FORM 10-K

CVS HEALTH Corp - CVS

Filed: March 18, 2003 (period: December 28, 2002)

Annual report with a comprehensive overview of the company

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 28, 2002

Commission file number 001-01011

CVS CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**050494040** (I.R.S. Employer Identification No.)
One CVS Drive **Woonsocket, Rhode Island** (Address of principal executive offices)	**02895** (Zip Code)

(401) 765-1500
(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No □

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ☒ No □

The aggregate market value of the registrant's common stock held by non-affiliates was approximately $11,840,013,000 as of June 28, 2002, based on the closing price of the common stock on the New York Stock Exchange. For purposes of this calculation, only executive officers and directors are deemed to be the affiliates of the registrant.

As of March 3, 2003, the registrant had 393,567,000 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

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

- Information contained on pages 14 through 39 of our Annual Report to Stockholders for the fiscal year ended December 28, 2002 is incorporated by reference in response to Items 7 and 8 of Part II.

- Information contained in our Proxy Statement for the 2003 Annual Meeting of Stockholders is incorporated by reference in response to Items 10 through 13 of Part III.

TABLE OF CONTENTS

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

PART I

Item 1. Business

OVERVIEW

CVS Corporation is a leader in the retail drugstore industry in the United States with net sales of $24.2 billion in 2002, making us the second largest retail drugstore chain based on sales. As of December 28, 2002, we operated 4,087 retail and specialty pharmacy stores in 32 states and the District of Columbia, making us the largest retail drugstore chain in the nation based on store count. We currently operate in 67 of the top 100 U.S. drugstore markets and hold the number one market share in 32 of these markets. Overall, we hold the number one or number two market share in 67% of the markets in which we operate. During 2002, we filled over 316 million prescriptions, or approximately 11% of the U.S. retail market. Our current operations are grouped into two businesses: Retail Pharmacy and Pharmacy Benefit Management ("PBM").

Retail Pharmacy ~ As of December 28, 2002, the Retail Pharmacy business included 4,054 retail drugstores, of which 3,957 operated a pharmacy, and the online retail website, CVS.com. The retail drugstores are located in 27 states and the District of Columbia, operating under the CVS® or CVS/pharmacy® name. CVS/pharmacy stores sell prescription drugs and a wide assortment of general merchandise, including over-the-counter drugs, greeting cards, film and photo finishing services, beauty products and cosmetics, seasonal merchandise and convenience foods, which we refer to as "front store" products. Existing stores generally range in size from approximately 8,000 to 12,000 square feet, although most new stores are based on either an approximately 10,000 or 12,000 square foot prototype building and typically include a drive-thru pharmacy. The Retail Pharmacy is our only reportable segment as it represented approximately 95% of consolidated net sales and operating profit in 2002.

Pharmacy Benefit Management ~ The PBM business provides a full range of prescription benefit management services to managed care and other organizations. These services include plan design and administration, formulary management, mail order pharmacy services, claims processing and generic substitution. The PBM business, which currently manages more than 14 million lives, operates under the PharmaCare Management Services name and ranks as one of the top ten full service PBMs in the nation. The PBM business also includes our Specialty Pharmacy operations, which represent the largest integrated retail and mail provider of specialty pharmacy services in the nation. Specialty pharmacy focuses on supporting individuals that require complex and expensive drug therapies to treat conditions such as organ transplants, HIV/AIDS and genetic conditions such as infertility, multiple sclerosis and certain cancers. As of December 28, 2002, we operated 33 specialty pharmacies, located in 19 states and the District of Columbia, and two specialty mail order facilities. Specialty pharmacy stores, which operate under the CVS ProCare name, average 2,000 square feet in size and sell prescription drugs and a limited assortment of front store items such as alternative medications, homeopathic remedies and vitamins.

On March 31, 1998, we completed a merger with Arbor Drugs, Inc., pursuant to which 37.8 million shares of CVS common stock were exchanged for all the outstanding common stock of Arbor. The aggregate value of this transaction, including the assumption of $17 million of existing Arbor debt, was $1.5 billion (based on stock market valuations at the time of the merger). The merger with Arbor made us the market share leader in metropolitan Detroit, the nation's fourth largest retail drugstore market at the time, and strengthened our position as the nation's top drugstore retailer in terms of store count and retail prescriptions dispensed.

CVS Corporation is a Delaware corporation. Our Store Support Center (corporate office) is located at One CVS Drive, Woonsocket, Rhode Island 02895, telephone (401) 765-1500. Our common stock is listed on the New York Stock Exchange under the trading symbol "CVS". General information about CVS is available through our website at http://www.cvs.com. In addition, our financial press releases and filings with the Securities and Exchange Commission are available free of charge on the investor relations portion of our website at http://investor.cvs.com.

RETAIL PHARMACY BUSINESS

Operating Strategy ~ Our mission is to be the easiest pharmacy retailer for customers to use. We believe ease of use means convenience for the time-starved customer. As such, our operating strategy is to provide a broad assortment of quality merchandise at competitive prices using a retail format that emphasizes service, innovation and convenience (easy-to-access, clean, well-lit and well stocked). One of the keys to our strategy is technology, which allows us to focus on constantly improving service and exploring ways to provide more personalized product offerings and services. We believe that continuing to be the first to market with new and unique products and services, using innovative marketing and adjusting our mix of merchandise to match customer needs and preferences is very important to our ability to maintain customer satisfaction.

Products ~ A typical CVS/pharmacy store sells prescription drugs and a wide assortment of high-quality, nationally advertised brand name and private label merchandise. General merchandise categories include over-the-counter drugs, greeting cards, film and photo finishing services, beauty products and cosmetics, seasonal merchandise and convenience foods, which we refer to as "front store" products. We purchase our merchandise from numerous manufacturers and distributors. We believe that competitive sources are readily available for substantially all of the products we carry and the loss of any one supplier would not have a material effect on the business. Consolidated net sales by major product group are as follows:

	Percentage of Net Sales(1)		
	2002	2001	2000
Prescription drugs	68%	66%	63%
Over-the-counter and personal care	10	10	11
Beauty/cosmetics	6	7	7
General merchandise and other	16	17	19
	100%	100%	100%

(1) Percentages are estimates based on store scanning data.

Pharmacy sales have been growing, and we believe will continue to grow, at a faster pace than front store sales. Pharmacy sales represented 67.6% of total sales in 2002, compared to 66.1% in 2001 and 62.7% in 2000. We believe that our pharmacy operations will continue to represent a critical part of our business due to our ability to attract and retain managed care customers, favorable industry trends (an aging American population consuming a greater number of prescription drugs, pharmaceuticals being used more often as the first line of defense for managing illness and the introduction and direct to consumer marketing of new drugs) and our on-going program of purchasing customer lists from independent pharmacies. We believe our pharmacy success results from our investment in people and technology. Given the nature of prescriptions, people want their prescriptions filled fast by professional pharmacists using the latest tools and technology. Our continual investment in technology such as our Excellence in Pharmacy Innovation and Care ("EPIC") system, our touch-tone telephone reorder system, Rapid Refill TM, and our online business, CVS.com, is driven by this belief.

Front store sales should continue to benefit from our strategy to be the first to market with new and unique products and services, using innovative marketing and adjusting our mix of merchandise to match customer needs and preferences. A key component of this strategy is our ExtraCare® card program, which is helping us to continue to build our loyal customer base. With 33 million members, ExtraCare is one of the largest and most successful retail loyalty programs in the United States. ExtraCare allows us to balance our marketing efforts so we can reward our best customers by providing them automatic sale prices, customized coupons, ExtraBucks TM rewards and more. Another component of our front store strategy is our unique product offerings which include a full range of high-quality private label products that are only available through CVS. We currently carry over 1,500 CVS brand products, which accounted for approximately 12% of our front store sales during 2002. Due to the success of our private label program, we continue to assess opportunities to expand our range of private label product offerings such as our CVS Brand® and Gold Emblem® lines.

Store Development ~ The addition of new stores has played, and will continue to play, a major role in our continued growth and success. Our store development program focuses on three areas: entering new markets, adding stores within existing markets and relocating stores to more convenient, freestanding sites. During 2002, we opened 174 new stores, relocated 92 stores and closed 278 stores of which 224 were as a result of the strategic restructuring announced in 2001. Our new store development during 2002 included 78 stores in new markets, including: Chicago, Illinois; Las Vegas, Nevada; Phoenix, Arizona; and several markets in Florida and Texas. During the last five years we opened more than 1,700 new and relocated stores. Approximately half of our store base was opened or significantly remodeled within the last five years. During 2003, we expect to open approximately 150-175 new stores (including 80-100 in new markets), to relocate 100 stores and to close 50 stores. We believe that continuing to grow our store base and locating stores in desirable geographic markets are essential components to competing effectively in the current managed care environment. As a result, we believe that our store development program is an integral part of our ability to maintain our leadership position in the retail drugstore industry.

Information Systems ~ We have invested significantly in information systems to enable us to deliver a high level of customer service while lowering costs and increasing operating efficiency. We were one of the first in the industry to introduce Drug Utilization Review technology that checks for harmful interactions between prescription drugs, over-the-counter products, vitamins and herbal remedies. We were also one of the first in the industry to install a chain wide automatic prescription refill system, CVS Rapid Refill, which enables customers to order prescription refills 24 hours a day using a touch-tone telephone. In 2001 we completed the rollout of EPIC, a multiyear project that reengineered the way our pharmacists communicate and fill prescriptions. The project included integrated workflow improvements, proprietary systems technology and automated pill-counting machines in high volume stores. We expect EPIC will continue to improve quality assurance and customer service, while reducing labor costs. In 2002, we completed the rollout of our Assisted Inventory Management ("AIM") system for non-promotional front store merchandise. This system will more effectively link our stores and distribution centers with suppliers to speed the delivery of merchandise to our stores in a manner that both reduces out-of-stock positions and lowers our investment in inventory. We also have several supply chain initiatives under way, including the expansion of our AIM system to include promotional merchandise.

Customers ~ During 2002, we served an average of 2.5 million customers per day. Since our sales are to numerous customers, including managed care organizations, the loss of any one customer would not have a material effect on the business. No single customer accounts for 10% or more of our total sales.

We fill prescriptions for many state Medicaid plans. Total sales from all such plans were approximately 8% of consolidated net sales, or 12% of total pharmacy sales, during 2002.

Seasonality ~ The majority of our sales, particularly pharmacy sales, are generally not seasonal in nature. However, front store sales tend to be higher during the December holiday season. For additional information we refer you to the Note "Quarterly Financial Information" on page 39 in our Annual Report to Stockholders for the fiscal year ended December 28, 2002.

Working Capital Practices ~ We fund the growth of our business through a combination of cash flow from operations, commercial paper and long-term borrowings. For additional information on our working capital practices, we refer you to the caption "Liquidity & Capital Resources" on pages 16 and 17 in our Annual Report to Stockholders for the fiscal year ended December 28, 2002, which is incorporated by reference herein. Due to the nature of the retail drugstore business, the majority of our non-pharmacy sales are in cash, while third party insurance programs, which typically settle in less than 30 days, represented 92.3% of our pharmacy sales in 2002. Our customer returns are not significant.

Associate Development ~ As of December 28, 2002, we employed approximately 105,000 associates, about 51,000 of whom are part-time employees working less than 30 hours per week. To deliver the highest levels of service to our customers and partners, we devote considerable time and attention to our people and service standards. We emphasize attracting and training friendly and helpful associates to work in our stores and throughout our organization.

Intellectual Property and Licenses ~ We have registered or applied for registration of a variety of trade names, service marks, trademarks and business licenses for use in our business. We regard our intellectual property as having significant value and as being an important factor in the marketing of the Company and our stores. We are not aware of any facts that could negatively impact our continuing use of any of our intellectual property. Our pharmacies and pharmacists must be licensed by the appropriate state boards of pharmacy. Our pharmacies and distribution centers are also registered with the Federal Drug Enforcement Administration. Because of these licensing and registration requirements, we must comply with various statutes, rules and regulations, a violation of which could result in a suspension or revocation of these licenses or registrations.

Competition ~ The retail drugstore business is highly competitive. We believe that we compete principally on the basis of: (i) store location and convenience, (ii) customer service and satisfaction, (iii) product selection and variety and (iv) price. In each of the markets we serve, we compete with independent and other retail drugstore chains, supermarkets, convenience stores, pharmacy benefit managers and other mail order prescription providers, discount merchandisers, membership clubs and internet pharmacies.

Item 2. Properties

We lease most of our stores under long-term leases that vary as to rental amounts, expiration dates, renewal options and other rental provisions. For additional information on the amount of our rental obligations for our leases, we refer you to the Note "Leases" on page 30 in our Annual Report to Stockholders for the fiscal year ended December 28, 2002.

As of December 28, 2002, we owned approximately 2% of our 4,087 retail and specialty pharmacy drugstores. Net selling space for our retail and specialty pharmacy drugstores remained unchanged from prior year, at 31.5 million square feet as of December 28, 2002. Approximately half of our store base was opened or significantly remodeled within the last five years.

We own four distribution centers located in Alabama, Rhode Island, South Carolina and Tennessee and lease five additional facilities located in, Indiana, New Jersey, Michigan, Pennsylvania and Virginia. The nine distribution centers total approximately 5,000,000 square feet as of December 28, 2002. A new distribution center is under construction in Texas, which is currently projected to open during 2004.

We own our corporate headquarters building located in Woonsocket, Rhode Island, which contains approximately 568,000 square feet. We lease approximately 110,000 square feet of additional office space in Rhode Island. We also lease approximately 120,000 square feet in two mail order service facilities located in Fairfield, Ohio and Pittsburgh, Pennsylvania.

In connection with certain business dispositions completed between 1991 and 1997, we continue to guarantee lease obligations for approximately 875 former stores. We are indemnified for these guarantee obligations by the respective purchasers. These guarantees generally remain in effect for the initial lease term and any extension thereof pursuant to a renewal option provided for in the lease prior to the time of the disposition. For additional information, we refer you to the Note "Commitments & Contingencies" on page 35 in our Annual Report to Stockholders for the fiscal year ended December 28, 2002.

Management believes that its owned and leased facilities are suitable and adequate to meet the Company's anticipated needs. At the end of the existing lease terms, management believes the leases can be renewed or replaced by alternate space.

Following is a breakdown by state of our 4,087 retail and specialty pharmacy store locations as of December 28, 2002:

	Specialty Stores	Retail Stores	Total
Alabama	1	134	135
Arizona	1	6	7
California	6	—	6
Connecticut	—	130	130
Delaware	—	2	2
District of Columbia	1	47	48
Florida	3	56	59
Georgia	1	268	269
Hawaii	1	—	1
Illinois	1	94	95
Indiana	—	248	248
Kentucky	—	58	58
Maine	—	18	18
Maryland	1	165	166
Massachusetts	2	321	323
Michigan	—	232	232
Minnesota	1	—	1
Missouri	1	—	1
Nevada	—	8	8
New Hampshire	—	26	26
New Jersey	—	228	228
New York	3	406	409
North Carolina	1	266	267
Ohio	—	311	311
Oregon	1	—	1
Pennsylvania	2	350	352
Rhode Island	1	52	53
South Carolina	1	171	172
Tennessee	1	122	123
Texas	3	41	44
Vermont	—	2	2
Virginia	—	239	239
West Virginia	—	53	53
	33	4,054	4,087

Item 3. Legal Proceedings

Beginning in August 2001, a total of nine actions were filed against the Company in the United States District Court for the District of Massachusetts asserting claims under the federal securities laws. The actions were subsequently consolidated under the caption In re CVS Corporation Securities Litigation, No. 01-CV-11464 (D.Mass.) and a consolidated and amended complaint was filed on April 8, 2002. The consolidated amended complaint names as defendants the Company, its chief executive officer and its chief financial officer and asserts claims for alleged securities fraud under sections 10(b) and 20 (a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder on behalf of a purported class of persons who purchased shares of the Company's common stock between February 6, 2001 and October 30, 2001. On June 7, 2002, all defendants moved to dismiss the consolidated amended complaint. This motion was subsequently denied by the court on December 18, 2002. The Company believes the consolidated action is entirely without merit and intends to defend against it vigorously.

The Company is also a party to other litigation arising in the normal course of its business, none of which is expected to be material to the Company.

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

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 28, 2002.

Executive Officers of the Registrant

Executive Officers of the Registrant

The following sets forth the name, age and biographical information for each of our executive officers as of December 28, 2002. In each case the officer's term of office extends to the date of the board of directors meeting following the next annual meeting of stockholders of the Company. Previous positions and responsibilities held by each of the executive officers over the past five years are indicated below:

Chris Bodine, age 47, Executive Vice President—Merchandising and Marketing of CVS Corporation and CVS Pharmacy, Inc. since February 1, 2002; Senior Vice President—Merchandising of CVS Pharmacy, Inc. from February 2000 to February 2002; Senior Vice President—Health Care Services of CVS Pharmacy, Inc. from August 1998 to February 2000; Vice President—Business Development of CVS Pharmacy, Inc. from November 1997 to August 1998.

Deborah G. Ellinger, age 44, Executive Vice President—Strategy and Business Development of CVS Corporation and CVS Pharmacy, Inc. since December 2001; Senior Vice President of Strategic Planning and Business Development, Staples, Inc. from June 1999 to October 2001; Partner, Boston Consulting Group from February 1990 to June 1999.

V. Michael Ferdinandi, age 52, Senior Vice President—Human Resources and Corporate Communications of CVS Pharmacy, Inc. since April 2002; Vice President—Human Resources, Organizational Development of CVS Pharmacy Inc. from April 1999 to April 2002; Director—Human Resources, Eastern Unites States, PepsiCo, Inc., from 1994 to April 1999.

Larry J. Merlo, age 47, Executive Vice President—Stores of CVS Corporation since April 2000 and Executive Vice President—Stores of CVS Pharmacy, Inc. since March 1998; Senior Vice President—Stores of CVS Pharmacy, Inc. from January 1994 to March 1998.

David B. Rickard, age 56, Executive Vice President, Chief Financial Officer and Chief Administrative Officer of CVS Corporation and CVS Pharmacy, Inc. since September 1999; Senior Vice President and Chief Financial Officer of RJR Nabisco Holdings Corporation from March 1997 to August 1999; director of Harris Corporation, an international communications equipment company, since October 2001.

Thomas M. Ryan, age 50, Chairman of the Board since April 1999 and Chief Executive Officer and President of CVS Corporation since May 1998; Vice Chairman of the Board and Chief Operating Officer of CVS Corporation from October 1996 to May 1998; Chief Executive Officer and President of CVS Pharmacy, Inc. from January 1994 to the present; director of FleetBoston Financial Corporation, Reebok International Ltd and Yum! Brands, Inc.

Douglas A. Sgarro, age 43, Senior Vice President and Chief Legal Officer of CVS Corporation since April 2000 and Senior Vice President and Chief Legal Officer of CVS Pharmacy, Inc. since September 1997; President of CVS Realty Co., a real estate development company and a division of CVS Pharmacy, Inc., since October 1999; director of Rhode Island Economic Development Corporation (state instrumentality charged with promoting economic development in Rhode Island) since March 2000.

Larry D. Solberg, age 55, Senior Vice President—Finance and Controller of CVS Corporation since April 2000 and Senior Vice President—Finance and Controller of CVS Pharmacy, Inc. since March 1996.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

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

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
2002:	High	$ 35.40	$ 35.58	$ 31.30	$ 28.70	$ 35.58
	Low	25.80	30.60	24.42	23.99	23.99
	Cash dividends per common share	0.0575	0.0575	0.0575	0.0575	0.2300

2001:	High	$ 62.10	$ 59.75	$ 40.48	$ 34.55	$ 62.10
	Low	51.00	36.51	31.40	23.28	23.28
	Cash dividends per common share	0.0575	0.0575	0.0575	0.0575	0.2300

CVS has paid cash dividends every quarter since becoming a public company. Future dividend payments will depend on the Company’s earnings, capital requirements, financial condition and other factors considered relevant by the Board of Directors. As of March 1, 2003, there were approximately 12,000 registered shareholders according to the records maintained by our transfer agent.

Item 6. Selected Financial Data

The selected consolidated financial data of CVS Corporation as of and for the periods indicated in the five-year period ended December 28, 2002 have been derived from the audited consolidated financial statements of CVS Corporation, which consolidated financial statements have been audited by KPMG LLP. The selected consolidated financial data should be read in conjunction with the consolidated financial statements and the audit report of KPMG LLP, which are incorporated elsewhere herein.

	Fiscal Year				
	2002	2001	2000	1999	1998
In millions, except per share amounts	(52 weeks)	(52 weeks)	(52 weeks)	(53 weeks)	(52 weeks)
Statement of operations data:					
Net sales	$ 24,181.5	$ 22,241.4	$ 20,087.5	$ 18,098.3	$ 15,273.6
Gross margin(1)	6,068.8	5,691.0	5,361.7	4,861.4	4,129.2
Selling, general & administrative	4,552.3	4,256.3	3,761.6	3,448.0	2,949.0
Depreciation and amortization(2)	310.3	320.8	296.6	277.9	249.7
Merger, restructuring and other nonrecurring charges and (gains)	—	343.3	(19.2)	—	178.6
Total operating expenses	4,862.6	4,920.4	4,039.0	3,725.9	3,377.3
Operating profit(3)	1,206.2	770.6	1,322.7	1,135.5	751.9
Interest expense, net	50.4	61.0	79.3	59.1	60.9
Income tax provision	439.2	296.4	497.4	441.3	306.5
Net earnings(4)	$ 716.6	$ 413.2	$ 746.0	$ 635.1	$ 384.5
Per common share data:					
Net earnings:(4)					
Basic	$ 1.79	$ 1.02	$ 1.87	$ 1.59	$ 0.96
Diluted	1.75	1.00	1.83	1.55	0.95
Cash dividends per common shares	0.230	0.230	0.230	0.230	0.225
Balance sheet and other data:					
Total assets	$ 9,645.3	$ 8,636.3	$ 7,949.5	$ 7,275.4	$ 6,686.2
Long-term debt	1,076.3	810.4	536.8	558.5	275.7
Total shareholders’ equity	5,197.0	4,566.9	4,304.6	3,679.7	3,110.6
Number of stores (at end of period)	4,087	4,191	4,133	4,098	4,122

(1) Gross margin includes the pre-tax effect of the following nonrecurring charges: (i) in 2001, $5.7 million ($3.6 million after-tax) related to the markdown of certain inventory contained in the stores closing as part of the strategic restructuring, discussed in Note 11 to the consolidated financial statements, to its net realizable value, (ii) in 1998, $10.0 million ($5.9 million after-tax) related to the markdown of noncompatible Arbor Drugs, Inc. merchandise.

(2) As a result of adopting SFAS No. 142 “Goodwill and Other Intangible Assets” at the beginning of fiscal 2002, the Company no longer amortizes goodwill and other indefinite-lived intangible assets. Goodwill amortization totaled $31.4 million pre-tax ($28.2 million after-tax) in 2001, $33.7 million pre-tax ($31.9 million after-tax) in 2000, $38.9 million pre-tax ($38.1 million after-tax) in 1999 and $37.4 million pre-tax ($37.2 million after-tax) in 1998.

(3) Operating profit includes the pre-tax effect of the charges discussed in Note (1) above and the following merger, restructuring, and other nonrecurring charges and gains: (i) in 2001, $346.8 million ($226.9 million after-tax) related to restructuring and asset impairment costs associated with the strategic restructuring and $3.5 million ($2.1 million after-tax) net nonrecurring gain resulting from the net effect of the $50.3 million of settlement proceeds received from various lawsuits against certain manufacturers of brand name prescription drugs and the Company’s contribution of $46.8 million of these settlement proceeds to the CVS Charitable Trust, Inc. to fund future charitable giving, (ii) in 2000, $19.2 million ($11.5 million after-tax) nonrecurring gain representing partial payment of our share of the settlement proceeds from a class action lawsuit against certain manufacturers of brand name prescription drugs, (iii) in 1998, $147.3 million ($101.3 million after-tax) charge related to the merger of CVS and Arbor and $31.3 million ($18.4 million after-tax) of nonrecurring costs incurred in connection with eliminating Arbor’s information technology systems and Revco’s noncompatible store merchandise fixtures.

(4) Net earnings and net earnings per common share include the after-tax effect of the charges and gains discussed in Notes (1) and (3) above.

Item 7. — Management’s Discussion and Analysis of Financial Condition and Results of Operation

We refer you to the “Management’s Discussion and Analysis of Financial Condition and Results of Operation,” which includes our “Cautionary Statement

Concerning Forward Looking Statements" at the end of such section, on pages 14 through 20 of our Annual Report to Stockholders for the fiscal year ended December 28, 2002, which is incorporated by reference herein.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We have not entered into any transactions using derivative financial instruments or derivative commodity instruments and we believe that our exposure to market risk associated with other financial instruments (such as fixed and variable rate borrowings), is not material.

Item 8. Financial Statements and Supplementary Data

We refer you to the "Independent Auditors Report," "Consolidated Statements of Operations," "Consolidated Balance Sheets," "Consolidated Statements of Shareholders' Equity," "Consolidated Statements of Cash Flows," and "Notes to Consolidated Financial Statements" on pages 21 through 39 of our Annual Report to Stockholders for the fiscal year ended December 28, 2002, which are incorporated by reference herein.

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

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

PART III

Item 10. — Directors and Executive Officers of the Registrant

We refer you to our Proxy Statement for the 2003 Annual Meeting of Stockholders under the captions "Biographies of our Board Nominees," "Committees of the Board of CVS," and under "Section 16(a) Beneficial Ownership Reporting Compliance," which is incorporated by reference herein. Biographical information on our executive officers is contained in Part I of this Annual Report on Form 10-K.

Item 11. — Executive Compensation

We refer you to our Proxy Statement for the 2003 Annual Meeting of Stockholders under the captions "Director Compensation," "Compensation Committee Interlocks and Insider Participation," "Management Planning and Development Committee Report on Executive Compensation," "Summary Compensation Table," "Stock Options," "Long Term Incentive Plan," "Stock Performance Graph" and "Certain Executive Arrangements," which is incorporated by reference herein.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

We refer you to our Proxy Statement for the 2003 Annual Meeting of Stockholders under the captions "Share Ownership of Directors and Certain Executive Officers" and "Share Ownership of Principal Stockholders," which is incorporated by reference herein, for information concerning security ownership of certain beneficial owners and management.

Our equity compensation plans approved by shareholders include the 1999 Employee Stock Purchase Plan, the 1996 Deferred Directors Plan and the 1997 Incentive Compensation Plan. For additional information on these plans, we refer you to the Note "Stock Incentive Plans" on page 34 in our Annual Report to Stockholders for the fiscal year ended December 28, 2002.

The following table summarizes information about CVS Corporation common stock that may be issued upon the exercise of options, warrants and rights under all of our equity compensation plans as of December 28, 2002.

Shares in thousands	**Number of securities to be issued upon exercise of outstanding options, warrants and rights**		**Weighted average exercise price of outstanding options, warrants and rights**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)**
Equity compensation plans approved by shareholders(1)	23,390	$	30.21	21,347
Equity compensation plans not approved by shareholders	—		—	—
Total	23,390	$	30.21	21,347

(1) The number of shares available for delivery under the 1997 Incentive Compensation Plan is subject to adjustment by 9.4% of the number of shares of common stock issued or delivered by the Company during the term of the Plan (excluding any issuance or delivery in connection with awards, or any other compensation or benefit plan of the Company).

Item 13. Certain Relationships and Related Transactions

We refer you to our Proxy Statement for the 2003 Annual Meeting of Stockholders under the caption "Transactions with Directors and Officers," which is incorporated by reference herein.

Item 14. Controls and Procedures

(a) Evaluation of disclosure controls and procedures: The Company's Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-14(c) and 15d-14(c)) as of a date within ninety days of the filing date of this Form 10-K, have concluded that as of such date the Company's disclosure controls and procedures were adequate and effective and designed to ensure that material information relating to the Company and its subsidiaries would be made known to such officers on a timely basis.

(b) Changes in internal controls: There have been no significant changes (including corrective actions with regard to significant deficiencies or material weaknesses) in our internal controls or other factors that could significantly affect these controls subsequent to the date of the evaluation referenced in paragraph (a) above.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

A. Documents filed as part of this report:

1. Financial Statements:

The following financial statements are incorporated by reference from pages 21 through 39 of our Annual Report to Stockholders for the fiscal year ended December 28, 2002, as provided in Item 8 hereof:

Independent Auditors' Report	21
Consolidated Statements of Operations for the fiscal years ended December 28, 2002, December 29, 2001 and December 30, 2000	22
Consolidated Balance Sheets as of December 28, 2002 and December 29, 2001	23
Consolidated Statements of Shareholders' Equity for the fiscal years ended December 28, 2002, December 29, 2001 and December 30, 2000	24
Consolidated Statements of Cash Flows for the fiscal years ended December 28, 2002 December 29, 2001 and December 30, 2000	25
Notes to Consolidated Financial Statements	26-39

2. Financial Statement Schedules

The following financial statement schedule is filed on page 15 of this report: Schedule II — Valuation and Qualifying Accounts. All other financial statement schedules are omitted because they are not applicable or the information is included in the financial statements or related notes.

B. Reports on Form 8-K

On October 30, 2002, we filed a Current Report on Form 8-K in connection with the announcement of our third quarter earnings.

On October 31, 2002, we filed a Current Report on Form 8-K in connection with our announcement that the Corporation privately placed $300 million aggregate principal amount of 3.87% unsecured senior notes due on November 1, 2007.

C. Exhibits

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

Exhibit	Description
3.1*	Amended and Restated Certificate of Incorporation of the Registrant [incorporated by reference to Exhibit 3.1 of CVS Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1996].
3.1A*	Certificate of Amendment to the Amended and Restated Certificate of Incorporation, effective May 13, 1998 [incorporated by reference to Exhibit 4.1A to Registrant's Registration Statement No. 333-52055 on Form S-3/A dated May 18, 1998].
3.2*	By-laws of the Registrant, as amended and restated [incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form

10-K for the fiscal year ended December 31, 1998].

4 Pursuant to Regulation S-K, Item 601(b)(4)(iii)(A), no instrument which defines the rights of holders of long-term debt of the Registrant and its subsidiaries is filed with this report. The Registrant hereby agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.

4.1* Specimen common stock certificate [incorporated by reference to Exhibit 4.1 to the Registration Statement of the Registrant on Form 8-B dated November 4, 1996].

4.2* Indenture, dated as of February 11, 1999, between CVS Corporation and The Bank of New York [incorporated by reference to Exhibit 4.1 to Registrant's Registration Statement No. 333-78253

Exhibit **Description**

on Form S-4 dated May 11, 1999].

10.1* Stock Purchase Agreement dated as of October 14, 1995 between The TJX Companies, Inc. and Melville Corporation, as amended November 17, 1995 [incorporated by reference to Exhibits 2.1 and 2.2 to Melville's Current Report on Form 8-K dated December 4, 1995].

10.2* Stock Purchase Agreement dated as of March 25, 1996 between Melville Corporation and Consolidated Stores Corporation, as amended May 3, 1996 [incorporated by reference to Exhibits 2.1 and 2.2 to Melville's Current Report on Form 8-K dated May 5, 1996].

10.3* Distribution Agreement dated as of September 24, 1996 among Melville Corporation, Footstar, Inc. and Footstar Center, Inc. [incorporated by reference to Exhibit 99.1 to Melville's Current Report on Form 8-K dated October 28, 1996].

10.4* Tax Disaffiliation Agreement dated as of September 24, 1996 among Melville Corporation, Footstar, Inc. and certain subsidiaries named therein [incorporated by reference to Exhibit 99.2 to Melville's Current Report on Form 8-K dated October 28, 1996].

10.5* Agreement and Plan of Merger dated as of February 6, 1997, as amended as of March 19, 1997, among the Registrant, Revco D.S., Inc. and North Acquisition, Corp. [incorporated by reference to Annex A to the Registrant's Registration Statement No. 333-24163 on Form S-4 filed March 28, 1997].

10.6* Agreement and Plan of Merger dated as of February 8, 1998, as amended as of March 2, 1998, among the Registrant, Arbor Drugs, Inc. and Red Acquisition, Inc. [incorporated by reference to Exhibit 2 to the Registrant's Registration Statement No. 333-47193 on Form S-4 filed March 2, 1998].

10.7* Stockholder Agreement dated as of December 2, 1996 between the Registrant, Nashua Hollis CVS, Inc. and Linens 'n Things, Inc. [incorporated by reference to Exhibit 10(i)(6) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997].

10.8* Tax Disaffiliation Agreement dated as of December 2, 1996 between the Registrant and Linens 'n Things, Inc. and certain of their respective affiliates [incorporated by reference to Exhibit 10(i)(7) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997].

10.9* Note Purchase Agreement dated June 7, 1989 by and among Melville Corporation and Subsidiaries Employee Stock Ownership Plan, as Issuer, Melville Corporation, as Guarantor, and the Purchasers listed therein [incorporated by reference to Exhibit 10(i)(9) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997].

10.10* 1973 Stock Option Plan [incorporated by reference to Exhibit (10)(iii)(A)(i) to Melville Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1987].

10.11* 1987 Stock Option Plan [incorporated by reference to Exhibit (10)(iii)(A)(iii) to Melville Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1987].

10.12* 1989 Directors Stock Option Plan [incorporated by reference to Exhibit B to Melville Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1988].

10.13* Melville Corporation Omnibus Stock Incentive Plan [incorporated by reference to Exhibit B to Melville Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1989 and Exhibit A to Melville's definitive Proxy Statement dated March 7, 1995].

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

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

Exhibit	Description
	on Form 10-K for the fiscal year ended December 31, 1994].
10.18	CVS Corporation 1996 Directors Stock Plan, as amended and restated November 5, 2002.
10.19*	Form of Employment Agreements between the Registrant and the Registrant's executive officers [incorporated by reference to the Registrant's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1996].
10.20*	Deferred Stock Compensation Plan [incorporated by reference to Exhibit 10(iii)(A)(xi) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997].
10.21*	1997 Incentive Compensation Plan [incorporated by reference to Annex F to Amendment No. 1 to the Registrant's Registration Statement No. 333-24163 on Form S-4/A filed April 17, 1997].
10.22*	Deferred Compensation Plan [incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 27, 1998].
10.23*	Partnership Equity Program [incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 27, 1998].
10.24*	Form of Collateral Assignment and Executive Life Insurance Agreement between Registrant and the Registrant's executive officers [incorporated by reference to Exhibit 10.11(xv) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1998].
10.25*	Consulting Agreement between CVS Corporation and Eugene Applebaum [incorporated by reference to Exhibit 99(d) to Registrant's Registration Statement No. 333-47193 on Form S-4 filed March 2, 1998].
10.26*	Description of the Long-Term Performance Share Plan [incorporated by reference to Exhibit 10.27 to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 1, 2000].
10.27*	1999 Employee Stock Purchase Plan [incorporated by reference to Exhibit 99.A of the Registrant's Definitive Proxy Statement filed March 4, 1999].
10.28*	Description of the Executive Retention Program [incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2000].
10.29*	Amendment No. 1 to the 364-day Credit Agreement dated as of May 17, 2002 by and among the Registrant, the lenders party hereto, Credit Suisse First Boston and Wachovia Bank, National Association, as Co-Documentation Agents and Fleet National Bank as Administrative Agent [incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 29, 2002].
10.30*	Five-year Credit Agreement dated as of May 21, 2001 by and among the Registrant, the lenders party hereto, Credit Suisse First Boston and First Union National Bank, as Co-Documentation Agents, The Bank of New York, as Administrative Agent and BNY Capital Markets, Inc. and Fleet Securities, Inc., as Syndication Agent [incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001].
13	Portions of the 2002 Annual Report to Stockholders of CVS Corporation, which are specifically designated in this Form 10-K as being incorporated by reference.
21	Subsidiaries of the Registrant
23	Consent of KPMG LLP
99.1	Certification by the Chief Executive Officer as required by Section 906 of Sarbanes-Oxley Act of 2002
99.2	Certification by the Chief Financial Officer as required by Section 906 of Sarbanes-Oxley Act of 2002

Independent Auditors' Report

Board of Directors and Shareholders
CVS Corporation:

Under date of January 31, 2003, we reported on the consolidated balance sheets of CVS Corporation and subsidiaries as of December 28, 2002 and December 29, 2001, and the related consolidated statements of operations, shareholders' equity and cash flows for the fifty-two week periods ended December 28, 2002, December 29, 2001 and December 30, 2000. These consolidated financial statements and our report thereon are incorporated by reference in the December 28, 2002 Annual Report on Form 10-K of CVS Corporation. 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 in Note 1 to the consolidated financial statements, CVS Corporation and subsidiaries adopted the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets,* in 2002.

/s/ KPMG LLP
KPMG LLP

Providence, Rhode Island
January 31, 2003

Schedule II — Valuation and Qualifying Accounts

In millions	Balance at Beginning of Year	Additions Charged to Bad Debt Expense	Write-offs Charged to Allowance	Balance at End of Year
Accounts Receivable — Allowance for Doubtful Accounts:				
Fiscal Year Ended December 28, 2002	$ 53.6	$ 74.2	$ 63.6	$ 64.2
Fiscal Year Ended December 29, 2001	47.9	42.9	37.2	53.6
Fiscal Year Ended December 30, 2000	41.1	29.2	22.4	47.9

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

CVS CORPORATION

Date: March 18, 2003

By: /s/ David B. Rickard
David B. Rickard
Executive Vice President, Chief Financial Officer and
Chief Administrative Officer

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

Signature	Title(s)	Date
/s/ Eugene Applebaum Eugene Applebaum	Director	March 18, 2003

/s/ W. Don Cornwell W. Don Cornwell	Director	March 18, 2003
/s/ Thomas P. Gerrity Thomas P. Gerrity	Director	March 18, 2003
/s/ Stanley P. Goldstein Stanley P. Goldstein	Director	March 18, 2003
/s/ Marian L. Heard Marian L. Heard	Director	March 18, 2003
/s/ William H. Joyce William H. Joyce	Director	March 18, 2003
/s/ Terry R. Lautenbach Terry R. Lautenbach	Director	March 18, 2003
/s/ Terrence Murray Terrence Murray	Director	March 18, 2003
/s/ David B. Rickard David B. Rickard	Executive Vice President, Chief Financial Officer and Chief Administrative Officer (Principal Financial Officer)	March 18, 2003
/s/ Sheli Z. Rosenberg Sheli Z. Rosenberg	Director	March 18, 2003
/s/ Thomas M. Ryan Thomas M. Ryan	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	March 18, 2003
/s/ Ivan G. Seidenberg Ivan G. Seidenberg	Director	March 18, 2003
/s/ Larry D. Solberg Larry D. Solberg	Senior Vice President — Finance and Controller (Principal Accounting Officer)	March 18, 2003

Certification

I, Thomas M. Ryan, Chairman of the Board, President and Chief Executive Officer of CVS Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of CVS Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined term in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors:

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 18, 2003

By: /s/ Thomas M. Ryan
Thomas M. Ryan
Chairman of the Board, President
and Chief Executive Officer

Certification

I, David B. Rickard, Executive Vice President, Chief Financial Officer and Chief Administrative Officer of CVS Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of CVS Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined term in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors:

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 18, 2003

By: /s/ David B. Rickard
David B. Rickard
Executive Vice President,
Chief Financial Officer and
Chief Administrative Officer

EXHIBIT 10.18

CVS CORPORATION
1996 DIRECTORS STOCK PLAN
(as amended and restated November 5, 2002)

1. PURPOSE

The purpose of this Plan is to afford present and future Directors of CVS Corporation (the "Company") an opportunity to secure a stock ownership in the Company, thereby encouraging them to acquire a direct and long term interest in the growth and prosperity of the Company and to have the outlook and consideration of an owner of the Company. This Plan also permits the Company to compete with other organizations offering similar plans in attracting and retaining the services of Directors of exceptional talent who are able to make important contributions to the Company's success.

2. ADMINISTRATION OF THE PLAN

This Plan shall be administered by the Company's Board of Directors (the "Board"). Subject to the provisions of the Plan, the Board shall be authorized to interpret the Plan, to establish, amend, and rescind any rules and regulations relating to the Plan and to make all other determinations necessary or advisable for the administration of the Plan; provided, however, that the Board shall have no discretion with regard to the selection of individual Directors to receive stock grants under the Plan. The Board's interpretation of the terms and provisions of this Plan shall be final and conclusive. The Board may authorize an appropriate officer or officers of the Company to execute, on behalf of the Company, such agreements and other instruments as may be necessary to implement this Plan.

3. ELIGIBILITY

Participation will be limited to individuals who are Eligible Directors as defined herein. Eligible Director shall mean a Director of the Company who at the relevant time is not, and, solely for purposes of Section 5, has not been within the one year period immediately preceding such time, an employee of the Company or its subsidiaries or otherwise eligible for selection to participate (on a discretionary basis) in any plan of the Company or its subsidiaries that entitles the participant therein to acquire stock, stock options or stock appreciation rights of the Company or its subsidiaries.

4. SHARES SUBJECT TO THE PLAN

(a) Subject to the adjustments made pursuant to paragraph (c) of this Section 4, the aggregate number of shares of Common Stock, $.01 par value, of the Company ("Stock") which may be issued under the Plan shall be 346,460 (after giving effect to the Company's June 1998 stock split).

(b) Any shares of Stock to be delivered under the Plan shall be made available from newly issued shares of Stock or from shares of Stock reacquired by the Company, including such shares purchased in the open market.

(c) In the event of any merger, reorganization, consolidation, recapitalization, stock split, stock dividend or other special, large, and non-recurring non-cash dividend, or other change in corporate structure affecting the Stock, the aggregate number of shares of Stock which may be issued under the Plan, the number of shares automatically granted under the first and second sentences of Section 5, and the number of shares of Stock subject to the later issuance by reason of previous deferral of payment shall be increased or decreased proportionately, as the case may be; provided, said number of shares already has been adjusted to reflect the Company's June 1998 stock split.

5. ANNUAL STOCK GRANTS

Effective as of the end of each annual meeting of shareholders of the Company, each person who is an Eligible Director shall be granted an award of 1500 shares of Stock in respect of the preceding Award Year except that if the Eligible Director was not a Director of the Company for all of such Award Year, the size of the award shall be pro rated based on the number of months in such Award Year during which such Eligible Director was a Director of the Company. If an

Eligible Director retires, resigns, dies or otherwise ceases to be a Director of the Company prior to the end of the annual meeting of shareholders of the Company, there shall be granted, effective as of the first day of the month after such person's termination of service as an Eligible Director of the Company, an award of 125 shares of Stock for each month during the Award Year such person was an Eligible Director. For purposes of this Section 5, a part of a month shall be treated as a month and an Award Year shall mean the period from the first day of the month after an annual meeting of shareholders of the Company to the beginning of the next annual meeting of shareholders of the Company.

6. DIRECTOR STOCK COMPENSATION

(a) Unless otherwise elected under paragraph 6(b) by an Eligible Director, the compensation of each Eligible Director shall be paid one-half in Stock and, unless otherwise elected under paragraph 6(b) by an Eligible Director, one-half in cash. Compensation for this purpose means annual retainer fees, but shall not include supplemental retainer fees for committee chair positions and Board and committee meeting fees unless otherwise elected by the Eligible Director.

(b) (i) Each Eligible Director may elect in accordance with rules established by the Board and uniformly applied, to receive in Stock any part of such Eligible Director's compensation otherwise payable in cash. The number of shares of Stock to be issued in lieu of such cash shall be determined by dividing the average of the high and low sales price of the Company's Common Stock on the date the cash is otherwise payable as reported on the Composite Tape for such day into the cash amount elected to be received in Stock. Except to the extent deferred in accordance with paragraph 6(c), such number of shares shall be rounded down to the next whole number of shares.

(ii) Each Eligible Director may elect, in accordance with rules established by the Board and uniformly applied, to receive all or part of such Eligible Director's compensation in the form of stock options. Each option shall be for a number of shares of Stock determined under a methodology adopted by the Board, shall have a term of 10 years, shall have an option price of at least 100% of the fair market value of a share of Stock (determined by dividing the average of the high and low sales price of the Company's Common Stock on the trading date prior to the date of the option grant), and shall have such other terms and conditions that are established by the Board.

(c) (i) Each Eligible Director may elect to defer the receipt of shares otherwise currently payable to such Eligible Director under Sections 5 or 7 or paragraph 6(b)(i) of this Plan until such Eligible Director terminates service as a Director or such other date or event as permitted under rules established by the Board and uniformly applied. In that event, such Eligible Director shall be granted an immediate award of share credits equal to the number of shares of Stock elected to be deferred, including fractional share credits to not less than three decimal places.

(ii) As soon as practicable after an Eligible Director has ceased being a Director of the Company or such other date or event elected by an Eligible Director under paragraph 6(c)(i), all awards shall be paid to the Eligible Director or, in the case of the death of the Eligible Director, the Eligible Director's designated beneficiary or beneficiaries or in the absence of a designated beneficiary, to the estate of the Eligible Director, in a single payment or installments as elected by the Eligible Director.

(iii) (A) In addition to the payment provided for in paragraph (c)(ii) of this Section 6, each Eligible Director (or beneficiary) entitled to payment under this paragraph 6(c) shall receive at the same time the dividend equivalent amounts calculated under subparagraph (B) below.

(B) The dividend equivalent amount is the number of additional share credits attributable to the number of share credits originally granted plus additional share credits previously calculated hereunder. Such additional share credits shall be

determined and credited as of each dividend payment date by dividing the aggregate cash dividends which would have been paid had share credits awarded or credited (but not yet paid) under this paragraph 6(c), as the case may be, been actual shares of Stock on the record date for such dividend by the market price per share of Stock on the dividend payment date. For this purpose, the market price on any day shall be the average of the highest and lowest sales price of Stock as reported on the Composite Tape for such day, unless the Board determines that another procedure for determining market price would be more appropriate. Fractional share credits shall be calculated to not less than three decimal places.

(iv) Payments pursuant to paragraphs (ii) and (iii) above shall be made in shares of Stock except that there shall be paid in cash the value of any fractional share.

7. RETIREMENT BENEFITS CONVERSION

Each person who is an Eligible Director as of the end of the annual meeting of shareholders of the Company at which the Plan is approved shall have the right to elect within 30 days after such meeting on a form prescribed by the Company for such purpose to waive any and all rights under the Directors Retirement Plan and to receive in lieu of such rights a grant of shares of Stock. Unless otherwise elected under paragraph 6(c) by an Eligible Director, such shares shall be delivered to such Eligible Director as soon as possible after the end of the 30 day election period. The number of shares of Stock to be granted in lieu of an Eligible Director's benefit rights under the Directors Retirement Plan shall be calculated by the Company's actuarial consultants using assumptions that are reasonable and uniformly applied.

8. DELIVERY OF SHARES; TRANSFER OF SHARES

No shares of Stock shall be delivered under the Plan until the requirements of such laws and regulations as may be deemed by the Board to be applicable thereto are satisfied.

9. GENERAL PROVISIONS

(a) *Designation of Beneficiary*. Each Eligible Director may designate a beneficiary or beneficiaries and may change such designation from time to time by filing a written instrument of beneficiaries with the Board on a form to be prescribed by it, provided that no such designation shall be effective unless so filed prior to the death of such Eligible Director.

(b) *Nontransferability*.

(i) Except as may be permitted by paragraph 9(a) or paragraph 9(b)(ii), no right to receive Stock hereunder shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge and any such alleged action shall be void and of no effect.

(ii) The right to receive Stock pursuant to a deferral election made in accordance with paragraph 6(c) or an option granted pursuant to paragraph 6(b)(ii) may be transferred, without receipt of consideration by the transferor, during the lifetime of the Eligible Director to one or more transferees who are members of the Eligible Director's immediate family or to a trust or other entity maintained for the benefit of such persons. For this purpose "immediate family" means the Eligible Director's spouse, parents, children, grandchildren and the spouses of such parents, children and grandchildren.

(c) *No Segregation of Cash or Shares*. The Company shall not be required to segregate any cash or any shares of Stock which may at any time be represented by Stock grants, share credits or dividend equivalents. No Eligible Director shall have voting or other rights with respect to shares of Stock prior to the delivery of such shares. The Company shall not, by any provisions of this Plan, be deemed to be a trustee of any Stock or any other property, and the liabilities of the Company to any Eligible Director pursuant to the Plan shall be those of a debtor pursuant to such contract obligations as are created by the Plan, and no such obligation of the Company shall be deemed to be secured by any pledge or other encumbrance on any property of the Company.

(d) *Delaware Law to Govern*. All questions pertaining to the construction, regulation, validity and effect of the provisions of the Plan shall be determined in accordance with the laws of the State of Delaware.

(e) *Withholding of Taxes.* The Company shall be authorized to withhold from any payment due under this Plan the amount of withholding taxes, if any, due in respect of an award or payment hereunder, unless other provisions satisfactory to the Company shall have been made for the payment of such taxes.

10. AMENDMENTS, SUSPENSION OR DISCONTINUANCE

The Board of Directors may amend, suspend, or discontinue the Plan, but except as permitted by Rule 16b-3 promulgated under the Securities Exchange Act of 1934 may not make any amendment which operates (a) to modify the class of persons who constitute Eligible Directors as defined in the Plan, (b) to increase the total number of shares of Stock available under the Plan, or (c) to extend the period during which awards may be granted under the Plan.

11. TERMINATION

The Plan shall be effective as of the annual meeting of shareholders of the Company at which the shareholders approve the Plan. No grant shall be made under the Plan after expiration of ten years from the date upon which the Plan is approved by vote of the shareholders.

Exhibit 13

2002 Financial Report

Management's Discussion and Analysis of Financial Condition and Results of Operation 14

Management's Responsibility for Financial Reporting 21

Independent Auditors' Report 21

Consolidated Statements of Operations 22

Consolidated Balance Sheets 23

Consolidated Statements of Shareholders' Equity 24

Consolidated Statements of Cash Flows 25

Notes to Consolidated Financial Statements 26

Five-Year Financial Summary 40

Introduction

For an understanding of the significant factors that influenced our performance during the past three fiscal years, the following discussion should be read in conjunction with the audited consolidated financial statements and the notes thereto and the Cautionary Statement Concerning Forward-Looking Statements presented in this Annual Report.

Our Business

CVS Corporation (the "Company") is a leader in the retail drugstore industry in the United States. The Company sells prescription drugs and a wide assortment of general merchandise, including over-the-counter drugs, greeting cards, film and photofinishing services, beauty products and cosmetics, seasonal merchandise and convenience foods, through its CVS/pharmacy® stores and online through CVS.com®. The Company also provides Pharmacy Benefit Management and Specialty Pharmacy services through PharmaCare Management Services. As of December 28, 2002, we operated 4,087 retail and specialty pharmacy stores in 32 states and the District of Columbia. For further information on our business segments, see Note 10 to the consolidated financial statements.

Results of Operations

Net sales ~ The following table summarizes our sales performance for the respective years:

	2002	2001	2000
Net sales *(in billions)*	**$ 24.2**	$ 22.2	$ 20.1
Net sales increase:			
Total	**8.7%**	10.7%	11.0%
Pharmacy	**11.2%**	14.5%	17.1%
Front store	**3.8%**	3.9%	1.5%
Same store sales increase:			
Total	**8.4%**	8.6%	10.9%
Pharmacy	**11.7%**	13.0%	17.7%
Front store	**2.3%**	1.2%	1.1%
Pharmacy % of total sales	**67.6%**	66.1%	62.7%
Third party % of pharmacy sales	**92.3%**	90.9%	89.2%
Prescriptions filled *(in millions)*	**316**	309	297

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

- Our pharmacy sales growth continues to benefit from our ability to attract and retain managed care customers and favorable industry trends. These trends include an aging American population that is consuming a greater number of prescription drugs, the increased use of pharmaceuticals as the first line of defense for healthcare and the introduction of a number of successful new prescription drugs. However, the introduction of new prescription drugs had less of an impact on sales in 2001 and 2002, compared to previous years, due to the lack of significant new drug introductions since 2001. It is possible that this trend may continue in 2003 as there is no way to predict with certainty the timing of new drug introductions.

- Pharmacy sales dollars were negatively impacted during 2002 by increased introductions of lower priced generic drugs, which are being substituted for higher priced brand name drugs. Excluding the generic drug introductions, we estimate that total same store sales growth for the fiscal year of 2002 would have been approximately 130 basis points higher, while pharmacy same store sales growth would have been approximately 180 basis points higher. However, gross margins on generic drug sales are generally higher than on sales of equivalent higher priced brand-name drugs.

- Front store sales benefited during 2002 from an increase in promotional programs that were designed to respond to competitive and economic conditions, and from the implementation of our Assisted Inventory Management system, which increased our in-stock positions. We will continue to monitor the competitive and economic environment and we will modify our future promotional programs, if necessary. We cannot, however, guarantee that our current and/or future promotional programs will produce the desired lift in front store sales due to a number of uncertainties that include, but are not limited to, the general economic environment and consumer confidence.

- Total sales were negatively impacted during 2002 by the 229 stores that were closed as part of our 2001 strategic restructuring. We estimate that the impact of the 229 store closings, net of the sales which we believe transferred to our remaining stores, lowered sales by approximately $257 million, (a reduction of approximately 120 basis points on total sales growth) in 2002. However, we believe the sales that transferred to our remaining stores benefited total same store sales growth by approximately 60 basis points in 2002.

- Sales were negatively impacted during 2001 by a pharmacist shortage in certain markets combined with the weakening economy and an increasingly competitive environment that ultimately resulted in lower customer counts and lost sales during 2001. As of the end of 2001, we had returned to full pharmacist staffing levels.

- Total sales also continued to benefit from our relocation program, which seeks to move our existing shopping center stores to larger, more convenient, freestanding locations. Historically, we have achieved significant improvements in customer count and net sales when we do this. Although the number of annual relocations has decreased, our relocation strategy remains an important component of our overall growth strategy, as 47% of our existing stores were freestanding as of December 28, 2002.

Gross margin, which includes net sales less the cost of merchandise sold during the reporting period and the related purchasing costs, warehousing costs, delivery costs and actual and estimated inventory losses, as a percentage of net sales was 25.1% in 2002. This compares to 25.6% in 2001 and 26.7% in 2000.

Why has our gross margin rate been declining?

- Pharmacy sales continued to grow at a faster pace than front store sales. On average, our gross margin on pharmacy sales is lower than our gross margin on front store sales. Pharmacy sales as a percentage of total sales for 2002 were 67.6%, compared to 66.1% in 2001 and 62.7% in 2000.

- Sales to customers covered by third party insurance programs have continued to increase and, thus, have become a larger part of our total pharmacy business. On average, our gross margin on third party pharmacy sales is lower than our gross margin on cash pharmacy sales. Third party prescription sales for 2002 were 92.3% of pharmacy sales, compared to 90.9% in 2001 and 89.2% in 2000.

- In recent years, our third party gross margin rates have been adversely affected by the efforts of managed care organizations, pharmacy benefit managers, governmental and other third party payors to reduce prescription drug costs. To address this trend, we have dropped and/or renegotiated a number of third party programs that fell below our minimum profitability standards. These efforts have helped to stabilize third party reimbursement rates. However, during the latter part of 2002, as a result of increasing budget shortfalls, numerous state legislatures proposed or were reported to be considering reductions in pharmacy reimbursement rates for Medicaid and other governmental programs as well as other measures designed to reduce prescription drug costs. In the event this trend continues and we elect to withdraw from third party programs and/or decide not to participate in future programs that fall below our minimum profitability standards, we may not be able to sustain our current rate of sales growth and gross margin dollars could be adversely impacted.

- Also contributing to the gross margin rate decline during 2001 and 2002 were higher markdowns associated with the increased promotional activity (discussed above) and elevated physical inventory losses, offset, in part, by the increase in generic drug sales (also discussed above), which normally yield a higher gross margin rate than brand name drug sales. Inventory losses for 2002 were 1.19% of net sales, compared to 1.52% of net sales in 2001 and 0.60% of net sales in 2000. During 2001, we initiated a number of programs to address the physical inventory loss trend. These programs began to reduce inventory losses during the second half of 2002 and we believe they will continue to do so during 2003. However, we cannot guarantee that these programs will continue to produce the desired results.

Total operating expenses, which include store and administrative payroll, employee benefits, store and administrative occupancy costs, selling expenses, advertising expenses, administrative expenses and depreciation and amortization expense, were 20.1% of net sales in 2002. This compares to 22.1% of net sales in 2001 and 20.1% in 2000. As you review our performance in this area, please remember to consider the impact of the following items:

- During 2001, we recorded a $346.8 million pre-tax ($226.9 million after-tax) restructuring and asset impairment charge to total operating expenses in connection with our 2001 strategic restructuring. We also recorded a $5.7 million pre-tax ($3.6 million after-tax) charge to cost of goods sold to reflect the markdown of certain inventory contained in the closing stores to its net realizable value. In total, the restructuring and asset impairment charge was $352.5 million pre-tax ($230.5 million after-tax), the ("Restructuring Charge"). For further information on the strategic restructuring and resulting charge, see Note 11 to the consolidated financial statements.

- During 2001, we received $50.3 million of settlement proceeds from various lawsuits against certain manufactures of brand name prescription drugs. We elected to contribute $46.8 million of the settlement proceeds to the CVS Charitable Trust, Inc. to fund future charitable giving. The net effect of these nonrecurring items was a $3.5 million pre-tax ($2.1 million after-tax) increase in net earnings.

- During 2000, we recorded a $19.2 million pre-tax ($11.5 million after-tax) nonrecurring gain in total operating expenses, which represented a partial payment from a class action lawsuit against certain manufacturers of brand name prescription drugs.

If you exclude the impact of the items discussed above, total operating expenses as a percentage of net sales were 20.1% in 2002, 20.6% in 2001 and 20.2% in 2000. As you review our comparable operating expenses, we believe you should consider the following important information:

- As a result of adopting Statement of Financial Accounting Standards ("SFAS") No. 142 at the beginning of 2002, we no longer amortize goodwill. Goodwill amortization totaled $31.4 million in 2001 and $33.7 million in 2000. For further information on the impact of adopting SFAS No. 142, see Note 4 to the consolidated financial statements.

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

- Total operating expenses as a percentage of net sales decreased during 2002 primarily due to the operational initiatives completed as part of the strategic restructuring and other technology enhancements (such as the Excellence in Pharmacy Innovation and Care system), which have lowered operating costs, particularly at the store level, due to the increased efficiencies resulting from our more streamlined operating structure.

- Total operating expenses as a percentage of net sales increased during 2001 primarily due to higher store payroll expense resulting from market wage pressures and the shortage of pharmacists previously discussed, as well as increased benefit costs due to rising healthcare costs and higher advertising expense as we implemented a customer reactivation program aimed at attracting lost customers and in response to the increasingly competitive environment.

Operating profit increased $435.6 million in 2002 to $1,206.2 million. This compares to $770.6 million in 2001 and $1,322.7 million in 2000. Operating profit as a percentage of net sales was 5.0% in 2002, 3.5% in 2001 and 6.6% in 2000. If you exclude the effect of the Restructuring Charge and the $3.5 million net nonrecurring gain in 2001 and the $19.2 million nonrecurring litigation gain in 2000, operating profit increased $86.6 million in 2002 to $1,206.2 million. This compares to $1,119.6 million in 2001 and $1,303.5 million in 2000. Excluding the above nonrecurring items, operating profit as a percentage of net sales was 5.0% in 2002, 5.0% in 2001, and 6.5% in 2000.

Interest expense, net consisted of the following:

In millions		**2002**		**2001**		**2000**
Interest expense	**$**	**54.5**	$	65.2	$	84.1
Interest income		**(4.1)**		(4.2)		(4.8)
Interest expense, net	**$**	**50.4**	$	61.0	$	79.3

Interest expense declined in 2001 and 2002 due to a combination of lower interest rates and lower average debt balances.

Income tax provision ~ Our effective income tax rate was 38.0% in 2002, 41.8% in 2001 and 40.0% in 2000. The decrease in our effective income tax rate in 2002 was primarily due to the elimination of goodwill amortization that was not deductible for income tax purposes. Our effective income tax rate was higher in 2001 because certain components of the Restructuring Charge were not deductible for income tax purposes. Excluding the impact of the strategic restructuring, our effective tax rate was 39.4% in 2001. The decrease in our effective income tax rate in 2001 was primarily due to lower state income taxes.

Net earnings increased $303.4 million to $716.6 million (or $1.75 per diluted share) in 2002. This compares to $413.2 million (or $1.00 per diluted share) in 2001 and $746.0 million (or $1.83 per diluted share) in 2000. If you exclude the effect of the Restructuring Charge and the $2.1 million net nonrecurring gain (or $0.56 per diluted share) in 2001 and the $11.5 million after-tax litigation gain (or $0.03 per diluted share) in 2000, our net earnings increased $75.0 million to $716.6 million (or $1.75 per diluted share) in 2002. This compares to $641.6 million (or $1.56 per diluted share) in 2001 and $734.5 million (or $1.80 per diluted share) in 2000.

Liquidity & Capital Resources

We anticipate that cash flow from operations, supplemented by commercial paper and long-term borrowings, will continue to fund the growth of our business.

Net cash provided by operating activities increased to $1,204.8 million in 2002. This compares to $680.6 million in 2001 and $780.2 million in 2000. The improvement in net cash provided by operations during 2002 was primarily the result of higher net earnings and improved inventory management. Cash provided by operating activities will continue to be negatively impacted by future payments associated with the strategic restructuring. The timing of future cash payments related to the strategic restructuring depends on when, and if, early lease terminations can be reached. As of December 28, 2002, the remaining payments, which primarily consist of noncancelable lease obligations extending through 2024, totaled $192.1 million.

Net cash used in investing activities increased to $735.8 million in 2002. This compares to $536.8 million in 2001 and $640.5 million in 2000. The increase in net cash used in investing activities during 2002 was primarily due to higher capital expenditures. Capital expenditures totaled $1,108.8 million during 2002, compared to $713.6 million in 2001 and $695.3 million in 2000. Approximately 89% of total expenditures in 2002 were for new stores, store expansions and/or remodels. During 2002, we opened 78 stores in new markets, including: Chicago, Illinois; Las Vegas, Nevada; Phoenix, Arizona; and several markets in Florida and Texas. During 2003, we currently plan to invest over $1 billion in capital expenditures, which includes spending for approximately 150-175 new stores (80-100 in new markets), 100 relocations and 50 closings. We also currently expect to begin construction of a new distribution center in Texas during 2003. As of December 28, 2002, we operated 4,087 retail and specialty pharmacy stores in 32 states and the District of Columbia.

Following is a summary of our store development activity for the respective years:

	2002	2001	2000
Total stores (beginning of year)	**4,191**	4,133	4,098
New stores	**174**	126	158
Closed stores	**(278)**	(68)	(123)
Total stores (end of year)	**4,087**	4,191	4,133
Relocated stores(1)	**92**	122	230

(1) Relocated stores are not included in new or closed store totals.

We finance a portion of our new store development program through sale-leaseback transactions. Proceeds from sale-leaseback transactions totaled $448.8 million in 2002. This compares to $323.3 million in 2001 and $299.3 million in 2000. The properties are sold at net book value and the resulting leases qualify and are accounted for as operating leases. During 2001, we also completed a sale-leaseback transaction involving five of our distribution centers. The distribution centers were sold at fair market value resulting in a $35.5 million gain, which was deferred

and is being amortized to offset rent expense over the life of the new operating leases.

Net cash used in financing activities decreased to $4.9 million in 2002. This compares to $244.8 million in 2001 and $32.4 million in 2000. The decrease in net cash used in financing activities during 2002 was primarily due to less debt being repaid during 2002 compared to 2001 and the lack of share repurchase activity in 2002 compared to the $129.0 million in share repurchases during 2001. Net debt, total debt less cash and cash equivalents, decreased to $412.7 million, compared to $836.3 million in 2001 and $810.7 million in 2000.

We had $4.8 million of commercial paper outstanding at a weighted average interest rate of 1.9% as of December 28, 2002. In connection with our commercial paper program, we maintain a $650 million, five year unsecured back-up credit facility, which expires on May 21, 2006 and a $650 million, 364 day unsecured back-up credit facility, which expires on May 19, 2003. We are currently evaluating our long-term financing needs in connection with the expiration of the 364-day facility. As of December 28, 2002, we had not borrowed against the back-up credit facilities.

Given the current favorable interest rate environment, on October 30, 2002, we elected to privately place $300 million of 3.875% unsecured senior notes due November 1, 2007, to reduce our future exposure to fluctuations in short-term interest rates. The notes pay interest semi-annually and may be redeemed at any time, in whole or in part, at a defined redemption price plus accrued interest. Net proceeds from the notes were used to repay outstanding commercial paper.

On March 19, 2001, we issued $300 million of 5.625% unsecured senior notes. The notes are due March 15, 2006 and pay interest semi-annually. We may redeem these notes at any time, in whole or in part, at a defined redemption price plus accrued interest. Net proceeds from the notes were used to repay outstanding commercial paper.

Our credit facilities and unsecured senior notes contain customary restrictive financial and operating covenants. These covenants do not include a requirement for the acceleration of our debt maturities in the event of a downgrade in our credit rating. We do not believe that the restrictions contained in these covenants materially affect our financial or operating flexibility.

Our liquidity is based, in part, on maintaining strong investment-grade debt ratings. As of December 28, 2002, our long-term debt was rated “A2” by Moody’s and “A” by Standard & Poor’s, and our commercial paper program was rated “P-1” by Moody’s and “A-1” by Standard and Poor’s. In assessing our credit strength, both Moody’s and Standard & Poor’s consider our capital structure and financial policies as well as our consolidated balance sheet and other financial information. We do not currently foresee any reasonable circumstances under which we believe we would lose our current investment-grade debt ratings. However, if this were to occur, it could adversely impact, among other things, our future borrowing costs, access to capital markets and new store operating lease costs.

On March 6, 2000, the Board of Directors approved a common stock repurchase program, which allows the Company to acquire up to $1 billion of its common stock, in part, to fund employee benefit plans. No shares were repurchased during 2002. Since inception of the program, we repurchased 8.1 million shares at an aggregate cost of $292.2 million.

The following table summarizes our significant contractual obligations as of December 28, 2002:

	Payments Due by Period				
		Within	1-3	3-5	After 5
In millions	Total	1 Year	Years	Years	Years
Operating leases	$ 9,709.8	$ 805.1	$ 1,487.4	$ 1,254.9	$ 6,162.4

Long-term debt	1,107.4	32.0	350.9	675.8	48.7
Purchase obligations	215.1	38.4	76.8	76.8	23.1
Other long-term liabilities reflected in our consolidated balance sheet	203.3	42.0	87.5	37.1	36.7
Capital lease obligations	1.5	0.2	0.4	0.4	0.5
	$ 11,237.1	$ 917.7	$ 2,003.0	$ 2,045.0	$ 6,271.4

We believe that our current cash on hand and cash provided by operations, together with our ability to obtain additional short-term and long-term financing, will be sufficient to cover our working capital needs, capital expenditures, debt service and dividend requirements for at least the next several years.

Off-Balance Sheet Arrangements

Other than in connection with executing operating leases, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, including variable interest entities, nor do we have or guarantee any off-balance sheet debt. We finance a portion of our new store development through sale-leaseback transactions, which involve selling stores to unrelated parties at net book value and then leasing the stores back under leases that qualify and are accounted for as operating leases. We do not have any retained or contingent interests in the stores nor do we provide any guarantees, other than a corporate level guarantee of the lease payments, in connection with the sale-leasebacks. In accordance with generally accepted accounting principles, our operating leases are not reflected in our consolidated balance sheet.

Critical Accounting Policies

We prepare our consolidated financial statements in conformity with generally accepted accounting principles, which requires management to make certain estimates and apply judgment. We base our estimates and judgments on historical experience, current trends and other factors that management believes to be important at the time the

consolidated financial statements are prepared. On a regular basis, management reviews our accounting policies and how they are applied and disclosed in our consolidated financial statements. While management believes that the historical experience, current trends and other factors considered support the preparation of our consolidated financial statements in conformity with generally accepted accounting principles, actual results could differ from our estimates, and such differences could be material.

Our significant accounting policies are discussed in Note 1 to our consolidated financial statements. Management believes that the following accounting policies include a higher degree of judgment and/or complexity and, thus, are considered to be critical accounting policies. The critical accounting policies discussed below are applicable to both of our business segments. Management has discussed the development and selection of our critical accounting policies with the Audit Committee of our Board of Directors and the Audit Committee has reviewed the Company’s disclosures relating to them.

Impairment of Long-Lived Assets

We evaluate the recoverability of long-lived assets, including intangible assets with finite lives, but excluding goodwill, which is tested for impairment using a separate test, annually or whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. We group and evaluate long-lived assets for impairment at the individual store level, which is the lowest level at which individual cash flows can be identified. When evaluating long-lived assets for potential impairment, we first compare the carrying amount of the asset to the individual store’s estimated future cash flows (undiscounted and without interest charges). If the estimated future cash flows 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 individual store’s estimated future cash flows (discounted and with interest charges). If required, an impairment loss is recorded for the portion of the asset’s carrying value that exceeds the asset’s estimated future cash flow (discounted and with interest charges).

Our impairment loss calculation contains uncertainty since management must use judgment to estimate each store’s future sales, profitability and cash flows. When preparing these estimates, management considers each store’s historical results and current operating trends and our consolidated sales, profitability and cash flow results and forecasts. These estimates can be affected by a number of factors including, but not limited to, general economic conditions, the cost of real estate, the continued efforts of third party organizations to reduce prescription drug costs, the continued efforts of competitors to gain market share and consumer spending patterns. Effective for fiscal 2002, we adopted SFAS No. 144 “Accounting for Impairment or Disposal of Long-Lived Assets.” The adoption did not have a material impact on our impairment loss methodology, nor have we made any other material changes to our impairment loss assessment methodology during the past three years.

Closed Store Lease Liability

We account for closed store lease termination costs in accordance with Emerging Issues Task Force No 88-10, “Costs Associated with Lease Modifications or Termination.” As such, when a leased store is closed, we record a liability for the estimated remaining obligation under the non-cancelable lease, which includes future real estate taxes, common area maintenance and other charges, if applicable. The liability is reduced by estimated future sublease income if applicable.

The calculation of our closed store lease liability contains uncertainty since management must use judgment to estimate the timing and duration of future vacancy periods, the amount and timing of future lump sum settlement payments and the amount and timing of potential future sublease income. When estimating these potential termination costs and their related timing, we consider a number of factors, which include, but are not limited to, historical settlement experience, the owner of the property, the location and condition of the property, the terms of the underlying lease, the specific marketplace demand and general economic conditions. We have not made any material changes in the reserve methodology used to record closed store lease reserves during the past three years.

Self-Insurance Liabilities

We are self insured for certain losses related to general liability, worker's compensation and auto liability although we maintain stop loss coverage with third party insurers to limit our total liability exposure.

The estimate of our self-insurance liability contains uncertainty since management must use judgment to estimate the ultimate cost that will be incurred to settle reported claims and unreported claims for incidents incurred but not reported as of the balance sheet date. When estimating our self-insurance liability, we consider a number of factors, which include, but are not limited to, historical claim experience, demographic factors, severity factors and valuations provided by independent third-party actuaries. On a quarterly basis, management reviews its assumptions with its independent third party actuaries to determine that our self-insurance liability is adequate. We have not made any material changes in the accounting methodology used to establish our self-insurance liability during the past three years.

Inventory
Our inventory is valued at the lower of cost or market on a first-in, first-out basis using the retail method for inventory in our stores and the cost method for inventory in our distribution centers. Under the retail method, inventory is stated at cost, which is determined by applying a cost-to-retail ratio to the ending retail value of our inventory. Since the retail value of our inventory is adjusted on a regular basis to reflect current market conditions, our carrying value should approximate the lower of cost or market. In addition, we reduce the value of our ending inventory for estimated inventory losses that have occurred during the interim period between physical inventory

counts. Physical inventory counts are taken on a regular basis in each location to ensure that the amounts reflected in the consolidated financial statements are properly stated.

The accounting for inventory contains uncertainty since management must use judgment to estimate the inventory losses that have occurred during the interim period between physical inventory counts. When estimating these losses, we consider a number of factors, which include but are not limited to, historical physical inventory results on a location-by-location basis and current inventory loss trends. We have not made any material changes in the accounting methodology used to establish our inventory loss reserves during the past three years.

Although management believes that the estimates discussed above are reasonable and the related calculations conform to generally accepted accounting principles, actual results could differ from our estimates, and such differences could be material.

Recent Accounting Pronouncements
We adopted SFAS No. 142, "Goodwill and Other Intangible Assets" effective December 30, 2001. Among other things, this statement requires that goodwill no longer be amortized, but rather tested annually for impairment. Amortization expense related to goodwill was $31.4 million pre-tax ($28.2 million after tax, or $0.07 per diluted share) in 2001 and $33.7 million pre-tax ($31.9 million after-tax, or $0.08 per diluted share) in 2000. For further information on the impact of adopting SFAS No. 142, see Note 4 to the consolidated financial statements.

In June 2001, SFAS No. 143, "Accounting for Asset Retirement Obligations" was issued. This statement applies to legal obligations associated with the retirement of certain tangible long-lived assets. As required, we will adopt this statement effective in 2003. We do not expect that the adoption of this statement will have a material impact on our consolidated results of operations or financial position.

We adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" effective December 30, 2001. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The adoption of this statement did not have a material impact on our consolidated results of operations or financial position.

In April 2002, SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" was issued. This statement (i) eliminates extraordinary accounting treatment for a gain or loss reported on the extinguishment of debt, (ii) eliminates inconsistencies in the accounting required for sale-leaseback transactions and certain lease modifications with similar economic effects, and (iii) amends other existing authoritative pronouncements to make technical corrections, clarify meanings, or describe their applicability under changed conditions. As required, we will adopt SFAS No. 145 effective in 2003. We do not expect that the adoption of this statement will have a material impact on our consolidated results of operations or financial position.

In June 2002, SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" was issued. This statement nullifies existing guidance related to the accounting and reporting for costs associated with exit or disposal activities and requires that the fair value of a liability associated with an exit or disposal activity be recognized when the liability is incurred. Under previous guidance, certain exit costs were permitted to be accrued upon management's commitment to an exit plan, which is generally before an actual liability has been incurred. The provisions of this statement are required to be adopted for all exit or disposal activities initiated after December 31, 2002. This statement will not impact any liabilities recorded prior to adoption. As required, we will adopt SFAS No. 146 effective in 2003. We do not expect that the adoption of this statement will have a material impact on our consolidated results of operations or financial position.

In September 2002, the Emerging Issues Task Force released Issue No. 02-16, "Accounting by a Reseller for Cash Consideration Received from a Vendor". The pronouncement addresses two issues. The first issue requires that vendor allowances be categorized as a reduction of cost of sales unless they are a reimbursement of costs incurred to sell the vendor's products, in which case, the cash consideration should be characterized as a reduction of that cost. Cash consideration received from a vendor in excess of the fair value of the benefit received should be characterized as a reduction of cost of sales. As required, we will adopt this portion of the pronouncement in 2003. The second issue requires that rebates or refunds payable only if the customer completes a specified cumulative level of purchases should be recognized as a reduction of cost of sales based on a systematic and rational allocation over the purchase period. This portion of the pronouncement is to be applied to all new arrangements initiated after November 21, 2002. We do not expect that the adoption of this pronouncement will have a material impact on our consolidated results of operations or financial position.

In November 2002, FASB Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others” was issued. This interpretation requires certain guarantees to be recorded at fair value as opposed to the current practice of recording a liability only when a loss is probable and reasonably estimable. It also requires a guarantor to make enhanced disclosures concerning guarantees, even when the likelihood of making any payments under the guarantee is remote. The initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, while the enhanced disclosure requirements are effective after December 15, 2002. We do not expect the adoption of this interpretation will have a material impact on our consolidated results of operations or financial position.

In December 2002, SFAS No. 148, “Accounting for Stock-Based Compensation –Transition and Disclosure” was issued. This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures about the method of accounting for stock-based compensation and the effect of the method used on reported results. As required, we adopted SFAS No. 148 effective in 2002. The adoption did not have a material impact on our consolidated results of operations or financial position.

In January 2003, FASB Interpretation No. 46, “Consolidation of Variable Interest Entities” was issued. This interpretation requires a company to consolidate variable interest entities (“VIE”) if the enterprise is a primary beneficiary (holds a majority of the variable interest) of the VIE and the VIE posses specific characteristics. It also requires additional disclosures for parties involved with VIEs. The provisions of this interpretation are effective in 2003. Accordingly, we will adopt FASB Interpretation No. 46 effective fiscal 2003 and are evaluating the effect such adoption may have on our consolidated results of operations and financial position.

Cautionary Statement Concerning Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 (the “Reform Act”) provides a safe harbor for forward-looking statements made by or on behalf of CVS Corporation. The Company and its representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in the Company’s filings with the Securities and Exchange Commission and in its reports to stockholders. Generally, the inclusion of the words “believe,” “expect,” “intend,” “estimate,” “project,” “anticipate,” “will,” and similar expressions identify statements that constitute forward-looking statements. All statements addressing operating performance of CVS Corporation or any subsidiary, events, or developments that the Company expects or anticipates will occur in the future, including statements relating to sales growth, earnings or earnings per common share growth, free cash flow, debt rating, inventory levels, inventory turn and loss rates, store development, relocations and new market entries, as well as statements expressing optimism or pessimism about future operating results or events, are forward-looking statements within the meaning of the Reform Act. The forward-looking statements are and will be based upon management’s then-current views and assumptions regarding future events and operating performance, and are applicable only as of the dates of such statements. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. By their nature, all forward-looking statements involve risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements for a number of reasons, including but not limited to:

- The continued efforts of health maintenance organizations, managed care organizations, pharmacy benefit management companies, governmental entities and other third party payers to reduce prescription drug costs and pharmacy reimbursement rates;
- Increased competition from other drugstore chains, from alternative distribution channels such as pharmacy benefit managers and other mail order companies, supermarkets, discount retailers, membership clubs, and internet companies as well as changes in consumer preferences or loyalties;
- The frequency and rate of introduction of successful new prescription drugs;
- Our ability to generate sufficient cash flows to support capital expansion and general operating activities;
- Interest rate fluctuations and changes in capital market conditions or other events affecting our ability to obtain necessary financing on favorable terms;
- Our ability to establish effective advertising, marketing and promotional programs (including pricing strategies and price reduction programs implemented in response to competitive pressures and/or to drive demand);
- Our ability to continue to secure suitable new store locations under acceptable lease terms;
- Our ability to enter new markets successfully;
- Our ability to attract, hire and retain suitable pharmacists and management personnel;
- Our ability to achieve cost efficiencies and other benefits from various operational initiatives and technological enhancements;
- Litigation risks as well as changes in laws and regulations, including changes in accounting standards and taxation requirements (including tax rate changes, new tax laws and revised tax law interpretations).
- The creditworthiness of the purchasers of businesses formerly owned by CVS and whose leases are guaranteed by CVS;
- Fluctuations in inventory cost, availability and loss levels and our ability to maintain relationships with suppliers on favorable terms;
- Our ability to implement successfully and to manage new computer systems and technologies;
- The strength of the economy in general or in the markets served by CVS, including changes in consumer purchasing power and/or spending patterns; and
- Other risks and uncertainties detailed from time to time in our filings with the Securities and Exchange Commission.

The foregoing list is not exhaustive. There can be no assurance that the Company has correctly identified and appropriately assessed all factors affecting its business. Additional risks and uncertainties not presently known to the Company or that it currently believes to be immaterial also may adversely impact the Company. Should any risks and uncertainties develop into actual events, these developments could have material adverse effects on the Company’s business, financial condition, and results of operations. For these reasons, you are cautioned not to place undue reliance on the Company’s forward-looking statements.

Management's Responsibility for Financial Reporting

We are responsible for the preparation and integrity of the consolidated financial statements appearing in this Annual Report. The financial statements were prepared in conformity with accounting principles generally accepted in the United States of America and include certain amounts based on our best estimates and judgments.

We are responsible for maintaining a system of internal accounting controls and procedures to provide reasonable assurance, at an appropriate cost/benefit relationship, that assets are safeguarded and that transactions are authorized, recorded and reported properly. Our internal accounting control system is enhanced by periodic reviews by our internal auditors and independent auditors, written policies and procedures and a written Code of Conduct adopted by our Company's Board of Directors, applicable to all employees of our Company. In addition, we have an internal Disclosure Committee, comprised of management from each functional area within the Company, which performs a separate review of our disclosure controls. In our opinion, our Company's internal accounting controls provide reasonable assurance that assets are safeguarded and that the financial records are reliable for preparing financial statements.

The Audit Committee of our Board of Directors, consisting solely of outside directors, is responsible for monitoring the Company's accounting and reporting practices. The Audit Committee meets periodically with management, the 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 full and free access to the Audit Committee.

KPMG LLP, independent auditors, are appointed by the Board of Directors and ratified by our Company's shareholders. They were engaged to render an opinion regarding the fair presentation of our consolidated financial statements. Their accompanying report is based upon an audit conducted in accordance with auditing standards generally accepted in the United States of America and included a review of the system of internal accounting controls to the extent they considered necessary to support their opinion.

/s/ THOMAS M. RYAN

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

/s/ DAVID B. RICKARD

Executive Vice President, Chief Financial Officer and
Chief Administrative Officer

January 31, 2003

Independent Auditors' Report
KPMG LLP

Board of Directors and Shareholders
CVS Corporation:

We have audited the accompanying consolidated balance sheets of CVS Corporation and subsidiaries as of December 28, 2002 and December 29, 2001, and the related consolidated statements of operations, shareholders' equity, and cash flows for the fifty-two week periods ended December 28, 2002, December 29, 2001 and December 30, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CVS Corporation and subsidiaries as of December 28, 2002 and December 29, 2001, and the results of their operations and their cash flows for the fifty-two week periods ended December 28, 2002, December 29, 2001 and December 30, 2000, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, CVS Corporation and subsidiaries adopted the provisions of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, in 2002.

/s/ KPMG LLP

KPMG LLP
Providence, Rhode Island

January 31, 2003

Consolidated Statements of Operations

In millions, except per share amounts	Fiscal Year Ended December 28, 2002	December 29, 2001	December 30, 2000
Net sales	$ 24,181.5	$ 22,241.4	$ 20,087.5
Cost of goods sold, buying and warehousing costs	18,112.7	16,550.4	14,725.8
Gross margin	6,068.8	5,691.0	5,361.7
Selling, general and administrative expenses	4,552.3	4,599.6	3,742.4
Depreciation and amortization	310.3	320.8	296.6
Total operating expenses	4,862.6	4,920.4	4,039.0
Operating profit	1,206.2	770.6	1,322.7
Interest expense, net	50.4	61.0	79.3
Earnings before income tax provision	1,155.8	709.6	1,243.4
Income tax provision	439.2	296.4	497.4
Net earnings	716.6	413.2	746.0
Preference dividends, net of income tax benefit	14.8	14.7	14.6
Net earnings available to common shareholders	$ 701.8	$ 398.5	$ 731.4
Basic earnings per common share:			
Net earnings	$ 1.79	$ 1.02	$ 1.87
Weighted average common shares outstanding	392.3	392.2	391.0
Diluted earnings per common share:			
Net earnings	$ 1.75	$ 1.00	$ 1.83
Weighted average common shares outstanding	405.3	408.3	408.0
Dividends declared per common share	$ 0.230	$ 0.230	$ 0.230

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

In millions, except shares and per share amounts	December 28, 2002	December 29, 2001
Assets:		
Cash and cash equivalents	$ 700.4	$ 236.3
Accounts receivable, net	1,019.3	966.2
Inventories	4,013.9	3,918.6
Deferred income taxes	216.4	242.6
Other current assets	32.1	46.2
Total current assets	5,982.1	5,409.9
Property and equipment, net	2,215.8	1,847.3
Goodwill, net	878.9	874.9
Intangible assets, net	351.4	318.3
Deferred income taxes	6.6	8.1
Other assets	210.5	177.8
Total assets	$ 9,645.3	$ 8,636.3
Liabilities:		
Accounts payable	$ 1,707.9	$ 1,535.8
Accrued expenses	1,361.2	1,267.1
Short-term debt	4.8	235.8
Current portion of long-term debt	32.0	26.4
Total current liabilities	3,105.9	3,065.1
Long-term debt	1,076.3	810.4
Other long-term liabilities	266.1	193.9

Commitments and contingencies (Note 9)

Shareholders' equity:		
Preferred stock, $0.01 par value: authorized 120,619 shares; no shares issued or outstanding	—	—
Preference stock, series one ESOP convertible, par value $1.00: authorized 50,000,000shares; issued and outstanding 4,685,000 shares at December 28, 2002 and 4,887,000shares at December 29, 2001	**250.4**	261.2
Common stock, par value $0.01: authorized 1,000,000,000 shares; issued 409,286,000 shares at December 28, 2002 and 408,532,000 shares at December 29, 2001	**4.1**	4.1
Treasury stock, at cost: 16,215,000 shares at December 28, 2002 and 17,645,000 shares at December 29, 2001	**(469.5)**	(510.8)
Guaranteed ESOP obligation	**(194.4)**	(219.9)
Capital surplus	**1,546.6**	1,539.6
Retained earnings	**4,104.4**	3,492.7
Accumulated other comprehensive loss	**(44.6)**	—
Total shareholders' equity	**5,197.0**	4,566.9
Total liabilities and shareholders' equity	**$ 9,645.3**	$ 8,636.3

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

	Shares			Dollars		
In millions	**2002**	**2001**	**2000**	**2002**	**2001**	**2000**
Preference stock:						
Beginning of year	**4.9**	5.0	5.2	**$ 261.2**	$ 267.5	$ 276.0
Conversion to common stock	**(0.2)**	(0.1)	(0.2)	**(10.8)**	(6.3)	(8.5)
End of year	**4.7**	4.9	5.0	**$ 250.4**	$ 261.2	$ 267.5
Common stock:						
Beginning of year	**408.5**	407.4	403.0	**$ 4.1**	$ 4.1	$ 4.0
Stock options exercised and awards	**0.8**	1.1	4.4	**—**	—	0.1
End of year	**409.3**	408.5	407.4	**$ 4.1**	$ 4.1	$ 4.1
Treasury stock:						
Beginning of year	**(17.6)**	(15.1)	(11.1)	**$ (510.8)**	$ (404.9)	$ (258.5)
Purchase of treasury shares	**—**	(3.4)	(4.7)	**—**	(129.0)	(163.2)
Conversion of preference stock	**0.5**	0.3	0.4	**13.5**	7.5	9.1
Other	**0.9**	0.6	0.3	**27.8**	15.6	7.7
End of year	**(16.2)**	(17.6)	(15.1)	**$ (469.5)**	$ (510.8)	$ (404.9)
Guaranteed ESOP obligation:						
Beginning of year				**$ (219.9)**	$ (240.6)	$ (257.0)
Reduction of guaranteed ESOP obligation				**25.5**	20.7	16.4
End of year				**$ (194.4)**	$ (219.9)	$ (240.6)
Capital surplus:						
Beginning of year				**$ 1,539.6**	$ 1,493.8	$ 1,371.7
Conversion of preference stock				**(2.7)**	(1.2)	(0.7)
Stock option activity and awards				**6.7**	33.9	94.4
Tax benefit on stock options and awards				**3.0**	13.1	28.4
End of year				**$ 1,546.6**	$ 1,539.6	$ 1,493.8
Accumulated other comprehensive loss:						
Beginning of year				**$ —**	$ —	$ —
Minimum pension liability adjustment				**(44.6)**	—	—
End of year				**$ (44.6)**	$ —	$ —
Retained earnings:						
Beginning of year				**$ 3,492.7**	$ 3,184.7	$ 2,543.5
Net earnings				**716.6**	413.2	746.0
Preference stock dividends				**(18.3)**	(19.1)	(19.5)
Tax benefit on preference stock dividends				**3.5**	4.4	4.9
Common stock dividends				**(90.1)**	(90.5)	(90.2)
End of year				**$ 4,104.4**	$ 3,492.7	$ 3,184.7
Total shareholders' equity				**$ 5,197.0**	$ 4,566.9	$ 4,304.6
Comprehensive income:						
Net earnings				**$ 716.6**	$ 413.2	$ 746.0
Minimum pension liability, net of income tax benefit				**(44.6)**	—	—
Comprehensive income				**$ 672.0**	$ 413.2	$ 746.0

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

In millions	Fiscal Year Ended December 28, 2002	 December 29, 2001	 December 30, 2000
Cash flows from operating activities:			
Net earnings	**$ 716.6**	$ 413.2	$ 746.0
Adjustments required to reconcile net earnings to net cash provided by operating activities:			
Restructuring charge	—	352.5	—
Depreciation and amortization	**310.3**	320.8	296.6
Deferred income taxes and other noncash items	**71.8**	(83.5)	43.8
Change in operating assets and liabilities providing/(requiring) cash, net of effects from acquisitions:			
Accounts receivable, net	**(53.1)**	(141.7)	(86.7)
Inventories	**(95.3)**	(366.8)	(98.1)
Other current assets	**12.5**	4.1	7.0
Other assets	**(35.3)**	(13.9)	(50.1)
Accounts payable	**172.0**	184.4	(133.6)
Accrued expenses	**105.0**	11.6	59.6
Other long-term liabilities	**0.3**	(0.1)	(4.3)
Net cash provided by operating activities	**1,204.8**	680.6	780.2
Cash flows from investing activities:			
Additions to property and equipment	**(1,108.8)**	(713.6)	(695.3)
Proceeds from sale-leaseback transactions	**448.8**	323.3	299.3
Acquisitions, net of cash and investments	**(93.5)**	(159.1)	(263.3)
Proceeds from sale or disposal of assets	**17.7**	12.6	18.8
Net cash used in investing activities	**(735.8)**	(536.8)	(640.5)
Cash flows from financing activities:			
Additions to (reductions in) long-term debt	**296.9**	295.9	(0.9)
Proceeds from exercise of stock options	**34.0**	47.3	97.8
Dividends paid	**(104.9)**	(105.2)	(104.8)
Purchase of treasury shares	—	(129.0)	(163.2)
(Reductions in) additions to short-term borrowings	**(230.9)**	(353.8)	138.7
Net cash used in financing activities	**(4.9)**	(244.8)	(32.4)
Net increase (decrease) in cash and cash equivalents	**464.1**	(101.0)	107.3
Cash and cash equivalents at beginning of year	**236.3**	337.3	230.0
Cash and cash equivalents at end of year	**$ 700.4**	$ 236.3	$ 337.3

See accompanying notes to consolidated financial statements.

1 Significant Accounting Policies

Description of business ~ CVS Corporation (the "Company") is a leader in the retail drugstore industry in the United States. The Company sells prescription drugs and a wide assortment of general merchandise, including over-the-counter drugs, greeting cards, film and photofinishing services, beauty products and cosmetics, seasonal merchandise and convenience foods, through its CVS/pharmacy® stores and online through CVS.com®. The Company also provides Pharmacy Benefit Management and Specialty Pharmacy services through PharmaCare Management Services. As of December 28, 2002, we operated 4,087 retail and specialty pharmacy stores in 32 states and the District of Columbia. See Note 10 for further information about the Company's business segments.

Basis of presentation ~ The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated.

Fiscal Year ~ The Company's fiscal year is a 52 or 53 week period ending on the Saturday nearest to December 31. Fiscal years 2002, 2001 and 2000 ended December 28, 2002, December 29, 2001 and December 30, 2000, respectively and included 52 weeks. Unless otherwise noted, all references to years relate to the Company's fiscal year.

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

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.

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 $64.2 million and $53.6 million as of December 28, 2002 and December 29, 2001, respectively. The balance primarily includes amounts due from third party providers (e.g., pharmacy benefit managers, insurance companies and governmental agencies) and vendors.

Fair value of financial instruments ~ As of December 28, 2002, the Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and debt. Due to the short-term nature of these instruments, the Company's carrying value approximates fair value. The carrying amount of long-term debt was $1.1 billion and $836.8 million and the estimated fair value was $1.1 billion and $822.0 million as of December 28, 2002 and December 29, 2001, respectively. The fair value of long-term debt was estimated based on rates currently offered to the Company for debt with similar maturities. The Company also had outstanding letters of credit, which guaranteed foreign trade purchases, with a fair value of $5.8 million as of December 28, 2002. There were no investments in derivative financial instruments as of December 28, 2002 or December 29, 2001.

Inventories ~ Inventory is stated at the lower of cost or market on a first-in, first-out basis using the retail method for inventory in our stores and the cost method for inventory in our distribution centers. The Company utilizes the retail method of accounting to determine cost of sales and inventory. Independent physical inventory counts are taken on a regular basis in each location to ensure that the amounts reflected in the accompanying consolidated financial statements are properly stated. During the interim period between physical inventory counts, the Company accrues for anticipated physical inventory losses on a location-by-location basis based on historical results and current trends.

Property and equipment ~ Property, equipment and improvements to leased premises are depreciated using the straight-line method over the estimated useful lives of the assets, or when applicable, the term of the lease, whichever is shorter. Estimated useful lives generally range from 10 to 40 years for buildings, building improvements and leasehold improvements and 5 to 10 years for fixtures and equipment. Repair and maintenance 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.

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

In millions	December 28, 2002	December 29, 2001
Land	**$ 132.3**	$ 102.4
Building and improvements	**479.2**	262.2
Fixtures and equipment	**1,769.3**	1,608.5
Leasehold improvements	**899.0**	749.3
Capitalized software	**124.5**	93.6
Capital leases	**1.3**	2.1
	3,405.6	2,818.1
Accumulated depreciation and amortization	**(1,189.8)**	(970.8)
	$ 2,215.8	$ 1,847.3

In accordance with Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or obtained for Internal Use," the company capitalizes application stage development costs for significant internally developed software projects. These costs are amortized over a 5-year period. Unamortized costs were $89.5 million as of December 28, 2002 and $87.8 million as of December 29, 2001.

Impairment of long-lived assets ~ The Company groups and evaluates fixed and intangible assets excluding goodwill, for impairment at the individual store level, which is the lowest level at which individual cash flows can be identified. 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), then the intangible assets are written down first, followed by the other long-lived assets, to fair value.

Intangible assets ~ Purchased customer lists are amortized on a straight-line basis over their estimated useful lives of up to 10 years. Purchased leases are amortized on a straight-line basis over the remaining life of the lease. See Note 4 for further information on intangible assets.

Revenue recognition ~ The Company recognizes revenue from the sale of merchandise at the time the merchandise is sold. Service revenue from the Company's pharmacy benefit management segment, which is recognized using the net method under Emerging Issues Task Force ("EITF") No. 99-19 "Reporting Revenue Gross as a Principal Versus Net as an Agent," is recognized at the time the service is provided. Service revenue totaled $84.9 million in 2002 and $82.1 million in 2001. Customer returns are immaterial.

Vendor allowances ~ The total value of any up-front 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 upfront 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. The total amortization of these upfront payments was not material to the accompanying consolidated financial statements. Funds that are directly linked to advertising commitments are recognized as a reduction of advertising expense in the selling, general and administrative expenses line when the related advertising commitment is satisfied.

Store opening and closing costs ~ New store opening costs, other than capital expenditures, are charged directly to expense when incurred. When the Company closes a store, the present value of estimated unrecoverable costs, including the remaining lease obligation less estimated sublease income and the book value of abandoned property and equipment, are charged to expense.

Insurance ~ The Company is self-insured for certain losses related to general liability, workers' compensation and automobile liability. The Company obtains third party insurance coverage to limit exposure from these claims. The Company's self-insurance accruals, which include reported claims and claims incurred but not reported, are calculated using standard insurance industry actuarial assumptions and the Company's historical claims experience.

Stock-based compensation ~ The Company accounts for its stock-based compensation plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, no stock-based employee compensation cost is reflected in net earnings for options granted under those plans since they had an exercise price equal to the market value of the underlying common stock on the date of grant. See Note 7 for further information on stock-based compensation. The following table summarizes the effect on net earnings and earnings per common share if the company had applied the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation for the respective years:

In millions, except per share amounts		**2002**	**2001**	**2000**
Net earnings, as reported		**$ 716.6**	$ 413.2	$ 746.0
Add: Stock-based employee compensation expense included in reported net earnings, net of related tax effects(1)		**2.7**	3.3	3.5
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		**56.8**	59.4	31.8
Pro forma net earnings		**$ 662.5**	$ 357.1	$ 717.7
Basic EPS:	As reported	**$ 1.79**	$ 1.02	$ 1.87
	Pro forma	**1.65**	0.87	1.80
Diluted EPS:	As reported	**$ 1.75**	$ 1.00	$ 1.83
	Pro forma	**1.62**	0.86	1.76

(1) Amounts represent the after-tax compensation costs for restricted stock grants.

Advertising costs ~ Advertising costs are expensed when the related advertising takes place. Net advertising expense, which is included in selling, general and administrative expenses was $152.2 million in 2002, $126.9 million in 2001 and $90.5 million in 2000.

Interest expense, net ~ Interest expense was $54.5 million, $65.2 million and $84.1 million and interest income was $4.1 million, $4.2 million and $4.8 million in 2002, 2001 and 2000, respectively. Capitalized interest totaled $6.1 million in 2002, $10.1 million in 2001 and $14.1 million in 2000. Interest paid, net of capitalized interest, totaled $60.7 million in 2002, $75.2 million in 2001, and $98.3 million in 2000.

Nonrecurring items ~ During 2001, the Company received $50.3 million of settlement proceeds from various lawsuits against certain manufacturers of brand name prescription drugs. The Company elected to contribute $46.8 million of the settlement proceeds to the CVS Charitable Trust, Inc. The net effect of the two nonrecurring items was a $3.5 million pre-tax ($2.1 million after-tax) increase in net earnings (the "Net Litigation Gain"). The Company also recorded a $352.5 million pre-tax ($230.5 million after-tax) restructuring and asset impairment charge in connection with the 2001 strategic restructuring, which resulted from a comprehensive business review designed to streamline operations and enhance operating efficiencies. See Note 11 for further information on the 2001 strategic restructuring and resulting charge.

During 2000, the Company recorded a $19.2 million pre-tax ($11.5 million after-tax) nonrecurring gain in total operating expenses, which represented a partial payment of the Company's share of the settlement proceeds received from a class action lawsuit against certain manufacturers of brand name prescription drugs.

Income taxes ~ The Company provides for federal and state income taxes currently payable, as well as for those deferred because of timing differences between reporting income and expenses for financial statement purposes versus tax purposes. Federal and state incentive tax credits are recorded as a reduction of 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. 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 recoverable or settled. The effect of a change in tax rates is recognized as income or expense in the period of the change.

Accumulated other comprehensive loss ~ Accumulated other comprehensive loss consists of a $44.6 million minimum pension liability, net of a $27.3 million income tax benefit, as of December 28, 2002. There was no accumulated other comprehensive income or loss as of December 29, 2001.

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

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

Diluted earnings per common share is computed by dividing: (i) net earnings, after accounting for the difference between the dividends on the ESOP preference stock and common stock and after making adjustments for the incentive compensation plans by (ii) Basic Shares plus the additional shares that would be issued assuming that all dilutive stock options are exercised and the ESOP preference stock is converted into common stock. Options to purchase 20.0 million and 5.2 million shares of common stock were outstanding as of December 28, 2002 and December 29, 2001, respectively, but were not included in the calculation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

New Accounting Pronouncements ~The Company adopted, SFAS No. 142, "Goodwill and Other Intangible Assets" effective December 30, 2001. Among other things, this statement requires that goodwill no longer be amortized, but rather tested annually for impairment. Amortization expense related to goodwill was $31.4 million pre-tax ($28.2 million after tax, or $0.07 per diluted share) in 2001 and $33.7 million pre-tax ($31.9 million after-tax, or $0.08 per diluted share) in 2000. See Note 4, for further information on the impact of adopting SFAS No. 142.

In June 2001, SFAS No. 143, "Accounting for Asset Retirement Obligations" was issued. This statement applies to legal obligations associated with the retirement of certain tangible long-lived assets. As required, the Company will adopt this statement effective in 2003. The Company does not expect that the adoption of this statement will have a material impact on its consolidated results of operations or financial position.

The Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" effective December 30, 2001. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The adoption of this statement did not have a material impact on the Company's consolidated results of operations or financial position.

In April 2002, SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" was issued. This statement (i) eliminates extraordinary accounting treatment for a gain or loss reported on the extinguishment of debt, (ii) eliminates inconsistencies in the accounting required for sale-leaseback transactions and certain lease modifications with similar economic effects, and (iii) amends other existing authoritative pronouncements to make technical corrections, clarify meanings, or describe their applicability under changed conditions. As required, the Company will adopt SFAS No. 145 effective in 2003. The Company does not expect that the adoption of this statement will have a material impact on its consolidated results of operations or financial position.

In June 2002, SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" was issued. This statement nullifies existing guidance related to the accounting and reporting for costs associated with exit or disposal activities and requires that the fair value of a liability associated with an exit or disposal activity be recognized when the liability is incurred. Under previous guidance, certain exit costs were permitted to be accrued upon management's commitment to an exit plan, which is generally before an actual liability has been incurred. The provisions of this statement are required to be adopted for all exit or disposal activities initiated after December 31, 2002. This statement will not impact any liabilities recorded prior to adoption. As required, the Company will adopt SFAS No. 146 effective in 2003. The Company does not expect that the adoption of this statement will have a material impact on its consolidated results of operations or financial position.

In September 2002, the EITF Issue No. 02-16, "Accounting by a Reseller for Cash Consideration Received from a Vendor" was issued. The pronouncement addresses two issues. The first issue requires that vendor allowances be categorized as a reduction of cost of sales unless they are a reimbursement of costs incurred to sell the vendor's products, in which case, the cash consideration should be characterized as a reduction of that cost. Cash consideration received from a vendor in excess of the fair value of the benefit received should be characterized as a reduction of cost of sales. As required, the Company will adopt this portion of the pronouncement in 2003. The second issue requires that rebates or refunds payable only if the customer completes a specified cumulative level of purchases should be recognized as a reduction of cost of sales based on a systematic and rational allocation over the purchase period. This portion of the pronouncement is to be applied to all new arrangements initiated after November 21, 2002. The Company does not expect that the adoption of this pronouncement will have a material impact on its consolidated results of operations or financial position.

In November 2002, FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" was issued. This interpretation requires certain guarantees to be recorded at fair value as opposed to the current practice of recording a liability only when a loss is probable and reasonably estimable. It also requires a guarantor to make enhanced disclosures concerning guarantees, even when the likelihood of making any payments under the guarantee is remote. The initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, while the enhanced disclosure requirements are effective after December 15, 2002. The Company does not expect the adoption of this interpretation will have a impact on its consolidated financial position or results in operation.

In December 2002, SFAS No. 148, "Accounting for Stock-Based Compensation –Transition and Disclosure" was issued. This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. This statement also amends the disclosure requirements of SFAS No. 123 to require prominent disclosures about the method of accounting for stock-based compensation and the effect of the method used on reported results. As required, the Company adopted this statement effective in 2002. The adoption did not have a material impact on the Company's consolidated results of operations or financial position.

In January 2003 FASB Interpretation No. 46, “Consolidation of Variable Interest Entities” was issued. This interpretation requires a company to consolidate variable interest entities (“VIE”) if the enterprise is a primary beneficiary (holds a majority of the variable interest) of the VIE and the VIE posses specific characteristics. It also requires additional disclosures for parties involved with VIEs. The provisions of this interpretation are effective in 2003. Accordingly, the Company will adopt FASB Interpretation No. 46 effective fiscal 2003 and is evaluating the effect such adoption may have on its consolidated results of operations and financial position.

2 Leases

The Company leases most of its retail locations and five of its distribution centers under noncancelable operating leases, whose initial terms typically range from 15 to 22 years, along with options that permit renewals for additional periods. The Company also leases certain equipment and other assets under noncancelable operating leases, whose initial terms typically range from 3 to 10 years. Minimum rent is expensed on a straight-line basis over the term of the lease. In addition to minimum rental payments, certain leases require additional payments based on sales volume, as well as reimbursements for real estate taxes, maintenance and insurance.

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

In millions	2002	2001	2000
Minimum rentals	**$ 790.4**	$ 758.2	$ 684.9
Contingent rentals	**65.6**	67.6	66.3
	856.0	825.8	751.2
Less: sublease income	**(9.3)**	(9.1)	(9.2)
	$ 846.7	$ 816.7	$ 742.0

Following is a summary of the future minimum lease payments under capital and operating leases as of December 28, 2002:

In millions	Capital Leases	Operating Leases
2003	$ 0.2	$ 805.1
2004	0.2	769.2
2005	0.2	718.2
2006	0.2	654.4
2007	0.2	600.5
Thereafter	0.5	6,162.4
	1.5	$ 9,709.8
Less: imputed interest	(0.6)	
Present value of capital lease obligations	$ 0.9	

The Company finances a portion of its store development program through sale-leaseback transactions. The properties are sold at net book value and the resulting leases qualify and are accounted for as operating leases. The Company does not have any retained or contingent interests in the stores nor does the Company provide any guarantees, other than a corporate level guarantee of lease payments, in connection with the sale-leasebacks. Proceeds from sale-leaseback transactions totaled $448.8 million in 2002, $323.3 million in 2001 and $299.3 million in 2000. During 2001, the Company completed a sale-leaseback transaction involving five of its distribution centers. The distribution centers were sold at fair market value resulting in a $35.5 million gain, which was deferred and is being amortized to offset rent expense over the life of the new operating leases. The operating leases that resulted from these transactions are included in the above table.

3 Borrowing and Credit Agreements

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

In millions	December 28, 2002	December 29, 2001
Commercial paper	**$ 4.8**	$ 235.8
5.5% senior notes due 2004	**300.0**	300.0
5.625% senior notes due 2006	**300.0**	300.0
3.875% senior notes due 2007	**300.0**	—
8.52% ESOP notes due 2008(1)	**194.4**	219.9
Mortgage notes payable	**13.0**	15.9
Capital lease obligations	**0.9**	1.0
	1,113.1	1,072.6
Less:		
Short-term debt	**(4.8)**	(235.8)
Current portion of long-term debt	**(32.0)**	(26.4)
	$ 1,076.3	$ 810.4

(1) See Note 5 for further information about the Company's ESOP Plan.

In connection with our commercial paper program, the Company maintains a $650 million, five-year unsecured back-up credit facility, which expires on May 21, 2006 and a $650 million, 364-day unsecured back-up credit facility, which expires on May 19, 2003. The credit facilities allow for borrowings at various rates depending on the Company's public debt ratings and require the Company to pay a quarterly facility fee of 0.08%, regardless of usage. As of December 28, 2002, the Company had not borrowed against the credit facilities. The weighted average interest rate for short-term debt was 1.9% as of December 28, 2002 and 2.1% as of December 29, 2001.

In October 2002, the Company issued $300 million of 3.875% unsecured senior notes. The notes are due November 1, 2007, and pay interest semi-annually. The Company may redeem these notes at any time, in whole or in part, at a defined redemption price plus accrued interest. Net proceeds from the notes were used to repay outstanding commercial paper.

In March 2001, the Company issued $300 million of 5.625% unsecured senior notes. The notes are due March 15, 2006 and pay interest semi-annually. The Company may redeem these notes at any time, in whole or in part, at a defined redemption price plus accrued interest. Net proceeds from the notes were used to repay outstanding commercial paper.

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.

The aggregate maturities of long-term debt for each of the five years subsequent to December 28, 2002 are $32.0 million in 2003, $323.2 million in 2004, $27.9 million in 2005, $334.3 million in 2006, and $341.7 million in 2007.

4 Goodwill and Other Intangibles

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Effective December 30, 2001, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." As a result of the adoption, goodwill is no longer being amortized, but is subject to annual impairment reviews, or more frequent reviews if events or circumstances indicate there may be an impairment. The Company groups and evaluates goodwill for impairment at the reporting unit level annually, or whenever events or circumstances indicate there may be an impairment. When evaluating goodwill for potential impairment, the Company first compares the fair value of the reporting unit, based on estimated future discounted cash flows, with its carrying amount. If the estimated fair value of the reporting unit is less than its carrying amount, an impairment loss calculation is prepared. The impairment loss calculation compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Upon adoption, the Company performed the required implementation impairment review which resulted in no impairment of goodwill. During 2002, the Company also performed its required annual goodwill impairment test, which concluded there was no impairment of goodwill.

The following summary details the after-tax impact, on a pro forma basis, of discontinuing the amortization of goodwill on net earnings and earnings per common share ("EPS") for the respective years:

In millions	**2002**	**2001**	**2000**
Net Earnings:			
As reported	**$ 716.6**	$ 413.2	$ 746.0
Goodwill amortization	—	28.2	31.9
As adjusted	**716.6**	441.4	777.9
Basic EPS:			
As reported	**$ 1.79**	$ 1.02	$ 1.87
Goodwill amortization	—	0.07	0.08
As adjusted	**1.79**	1.09	1.95
Diluted EPS:			
As reported	**$ 1.75**	$ 1.00	$ 1.83
Goodwill amortization	—	0.07	0.08
As adjusted	**1.75**	1.07	1.91

The carrying amount of goodwill as of December 28, 2002 was $878.9 million. During 2002, gross goodwill increased $4.0 million, primarily due to store acquisitions. There was no impairment of goodwill during 2002.

Intangible assets other than goodwill are required to be separated into two categories: finite-lived and indefinite-lived. Intangible assets with finite useful lives are amortized over their estimated useful life, while intangible assets with indefinite useful lives are not amortized. The Company currently has no intangible assets with indefinite lives.

Following is a summary of the Company's amortizable intangible assets as of the respective balance sheet dates:

	December 28, 2002		**December 29, 2001**	
	Gross Carrying	**Accum**	**Gross Carrying**	**Accum**

In millions	Amount	Amort.	Amount	Amort.
Customer lists and Covenants not to compete(1)	$ **464.5**	$ **(194.1)**	$ 379.7	$ (135.1)
Favorable leases and Other(2)	**153.1**	**(72.1)**	134.7	(61.0)
	$ **617.6**	$ **(266.2)**	$ 514.4	$ (196.1)

(1) The increase in the gross carrying amount during 2002 was primarily due to the acquisition of customer lists.

(2) The increase in the gross carrying amount during 2002 was primarily due to the acquisition of leases with rents below market rates.

The amortization expense for these intangible assets totaled $53.3 million in 2002, $52.7 million in 2001 and $48.2 million in 2000. The anticipated annual amortization expense for these intangible assets is $57.2 million in 2003, $49.5 million in 2004, $43.3 million in 2005, $40.2 million in 2006, and $38.0 million in 2007.

5 Employee Stock Ownership Plan

The Company sponsors a defined contribution Employee Stock Ownership Plan (the "ESOP") that covers full-time employees with at least one year of service.

In 1989, the ESOP Trust issued and sold $357.5 million of 20-year, 8.52% notes due December 31, 2008 (the "ESOP Notes"). The proceeds from the ESOP Notes were used to purchase 6.7 million shares of Series One ESOP Convertible Preference Stock (the "ESOP Preference Stock") from the Company. Since the ESOP Notes are guaranteed by the Company, the outstanding balance is reflected as long-term debt and a corresponding guaranteed ESOP obligation is reflected in shareholders' equity in the accompanying consolidated balance sheets.

Each share of ESOP Preference Stock has a guaranteed minimum liquidation value of $53.45, is convertible into 2.314 shares of common stock and is entitled to receive an annual dividend of $3.90 per share. The ESOP Trust uses the dividends received and contributions from the Company to repay the ESOP Notes. As the ESOP Notes are repaid, ESOP Preference Stock is allocated to participants based on: (i) the ratio of each year's debt service payment to total current and future debt service payments multiplied by (ii) the number of unallocated shares of ESOP Preference Stock in the plan. As of December 28, 2002, 4.7 million shares of ESOP Preference Stock were outstanding, of which 2.5 million shares were allocated to participants and the remaining 2.2 million shares were held in the ESOP Trust for future allocations.

Annual ESOP expense recognized is equal to (i) the interest incurred on the ESOP Notes plus (ii) the higher of (a) the principal repayments or (b) the cost of the shares allocated, less (iii) the dividends paid. Similarly, the guaranteed ESOP obligation is reduced by the higher of (i) the principal payments or (ii) the cost of shares allocated.

Following is a summary of the ESOP activity for the respective years:

In millions	2002	2001	2000
ESOP expense recognized	$ **26.0**	$ 22.1	$ 18.8
Dividends paid	**18.3**	19.1	19.5
Cash contributions	**26.0**	22.1	18.8
Interest payments	**18.7**	20.5	21.9
ESOP shares allocated	**0.4**	0.4	0.3

6 Pension Plans and Other Postretirement Benefits

The Company sponsors a noncontributory defined benefit pension plan that covers certain full-time employees of Revco, D.S., Inc. who were not covered by collective bargaining agreements. On September 20, 1997, the Company suspended future benefit accruals under this plan. Benefits paid to retirees are based upon age at retirement, years of credited service and average compensation during the five year period ending September 20, 1997. The plan is funded based on actuarial calculations and applicable federal regulations.

Pursuant to various labor agreements, the Company is also required to make contributions to certain union-administered pension and health and welfare plans that totaled $12.1 million in 2002, $11.1 million in 2001and $9.3 million in 2000. The Company also has nonqualified supplemental executive retirement plans in place for certain key employees for whom it has purchased cost recovery variable life insurance.

Defined Contribution Plans

The Company sponsors a voluntary 401(k) Savings Plan that covers substantially all employees who meet plan eligibility requirements. The Company makes matching contributions consistent with the provisions of the plan. At the participant's option, account balances, including the Company's matching contribution, can be moved without restriction among various investment options, including the Company's common stock. The Company also maintains a nonqualified, unfunded Deferred Compensation Plan for certain key employees. This plan provides participants the opportunity to defer portions of their compensation and receive matching contributions that they would have otherwise received under the 401(k) Savings Plan if not for certain restrictions and limitations under the Internal Revenue Code. The Company's contributions under the above defined contribution plans totaled $29.1 million in 2002, $26.7 million in 2001and $23.0 million in 2000. The Company also sponsors an Employee Stock Ownership Plan. See Note 5 for further information about this plan.

Other Postretirement Benefits

The Company provides postretirement healthcare and life insurance benefits to certain retirees who meet eligibility requirements. The Company's funding policy is generally to pay covered expenses as they are incurred. For retiree medical plan accounting, the Company reviews external data and its own historical trends for health care costs to determine the health care cost trend rates.

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

	Defined Benefit Plans			Other Postretirement Benefits		
In millions	**2002**	**2001**	**2000**	**2002**	**2001**	**2000**
Service cost	**$ 0.8**	$ 0.5	$ 0.9	**$ —**	$ —	$ —
Interest cost on benefit obligation	**20.4**	20.9	19.8	**0.9**	0.9	1.0
Expected return on plan assets	**(19.3)**	(20.2)	(18.6)	**—**	—	—
Amortization of net (gain) loss	**0.1**	(0.3)	(0.1)	**(0.2)**	(0.2)	(0.2)
Amortization of prior service cost	**0.1**	0.1	0.1	**(0.1)**	(0.1)	(0.1)
Settlement gain	**—**	(0.2)	—	**—**	—	—
Net periodic pension cost	**$ 2.1**	$ 0.8	$ 2.1	**$ 0.6**	$ 0.6	$ 0.7
Actuarial assumptions:						
Discount rate	**6.50%**	7.50%	7.75%	**6.50%**	7.25%	7.75%
Expected return on plan assets	**8.75%**	9.25%	9.25%	**—**	—	—
Rate of compensation increase	**4.00%**	4.00%	4.00%	**—**	—	—

Following is a reconciliation of the benefit obligation, fair value of plan assets and funded status of the Company's defined benefit and other postretirement benefit plans as of the respective balance sheet dates:

	Defined Benefit Plans		Other Postretirement Benefits	
In millions	**December 28, 2002**	**December 29, 2001**	**December 28, 2002**	**December 29, 2001**
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ 283.1**	$ 267.2	**$ 12.9**	$ 13.4
Service cost	**0.8**	0.5	**—**	—
Interest cost	**20.4**	20.9	**0.9**	0.9
Actuarial loss (gain)	**34.8**	9.3	**1.0**	(0.1)
Benefits paid	**(16.3)**	(14.8)	**(1.0)**	(1.3)
Benefit obligation at end of year	**$ 322.8**	$ 283.1	**$ 13.8**	$ 12.9
Change in plan assets:				
Fair value at beginning of year	**$ 218.4**	$ 234.7	**$ —**	$ —
Actual return on plan assets	**(24.1)**	(16.0)	**—**	—
Company contributions	**8.8**	14.5	**1.0**	1.3
Benefits paid	**(16.3)**	(14.8)	**(1.0)**	(1.3)
Fair value at end of year(1)	**$ 186.8**	$ 218.4	**$ —**	$ —
Funded status:				
Funded status	**$ (136.0)**	$ (64.7)	**$ (13.8)**	$ (12.9)
Unrecognized prior service cost	**0.7**	0.9	**(0.6)**	(0.7)
Unrecognized loss (gain)	**74.7**	(3.5)	**0.9**	(0.3)
Net liability recognized	**$ (60.6)**	$ (67.3)	**$ (13.5)**	$ (13.9)
Amounts recognized in the consolidated balance sheet:				
Accrued benefit liability	**$ (132.5)**	$ (67.3)	**$ (13.5)**	$ (13.9)
Minimum pension liability	**71.9**	—	**—**	—
Net liability recognized	**$ (60.6)**	$ (67.3)	**$ (13.5)**	$ (13.9)

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

$17.1 million and $16.4 million of the accrued benefit liability was included in accrued expenses, while the remaining amount was recorded in other long-term liabilities, as of December 28, 2002 and December 29, 2001, respectively. The Company recorded a minimum pension liability of $71.9 million as of December 28, 2002, as required by SFAS No. 87. A minimum pension liability is required when the accumulated benefit obligation exceeds the combined fair value of the underlying plan assets and accrued pension costs. The minimum pension liability adjustment is reflected in other long-term liabilities, long-term deferred income taxes, and accumulated other comprehensive loss, included in shareholders' equity, in the consolidated balance sheet.

For measurement purposes, future healthcare costs are assumed to increase at an annual rate of 10.0%, decreasing to an annual growth rate of 5.0% in 2008 and thereafter. A one percent change in the assumed healthcare cost trend rate would change the accumulated postretirement benefit obligation by $0.7 million and the total service and interest costs by $0.1 million.

7 Stock Incentive Plans

The 1997 Incentive Compensation Plan provides for the granting of up to 42.9 million shares of common stock in the form of stock options and other awards to selected officers and employees of the Company. All grants under the plan are awarded at fair market value on the date of grant. Generally, options become exercisable over a four-year period from the grant date and expire ten years after the date of grant. As of December 28, 2002, there were 21.3 million shares available for future grants. The 1997 Incentive Compensation plans allows for up to 3.6 million restricted shares to be issued. The Company granted 26,000, 76,000 and 952,000 shares of restricted stock with a weighted average per share grant date fair value of $31.20, $59.98 and $30.58, in 2002, 2001, and 2000, respectively. The fair value of the restricted shares is expensed over the period during which the restrictions lapse. Compensation costs for restricted shares totaled $4.3 million in 2002, $5.4 million in 2001 and $5.9 million in 2000.

The 1996 Directors Stock Plan provides for the granting of up to 346,000 shares of common stock to the Company's nonemployee directors. The plan allows the nonemployee directors to elect to receive shares of common stock or stock options in lieu of cash compensation. As of December 28, 2002, there were 37,000 shares available for future grants under the plan.

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

	2002		**2001**		**2000**	
Shares in thousands	**Shares**	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**
Outstanding at beginning of year	**17,627**	**$ 39.48**	14,647	$ 31.11	12,965	$ 27.38
Granted	**8,022**	**29.89**	5,381	59.55	6,964	33.84
Exercised	**(517)**	**18.31**	(1,084)	23.13	(3,511)	19.55
Canceled	**(1,742)**	**41.66**	(1,317)	43.14	(1,771)	37.37
Outstanding at end of year	**23,390**	**36.42**	17,627	39.48	14,647	31.11
Exercisable at end of year	**8,048**	**$ 30.21**	4,609	$ 25.09	4,049	$ 18.85

Following is a summary of the stock options outstanding and exercisable as of December 28, 2002:

Shares in thousands	**Options Outstanding**			**Options Exercisable**	
Range of Exercise Prices	**Number Outstanding**	**Weighted Average Remaining Life**	**Weighted Average Exercise Price**	**Number Exercisable**	**Weighted Average Exercise Price**
$ 1.81 to $15.00	275	2.8	$ 13.10	275	$ 13.10
15.01 to 25.00	2,784	3.0	18.61	2,782	18.60
25.01 to 30.00	7,646	8.8	29.83	100	29.27
30.01 to 35.00	3,766	7.1	31.92	1,875	31.91
35.01 to 50.00	4,586	5.6	40.63	2,952	41.08
50.01 to 61.23	4,333	8.0	60.45	64	58.99
Total	23,390	7.0	$ 36.42	8,048	$ 30.21

The Company applies APB Opinion No. 25 to account for its stock incentive plans. Accordingly, no compensation cost has been recognized for stock options granted. Had compensation cost been recognized based on the fair value of stock options granted consistent with SFAS No. 123, net earnings and net earnings per common share ("EPS") would approximate the pro forma amounts shown below:

In millions, except per share amounts		**2002**	**2001**	**2000**
Net earnings:	As reported	**$ 716.6**	$ 413.2	$ 746.0
	Pro forma	**662.5**	357.1	717.7
Basic EPS:	As reported	**$ 1.79**	$ 1.02	$ 1.87
	Pro forma	**1.65**	0.87	1.80
Diluted EPS:	As reported	**$ 1.75**	$ 1.00	$ 1.83
	Pro forma	**1.62**	0.86	1.76

The per share weighted-average fair value of stock options was $10.46 in 2002, $25.12 in 2001, and $13.01 in 2000. The fair value of each stock option grant was estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	2002	**2001**	**2000**
Dividend yield	**0.96%**	0.77%	0.40%
Expected volatility	**29.50%**	29.79%	27.92%
Risk-free interest rate	**4.0%**	5.00%	6.25%
Expected life	**7.0**	7.0	6.5

The 1999 Employee Stock Purchase Plan provides for the purchase of up to 7.4 million shares of common stock. Under the plan, eligible employees may purchase common stock at the end of each six-month offering period, at a purchase price equal to 85% of the lower of the fair market value on the first day or the last day of the offering period. As of December 28, 2002, 2.8 million shares of common stock have been issued since inception of the plan.

8 Income Taxes

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

In millions		2002	2001	2000
Current:	Federal	**$ 347.1**	$ 360.3	$ 397.2
	State	**57.0**	53.9	73.9
		404.1	414.2	471.1
Deferred:	Federal	**32.0**	(111.8)	21.9
	State	**3.1**	(6.0)	4.4
		35.1	(117.8)	26.3
Total		**$ 439.2**	$ 296.4	$ 497.4

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

	2002	2001	2000
Statutory income tax rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal tax benefit	**3.4**	3.4	4.1
Goodwill and other(1)	**(0.4)**	1.0	0.9
Effective tax rate before Restructuring Charge	**38.0**	39.4	40.0
Restructuring Charge	—	2.4	—
Effective tax rate	**38.0%**	41.8%	40.0%

(1) Decrease in goodwill and other was primarily due to the elimination of goodwill amortization during 2002 that was not deductible for income tax purposes.

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

In millions	December 28, 2002	December 29, 2001
Deferred tax assets:		
Restructuring Charge	**$ 73.1**	$ 122.0
Retirement benefits	**53.9**	24.1
Employee benefits	**44.1**	28.1
Lease and rents	**43.9**	49.1
Inventory	**36.3**	9.8
Amortization method	**29.9**	31.1
Allowance for bad debt	**27.1**	19.5
Other	**64.9**	82.6
Total deferred tax assets	**373.2**	366.3
Deferred tax liabilities:		
Accelerated depreciation	**(150.2)**	(115.6)
Total deferred tax liabilities	**(150.2)**	(115.6)
Net deferred tax assets	**$ 223.0**	$ 250.7

Income taxes paid were $319.5 million, $397.0 million and $342.5 million for 2002, 2001 and 2000, respectively. The Company believes it is more likely than not that the deferred tax assets included in the above table will be realized during future periods in which the Company generates taxable earnings.

9 Commitments & Contingencies

Between 1991 and 1997, the Company sold a number of former divisions, including Bob's Stores, Linens 'n Things, Inc., Marshalls, Kay-Bee Toys, Wilsons, This End Up and Footstar, Inc. Typically, when a former division leased a store, the Company provided a corporate level guarantee of the lease payments. When the divisions were sold, the Company's guarantees remained in place, although each purchaser indemnified the Company for the lease guarantee. If any of the purchasers were to become insolvent, the Company could be required to assume the lease obligation. As of December 28, 2002, we had guarantees remaining on approximately 875 stores with leases extending through 2018. Assuming that each respective purchaser became insolvent, an event that the Company believes to be highly unlikely, management estimates that it could settle these obligations for approximately $660 million as of December 28, 2002. In the opinion of management, the ultimate disposition of these guarantees will not have a material adverse effect on the Company's consolidated financial condition, results of operations or future cash flows.

As of December 28, 2002, the Company had outstanding commitments to purchase $215 million of merchandise inventory for use in the normal course of business. The Company currently expects to satisfy these purchase commitments by 2008.

Beginning in August 2001, a total of nine actions were filed against the Company in the United States District Court for the District of Massachusetts asserting claims under the federal securities laws. The actions were subsequently consolidated under the caption In re CVS Corporation Securities Litigation , No. 01-CV-11464 (D. Mass.) and a consolidated and amended complaint was filed on April 8, 2002. The consolidated amended complaint names as defendants the Company, its chief executive officer and its chief financial officer and asserts claims for alleged securities fraud under sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 there under on behalf of a purported class of persons who purchased shares of the Company's common stock between February 6, 2001 and October 30, 2001. On June 7, 2002, all defendants moved to dismiss the consolidated amended complaint. This motion was subsequently denied by the court on December 18, 2002. The Company believes the consolidated action is entirely without merit and intends to defend against it vigorously.

The Company is also a party to other litigation arising in the normal course of its business, none of which is expected to be material to the Company.

10 Business Segments

The Company currently operates two business segments, Retail Pharmacy and Pharmacy Benefit Management ("PBM").

The operating segments are segments of the Company for which separate financial information is available and for which operating results are evaluated regularly by executive management in deciding how to allocate resources and in assessing performance.

As of December 28, 2002, the Retail Pharmacy segment included 4,054 retail drugstores and the Company's online retail website, CVS.com. The retail drugstores are located in 27 states and the District of Columbia and operate under the CVS/pharmacy name. The Retail Pharmacy segment is the Company's only reportable segment.

The PBM segment provides a full range of prescription benefit management services to managed care providers and other organizations. These services include plan design and administration, formulary management, mail order pharmacy services, claims processing and generic substitution. The PBM segment also includes the Company's specialty pharmacy business, which focuses on supporting individuals that require complex and expensive drug therapies. The PBM segment operates under the PharmaCare Management Services name, while the specialty pharmacy mail order facilities and 33 retail pharmacies, located in 19 states and the District of Columbia, operate under the CVS ProCare name.

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

Following is a reconciliation of the significant components of the Company's net sales for the respective years:

	2002	**2001**	**2000**
Pharmacy	**67.6%**	66.1%	62.7%
Front store	**32.4**	33.9	37.3
	100.0%	100.0%	100.0%

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

In millions	**Retail Pharmacy Segment**	**PBM Segment**	**Other Adjustments(1)**	**Consolidated Totals**
2002:				
Net sales	**$ 23,060.2**	**$ 1,121.3**	**$ —**	**$ 24,181.5**
Operating profit	**1,134.6**	**71.6**	**—**	**1,206.2**
Depreciation and amortization	**297.6**	**12.7**	**—**	**310.3**
Total assets	**9,132.1**	**513.2**	**—**	**9,645.3**
Goodwill, net	**690.4**	**188.5**	**—**	**878.9**
Additions to property and equipment	**1,104.5**	**4.3**	**—**	**1,108.8**
2001:				
Net sales	$ 21,328.7	$ 912.7	$ —	$ 22,241.4
Operating profit	1,079.9	39.7	(349.0)	770.6
Depreciation and amortization	301.7	19.1	—	320.8
Total assets	8,131.8	504.5	—	8,636.3
Goodwill, net	688.7	186.2	—	874.9
Additions to property and equipment	705.3	8.3	—	713.6
2000:				
Net sales	$ 19,382.1	$ 705.4	$ —	$ 20,087.5
Operating profit	1,268.5	35.0	19.2	1,322.7
Depreciation and amortization	289.4	7.2	—	296.6
Total assets	7,514.4	435.1	—	7,949.5
Goodwill, net	685.3	141.7	—	827.0
Additions to property and equipment	687.1	8.2	—	695.3

[1] In 2001, other adjustments relate to the $352.5 million Restructuring Charge and the $3.5 million Net Litigation Gain. See Note 11 for further information on the Restructuring Charge and Note 1 for further information on the Net Litigation Gain. In 2000, other adjustments relate to the settlement proceeds received from a class action lawsuit against certain manufacturers of brand name prescription drugs. Nonrecurring charges and gains are not considered when management assesses the stand-alone performance of the Company's business segments.

11 Restructuring & Asset Impairment Charge

During the fourth quarter of 2001, management approved a strategic restructuring, which resulted from a comprehensive business review designed to streamline operations and enhance operating efficiencies.

Following is a summary of the specific initiatives contained in the 2001 strategic restructuring:

1. 229 CVS/pharmacy and CVS ProCare store locations (the "Stores") would be closed by no later than March 2002. 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. As of March 31, 2002, all of the Stores had been closed.

2. The Henderson, North Carolina distribution center (the "D.C.") would be closed and its operations would be transferred to the Company's remaining distribution centers by no later than May 2002. Since this location was owned, management planned to sell the property upon closure. The D.C. was closed in April 2002 and sold in May 2002.

3. The Columbus, Ohio mail order facility (the "Mail Facility") would be closed and its operations would be transferred to the Company's Pittsburgh, Pennsylvania mail order facility by no later than April 2002. Since this location was a leased facility, management planned to either return the premises to the landlord at the conclusion of the lease or negotiate an early termination of the contractual obligation. The Mail Facility was closed in March 2002.

4. Two satellite office facilities (the "Satellite Facilities") would be closed and their operations would be consolidated into the Company's Woonsocket, Rhode Island corporate headquarters by no later than December 2001. Since these locations were leased facilities, management planned to either return the premises to the landlords at the conclusion of the leases or negotiate an early termination of the contractual obligations. The Satellite Facilities were closed in December 2001.

5. Approximately 1,500 managerial, administrative and store employees in the Company's Woonsocket, Rhode Island corporate headquarters; Columbus Mail Facility; Henderson D.C. and the Stores would be terminated. As of April 30, 2002, all of these employees had been terminated.

In accordance with, 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)," SFAS No. 121, and Staff Accounting Bulletin No. 100, "Restructuring and Impairment Charges," the Company recorded a $346.8 million pre-tax charge ($226.9 million after-tax) to operating expenses during the fourth quarter of 2001 for restructuring and asset impairment costs associated with the Action Plan. In accordance with Accounting Research Bulletin No. 43, "Restatement and Revision of Accounting Research Bulletins," the Company also recorded a $5.7 million pre-tax charge ($3.6 million after-tax) to cost of goods sold during the fourth quarter of 2001 to reflect the markdown of certain inventory contained in the Stores to its net realizable value. In total, the restructuring and asset impairment charge was $352.5 million pre-tax ($230.5 million after-tax), or $0.56 per diluted share in 2001 (the "Restructuring Charge"). The aggregate impact of the 229 stores on the Company's consolidated financial statements for the year ended December 29, 2001, totaled $585.3 million in net sales and $13.7 million in operating losses, which included depreciation and amortization of $12.4 million, incremental markdowns incurred in connection with liquidating inventory and incremental payroll and other store-related costs incurred in connection with closing and/or preparing the 229 stores for closing. Whenever possible, the company attempts to transfer the customer base of its closed stores to adjacent CVS store locations. The Company's success in retaining customers and the related impact on the above revenue and operating income or loss, however, cannot be precisely calculated.

Following is a summary of the significant components of the Restructuring Charge:

In millions	
Noncancelable lease obligations	$ 227.4
Asset write-offs	105.6
Employee severance and benefits	19.5
Total(1)	$ 352.5

(1) The Restructuring Charge is comprised of $5.7 million recorded in cost of goods sold and $346.8 million recorded in selling, general and administrative expenses.

The Restructuring Charge will require total cash payments of $246.9 million, which primarily consist of noncancelable lease obligations extending through 2024. As of December 28, 2002, the remaining future cash payments total $192.1 million.

Noncancelable lease obligations included $227.4 million for the estimated continuing lease obligations of the Stores, the Mail Facility and the Satellite Facilities. 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.

Asset write-offs included $59.0 million for fixed asset write-offs, $40.9 million for intangible asset write-offs and $5.7 million for the markdown of certain inventory to its net realizable value. The fixed asset and intangible asset write-offs relate to the Stores, the Mail Facility and the Satellite Facilities.

Management's decision to close the above locations was considered to be an event or change in circumstances as defined in SFAS No. 121. Since management intended to use the Stores and the Mail Facility 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 location level, which is the lowest level at which individual cash flows can be identified. The analysis first compared the carrying amount of the location's assets to the location'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 location's assets, an impairment loss calculation was prepared. The impairment loss calculation compared the carrying value of the location's assets to the location's estimated future cash flows (discounted and with interest charges). Since these locations will continue to be operated until closed, any remaining net book value after the impairment write down was depreciated over their revised useful lives. Impairment of the Satellite Facilities was measured using the "Assets to Be Disposed Of" provisions of SFAS No. 121, since management intended to vacate the locations immediately. The entire $3.5 million net book value of the Satellite Facilities was considered to be impaired since management intended to discard the assets located in the facilities. The inventory markdown resulted from the liquidation of certain front store inventory contained in the Stores. Since management intended to liquidate the inventory below its cost, an adjustment was made to reduce the inventory's cost to its net realizable value.

Employee severance and benefits included $19.5 million for severance pay, healthcare continuation costs and outplacement service costs related to approximately 1,500 managerial, administrative and store employees in the Company's Woonsocket, Rhode Island corporate headquarters; Columbus, Mail Facility; Henderson D.C. and the Stores. As of April 30, 2002, all these employees had been terminated.

Following is a reconciliation of the beginning and ending liability balances as of December 28, 2002:

In millions	Noncancelable Lease Obligations(1)	Asset Write-Offs	Employee Severance & Benefits	Total
Restructuring charge	$ 227.4	$ 105.6	$ 19.5	$ 352.5
Utilized – Cash	—	—	(2.1)	(2.1)
Utilized – Non-cash	—	(105.6)	—	(105.6)
Balance at 12/29/01	$ 227.4	$ —	$ 17.4	$ 244.8
Utilized – Cash	(39.6)	—	(13.1)	(52.7)
Balance at 12/28/02(2)	$ 187.8	$ —	$ 4.3	$ 192.1

(1) Noncancelable lease obligations extend through 2024.

(2) The Company believes that the reserve balances as of December 28, 2002 are adequate to cover the remaining liabilities associated with the Restructuring Charge.

12 Reconciliation of Earnings Per Common Share

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

In millions, except per share amounts	2002	2001	2000
Numerator for earnings per common share calculation:			
Net earnings	**$ 716.6**	$ 413.2	$ 746.0
Preference dividends, net of income tax benefit	**(14.8)**	(14.7)	(14.6)
Net earnings available to common shareholders, basic	**$ 701.8**	$ 398.5	$ 731.4
Net earnings	**$ 716.6**	$ 413.2	$ 746.0
Dilutive earnings adjustment	**(6.7)**	(4.8)	(0.7)
Net earnings available to common shareholders, diluted	**$ 709.9**	$ 408.4	$ 745.3
Denominator for earnings per common share calculation:			
Weighted average common shares, basic	**392.3**	392.2	391.0
Effect of dilutive securities:			
Preference stock	**10.7**	10.8	10.8
Stock options	**2.3**	5.3	6.2
Weighted average common shares, diluted	**405.3**	408.3	408.0
Basic earnings per common share:			
Net earnings	**$ 1.79**	$ 1.02	$ 1.87
Diluted earnings per common share:			
Net earnings	**$ 1.75**	$ 1.00	$ 1.83

13 Quarterly Financial Information (Unaudited)

Dollars in millions, except per share amounts	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
2002:					
Net sales	**$ 5,970.7**	**$ 5,989.5**	**$ 5,876.4**	**$ 6,344.9**	**$ 24,181.5**
Gross margin	**1,493.7**	**1,481.1**	**1,481.3**	**1,612.7**	**6,068.8**
Operating profit	**296.5**	**298.3**	**276.5**	**334.9**	**1,206.2**
Net earnings	**175.7**	**176.4**	**164.4**	**200.1**	**716.6**
Net earnings per common share, basic	**0.44**	**0.44**	**0.41**	**0.50**	**1.79**

Net earnings per common share, diluted	**0.43**	**0.43**	**0.40**	**0.49**	**1.75**
Dividends per common share	**0.0575**	**0.0575**	**0.0575**	**0.0575**	**0.2300**
Stock price: (New York Stock Exchange)					
High	**35.40**	**35.58**	**31.30**	**28.70**	**35.58**
Low	**25.80**	**30.60**	**24.42**	**23.99**	**23.99**
Registered shareholders at year-end					**12,000**
2001:					
Net sales	$ 5,385.9	$ 5,494.2	$ 5,410.8	$ 5,950.5	$ 22,241.4
Gross margin	1,453.4	1,458.4	1,371.8	1,407.4	5,691.0
Operating profit (loss)	381.4	342.0	220.2	(173.0)	770.6
Net earnings (loss)	221.7	198.0	123.7	(130.2)	413.2
Net earnings (loss) per common share, basic	0.56	0.49	0.31	(0.34)	1.02
Net earnings (loss) per common share, diluted(1)	0.54	0.48	0.30	(0.34)	1.00
Dividends per common share	0.0575	0.0575	0.0575	0.0575	0.2300
Stock price: (New York Stock Exchange)					
High	62.10	59.75	40.48	34.55	62.10
Low	51.00	36.51	31.40	23.28	23.28

(1) In accordance with SFAS No. 128, "Earnings per Share", the assumed conversion of ESOP preference stock and outstanding stock options were excluded from the diluted earnings per common share calculation in the fourth quarter of 2001 since their effect would be antidilutive. This results in diluted earnings per common share equal to basic earnings per common share for the fourth quarter of 2001.

Five-Year Financial Summary

In millions, except per share amounts	2002 (52 weeks)	2001 (52 weeks)	2000 (52 weeks)	1999 (53 weeks)	1998 (52 weeks)
Statement of operations data:					
Net sales	**$ 24,181.5**	$ 22,241.4	$ 20,087.5	$ 18,098.3	$ 15,273.6
Gross margin(1)	**6,068.8**	5,691.0	5,361.7	4,861.4	4,129.2
Selling, general and administrative expenses	**4,552.3**	4,256.3	3,761.6	3,448.0	2,949.0
Depreciation and amortization(2)	**310.3**	320.8	296.6	277.9	249.7
Merger, restructuring and other nonrecurring charges and (gains)	**—**	343.3	(19.2)	—	178.6
Total operating expenses	**4,862.6**	4,920.4	4,039.0	3,725.9	3,377.3
Operating profit(3)	**1,206.2**	770.6	1,322.7	1,135.5	751.9
Interest expense, net	**50.4**	61.0	79.3	59.1	60.9
Income tax provision	**439.2**	296.4	497.4	441.3	306.5
Net earnings(4)	**$ 716.6**	$ 413.2	$ 746.0	$ 635.1	$ 384.5
Per common share data:					
Net earnings:(4)					
Basic	**$ 1.79**	$ 1.02	$ 1.87	$ 1.59	$ 0.96
Diluted	**1.75**	1.00	1.83	1.55	0.95
Cash dividends per common share	**0.230**	0.230	0.230	0.230	0.225
Balance sheet and other data:					
Total assets	**$ 9,645.3**	$ 8,636.3	$ 7,949.5	$ 7,275.4	$ 6,686.2
Long-term debt	**1,076.3**	810.4	536.8	558.5	275.7
Total shareholders' equity	**5,197.0**	4,566.9	4,304.6	3,679.7	3,110.6
Number of stores (at end of period)	**4,087**	4,191	4,133	4,098	4,122

(1) Gross margin includes the pre-tax effect of the following nonrecurring charges: (i) in 2001, $5.7 million ($3.6 million after-tax) related to the markdown of certain inventory contained in the stores closing as part of the strategic restructuring, discussed in Note 11 to the consolidated financial statements, to its net realizable value and (ii) in 1998, $10.0 million ($5.9 million after-tax) related to the markdown of noncompatible Arbor Drugs, Inc. merchandise.

(2) As a result of adopting SFAS No. 142 "Goodwill and Other Intangible Assets" at the beginning of 2002, the Company no longer amortizes goodwill and other indefinite-lived intangible assets. Goodwill amortization totaled $31.4 million pre-tax ($28.2 million after-tax) in 2001, $33.7 million pre-tax ($31.9 million after-tax) in 2000, $38.9 million pre-tax ($38.1 million after-tax) in 1999 and $37.4 million pre-tax ($37.2 million after-tax) in 1998.

(3) Operating profit includes the pre-tax effect of the charges discussed in Note (1) above and the following merger, restructuring, and other nonrecurring charges and gains: (i) in 2001, $346.8 million ($226.9 million after-tax) related to restructuring and asset impairment costs associated with the strategic restructuring and the $3.5 million ($2.1 million after-tax) net nonrecurring gain resulting from the net effect of the $50.3 million of settlement proceeds received from various lawsuits against certain manufacturers of brand name prescription drugs and the Company's contribution of $46.8 million of

these settlement proceeds to the CVS Charitable Trust, Inc. to fund future charitable giving, (ii) in 2000, $19.2 million ($11.5 million after-tax) nonrecurring gain representing partial payment of our share of the settlement proceeds from a class action lawsuit against certain manufacturers of brand name prescription drugs, and (iii) in 1998, $147.3 million ($101.3 million after-tax) charge related to the merger of CVS and Arbor and $31.3 million ($18.4 million after-tax) of nonrecurring costs incurred in connection with eliminating Arbor's information technology systems and Revco's noncompatible store merchandise fixtures.

(4) Net earnings and net earnings per common share include the after-tax effect of the charges and gains discussed in Notes (1) and (3) above.

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

As of December 28, 2002, CVS Corporation had the following significant subsidiaries:

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

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

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

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

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

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

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

(7) ProCare Pharmacy, Inc. is a 92% owned subsidiary of Nashua Hollis CVS, Inc. and operates apothecaries focused on specialty pharmaceuticals, all of which apothecaries are in the United States. It is the direct parent of ProCare Pharmacy Direct, Inc., a mail order specialty pharmacy corporation, and several store corporations and limited liability companies that operate specialty pharmacies.

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

The Board of Directors and Shareholders
of CVS Corporation:

We consent to incorporation by reference in the Registration Statements Numbers 333-49407, 33-40251, 333-34927, 333-28043, 33-17181, 2-97913, 2-77397, 2-53766, 333-91253 and 333-63664 on Form S-8 and 333-52055 on Form S-3 and 333-78253 on Form S-4 of CVS Corporation of our report dated January 31, 2003, with respect to the consolidated balance sheets of CVS Corporation and subsidiaries as of December 28, 2002 and December 29, 2001, and the related consolidated statement of operations, shareholders' equity and cash flows for the fifty-two week periods ended December 28, 2002, December 29, 2001 and December 30, 2000 and the related financial statement schedule, which report appears in the December 28, 2002 Annual Report on Form 10-K of CVS Corporation.

Our report refers to the adoption of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets,* in 2002.

/s/ KPMG LLP
KPMG LLP

Providence, Rhode Island
March 17, 2003

EXHIBIT 99.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of CVS Corporation, (the "Company") on Form 10-K for the period ended December 28, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas M. Ryan, Chairman of the Board, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of CVS Corporation.

March 18, 2003

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

EXHIBIT 99.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of CVS Corporation, (the "Company") on Form 10-K for the period ended December 28, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David B. Rickard, Executive Vice President, Chief Financial Officer and Chief Administrative Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of CVS Corporation.

March 18, 2003

/s/ David B. Rickard
David B. Rickard
Executive Vice President,
Chief Financial Officer and
Chief Administrative Officer