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Significant Accounting Policies

Description of business ~ CVS Corporation ("CVS" or the "Company") is principally in the retail drugstore business. As of January 1, 2000, the Company operated 4,098 retail drugstores and three mail order facilities located in 26 states and the District of Columbia. See Note 13 for further information about the Company's business segments.

Basis of presentation ~ The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated. Fiscal 1999, which ended on January 1, 2000, included 53 weeks, while fiscal 1998 and 1997, which ended on December 26, 1998, and December 27, 1997, respectively, included 52 weeks.

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

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

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

Accounts receivable ~ Accounts receivable are stated net of an allowance for uncollectible accounts of $41.1 million and $39.8 million as of January 1, 2000, and December 26, 1998, respectively. The balance primarily includes amounts due from third party providers (e.g., pharmacy benefit managers, insurance companies, governmental agencies and vendors).

Financial instruments ~ Financial instruments include cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and short-term borrowings. Due to the short-term nature of these instruments, the Company's carrying value approximates fair value.

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

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

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

Goodwill ~ Goodwill, which represents the excess of the purchase price over the fair value of net assets acquired, is amortized on a straight-line basis generally over periods of 40 years. Accumulated amortization was $105.0 million and $85.6 million as of January 1, 2000, and December 26, 1998, respectively. The Company evaluates goodwill for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. If the carrying amount of the goodwill exceeds the expected undiscounted future cash flows, the Company records an impairment loss.

Other assets ~ Other assets primarily include favorable leases, which are amortized on a straight-line basis over the life of the lease, and reorganization goodwill, which is amortized on a straight-line basis over 20 years. The reorganization goodwill is the value of Revco D.S., Inc., in excess of identifiable assets, as determined during its 1992 reorganization under Chapter 11 of the United States Bankruptcy Code. See Note 2 for further information about the Company's merger with Revco D.S., Inc.

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

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

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

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

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

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

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

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

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

Diluted earnings per common share is computed by dividing: (i) net earnings, after accounting for the difference between the dividends on the ESOP preference stock and common stock and after making adjustments for the incentive compensation plans by (ii) Basic Shares plus the additional shares that would be issued assuming that all dilutive stock options are exercised and the ESOP preference stock is converted into common stock. In 1997, the assumed conversion of the ESOP preference stock would have increased diluted earnings per common share and, therefore, was not considered.

New Accounting Pronouncements ~ During fiscal 1999, the Company adopted American Institute of Certified Public Accountants Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This statement defines which costs incurred to develop or purchase internal-use software should be capitalized and which costs should be expensed. The adoption of this statement did not have a material effect on the Company's consolidated financial statements.

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Business Combinations

CVS/Arbor Merger

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

CVS/Revco Merger

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

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

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

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Merger, Restructuring & Asset Impairment Charges

CVS/Arbor Charge

In accordance with APB Opinion No. 16, Emerging Issues Task Force ("EITF") Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)" and SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," CVS recorded a $147.3 million charge to operating expenses during the second quarter of 1998 for direct and other merger-related costs pertaining to the CVS/Arbor merger transaction and certain restructuring activities (the "CVS/Arbor Charge"). The Company also recorded a $10.0 million charge to cost of goods sold during the second quarter of 1998 to reflect markdowns on noncompatible Arbor merchandise.

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

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

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

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

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

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

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

3. The 55 Arbor store locations discussed above would be closed as soon as practical after the merger. At the time the exit plan was executed, management anticipated that these locations would be closed by no later than December 31, 1999. Since these locations were leased facilities, management planned to either return the premises to the respective landlords at the conclusion of the current lease term or negotiate an early termination of the contractual obligations. The Company did not immediately initiate the Arbor store closing process because the Revco store closing process (discussed below) was continuing to consume its store closing resources. To date, 41 of these locations have been closed or are in the process of being closed. Estimated store closing dates could be affected by the timing of new store openings, the availability of real estate in the Arbor markets and the availability of store closing resources.

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

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

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

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

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

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

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

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

In millions	Merger Transaction Costs	Employee Severance & Benefits[1]	Noncancelable Lease Obligations[2]	Duplicate Facility	Asset Write-offs	Contract Cancellation Costs	Other	Total
CVS/Arbor Charge	$ 15.0	$ 27.1	$ 40.0	$ 16.5	$ 41.2	$ 4.8	$ 2.7	$147.3
Utilization – Cash	(15.9)	(13.8)	—	(15.1)	—	(1.2)	(3.4)	(49.4)
Utilization – Noncash	—	—	—	—	(41.2)	—	—	(41.2)
Transfer[3]	0.9	—	—	(1.4)	—	(0.2)	0.7	—
Balance at 12/26/98	—	13.3	40.0	—	—	3.4	—	56.7
Utilization – Cash	—	(3.0)	(2.7)	—	—	—	—	(5.7)
Balance at 01/1/00[4]	$ —	$ 10.3	$ 37.3	$ —	$ —	$ 3.4	$ —	$ 51.0

(1) Employee severance extends through 2000. Employee benefits extend for a number of years to coincide with the payment of excess parachute payment excise taxes and related income tax gross-ups.

(2) Noncancelable lease obligations extend through 2020.

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

(4) The Company believes that the reserve balances as of January 1, 2000, are adequate to cover the remaining liabilities associated with the CVS/Arbor Charge.

CVS/Revco Charge

In accordance with APB Opinion No. 16, EITF Issue 94-3 and SFAS No. 121, CVS recorded a $337.1 million charge to operating expenses during the second quarter of 1997 for direct and other merger-related costs pertaining to the CVS/Revco merger transaction and certain restructuring activities (the "CVS/Revco Charge"). The Company also recorded a $75 million charge to cost of goods sold during the second quarter of 1997 to reflect markdowns on noncompatible Revco merchandise.

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

In millions	
Merger transaction costs	$ 35.0
Restructuring costs:	
Employee severance and benefits	89.8
Exit costs:	
Noncancelable lease obligations	67.0
Duplicate facility	50.2
Asset write-offs	82.2
Contract cancellation costs	7.4
Other	5.5
Total	$337.1

Merger transaction costs included $22.0 million for estimated investment banker fees, $10.0 million for estimated professional fees, and $3.0 million for estimated filing fees, printing costs and other costs associated with furnishing information to shareholders.

Employee severance and benefits included $17.0 million for estimated excess parachute payment excise taxes and related income tax gross-ups, $53.7 million for estimated employee severance, $18.0 million for estimated incremental retirement benefits and $1.1 million for estimated employee outplacement costs. The excess parachute payment excise taxes and related income tax gross-ups relate to employment agreements that Revco had in place with 26 senior executives. Employee severance and benefits and employee outplacement costs relate to 1,195 employees who were located in Revco's Twinsburg, Ohio corporate headquarters, including the 26 senior executives who were covered by employment agreements. The incremental retirement benefits (i.e., enhanced SERP benefits) also resulted from the change in control.

Exit Costs ~ In conjunction with the merger transaction, management made the decision to close Revco's Twinsburg, Ohio corporate headquarters and 223 Revco store locations. As a result, the following exit plan was executed:

1. Revco's Twinsburg, Ohio corporate headquarters would be closed as soon as possible after the merger. Management anticipated that this facility would be closed by no later than December 31, 1997. The corporate headquarters complex included both leased and owned facilities. Management planned to return the leased facilities to the respective landlords at the conclusion of the current lease term and/or negotiate an early termination of the contractual obligations. Management intended to sell the owned facility. These facilities were closed in March 1998. The related continuing lease obligations extend through 2007. The owned facility was sold on May 8, 1998.

2. Revco's Twinsburg, Ohio corporate headquarters employees would be terminated as soon as possible after the merger. Management anticipated that these employees would be terminated by no later than December 31, 1997. However, significant headcount reductions at Revco were planned and occurred throughout the transition period. As of December 31, 1998, all of the above employees had been terminated.

3. The 223 Revco store locations discussed above would be closed as soon as practical after the merger. At the time the exit plan was executed, management anticipated that these stores would be closed by no later than December 31, 1998. Since these facilities were leased facilities, management planned to either return the premises to the respective landlords at the conclusion of the current lease term and/or negotiate an early termination of the contractual obligations. As of December 31, 1998, all of these locations have been closed.

Noncancelable lease obligations included $67.0 million for the estimated continuing lease obligations of the 223 Revco store locations discussed above. As required by EITF 88-10, the estimated continuing lease obligations were reduced by estimated probable sublease rental income.

Duplicate facility included the estimated costs associated with Revco's Twinsburg, Ohio corporate headquarters during the shutdown period. This facility was considered to be a duplicate facility that was not required by the combined company. Immediately after the merger transaction, the Company assumed all decision-making responsibility for Revco and Revco's corporate employees. The combined company did not retain these employees since they were incremental to their CVS counterparts. During the shutdown period, these employees primarily worked on shutdown activities. The $50.2 million charge included $10.4 million for the estimated cost of payroll and benefits that would be incurred in connection with complying with the WARN Act, $13.3 million for the estimated cost of payroll and benefits that would be incurred in connection with shutdown activities, $8.5 million for the estimated cost of temporary labor that would be incurred in connection with shutdown activities and $18.0 million for the estimated occupancy-related costs that would be incurred in connection with closing the duplicate corporate headquarters facility.

Asset write-offs included $40.3 million for estimated fixed asset write-offs and $41.9 million for estimated intangible asset write-offs. The Company allocates goodwill to individual stores based on historical store contribution, which approximates store cash flow. Other intangibles (i.e., favorable lease interests and prescription files) are typically store specific and, therefore, are directly assigned to stores. The asset write-offs relate to the 223 store locations discussed above and the Twinsburg, Ohio corporate headquarters. Management's decision to close the store locations was considered to be an event or change in circumstances as defined in SFAS No. 121. Since management intended to use these locations on a short-term basis during the shutdown period, impairment was measured using the "Assets to Be Held and Used" provisions of SFAS No. 121. The analysis was prepared at the individual store level, which is the lowest level at which individual cash flows can be identified. The analysis first compared the carrying amount of the store's assets to the store's estimated future cash flows (undiscounted and without interest charges) through the anticipated closing date. If the estimated future cash flows used in this analysis were less than the carrying amount of the store's assets, an impairment loss calculation was prepared. The impairment loss calculation compared the carrying value of the store's assets to the store's estimated future cash flows (discounted and with interest charges).

Management's decision to close Revco's corporate headquarters was also considered to be an event or change in circumstances as defined in SFAS No. 121. Since management intended to dispose of these assets, impairment was measured using the "Assets to Be Disposed Of" provisions of SFAS No. 121. The impairment loss of $3.9 million for the facility that Revco owned was calculated by subtracting the carrying value of the facility from the estimated fair value less cost to sell. Since management intended to discard the remaining assets located in these facilities, their entire net book value was considered to be impaired.

Contract cancellation costs included $7.4 million for estimated termination fees and/or penalties associated with terminating various contracts that Revco had in place prior to the merger, which would not be used by the combined company.

Other costs included $3.5 million for estimated travel and related expenses that would be incurred in connection with closing Revco's corporate headquarters and $2.0 million for other miscellaneous charges associated with closing Revco's corporate headquarters.

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

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

In millions	Merger Transaction Costs	Employee Severance & Benefits[1]	Noncancelable Lease Obligations[2]	Duplicate Facility	Asset Write-offs	Contract Cancellation Costs	Other	Total
CVS/Revco Charge	$ 35.0	$ 89.8	$ 67.0	$ 50.2	$ 82.2	$ 7.4	$ 5.5	$ 337.1
Utilization – Cash	(32.1)	(37.4)	(0.9)	(37.6)	—	(5.1)	(5.5)	(118.6)
Utilization – Noncash	—	—	—	—	(82.2)	—	—	(82.2)
Balance at 12/27/97	2.9	52.4	66.1	12.6	—	2.3	—	136.3
Utilization – Cash	(0.3)	(40.0)	(17.0)	(11.8)	—	(2.3)	(3.4)	(74.8)
Transfer[3]	(2.6)	—	—	(0.8)	—	—	3.4	—
Balance at 12/26/98	—	12.4	49.1	—	—	—	—	61.5
Utilization – Cash	—	(3.4)	(9.9)	—	—	—	—	(13.3)
Balance at 01/1/00[4]	$ —	$ 9.0	$ 39.2	$ —	$ —	$ —	$ —	$ 48.2

(1) Employee severance extended through 1999. Employee benefits extend for a number of years to coincide with the payment of retirement benefits and excess parachute payment excise taxes and related income tax gross-ups.

(2) Noncancelable lease obligations extend through 2017.

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

(4) The Company believes that the reserve balances as of January 1, 2000, are adequate to cover the remaining liabilities associated with the CVS/Revco Charge.

Big B Charge

In accordance with EITF Issue 94-3 and SFAS No. 121, the Company recorded a $31.0 million charge to operating expenses during the first quarter of 1997 for certain costs associated with the restructuring of Big B, Inc. (the "Big B Charge"), which the Company acquired in 1996. This charge included accrued liabilities related to store closings and duplicate corporate facilities, such as the cancellation of lease agreements and the write-down of unutilized fixed assets. Asset write-offs included in this charge totaled $5.1 million. The balance of the charge, $25.9 million, will require cash outlays of which $15.9 million and $10.0 million had been incurred as of January 1, 2000, and December 26, 1998, respectively. The remaining cash outlays primarily include noncancelable lease commitments, which extend through 2012. The above costs did not provide future benefit to the retained stores or corporate facilities.

Strategic Restructuring Program & Discontinued Operations

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

The strategic restructuring program was completed without significant changes to the Board approved plan.

During the second quarter of 1997, the Company sold its remaining investment in Linens 'n Things and recorded, as a component of discontinued operations, a pre-tax gain of $65.0 million ($38.2 million after-tax). In connection with recording this gain, the Company also recorded, as a component of discontinued operations, a pre-tax charge of $35.0 million ($20.7 million after-tax) during the second quarter of 1997 (the "1997 Charge"). The charge resulted from the Company's decision to retain and close seven Bob's Stores, which were affecting the overall marketability of the Bob's Stores business and the anticipated timing of the sale. As a result of this decision, the Company recorded a liability for the continuing lease obligations associated with these locations. At the time of adopting the plan of disposal, the Company expected to sell the entire Bob's Stores business and believed it was likely that the sale could be consummated within 12 months.

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

In millions	Loss on Disposal	Noncancelable Lease Obligations[1]	Employee Severance[2]	Other	Total[3]
Balance at 12/28/96	$ 162.5	$ 55.5	$ 35.1	$ 4.8	$257.9
1997 Charge	—	35.0	—	—	35.0
Utilization	(192.9)	(20.4)	(22.0)	(4.8)	(240.1)
Transfers[4]	38.8	(32.8)	(6.0)	—	—
Balance at 12/27/97	8.4	37.3	7.1	—	52.8
Utilization	(8.4)	(7.3)	(2.4)	—	(18.1)
Balance at 12/26/98	—	30.0	4.7	—	34.7
Utilization	—	(8.0)	(2.9)	—	(10.9)
Balance at 01/1/00[5]	$ —	$ 22.0	$ 1.8	$ —	$ 23.8

(1) Noncancelable lease obligations extend through 2016.

(2) Employee severance extends through 2000.

(3) As of January 1, 2000, and December 26, 1998, there were no assets and $23.8 million and $34.7 million of liabilities, respectively, of the discontinued operations reflected in the accompanying consolidated balance sheets.

(4) At the time the decision was made to separate Bob's Stores from CVS, an estimated loss on disposal was recorded in the consolidated statements of operations within discontinued operations. That loss included certain estimates. At the time of the sale, the total loss on disposal remained unchanged. However, the components of the loss differed. The transfers between the components of the plan were made to reflect the nature of the remaining reserve. In conjunction with the sale, the buyer assumed primary responsibility for the continuing lease obligations and retained certain employees that could have otherwise been terminated.

(5) The Company believes that the reserve balances as of January 1, 2000, are adequate to cover the remaining liabilities associated with this program.

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Borrowings and Credit Agreements

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

In millions	**January 1, 2000**	December 26, 1998
Commercial paper	**$ 451.0**	$ 736.6
ESOP note payable(1)	**257.0**	270.7
Uncommitted lines of credit	**—**	34.5
5.5% unsecured senior notes	**300.0**	—
Mortgage notes payable	**17.3**	16.1
Capital lease obligations	**1.5**	3.5
	1,026.8	1,061.4
Less:		
Short-term borrowings	**(451.0)**	(771.1)
Current portion of long-term debt	**(17.3)**	(14.6)
	$ 558.5	$ 275.7

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

The Company's commercial paper program is supported by a $670 million, five-year unsecured revolving credit facility, which expires on May 30, 2002, and a $530 million, 364-day unsecured revolving credit facility, which expires on June 21, 2000 (collectively, the "Credit Facilities"). The Credit Facilities require the Company to pay a quarterly facility fee of 0.07%, regardless of usage. The Company can also obtain up to $35.0 million of short-term financing through various uncommitted lines of credit. The weighted average interest rate for short-term borrowings was 6.2% as of January 1, 2000, and 5.7% as of December 26, 1998.

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

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

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

At January 1, 2000, the aggregate long-term debt maturing during the next five years is as follows: $17.3 million in 2000, $21.6 million in 2001, $26.5 million in 2002, $32.3 million in 2003, $323.5 million in 2004, $154.6 million in 2005 and thereafter.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15

Leases

The Company and its subsidiaries lease retail stores, warehouse facilities, office facilities and equipment under noncancelable operating leases typically over periods ranging from 5 to 20 years, along with options to renew over periods ranging from 5 to 15 years.

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

		Fiscal Year	
In millions	**1999**	1998	1997
Minimum rentals	**$ 572.4**	$ 459.1	$ 409.6
Contingent rentals	**64.8**	60.3	60.2
	637.2	519.4	469.8
Less: sublease income	**(13.2)**	(14.0)	(9.5)
	$ 624.0	$ 505.4	$ 460.3

Following is a summary of the future minimum lease payments under capital and operating leases as of January 1, 2000:

In millions	*Capital Leases*	*Operating Leases*
2000	$ 0.4	$ 474.1
2001	0.4	441.8
2002	0.4	406.0
2003	0.4	377.4
2004	0.4	347.5
Thereafter	1.6	3,159.1
	3.6	$ 5,205.9
Less: imputed interest	(2.1)	
Present value of capital lease obligations	$ 1.5	

During fiscal 1999, the Company entered into sale-leaseback transactions totaling $229 million as a means of financing a portion of its store development program. The properties were sold at net book value and were typically leased back over periods of 20 years. The resulting leases are being accounted for as operating leases and are included in the above tables.