is this

Two Pharmacists and a Nurse Practitioner

- or -

A Whole New Way to Deliver Pharmacy Services

?

CVS CAREMARK

CVS Caremark 2010 Annual Report

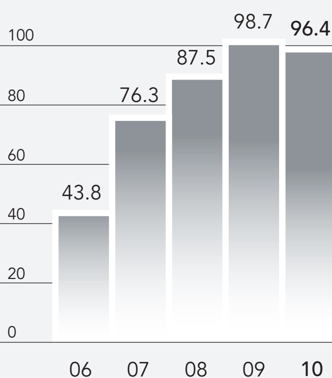
Financial Highlights

in millions, except per share figures	fiscal year 2010	fiscal year 2009	% change
Net revenues	**$ 96,413**	$ 98,729	-2.3%
Operating profit	**$ 6,165**	$ 6,438	-4.3%
Net income attributable to CVS Caremark	**$ 3,427**	$ 3,696	-7.3%
Diluted EPS attributable to CVS Caremark	**$ 2.49**	$ 2.55	-2.3%
Stock price at year-end	**$ 34.77**	$ 32.21	+7.9%
Market capitalization at year-end	**$ 47,423**	$ 44,841	+5.8%

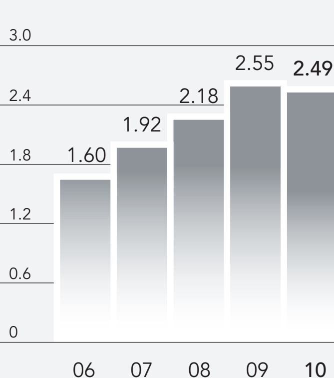
CVS Caremark is the largest pharmacy care provider in the United States with integrated offerings across the entire spectrum of pharmacy care. We are uniquely positioned to engage plan members in behaviors that improve their health and to lower overall health care costs for health plans, plan sponsors, and their members. CVS Caremark is a market leader in mail order pharmacy, retail pharmacy, specialty pharmacy, and retail clinics, and we are a leading provider of Medicare Part D Prescription Drug Plans. As one of the country's largest pharmacy benefits managers (PBMs), we provide access to a network of approximately 65,000 pharmacies, including more than 7,100 CVS/pharmacy® stores that provide unparalleled service and capabilities. Our stores fill nearly one in five retail prescriptions nationwide, and we have the #1 or #2 market share in 20 of the top 25 U.S. drugstore markets.

We employ approximately 201,000 associates in 44 states, the District of Columbia, and Puerto Rico. At year-end, we operated 7,182 retail drugstores, 560 MinuteClinic® locations, 44 retail specialty pharmacy stores, 18 specialty mail order pharmacies and four mail order pharmacies, and our CVS.com® and Caremark.com Web sites.

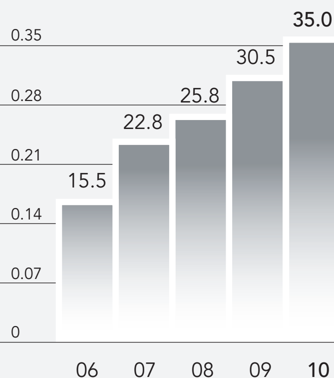
NET REVENUE in billions of dollars



DILUTED EPS ATTRIBUTABLE TO CVS CAREMARK in dollars



ANNUAL DIVIDENDS DECLARED in cents per common share



Our Vision

We strive to improve the quality of human life.

Our Mission

We provide expert care and innovative solutions in pharmacy and health care that are effective and easy for our customers.

Our Values

ACCOUNTABILITY

We take ownership for our actions and the results.

RESPECT

We treat customers and colleagues so they feel valued and appreciated.

INTEGRITY

We do what we say and what is right.

OPENNESS

We try new things that will lead to innovative and easy solutions for customers.

TEAMWORK

We share information and resources as we work together to deliver results.

How Do You See CVS Caremark?

Some think of us as the nation's leading drugstore chain, providing high-quality service and convenience in the pharmacy and front of the store. For others, we're a leading pharmacy benefits manager, improving outcomes and controlling costs for clients and plan members.

Both are true, of course, but we see ourselves as something much more. CVS Caremark is the nation's largest pharmacy care company, and we take our leadership position seriously. In a period of unprecedented transition for the U.S. health care system, we're working to improve access and treatment in ways that no one else in our industry can. Benefiting from our retail footprint and the many investments we've made in technology, training, adherence programs, and retail clinics, we can help patients manage chronic disease more effectively than ever. We've already rolled out new services to accomplish this, and more are on the way.

How you see CVS Caremark will change in a fundamental way in the coming years. We think you're beginning to see the evolution of pharmacy care.

is this

Your Neighborhood CVS Pharmacist

- or -

A New Front Against Chronic Disease

?

Today, CVS Caremark pharmacists are playing a larger role in improving health outcomes.

Our pharmacists are uniquely positioned to help patients *get the medicine right* and *get the behavior right*, both of which are critical to lowering health care costs and improving health outcomes. To that end, the role of our retail pharmacists is expanding beyond primarily dispensing prescriptions. They are also providing services, such as flu vaccinations and face-to-face patient counseling on opportunities regarding medication adherence, closing gaps in care, and cost-savings. Through our Pharmacy Advisor™ program, which became broadly available to PBM clients in January 2011, we're providing these services for diabetic patients. Some clients are seeing 10 to 12 percent improvements in gap closures and similar increases in adherence. Pharmacy Advisor will address other chronic conditions beginning in 2012.

is this

A $10 Generic Prescription

- or -

Billions of Dollars in Cost Savings

?

Generic drug substitution means good news for patients, health plan sponsors…and our bottom line.

Since generic prescriptions cost far less than their brand-name counterparts, they play an important role in controlling costs for health plans, their members, and the uninsured. By 2012, an effective generic alternative will be available in every critical class of drugs. Our retail Customer Savings Initiative and PBM generic step therapies are just two ways in which CVS Caremark helps patients make the switch. In addition to providing major savings for payors and patients, generic drugs also provide significantly higher margins for pharmacy providers. As the nation's largest purchaser of pharmaceuticals, CVS Caremark is well-positioned to benefit as approximately $90 billion in branded drugs are expected to lose patent protection over the next five years.

is this

Robert's 65th Birthday Party

- or -

A Key Driver of Pharmacy Sales

?

As baby boomers age, approximately 70 million Americans will turn 65 over the next 20 years.

That's almost 10,000 people turning 65 every day! This demographic shift represents a significant opportunity for the pharmacy industry and CVS Caremark in particular. For starters, people 65 and older fill more than 25 prescriptions annually on average. That's three times the national average. An aging America will increase utilization dramatically for years to come and help drive the growth of both our PBM and retail businesses. The graying U.S. population is also likely to drive the Medicare Part D sector. As one of the nation's leading providers of Medicare Part D prescription drug plans and other Medicare Part D services, we see this as an important growth area in the years ahead.

is this

A Pharmacist Filling a Prescription

- or -

State-of-the-Art Technology at Work

?

We've made significant IT investments to support the services our pharmacists provide.

With customer satisfaction scores in our pharmacies at an all-time high, it appears to be money well spent. For example, in 2010 we completed the roll-out of our proprietary RxConnect™ retail pharmacy system that has dramatically boosted efficiency. We also launched our Consumer Engagement Engine™ last year. When integrated with RxConnect, it provides the technology platform that enables programs such as Pharmacy Advisor and will support future clinical advances. With the ability to target our key points of contact—our retail pharmacies, mail order pharmacies, and call centers—this technology helps us encourage patients to remain compliant with prescribed medications and close gaps in care. The result? Better health and lower overall health care costs.

is this

A Variety of Specialty Prescriptions

- or -

Pharmacy's Fastest-Growing Sector

?

Specialty pharmacy expenditures are expected to rise to $100 billion annually by 2015.

Only three of the top 10 drugs in the U.S. in 2006 were specialty drugs, which require complex and expensive therapies. By 2014, it is estimated that they will comprise eight of the top 10. With more than $11 billion in specialty revenues annually, CVS Caremark is well-positioned to capture this growth opportunity. We are a recognized leader in the specialty industry, with over 30 years of experience. Specialty drugs can be difficult to administer and can cause challenging side effects, requiring closer communication between pharmacists and patients. Our network of specialty pharmacies leverages a team of specialized clinical pharmacists to support these patients. Through our growing Specialty Guideline Management program, we're also helping PBM clients reduce unnecessary treatment and control their specialty spending.

is this

Kim's DNA Test Result

- or -

An Exciting Treatment Breakthrough

?

We've taken a leadership role in pharmacogenomic testing and clinical services.

Through our majority stake in Generation Health, we plan to make genetic benefit management an integral part of our PBM offering. The emerging field of pharmacogenomics focuses on providing the right drug and dosage to the right patient. By identifying how an individual's genetic variations are likely to impact his or her response to a particular treatment, we can minimize adverse drug reactions and avoid wasted drug spend. The market for targeted therapies is expected to reach $21 billion by 2015. We're currently testing the efficacy of 13 drug therapies, and initiatives such as these are truly advancing the science of pharmacy care.

is this

Relief for Late-Night Coughing Fits

- or -

Our Focus on Convenience in Action

?

More than 65 percent of our stores are open round-the-clock or offer extended hours.

That's welcome news when a family member suddenly takes ill or a late-night grocery run gets added to your to-do list. And it's just one of the many ways in which we strive to make our stores *CVS easy*. Over 60 percent now have drive-thru windows in the pharmacy, which parents appreciate if they have a child sleeping in the back seat. We understand the premium that our customers place on convenience. In fact, it's a key driver of our ambitious real estate program. In the markets where we operate, 75 percent of the population lives within three miles of a CVS/pharmacy®. Moreover, we continue to open new locations and relocate others to improve access. Over the next three years, we expect to open approximately 150 net new stores annually.

are these

Less Expensive, Quality Alternatives

- or -

Valuable Front-Store Profit Drivers

?

CVS shoppers can find more than 5,000 store brand items in our stores.

In these challenging economic times, our customers appreciate the wide array of products we offer under our store brand and CVS-exclusive brands. Such items now account for more than 17 percent of sales in the front of the store, and that figure should continue to rise. With their ExtraCare® Health Cards, our PBM plan members save even more on many CVS brand over-the-counter products. Despite their lower prices, our store brand products provide us with higher margins than their national brand equivalents. That's why we add approximately 900 new items every year and continue to refine our store brand strategy. In fact, February 2011 marked the introduction of the first 100 products under our new, value-priced Just the Basics™ brand.

is this

A Way to Enjoy Easy Savings

- or -

A Key to More Effective Marketing

?

More than 67 million customers use their ExtraCare® card in our stores and online.

The largest loyalty program among all retailers, ExtraCare makes it easy for shoppers at our more than 7,100 locations to take advantage of weekly sales. Cardholders also receive targeted offerings and quarterly Extra Bucks® rewards. We've taken our ExtraCare program to a new level with the recent launch of the ExtraCare Beauty Club, which provides additional benefits. ExtraCare has helped us build a loyal customer base and represents a significant competitive advantage. It has enabled us to learn more about customer shopping patterns over the last decade and provides valuable insights that are helping us continue to innovate, ensure that each store's product offerings match neighborhood shopping needs, and use our advertising dollars effectively.

is this

A Convenient MinuteClinic

- or -

Help for a Crowded Health Care System

?

Since its inception in 2000, MinuteClinic has treated nearly 9 million patients.

The leading provider of retail health care, we now have 560 clinics and counting in CVS/pharmacy locations across 26 states and the District of Columbia. And approximately 80 percent of visits are now covered by insurance. Building on our success in acute care, we've made monitoring of chronic conditions such as diabetes, hypertension, and cholesterol a priority. We've been busy forging alliances with highly regarded health care providers and bringing new products and services to market. MinuteClinic can also help ease health care overcrowding caused by the growing shortage of primary care doctors. That's why we're adding locations in existing markets and entering others, with the number of MinuteClinics expected to exceed 1,000 over the next five years.

Greater convenience and choice
Improved health outcomes
Lower overall health costs

CVS/pharmacy
Our more than 7,100 retail stores allow us to connect with 5 million people every day, something no other PBM business can match.

MinuteClinic
We are the clear leader in the retail clinic business. Our 560 locations across the country have seen nearly 9 million patients to date.

CVS Caremark Pharmacy Services
We serve over 2,200 clients with approximately 60 million plan members, and our clinical offerings lead the industry.

Generation Health
We entered the pharmacogenomics space with an investment in Generation Health in 2009, and this offering is now broadly available to clients.

Caremark Mail
We operate one of the largest mail order pharmacy businesses in the U.S., which provides cost-effective, convenient delivery of maintenance medications.

CVS Caremark Specialty Pharmacy
We operate the largest specialty pharmacy business in the country, and this is the fastest-growing sector of our industry.

With capabilities across the entire spectrum of pharmacy care, CVS Caremark can drive improved patient outcomes and lower overall health costs more effectively than anyone else in our industry. More than a leading PBM and drugstore chain, our strengths extend to areas that include retail clinics, Medicare Part D, specialty pharmacy, and pharmacogenomics. And that's good news for our clients, plan members, customers, and investors.

DEAR FELLOW SHAREHOLDER:

U.S. health care costs are expected to rise 6 percent annually over the next decade, pushing the total spent in the United States to around $5 trillion in 2020. The alarming growth of chronic disease in an aging U.S. population will drive much of this increase, and companies that can find a way to help employers, insurers, and plan members rein in the related costs are poised to benefit.

THOMAS M. RYAN (right)
Chairman of the Board and Chief Executive Officer

LARRY J. MERLO (left)
President and Chief Operating Officer

At CVS Caremark, we see a significant opportunity to reduce the nearly $300 billion that is spent annually as a result of non-adherence to prescribed medications and other forms of sub-optimal pharmacy care. As the nation's largest pharmacy health care provider, we can accomplish this through our differentiated PBM offerings, our leadership in clinical programs and specialty pharmacy, our unmatched retail footprint, and our growing base of MinuteClinic locations. Our strategy is to utilize these elements of our integrated pharmacy services model to lower health care costs while improving the health of those we serve. It's important to remember that pharmacy care remains one of the most cost-effective ways of treating disease, so we are well-positioned to slow the rise in health care costs even as we encourage appropriate utilization of prescription drugs. We'll have more to say on this topic and the state of our business in general. Let's start, though, with a quick overview of the past year's performance.

Our 2010 Financial Performance and Commitment to Enhancing Shareholder Value

2010 marked a year of substantial progress for our company despite continued challenges in the broader economy. We successfully navigated through a challenging retail and consumer environment, delivering industry-leading same-store sales growth, solid expense control, and significantly

improved retail operating margins. However, we faced some well-documented challenges in our PBM business, and we are disappointed with our performance. Total revenue decreased 2.3 percent to $96.4 billion, with income from continuing operations down 7.2 percent to $3.4 billion. We will talk more about the steps we are taking to turn around PBM performance.

CVS Caremark shares returned 7.9 percent in 2010, trailing the 12.8 percent return of the S&P 500 Index. Our below-market share performance is unacceptable, and enhancing shareholder returns remains a top priority for us. Accordingly, we returned more than $1.9 billion to our shareholders last year through a combination of share repurchases and dividends. We were able to accomplish this as a result of the $3.3 billion in free cash flow we generated in 2010, a 7.6 percent increase over 2009.

We expect our cash-generation capabilities to increase substantially in the coming years due to anticipated earnings growth and a sweeping initiative to reduce working capital. We will take a disciplined approach to deploying the substantial cash we generate to achieve the highest possible return for our shareholders. We will invest in high-return projects and expect to continue returning value to our shareholders in the form of dividends and value-enhancing share repurchases. To that end, we recently raised our dividend by 43 percent, making this our eighth consecutive year with a dividend increase. We also expect to complete our $2 billion authorized share repurchase during 2011.

Long-Term Agreement with Aetna Highlights Strong 2011 PBM Selling Season

As we said, we have begun to take steps to turn around the performance of our PBM. After experiencing contract losses in the 2010 PBM selling season, we undertook a series of steps to stabilize and grow our PBM, and position the business for long-term success. We re-established momentum in the 2011 selling season and are very pleased with our progress to date. Our client satisfaction rate remained high and we saw a 97 percent retention rate during the season. We also added a significant amount of net new business, with revenues totaling approximately $9.4 billion. The 2012 selling season is off to a good start as well.

Clients are enthusiastic about our differentiated offerings, which enjoyed positive momentum in the 2011 selling season. Maintenance Choice®, which gives plan participants the option of filling their 90-day maintenance prescriptions by mail or at one of our convenient retail locations, has been adopted by approximately 600 clients representing 7.4 million lives. Our generic step therapy programs have been adopted by 170 clients representing 5.5 million lives. Our newest addition, the Pharmacy Advisor™ program, has already been adopted by PBM clients representing more than 10 million lives, or approximately 20 percent of our PBM book of business.

The 12-year agreement we landed in July to provide Aetna with a broad range of PBM services marked a watershed for our company. The result of an extensive competitive bidding process, it provides significant validation of our core PBM capabilities as well as the benefits we bring to the table through our integrated model. Once fully implemented, CVS Caremark® will serve approximately 9 million Aetna PBM members and administer approximately $9 billion in annual drug spending. In addition to taking over management of Aetna's retail pharmacy network as well as pharmacy customer and member service functions, CVS Caremark will also handle purchasing, inventory management, and prescription fulfillment for Aetna's mail-order and specialty pharmacy operations. We see significant upside opportunity from this relationship over time, as we work together to offer our unique products that will help lower overall health care costs and improve health outcomes for members.

LETTER TO SHAREHOLDERS (CONTINUED)

We Are Streamlining Operations and Are Strategically Positioned in High-Growth Businesses

While we expect to see a decline in PBM operating profit in 2011, we are optimistic about our PBM's long-term prospects and believe we are well-positioned to navigate the challenges and opportunities facing the industry in the coming years. Among our priorities, we have begun implementing a PBM streamlining initiative to improve our workflow and align our cost structure more closely with peers. The PBM, much like CVS on the retail side, went through significant acquisition activity over the past decade, and there are still many opportunities to build a more cohesive, efficient, and streamlined organization. This PBM initiative is expected to deliver more than $1 billion in savings between 2011 and 2015.

We also have all the capabilities in place to increase our revenues and expand our market share. For example, let's take a look at specialty pharmacy. We currently generate more than $11 billion in specialty pharmacy revenue annually, making us the largest specialty pharmacy provider in the U.S. Through our industry-leading Specialty Guideline Management program, we facilitate appropriate utilization across disease states and help clients control their specialty spending. Specialty is also the fastest-growing pharmacy sector, with a compound annual growth rate of approximately 12 percent expected over the next five years.

CVS Caremark is also a very significant player in the Medicare Part D business, one of the fastest-growing areas of the PBM space. While our 2010 results reflect the negative impact from a disappointing Medicare Part D competitive bidding process for the 2010 plan year and regulatory changes that reduced our profitability, we view Medicare Part D as an integral part of our long-term strategy. A growing portion of the population will receive its prescription drug coverage under Medicare plans, driven by age demographics and the anticipated shift of retirees from employer-based coverage to Medicare. In fact, we expect the Medicare Part D market to grow 8.5 percent annually, on average, from 2010 through 2020. Our size and capabilities position us to capitalize on this opportunity, and we have a dedicated group with new leadership to focus our efforts.

In anticipation of this continued growth, we recently announced an agreement to acquire Universal American's Medicare Part D business for approximately $1.25 billion. This transaction is subject to customary closing conditions, including regulatory approval, as well as approval by Universal American shareholders. Upon closing, it would more than double the size of our prescription drug plan (PDP) business to more than three million members and make us a strong #2 player in Medicare Part D. The deal is expected to close at the end of the second quarter of 2011. We expect to benefit from the addition of Universal American's Medicare Advantage Prescription Drug Plan (MA-PD) insurance business beginning in 2011 and to begin servicing the PBM contracts for both the PDP and Universal American's MA-PD business beginning in January 2012.

Pharmacy Advisor Utilizes Our Retail Footprint to Improve Care and Control Costs

We are very excited about the rollout of our Pharmacy Advisor program early in 2011. It will help us add value for our PBM clients and improve the health of plan members. Leveraging our retail presence—unique among major PBMs—we can offer chronically ill patients the benefit of face-to-face counseling in our pharmacies to improve their medication adherence rates and close gaps in care. Based on our research and the pilot program for diabetes patients that we completed in 2010, in-store counseling helps close gaps in care at nearly twice the rate of phone counseling alone. Using Pharmacy Advisor, a PBM client with 50,000 employees whose population has an average prevalence of diabetes could save approximately $3.3 million a year in medical expenditures.

We've spent the past three years developing and implementing the technology that makes Pharmacy Advisor possible. Utilizing clinical rules, our Consumer Engagement Engine identifies cost savings or health improvement opportunities for PBM plan members whether they interact with us at our retail and specialty pharmacies, through our mail order pharmacies, or using our Web sites. We've made diabetes intervention our initial priority. In the future, Pharmacy Advisor will also address issues related to coronary artery disease, congestive heart failure, hypertension, hyperlipidemia, and other chronic illnesses.

Our MinuteClinic Offerings and Footprint Will Expand to Meet Growing Demand

Our 560 MinuteClinic locations represent another important aspect of our unique value proposition. Non-flu vaccination visits to MinuteClinic increased by 22 percent in 2010. We have really focused our efforts over the past year at bringing new products and services to market that help manage chronic conditions. We expect to incorporate these new capabilities into our PBM plan offerings. As we move into the care of patients with chronic disease, we have also established formal affiliations with some of the country's leading health systems to collaborate on patient care.

We expect health care reform to bring some form of coverage to 32 million people who are currently uninsured. MinuteClinic will help meet the growing demand for care and mitigate the growing shortage of primary care physicians. We will begin adding approximately 100 new clinics annually over the next five years. We will start by filling in existing markets as well as adding new markets in existing states, with plans to enter new states beginning in 2012.

A Message From Tom Ryan

This annual report marks the end of my tenure as Chairman and Chief Executive Officer of CVS Caremark. It is hard for me to believe that more than 35 years have passed since I joined what was then CVS/pharmacy as a pharmacist. It has been a remarkable journey both for me and for the company. We've evolved from a relatively small regional drugstore chain to become the largest pharmacy health care provider in the United States. In doing so, we've made a positive difference in the lives of our millions of loyal customers.

I take a lot of pride in what we've accomplished, and the credit goes to an extraordinary management team and workforce composed of some of the most talented and committed people in our industry. I want to thank the Board of Directors and all my colleagues for their support and wise counsel over the years. Among them, I've been extremely fortunate to work alongside incoming CEO Larry Merlo for more than 20 years. Larry has consistently delivered outstanding results in every position he has held with the company, and I know he will do an outstanding job as our new CEO. Once again, it was an honor and a privilege to lead our company for the past 17 years. Thank you.

LETTER TO SHAREHOLDERS (CONTINUED)

Industry-Leading Performance Across Several Measures Characterizes the Year in Retail

Our retail stores continued to outperform competitors and gain share in 2010, and we expect a similar outcome in 2011. We led the industry with 2.1 percent same-store sales growth; 2.9 percent in the pharmacy and 0.5 percent in the front of the store. We also outperformed all drugstore chains in sales per square foot and profitability measures.

We opened 285 new or relocated stores in 2010. Factoring in closings, net units increased by 152 stores, which equates to 2.9 percent retail square footage growth. Over the next three years, we expect to add approximately 150 net new stores annually. That would increase our retail square footage growth each year by 2 to 3 percent. CVS/pharmacy® entered nine new markets over the past two years, and results have exceeded our expectations. In 2010 alone, we opened our first stores in Memphis, Omaha, St. Louis, and Puerto Rico.

As we accomplished with earlier acquisitions, we have improved the performance of the Longs Drugs® stores we purchased in 2008 across several key financial metrics. By leveraging our systems, our focus on store brands, our category mix, and our ExtraCare® loyalty card, profitability in the Longs stores has improved significantly. In addition, average store prescription volumes have increased by more than 5 percent. Given the much larger retail footprint and sales mix of the acquired stores, we do not expect them to match the sales productivity of our core CVS/pharmacy locations. That said, we see significant upside and expect to close the gap further over the next several years.

In the front of the store, our ambitious store brand program generated more than $3 billion in sales in 2010. Store brands now account for 17 percent of our front-end total, and we believe that penetration can reach more than 20 percent in the next two to three years. From over-the-counter drugs to grocery items, we offer more

A Message From Our Board of Directors

As Tom Ryan prepares to step down from his role as Chairman and Chief Executive Officer of CVS Caremark, the Board of Directors wants to thank him for the enormous contributions he has made to the growth and culture of our company over the past 35 years. Tom became President and CEO of CVS in 1994 when the company had approximately 1,200 stores and was still a division of Melville Corporation. After overseeing several very successful retail acquisitions over the years, Tom engineered the evolution of our model beyond retail pharmacy to include MinuteClinic and the transformational merger with Caremark in 2007.

Today, CVS Caremark is the nation's largest pharmacy care provider and the 18th-ranked company on the *Fortune 500*. We operate more than 7,100 stores and a top-tier PBM that together generated more than $96 billion in revenue in 2010. Since Tom took the helm, our market cap has grown from $4 billion to roughly $45 billion, and we have averaged an 11.5 percent annual return to shareholders. Tom also developed many key executives and assembled a talented team, including incoming CEO Larry Merlo. We are pleased to have Larry assume the top spot and confident in his abilities to successfully lead the company forward. We wish Tom all the best as he begins the next phase of his life.

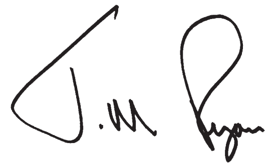
than 5,000 store brand items that are less expensive for shoppers and help create loyalty. They provide us with higher margins as well. Their excellent value has certainly appealed to consumers in this challenging economic environment. Moreover, many of our store brand offerings are far more than just "me too" versions of national brands. We've actually introduced products that either have no national-brand equivalent or offer innovative packaging that appeals to more than the just the price-sensitive shopper. We expect to add around 900 new store brand offerings in 2011.

The ExtraCare loyalty program remains one of the main drivers of our industry-leading performance in the front of the store. The largest loyalty program among all U.S. retailers, it now boasts more than 67 million active cardholders. In 2010, they received $3.2 billion in ExtraCare savings and Extra Bucks® rewards.

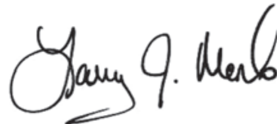
Our 10 years of experience working with ExtraCare enables us to fine tune our promotional programs and spend our advertising dollars most efficiently and effectively. It also helps us tailor our merchandise mix to best suit customers' needs and improve productivity. We are currently developing some new customized store layouts based on our research and have already reconfigured several locations. In our "urban cluster" stores, where the front end can exceed 40 percent of sales, we have added assisted self-checkouts to improve checkout speed and expanded certain categories such as baby and grocery. We have converted more than 200 such stores to date. The early results are promising, with trips, sales, and margins all up significantly. We are in testing phase with two additional clusters and look forward to sharing more information on our results as we delve further into this opportunity for future growth.

In closing, we operate in a dynamic and growing industry. Over the past few years, we have set up an infrastructure that will position the company to be very productive for years to come. We want to take this opportunity to thank our colleagues for their dedication and hard work. We have a sense of urgency, an engaged workforce, the right assets, and the right technology. We are extremely well-positioned to play an important role in the evolving U.S. health care market, and we are committed to driving strong growth and returns to shareholders. On behalf of our Board of Directors and our 201,000 devoted associates across the nation, thank you for your continued support.

Sincerely,



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



Larry J. Merlo
President and Chief Operating Officer

February 18, 2011

Community

With the economy intensifying the nonprofit sector's need for support, 2010 was a pivotal year for CVS Caremark and the CVS Caremark Charitable Trust. Our collective support made a real difference in 2010 and positively demonstrated our company's values to all stakeholders. We supported more than 1,200 nonprofit organizations and touched over 2.5 million lives in two primary areas of focus: children with disabilities and access to health care for the uninsured.

This year marked the sixth consecutive year of the CVS Caremark All Kids Can™ Baseball Camps at the iconic Fenway Park. Nine camps over the course of the baseball season gave hundreds of children with disabilities from across New England an action-packed, dream-fulfilling experience of playing ball at Fenway and working one-on-one with Red Sox Batting Coach Dave Magadan.

Through our signature philanthropic program, All Kids Can, we also support nonprofit organizations that are making life easier for children with disabilities. One of our national partners is Boundless Playgrounds, an organization dedicated to building accessible, inclusive playgrounds in communities across America. To date, CVS Caremark has supported 65 inclusive playgrounds in the markets where our customers, clients, and colleagues live and work. Twenty-three were completed in 2010.

Through the CVS Caremark Charitable Trust, we continued to find opportunities to invest in specific areas across a broad range of communities. In 2010, 72 grantees received a total of $3.3 million in support. About half of these grants aligned with the efforts of All Kids Can. Among them, we allocated funds to support programs that help improve the quality of life for children with autism. We also donated to nonprofits that provide independent living skills. For example, United Cerebral Palsy of Southeastern Wisconsin Inc. was awarded a grant for its training and support program designed to help youth with disabilities, ages 14 to 21, successfully transition into adulthood.

Given the high number of Americans without health insurance, access to health care also remains an important area for the Trust. Grants totaling approximately $1.1 million will fund a wide range of services from routine medical exams to helping diabetics manage their disease. In Texas, the YWCA will use our support to fund its Women's Health program that provides free mammograms for uninsured or underinsured women.

Our CVS/pharmacy in-store fundraising campaigns collected nearly $10 million in 2010, with colleagues and customers supporting partners such as St. Jude Children's Research Hospital, the March of Dimes, and the ALS Therapy Alliance.

We also made meaningful contributions in the area of disaster relief. Closest to the hearts of our headquarters employees, the Trust responded to historic flooding in Rhode Island with donations to the American Red Cross and to the United Way of Rhode Island. We also responded to the earthquake in Haiti by donating $175,000 to nonprofit partners providing relief.

VILLA ESPERANZA SERVICES

Pasadena, CA

CVS Caremark associates visit Villa Esperanza Services—one of the 2010 CVS Caremark Charitable Trust grantees—making a positive impact by providing occupational therapy to children with developmental disabilities.

CVS CAREMARK DOWNTOWN 5K

Providence, RI

This annual event features 21 different races for children—pre-kindergarten through eighth grade—as well as the All Kids Can *inspirational event, a 200 meter race for children with physical and intellectual disabilities.*

2010 Financial Report

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

43 Management's Report on Internal Control Over Financial Reporting

44 Report of Independent Registered Public Accounting Firm

45 Consolidated Statements of Income

46 Consolidated Balance Sheets

47 Consolidated Statements of Cash Flows

48 Consolidated Statements of Shareholders' Equity

50 Notes to Consolidated Financial Statements

74 Five-Year Financial Summary

75 Report of Independent Registered Public Accounting Firm

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

The following discussion and analysis should be read in conjunction with our audited consolidated financial statements and Cautionary Statement Concerning Forward-Looking Statements that are included in this Annual Report.

Overview of Our Business

CVS Caremark Corporation ("CVS Caremark", the "Company", "we" or "us"), together with its subsidiaries is the largest pharmacy health care provider in the United States. As a fully integrated pharmacy services company, we believe we can drive value for our customers by effectively managing pharmaceutical costs and improving health care outcomes through our pharmacy benefit management, mail order and specialty pharmacy division, CVS Caremark Pharmacy Services® ("Caremark"); our approximately 7,200 CVS/pharmacy® retail stores; our retail-based health clinic subsidiary, MinuteClinic®; and our online pharmacy, CVS.com®. The Company has three business segments: Pharmacy Services, Retail Pharmacy and Corporate.

Overview of Our Pharmacy Services Segment

Our Pharmacy Services business provides a full range of pharmacy benefit management ("PBM") services including mail order pharmacy services, specialty pharmacy services, plan design and administration, formulary management and claims processing. Our clients are primarily employers, insurance companies, unions, government employee groups, managed care organizations and other sponsors of health benefit plans and individuals throughout the United States.

As a pharmacy benefits manager, we manage the dispensing of pharmaceuticals through our mail order pharmacies and national network of approximately 65,000 retail pharmacies (which include our CVS/pharmacy stores) to eligible members in the benefit plans maintained by our clients and utilize our information systems to perform, among other things, safety checks, drug interaction screenings and brand to generic substitutions.

Our specialty pharmacies support individuals that require complex and expensive drug therapies. Our specialty pharmacy business includes mail order and retail specialty pharmacies that operate under the CVS Caremark® and CarePlus CVS/pharmacy® names. Substantially all of our mail service specialty pharmacies have been accredited by The Joint Commission.

We also provide health management programs, which include integrated disease management for 28 conditions, through our strategic alliance with Alere, L.L.C. and our Accordant® health management offering. The majority of these integrated programs are accredited by the National Committee for Quality Assurance.

In addition, through our SilverScript Insurance Company ("SilverScript") and Accendo Insurance Company ("Accendo") subsidiaries, we are a national provider of drug benefits to eligible beneficiaries under the Federal Government's Medicare Part D program. The Company acquired Accendo in the Longs Acquisition (defined later in this document), and, effective January 1, 2009, Accendo replaced RxAmerica® as the Medicare-approved prescription drug plan for the RxAmerica Medicare Part D drug benefit plans. In December 2010, the Company announced it had entered into an agreement to acquire the Medicare Part D business of Universal American Corp. ("UAC") for approximately $1.25 billion. The transaction is subject to customary closing conditions, including necessary regulatory approvals, as well as approval by UAC shareholders. The Company currently expects that the transaction will close by the end of the second quarter of 2011.

Our Pharmacy Services segment generates net revenues primarily by contracting with clients to provide prescription drugs to plan members. Prescription drugs are dispensed by our mail order pharmacies, specialty pharmacies and national network of retail pharmacies. Net revenues are also generated by providing additional services to clients, including administrative services such as claims processing and formulary management, as well as health care related services such as disease management.

The Pharmacy Services segment operates under the CVS Caremark Pharmacy Services, Caremark®, CVS Caremark®, CarePlus CVS/pharmacy®, CarePlus™, RxAmerica®, Accordant Care™ and TheraCom® names. As of December 31, 2010, the Pharmacy Services segment operated 44 retail specialty pharmacy stores, 18 specialty mail order pharmacies and four mail service pharmacies located in 25 states, Puerto Rico and the District of Columbia.

Overview of Our Retail Pharmacy Segment

Our Retail Pharmacy segment sells prescription drugs and a wide assortment of general merchandise, including over-the-counter drugs, beauty products and cosmetics, photo finishing, seasonal merchandise, greeting cards and convenience foods through our CVS/pharmacy and Longs Drugs® retail stores and online through CVS.com. Our Retail Pharmacy segment derives the majority of its revenues through the sale of prescription drugs, which are dispensed by our more than 20,000 retail pharmacists. The role of our retail pharmacists is shifting from primarily dispensing prescriptions to also providing services, including flu vaccinations as well as face-to-face patient counseling with respect to adherence to drug therapies, closing gaps in care, and more cost-effective drug therapies. Our integrated pharmacy services model enables us to enhance access to care while helping to lower overall health care costs and improve health outcomes.

CVS/pharmacy is one of the nation's largest retail pharmacy chains. With more than 40 years of dynamic growth in the retail pharmacy industry, the Retail Pharmacy segment generates more than two-thirds of its revenue from prescription sales and is committed to providing superior customer service by being the easiest pharmacy retailer for customers to use.

Our Retail Pharmacy segment also provides health care services through our MinuteClinic health care clinics. MinuteClinics are staffed by nurse practitioners and physician assistants who utilize nationally recognized protocols to diagnose and treat minor health conditions, perform health screenings, monitor chronic conditions, and deliver vaccinations. We believe our clinics provide quality services that are quick, affordable and convenient.

Our proprietary loyalty card program, ExtraCare®, has well over 67 million active cardholders, making it one of the largest and most successful retail loyalty card programs in the country.

Effective October 20, 2008, we acquired Longs Drug Stores Corporation, which included 529 retail drug stores (the "Longs Drug Stores"), RxAmerica, LLC ("RxAmerica"), which provides pharmacy benefit management services and, Medicare Part D benefits, and other related assets (the "Longs Acquisition").

As of December 31, 2010, our Retail Pharmacy segment included 7,182 retail drugstores (of which 7,123 operated a pharmacy) located in 41 states, the District of Columbia, and Puerto Rico operating primarily under the CVS/pharmacy or Longs Drugs names, our online retail website, CVS.com and 560 retail health care clinics operating under the MinuteClinic name (of which 550 were located in CVS/pharmacy stores).

Overview of Our Corporate Segment

The Corporate segment provides management and administrative services to support the Company. The Corporate segment consists of certain aspects of our executive management, corporate relations, legal, compliance, human resources, corporate information technology and finance departments.

Results of Operations

Fiscal Year Change – On December 23, 2008, the Board of Directors of the Company approved a change in the Company's fiscal year end from the Saturday nearest December 31 of each year to December 31 of each year to better reflect the Company's position in the health care, rather than the retail, industry. The fiscal year change was effective beginning with the fourth quarter of 2008.

As you review our operating performance, please consider the impact of the fiscal year change as set forth below:

Fiscal Year	Fiscal Year-End	Fiscal Period	Fiscal Period Includes
2010	December 31, 2010	January 1, 2010 - December 31, 2010	365 days
2009	December 31, 2009	January 1, 2009 - December 31, 2009	365 days
2008	December 31, 2008	December 30, 2007 - December 31, 2008	368 days

Unless otherwise noted, all references to years relate to the above fiscal years.

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

SUMMARY OF OUR CONSOLIDATED FINANCIAL RESULTS

	Fiscal Year		
in millions, except per common share amounts	**2010**	2009	2008
Net revenues	**$ 96,413**	$ 98,729	$ 87,472
Gross profit	**20,257**	20,380	18,290
Operating expenses	**14,092**	13,942	12,244
Operating profit	**6,165**	6,438	6,046
Interest expense, net	**536**	525	509
Income before income tax provision	**5,629**	5,913	5,537
Income tax provision	**2,190**	2,205	2,193
Income from continuing operations	**3,439**	3,708	3,344
Loss from discontinued operations, net of income tax benefit	**(15)**	(12)	(132)
Net income	**3,424**	3,696	3,212
Net loss attributable to noncontrolling interest	**3**	–	–
Preference dividend, net of income tax benefit	**–**	–	(14)
Net income attributable to CVS Caremark	**$ 3,427**	$ 3,696	$ 3,198
Diluted earnings per common share:			
Income from continuing operations attributable to CVS Caremark	**$ 2.50**	$ 2.56	$ 2.27
Loss from discontinued operations attributable to CVS Caremark	**(0.01)**	(0.01)	(0.09)
Net income attributable to CVS Caremark	**$ 2.49**	$ 2.55	$ 2.18

Net revenues decreased $2.3 billion in 2010 and increased $11.3 billion in 2009. As you review our performance in this area, we believe you should consider the following important information:

- During 2010, net revenues in our Retail Pharmacy segment increased by 3.6% which was offset by a decline in our Pharmacy Services segment of 6.4%, compared to the prior year. The increase in our generic dispensing rates in both of our operating segments had an adverse effect on net revenue in 2010 as compared to 2009, as well as in 2009 as compared to 2008.
- Three fewer days in the 2009 fiscal year negatively impacted net revenues by $671 million, compared to 2008.
- During 2009, the Longs Acquisition increased net revenues by $6.6 billion, compared to 2008. The results for 2008 includes net revenues from the Longs Drug Stores and RxAmerica from the acquisition date (October 20, 2008) forward.

Please see the Segment Analysis later in this document for additional information about our net revenues.

Gross profit decreased $0.1 billion in 2010, to $20.3 billion or 21.0% of net revenues, as compared to 2009. Gross profit increased $2.1 billion in 2009 to $20.4 billion or 20.6% of net revenues, as compared to 2008. As you review our performance in this area, we believe you should consider the following important information:

- During 2010, gross profit in our Retail Pharmacy segment increased by 2.7% offset by declines in our Pharmacy Services segment of 12.6%, compared to the prior year.
- During 2009, the Longs Acquisition increased gross profit dollars by $1.1 billion, but negatively impacted our gross profit rate compared to 2008.
- Three fewer days in the 2009 fiscal year, negatively impacted gross profit by $146 million, compared to 2008.
- The results for 2008 include gross profit from the Longs Drug Stores and RxAmerica from the acquisition date (October 20, 2008) forward.
- In addition, for the three years 2008 through 2010, our gross profit continued to benefit from the increased utilization of generic drugs (which normally yield a higher gross profit rate than equivalent brand name drugs) in both the Pharmacy Services and Retail Pharmacy segments.

Please see the Segment Analysis later in this document for additional information about our gross profit.

Operating expenses increased $151 million and $1.7 billion during 2010 and 2009, respectively. As you review our performance in this area, we believe you should consider the following important information:

- During 2010, operating expenses increased as a result of increases in our Corporate segment expenses of $87 million, and an increase in our Retail Pharmacy segment expenses of $68 million, partially offset by a decrease in our Pharmacy Services segment expenses of $5 million, compared to the prior year.
- During 2009, the Longs Acquisition increased operating expenses by $1.0 billion, but positively impacted our operating expense rate as a percentage of net revenues compared to 2008.
- Three fewer days in the 2009 fiscal year, positively impacted operating expenses by $97 million, compared to 2008.
- The results of 2008 include operating expenses from the Longs Drug Stores and RxAmerica from the acquisition date (October 20, 2008) forward.

Please see the Segment Analysis later in this document for additional information about operating expenses.

Interest expense, net consisted of the following:

in millions	**2010**	2009	2008
Interest expense	**$ 539**	$ 530	$ 530
Interest income	**(3)**	(5)	(21)
Interest expense, net	**$ 536**	$ 525	$ 509

During 2010, net interest expense increased by $11 million, to $536 million compared to 2009, due to an increase in our average debt balances and average interest rates. During 2009, net interest expense increased by $16 million, compared to 2008, due to lower interest income associated with our temporary investments.

Income tax provision – Our effective income tax rate was 38.9% in 2010, 37.3% in 2009 and 39.6% in 2008. The annual fluctuations in our effective income tax rate are primarily related to changes in permanent items, state income tax expense and the recognition of previously unrecognized tax benefits relating to the expiration of various statutes of limitation and settlements with tax authorities. In 2010 we recognized a $47 million income tax benefit related to the expiration of various statutes of limitation and settlements with tax authorities. Similarly, in 2009 we recognized a $167 million income tax benefit relating to the expiration of various statutes of limitation and settlements with tax authorities.

Income from continuing operations decreased $269 million or 7.2% to $3.4 billion in 2010. This compares to $3.7 billion in 2009 and $3.3 billion in 2008. As previously noted, income from continuing operations in 2010 and 2009 both benefited from previously unrecognized tax benefit.

Loss from discontinued operations – In connection with certain business dispositions completed between 1991 and 1997, the Company continues to guarantee store lease obligations for a number of former subsidiaries, including Linens 'n Things. On May 2, 2008, Linens Holding Co. and certain affiliates, which operate Linens 'n Things, filed voluntary petitions under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. The Company's loss from discontinued operations includes lease-related costs of $15 million ($24 million, net of a $9 million income tax benefit), $12 million ($19 million, net of a $7 million income tax benefit) and $132 million ($214 million, net of an $82 million income tax benefit) in 2010, 2009 and 2008, respectively.

Net loss attributable to noncontrolling interest represents the minority shareholders' portion of the net loss from our majority owned subsidiary, Generation Health, Inc., which we acquired late in the fourth quarter of 2009. The net loss attributable to noncontrolling interest for the year ended December 31, 2010 was $3 million and was de minimis in 2009.

Net income attributable to CVS Caremark decreased $269 million or 7.3% to $3.4 billion (or $2.49 per diluted share) in 2010. This compares to $3.7 billion (or $2.55 per diluted share) in 2009 and $3.2 billion (or $2.18 per diluted share) in 2008. As previously noted, net income attributable to CVS Caremark in 2010 and 2009 both benefited from previously unrecognized tax benefit.

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

Segment Analysis

We evaluate the performance of our Pharmacy Services and Retail Pharmacy segments based on net revenues, gross profit and operating profit before the effect of certain intersegment activities and charges. The Company evaluates the performance of its Corporate segment based on operating expenses before the effect of discontinued operations and certain intersegment activities and charges. The following is a reconciliation of the Company's business segments to the consolidated financial statements:

in millions	Pharmacy Services Segment [1] [2]	Retail Pharmacy Segment [2]	Corporate Segment	Intersegment Eliminations [2]	Consolidated Totals
2010:					
Net revenues	**$ 47,780**	**$ 57,345**	**$ –**	**$ (8,712)**	**$ 96,413**
Gross profit	**3,353**	**17,039**	**–**	**(135)**	**20,257**
Operating profit	**2,389**	**4,537**	**(626)**	**(135)**	**6,165**
2009:					
Net revenues	$ 51,065	$ 55,355	$ –	$ (7,691)	$ 98,729
Gross profit	3,835	16,593	–	(48)	20,380
Operating profit	2,866	4,159	(539)	(48)	6,438
2008:					
Net revenues	$ 43,769	$ 48,990	$ –	$ (5,287)	$ 87,472
Gross profit	3,550	14,741	–	(1)	18,290
Operating profit	2,755	3,753	(461)	(1)	6,046

(1) Net revenues of the Pharmacy Services segment include approximately $6.6 billion, $6.9 billion and $6.3 billion of Retail Co-Payments for 2010, 2009 and 2008, respectively. Please see Note 1 to the consolidated financial statements for additional information about Retail Co-Payments.

(2) Intersegment eliminations relate to two types of transactions: (i) Intersegment revenues that occur when Pharmacy Services segment customers use Retail Pharmacy segment stores to purchase covered products. When this occurs, both the Pharmacy Services and Retail Pharmacy segments record the revenue on a standalone basis, and (ii) Intersegment revenues, gross profit and operating profit that occur when Pharmacy Services segment customers, through the Company's intersegment activities (such as the Maintenance Choice® program), elect to pick up their maintenance prescriptions at Retail Pharmacy segment stores instead of receiving them through the mail. When this occurs, both the Pharmacy Services and Retail Pharmacy segments record the revenue, gross profit and operating profit on a standalone basis. As a result, both the Pharmacy Services and the Retail Pharmacy segments include the following results associated with this activity: net revenues of $1,794 million, $692 million and $8 million for the years ended December 31, 2010, 2009 and 2008, respectively; gross profit and operating profit of $135 million, $48 million and $1 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Pharmacy Services Segment

The following table summarizes our Pharmacy Services segment's performance for the respective periods:

	Fiscal Year Ended		
in millions	**2010**	2009	2008 [4]
Net revenues	**$ 47,780**	$ 51,065	$ 43,769
Gross profit	**3,353**	3,835	3,550
Gross profit % of net revenues	**7.0%**	7.5%	8.1%
Operating expenses	**964**	969	795
Operating expenses % of net revenues	**2.0%**	1.9%	1.8%
Operating profit	**2,389**	2,866	2,755
Operating profit % of net revenues	**5.0%**	5.6%	6.3%
Net revenues [1]:			
Mail choice [2]	**$ 16,675**	$ 16,711	$ 14,909
Pharmacy network [3]	**30,681**	34,004	28,482
Other	**424**	350	378
Pharmacy claims processed [1]			
Total	**584.8**	658.5	633.4
Mail choice [2]	**64.2**	66.0	60.9
Pharmacy network [3]	**520.6**	592.5	572.5
Generic dispensing rate [1]:			
Total	**71.5%**	68.2%	65.1%
Mail choice [2]	**61.3%**	56.5%	54.4%
Pharmacy network [3]	**72.7%**	69.3%	66.2%
Mail choice penetration rate	**25.8%**	23.8%	22.9%

(1) Pharmacy network net revenues, claims processed and generic dispensing rates do not include Maintenance Choice, which are included within the mail choice category.

(2) Mail choice is defined as claims filled at a Pharmacy Services' mail facility, which includes specialty mail claims, as well as 90-day claims filled at retail under the Maintenance Choice program.

(3) Pharmacy network is defined as claims filled at retail pharmacies, including CVS/pharmacy stores.

(4) 2008 includes the results of RxAmerica from the October 20, 2008 acquisition date.

During 2009, the Pharmacy Services segment's results of operations include a full year of RxAmerica results compared to 2008, which includes RxAmerica results from the acquisition date (October 20, 2008) forward.

Net revenues in our Pharmacy Services Segment decreased $3.3 billion, or 6.4%, to $47.8 billion for the year ended December 31, 2010, as compared to the prior year. The decrease in 2010 was primarily due to the termination of a few large client contracts effective January 1, 2010 and the decrease of covered lives under our Medicare Part D program as a result of the 2010 Medicare Part D competitive bidding process, partially offset by new client starts on January 1, 2010. Additionally, the increase in our generic dispensing rate had a negative impact on our revenue in 2010.

Net revenues increased $7.3 billion, or 16.7%, to $51.1 billion for the year ended December 31, 2009, as compared to the prior year. The increase in 2009 was primarily due to the inclusion of RxAmerica which accounted for approximately $3.2 billion of the increase, which included the impact of converting the RxAmerica retail pharmacy network contract to the Caremark contract structure discussed on the following pages. Additionally the increase in revenue was attributable to favorable net new business.

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

As you review our Pharmacy Services segment's revenue performance, we believe you should consider the following important information:

- The Pharmacy Services segment recognizes revenues for its pharmacy network transactions based on individual contract terms. In accordance with ASC 605, *Revenue Recognition* (formerly Emerging Issues Task Force ("EITF") EITF No. 99-19, "Reporting Revenue Gross as a Principal vs Net as an Agent"), Caremark's contracts are predominantly accounted for using the gross method. Prior to April 1, 2009, RxAmerica's contracts were accounted for using the net method. Effective April 1, 2009, we converted a number of RxAmerica's retail pharmacy network contracts and a large health plan to the Caremark contract structure, which resulted in those contracts being accounted for using the gross method. As a result, net revenues increased by $1.1 billion during 2010 as compared to 2009, and by $2.5 billion during 2009 as compared to 2008.
- Three fewer days in the 2009 fiscal year negatively impacted net revenues by $268 million, compared to 2008.
- During 2010, our mail choice claims processed decreased 2.7% to 64.2 million claims. This decrease was primarily due to the termination of a few large client contracts effective January 1, 2010, partially offset by new client starts on January 1, 2010. During 2009, our mail choice claims processed increased 8.3% to 66.0 million claims. This increase was primarily due to favorable net new business and the significant adoption of the mail choice plan design.
- During 2010 and 2009, our average revenue per mail choice claim increased by 2.6% and 3.5%, compared to 2009 and 2008, respectively. This increase was primarily due to drug cost inflation and claims mix, partially offset by an increase in the percentage of generic prescription drugs dispensed and changes in client pricing.
- During 2010, our mail choice generic dispensing rate increased to 61.3%, compared to our mail choice generic dispensing rate of 56.5% in 2009. During 2009, our mail choice generic dispensing rate increased to 56.5% compared to our mail choice generic dispensing rate of 54.4% in 2008. This continued increase was primarily due to new generic prescription drug introductions and our continuous effort to encourage plan members to use generic prescription drugs when they are available.
- During 2010, our pharmacy network claims processed decreased 12.1% to 520.6 million compared to 592.5 million pharmacy network claims processed in 2009. The decrease in 2010 was primarily due to the termination of a few large client contracts effective January 1, 2010 and the decrease of covered lives under our Medicare Part D program as a result of the 2010 Medicare Part D competitive bidding process. During 2009, our pharmacy network claims processed increased 3.5% or 20.0 million from 572.5 million in 2008. The increase in 2009 was primarily due to an increase in RxAmerica claims of 61.0 million compared with 2008. The RxAmerica increase was partially offset by the reduction in claims due to the termination of two large health plan clients effective January 1, 2009 and having three fewer days in 2009 compared to 2008.
- During 2010, our average revenue per pharmacy network claim processed increased by 2.7%, compared to 2009. The increase was primarily due to the conversion of RxAmerica's pharmacy network contracts from net to gross on April 1, 2009, (ii) a change in the revenue recognition method from net to gross for a large health plan on March 1, 2009 and (iii) higher drug costs, partially offset by an increase in our pharmacy network generic dispensing rate and changes in client pricing.
- During 2009, our average revenue per pharmacy network claim processed increased by 15.4%, compared to 2008. The increase was primarily due to (i) the inclusion of RxAmerica results, whose retail pharmacy network contracts were accounted for using the net revenue recognition method prior to April 1, 2009, as discussed previously; (ii) higher drug costs, which normally result in higher claim revenues, and (iii) claims mix; partially offset by client pricing, and changes in the percentage of generic drugs dispensed.
- During 2010, our pharmacy network generic dispensing rate increased to 72.7% compared to our pharmacy network generic dispensing rate of 69.3% in 2009. During 2009, our pharmacy network generic dispensing rate increased to 69.3%, compared to our pharmacy network generic dispensing rate of 66.2% in 2008. These continued increases were primarily due to the impact of new generic drug introductions and our continuous efforts to encourage plan members to use generic drugs when they are available. Additionally, the increase in 2009 as compared to 2008 was partially attributable to the full-year impact of RxAmerica claims which increased our generic dispensing rate by approximately 120 basis points in 2009 compared to 2008. We believe our generic dispensing rates will continue to increase in future periods. This increase will be affected by, among other things, the number of new generic drug introductions and our success at encouraging plan members to utilize generic drugs when they are available.

- During 2010, 2009 and 2008, we generated net revenues from our participation in the administration of the Medicare Part D drug benefit by providing PBM services to our health plan clients and other clients that have qualified as a Medicare Part D Prescription Drug Plan (a "PDP") under regulations promulgated by the Centers for Medicare and Medicaid Services ("CMS"). We are also a national provider of drug benefits to eligible beneficiaries under the Medicare Part D program through our subsidiaries, SilverScript and Accendo (which have been approved by CMS as PDPs), and in 2008, through a joint venture with Universal American Corp. ("UAC"), which sponsored a CMS approved PDP. The Company and UAC dissolved this joint venture at the end of 2008 and divided the responsibility for providing Medicare Part D services to the affected plan members beginning with the 2009 plan year. In December 2010, the Company announced it had entered into an agreement to acquire the Medicare Part D business of UAC for approximately $1.25 billion. The transaction is subject to customary closing conditions, including necessary regulatory approvals, as well as approval by UAC shareholders. The Company currently expects that the transaction will close by the end of the second quarter of 2011. In addition, we assist employer, union and other health plan clients that qualify for the retiree drug subsidy under Medicare Part D by collecting eligibility data from and submitting drug cost data to CMS in order for them to obtain the subsidy.

Gross profit in our Pharmacy Services Segment includes net revenues less cost of revenues. Cost of revenues includes (i) the cost of pharmaceuticals dispensed, either directly through our mail service and specialty retail pharmacies or indirectly through our pharmacy network, (ii) shipping and handling costs and (iii) the operating costs of our mail service pharmacies, customer service operations and related information technology support. Gross profit as a percentage of revenues was 7.0%, 7.5% and 8.1% in 2010, 2009 and 2008, respectively.

During 2010, gross profit decreased $482 million, or 12.6%, to $3.4 billion for the year ended December 31, 2010, as compared to the prior year. Gross profit as a percentage of net revenues was 7.0% for the year ended December 31, 2010, compared to 7.5% for the prior year period. The decrease in our gross profit dollars is a result of the loss of "differential" or "spread" resulting from a change in CMS regulations described more fully discussed on the following pages, the termination of a few large client contracts effective January 1, 2010 and the decrease of covered lives under our Medicare Part D program, partially offset by new client starts on January 1, 2010. The decrease in gross profit as a percentage of net revenues is primarily due to the loss of "differential" or "spread", pricing compression related to a large client renewal that took effect during the third quarter of 2010, and the change in the revenue recognition method from net to gross associated with the RxAmerica pharmacy network contracts on April 1, 2009 and a large health plan on March 1, 2009. This was partially offset by an increase in our generic dispensing rate for the year ended December 31, 2010, as compared to the prior year.

During 2009, gross profit increased $285 million, or 8.0%, to $3.8 billion for the year ended December 31, 2009, as compared to the prior year. Gross profit as a percentage of net revenues was 7.5% for the year ended December 31, 2009, compared to 8.1% for 2008. The increase in our gross profit dollars is a result of the full year impact of RxAmerica and new client starts on January 1, 2009, partially offset by the loss of two large health plan clients effective January 1, 2009, three fewer days in the 2009 fiscal year compared to 2008 and changes in client pricing. The decrease in gross profit as a percentage of net revenues is primarily due to the change in the revenue recognition method from net to gross associated with the RxAmerica pharmacy network contracts on April 1, 2009 and a large health plan on March 1, 2009 and pricing compression related to new clients and the retention of existing clients. This was partially offset by an increase in our generic dispensing rate for the year ended December 31, 2009, as compared to the prior year period.

As you review our Pharmacy Services segment's performance in this area, we believe you should consider the following important information:

- Our gross profit dollars and gross profit rates continued to be impacted by our efforts to (i) retain existing clients, (ii) obtain new business and (iii) maintain or improve the purchase discounts we received from manufacturers, wholesalers and retail pharmacies. In particular, competitive pressures in the PBM industry have caused us and other PBMs to share a larger portion of rebates and/or discounts received from pharmaceutical manufacturers. During the 2008 and 2009 selling seasons, the Company renewed a number of existing clients and obtained new clients at lower rates, which resulted in gross profit compression during 2009, and 2010. In addition, market dynamics and regulatory changes have affected our ability to offer plan sponsors pricing terms that include the use of retail network "differential" or "spread", which has impacted our profitability. We expect these trends to continue.

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

- As discussed previously in this document, we review our network contracts on an individual basis to determine if the related revenues should be accounted for using the gross method or net method under the applicable accounting rules. Caremark's network contracts are predominantly accounted for using the gross method, which results in higher revenues, higher cost of revenues and lower gross profit rates. The conversion of certain RxAmerica contracts to the Caremark contract structure increased our net revenues, increased our cost of revenues and lowered our gross profit rates. Although this change did not affect our gross profit dollars, it did reduce our gross profit rates by approximately 40 basis points in each of 2010 and 2009, and 35 basis points in 2008.
- Our gross profit as a percentage of revenues benefited from the increase in our total generic dispensing rate, which increased to 71.5% and 68.2% in 2010 and 2009, respectively, compared to our generic dispensing rate of 65.1% in 2008. These increases were primarily due to new generic drug introductions and our continued efforts to encourage plan members to use generic drugs when they are available. The inclusion of RxAmerica claims increased our total generic dispensing rate by approximately 120 and 20 basis points during 2009 and 2008, respectively.
- Effective January 1, 2010, CMS issued a regulation requiring that any difference between the drug price charged to Medicare Part D plan sponsors by a PBM and the price paid for the drug by the PBM to the dispensing provider (commonly called "differential" or "spread") be reported as an administrative cost rather than a drug cost of the plan sponsor for purposes of calculating certain government subsidy payments and the drug price to be charged to enrollees. As noted previously, these changes have impacted our ability to offer Medicare Part D plan sponsors pricing that includes the use of retail network "differential" or "spread." This change impacted both our gross profit dollars and gross profit as a percentage of net revenues in 2010.
- In conjunction with a class action settlement with two entities that publish the Average Wholesale Price ("AWP") of pharmaceuticals (a pricing benchmark widely used in the pharmacy industry), the AWP for many brand-name and some generic prescription drugs were reduced effective September 26, 2009. We reached understandings with most of our commercial third-party payors where we participate as pharmacy providers to adjust reimbursements to account for this change in methodology, but most state Medicaid programs that utilize AWP as a pricing reference did not take action to make similar adjustments.
- Three fewer days in the 2009 fiscal year negatively impacted gross profit by $23 million, compared to 2008.

Operating expenses in our Pharmacy Services Segment, which include selling, general and administrative expenses, depreciation and amortization related to selling, general and administrative activities and retail specialty pharmacy store and administrative payroll, employee benefits and occupancy costs, increased to 2.0% of net revenues in 2010, compared to 1.9% and 1.8% in 2009 and 2008, respectively.

As you review our Pharmacy Services segment's performance in this area, we believe you should consider the following important information:

- During 2010, the decrease in operating expenses of $5 million or approximately 1.0%, to $964 million compared to 2009, is primarily related to lower bad debt expense, and lower operating costs associated with our Medicare Part D program, partially offset by an increase in costs associated with changes designed to streamline our business.
- During 2009, the increase in operating expenses of $174 million, or 21.8%, to $969 million compared to 2008, is primarily related to (i) increased litigation reserves, (ii) the dissolution of our joint venture with UAC at the end of fiscal 2008, the income from which was historically an offset to operating expenses, and (iii) the inclusion of a full year of RxAmerica's operating expenses during 2009.

Retail Pharmacy Segment

The following table summarizes our Retail Pharmacy segment's performance for the respective periods:

	Fiscal Year Ended		
in millions	**2010**	2009	2008 [1]
Net revenues	**$ 57,345**	$ 55,355	$ 48,990
Gross profit	**17,039**	16,593	14,741
Gross profit % of net revenues	**29.7%**	30.0%	30.1%
Operating expenses	**12,502**	12,434	10,988
Operating expenses % of net revenues	**21.8%**	22.5%	22.4%
Operating profit	**4,537**	4,159	3,753
Operating profit % of net revenues	**7.9%**	7.5%	7.7%
Net revenue increase:			
Total	**3.6%**	13.0%	8.7%
Pharmacy	**4.1%**	13.1%	8.1%
Front Store	**2.6%**	12.7%	9.9%
Same store sales increase: [2]			
Total	**2.1%**	5.0%	4.5%
Pharmacy	**2.9%**	6.9%	4.8%
Front Store	**0.5%**	1.2%	3.6%
Generic dispensing rates	**73.0%**	69.9%	67.4%
Pharmacy % of net revenues	**68.0%**	67.5%	67.5%
Third party % of pharmacy revenue	**97.4%**	96.9%	96.1%
Retail prescriptions filled	**636.3**	616.5	559.0

(1) 2008 includes the results of Longs Drug Stores subsequent to the October 20, 2008 acquisition date.

(2) Same store sales increase includes the Longs Drug Stores beginning in November 2009.

Net revenues in our Retail Pharmacy Segment increased $2.0 billion, or 3.6% to $57.3 billion for the year ended December 31, 2010, as compared to the prior year. This increase was primarily driven by the same store sales increase of 2.1%, and net revenues from new stores, which accounted for approximately 140 basis points of our total net revenue percentage increase for the year ended December 31, 2010. Additionally, we continue to see a positive impact on our net revenues due to the growth of our Maintenance Choice program.

Net revenues increased $6.4 billion, or 13.0% to $55.4 billion for the year ended December 31, 2009, as compared to the prior year. The increase was primarily driven by the same store sales increase of 5.0%, the inclusion of the Longs Acquisition for a full year, as well as net revenue from new stores and a positive impact related to the growth of our Maintenance Choice program.

As you review our Retail Pharmacy segment's performance in this area, we believe you should consider the following important information:

- During 2009, net revenues from the Longs Drug Stores increased net revenues by $3.4 billion, compared to 2008. This increase is primarily due to a full year of net revenues associated with Longs Drug Stores versus a partial fourth quarter in 2008.
- Three fewer days in the 2009 fiscal year negatively impacted net revenues by $403 million, compared to 2008.
- As of December 31, 2010, we operated 7,182 retail stores, compared to 7,025 retail stores on December 31, 2009, and 6,923 retail stores on December 31, 2008. Total net revenues from new stores (excluding acquired stores) contributed approximately 1.4%, 1.6% and 1.5% to our total net revenue percentage increase in 2010, 2009 and 2008, respectively.
- Pharmacy revenue growth continued to benefit from the introduction of a prescription drug benefit under Medicare Part D, the ability to attract and retain managed care customers and favorable industry trends. These trends include an aging American population; many "baby boomers" are now in their fifties and sixties and are consuming a greater number of prescription drugs. In addition, the increased use of pharmaceuticals as the first line of defense for individual health care also contributed to the growing demand for pharmacy services. We believe these favorable industry trends will continue.

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

- Pharmacy revenue dollars continue to be negatively impacted in all years by the conversion of brand named drugs to equivalent generic drugs, which typically have a lower selling price. In addition, our pharmacy growth has also been affected by a decline in the number of significant new brand named drug introductions, higher consumer co-payments and co-insurance arrangements, and an increase in the number of over-the-counter remedies that were historically only available by prescription.

Gross profit in our Retail Pharmacy Segment includes net revenues 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.

Gross profit increased $446 million, or 2.7%, to $17.0 billion for the year ended December 31, 2010, as compared to the prior year. Gross profit as a percentage of net revenues decreased to 29.7% for the year ended December 31, 2010, compared to 30.0% for the prior year. The decline in gross profit as a percentage of net revenues was driven by declines in the gross profit of our pharmacy sales, partially offset by increases in the gross profit of our front store sales.

Gross profit increased $1.9 billion, or 12.6%, to $16.6 billion for the year ended December 31, 2009, as compared to the prior year. Gross profit as a percentage of net revenues decreased to 30.0% for the year ended December 31, 2009, compared to 30.1% for the prior year.

As you review our Retail Pharmacy segment's performance in this area, we believe you should consider the following important information:

- Three fewer days in the 2009 fiscal year negatively impacted gross profit by $123 million, compared to 2008.
- On average, our gross profit on front-store revenues is higher than our average gross profit on pharmacy revenues. During 2010, our front-store revenues were 32.0% of total revenues, compared to 32.5% in both 2009 and 2008. During 2010, our pharmacy revenues were 68.0% of total revenues, compared to 67.5% in both 2009 and 2008. This shift in sales mix had a negative effect on our overall gross profit for the year ended December 31, 2010.
- During 2010, our front-store gross profit rate was positively impacted by increases in private label and proprietary brand product sales, which normally yield a higher gross profit rate than other front-store products. During 2009, our front-store gross profit rate was negatively impacted by increased sales of promotional related items, which were partially offset by increases in private label and proprietary brand product sales.
- During 2010, 2009 and 2008, our pharmacy gross profit rate continued to benefit from an increase in generic drug revenues, which normally yield a higher gross profit rate than equivalent brand name drug revenues.
- Our pharmacy gross profit rates have been adversely affected by the efforts of managed care organizations, pharmacy benefit managers and governmental and other third-party payors to reduce their prescription drug costs. In the event this trend continues, we may not be able to sustain our current rate of revenue growth and gross profit dollars could be adversely impacted.
- The increased use of generic drugs has augmented the efforts of third party payors to reduce reimbursement payments to retail pharmacies for prescriptions. This trend, which we expect to continue, reduces the benefit we realize from brand to generic product conversions.
- Sales to customers covered by third party insurance programs have continued to increase and, thus, have become a larger component of our total pharmacy business. On average, our gross profit on third party pharmacy revenues is lower than our gross profit on cash pharmacy revenues. Third party pharmacy revenues were 97.4% of pharmacy revenues in 2010, compared to 96.9% and 96.1% of pharmacy revenues in 2009 and 2008, respectively. We expect this trend to continue.
- The Federal Government's Medicare Part D benefit is increasing prescription utilization. However, it is also decreasing our pharmacy gross profit rates as our higher gross profit business (e.g., cash customers) continued to migrate to Part D coverage during 2010 and 2009.
- The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, "PPACA") made several significant changes to Medicaid rebates and reimbursement. One of these changes was to revise the definition of Average Manufacturer Price and the reimbursement formula for multi-source drugs. CMS has not yet issued regulations implementing these changes. Therefore, we cannot predict the effect these changes will have on Medicaid reimbursement or their impact on the Company.

- In conjunction with a class action settlement with two entities that publish the AWP of pharmaceuticals, the AWP for many brand-name and some generic prescription drugs were reduced effective September 26, 2009. We reached understandings with virtually all of our commercial third-party payors where we participate as pharmacy providers to adjust reimbursements to account for this change in methodology, but most state Medicaid programs that utilize AWP as a pricing reference did not take action to make similar adjustments. Accordingly, state Medicaid reimbursement was adversely impacted in 2010.

Operating expenses in our Retail Pharmacy Segment include store and administrative payroll, employee benefits, store and administrative occupancy costs, selling expenses, advertising expenses, administrative expenses and depreciation and amortization expense.

Operating expenses increased $68 million, or less than 1%, to $12.5 billion for the year ended December 31, 2010, as compared to the prior year. Operating expenses as a percentage of net revenues decreased to 21.8% for the year ended December 31, 2010, compared to 22.5% for the prior year. The increase in operating expenses in 2010 was the result of higher store operating costs associated with our increased store count, partially offset by the absence of costs incurred related to the integration of the Longs Acquisition.

Operating expenses increased $1.4 billion, or 13.2%, to $12.4 billion for the year ended December 31, 2009, as compared to the prior year. Operating expenses as a percentage of net revenues increased to 22.5% for the year ended December 31, 2009, compared to 22.4% for the prior year. The increase in operating expenses in 2009 was the result of higher store operating costs associated with our increased store count including the Longs Acquisition stores that we owned for a full year in 2009 versus a partial year in 2008, as well as integration costs associated with the Longs Acquisition, partially offset by a positive impact of approximately $92 million due to three fewer days in the 2009 fiscal year as compared to 2008.

Corporate Segment

Operating expenses increased $87 million, or 16.3% and $78 million, or 16.9% during 2010 and 2009, respectively. Operating expenses within the Corporate segment include executive management, corporate relations, legal, compliance, human resources, corporate information technology and finance related costs.

Operating expenses increased during 2010 and 2009 primarily due to higher professional fees, primarily for legal services associated with increased litigation activity, information technology services associated with enterprise initiatives, compensation and benefit costs, and depreciation.

Liquidity and Capital Resources

We maintain a level of liquidity sufficient to allow us to cover our cash needs in the short-term. Over the long-term, we manage our cash and capital structure to maximize shareholder return, strengthen our financial position and maintain flexibility for future strategic initiatives. We continuously assess our working capital needs, debt and leverage levels, capital expenditure requirements, dividend payouts, potential share repurchases and future investments or acquisitions. We believe our operating cash flows, commercial paper program, sale-leaseback program, as well as any potential future borrowings, will be sufficient to fund these future payments and long-term initiatives.

Net cash provided by operating activities increased to approximately $4.8 billion in 2010. This compares to approximately $4.0 billion and $3.9 billion in 2009 and 2008, respectively. The increase in net cash provided by operating activities during 2010 was primarily due to increases in cash receipts from customers, decreases in inventory purchases, partially offset by cash paid to other suppliers. 2009 includes a full year of net cash provided by operating activities from the Longs Acquisition compared to 2008. 2008 also includes net cash provided by operating activities from the Longs Acquisition from the acquisition date (October 20, 2008) forward.

Net cash used in investing activities increased to approximately $1.6 billion in 2010. This compares to approximately $1.1 billion and $4.6 billion in 2009 and 2008, respectively. The increase in net cash used in investing activities was primarily due to a reduction in the amount of proceeds received from sale-leaseback transactions, partially offset by less cash used for purchases of property and equipment. The decrease in net cash used in investing activities in 2009 was primarily due to a reduction in acquisition activities in 2009 and an increase in sale-leaseback transactions.

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

Gross capital expenditures totaled approximately $2.0 billion during 2010, compared to approximately $2.5 billion in 2009 and $2.2 billion 2008. The decrease in gross capital expenditures during 2010 was primarily due to the absence of spending which occurred in 2009 related to resets of stores acquired as part of the Longs Acquisition. During 2010, approximately 52.0% of our total capital expenditures were for new store construction, 14.5% were for store expansion and improvements and 33.5% were for technology and other corporate initiatives.

Proceeds from sale-leaseback transactions totaled $507 million in 2010. This compares to $1.6 billion in 2009 and $204 million in 2008. Under the sale-leaseback transactions, the properties are generally sold at net book value, which generally approximates fair value, and the resulting leases qualify and are accounted for as operating leases. The specific timing and amount of future sale-leaseback transactions will vary depending on future market conditions and other factors. The decrease in 2010 was primarily due to higher transaction volume in 2009 as a result of a deferral of transactions from 2008, due to market conditions. This deferral was the primary reason for the significant increase in 2009 as compared to 2008.

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

	2010 [3]	2009 [3]	2008 [3]
Total stores (beginning of year)	**7,074**	6,981	6,301
New and acquired stores [1]	**179**	175	719
Closed stores	**(27)**	(82)	(39)
Total stores (end of year)	**7,226**	7,074	6,981
Relocated stores [2]	**106**	110	129

(1) 2008 includes 529 Longs Drug Stores that were acquired as part of the Longs Acquisition.

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

(3) Excludes specialty mail order facilities.

Net cash used in financing activities was approximately $2.8 billion in 2010, compared to net cash used in financing activities of $3.2 billion in 2009 and net cash provided by financing activities of $929 million in 2008. Net cash used in financing activities during 2010, was primarily due to the repayment of long term debt, of approximately $2.1 billion, $1.5 billion of share repurchases associated with the share repurchase programs described on the following pages, partially offset by the proceeds received of $991 million related to the issuance of long-term debt. Net cash used in financing activities during 2009 was primarily due to approximately $2.5 billion of share repurchases associated with the share repurchase programs described on the following pages, the net reduction of approximately $2.2 billion of our outstanding commercial paper borrowings, the repayment of $500 million of borrowings outstanding under our bridge credit facility used to finance the Longs Acquisition, and the payment of $439 million of dividends on our common stock. This was partially offset by the net increase in long-term debt of approximately $2.1 billion and proceeds from the exercise of stock options of $250 million. Net cash provided by financing activities during 2008 was primarily due to increased short-term and long-term borrowings used to fund the Longs Acquisition and to retire $353 million of debt assumed as part of the Longs Acquisition.

Share repurchase programs – On June 14, 2010, our Board of Directors authorized a new share repurchase program for up to $2.0 billion of our outstanding common stock (the "2010 Repurchase Program"). The share repurchase authorization, which was effective immediately and expires at the end of 2011, permits us to effect repurchases from time to time through a combination of open market repurchases, privately negotiated transactions, accelerated share repurchase transactions, and/or other derivative transactions. The share repurchase program may be modified, extended or terminated by the Board of Directors at any time. The Company did not make any share repurchases under the 2010 Repurchase Program through December 31, 2010.

On November 4, 2009, our Board of Directors authorized a share repurchase program for up to $2.0 billion of our outstanding common stock (the "2009 Repurchase Program"). In 2009, we repurchased 16.1 million shares of common stock for approximately $500 million pursuant to the 2009 Repurchase Program. During 2010, we repurchased 42.4 million shares of common stock for approximately $1.5 billion, completing the 2009 Repurchase Program.

On May 7, 2008, our Board of Directors authorized, effective May 21, 2008, a share repurchase program for up to $2.0 billion of our outstanding common stock (the "2008 Repurchase Program"). From May 21, 2008 through December 31, 2008, we repurchased approximately 0.6 million shares of common stock for $23 million under the 2008 Repurchase Program. During the year ended December 31, 2009, we repurchased approximately 57.0 million shares of common stock for approximately $2.0 billion completing the 2008 Repurchase Program.

On May 9, 2007, our Board of Directors authorized a share repurchase program for up to $5.0 billion of our outstanding common stock (the "2007 Repurchase Program"). The 2007 Repurchase Program was completed during 2007 through a $2.5 billion fixed dollar accelerated share repurchase agreement (the "May ASR agreement"), under which final settlement occurred in October 2007 and resulted in the repurchase of approximately 67.5 million shares of common stock; an open market repurchase program, which concluded in November 2007 and resulted in approximately 5.3 million shares of common stock being repurchased for approximately $212 million; and a $2.3 billion dollar fixed accelerated share repurchase agreement (the "November ASR agreement"), which resulted in an initial 51.6 million shares of common stock being purchased and placed into treasury stock as of December 29, 2007. The final settlement under the November ASR agreement occurred on March 28, 2008 and resulted in us receiving an additional 5.7 million shares of common stock, which were placed into treasury stock as of March 29, 2008.

Recently announced business combination – In December 2010, the Company announced it had entered into an agreement to acquire the Medicare Part D business of UAC for approximately $1.25 billion. The transaction is subject to customary closing conditions, including necessary regulatory approvals, as well as approval by UAC shareholders. The Company currently expects that the transaction will close by the end of the second quarter of 2011. We believe our cash flows from operations, commercial paper program and other available credit will be sufficient to fund this acquisition.

Short-term borrowings – We had $300 million of commercial paper outstanding at a weighted average interest rate of 0.40% as of December 31, 2010. In connection with our commercial paper program, we maintain a $1.4 billion, five-year unsecured back-up credit facility, which expires on May 12, 2011, a $1.3 billion, five-year unsecured back-up credit facility, which expires on March 12, 2012, and a $1.0 billion three-year unsecured back-up credit facility, which expires on May 27, 2013. The credit facilities allow for borrowings at various rates that are dependent, in part, on our public debt rating. There were no borrowings outstanding under the back-up credit facilities. We intend to renew our back-up credit facility which expires in May 2011.

Long-term borrowings – On May 13, 2010, we issued $550 million of 3.25% unsecured senior notes due May 18, 2015 and issued $450 million of 4.75% unsecured senior notes due May 18, 2020 (collectively, the "2010 Notes") for total proceeds of $991 million, which was net of discounts and underwriting fees. The 2010 Notes pay interest semiannually and may be redeemed, in whole at any time, or in part from time to time, at the Company's option at a defined redemption price plus accrued and unpaid interest to the redemption date. The net proceeds of the 2010 Notes were used to repay a portion of the Company's outstanding commercial paper borrowings, certain other corporate debt and for general corporate purposes.

On September 8, 2009, we issued $1.5 billion of 6.125% unsecured senior notes due September 15, 2039 (the "September 2009 Notes"). The September 2009 Notes pay interest semi-annually and may be redeemed, in whole or in part, at a defined redemption price plus accrued interest. The net proceeds were used to repay a portion of our outstanding commercial paper borrowings, $650 million of unsecured senior notes and for general corporate purposes.

On March 10, 2009, we issued $1.0 billion of 6.60% unsecured senior notes due March 15, 2019 (the "March 2009 Notes"). The March 2009 Notes pay interest semi-annually and may be redeemed, in whole or in part, at a defined redemption price plus accrued interest. The net proceeds were used to repay the bridge credit facility, a portion of our outstanding commercial paper borrowings and for general corporate purposes.

On July 1, 2009, we issued a $300 million unsecured floating rate senior note due January 30, 2011 (the "2009 Floating Rate Note"). The 2009 Floating Rate Note pays interest quarterly. The net proceeds from the 2009 Floating Rate Note were used for general corporate purposes.

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

On September 10, 2008, we issued $350 million of floating rate senior notes due September 10, 2010 (the "2008 Notes"). The 2008 Notes pay interest quarterly and may be redeemed at any time, in whole or in part at a defined redemption price plus accrued interest. The net proceeds from the 2008 Notes were used to fund a portion of the Longs Acquisition.

Our backup credit facility, unsecured senior notes and Enhanced Capital Advantaged Preferred Securities (see Note 5 to the Consolidated Financial Statements) 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 the restrictions contained in these covenants materially affect our financial or operating flexibility.

As of December 31, 2010 and 2009 we had no freestanding derivatives in place.

Debt Ratings – As of December 31, 2010, our long-term debt was rated "Baa2" by Moody's with a stable outlook and "BBB+" by Standard & Poor's with a negative outlook, and our commercial paper program was rated "P-2" by Moody's and "A-2" by Standard & Poor's. In assessing our credit strength, we believe that both Moody's and Standard & Poor's considered, among other things, our capital structure and financial policies as well as our consolidated balance sheet, our historical acquisition activity and other financial information. Although we currently believe our long-term debt ratings will remain investment grade, we cannot guarantee the future actions of Moody's and/or Standard & Poor's. Our debt ratings have a direct impact on our future borrowing costs, access to capital markets and new store operating lease costs.

Quarterly Dividend Increase – In January 2010, our Board of Directors authorized a 15% increase in our quarterly common stock dividend to $0.0875 per share. This increase equates to an annual dividend rate of $0.35 per share. On January 11, 2011, our Board of Directors authorized a 43% increase in our quarterly common stock dividend to $0.125 per share. This increase equate to an annual dividend rate of $0.50 per share.

Off-Balance Sheet Arrangements

In connection with executing operating leases, we provide a guarantee of the lease payments. We also finance a portion of our new store development through sale-leaseback transactions, which involve selling stores to unrelated parties 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, and we do not provide any guarantees, other than a guarantee of the lease payments, in connection with the transactions. In accordance with generally accepted accounting principles, our operating leases are not reflected on our consolidated balance sheets.

Between 1991 and 1997, the Company sold or spun off a number of subsidiaries, including Bob's Stores, Linens 'n Things, Marshalls, Kay-Bee Toys, This End Up and Footstar. In many cases, when a former subsidiary leased a store, the Company provided a guarantee of the store's lease obligations. When the subsidiaries were disposed of, the Company's guarantees remained in place, although each initial purchaser has indemnified the Company for any lease obligations the Company was required to satisfy. If any of the purchasers or any of the former subsidiaries were to become insolvent and failed to make the required payments under a store lease, the Company could be required to satisfy these obligations.

As of December 31, 2010, the Company guaranteed approximately 70 such store leases (excluding the lease guarantees related to Linens 'n Things), with the maximum remaining lease term extending through 2019. Management believes the ultimate disposition of any of the remaining lease guarantees will not have a material adverse effect on the Company's consolidated financial condition or future cash flows. Please see "Loss from Discontinued Operations" previously in this document for further information regarding our guarantee of certain Linens 'n Things' store lease obligations.

Following is a summary of our significant contractual obligations as of December 31, 2010:

		Payments Due by Period			
in millions	Total	2011	2012 to 2013	2014 to 2015	Thereafter
Operating leases	$ 26,803	$ 2,013	$ 4,088	$ 3,512	$ 17,190
Leases from discontinued operations	151	29	46	37	39
Long-term debt	9,605	1,103	3	1,100	7,399
Interest payments on long-term debt [(1)]	7,280	532	1,008	959	4,781
Other long-term liabilities reflected in our consolidated balance sheet	505	118	83	74	230
Capital lease obligations	340	19	38	39	244
	$ 44,684	$ 3,814	$ 5,266	$ 5,721	$ 29,883

(1) Interest payments on long-term debt are calculated on outstanding balances and interest rates in effect on December 31, 2010.

Critical Accounting Policies

We prepare our consolidated financial statements in conformity with generally accepted accounting principles, which require 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, we review our accounting policies and how they are applied and disclosed in our consolidated financial statements. While we believe 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. We believe 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 later in this document are applicable to each of our business segments. We have 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 our disclosures relating to them.

REVENUE RECOGNITION

Pharmacy Services Segment

Our Pharmacy Services segment sells prescription drugs directly through our mail service pharmacies and indirectly through our retail pharmacy network. We recognize revenues in our Pharmacy Services segment from prescription drugs sold by our mail service pharmacies and under retail pharmacy network contracts where we are the principal using the gross method at the contract prices negotiated with our clients. Net revenue from our Pharmacy Services segment includes: (i) the portion of the price the client pays directly to us, net of any volume-related or other discounts paid back to the client, (ii) the price paid to us ("Mail Co-Payments") or a third party pharmacy in our retail pharmacy network ("Retail Co-Payments") by individuals included in our clients' benefit plans, and (iii) administrative fees for retail pharmacy network contracts where we are not the principal.

We recognize revenue in the Pharmacy Services segment when: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the seller's price to the buyer is fixed or determinable, and (iv) collectability is reasonably assured. We recognize revenues generated from prescription drugs sold by mail service pharmacies when the prescription is shipped. At the time of shipment, we have performed substantially all of our obligations under the client contract and do not experience a significant level of reshipments. We recognize revenues generated from prescription drugs sold by third party pharmacies in our retail pharmacy network and associated administrative fees are recognized at the point-of-sale, which is when we adjudicate the claim in our online claims processing system.

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

We determine whether we are the principal or agent for our retail pharmacy network transactions on a contract by contract basis. In the majority of our contracts, we have determined we are the principal due to us: (i) being the primary obligor in the arrangement, (ii) having latitude in establishing the price, changing the product or performing part of the service, (iii) having discretion in supplier selection, (iv) having involvement in the determination of product or service specifications, and (v) having credit risk. Our obligations under our client contracts for which revenues are reported using the gross method are separate and distinct from our obligations to the third party pharmacies included in our retail pharmacy network contracts. Pursuant to these contracts, we are contractually required to pay the third party pharmacies in our retail pharmacy network for products sold, regardless of whether we are paid by our clients. Our responsibilities under these client contracts typically include validating eligibility and coverage levels, communicating the prescription price and the co-payments due to the third party retail pharmacy, identifying possible adverse drug interactions for the pharmacist to address with the physician prior to dispensing, suggesting clinically appropriate generic alternatives where appropriate and approving the prescription for dispensing. Although we do not have credit risk with respect to Retail Co-Payments, we believe that all of the other indicators of gross revenue reporting are present. For contracts under which we act as an agent, we record revenues using the net method.

We deduct from our revenues the manufacturers' rebates that are earned by our clients based on their members' utilization of brand-name formulary drugs. We estimate these rebates at period-end based on actual and estimated claims data and our estimates of the manufacturers' rebates earned by our clients. We base our estimates on the best available data at period-end and recent history for the various factors that can affect the amount of rebates due to the client. We adjust our rebates payable to clients to the actual amounts paid when these rebates are paid or as significant events occur. We record any cumulative effect of these adjustments against revenues as identified, and adjust our estimates prospectively to consider recurring matters. Adjustments generally result from contract changes with our clients or manufacturers, differences between the estimated and actual product mix subject to rebates or whether the product was included in the applicable formulary. Historically, the effect of these adjustments has not been material to our results of operations. We also deduct from our revenues pricing guarantees and guarantees regarding the level of service we will provide to the client or member as well as other payments made to our clients.

We participate in the Federal Government's Medicare Part D program as a Prescription Drug Plan ("PDP"). Our net revenues include insurance premiums earned by the PDP, which are determined based on the PDP's annual bid and related contractual arrangements with the Centers for Medicare and Medicaid Services ("CMS"). The insurance premiums include a beneficiary premium, which is the responsibility of the PDP member, but is subsidized by CMS in the case of low-income members, and a direct premium paid by CMS. Premiums collected in advance are initially deferred as accrued expenses and are then recognized ratably as revenue over the period in which members are entitled to receive benefits.

In addition to these premiums, our net revenues include co-payments, deductibles and co-insurance (collectively, the "Member Co-Payments") related to PDP members' actual prescription claims. In certain cases, CMS subsidizes a portion of these Member Co-Payments and we are paid an estimated prospective Member Co-Payment subsidy, each month. The prospective Member Co-Payment subsidy amounts received from CMS are also included in our net revenues. We assume no risk for these amounts, which represented 2.6%, 3.5% and 1.3% of consolidated net revenues in 2010, 2009 and 2008, respectively. If the prospective Member Co-Payment subsidies received differ from the amounts based on actual prescription claims, the difference is recorded in either accounts receivable or accrued expenses. We account for CMS obligations and Member Co-Payments (including the amounts subsidized by CMS) using the gross method consistent with our revenue recognition policies for Mail Co-Payments and Retail Co-Payments. We have recorded estimates of various assets and liabilities arising from our participation in the Medicare Part D program based on information in our claims management and enrollment systems. Significant estimates arising from our participation in the Medicare Part D program include: (i) estimates of low-income cost subsidy and reinsurance amounts ultimately payable to or receivable from CMS based on a detailed claims reconciliation, (ii) an estimate of amounts payable to CMS under a risk-sharing feature of the Medicare Part D program design, referred to as the risk corridor and (iii) estimates for claims that have been reported and are in the process of being paid or contested and for our estimate of claims that have been incurred but have not yet been reported. Actual amounts of Medicare Part D-related assets and liabilities could differ significantly from amounts recorded. Historically, the effect of these adjustments has not been material to our results of operations.

Retail Pharmacy Segment
Our Retail Pharmacy segment recognizes revenue from the sale of merchandise (other than prescription drugs) at the time the merchandise is purchased by the retail customer. We recognize revenue from the sale of prescription drugs at the time the prescription is filled, which is or approximates when the retail customer picks up the prescription. Customer returns are not material. Revenue from the performance of services in our health care clinics is recognized at the time the services are performed.

We have not made any material changes in the way we recognize revenue during the past three years.

VENDOR ALLOWANCES AND PURCHASE DISCOUNTS

Pharmacy Services Segment
Our Pharmacy Services segment receives purchase discounts on products purchased. Contractual arrangements with vendors, including manufacturers, wholesalers and retail pharmacies, normally provide for the Pharmacy Services segment to receive purchase discounts from established list prices in one, or a combination of, the following forms: (i) a direct discount at the time of purchase, (ii) a discount for the prompt payment of invoices or (iii) when products are purchased indirectly from a manufacturer (e.g., through a wholesaler or retail pharmacy), a discount (or rebate) paid subsequent to dispensing. These rebates are recognized when prescriptions are dispensed and are generally calculated and billed to manufacturers within 30 days of the end of each completed quarter. Historically, the effect of adjustments resulting from the reconciliation of rebates recognized to the amounts billed and collected has not been material to the results of operations. We account for the effect of any such differences as a change in accounting estimate in the period the reconciliation is completed. The Pharmacy Services segment also receives additional discounts under its wholesaler contract if it exceeds contractually defined annual purchase volumes. In addition, the Pharmacy Services segment receives fees from pharmaceutical manufacturers for administrative services. Purchase discounts and administrative service fees are recorded as a reduction of "Cost of revenues".

Retail Pharmacy Segment
Vendor allowances received by the Retail Pharmacy segment reduce the carrying cost of inventory and are recognized in cost of revenues when the related inventory is sold, unless they are specifically identified as a reimbursement of incremental costs for promotional programs and/or other services provided. Amounts that are directly linked to advertising commitments are recognized as a reduction of advertising expense (included in operating expenses) when the related advertising commitment is satisfied. Any such allowances received in excess of the actual cost incurred also reduce the carrying cost of inventory. The total value of any upfront payments received from vendors that are linked to purchase commitments is initially deferred. The deferred amounts are then amortized to reduce cost of revenues over the life of the contract based upon 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 revenues on a straight-line basis over the life of the related contract.

We have not made any material changes in the way we account for vendor allowances and purchase discounts during the past three years.

INVENTORY

Our inventory is stated at the lower of cost or market on a first-in, first-out basis using the retail method of accounting to determine cost of sales and inventory in our CVS/pharmacy stores, weighted average cost to determine cost of sales and inventory in our mail service and specialty pharmacies and the cost method of accounting on a first-in, first-out basis to determine 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 store and a continuous cycle count process is the primary procedure used to validate the inventory balances on hand in each distribution center and mail facility to ensure that the amounts reflected in the accompanying consolidated financial statements are properly stated. The accounting for inventory contains uncertainty since we 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 physical inventory loss trends.

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

Our total reserve for estimated inventory losses covered by this critical accounting policy was $120 million as of December 31, 2010. Although we believe we have sufficient current and historical information available to us to record reasonable estimates for estimated inventory losses, it is possible that actual results could differ. In order to help you assess the aggregate risk, if any, associated with the uncertainties discussed previously, a ten percent (10%) pre-tax change in our estimated inventory losses, which we believe is a reasonably likely change, would increase or decrease our total reserve for estimated inventory losses by about $12 million as of December 31, 2010.

We have not made any material changes in the accounting methodology used to establish our inventory loss reserves during the past three years. Although we believe that the estimates discussed previously 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.

GOODWILL AND INTANGIBLE ASSETS

Identifiable intangible assets consist primarily of trademarks, client contracts and relationships, favorable leases and covenants not to compete. These intangible assets arise primarily from the allocation of the purchase price of businesses acquired to identifiable intangible assets based on their respective fair market values at the date of acquisition.

Amounts assigned to identifiable intangible assets, and their related useful lives, are derived from established valuation techniques and management estimates. Goodwill represents the excess of amounts paid for acquisitions over the fair value of the net identifiable assets acquired.

We evaluate the recoverability of certain long-lived assets, including intangible assets with finite lives, but excluding goodwill and intangible assets with indefinite lives, which are tested for impairment using separate tests, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. We group and evaluate these long-lived assets for impairment at the lowest level at which individual cash flows can be identified. When evaluating these long-lived assets for potential impairment, we first compare the carrying amount of the asset group to the asset group'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 group, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the asset group to the asset group's estimated future cash flows (discounted and with interest charges). If required, an impairment loss is recorded for the portion of the asset group's carrying value that exceeds the asset group's estimated future cash flows (discounted and with interest charges). Our long-lived asset impairment loss calculation contains uncertainty since we must use judgment to estimate each asset group's future sales, profitability and cash flows. When preparing these estimates, we consider 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 and regulatory conditions, efforts of third party organizations to reduce their prescription drug costs and/or increased member co-payments, the continued efforts of competitors to gain market share and consumer spending patterns.

Goodwill and indefinitely-lived intangible assets are subject to annual impairment reviews, or more frequent reviews if events or circumstances indicate that the carrying value may not be recoverable.

Indefinitely-lived intangible assets are tested by comparing the estimated fair value of the asset to its carrying value. If the carrying value of the asset exceeds its estimated fair value, an impairment loss is recognized and the asset is written down to its estimated fair value.

Our indefinitely-lived intangible asset impairment loss calculation contains uncertainty since we must use judgment to estimate the fair value based on the assumption that in lieu of ownership of an intangible asset, the Company would be willing to pay a royalty in order to utilize the benefits of the asset. Value is estimated by discounting the hypothetical royalty payments to their present value over the estimated economic life of the asset. These estimates can be affected by a number of factors including, but not limited to, general economic conditions, availability of market information as well as the profitability of the Company.

Goodwill is tested for impairment on a reporting unit basis using a two-step process. The first step of the impairment test is to identify potential impairment by comparing the reporting unit's fair value with its net book value (or carrying amount), including goodwill. The fair value of our reporting units is estimated using a combination of the discounted cash flow valuation model and comparable market transaction models. If the fair value of the reporting unit exceeds its carrying amount, the reporting unit's goodwill is not considered to be impaired and the second step of the impairment test is not performed. If the carrying amount of the reporting unit's carrying amount exceeds its fair value, the second step of the impairment test is performed to measure the amount of impairment loss, if any. The second step of the impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of the goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to that excess.

The determination of the fair value of our reporting units requires the Company to make significant assumptions and estimates. These assumptions and estimates primarily include, but are not limited to, the selection of appropriate peer group companies; control premiums and valuation multiples appropriate for acquisitions in the industries in which the Company competes; discount rates, terminal growth rates; and forecasts of revenue, operating profit, depreciation and amortization, capital expenditures and future working capital requirements. When determining these assumptions and preparing these estimates, we consider each reporting unit's historical results and current operating trends and our consolidated revenues, profitability and cash flow results and forecasts. Our estimates can be affected by a number of factors including, but not limited to, general economic and regulatory conditions, our market capitalization, efforts of third party organizations to reduce their prescription drug costs and/or increase member co-payments, the continued efforts of competitors to gain market share and consumer spending patterns.

The carrying value of goodwill and other intangible assets covered by this critical accounting policy was $25.7 billion and $9.8 billion as of December 31, 2010, respectively. We did not record any impairment losses related to goodwill or other intangible assets during 2010, 2009 or 2008. During the third quarter of 2010, we performed our required annual impairment tests of goodwill and indefinitely-lived trademarks. The results of the impairment tests concluded that there was no impairment of goodwill or trademarks. The goodwill impairment test resulted in the fair value of our Retail Pharmacy reporting unit exceeding its carrying value by a substantial margin and the fair value of our Pharmacy Services reporting unit exceeding its carrying value by approximately 12%. The carrying value of goodwill as of December 31, 2010, in our Retail Pharmacy and Pharmacy Services reporting units was $6.8 billion and $18.9 billion, respectively.

Although we believe we have sufficient current and historical information available to us to test for impairment, it is possible that actual results could differ from the estimates used in our impairment tests.

We have not made any material changes in the methodologies utilized to test the carrying values of goodwill and intangible assets for impairment during the past three years.

CLOSED STORE LEASE LIABILITY

We account for closed store lease termination costs when a leased store is closed. When a leased store is closed, we record a liability for the estimated present value of the remaining obligation under the noncancelable lease, which includes future real estate taxes, common area maintenance and other charges, if applicable. The liability is reduced by estimated future sublease income.

The initial calculation and subsequent evaluations of our closed store lease liability contain uncertainty since we 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.

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

Our total closed store lease liability covered by this critical accounting policy was $451 million as of December 31, 2010. This amount is net of $288 million of estimated sublease income that is subject to the uncertainties discussed previously. Although we believe we have sufficient current and historical information available to us to record reasonable estimates for sublease income, it is possible that actual results could differ.

In order to help you assess the risk, if any, associated with the uncertainties discussed previously, a ten percent (10%) pre-tax change in our estimated sublease income, which we believe is a reasonably likely change, would increase or decrease our total closed store lease liability by about $29 million as of December 31, 2010.

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, workers' compensation and auto liability, although we maintain stop loss coverage with third party insurers to limit our total liability exposure. We are also self-insured for certain losses related to health and medical liabilities.

The estimate of our self-insurance liability contains uncertainty since we 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 other standard insurance industry actuarial assumptions. On a quarterly basis, we review to determine if our self-insurance liability is adequate as it relates to our general liability, workers' compensation and auto liability. Similar reviews are conducted semi-annually to determine if our self-insurance liability is adequate for our health and medical liability.

Our total self-insurance liability covered by this critical accounting policy was $474 million as of December 31, 2010. Although we believe we have sufficient current and historical information available to us to record reasonable estimates for our self-insurance liability, it is possible that actual results could differ. In order to help you assess the risk, if any, associated with the uncertainties discussed previously, a ten percent (10%) pre-tax change in our estimate for our self-insurance liability, which we believe is a reasonably likely change, would increase or decrease our self-insurance liability by about $47 million as of December 31, 2010.

We have not made any material changes in the accounting methodology used to establish our self-insurance liability during the past three years.

Recently Adopted Accounting Pronouncements

Effective January 1, 2009, we adopted Accounting Standards Codification ("ASC") 805 *Business Combinations* ("ASC 805") (formerly Statement of Financial Accounting Standard ("SFAS") No. 141 (R), "Business Combinations"). ASC 805 establishes the principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. The guidance also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of business combinations. ASC 805 requires that income tax benefits related to business combinations that are not recorded at the date of acquisition are recorded as an income tax benefit in the statement of operations when subsequently recognized. Previously, unrecognized income tax benefits related to business combinations were recorded as an adjustment to the purchase price allocation when recognized. We recognized approximately $34 million and $147 million of previously unrecognized income tax benefits related to business combinations (after considering the federal benefit of state taxes), plus interest, due to the expiration of various statutes of limitation and settlements with tax authorities in 2010 and 2009, respectively. The Company had approximately $10 million and $20 million, in 2010 and 2009, respectively, of unrecognized tax benefits (after considering the federal benefit of state taxes), plus interest, related to business combinations that would have been treated as an adjustment to the purchase price allocation if they would have been recognized under the previous business combination guidance.

In June 2009, the Financial Accounting Standards Board ("FASB") issued guidance that amends ASC 810 *Consolidations* (formerly SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)"). The amendment requires a company to analyze whether its interest in a variable interest entity ("VIE") gives it a controlling financial interest. The determination of whether a company is required to consolidate another entity is based on, among other things, the other entity's purpose and design and a company's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. Additional disclosures are required to identify a company's involvement with the VIE and any significant changes in risk exposure due to such involvement. The amendment is effective for all new and existing VIEs as of the beginning of the first fiscal year that begins after November 15, 2009. The adoption of this standard did not have a material impact on our consolidated results of operations, financial position or cash flows.

In January 2010, the FASB issued guidance which expanded the required disclosures about fair value measurements. In particular, this guidance requires (i) separate disclosure of the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements along with the reasons for such transfers, (ii) information about purchases, sales, issuances and settlements to be presented separately in the reconciliation for Level 3 fair value measurements, (iii) expanded fair value measurement disclosures for each class of assets and liabilities and (iv) disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3. This guidance is effective for annual reporting periods beginning after December 15, 2009 except for (ii) above which is effective for fiscal years beginning after December 15, 2010. The adoption of this standard did not have a material impact on our consolidated results of operations, financial position or cash flows.

Recently Proposed Accounting Standard Update

In August 2010, the FASB issued a proposed accounting standard update on lease accounting that would require entities to recognize assets and liabilities arising from lease contracts on the balance sheet. The proposed accounting standard update states that lessees and lessors should apply a "right-of-use model" in accounting for all leases. Under the proposed model, lessees would recognize an asset for the right to use the leased asset, and a liability for the obligation to make rental payments over the lease term. The lease term is defined as the longest possible term that is "more likely than not" to occur. The accounting by a lessor would reflect its retained exposure to the risks or benefits of the underlying leased asset. A lessor would recognize an asset representing its right to receive lease payments based on the expected term of the lease. Comments on this exposure draft were due December 15, 2010 and the final standard is expected to be issued sometime in 2011. While we believe that the proposed standard, as currently drafted, will likely have a material impact on our reported financial position and reported results of operations, it will not have a material impact on our liquidity; however, until the proposed standard is finalized, such evaluation cannot be completed.

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 Caremark 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," "should" and similar expressions identify statements that constitute forward-looking statements. All statements addressing operating performance of CVS Caremark Corporation or any subsidiary, events or developments that the Company expects or anticipates will occur in the future, including statements relating to revenue growth, earnings or earnings per common share growth, adjusted earnings or adjusted earnings per common share growth, free cash flow, debt ratings, 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.

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

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:

- Our business is affected by the economy in general including changes in consumer purchasing power, preferences and/or spending patterns. These changes could affect drug utilizations trends, the number of covered lives and the financial health of our PBM clients. Further, interest rate fluctuations, changes in capital market conditions and regulatory changes may affect our ability to obtain necessary financing on acceptable terms, our ability to secure suitable store locations under acceptable terms and our ability to execute future sale-leaseback transactions under acceptable terms;
- Our ability to realize the anticipated long-term strategic benefits from our integrated pharmacy services model;
- Our ability to realize the planned benefits associated with the pending acquisition of UAC's Medicare Part D business in accordance with the expected timing;
- The continued efforts of health maintenance organizations, managed care organizations, pharmacy benefit management companies and other third party payors to reduce prescription drug costs and pharmacy reimbursement rates, particularly with respect to generic pharmaceuticals;
- The possibility of client loss and/or the failure to win new client business;
- Risks related to the frequency and rate of the introduction of generic drugs and brand name prescription products;
- The effect on our Pharmacy Services business of a declining margin environment attributable to increased competition in the pharmacy benefit management industry and increased client demands for lower prices, enhanced service offerings and/or higher service levels;
- Risks related to our inability to earn and retain purchase discounts and/or rebates from pharmaceutical manufacturers and to earn and retain retail network "differential" or "spread";
- Risks regarding the impact of the Medicare prescription drug benefit on our business;
- Risks related to the change in industry pricing benchmarks that could adversely affect our financial performance;
- Increased competition from other drugstore chains, supermarkets, discount retailers, membership clubs and Internet companies, as well as changes in consumer preferences or loyalties;
- Risks related to PPACA and other health care reform laws and the regulations promulgated under those laws;
- Litigation, legislative and regulatory risks associated with our business or the retail pharmacy business, retail clinic operations and/or pharmacy benefit management industry generally;
- The risks relating to 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 risks relating to adverse developments in the health care or pharmaceutical industry generally, including, but not limited to, developments in any investigation related to the pharmaceutical industry that may be conducted by any governmental authority; 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 Report on Internal Control Over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting. Our Company's internal control over financial reporting includes those policies and procedures that pertain to the Company's ability to record, process, summarize and report a system of internal accounting controls and procedures to provide reasonable assurance, at an appropriate cost/benefit relationship, that the unauthorized acquisition, use or disposition of assets are prevented or timely detected and that transactions are authorized, recorded and reported properly to permit the preparation of financial statements in accordance with generally accepted accounting principles (GAAP) and receipt and expenditures are duly authorized. In order to ensure the Company's internal control over financial reporting is effective, management regularly assesses such controls and did so most recently for its financial reporting as of December 31, 2010.

We conducted an assessment of the effectiveness of our internal controls over financial reporting based on the criteria set forth in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included review of the documentation, evaluation of the design effectiveness and testing of the operating effectiveness of controls. Our system of internal control over financial reporting is enhanced by periodic reviews by our internal 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 and procedures. There are inherent limitations in the effectiveness of any system of internal controls over financial reporting.

Based on our assessment, we conclude our Company's internal control over financial reporting is effective and provides reasonable assurance that assets are safeguarded and that the financial records are reliable for preparing financial statements as of December 31, 2010.

Ernst & Young LLP, independent registered public accounting firm, is 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 as well as conducting an audit of internal control over financial reporting. Their accompanying report is based upon an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States).

February 18, 2011

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
CVS Caremark Corporation

We have audited CVS Caremark Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). CVS Caremark Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on CVS Caremark Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, CVS Caremark Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of CVS Caremark Corporation as of December 31, 2010 and 2009 and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2010 of CVS Caremark Corporation and our report dated February 18, 2011 expressed an unqualified opinion thereon.

Ernst & Young LLP

Boston, Massachusetts
February 18, 2011

Consolidated Statements of Income

	Year Ended December 31,		
in millions, except per share amounts	**2010**	2009	2008
Net revenues	**$ 96,413**	$ 98,729	$ 87,472
Cost of revenues	**76,156**	78,349	69,182
Gross profit	**20,257**	20,380	18,290
Operating expenses	**14,092**	13,942	12,244
Operating profit	**6,165**	6,438	6,046
Interest expense, net	**536**	525	509
Income before income tax provision	**5,629**	5,913	5,537
Income tax provision	**2,190**	2,205	2,193
Income from continuing operations	**3,439**	3,708	3,344
Loss from discontinued operations, net of income tax benefit	**(15)**	(12)	(132)
Net income	**3,424**	3,696	3,212
Net loss attributable to noncontrolling interest	**3**	–	–
Preference dividends, net of income tax benefit	**–**	–	(14)
Net income attributable to CVS Caremark	**$ 3,427**	$ 3,696	$ 3,198
Basic earnings per common share:			
Income from continuing operations attributable to CVS Caremark	**$ 2.52**	$ 2.59	$ 2.32
Loss from discontinued operations attributable to CVS Caremark	**(0.01)**	(0.01)	(0.09)
Net income attributable to CVS Caremark	**$ 2.51**	$ 2.58	$ 2.23
Weighted average common shares outstanding	**1,367**	1,434	1,434
Diluted earnings per common share:			
Income from continuing operations attributable to CVS Caremark	**$ 2.50**	$ 2.56	$ 2.27
Loss from discontinued operations attributable to CVS Caremark	**(0.01)**	(0.01)	(0.09)
Net income attributable to CVS Caremark	**$ 2.49**	$ 2.55	$ 2.18
Weighted average common shares outstanding	**1,377**	1,450	1,469
Dividends declared per common share	**$ 0.350**	$ 0.305	$ 0.258

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

	December 31,	
in millions, except per share amounts	**2010**	2009
Assets:		
Cash and cash equivalents	**$ 1,427**	$ 1,086
Short-term investments	**4**	5
Accounts receivable, net	**4,925**	5,457
Inventories	**10,695**	10,343
Deferred income taxes	**511**	506
Other current assets	**144**	140
Total current assets	**17,706**	17,537
Property and equipment, net	**8,322**	7,923
Goodwill	**25,669**	25,680
Intangible assets, net	**9,784**	10,127
Other assets	**688**	374
Total assets	**$ 62,169**	$ 61,641
Liabilities:		
Accounts payable	**$ 4,026**	$ 3,560
Claims and discounts payable	**2,569**	3,075
Accrued expenses	**3,070**	3,246
Short-term debt	**300**	315
Current portion of long-term debt	**1,105**	2,104
Total current liabilities	**11,070**	12,300
Long-term debt	**8,652**	8,756
Deferred income taxes	**3,655**	3,678
Other long-term liabilities	**1,058**	1,102
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interest	**34**	37
Shareholders' equity:		
Preferred stock, par value $0.01: 0.1 shares authorized; none issued or outstanding	**–**	–
Common stock, par value $0.01: 3,200 shares authorized; 1,624 shares issued and 1,363 shares outstanding at December 31, 2010 and 1,612 shares issued and 1,391 shares outstanding at December 31, 2009	**16**	16
Treasury stock, at cost: 259 shares at December 31, 2010 and 219 shares at December 31, 2009	**(9,030)**	(7,610)
Shares held in trust: 2 shares at December 31, 2010 and 2009	**(56)**	(56)
Capital surplus	**27,610**	27,198
Retained earnings	**19,303**	16,355
Accumulated other comprehensive loss	**(143)**	(135)
Total shareholders' equity	**37,700**	35,768
Total liabilities and shareholders' equity	**$ 62,169**	$ 61,641

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Year Ended December 31,		
in millions	**2010**	2009	2008
Cash flows from operating activities:			
Cash receipts from revenues	**$ 94,503**	$ 93,568	$ 82,250
Cash paid for inventory and prescriptions dispensed by retail network pharmacies	**(73,143)**	(73,536)	(64,131)
Cash paid to other suppliers and employees	**(13,778)**	(13,121)	(11,832)
Interest and dividends received	**4**	5	20
Interest paid	**(583)**	(542)	(574)
Income taxes paid	**(2,224)**	(2,339)	(1,786)
Net cash provided by operating activities	**4,779**	4,035	3,947
Cash flows from investing activities:			
Additions to property and equipment	**(2,005)**	(2,548)	(2,180)
Proceeds from sale-leaseback transactions	**507**	1,562	204
Acquisitions (net of cash acquired) and other investments	**(177)**	(101)	(2,651)
Purchase of short-term investments	**–**	(5)	–
Proceeds from sale or maturity of short-term investments	**1**	–	28
Proceeds from sale or disposal of assets	**34**	23	19
Net cash used in investing activities	**(1,640)**	(1,069)	(4,580)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	**(15)**	(2,729)	959
Repayment of debt assumed in acquisition	**–**	–	(353)
Issuance of long-term debt	**991**	2,800	350
Repayments of long-term debt	**(2,103)**	(653)	(2)
Dividends paid	**(479)**	(439)	(383)
Derivative settlements	**(5)**	(3)	–
Proceeds from exercise of stock options	**285**	250	328
Excess tax benefits from stock-based compensation	**28**	19	53
Repurchase of common stock	**(1,500)**	(2,477)	(23)
Net cash provided by (used in) financing activities	**(2,798)**	(3,232)	929
Net increase (decrease) in cash and cash equivalents	**341**	(266)	296
Cash and cash equivalents at beginning of year	**1,086**	1,352	1,056
Cash and cash equivalents at end of year	**$ 1,427**	$ 1,086	$ 1,352
Reconciliation of net income to net cash provided by operating activities:			
Net income	**$ 3,424**	$ 3,696	$ 3,212
Adjustments required to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**1,469**	1,389	1,274
Stock-based compensation	**150**	165	92
Deferred income taxes and other noncash items	**30**	48	(3)
Change in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable, net	**532**	(86)	(291)
Inventories	**(352)**	(1,199)	(488)
Other current assets	**(4)**	48	12
Other assets	**(210)**	(2)	19
Accounts payable	**(40)**	4	(64)
Accrued expenses	**(176)**	(66)	183
Other long-term liabilities	**(44)**	38	1
Net cash provided by operating activities	**$ 4,779**	$ 4,035	$ 3,947

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

	Shares			Dollars		
	Year Ended December 31,			Year Ended December 31,		
in millions	**2010**	2009	2008	**2010**	2009	2008
Preference stock:						
Beginning of year	**–**	4	4	**$ –**	$ 191	$ 202
Conversion to common stock	**–**	(4)	–	**–**	(191)	(11)
End of year	**–**	–	4	**$ –**	$ –	$ 191
Common stock:						
Beginning of year	**1,612**	1,603	1,590	**$ 16**	$ 16	$ 16
Stock options exercised and stock awards	**12**	9	13	**–**	–	–
End of year	**1,624**	1,612	1,603	**$ 16**	$ 16	$ 16
Treasury stock:						
Beginning of year	**(219)**	(165)	(154)	**$ (7,610)**	$ (5,812)	$ (5,620)
Purchase of treasury shares	**(42)**	(73)	(7)	**(1,500)**	(2,477)	(33)
Conversion of preference stock	**–**	17	1	**–**	583	35
Transfer from shares held in trust	**–**	–	(7)	**–**	–	(272)
Employee stock purchase plan issuances	**2**	2	2	**80**	96	78
End of year	**(259)**	(219)	(165)	**$ (9,030)**	$ (7,610)	$ (5,812)
Guaranteed ESOP obligation:						
Beginning of year				**$ –**	$ –	$ (44)
Reduction of guaranteed ESOP obligation				**–**	–	44
End of year				**$ –**	$ –	$ –
Shares held in trust:						
Beginning of year	**(2)**	(2)	(9)	**$ (56)**	$ (56)	$ (301)
Transfer to treasury stock	**–**	–	7	**–**	–	245
End of year	**(2)**	(2)	(2)	**$ (56)**	$ (56)	$ (56)
Capital surplus:						
Beginning of year				**$ 27,198**	$ 27,280	$ 26,832
Conversion of shares held in trust to treasury stock				**–**	–	27
Stock option activity and stock awards				**384**	291	392
Tax benefit on stock options and stock awards				**28**	19	53
Conversion of preference stock				**–**	(392)	(24)
End of year				**$ 27,610**	$ 27,198	$ 27,280

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

	Shares			Dollars		
	Year Ended December 31,			Year Ended December 31,		
in millions	**2010**	2009	2008	**2010**	2009	2008
Retained earnings:						
Beginning of year				**$ 16,355**	$ 13,098	$ 10,287
Net income (excludes net loss attributable to noncontrolling interest of $3 in 2010)				**3,427**	3,696	3,212
Common stock dividends				**(479)**	(439)	(370)
Preference stock dividends				**–**	–	(14)
Tax benefit on preference stock dividends				**–**	–	1
Adoption of ASC 715-60 (formerly EITF 06-04 and 06-10)				**–**	–	(18)
End of year				**$ 19,303**	$ 16,355	$ 13,098
Accumulated other comprehensive loss:						
Beginning of year				**$ (135)**	$ (143)	$ (50)
Net cash flow hedges, net of income tax				**(1)**	1	3
Pension liability adjustment, net of income tax				**(7)**	7	(96)
End of year				**$ (143)**	$ (135)	$ (143)
Total shareholders' equity				**$ 37,700**	$ 35,768	$ 34,574
Comprehensive income:						
Net income				**$ 3,424**	$ 3,696	$ 3,212
Net cash flow hedges, net of income tax				**(1)**	1	3
Pension liability adjustment, net of income tax				**(7)**	7	(96)
Comprehensive income				**3,416**	3,704	3,119
Comprehensive loss attributable to noncontrolling interest				**3**	–	–
Comprehensive income attributable to CVS Caremark				**$ 3,419**	$ 3,704	$ 3,119

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1: SIGNIFICANT ACCOUNTING POLICIES

Description of business – CVS Caremark Corporation and its subsidiaries (the "Company") comprise the largest pharmacy health care provider (based on revenues and prescriptions filled) in the United States.

Pharmacy Services Segment (the "PSS") – The PSS provides a full range of pharmacy benefit management services including mail order pharmacy services, specialty pharmacy services, plan design and administration, formulary management and claims processing. The Company's clients are primarily employers, insurance companies, unions, government employee groups, managed care organizations and other sponsors of health benefit plans and individuals throughout the United States.

As a pharmacy benefits manager, the PSS manages the dispensing of pharmaceuticals through the Company's mail order pharmacies and national network of approximately 65,000 retail pharmacies to eligible members in the benefits plans maintained by the Company's clients and utilizes its information systems to perform, among other things, safety checks, drug interaction screenings and brand to generic substitutions.

The PSS's specialty pharmacies support individuals that require complex and expensive drug therapies. The specialty pharmacy business includes mail order and retail specialty pharmacies that operate under the CVS Caremark® and CarePlus CVS/pharmacy™ names.

The PSS also provides health management programs, which include integrated disease management for 28 conditions, through Alere, L.L.C. and the Company's Accordant® health management offering.

In addition, through the Company's SilverScript Insurance Company ("SilverScript") and Accendo Insurance Company ("Accendo") subsidiaries, the PSS is a national provider of drug benefits to eligible beneficiaries under the Federal Government's Medicare Part D program. The PSS acquired Accendo in the Longs Acquisition (defined later in Note 2), and, effective January 1, 2009, Accendo replaced RxAmerica® as the Medicare-approved prescription drug plan for the RxAmerica Medicare Part D drug benefit plans.

The pharmacy services business generates net revenues primarily by contracting with clients to provide prescription drugs to plan members. Prescription drugs are dispensed by the mail order pharmacies, specialty pharmacies and national network of retail pharmacies. Net revenues are also generated by providing additional services to clients, including administrative services such as claims processing and formulary management, as well as health care related services such as disease management.

The pharmacy services business operates under the CVS Caremark Pharmacy Services®, Caremark®, CVS Caremark™ , CarePlus CVS/pharmacy, CarePlus™ , RxAmerica®, Accordant® and TheraCom® names. As of December 31, 2010, the Pharmacy Services segment operated 44 retail specialty pharmacy stores, 18 specialty mail order pharmacies and four mail service pharmacies located in 25 states, Puerto Rico and the District of Columbia.

Retail Pharmacy Segment (the "RPS") – The RPS sells prescription drugs and a wide assortment of general merchandise, including over-the-counter drugs, beauty products and cosmetics, photo finishing, seasonal merchandise, greeting cards and convenience foods, through the Company's CVS/pharmacy® and Longs Drugs® retail stores and online through CVS.com®.

The RPS also provides health care services through its MinuteClinic® health care clinics. MinuteClinics are staffed by nurse practitioners and physician assistants who utilize nationally recognized protocols to diagnose and treat minor health conditions, perform health screenings, monitor chronic conditions and deliver vaccinations.

As of December 31, 2010, the retail pharmacy business included 7,182 retail drugstores (of which 7,123 operated a pharmacy) located in 41 states the District of Columbia and Puerto Rico operating primarily under the CVS/ pharmacy name, the online retail website, CVS.com and 560 retail health care clinics operating under the MinuteClinic name (of which 550 were located in CVS/pharmacy stores).

Corporate Segment – The Corporate segment provides management and administrative services to support the Company. The Corporate segment consists of certain aspects of the Company's executive management, corporate relations, legal, compliance, human resources, corporate information technology and finance departments.

Principles of Consolidation – The consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. All intercompany balances and transactions have been eliminated.

Reclassifications – Certain reclassifications have been made to the 2009 and 2008 consolidated financial statements to conform to the current year presentation.

Fiscal Year Change – On December 23, 2008, the Board of Directors of the Company approved a change in the Company's fiscal year end from the Saturday nearest December 31 of each year to December 31 of each year to better reflect the Company's position in the health care, rather than the retail, industry. The fiscal year change was effective beginning with the fourth quarter of fiscal 2008.

Following is a summary of the impact of the fiscal year change:

Fiscal Year	Fiscal Year-End	Fiscal Period	Fiscal Period Includes
2010	December 31, 2010	January 1, 2010 - December 31, 2010	365 days
2009	December 31, 2009	January 1, 2009 - December 31, 2009	365 days
2008	December 31, 2008	December 30, 2007 - December 31, 2008	368 days

Unless otherwise noted, all references to years relate to the above fiscal years.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Fair Value Hierarchy – The Company utilizes the three-level valuation hierarchy for the recognition and disclosure of fair value measurements. The categorization of assets and liabilities within this hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The three levels of the hierarchy consist of the following:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 – Inputs to the valuation methodology are quoted prices for similar assets and liabilities in active markets, quoted prices in markets that are not active or inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the instrument.
- Level 3 – Inputs to the valuation methodology are unobservable inputs based upon management's best estimate of inputs market participants could use in pricing the asset or liability at the measurement date, including assumptions about risk.

Cash and cash equivalents – Cash and cash equivalents consist of cash and temporary investments with maturities of three months or less when purchased. The Company invests in short-term money market funds, commercial paper, time deposits, as well as other debt securities that are classified as cash and cash equivalents within the accompanying consolidated balance sheets, as these funds are highly liquid and readily convertible to known amounts of cash. These investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

Short-term investments – The Company's short-term investments consist of certificate of deposits with initial maturities of greater than three months when purchased. These investments, which were classified as available-for-sale within Level 1 of the fair value hierarchy, were carried at historical cost, which approximated fair value at December 31, 2010 and 2009.

Fair value of financial instruments – As of December 31, 2010, the Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and short-term debt. Due to the short-term nature of these instruments, the Company's carrying value approximates fair value. The carrying amount and estimated fair value of long-term debt was $9.8 billion and $10.5 billion, respectively, as of December 31, 2010. The fair value of long-term debt was estimated based on rates currently offered to the Company for debt with similar terms and maturities. The Company had outstanding letters of credit, which guaranteed foreign trade purchases, with a fair value of $6 million and $9 million as of December 31, 2010 and 2009, respectively. There were no outstanding investments in derivative financial instruments as of December 31, 2010 and 2009.

Accounts receivable – Accounts receivable are stated net of an allowance for doubtful accounts. The accounts receivable balance primarily includes trade amounts due from third party providers (e.g., pharmacy benefit managers, insurance companies and governmental agencies), clients and members, as well as vendors and manufacturers.

Notes to Consolidated Financial Statements

The activity in the allowance for doubtful trade accounts receivable is as follows:

	Fiscal Year Ended December 31,		
in millions	**2010**	2009	2008
Opening balance	**$ 224**	$ 189	$ 108
Additions charged to bad debt expense	**73**	135	121
Write-offs charged to allowance	**(115)**	(100)	(40)
Ending balance	**$ 182**	$ 224	$ 189

Inventories – Inventories are stated at the lower of cost or market on a first-in, first-out basis using the retail method of accounting to determine cost of sales and inventory in the Company's CVS/pharmacy stores, weighted average cost to determine cost of sales and inventory in the Company's mail service and specialty pharmacies and the cost method of accounting on a first-in, first-out basis to determine inventory in the Company's distribution centers. Physical inventory counts are taken on a regular basis in each store and a continuous cycle count process is the primary procedure used to validate the inventory balances on hand in each distribution center and mail facility 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 3 to 10 years for fixtures, equipment and internally developed software. 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. Application development stage costs for significant internally developed software projects are capitalized and depreciated.

The following are the components of property and equipment at December 31:

in millions	**2010**	2009
Land	**$ 1,247**	$ 1,076
Building and improvements	**2,265**	2,020
Fixtures and equipment	**7,148**	6,322
Leasehold improvements	**2,866**	2,673
Software	**757**	853
	14,283	12,944
Accumulated depreciation and amortization	**(5,961)**	(5,021)
	$ 8,322	$ 7,923

The gross amount of property and equipment under capital leases was $191 million as of December 31, 2010 and 2009, respectively.

Goodwill – Goodwill and other indefinite-lived assets are not amortized, but are subject to impairment reviews annually, or more frequently if necessary. See Note 3 for additional information on goodwill.

Intangible assets – Purchased customer contracts and relationships are amortized on a straight-line basis over their estimated useful lives between 10 and 20 years. 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 3 for additional information about intangible assets.

Impairment of long-lived assets – The Company groups and evaluates fixed and finite-lived intangible assets, excluding goodwill, for impairment at 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 group to the estimated future cash flows associated with the asset group (undiscounted and without interest charges). If the estimated future cash flows used in this analysis are less than the carrying amount of the asset group, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the asset group to the asset group's estimated future cash flows (discounted and with interest charges). If required, an impairment loss is recorded for the portion of the asset group's carrying value that exceeds the asset group's estimated future cash flows (discounted and with interest charges).

Redeemable noncontrolling interest – The Company has an approximately 60% ownership interest in Generation Health, Inc. ("Generation Health") and consolidates Generation Health in its consolidated financial statements. The noncontrolling share-holders of Generation Health hold put rights for the remaining interest in Generation Health that if exercised would require the Company to purchase the remaining interest in Generation Health in 2015 for a minimum of $27 million and a maximum of $159 million, depending on certain financial metrics of Generation Health in 2014. Since the noncontrolling shareholders of Generation Health have a redemption feature as a result of the put right, the Company has classified the redeemable noncon-trolling interest in Generation Health in the mezzanine section of the consolidated balance sheet outside of shareholders' equity. The Company initially recorded the redeemable noncontrolling interest at a fair value of $37 million on the date of acquisition. At the end of each reporting period, if the estimated accreted redemption value exceeds the carrying value of the noncontrol-ling interest, the difference is recorded as a reduction of retained earnings. Any such reductions in retained earnings would also reduce income attributable to CVS Caremark in the Company's earnings per share calculations.

The following is a reconciliation of the changes in the redeemable noncontrolling interest:

in millions	**2010**	2009
Beginning balance	**$ 37**	$ –
Acquisition of Generation Health	**–**	37
Net loss attributable to noncontrolling interest	**(3)**	–
Ending balance	**$ 34**	$ 37

REVENUE RECOGNITION:

Pharmacy Services Segment – The PSS sells prescription drugs directly through its mail service pharmacies and indirectly through its retail pharmacy network. The PSS recognizes revenues from prescription drugs sold by its mail service pharmacies and under retail pharmacy network contracts where the PSS is the principal using the gross method at the contract prices negotiated with its clients. Net revenue from the PSS includes: (i) the portion of the price the client pays directly to the PSS, net of any volume-related or other discounts paid back to the client (see "Drug Discounts" later in this document), (ii) the price paid to the PSS ("Mail Co-Payments") or a third party pharmacy in the PSS' retail pharmacy network ("Retail Co-Payments") by individuals included in its clients' benefit plans and (iii) administrative fees for retail pharmacy network contracts where the PSS is not the principal as discussed on the following pages.

The PSS recognizes revenue when: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the seller's price to the buyer is fixed or determinable and (iv) collectability is reasonably assured. The Company has established the following revenue recognition policies for the PSS:

- Revenues generated from prescription drugs sold by mail service pharmacies are recognized when the prescription is shipped. At the time of shipment, the Company has performed substantially all of its obligations under its client contracts and does not experience a significant level of reshipments.
- Revenues generated from prescription drugs sold by third party pharmacies in the PSS' retail pharmacy network and associ-ated administrative fees are recognized at the PSS' point-of-sale, which is when the claim is adjudicated by the PSS' online claims processing system.

Notes to Consolidated Financial Statements

The PSS determines whether it is the principal or agent for its retail pharmacy network transactions on a contract by contract basis. In the majority of its contracts, the PSS has determined it is the principal due to it: (i) being the primary obligor in the arrangement, (ii) having latitude in establishing the price, changing the product or performing part of the service, (iii) having discretion in supplier selection, (iv) having involvement in the determination of product or service specifications and (v) having credit risk. The PSS' obligations under its client contracts for which revenues are reported using the gross method are separate and distinct from its obligations to the third party pharmacies included in its retail pharmacy network contracts. Pursuant to these contracts, the PSS is contractually required to pay the third party pharmacies in its retail pharmacy network for products sold, regardless of whether the PSS is paid by its clients. The PSS' responsibilities under its client contracts typically include validating eligibility and coverage levels, communicating the prescription price and the co-payments due to the third party retail pharmacy, identifying possible adverse drug interactions for the pharmacist to address with the physician prior to dispensing, suggesting clinically appropriate generic alternatives where appropriate and approving the prescription for dispensing. Although the PSS does not have credit risk with respect to Retail Co-Payments, management believes that all of the other indicators of gross revenue reporting are present. For contracts under which the PSS acts as an agent, the PSS records revenues using the net method.

Drug Discounts – The PSS deducts from its revenues any rebates, inclusive of discounts and fees, earned by its clients. The PSS pays rebates to its clients in accordance with the terms of its client contracts, which are normally based on fixed rebates per prescription for specific products dispensed or a percentage of manufacturer discounts received for specific products dispensed. The liability for rebates due to the PSS' clients is included in "Claims and discounts payable" in the accompanying consolidated balance sheets.

Medicare Part D – The PSS participates in the Federal Government's Medicare Part D program as a Prescription Drug Plan ("PDP"). The PSS' net revenues include insurance premiums earned by the PDP, which are determined based on the PDP's annual bid and related contractual arrangements with the Centers for Medicare and Medicaid Services ("CMS"). The insurance premiums include a beneficiary premium, which is the responsibility of the PDP member, but is subsidized by CMS in the case of low-income members, and a direct premium paid by CMS. Premiums collected in advance are initially deferred in accrued expenses and are then recognized in net revenues over the period in which members are entitled to receive benefits.

In addition to these premiums, the PSS' net revenues include co-payments, deductibles and co-insurance (collectively, the "Member Co-Payments") related to PDP members' actual prescription claims. In certain cases, CMS subsidizes a portion of these Member Co-Payments and pays the PSS an estimated prospective Member Co-Payment subsidy amount each month. The prospective Member Co-Payment subsidy amounts received from CMS are also included in the PSS' net revenues. The Company assumes no risk for these amounts, which represented 2.6%, 3.5% and 1.3% of consolidated net revenues in 2010, 2009 and 2008, respectively. If the prospective Member Co-Payment subsidies received differ from the amounts based on actual prescription claims, the difference is recorded in either accounts receivable or accrued expenses.

The PSS accounts for CMS obligations and Member Co-Payments (including the amounts subsidized by CMS) using the gross method consistent with its revenue recognition policies for Mail Co-Payments and Retail Co-Payments (discussed previously in this document). See Note 7 for additional information about Medicare Part D.

Retail Pharmacy Segment – The RPS recognizes revenue from the sale of merchandise (other than prescription drugs) at the time the merchandise is purchased by the retail customer. Revenue from the sale of prescription drugs is recognized at the time the prescription is filled, which is or approximates when the retail customer picks up the prescription. Customer returns are not material. Revenue generated from the performance of services in the RPS' health care clinics is recognized at the time the services are performed. See Note 13 for additional information about the revenues of the Company's business segments.

COST OF REVENUES:

Pharmacy Services Segment – The PSS' cost of revenues includes: (i) the cost of prescription drugs sold during the reporting period directly through its mail service pharmacies and indirectly through its retail pharmacy network, (ii) shipping and handling costs and (iii) the operating costs of its mail service pharmacies and client service operations and related information technology support costs including depreciation and amortization. The cost of prescription drugs sold component of cost of revenues includes: (i) the cost of the prescription drugs purchased from manufacturers or distributors and shipped to members in clients' benefit plans from the PSS' mail service pharmacies, net of any volume-related or other discounts (see "Drug Discounts" previously in this document) and (ii) the cost of prescription drugs sold (including Retail Co-Payments) through the PSS' retail pharmacy network under contracts where it is the principal, net of any volume-related or other discounts.

Retail Pharmacy Segment – The RPS' cost of revenues includes: the cost of merchandise sold during the reporting period and the related purchasing costs, warehousing and delivery costs (including depreciation and amortization) and actual and estimated inventory losses. See Note 13 for additional information about the cost of revenues of the Company's business segments.

VENDOR ALLOWANCES AND PURCHASE DISCOUNTS:

The Company accounts for vendor allowances and purchase discounts as follows:

Pharmacy Services Segment – The PSS receives purchase discounts on products purchased. The PSS' contractual arrangements with vendors, including manufacturers, wholesalers and retail pharmacies, normally provide for the PSS to receive purchase discounts from established list prices in one, or a combination of, the following forms: (i) a direct discount at the time of purchase, (ii) a discount for the prompt payment of invoices or (iii) when products are purchased indirectly from a manufacturer (e.g., through a wholesaler or retail pharmacy), a discount (or rebate) paid subsequent to dispensing. These rebates are recognized when prescriptions are dispensed and are generally calculated and billed to manufacturers within 30 days of the end of each completed quarter. Historically, the effect of adjustments resulting from the reconciliation of rebates recognized to the amounts billed and collected has not been material to the PSS' results of operations. The PSS accounts for the effect of any such differences as a change in accounting estimate in the period the reconciliation is completed. The PSS also receives additional discounts under its wholesaler contract if it exceeds contractually defined annual purchase volumes. In addition, the PSS receives fees from pharmaceutical manufacturers for administrative services. Purchase discounts and administrative service fees are recorded as a reduction of "Cost of revenues".

Retail Pharmacy Segment – Vendor allowances received by the RPS reduce the carrying cost of inventory and are recognized in cost of revenues when the related inventory is sold, unless they are specifically identified as a reimbursement of incremental costs for promotional programs and/or other services provided. Amounts that are directly linked to advertising commitments are recognized as a reduction of advertising expense (included in operating expenses) when the related advertising commitment is satisfied. Any such allowances received in excess of the actual cost incurred also reduce the carrying cost of inventory. The total value of any upfront payments received from vendors that are linked to purchase commitments is initially deferred. The deferred amounts are then amortized to reduce cost of revenues over the life of the contract based upon 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 revenues 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.

Insurance – The Company is self-insured for certain losses related to general liability, workers' compensation and auto liability. The Company obtains third party insurance coverage to limit exposure from these claims. The Company is also self-insured for certain losses related to health and medical liabilities. 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.

Facility opening and closing costs – New facility opening costs, other than capital expenditures, are charged directly to expense when incurred. When the Company closes a facility, 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. The long-term portion of the lease obligations associated with facility closings was $368 million and $424 million in 2010 and 2009, respectively.

Advertising costs – Advertising costs are expensed when the related advertising takes place. Advertising costs, net of vendor funding (included in operating expenses), were $234 million, $317 million and $324 million in 2010, 2009 and 2008, respectively.

Interest expense, net – Interest expense, net of capitalized interest, was $539 million, $530 million and $530 million, and interest income was $3 million, $5 million and $21 million in 2010, 2009 and 2008, respectively. Capitalized interest totaled $47 million, $39 million and $28 million in 2010, 2009 and 2008, respectively.

Shares held in trust – The Company maintains grantor trusts, which held approximately 2 million shares of its common stock at December 31, 2010 and 2009. These shares are designated for use under various employee compensation plans. Since the Company holds these shares, they are excluded from the computation of basic and diluted shares outstanding.

Notes to Consolidated Financial Statements

Accumulated other comprehensive loss – Accumulated other comprehensive loss consists of changes in the net actuarial gains and losses associated with pension and other postretirement benefit plans, and unrealized losses on derivatives. The amount included in accumulated other comprehensive loss related to the Company's pension and postretirement plans was $217 million pre-tax ($132 million after-tax) as of December 31, 2010 and $203 million pre-tax ($125 million after-tax) as of December 31, 2009. The net impact on cash flow hedges totaled $18 million pre-tax ($11 million after-tax) and $15 million pre-tax ($10 million after-tax) as of December 31, 2010 and 2009, respectively.

Stock-based compensation – Stock-based compensation expense is measured at the grant date based on the fair value of the award and is recognized as expense over the applicable requisite service period of the stock award (generally 3 to 5 years) using the straight-line method. Stock-based compensation costs are included in selling, general and administrative expenses.

Income taxes – The Company provides for federal and state income taxes currently payable, as well as for those deferred because of timing differences between reported income and expenses for financial statement purposes versus tax purposes. Federal and state 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.

Loss from discontinued operations – In connection with certain business dispositions completed between 1991 and 1997, the Company continues to guarantee store lease obligations for a number of former subsidiaries, including Linens 'n Things. On May 2, 2008, Linens Holding Co. and certain affiliates, which operate Linens 'n Things, filed voluntary petitions under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. The Company's loss from discontinued operations includes lease related costs of $15 million ($24 million, net of a $9 million income tax benefit), $12 million ($19 million, net of a $7 million income tax benefit) and $132 million ($214 million, net of an $82 million income tax benefit) for the years ended December 31, 2010, 2009 and 2008, respectively, associated with the Linens 'n Things lease guarantees.

Earnings per common share – Basic earnings per common share is computed by dividing: (i) net earnings, after deducting the after-tax Employee Stock Ownership Plan ("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 for fiscal year 2008, the Company assumed that the ESOP preference stock was converted into common stock and all dilutive stock awards were 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 ($0.25800 per share in 2008) rather than ESOP preference stock dividends ($3.90 per share). Since the ESOP Trust used the dividends it received to service its debt, the Company had to increase its contribution to the ESOP Trust to compensate it for the lower dividends. This additional contribution reduced the Company's net earnings, which in turn, reduced the amounts that would be accrued under the Company's incentive compensation plans.

Diluted earnings per common share is computed by dividing: (i) net income attributable to CVS Caremark, 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 awards are exercised and the ESOP preference stock is converted into common stock. Options to purchase 34.3 million, 37.7 million and 20.9 million shares of common stock were outstanding as of December 31, 2010, 2009 and 2008, 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. See Note 8 for additional information about the ESOP.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2009, the Company adopted Accounting Standards Codification ("ASC") 805 *Business Combinations* ("ASC 805") (formerly Statement of Financial Accounting Standard ("SFAS") No. 141 (R), "Business Combinations"). ASC 805 establishes the principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. The guidance also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of business combinations. ASC 805 requires that income tax benefits related to business combinations that are not recorded at the date of acquisition are recorded as an income tax benefit in the statement of income when subsequently recognized. Previously, unrecognized income tax benefits related to business combinations were recorded as an adjustment to the purchase price allocation when recognized. The Company recognized approximately $34 million and $147 million of previously unrecognized income tax benefits related to business combinations (after considering the federal benefit of state taxes), plus interest, due to the expiration of various statutes of limitation and settlements with tax authorities in 2010 and 2009, respectively. As of December 31, 2010 and 2009, the Company had approximately $10 million and $20 million, respectively, of unrecognized tax benefits (after considering the federal benefit of state taxes), plus interest, related to business combinations that would have been treated as an adjustment to the purchase price allocation if they would have been recognized under the previous business combination guidance.

In June 2009, the Financial Accounting Standards Board ("FASB") issued guidance that amends ASC 810 *Consolidations* (formerly SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)"). The amendment requires a company to analyze whether its interest in a variable interest entity ("VIE") gives it a controlling financial interest. The determination of whether a company is required to consolidate another entity is based on, among other things, the other entity's purpose and design and a company's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. Additional disclosures are required to identify a company's involvement with the VIE and any significant changes in risk exposure due to such involvement. The amendment is effective for all new and existing VIEs as of the beginning of the first fiscal year that begins after November 15, 2009. The adoption of this standard did not have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In January 2010, the FASB issued guidance which expanded the required disclosures about fair value measurements. In particular, this guidance requires (i) separate disclosure of the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements along with the reasons for such transfers, (ii) information about purchases, sales, issuances and settlements to be presented separately in the reconciliation for Level 3 fair value measurements, (iii) expanded fair value measurement disclosures for each class of assets and liabilities and (iv) disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3. This guidance is effective for annual reporting periods beginning after December 15, 2009 except for (ii) above which is effective for fiscal years beginning after December 15, 2010. The adoption of this standard did not have a material impact on the Company's consolidated results of operations, financial position or cash flows.

RECENTLY PROPOSED ACCOUNTING STANDARD UPDATE

In August 2010, the FASB issued a proposed accounting standard update on lease accounting that would require entities to recognize assets and liabilities arising from lease contracts on the balance sheet. The proposed accounting standard update states that lessees and lessors should apply a "right-of-use model" in accounting for all leases. Under the proposed model, lessees would recognize an asset for the right to use the leased asset, and a liability for the obligation to make rental payments over the lease term. The lease term is defined as the longest possible term that is "more likely than not" to occur. The accounting by a lessor would reflect its retained exposure to the risks or benefits of the underlying leased asset. A lessor would recognize an asset representing its right to receive lease payments based on the expected term of the lease. Comments on this exposure draft were due December 15, 2010 and the final standard is expected to be issued sometime in 2011. While the Company believes that the proposed standard, as currently drafted, will likely have a material impact on its reported financial position and reported results of operations, it will not have a material impact on its liquidity; however, until the proposed standard is finalized, such evaluation cannot be completed.

Notes to Consolidated Financial Statements

2: BUSINESS COMBINATIONS

Effective October 20, 2008, the Company acquired Longs Drug Stores Corporation for approximately $2.6 billion (the "Longs Acquisition"). The fair value of the assets acquired and liabilities assumed were $4.4 billion and $1.8 billion, respectively. The Longs Acquisition included 529 retail drug stores, RxAmerica, LLC, which provides pharmacy benefit management services and Medicare Part D benefits and other related assets. The Company's results of operations and cash flows include the Longs Acquisition beginning October 20, 2008.

Effective December 30, 2009, the Company acquired an approximately 60% interest in Generation Health, a genetic benefit management company for approximately $34 million in cash and issued certain put rights to the remaining noncontrolling shareholders. The put rights allow the noncontrolling shareholders to require the Company to buy their shares for cash in the future, depending on certain financial metrics of Generation Health. The fair value of the redeemable noncontrolling interest including put rights on the date of acquisition was approximately $37 million which was determined using inputs classified as Level 3 in the fair value hierarchy. The Company's results of operations and cash flows include the Generation Health acquisition beginning December 30, 2009.

3: GOODWILL AND OTHER INTANGIBLES

Goodwill and other indefinitely-lived assets are not amortized, but are subject to annual impairment reviews, or more frequent reviews if events or circumstances indicate impairment may exist.

When evaluating goodwill for potential impairment, the Company first compares the fair value of its two reporting units, the PSS and RPS, to their respective carrying amounts. The Company estimates the fair value of its reporting units using a combination of a future discounted cash flow valuation model and a comparable market transaction model. As the Company utilizes internal financial projections for the determination of future cash flows, the fair value methodology is considered to use inputs classified as Level 3 in the fair value hierarchy. 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 a reporting unit's goodwill with the carrying amount of its goodwill. If the carrying amount of the goodwill exceeds the implied fair value, an impairment loss is recognized in an amount equal to the excess. During the third quarter of 2010, the Company performed its required annual goodwill impairment tests. The Company concluded there were no goodwill impairments as of the testing date. The carrying amount of goodwill was $25.7 billion as of December 31, 2010 and 2009.

Indefinitely-lived intangible assets are tested for impairment by comparing the estimated fair value of the asset to its carrying value. The Company estimates the fair value of its indefinitely-lived trademark using the relief from royalty method under the income approach. As this method of estimating fair value utilizes internal financial projections for determination of future cash flows, the fair value methodology is considered to use inputs classified as Level 3 in the fair value hierarchy. If the carrying value of the asset exceeds its estimated fair value, an impairment loss is recognized and the asset is written down to its estimated fair value. During the third quarter of 2010, the Company performed its annual impairment test of the indefinitely-lived trademark and concluded there was no impairment as of the testing date. The carrying amount of indefinitely-lived assets was $6.4 billion as of December 31, 2010 and 2009. Intangible assets with finite useful lives are amortized over their estimated useful lives.

The Company amortizes intangible assets with finite lives over the estimated useful lives of the respective assets, which have a weighted average useful life of 13.3 years. The weighted average useful lives of the Company's customer contracts and relationships and covenants not to compete are 12.9 years. The weighted average of the Company's favorable leases and other intangible assets are 16.3 years. Amortization expense for intangible assets totaled $427 million, $430 million and $405 million in 2010, 2009 and 2008, respectively. The anticipated annual amortization expense for these intangible assets is $419 million in 2011, $399 million in 2012, $376 million in 2013, $344 million in 2014 and $316 million in 2015.

The following table is a summary of the Company's intangible assets as of December 31:

	2010			2009		
in millions	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademarks (indefinitely-lived)	$ 6,398	$ –	$ 6,398	$ 6,398	$ –	$ 6,398
Customer contracts and relationships and covenants not to compete	4,903	(1,982)	2,921	4,828	(1,604)	3,224
Favorable leases and other	762	(297)	465	756	(251)	505
	$ 12,063	$ (2,279)	$ 9,784	$ 11,982	$ (1,855)	$ 10,127

4: SHARE REPURCHASE PROGRAMS

On June 14, 2010, the Company's Board of Directors authorized a new share repurchase program for up to $2.0 billion of outstanding common stock (the "2010 Repurchase Program"). The share repurchase authorization, which was effective immediately and expires at the end of 2011, permits the Company to effect repurchases from time to time through a combination of open market repurchases, privately negotiated transactions, accelerated share repurchase transactions, and/or other derivative transactions. The share repurchase program may be modified, extended or terminated by the Board of Directors at any time. The Company did not make any share repurchases under the 2010 Repurchase Program through December 31, 2010.

On November 4, 2009, the Company's Board of Directors authorized, effective immediately, a share repurchase program for up to $2.0 billion of its outstanding common stock (the "2009 Repurchase Program"). From November 4, 2009 through December 31, 2009, the Company repurchased 16.1 million shares of common stock for approximately $500 million under the 2009 Repurchase Program. During the year ended December 31, 2010, the Company repurchased 42.4 million shares of common stock for approximately $1.5 billion completing the 2009 Repurchase Program.

On May 7, 2008, the Company's Board of Directors authorized, effective May 21, 2008, a share repurchase program for up to $2.0 billion of its outstanding common stock (the "2008 Repurchase Program"). From May 21, 2008 through December 31, 2008, the Company repurchased approximately 0.6 million shares of common stock for $23 million under the 2008 Repurchase Program. During the year ended December 31, 2009, the Company repurchased approximately 57.0 million shares of common stock for approximately $2.0 billion completing the 2008 Repurchase Program.

On May 9, 2007, the Company's Board of Directors authorized a share repurchase program for up to $5.0 billion of its outstanding common stock. The share repurchase program was completed during 2007 through a $2.5 billion fixed dollar accelerated share repurchase agreement (the "May ASR agreement"), under which final settlement occurred in October 2007 and resulted in the repurchase of approximately 67.5 million shares of common stock; an open market repurchase program, which concluded in November 2007 and resulted in approximately 5.3 million shares of common stock being repurchased for approximately $212 million; and a $2.3 billion dollar fixed accelerated share repurchase agreement (the "November ASR agreement"), which resulted in an initial 51.6 million shares of common stock being purchased and placed into treasury stock as of December 29, 2007. The final settlement under the November ASR agreement occurred on March 28, 2008 and resulted in the Company receiving an additional 5.7 million shares of common stock, which were placed into treasury stock as of March 29, 2008.

Notes to Consolidated Financial Statements

5: BORROWING AND CREDIT AGREEMENTS

The following table is a summary of the Company's borrowings as of December 31:

in millions	2010	2009
Commercial paper	$ 300	$ 315
Floating rate notes due 2010	–	350
Floating rate notes due 2010	–	1,750
5.75% senior notes due 2011	800	800
Floating rate note due 2011 (1)	300	300
4.875% senior notes due 2014	550	550
3.250% senior notes due 2015	550	–
6.125% senior notes due 2016	700	700
5.75% senior notes due 2017	1,750	1,750
6.60% senior notes due 2019	1,000	1,000
4.75% senior notes due 2020	450	–
6.25% senior notes due 2027	1,000	1,000
6.125% note due 2039	1,500	1,500
6.302% Enhanced Capital Advantage Preferred Securities (2)	1,000	1,000
Mortgage notes payable	6	6
Capital lease obligations	151	154
	10,057	11,175
Less:		
Short-term debt (commercial paper)	(300)	(315)
Current portion of long-term debt	(1,105)	(2,104)
	$ 8,652	$ 8,756

(1) As of December 31, 2010, the interest rate for the Company's floating rate note due in 2011 was 1.663%.

(2) The Enhanced Capital Advantaged Preferred Securities ("ECAPS") are due June 1, 2062, and bear interest at 6.302% per year until June 1, 2012 at which time they will pay interest based on a floating rate. The ECAPS pay interest semi-annually and may be redeemed at any time, in whole or in part at a defined redemption price plus accrued interest.

In connection with its commercial paper program, the Company maintains a $1.4 billion, five-year unsecured back-up credit facility, which expires on May 12, 2011, a $1.3 billion, five-year unsecured back-up credit facility, which expires on March 12, 2012, and a $1.0 billion, three-year unsecured back-up credit facility which expires on May 27, 2013. 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 0.1%, regardless of usage. As of December 31, 2010, the Company had no outstanding borrowings against the back-up credit facilities. The weighted average interest rate for short-term debt was 0.40% as of December 31, 2010 and 0.31% as of December 31, 2009.

On May 13, 2010, the Company issued $550 million of 3.25% unsecured senior notes due May 18, 2015 and issued $450 million of 4.75% unsecured senior notes due May 18, 2020 (collectively, the "2010 Notes") for total proceeds of $991 million, which was net of discounts and underwriting fees. The 2010 Notes pay interest semiannually and may be redeemed, in whole at any time, or in part from time to time, at the Company's option at a defined redemption price plus accrued and unpaid interest to the redemption date. The net proceeds of the 2010 Notes were used to repay a portion of the Company's outstanding commercial paper borrowings, certain other corporate debt and for general corporate purposes.

On March 10, 2009, the Company issued $1.0 billion of 6.60% unsecured senior notes due March 15, 2019 (the "March 2009 Notes"). The March 2009 Notes pay interest semi-annually and may be redeemed, in whole or in part, at a defined redemption price plus accrued interest. The net proceeds were used to repay the bridge credit facility, a portion of the Company's outstanding commercial paper borrowings and for general corporate purposes.

On July 1, 2009, the Company issued a $300 million unsecured floating rate senior note due January 30, 2011 (the "2009 Floating Rate Note"). The 2009 Floating Rate Note pays interest quarterly. The net proceeds from the 2009 Floating Rate Note were used for general corporate purposes.

On September 8, 2009, the Company issued $1.5 billion of 6.125% unsecured senior notes due September 15, 2039 (the "September 2009 Notes"). The September 2009 Notes pay interest semi-annually and may be redeemed, in whole or in part, at a defined redemption price plus accrued interest. The net proceeds were used to repay a portion of the Company's outstanding commercial paper borrowings, $650 million of unsecured senior notes and for general corporate purposes.

On September 10, 2008, the Company issued $350 million of floating rate senior notes due September 10, 2010 (the "2008 Notes"). The 2008 Notes pay interest quarterly. The net proceeds from the 2008 Notes were used to fund a portion of the Longs Acquisition.

The credit facilities, back-up credit facilities, unsecured senior notes and ECAPS 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 31, 2010 are $1.1 billion in 2011, $2 million in 2012, $1 million in 2013, $550 million in 2014, and $550 million in 2015.

6: LEASES

The Company leases most of its retail and mail order locations, ten of its distribution centers and certain corporate offices under noncancelable operating leases, with initial terms of 15 to 25 years and with options that permit renewals for additional periods. The Company also leases certain equipment and other assets under noncancelable operating leases, with initial terms of 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 reimbursement for real estate taxes, common area maintenance and insurance, which are expensed when incurred.

The following table is a summary of the Company's net rental expense for operating leases for the respective years:

in millions	2010	2009	2008
Minimum rentals	$ 2,001	$ 1,857	$ 1,691
Contingent rentals	53	61	58
	2,054	1,918	1,749
Less: sublease income	(19)	(19)	(25)
	$ 2,035	$ 1,899	$ 1,724

The following table is a summary of the future minimum lease payments under capital and operating leases as of December 31, 2010:

in millions	Capital Leases	Operating Leases (1)
2011	$ 19	$ 2,013
2012	19	2,096
2013	19	1,992
2014	19	1,788
2015	20	1,724
Thereafter	244	17,190
Total future lease payments	340	$ 26,803
Less: imputed interest	(189)	
Present value of capital lease obligations	$ 151	

(1) Future operating lease payments have not been reduced by minimum sublease rentals of $266 million due in the future under noncancelable subleases.

Notes to Consolidated Financial Statements

The Company finances a portion of its store development program through sale-leaseback transactions. The properties are generally sold at net book value, which generally approximates fair value, and the resulting leases qualify and are accounted for as operating leases. The operating leases that resulted from these transactions are included in the previous table. The Company does not have any retained or contingent interests in the stores and does not provide any guarantees, other than a guarantee of lease payments, in connection with the sale-leaseback transactions. Proceeds from sale-leaseback transactions totaled $507 million in 2010, $1.6 billion in 2009 and $204 million in 2008.

7: MEDICARE PART D

The Company offers Medicare Part D benefits through SilverScript and Accendo, which have contracted with CMS to be a PDP and, pursuant to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (“MMA”), must be risk-bearing entities regulated under state insurance laws or similar statutes.

SilverScript and Accendo are licensed domestic insurance companies under the applicable laws and regulations. Pursuant to these laws and regulations, SilverScript and Accendo must file quarterly and annual reports with the National Association of Insurance Commissioners (“NAIC”) and certain state regulators, must maintain certain minimum amounts of capital and surplus under a formula established by the NAIC and must, in certain circumstances, request and receive the approval of certain state regulators before making dividend payments or other capital distributions to the Company. The Company does not believe these limitations on dividends and distributions materially impact its financial position.

The Company has recorded estimates of various assets and liabilities arising from its participation in the Medicare Part D program based on information in its claims management and enrollment systems. Significant estimates arising from its participation in this program include: (i) estimates of low-income cost subsidy and reinsurance amounts ultimately payable to or receivable from CMS based on a detailed claims reconciliation that will occur in 2011; (ii) an estimate of amounts receivable from or payable to CMS under a risk-sharing feature of the Medicare Part D program design, referred to as the risk corridor and (iii) estimates for claims that have been reported and are in the process of being paid or contested and for our estimate of claims that have been incurred but have not yet been reported.

8: EMPLOYEE STOCK OWNERSHIP PLAN

The Company sponsored a defined contribution Employee Stock Ownership Plan (the “ESOP”) that covered full-time employees with at least one year of service.

In 1989, the ESOP Trust issued and sold $358 million of 20-year, 8.52% notes, which were due and retired on December 31, 2008 (the “ESOP Notes”). The proceeds from the ESOP Notes were used to purchase 7 million shares of Series One ESOP Convertible Preference Stock (the “ESOP Preference Stock”) from the Company. Since the ESOP Notes were guaranteed by the Company, the outstanding balance was reflected as long-term debt, and a corresponding guaranteed ESOP obligation was reflected in shareholders’ equity in the consolidated balance sheet.

Each share of ESOP Preference Stock had a guaranteed minimum liquidation value of $53.45, was convertible into 4.628 shares of common stock and was entitled to receive an annual dividend of $3.90 per share.

The ESOP Trust used the dividends received and contributions from the Company to repay the ESOP Notes. As the ESOP Notes were repaid, ESOP Preference Stock was allocated to plan 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 31, 2010 and 2009, no shares of ESOP Preference Stock were outstanding and allocated to plan participants. On January 30, 2009, pursuant to the Company’s Amended and Restated Certificate of Incorporation (the “Charter”), the Company informed the trustee of the ESOP Trust of its intent to redeem for cash all of the outstanding shares of ESOP Preference Stock on February 24, 2009 (the “Redemption Date”). Under the Charter, at any time prior to the Redemption Date, the trustee had the right to convert the ESOP Preference Stock into shares of the Company’s Common Stock. The conversion rate at the time of the notice was 4.628 shares of Common Stock for each share of ESOP Preference Stock. The trustee exercised its right of conversion on February 23, 2009, and all outstanding shares of ESOP Preference Stock were converted into Common Stock.

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.

9: PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

DEFINED CONTRIBUTION PLANS

The Company sponsors voluntary 401(k) savings plans that cover substantially all employees who meet plan eligibility requirements. The Company makes matching contributions consistent with the provisions of the plans.

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 eligible compensation and receive matching contributions equivalent to what they could have received under the CVS Caremark 401(k) and Employee Stock Ownership Plan absent certain restrictions and limitations under the Internal Revenue Code. The Company's contributions under the previously defined contribution plans totaled $186 million, $173 million and $117 million in 2010, 2009 and 2008, respectively.

OTHER POSTRETIREMENT BENEFITS

The Company provides postretirement health care 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. As of December 31, 2010 and 2009, the Company's postretirement medical plans have an accumulated postretirement benefit obligation of $17 million. Net periodic benefit costs related to these postretirement medical plans were approximately $1 million for 2010, 2009 and 2008, respectively.

PENSION PLANS

The Company sponsors nine defined benefit pension plans that cover certain full-time employees. Three of the plans are tax-qualified plans that are funded based on actuarial calculations and applicable federal laws and regulations. The other six plans are unfunded nonqualified supplemental retirement plans. All of the plans were frozen in prior periods, except one of the nonqualified plans.

As of December 31, 2010, the Company's pension plans had a projected benefit obligation of $659 million and plan assets of $426 million. As of December 31, 2009, the Company's pension plans had a projected benefit obligation of $612 million and plan assets of $372 million. Net periodic pension costs related to these pension plans were $36 million, $16 million and $9 million in 2010, 2009 and 2008, respectively. The net periodic pension costs for 2010 includes settlements of $12 million.

The discount rate is determined by examining the current yields observed on the measurement date of fixed-interest, high quality investments expected to be available during the period to maturity of the related benefits on a plan by plan basis. The discount rate for the plans was 5.5% in 2010 and 6.0% in 2009. The expected long-term rate of return on plan assets is determined by using the plan's target allocation and historical returns for each asset class on a plan by plan basis. The expected long-term rate of return for all plans was 7.25% in 2010 and 8.5% in 2009 and 2008.

Historically, the Company used an investment strategy, which emphasized equities in order to produce higher expected returns, and in the long run, lower expected expense and cash contribution requirements. The qualified pension plan asset allocation targets were 60% equity and 40% fixed income. As the result of a detailed asset liability study performed during 2009, the Company revised the pension plan target asset allocation to 50% equity and 50% fixed income with the transition to the new targets to begin during 2010.

As of December 31, 2010, the Company's qualified defined benefit pension plan assets consisted of 57% equity, 42% fixed income, and 1% money market securities of which 71% were classified as Level 1 and 29% as Level 2 in the fair value hierarchy. The Company's qualified defined benefit pension plan assets as of December 31, 2009 consisted of 64% equity, 35% fixed income, and 1% money market securities of which 67% were classified as Level 1 and 33% as Level 2 in the fair value hierarchy.

The Company contributed $65 million, $50 million and $8 million to the pension plans during 2010, 2009 and 2008, respectively. The Company plans to make approximately $90 million in contributions to the pension plans during 2011.

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 $58 million, $57 million and $49 million in 2010, 2009 and 2008, respectively.

Notes to Consolidated Financial Statements

10: STOCK INCENTIVE PLANS

Stock-based compensation expense is measured at the grant date based on the fair value of the award and is recognized as expense over the applicable requisite service period of the stock award (generally three to five years) using the straight-line method. Stock-based compensation costs are included in selling, general and administrative expenses.

Compensation expense related to stock options, which includes the 1999 Employee Stock Purchase Plan (the "1999 ESPP") and the 2007 Employee Stock Purchase Plan (the "2007 ESPP" and collectively, the "ESPP") totaled $127 million, $136 million and $106 million for 2010, 2009 and 2008, respectively. The recognized tax benefit was $42 million, $45 million and $33 million for 2010, 2009 and 2008, respectively. Compensation expense related to restricted stock awards totaled $23 million, $29 million and $19 million for 2010, 2009 and 2008, respectively.

The 1999 ESPP provides for the purchase of up to 15 million shares of common stock. As a result of the 1999 ESPP not having sufficient shares available for the program to continue beyond 2007, the Board of Directors adopted, and shareholders approved, the 2007 ESPP. Under the 2007 ESPP, 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 and provides for the purchase of up to 15 million shares of common stock. During 2010, 3 million shares of common stock were purchased, under the provisions of the 2007 ESPP, at an average price of $25.97 per share. As of December 31, 2010, 15 million and 7 million shares of common stock have been issued under the 1999 ESPP and 2007 ESPP, respectively.

The fair value of stock-based compensation associated with the Company's ESPP is estimated on the date of grant (i.e., the beginning of the offering period) using the Black-Scholes Option Pricing Model.

The following table is a summary of the assumptions used to value the ESPP awards for each of the respective periods:

	2010	2009	2008
Dividend yield [(1)]	0.57 %	0.50 %	0.32 %
Expected volatility [(2)]	32.58 %	48.89 %	25.22 %
Risk-free interest rate [(3)]	0.21 %	0.31 %	2.75 %
Expected life *(in years)* [(4)]	0.5	0.5	0.5
Weighted-average grant date fair value	$ 7.31	$ 8.51	$ 8.73

(1) The dividend yield is calculated based on semi-annual dividends paid and the fair market value of the Company's stock at the grant date.

(2) The expected volatility is based on the historical volatility of the Company's daily stock market prices over the previous six month period.

(3) The risk-free interest rate is based on the Treasury constant maturity interest rate whose term is consistent with the expected term of ESPP options (i.e., 6 months).

(4) The expected life is based on the semi-annual purchase period.

In 2007, the Board of Directors adopted and shareholders approved the 2007 Incentive Plan. The terms of the 2007 Incentive Plan provide for grants of annual incentive and long-term performance awards to executive officers and other officers and employees of the Company or any subsidiary of the Company. The payment of such annual incentive and long-term performance awards will be in cash, stock, other awards or other property, in the discretion of the Management Planning and Development Committee of the Company's Board of Directors, with any payment in stock to be pursuant to the Company's 1997 Incentive Compensation Plan (the "1997 ICP").

The Company's 1997 ICP provided for the granting of up to 153 million shares of common stock in the form of stock options and other awards to selected officers, employees and directors of the Company. The 1997 ICP allowed for up to 7 million restricted shares to be issued. The Company's restricted awards are considered non-vested share awards and require no payment from the employee. Compensation cost is recorded based on the market price on the grant date and is recognized on a straight-line basis over the requisite service period.

In May 2010, the Company's Board of Directors adopted and the shareholders approved the 2010 Incentive Compensation Plan (the "2010 ICP"). The 2010 ICP allows for a maximum of 74 million shares to be reserved and available for grants, plus the number of shares subject to awards under the Company's 1997 ICP which become available due to cancellation or forfeiture.

Following approval and adoption of the 2010 ICP, no new grants can be made under the 1997 ICP. The 2010 ICP is the only compensation plan under which the Company grants stock options, restricted stock and other stock-based awards to its employees, with the exception of the Company's 2007 ESPP. As of December 31, 2010, there were 72 million shares available for future grants under the 2010 ICP.

The Company granted 1,095,000, 1,284,000 and 1,274,000 restricted stock units with a weighted average fair value of $35.25, $27.77 and $40.70 in 2010, 2009 and 2008, respectively. As of December 31, 2010, there was $34 million of total unrecognized compensation costs related to the restricted stock units that are expected to vest. These costs are expected to be recognized over a weighted-average period of 1.80 years.

The following table is a summary of the restricted unit and restricted share award activity under the ICPs as of December 31:

	2010		2009	
units in thousands	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value
Nonvested at beginning of year	**3,347**	**$ 32.90**	4,052	$ 31.88
Granted	**1,095**	**35.25**	1,284	27.77
Vested	**(1,618)**	**32.35**	(1,807)	26.49
Forfeited	**(136)**	**33.58**	(182)	37.55
Nonvested at end of year	**2,688**	**$ 34.16**	3,347	$ 32.90

All grants under the 2010 ICP are awarded at fair market value on the date of grant. The fair value of stock options is estimated using the Black-Scholes Option Pricing Model and stock-based compensation is recognized on a straight-line basis over the requisite service period. Options granted prior to 2004 generally become exercisable over a four-year period from the grant date and expire ten years after the date of grant. Options granted during and subsequent to fiscal 2004 generally become exercisable over a three-year period from the grant date and expire seven years after the date of grant.

Excess tax benefits of $28 million, $19 million and $53 million were included in financing activities in the accompanying consolidated statements of cash flow during 2010, 2009 and 2008, respectively. Cash received from stock options exercised, which includes the ESPP, totaled $285 million, $250 million and $328 million during 2010, 2009 and 2008, respectively. The total intrinsic value of options exercised was $118 million, $104 million and $250 million in 2010, 2009 and 2008, respectively.

The fair value of each stock option is estimated using the Black-Scholes Option Pricing Model based on the following assumptions at the time of grant:

	2010	2009	2008
Dividend yield (1)	**1.00 %**	1.07 %	0.60 %
Expected volatility (2)	**33.15 %**	31.34 %	22.98 %
Risk-free interest rate (3)	**1.85 %**	1.65 %	2.28 %
Expected life *(in years)* (4)	**4.3**	4.3	4.3
Weighted-average grant date fair value	**$ 9.49**	$ 7.20	$ 8.53

(1) The dividend yield is based on annual dividends paid and the fair market value of the Company's stock at the grant date.

(2) The expected volatility is estimated using the Company's historical volatility over a period equal to the expected life of each option grant after adjustments for infrequent events such as stock splits.

(3) The risk-free interest rate is selected based on yields from U.S. Treasury zero-coupon issues with a remaining term equal to the expected term of the options being valued.

(4) The expected life represents the number of years the options are expected to be outstanding from grant date based on historical option holder exercise experience.

As of December 31, 2010, unrecognized compensation expense related to unvested options totaled $156 million, which the Company expects to be recognized over a weighted-average period of 1.66 years. After considering anticipated forfeitures, the Company expects approximately 28 million of the unvested options to vest over the requisite service period.

Notes to Consolidated Financial Statements

The following table is a summary of the Company's stock option activity for the year ended December 31, 2010:

shares in thousands	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2009	66,269	$ 29.14	4.39	345,068,000
Granted	14,168	$ 35.16	–	–
Exercised	(10,463)	$ 21.71	–	–
Forfeited	(2,332)	$ 33.50	–	–
Expired	(1,625)	$ 31.83	–	–
Outstanding at December 31, 2010	66,017	$ 31.39	4.16	$313,163,000
Exercisable at December 31, 2010	36,789	$ 29.64	3.03	$235,843,000

11: INCOME TAXES

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

in millions		**2010**	2009	2008
Current:	Federal	**$1,894**	$ 1,766	$ 1,680
	State	**345**	397	365
		2,239	2,163	2,045
Deferred:	Federal	**(44)**	38	133
	State	**(5)**	4	15
		(49)	42	148
Total		**$2,190**	$ 2,205	$ 2,193

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

	2010	2009	2008
Statutory income tax rate	**35.0 %**	35.0 %	35.0 %
State income taxes, net of federal tax benefit	**4.1**	4.5	4.1
Other	**0.6**	0.6	0.5
Recognition of previously unrecognized tax benefits	**(0.8)**	(2.8)	–
Effective income tax rate	**38.9 %**	37.3 %	39.6 %

The following table is a summary of the significant components of the Company's deferred tax assets and liabilities as of December 31:

in millions	**2010**	2009
Deferred tax assets:		
Lease and rents	**$ 325**	$ 334
Inventory	**69**	55
Employee benefits	**261**	250
Allowance for bad debt	**96**	130
Retirement benefits	**99**	94
Net operating losses	**6**	8
Other	**307**	287
Total deferred tax assets	**1,163**	1,158
Deferred tax liabilities:		
Depreciation and amortization	**(4,307)**	(4,330)
Net deferred tax liabilities	**$ (3,144)**	$ (3,172)

Net deferred tax assets (liabilities) are presented on the consolidated balance sheets as follows as of December 31:

in millions	2010	2009
Deferred tax assets – current	$ 511	$ 506
Deferred tax liabilities – noncurrent	(3,655)	(3,678)
Net deferred tax liabilities	$ (3,144)	$ (3,172)

The Company believes it is more likely than not the deferred tax assets will be realized during future periods.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

in millions	2010	2009
Beginning balance	$ 61	$ 257
Additions based on tax positions related to the current year	1	1
Additions based on tax positions related to prior years	2	12
Reductions for tax positions of prior years	(10)	(6)
Expiration of statutes of limitation	(16)	(155)
Settlements	(3)	(48)
Ending balance	$ 35	$ 61

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of numerous state and local jurisdictions. Substantially all material income tax matters have been concluded for fiscal years through 2002. The Company and its subsidiaries anticipate that a number of income tax examinations will conclude and statutes of limitation for open years will expire over the next twelve months, which may cause a utilization or reduction of the Company's reserve for uncertain tax positions of up to approximately $24 million.

During 2010, the Internal Revenue Service (the "IRS") completed an examination of the Company's 2009 consolidated U.S. income tax return pursuant to the Compliance Assurance Process ("CAP") program. The CAP program is a voluntary program under which taxpayers seek to resolve all or most issues with the IRS prior to or soon after the filing of their U.S. income tax returns, in lieu of being audited in the traditional manner. Additionally, in 2010, the Company resolved a protest it had previously filed with the IRS Appeals Office regarding various assessments made in connection with the IRS examinations of Caremark's consolidated U.S. income tax returns for 2006 and for its short tax year ended March 22, 2007.

The IRS is currently examining the Company's 2010 consolidated U.S. income tax year pursuant to the CAP program. The Company and its subsidiaries are also currently under income tax examinations by a number of state and local tax authorities. As of December 31, 2010, no examination has resulted in any proposed adjustments that would result in a material change to the Company's results of operations, financial condition or liquidity.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties in income tax expense. During the year ended December 31, 2010, the Company recognized interest of approximately $3 million. The Company had approximately $11 million accrued for interest and penalties as of December 31, 2010.

There are no material reserves established at December 31, 2010 for income tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. If present, such items would impact deferred tax accounting, not the annual effective income tax rate, and would accelerate the payment of cash to the taxing authority to an earlier period.

The total amount of unrecognized tax benefits that, if recognized, would affect the effective income tax rate is approximately $23 million, after considering the federal benefit of state income taxes.

Notes to Consolidated Financial Statements

12: COMMITMENTS AND CONTINGENCIES

Between 1991 and 1997, the Company sold or spun off a number of subsidiaries, including Bob's Stores, Linens 'n Things, Marshalls, Kay-Bee Toys, Wilsons, This End Up and Footstar. In many cases, when a former subsidiary leased a store, the Company provided a guarantee of the store's lease obligations. When the subsidiaries were disposed of, the Company's guarantees remained in place, although each initial purchaser has indemnified the Company for any lease obligations the Company was required to satisfy. If any of the purchasers or any of the former subsidiaries were to become insolvent and failed to make the required payments under a store lease, the Company could be required to satisfy these obligations.

As of December 31, 2010, the Company guaranteed approximately 70 such store leases (excluding the lease guarantees related to Linens 'n Things, which are discussed in Note 1 previously in this document), with the maximum remaining lease term extending through 2019. Management believes the ultimate disposition of any of the remaining guarantees will not have a material adverse effect on the Company's consolidated financial condition, results of operations or future cash flows.

Caremark (the term "Caremark" being used herein to generally refer to any one or more of the pharmacy benefit management subsidiaries of the Company, as applicable) is a defendant in a qui tam lawsuit initially filed by a relator on behalf of various state and federal government agencies in Texas federal court in 1999. The case was unsealed in May 2005. The case seeks monetary damages and alleges that Caremark's processing of Medicaid and certain other government claims on behalf of its clients (which allegedly resulted in underpayments from our clients to the applicable government agencies) on one of Caremark's adjudication platforms violates applicable federal or state false claims acts and fraud statutes. The United States and the States of Texas, Tennessee, Florida, Arkansas, Louisiana and California intervened in the lawsuit, but Tennessee and Florida withdrew from the lawsuit in August 2006 and May 2007, respectively. The parties previously filed cross motions for partial summary judgment, and in August 2008, the court granted several of Caremark's motions and denied the motions filed by the plaintiffs. The court's rulings are favorable to Caremark and substantially limit the ability of the plaintiffs to assert false claims act allegations or statutory or common law theories of recovery based on Caremark's processing of Medicaid and other government reimbursement requests. The court's rulings are on appeal before the United States Court of Appeals for the Fifth Circuit. In April 2009, the State of Texas filed a purported civil enforcement action against Caremark for injunctive relief, damages and civil penalties in Travis County, Texas alleging that Caremark violated the Texas Medicaid Fraud Prevention Act and other state laws based on our processing of Texas Medicaid claims on behalf of PBM clients. The claims and issues raised in this lawsuit are related to the claims and issues pending in the federal qui tam lawsuit described previously.

In December 2007, the Company received a document subpoena from the Office of Inspector General, United States Department of Health and Human Services ("OIG"), requesting information relating to the processing of Medicaid and other government agency claims on a different adjudication platform of Caremark. In October 2009 and October 2010, the Company received civil investigative demands from the Office of the Attorney General of the State of Texas requesting, respectively, information produced under this OIG subpoena, and other information related to the processing of Medicaid claims. The civil investigative demands state that the Office of the Attorney General of the State of Texas is investigating allegations currently pending under seal relating to two of Caremark's adjudication platforms. The Company has been producing documents on a rolling basis in response to the requests for information contained in the OIG subpoena and in these two civil investigative demands. The Company cannot predict with certainty the timing or outcome of any review of such information.

Caremark was named in a putative class action lawsuit filed in October 2003 in Alabama state court by John Lauriello, purportedly on behalf of participants in the 1999 settlement of various securities class action and derivative lawsuits against Caremark and others. Other defendants include insurance companies that provided coverage to Caremark with respect to the settled lawsuits. The Lauriello lawsuit seeks approximately $3.2 billion in compensatory damages plus other non-specified damages based on allegations that the amount of insurance coverage available for the settled lawsuits was misrepresented and suppressed. A similar lawsuit was filed in November 2003 by Frank McArthur, also in Alabama state court, naming as defendants Caremark, several insurance companies, attorneys and law firms involved in the 1999 settlement. This lawsuit was stayed as a later-filed class action, but McArthur was subsequently allowed to intervene in the Lauriello action. The attorneys and law firms named as defendants in McArthur's intervention pleadings have been dismissed from the case, and discovery on class certification and adequacy issues is underway.

Various lawsuits have been filed alleging that Caremark has violated applicable antitrust laws in establishing and maintaining retail pharmacy networks for client health plans. In August 2003, Bellevue Drug Co., Robert Schreiber, Inc. d/b/a Burns Pharmacy and Rehn-Huerbinger Drug Co. d/b/a Parkway Drugs #4, together with Pharmacy Freedom Fund and the National Community Pharmacists Association filed a putative class action against Caremark in Pennsylvania federal court, seeking treble damages and injunctive relief. In October 2003, two independent pharmacies, North Jackson Pharmacy, Inc. and C&C, Inc. d/b/a Big C Discount Drugs, Inc. filed a putative class action complaint in Alabama federal court against Caremark and two PBM competitors, seeking treble damages and injunctive relief. The North Jackson Pharmacy case was transferred to Illinois federal court, and the Bellevue case was sent to arbitration based on contract terms between the pharmacies and Caremark. The Bellevue arbitration was then stayed by the parties pending developments in the North Jackson Pharmacy court case.

In August 2006, the Bellevue case and the North Jackson Pharmacy case were both transferred to Pennsylvania federal court by the Judicial Panel on Multidistrict Litigation for coordinated and consolidated proceedings with other cases before the panel, including cases against other PBMs. Caremark appealed the decision which vacated the order compelling arbitration and staying the proceedings in the Bellevue case and, following the appeal, the Court of Appeals reinstated the order compelling arbitration of the Bellevue case. Motions for class certification in the coordinated cases within the multidistrict litigation, including the North Jackson Pharmacy case, remain pending. The consolidated action is now known as the In Re Pharmacy Benefit Managers Antitrust Litigation.

Beginning in November 2008, the Company received and responded to several subpoenas from the Drug Enforcement Administration ("DEA"), Los Angeles Field Division, requesting sales data and other information regarding the Company's distribution of products containing pseudoephedrine ("PSE") at certain retail pharmacies and from one California distribution center. In September 2009, the United States Attorney's Office for the Central District of California ("USAO") and the DEA commenced discussions with the Company regarding whether, in late 2007 and 2008, the Company distributed PSE in violation of the Controlled Substances Act. In addition, the DEA issued an order to show cause against certain retail pharmacies and the Company's La Habra, California distribution center which could have resulted in administrative action against the Company's DEA registrations for these facilities. On October 13, 2010, the Company entered into a comprehensive resolution of this matter, resulting in the payment of $75 million in civil penalties for violations of the Controlled Substances Act and $2.6 million in criminal forfeiture relating to the sales of products containing PSE. The resolution included the entry of a non-prosecution agreement and civil settlement agreement with the USAO, the U.S. Attorney's Office for the District of Nevada and the U.S. Department of Justice, as well as a memorandum of agreement with the DEA that dismisses the previously referenced orders to show cause and contains certain ongoing compliance requirements for the Company.

In August 2009, the Company was notified by the Federal Trade Commission (the "FTC") that it is conducting a non-public investigation under the Federal Trade Commission Act into certain of the Company's business practices. In March 2010, the Company learned that various State Attorneys General offices and certain other government agencies are conducting a multi-state investigation of the Company regarding issues similar to those being investigated by the FTC. At this time, 24 states, the District of Columbia, and the County of Los Angeles are known to be participating in this multi-state investigation. The Company has been cooperating in these investigations, and continues to provide documents and other information as requested. The Company is not able to predict with certainty the timing or outcome of these investigations. However, it remains confident that its business practices and service offerings (which are designed to reduce health care costs and expand consumer choice) are being conducted in compliance with the antitrust laws.

In March 2009, the Company received a subpoena from the OIG requesting information concerning the Medicare Part D prescription drug plans of RxAmerica, the PBM subsidiary of Longs Drug Stores Corporation which was acquired by the Company in October 2008. The Company continues to respond to this request for information and has been producing responsive documents on a rolling basis. The Company cannot predict with certainty the timing or outcome of any review by the government of such information.

Since March 2009, the Company has been named in a series of putative collective and class action lawsuits filed in federal courts around the country, purportedly on behalf of current and former assistant store managers working in the Company's stores at various locations outside California. The lawsuits allege that the Company failed to pay overtime to assistant store managers as

Notes to Consolidated Financial Statements

required under the Fair Labor Standards Act ("FLSA") and under certain state statutes. The lawsuits also seek other relief, including liquidated damages, punitive damages, attorneys' fees, costs and injunctive relief arising out of the state and federal claims for overtime pay. Notice has been issued to over 13,000 current and former assistant store managers offering them the opportunity to "opt in" to certain of the FLSA collective actions and over 1,900 have elected to participate in these lawsuits. At this time, the Company is not able to predict the outcome of these cases, or the possible monetary exposure associated with the lawsuits. The Company's position, however, is that the lawsuits are without merit and that the cases should not be certified as class or collective actions. The Company is vigorously defending these claims, but cannot predict with certainty the timing or outcome of this matter.

In January 2010, the Company received a subpoena from the OIG in connection with an investigation of possible false or otherwise improper claims for payment under the Medicare and Medicaid programs. The subpoena requests retail pharmacy claims data for "dual eligible" customers (i.e., customers with both Medicaid and private insurance coverage), information concerning the Company's retail pharmacy claims processing systems, copies of pharmacy payor contracts and other documents and records. The Company has provided documents and other information in response to the subpoena and continues to engage in discussions with the government about the subject matter of the subpoena. The Company cannot predict with certainty the timing or outcome of any review by the government of such information.

In March 2010, the Company received a subpoena from the OIG requesting information about programs under which the Company has offered customers remuneration conditioned upon the transfer of prescriptions for drugs or medications to our pharmacies in the form of gift cards, cash, non-prescription merchandise or discounts or coupons for non-prescription merchandise. The subpoena relates to an investigation of possible false or otherwise improper claims for payment under the Medicare and Medicaid programs. The Company continues to respond to this request for information and has been producing responsive documents on a rolling basis. We cannot predict with certainty the timing or outcome of any reviews by the government of such information.

In November 2009, a securities class action lawsuit was filed in the United States District Court for the District of Rhode Island purportedly on behalf of purchasers of CVS Caremark Corporation stock between May 5, 2009 and November 4, 2009. The lawsuit names the Company and certain officers as defendants and includes allegations of securities fraud relating to public disclosures made by the Company concerning the PBM business and allegations of insider trading. In addition, a shareholder derivative lawsuit was filed in December 2009, in the same court against the directors and certain officers of the Company. A derivative lawsuit is a lawsuit filed by a shareholder purporting to assert claims on behalf of a corporation against directors and officers of the corporation. This lawsuit includes allegations of, among other things, securities fraud, insider trading and breach of fiduciary duties and further alleges that the Company was damaged by the purchase of stock at allegedly inflated prices under its share repurchase program. In January 2011, both lawsuits were transferred to the United States District Court for the District of New Hampshire. The Company believes these lawsuits are without merit and the Company plans to defend them vigorously.

The Company cannot predict the ultimate outcome of the legal matters disclosed previously. Management does not believe, however, that the outcome of any of these legal matters will have a material adverse effect on the Company's operating results or financial condition.

The Company is also a party to other legal proceedings and inquiries arising in the normal course of its business, none of which is expected to be material to the Company. The Company can give no assurance, however, that our business, financial condition and results of operations will not be materially adversely affected, or that we will not be required to materially change our business practices, based on: (i) future enactment of new health care or other laws or regulations; (ii) the interpretation or application of existing laws or regulations, as they may relate to our business or the pharmacy services or retail industry; (iii) pending or future federal or state governmental investigations of our business or the pharmacy services or retail industry; (iv) institution of government enforcement actions against us; (v) adverse developments in any pending *qui tam* lawsuit against us, whether sealed or unsealed, or in any future *qui tam* lawsuit that may be filed against us; or (vi) adverse developments in other pending or future legal proceedings against us or affecting the pharmacy services or retail industry.

13: SEGMENT REPORTING

The Company currently has three segments: Pharmacy Services, Retail Pharmacy and Corporate.

The Company evaluates its Pharmacy Services and Retail Pharmacy segment performance based on net revenue, gross profit and operating profit before the effect of certain intersegment activities and charges. The Company evaluates the performance of its Corporate segment based on operating expenses before the effect of discontinued operations and certain intersegment activities and charges. See Note 1 for a description of the Pharmacy Services, Retail Pharmacy and Corporate segments and related significant accounting policies.

The following table is a reconciliation of the Company's business segments to the consolidated financial statements:

in millions	Pharmacy Services Segment [1] [2]	Retail Pharmacy Segment [2]	Corporate Segment	Intersegment Eliminations [2]	Consolidated Totals
2010:					
Net revenues	**$ 47,780**	**$ 57,345**	**$ –**	**$ (8,712)**	**$ 96,413**
Gross profit	**3,353**	**17,039**	**–**	**(135)**	**20,257**
Operating profit	**2,389**	**4,537**	**(626)**	**(135)**	**6,165**
Depreciation and amortization	**390**	**1,016**	**63**	**–**	**1,469**
Total assets	**32,254**	**28,927**	**1,439**	**(451)**	**62,169**
Goodwill	**18,868**	**6,801**	**–**	**–**	**25,669**
Additions to property and equipment	**234**	**1,708**	**63**	**–**	**2,005**
2009:					
Net revenues	$ 51,065	$ 55,355	$ –	$ (7,691)	$ 98,729
Gross profit	3,835	16,593	–	(48)	20,380
Operating profit	2,866	4,159	(539)	(48)	6,438
Depreciation and amortization	377	965	47	–	1,389
Total assets	33,082	28,302	774	(517)	61,641
Goodwill	18,879	6,801	–	–	25,680
Additions to property and equipment	218	2,183	147	–	2,548
2008:					
Net revenues	$ 43,769	$ 48,990	$ –	$ (5,287)	$ 87,472
Gross profit	3,550	14,741	–	(1)	18,290
Operating profit	2,755	3,753	(461)	(1)	6,046
Depreciation and amortization	357	881	36	–	1,274
Total assets	32,850	27,406	1,053	(349)	60,960
Goodwill	18,818	6,676	–	–	25,494
Additions to property and equipment	228	1,840	112	–	2,180

(1) Net revenues of the Pharmacy Services segment include approximately $6.6 billion, $6.9 billion and $6.3 billion of Retail co-payments for the fiscal years ended December 31, 2010, 2009 and 2008, respectively.

(2) Intersegment eliminations relate to two types of transactions: (i) Intersegment revenues that occur when Pharmacy Services segment clients use Retail Pharmacy segment stores to purchase covered products. When this occurs, both the Pharmacy Services and Retail Pharmacy segments record the revenue on a standalone basis and (ii) Intersegment revenues, gross profit and operating profit that occur when Pharmacy Services segment clients, through the Company's intersegment activities (such as the Maintenance Choice program), elect to pick up their maintenance prescriptions at Retail Pharmacy segment stores instead of receiving them through the mail. When this occurs, both the Pharmacy Services and Retail Pharmacy segments record the revenue, gross profit and operating profit on a standalone basis. As a result, both the Pharmacy Services and the Retail Pharmacy segments include the following results associated with this activity: net revenues of $1,794 million, $692 million and $8 million for the years ended December 31, 2010, 2009 and 2008, respectively; gross profit and operating profit of $135 million, $48 million and $1 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Notes to Consolidated Financial Statements

14: EARNINGS PER COMMON SHARE

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

in millions, except per share amounts	2010	2009	2008
Numerator for earnings per common share calculation:			
Income from continuing operations	$ 3,439	$ 3,708	$ 3,344
Net loss attributable to noncontrolling interest	3	–	–
Preference dividends, net of income tax benefit	–	–	(14)
Income from continuing operations attributable to CVS Caremark, basic	3,442	3,708	3,330
Loss from discontinued operations, net of income tax benefit	(15)	(12)	(132)
Net income attributable to CVS Caremark, basic	$ 3,427	$ 3,696	$ 3,198
Income from continuing operations	$ 3,439	$ 3,708	$ 3,344
Net loss attributable to noncontrolling interest	3	–	–
Dilutive earnings adjustments	–	–	(3)
Income from continuing operations attributable to CVS Caremark, diluted	3,442	3,708	3,341
Loss from discontinued operations attributable to CVS Caremark, net of income tax benefit	(15)	(12)	(132)
Net income attributable to CVS Caremark, diluted	$ 3,427	$ 3,696	$ 3,209
Denominator for earnings per common share calculation:			
Weighted average common shares, basic	1,367	1,434	1,434
Preference stock	–	1	17
Stock options	8	10	13
Restricted stock units	2	5	5
Weighted average common shares, diluted	1,377	1,450	1,469
Basic earnings per common share:			
Income from continuing operations attributable to CVS Caremark	$ 2.52	$ 2.59	$ 2.32
Loss from discontinued operations attributable to CVS Caremark	(0.01)	(0.01)	(0.09)
Net income attributable to CVS Caremark	$ 2.51	$ 2.58	$ 2.23
Diluted earnings per common share:			
Income from continuing operations attributable to CVS Caremark	$ 2.50	$ 2.56	$ 2.27
Loss from discontinued operations attributable to CVS Caremark	(0.01)	(0.01)	(0.09)
Net income attributable to CVS Caremark	$ 2.49	$ 2.55	$ 2.18

15: QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

in millions, except per share amounts	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
2010:					
Net revenues	**$ 23,760**	**$ 24,007**	**$ 23,875**	**$ 24,771**	**$ 96,413**
Gross profit	**4,746**	**5,020**	**5,024**	**5,467**	**20,257**
Operating profit	**1,410**	**1,501**	**1,484**	**1,770**	**6,165**
Income from continuing operations	**772**	**822**	**819**	**1,026**	**3,439**
Loss from discontinued operations, net of income tax benefit	**(2)**	**(1)**	**(11)**	**(1)**	**(15)**
Net income	**770**	**821**	**808**	**1,025**	**3,424**
Net loss attributable to noncontrolling interest	**1**	**–**	**1**	**1**	**3**
Net income attributable to CVS Caremark	**$ 771**	**$ 821**	**$ 809**	**$ 1,026**	**$ 3,427**
Basic earnings per common share:					
Income from continuing operations attributable to CVS Caremark	**$ 0.56**	**$ 0.61**	**$ 0.60**	**$ 0.75**	**$ 2.52**
Loss from discontinued operations attributable to CVS Caremark	**–**	**–**	**(0.01)**	**–**	**(0.01)**
Net income attributable to CVS Caremark	**$ 0.56**	**$ 0.61**	**$ 0.59**	**$ 0.75**	**$ 2.51**
Diluted Earnings per common share:					
Income from continuing operations attributable to CVS Caremark	**$ 0.55**	**$ 0.60**	**$ 0.60**	**$ 0.75**	**$ 2.50**
Loss from discontinued operations attributable to CVS Caremark	**–**	**–**	**(0.01)**	**–**	**(0.01)**
Net income attributable to CVS Caremark	**$ 0.55**	**$ 0.60**	**$ 0.59**	**$ 0.75**	**$ 2.49**
Dividends per common share	**$0.08750**	**$0.08750**	**$0.08750**	**$0.08750**	**$0.35000**
Stock price: (New York Stock Exchange)					
High	**$ 37.32**	**$ 37.82**	**$ 32.09**	**$ 35.46**	**$ 37.82**
Low	**$ 30.36**	**$ 29.22**	**$ 26.84**	**$ 29.45**	**$ 26.84**
2009:					
Net revenues	$ 23,394	$ 24,871	$ 24,642	$ 25,822	$ 98,729
Gross profit	4,748	5,052	5,012	5,568	20,380
Operating profit	1,377	1,600	1,566	1,895	6,438
Income from continuing operations	744	890	1,023	1,051	3,708
Loss from discontinued operations, net of income tax benefit	(5)	(3)	(2)	(2)	(12)
Net income attributable to CVS Caremark	739	887	1,021	1,049	3,696
Basic earnings per common share:					
Income from continuing operations attributable to CVS Caremark	$ 0.51	$ 0.61	$ 0.72	$ 0.75	$ 2.59
Loss from discontinued operations attributable to CVS Caremark	–	–	(0.01)	–	(0.01)
Net income attributable to CVS Caremark	$ 0.51	$ 0.61	$ 0.71	$ 0.75	$ 2.58
Diluted Earnings per common share:					
Income from continuing operations attributable to CVS Caremark	$ 0.51	$ 0.60	$ 0.71	$ 0.74	$ 2.56
Loss from discontinued operations attributable to CVS Caremark	(0.01)	–	–	–	(0.01)
Net income attributable to CVS Caremark	$ 0.50	$ 0.60	$ 0.71	$ 0.74	$ 2.55
Dividends per common share	$ 0.07625	$ 0.07625	$ 0.07625	$ 0.07625	$ 0.30500
Stock price: (New York Stock Exchange)					
High	$ 30.47	$ 34.22	$ 37.75	$ 38.27	$ 38.27
Low	$ 23.74	$ 27.08	$ 30.58	$ 27.38	$ 23.74

Five-Year Financial Summary

in millions, except per share amounts	2010 [1]	2009 [1]	2008 [1]	2007 [1] [2]	2006 [1]
Statement of operations data:					
Net revenues	$ 96,413	$ 98,729	$ 87,472	$ 76,330	$ 43,821
Gross profit	20,257	20,380	18,290	16,108	11,742
Operating expenses [3]	14,092	13,942	12,244	11,314	9,300
Operating profit [4]	6,165	6,438	6,046	4,794	2,442
Interest expense, net	536	525	509	435	216
Income tax provision [5]	2,190	2,205	2,193	1,722	857
Income from continuing operations	3,439	3,708	3,344	2,637	1,369
Loss from discontinued operations, net of tax benefit [6]	(15)	(12)	(132)	–	–
Net income	3,424	3,696	3,212	2,637	1,369
Net loss attributable to noncontrolling interest [7]	3	–	–	–	–
Preference dividends, net of income tax benefit	–	–	(14)	(14)	(14)
Net income attributable to CVS Caremark	$ 3,427	$ 3,696	$ 3,198	$ 2,623	$ 1,355
Per common share data:					
Basic earnings per common share:					
Income from continuing operations attributable to CVS Caremark	$ 2.52	$ 2.59	$ 2.32	$ 1.97	$ 1.65
Loss from discontinued operations attributable to CVS Caremark	(0.01)	(0.01)	(0.09)	–	–
Net income attributable to CVS Caremark	$ 2.51	$ 2.58	$ 2.23	$ 1.97	$ 1.65
Diluted earnings per common share:					
Income from continuing operations attributable to CVS Caremark	$ 2.50	$ 2.56	$ 2.27	$ 1.92	$ 1.60
Loss from discontinued operations attributable to CVS Caremark	(0.01)	(0.01)	(0.09)	–	–
Net income attributable to CVS Caremark	$ 2.49	$ 2.55	$ 2.18	$ 1.92	$ 1.60
Cash dividends per common share	$0.35000	$ 0.30500	$ 0.25800	$ 0.22875	$ 0.15500
Balance sheet and other data:					
Total assets	$ 62,169	$ 61,641	$ 60,960	$ 54,722	$ 20,574
Long-term debt	$ 8,652	$ 8,756	$ 8,057	$ 8,350	$ 2,870
Total shareholders' equity	$ 37,700	$ 35,768	$ 34,574	$ 31,322	$ 9,918
Number of stores (at end of year)	7,226	7,074	6,981	6,301	6,205

(1) On December 23, 2008, our Board of Directors approved a change in our fiscal year-end from the Saturday nearest December 31 of each year to December 31 of each year to better reflect our position in the health care, rather than the retail, industry. The fiscal year change was effective beginning with the fourth quarter of fiscal 2008. As you review our operating performance, please consider that fiscal 2010 and 2009 include 365 days; fiscal 2008 includes 368 days, and fiscal 2007 and 2006 include 364 days.

(2) Effective March 22, 2007, Caremark Rx, Inc. was merged into a newly formed subsidiary of CVS Corporation, with Caremark Rx, L.L.C., continuing as the surviving entity (the "Caremark Merger"). Following the Caremark Merger, the name of the Company was changed to "CVS Caremark Corporation." By virtue of the Caremark Merger, each issued and outstanding share of Caremark common stock, par value $0.001 per share, was converted into the right to receive 1.67 shares of CVS Caremark's common stock, par value $0.01 per share. Cash was paid in lieu of fractional shares.

(3) In 2006, the Company adopted the SEC Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Qualifying Misstatements in Current Year Financial Statements." The adoption of this SAB resulted in a $40 million pre-tax ($25 million after-tax) decrease in operating expenses for 2006.

(4) Operating profit includes the pre-tax effect of the charge discussed in Note (3) above.

(5) Income tax provision includes the effect of the following: (i) in 2010, the recognition of $47 million of previously unrecognized tax benefits, including interest, relating to the expiration of various statutes of limitation and settlements with tax authorities, (ii) in 2009, the recognition of $167 million of previously unrecognized tax benefits, including interest, relating to the expiration of various statutes of limitation and settlements with tax authorities, and (iii) in 2006, a $11 million reversal of previously recorded tax reserves through the tax provision principally based on resolving certain state tax matters.

(6) In connection with certain business dispositions completed between 1991 and 1997, the Company continues to guarantee store lease obligations for a number of former subsidiaries, including Linens 'n Things. On May 2, 2008, Linens Holding Co. and certain affiliates, which operate Linens 'n Things, filed voluntary petitions under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. The loss from discontinued operations includes lease-related costs of $15 million ($24 million, net of a $9 million income tax benefit), $12 million ($19 million, net of an $7 million income tax benefit) and $132 million ($214 million, net of an $82 million income tax benefit) in 2010, 2009 and 2008, respectively, which the Company believes is likely to be required to satisfy its obligations associated with its Linens 'n Things lease guarantees.

(7) Represents the minority shareholders' portion of the net loss from our majority owned subsidiary Generation Health, Inc. acquired in the fourth quarter of 2009.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
CVS Caremark Corporation

We have audited the accompanying consolidated balance sheets of CVS Caremark Corporation as of December 31, 2010 and 2009, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of CVS Caremark Corporation at December 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2009 CVS Caremark Corporation adopted ASC 805, *Business Combinations* (formerly Statement of Financial Accounting Standards No. 141(R), *Business Combinations*).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CVS Caremark Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 18, 2011 expressed an unqualified opinion thereon.

Ernst & Young LLP

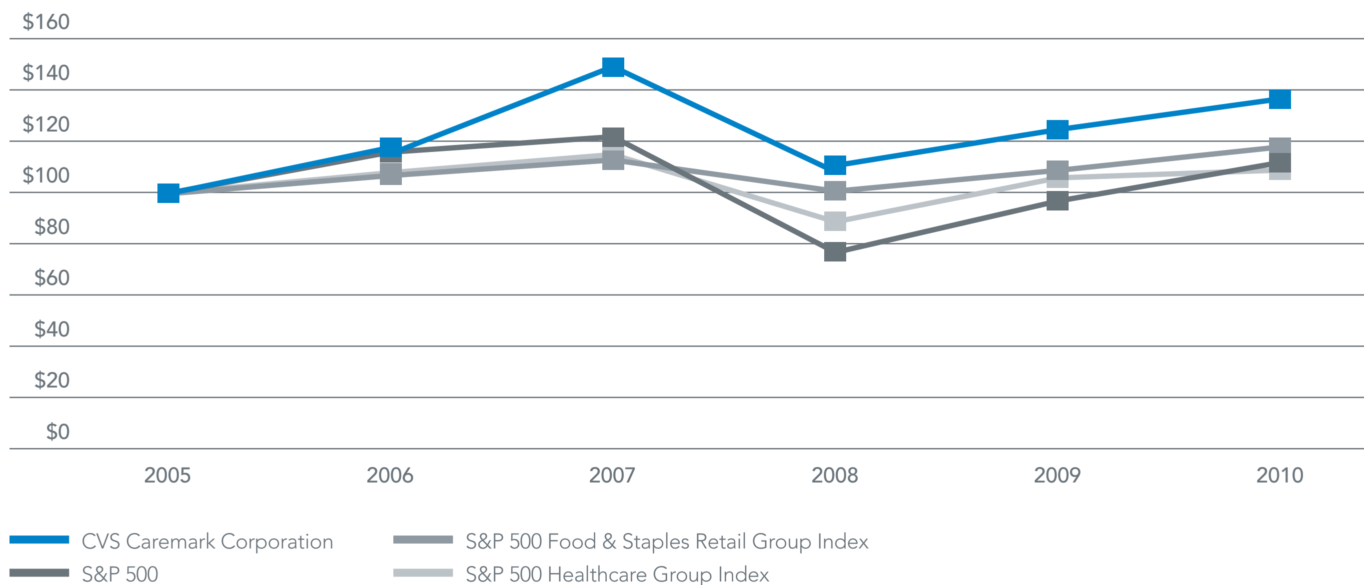
Boston, Massachusetts
February 18, 2011

Stock Performance Graph

The following graph shows changes over the past five-year period in the value of $100 invested in: (1) our common stock; (2) S&P 500 Index; (3) S&P 500 Food & Staples Retail Group Index, which currently includes nine retail companies; (4) S&P 500 Healthcare Group Index, which currently includes 51 health care companies.

COMPARISON OF CUMULATIVE TOTAL RETURN TO SHAREHOLDERS

December 31, 2005 to December 31, 2010



	Year End						Annual Return Rate (1 Year)	Compound Annual Return Rate (3 Year)	Compound Annual Return Rate (5 Year)
	2005	2006	2007	2008	2009	2010			
CVS Caremark Corporation	$100	$118	$152	$111	$125	$137	9.1%	-3.5%	6.5%
S&P 500 [(1)]	$100	$116	$122	$ 77	$ 97	$112	15.1%	-2.8%	2.3%
S&P 500 Food & Staples Retail Group Index [(2)]	$100	$107	$113	$101	$109	$118	8.7%	1.4%	3.4%
S&P 500 Healthcare Group Index [(3)]	$100	$108	$115	$ 89	$106	$109	2.8%	-1.7%	1.8%

(1) Index includes CVS Caremark

(2) Index currently includes nine retail companies (Costco Wholesale, CVS Caremark, Kroger, Safeway, SUPERVALU, Sysco, Wal-Mart, Walgreen, and Whole Foods)

(3) Index currently includes 51 health care companies

The year-end values of each investment shown in the preceding graph are based on share price appreciation plus dividends, with the dividends reinvested as of the last business day of the month during which such dividends were ex-dividend. The calculations exclude trading commissions and taxes. Total stockholder returns from each investment, whether measured in dollars or percentages, can be calculated from the year-end investment values shown beneath the graph.

Shareholder Information

OFFICERS

THOMAS M. RYAN
Chairman of the Board and
Chief Executive Officer

LARRY J. MERLO
President and Chief Operating Officer

TROYEN A. BRENNAN, M.D.
Executive Vice President and
Chief Medical Officer

DAVID M. DENTON
Executive Vice President and
Chief Financial Officer

HELENA B. FOULKES
Executive Vice President and
Chief Marketing Officer

PER G.H. LOFBERG
Executive Vice President and President
– Caremark Pharmacy Services

JONATHAN C. ROBERTS
Executive Vice President and
Chief Operating Officer – Caremark
Pharmacy Services

DOUGLAS A. SGARRO
Executive Vice President and
Chief Legal Officer

LISA G. BISACCIA
Senior Vice President and
Chief Human Resources Officer

JOHN M. BUCKLEY
Senior Vice President and
Chief Compliance Officer

NANCY R. CHRISTAL
Senior Vice President – Investor Relations

LAIRD K. DANIELS
Senior Vice President – Finance and
Controller and Chief Accounting Officer

CAROL A. DENALE
Senior Vice President and
Corporate Treasurer

SARA J. FINLEY
Senior Vice President and General Counsel

STUART M. MCGUIGAN
Senior Vice President and
Chief Information Officer

ZENON P. LANKOWSKY
Corporate Secretary

OFFICERS' CERTIFICATIONS
The Company has filed the required certifications under Section 302 of the Sarbanes-Oxley Act of 2002 regarding the quality of our public disclosures as Exhibits 31.1 and 31.2 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2010. After our 2010 annual meeting of stockholders, the Company filed with the New York Stock Exchange the CEO certification regarding its compliance with the NYSE corporate governance listing standards as required by NYSE Rule 303A.12(a).

DIRECTORS

EDWIN M. BANKS [1] [3]
Founder and Managing Partner
Washington Corner Capital
Management, LLC

C. DAVID BROWN II [2] [3]
Chairman of the Firm
Broad and Cassel

DAVID W. DORMAN [2] [3]
Non-Executive Chairman of the Board
Motorola Solutions, Inc.

ANNE M. FINUCANE [3]
Global Strategy and Marketing Officer
Bank of America Corporation

KRISTEN GIBNEY WILLIAMS [1]
Former Executive
Prescription Benefits Management Division
of Caremark International, Inc.

MARIAN L. HEARD [2] [3]
President and Chief Executive Officer
Oxen Hill Partners

WILLIAM H. JOYCE [1]
Chairman of the Board and
Chief Executive Officer
Advanced Fusion Systems, LLC

LARRY J. MERLO
President and Chief Operating Officer
CVS Caremark Corporation

JEAN-PIERRE MILLON [1]
Former President and
Chief Executive Officer
PCS Health Systems, Inc.

TERRENCE MURRAY [2] [4]
Former Chairman of the Board
and Chief Executive Officer
FleetBoston Financial Corporation

C.A. LANCE PICCOLO [3]
Chief Executive Officer
HealthPic Consultants, Inc.

SHELI Z. ROSENBERG [2] [3]
Former President, Chief Executive
Officer and Vice Chairwoman
Equity Group Investments, LLC

THOMAS M. RYAN
Chairman of the Board and
Chief Executive Officer
CVS Caremark Corporation

RICHARD J. SWIFT [1]
Former Chairman of the Board,
President and Chief Executive Officer
Foster Wheeler Ltd.

(1) Member of the Audit Committee

(2) Member of the Management Planning and Development Committee

(3) Member of the Nominating and Corporate Governance Committee

(4) Lead Director

SHAREHOLDER INFORMATION

CORPORATE HEADQUARTERS
CVS Caremark Corporation
One CVS Drive, Woonsocket, RI 02895
(401) 765-1500

ANNUAL SHAREHOLDERS' MEETING
May 11, 2011
CVS Caremark Corporate Headquarters

STOCK MARKET LISTING
The New York Stock Exchange
Symbol: CVS

TRANSFER AGENT AND REGISTRAR
Questions regarding stock holdings, certificate replacement/transfer, dividends and address changes should be directed to:

The Bank of New York Mellon
c/o BNY Mellon Shareowner Services
P.O. Box 358015
Pittsburgh, PA 15252-8015
Toll-free: (877) CVSPLAN (287-7526)
E-Mail: shrrelations@bnymellon.com

DIRECT STOCK PURCHASE/DIVIDEND REINVESTMENT PROGRAM
BuyDIRECT[SM] provides a convenient and economical way for you to purchase your first shares or additional shares of CVS Caremark common stock. The program is sponsored and administered by The Bank of New York Mellon. For more information, including an enrollment form, please contact:

The Bank of New York Mellon at
(877) 287-7526

FINANCIAL AND OTHER COMPANY INFORMATION
The Company's Annual Report on Form 10-K will be sent without charge to any shareholder upon request by contacting:

Nancy R. Christal
Senior Vice President – Investor Relations
CVS Caremark Corporation
670 White Plains Road – Suite 210
Scarsdale, NY 10583
(800) 201-0938

In addition, financial reports and recent filings with the Securities and Exchange Commission, including our Form 10-K, as well as other Company information, are available via the Internet at http://www.cvscaremark.com/investors.

designed and produced by see see eye / Atlanta

One CVS Drive
Woonsocket, RI 02895
401.765.1500
info.cvscaremark.com