Income taxes paid were $354.5 million, $102.6 million and $258.9 million for fiscal 1999, 1998 and 1997, respectively.

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

Supplemental Information

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

In millions	**January 1, 2000**	December 26, 1998
Land	**$ 89.6**	$ 91.0
Buildings and improvements	**467.8**	296.8
Fixtures and equipment	**1,326.5**	1,171.8
Leasehold improvements	**518.5**	477.4
Capital leases	**2.2**	2.8
	2,404.6	2,039.8
Accumulated depreciation and amortization	**(803.6)**	(688.6)
	$ 1,601.0	$ 1,351.2

Following is a summary of the Company's noncash financing activities for the respective fiscal years:

In millions	**1999**	1998	1997
Fair value of assets acquired	**$ —**	$ 62.2	$ —
Cash paid	**—**	62.2	—
Liabilities assumed	**$ —**	$ —	$ —
Equity securities or notes received from sale of business	**$ —**	$ —	$ 52.0

Interest expense was $66.1 million, $69.7 million and $59.1 million and interest income was $7.0 million, $8.8 million and $15.0 million in fiscal 1999, 1998 and 1997, respectively. Interest paid totaled $69.0 million, $70.7 million and $58.4 million in fiscal 1999, 1998 and 1997, respectively.

Commitments & Contingencies

In connection with certain business dispositions completed between 1991 and 1997, the Company continues to guarantee lease obligations for approximately 1,400 former stores. The Company is indemnified for these obligations by the respective purchasers. Assuming that each respective purchaser became insolvent, an event which the Company believes to be highly unlikely, management estimates that it could settle these obligations for approximately $1.0 billion as of January 1, 2000.

In the opinion of management, the ultimate disposition of these guarantees will not have a material adverse effect on the Company's consolidated financial condition, results of operations or future cash flows.

As of January 1, 2000, the Company had outstanding commitments to purchase $283.8 million of merchandise inventory for use in the normal course of business. The Company currently expects to satisfy these purchase commitments by 2002.

The Company is also a defendant in various lawsuits arising in the ordinary course of business. In the opinion of management and the Company's outside counsel, the ultimate disposition of these lawsuits, exclusive of potential insurance recoveries, will not have a material adverse effect on the Company's consolidated financial condition, results of operations or future cash flows.

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Business Segments

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

The Retail Pharmacy segment, which includes 4,086 retail drugstores located in 24 states and the District of Columbia, operates under the CVS/pharmacy name. The Retail Pharmacy segment is the Company's only reportable segment.

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

The Specialty Pharmacy segment, which includes a mail order facility and 12 retail pharmacies located in 9 states and the District of Columbia, operates under the CVS ProCare name. The Specialty Pharmacy segment focuses on supporting individuals who require complex and expensive drug therapies.

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

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

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

	1999	1998	1997
Pharmacy	**58.7%**	57.6%	54.7%
Front store	**41.3**	42.4	45.3
Total net sales	**100.0%**	100.0%	100.0%

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

In millions	Retail Pharmacy Segment	All Other Segments	Intersegment Eliminations[1]	Other Adjustments[2]	Consolidated Totals
1999:					
Net sales	**$ 17,625.7**	**$ 888.4**	**$ (415.8)**	**$ —**	**$ 18,098.3**
Operating profit	**1,120.4**	**15.1**	**—**	**—**	**1,135.5**
Depreciation and amortization	**274.6**	**3.3**	**—**	**—**	**277.9**
Total assets	**7,146.1**	**173.4**	**(44.1)**	**—**	**7,275.4**
Capital expenditures	**477.1**	**16.4**	**—**	**—**	**493.5**
1998:					
Net sales	$ 15,081.1	$ 488.4	$ (295.9)	$ —	$ 15,273.6
Operating profit	927.8	12.7	—	(188.6)	751.9
Depreciation and amortization	248.6	1.1	—	—	249.7
Total assets	6,602.1	119.6	(35.5)	—	6,686.2
Capital expenditures	498.0	4.3	—	—	502.3
1997:					
Net sales	$ 13,649.4	$ 320.7	$ (220.5)	$ —	$ 13,749.6
Operating profit	771.2	7.9	—	(497.4)	281.7
Depreciation and amortization	237.8	0.4	—	—	238.2
Total assets	5,878.9	60.6	(19.0)	—	5,920.5
Capital expenditures	339.6	2.0	—	—	341.6

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

(2) Other adjustments relate to the merger, restructuring and other nonrecurring charges. These charges are not considered when management assesses the stand-alone performance of the Company's business segments.

Reconciliation of Earnings Per Common Share

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

In millions, except per share amounts	**1999**	*Fiscal Year* 1998	1997
Numerator for earnings per common share calculation:			
Earnings from continuing operations before extraordinary item	**$ 635.1**	$ 384.5	$ 88.4
Preference dividends, net of tax benefit	**(14.7)**	(13.6)	(13.7)
Earnings from continuing operations available to common shareholders, basic	**$ 620.4**	$ 370.9	$ 74.7
Earnings from discontinued operations	**—**	—	17.5
Extraordinary loss	**—**	—	(17.1)
Net earnings available to common shareholders, basic	**$ 620.4**	$ 370.9	$ 75.1
Earnings from continuing operations before extraordinary item	**$ 635.1**	$ 384.5	$ 88.4
Effect of dilutive securities:			
Preference dividends, net of tax benefit	**—**	—	(13.7)
Dilutive earnings adjustments	**—**	(0.8)	—
Earnings from continuing operations available to common shareholders, diluted	**$ 635.1**	$ 383.7	$ 74.7
Earnings from discontinued operations	**—**	—	17.5
Extraordinary loss	**—**	—	(17.1)
Net earnings available to common shareholders, diluted	**$ 635.1**	$ 383.7	$ 75.1
Denominator for earnings per common share calculation:			
Weighted average common shares, basic	**391.3**	387.1	377.2
Effect of dilutive securities:			
Preference stock	**10.7**	10.5	—
Stock options	**6.9**	7.6	7.9
Weighted average common shares, diluted	**408.9**	405.2	385.1
Basic earnings per common share:			
Earnings from continuing operations before extraordinary item	**$ 1.59**	$ 0.96	$ 0.20
Earnings from discontinued operations	**—**	—	0.05
Extraordinary item, net of tax benefit	**—**	—	(0.05)
Net earnings	**$ 1.59**	$ 0.96	$ 0.20
Diluted earnings per common share:			
Earnings from continuing operations before extraordinary item	**$ 1.55**	$ 0.95	$ 0.19
Earnings from discontinued operations	**—**	—	0.05
Extraordinary item, net of tax benefit	**—**	—	(0.05)
Net earnings	**$ 1.55**	$ 0.95	$ 0.19

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Quarterly Financial Information (Unaudited)

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

Dollars in millions, except per share amounts	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
Fiscal 1999:					
Net sales	**$ 4,240.5**	**$ 4,362.4**	**$ 4,311.8**	**$ 5,183.6**	**$ 18,098.3**
Gross margin	**1,169.4**	**1,190.4**	**1,141.1**	**1,360.5**	**4,861.4**
Operating profit	**293.2**	**290.2**	**219.7**	**332.4**	**1,135.5**
Net earnings	**164.6**	**162.6**	**121.6**	**186.3**	**635.1**
Net earnings per common share, basic	**0.41**	**0.41**	**0.30**	**0.47**	**1.59**
Net earnings per common share, diluted	**0.40**	**0.40**	**0.30**	**0.46**	**1.55**
Dividends per common share	**0.0575**	**0.0575**	**0.0575**	**0.0575**	**0.2300**
Stock price: (New York Stock Exchange)					
High	**56.44**	**52.06**	**53.00**	**45.75**	**56.44**
Low	**45.50**	**40.50**	**37.75**	**30.31**	**30.31**
Registered shareholders at year-end					**11,200**
Fiscal 1998:					
Net sales	$ 3,601.5	$ 3,755.9	$ 3,725.1	$ 4,191.1	$ 15,273.6
Gross margin	1,006.9	1,020.5	995.3	1,106.5	4,129.2
Operating profit	233.8	71.9	181.1	265.1	751.9
Net earnings	129.0	14.6	96.2	144.7	384.5
Net earnings per common share, basic	0.33	0.03	0.24	0.36	0.96
Net earnings per common share, diluted	0.32	0.03	0.23	0.36	0.95
Dividends per common share	0.0550	0.0550	0.0575	0.0575	0.2250
Stock price: (New York Stock Exchange)					
High	37.44	39.63	46.50	55.69	55.69
Low	31.06	33.38	36.38	42.06	31.06
Registered shareholders at year-end					10,500