	54,977
<INCOME-PRETAX>	(797,768)
<INCOME-TAX>	(182,070)
<INCOME-CONTINUING>	(615,698)
<DISCONTINUED>	547
<EXTRAORDINARY>	0
<CHANGES>	41,955
<NET-INCOME>	(657,106)
<EPS-PRIMARY>	(6.41)
<EPS-DILUTED>	0

<ARTICLE>

5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED CONDENSED BALANCE SHEETS, AND THE CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<MULTIPLIER> 1,000

<PERIOD-TYPE>

9-MOS

<FISCAL-YEAR-END> DEC-31-1995

<PERIOD-END> SEP-30-1995

<CASH> 80,062

<SECURITIES> 0

<RECEIVABLES> 278,539

<ALLOWANCES> 14,301

<INVENTORY> 2,584,228

<CURRENT-ASSETS> 3,098,947

<PP&E> 2,360,548

<DEPRECIATION> 809,122

<TOTAL-ASSETS> 5,207,053

<CURRENT-LIABILITIES> 2,368,738

<BONDS> 332,056

<PREFERRED-MANDATORY> 1,330

<PREFERRED> 0

<COMMON> 111,646

<OTHER-SE> 2,089,375

<TOTAL-LIABILITY-AND-EQUITY> 5,207,053

<SALES> 6,768,095

<TOTAL-REVENUES> 6,768,095

<CGS> 4,632,827

<TOTAL-COSTS> 4,632,827

<OTHER-EXPENSES> 2,145,652

<LOSS-PROVISION> 0

<INTEREST-EXPENSE> 38,328

<INCOME-PRETAX> (48,712)

<INCOME-TAX> (20,184)

<INCOME-CONTINUING> (28,528)

<DISCONTINUED> 23,735

<EXTRAORDINARY> 0

<CHANGES> 41,955

<NET-INCOME> (46,748)

<EPS-PRIMARY> (0.57)

<EPS-DILUTED> 0

<ARTICLE>

5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED CONDENSED BALANCE SHEETS, AND THE CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<MULTIPLIER> 1,000

<PERIOD-TYPE>

6-MOS

<FISCAL-YEAR-END> DEC-31-1995

<PERIOD-END> JUL-01-1995

<CASH> 82,664

<SECURITIES> 0

<RECEIVABLES> 233,488

<ALLOWANCES> 13,914

<INVENTORY> 2,284,788

<CURRENT-ASSETS> 2,757,242

<PP&E> 2,255,326

<DEPRECIATION> 760,171

<TOTAL-ASSETS> 4,810,936

<CURRENT-LIABILITIES> 1,935,916

<BONDS> 331,229

<PREFERRED-MANDATORY> 1,330

<PREFERRED> 0

<COMMON> 111,545

<OTHER-SE> 2,132,053

<TOTAL-LIABILITY-AND-EQUITY> 4,810,936

<SALES> 4,416,879

<TOTAL-REVENUES> 4,416,879

<CGS> 3,023,386

<TOTAL-COSTS> 3,023,386

<OTHER-EXPENSES> 1,388,244

<LOSS-PROVISION> 0

<INTEREST-EXPENSE> 21,395

<INCOME-PRETAX> (16,146)

<INCOME-TAX> (6,608)

<INCOME-CONTINUING> (9,538)

<DISCONTINUED> 9,849

<EXTRAORDINARY> 0

<CHANGES> 41,955

<NET-INCOME> (41,644)

<EPS-PRIMARY> (0.48)

<EPS-DILUTED> 0

<ARTICLE>

5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED CONDENSED BALANCE SHEETS, AND THE CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<MULTIPLIER> 1,000

<PERIOD-TYPE>

3-MOS

<FISCAL-YEAR-END>

DEC-31-1995

<PERIOD-END>

APR-01-1995

<CASH>

88,255

<SECURITIES>

0

<RECEIVABLES>

260,650

<ALLOWANCES>

15,852

<INVENTORY>

2,341,560

<CURRENT-ASSETS>

2,846,641

<PP&E>

2,203,035

<DEPRECIATION>

738,028

<TOTAL-ASSETS>

4,872,250

<CURRENT-LIABILITIES>

1,948,454

<BONDS>

331,280

<PREFERRED-MANDATORY>

1,330

<PREFERRED>

0

<COMMON>

111,460

<OTHER-SE>

2,136,183

<TOTAL-LIABILITY-AND-EQUITY>

4,872,250

<SALES>

2,124,714

<TOTAL-REVENUES>

2,124,714

<CGS>

1,469,657

<TOTAL-COSTS>

1,469,657

<OTHER-EXPENSES>

686,582

<LOSS-PROVISION>

0

<INTEREST-EXPENSE>

8,519

<INCOME-PRETAX>

(40,044)

<INCOME-TAX>

(16,714)

<INCOME-CONTINUING>

(23,330)

<DISCONTINUED>

(7,024)

<EXTRAORDINARY>

0

<CHANGES>

41,955

<NET-INCOME>

(72,309)

<EPS-PRIMARY>

(0.73)

<EPS-DILUTED>

0

<ARTICLE>

5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED CONDENSED BALANCE SHEETS, AND THE CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<MULTIPLIER> 1,000

<PERIOD-TYPE>

12-MOS

<FISCAL-YEAR-END>

DEC-31-1994

<PERIOD-END>

DEC-31-1994

<CASH>

117,035

<SECURITIES>

0

<RECEIVABLES>

248,691

<ALLOWANCES>

18,858

<INVENTORY>

2,138,243

<CURRENT-ASSETS>

2,650,499

<PP&E>

2,231,841

<DEPRECIATION>

704,919

<TOTAL-ASSETS>

4,735,489

<CURRENT-LIABILITIES>

1,642,742

<BONDS>

331,340

<PREFERRED-MANDATORY>

1,330

<PREFERRED>

0

<COMMON>

111,454

<OTHER-SE>

2,270,151

<TOTAL-LIABILITY-AND-EQUITY>

4,735,489

<SALES>

9,445,678

<TOTAL-REVENUES>

9,445,678

<CGS>

6,238,378

<TOTAL-COSTS>

6,238,378

<OTHER-EXPENSES>

2,757,036

<LOSS-PROVISION>

0

<INTEREST-EXPENSE>

32,385

<INCOME-PRETAX>

417,879

<INCOME-TAX>

174,293

<INCOME-CONTINUING>

243,586

<DISCONTINUED>

63,884

<EXTRAORDINARY>

0

<CHANGES>

0

<NET-INCOME>

307,470

<EPS-PRIMARY>

2.75

<EPS-DILUTED>

0

<ARTICLE>

5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED CONDENSED BALANCE SHEETS, AND THE CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<MULTIPLIER> 1,000

<PERIOD-TYPE>

9-MOS

<FISCAL-YEAR-END>

DEC-31-1994

<PERIOD-END>

OCT-01-1994

<CASH>

82,886

<SECURITIES>

0

<RECEIVABLES>

274,208

<ALLOWANCES>

20,631

<INVENTORY>

2,414,482

<CURRENT-ASSETS>

2,944,494

<PP&E>

2,135,423

<DEPRECIATION>

705,445

<TOTAL-ASSETS>

4,931,186

<CURRENT-LIABILITIES>

2,022,149

<BONDS>

341,589

<PREFERRED-MANDATORY>

1,330

<PREFERRED>

0

<COMMON>

111,402

<OTHER-SE>

2,113,761

<TOTAL-LIABILITY-AND-EQUITY>

4,931,186

<SALES>

6,309,968

<TOTAL-REVENUES>

6,309,968

<CGS>

4,217,714

<TOTAL-COSTS>

4,217,714

<OTHER-EXPENSES>

1,980,911

<LOSS-PROVISION>

0

<INTEREST-EXPENSE>

19,245

<INCOME-PRETAX>

92,098

<INCOME-TAX>

28,959

<INCOME-CONTINUING>

63,139

<DISCONTINUED>

31,676

<EXTRAORDINARY>

0

<CHANGES>

0

<NET-INCOME>

94,815

<EPS-PRIMARY>

0.78

<EPS-DILUTED>

0