# CVS CAREMARK CORP (CVS)

## 10-K

Annual report pursuant to section 13 and 15(d)
Filed on 02/27/2009
Filed Period 12/31/2008

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-K

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2008

OR

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from ______ to ______

Commission file number 001-01011

# CVS CAREMARK CORPORATION
**(Exact name of Registrant as specified in its charter)**

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

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ☐ No ☒

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐
(Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the registrant's common stock held by non-affiliates was approximately $56,793,037,000 as of June 27, 2008, based on the closing price of the common stock on the New York Stock Exchange. For purposes of this calculation, only executive officers and directors are deemed to be the affiliates of the registrant.

As of February 23, 2009, the registrant had 1,455,515,000 shares of common stock issued and outstanding.

## DOCUMENTS INCORPORATED BY REFERENCE

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

- Information contained on pages 18 through 64, and pages 66 through 67 of our Annual Report to Stockholders for the fiscal year ended December 31, 2008 is incorporated by reference in our response to Items 7, 8 and 9 of Part II.
- Information contained in our Proxy Statement for the 2009 Annual Meeting of Stockholders is incorporated by reference in our response to Items 10 through 14 of Part III.

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## PART I

### Item 1. Business

### Overview

CVS Caremark Corporation ("CVS Caremark", the "Company", "we" or "us") is the largest provider of prescriptions and related health care services in the United States. We fill or manage more than one billion prescriptions annually. As a fully integrated pharmacy services company, we drive value for our customers by effectively managing pharmaceutical costs and improving health care outcomes through our approximately 6,900 CVS/pharmacy® and Longs Drug® retail stores; our pharmacy benefit management, mail order and specialty pharmacy division, Caremark Pharmacy Services®; our retail-based health clinic subsidiary, MinuteClinic®; and our online pharmacy, CVS.com®. We currently operate two business segments: Pharmacy Services and Retail Pharmacy. Our business segments are operating units that offer different products and services and require distinct technology and marketing strategies.

### The Caremark Merger

Effective March 22, 2007, we closed our merger with Caremark Rx. Inc. (the "Caremark Merger"). Following the Caremark Merger we changed our name to CVS Caremark Corporation and Caremark Rx, Inc. became a wholly-owned subsidiary, Caremark Rx, L.L.C. ("Caremark"). The Caremark Merger has positioned our Company to deliver significant benefits to (i) health plan sponsors through effective cost management solutions and innovative programs and (ii) consumers through expanded choice, improved access and more personalized services.

The Caremark Merger has enabled us to achieve significant synergies from purchasing scale and operating efficiencies. The purchasing synergies include additional purchase discounts (including rebates obtained from pharmaceutical manufacturers) and cost efficiencies obtained from our national network of retail pharmacies. Operating synergies include cost savings resulting from productivity increases and other efficiencies obtained by eliminating duplicate facilities and excess capacity and combining complementary operations.

The Caremark Merger has also created significant incremental revenue opportunities for our Company through a variety of new programs and plan designs that benefit from our client relationships, our integrated information systems and the ability of our more than 25,000 pharmacists, nurse practitioners and physician assistants to interact personally with the millions of consumers who shop our stores every day. In that regard, during 2008, we introduced Proactive Pharmacy Care, an earlier, easier, more effective approach to engaging plan participants in behaviors that can help lower costs, improve health, and save lives. Examples of Proactive Pharmacy Care programs include: Maintenance Choice (a flexible fulfillment option that affords eligible plan participants the convenient choice of picking up their 90-day supply of maintenance medications at any CVS/pharmacy store or obtaining them through mail order in either case at the cost of mail for both the payer and the plan participant); Bridge Supply (which enables eligible plan participants to avoid gaps in care while waiting for their medications to arrive in the mail by obtaining a bridge supply of their prescriptions at any CVS/pharmacy store at no additional charge); and a new ExtraCare® Health Card program (which offers discounts to eligible plan participants on certain Flexible Spending Account-eligible and over-the-counter health care products sold in any of our CVS/pharmacy stores). We are also creating new compliance and persistency programs designed to ensure that patients take their medications in the correct manner as well as enhanced disease management programs that are targeted at managing chronic disease states. In addition, we are working with our clients to (i) decrease unnecessary and expensive emergency room visits by encouraging plan participants to use our MinuteClinic locations for everyday common ailments and (ii) create pilot programs that offer convenient, unique services available at MinuteClinic such as injection training for specialty pharmacy patients.

While certain of these programs (like Maintenance Choice, Bridge Supply, and the ExtraCare Health Card program) have already been adopted by many CVS Caremark clients, others are still in the formative stage and require additional information system enhancements and/or changes in work processes. Accordingly, over the long-term, there can be no assurance as to the timing or amount of incremental revenues that can be achieved with these kinds of programs.

We believe the breadth of capabilities resulting from the Caremark Merger are resonating with our clients and contributed to our success at renewing existing clients and obtaining a significant number of new clients in the 2008 selling season.

### The Longs Acquisition

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

### Pharmacy Services Segment

The Pharmacy Services business provides a full range of prescription benefit management ("PBM") services including mail order pharmacy services, specialty pharmacy services, plan design and administration, formulary management and claims processing. Our customers 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. 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. Currently, the pharmacy services business operates under the Caremark Pharmacy Services®, Caremark®, CVS Caremark, CarePlus CVS/pharmacy, CarePlus, RxAmerica®, AccordantCare® and TheraCom® names. As of December 31, 2008, the Pharmacy Services segment operated 58 retail specialty pharmacy stores, 19 specialty mail order pharmacies and 7 mail service pharmacies located in 26 states, Puerto Rico and the District of Columbia.

**Our Strategy ~** Our business strategy centers on providing innovative pharmaceutical solutions and quality customer service in order to enhance clinical outcomes for the participants in our customers' health benefit plans while assisting our customers in better managing their overall health care costs. We believe the Caremark Merger has positioned our company to deliver significant benefits to health plan sponsors through effective cost-management solutions and innovative programs and to consumers through expanded choice, improved access and more personalized services.

**Our Services ~** The PBM services we provide for our customers involve the design and administration of programs aimed at reducing the cost and improving the safety, effectiveness and convenience of prescription drug use. These services are described more fully below.

*Plan Design and Administration* **~** Our customers sponsor pharmacy benefit plans which facilitate the ability of eligible participants in these plans to receive medications prescribed by their physicians. We assist our customers in designing pharmacy benefit plans that minimize the costs to the customer while prioritizing the welfare and safety of the customers' participants. We also administer these benefit plans for our customers and assist them in monitoring the effectiveness of these plans through frequent, informal communications as well as through a formal annual customer review.

We make recommendations to our customers encouraging them to design benefit plans promoting the use of the lowest cost, most clinically appropriate drug. We believe that we help our customers control costs by recommending plans that encourage the use of generic equivalents of brand name drugs when such equivalents are available. Our customers also have the option, through plan design, to further lower their pharmacy benefit plan costs by setting different participant payment levels for different products on our drug lists.

*Formulary Management* **~** We utilize an independent panel of doctors, pharmacists and other medical experts, referred to as our Pharmacy and Therapeutics Committee, to select drugs that meet the highest standards of safety and efficacy for inclusion on our drug lists. Our drug lists provide recommended products in numerous drug classes to ensure participant access to clinically appropriate alternatives under the customer's pharmacy benefit plan. To improve clinical outcomes for participants and customers, we conduct ongoing, independent reviews of all drugs, including, but not limited to, those appearing on the drug list and generic equivalent products, as well as of our clinical programs.

*Discounted Drug Purchase Arrangements* **~** We negotiate with pharmaceutical manufacturers to obtain discounted acquisition costs for many of the products on our drug lists, and these negotiated discounts enable us to offer reduced costs to customers that choose to adopt our drug lists. The discounted drug purchase arrangements we negotiate typically provide for our receiving discounts from established list prices in one or a combination, of the forms. In that regard, these discounts generally take the form of a direct discount at the time of purchase, a discount for prompt payment of invoices or, when products are indirectly purchased from a manufacturer (e.g., through a wholesaler or retail pharmacy/chain), a retroactive discount, or rebate. We also receive additional discounts under our wholesale contracts if we exceed contractually-defined annual purchase volumes. We record these discounts, regardless of their form, as a reduction of our cost of revenues.

*Prescription Management Systems* **~** We dispense prescription drugs both directly, through our own pharmacies, and indirectly, through a network of retail pharmacies. All prescriptions, whether they are filled through one of our mail service pharmacies or through a pharmacy in our retail network, are analyzed, processed and documented by our proprietary prescription management systems. These systems assist staff and network pharmacists in processing prescriptions by automating tests for various items, including, but not limited to, plan eligibility, early refills, duplicate dispensing, appropriateness of dosage, drug interactions or allergies, over-utilization and potential fraud.

*Mail Pharmacy Program* **~** We currently operate 7 large, automated mail service pharmacies in the continental United States, including one located in Largo, Florida, that we expect to consolidate during 2009. Our customers or their physicians submit prescriptions, primarily for maintenance medications, to these pharmacies via mail, telephone, fax or the Internet. We also operate a network of smaller mail service specialty pharmacies described below. Additionally, we operate a United States Food and Drug Administration ("FDA") regulated repackaging facility in which we repackage certain drugs into the most common prescription amounts dispensed from our automated mail service pharmacies. Our staff pharmacists review mail service prescriptions and refill requests with the assistance of our prescription management systems. This review may involve communications with the prescribing physician and, with the physician's approval, can result in generic substitution, therapeutic interchange or other actions to affect cost or to improve quality of treatment. In these cases, we inform participants about the changes made to their prescriptions.

*Specialty Pharmacy* **~** Our specialty pharmacies support individuals that require complex and expensive drug therapies. Our specialty pharmacies are comprised of 19 specialty mail order pharmacies located throughout the United States and are used for delivery of advanced medications to individuals with chronic or genetic diseases and disorders. One of our mail service specialty pharmacies, TheraCom®, provides new product launch services for manufacturers of specialty drugs. Substantially all of these pharmacies have been accredited by the Joint Commission, which is an independent, not-for-profit organization which accredits and certifies more than 15,000 health care organizations and programs in the United States. The Company also operates a network of 58 retail specialty pharmacy stores (which operate under the Caremark, CarePlus or CVS/pharmacy name). These stores average 2,000 square feet in size and sell prescription drugs and a limited assortment of front store items such as alternative medications, homeopathic remedies and vitamins.

*Onsite Pharmacies* **~** We also operate a limited number of small pharmacies located at client sites under the CarePlus CVS/pharmacy, CVS/pharmacy or CarePlus name, which provide participants with a convenient alternative for filling their prescriptions.

*Retail Pharmacy Network* ~ We maintain a national network of approximately 60,000 retail pharmacies including CVS/pharmacy and Longs Drug stores. When a customer fills a prescription in a retail pharmacy, the pharmacy sends prescription data electronically to us from the point-of-sale. This data interfaces with our proprietary prescription management systems, which verify relevant customer data, including eligibility and participant information, and perform a drug utilization review to determine clinical appropriateness and safety in addition to confirming that the pharmacy will receive payment for the prescription.

*Quality Assurance* **~** We have adopted and implemented clinical quality assurance procedures as well as policies and procedures to help ensure regulatory compliance under our quality assurance programs. Each new mail service prescription undergoes a sequence of safety and accuracy checks and is reviewed and verified by a registered pharmacist before shipment. We also analyze drug-related outcomes to identify opportunities to improve the quality of care.

*Disease Management Programs* **~** Our clinical services utilize advanced protocols and offer customers convenience in working with health care providers and other third parties. Our AccordantCare health management programs include integrated disease management, which includes 27 diseases such as asthma, coronary artery disease, congestive heart failure, diabetes, hemophilia, rheumatoid arthritis and multiple sclerosis. The majority of these integrated programs are accredited by the National Committee for Quality Assurance ("NCQA"), a private, not-for-profit organization that evaluates, accredits and certifies a wide range of health care organizations.

*Medicare Part D Services* ~ We participate in the administration of the drug benefit added to the Medicare program through Part D of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 ("MMA") (the "Medicare Drug Benefit") through the provision of PBM services to our health plan clients and other clients that have qualified as Medicare Part D prescription drug plans ("PDP"). We also participate (i) by offering Medicare Part D pharmacy benefits through our subsidiaries, SilverScript and Accendo, which have been approved by the Centers for Medicare and Medicaid Services ("CMS"), as PDPs, and (ii) by assisting employer, union and other health plan clients that qualify for the retiree drug subsidy available under Medicare Part D by collecting and submitting eligibility and/or drug cost data to CMS in order for them to obtain the subsidy. During 2008, our PharmaCare Management Services subsidiary, through a joint venture with Universal American Corp. ("UAC"), also participated in the offering of Medicare Part D pharmacy benefits by affiliated entities of UAC that qualified as PDPs. The Company and UAC dissolved this joint venture at the end of the 2008 plan year and have divided responsibility for providing Medicare Part D services to the affected UAC plan members beginning with the 2009 plan year.

**Information Systems ~** We currently operate primary information systems platforms to support our PBM services, which are supplemented by additional information systems to support our pharmacy operations. These information systems incorporate integrated architecture that centralizes the data generated from filling mail service prescriptions, adjudicating retail pharmacy claims and fulfilling other customer service contracts.

**Customers** ~ Our customers are primarily sponsors of health benefit plans (employers, unions, government employee groups, insurance companies and managed care organizations) and individuals located throughout the United States. We provide pharmaceuticals to eligible participants in benefit plans maintained by our customers and utilize our information systems to perform safety checks, drug interaction screening and generic substitution. We generate substantially all of our Pharmacy Services Segment net revenue from dispensing prescription drugs to eligible participants in benefit plans maintained by our customers. During the year-ended December 31, 2008, we managed over 633 million prescriptions for individuals from over 3,300 organizations.

**Competition ~** We believe the primary competitive factors in the industry include: (i) the ability to negotiate favorable discounts from drug manufacturers; (ii) the ability to negotiate favorable discounts from, and access to, retail pharmacy networks; (iii) responsiveness to customers' needs; (iv) the ability to identify and apply effective cost management programs utilizing clinical strategies; (v) the ability to develop and utilize preferred drug lists; (vi) the ability to market PBM products and services; (vii) the commitment to provide flexible, clinically-oriented services to customers; and (viii) the quality, scope and costs of products and services offered to customers and their participants. The Pharmacy Services segment competes with a number of large, national PBM companies, including Medco Health Solutions, Inc. and Express Scripts, Inc., as well as many smaller local or regional PBMs. We also compete with several large health insurers/managed care plans (e.g. UnitedHealthcare, Wellpoint, Aetna, CIGNA) and retail pharmacies, which have their own PBM capabilities, as well as with several other national and regional companies which provide services similar to ours.

**Retail Pharmacy Segment**

As of December 31, 2008, the Retail Pharmacy Segment included 6,923 retail drugstores, of which 6,857 operated a pharmacy, our online retail website, CVS.com® and our retail health care clinics. The retail drugstores are located in 41 states and the District of Columbia operating primarily under the CVS/pharmacy®, or Longs Drug® names. We currently operate in 89 of the top 100 U.S. drugstore markets and hold the number one or number two market share in 60 of these markets. Overall, we hold the number one or number two market share position in 67% of the markets in which our retail drugstores operate. CVS/pharmacy stores sell prescription drugs and a wide assortment of general merchandise, which we refer to as "front store" products. Existing stores range in size from approximately 8,000 to 25,000 square feet, although most new stores range in size from approximately 10,000 to 13,000 square feet and typically include a drive-thru pharmacy. During fiscal 2008, we filled approximately 559 million retail prescriptions, or approximately 17% of the U.S. retail pharmacy market.

As of December 31, 2008, we operated 560 retail health care clinics in 27 states under the MinuteClinic name, of which 534 were located within CVS/pharmacy stores. The clinics utilize nationally recognized medical protocols to diagnose and treat minor health conditions and are staffed by board-certified nurse practitioners and physician assistants.

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

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

| | Percentage of Net Revenues(1) | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| Prescription drugs | 68% | 68% | 68% |
| Over-the-counter and personal care | 13 | 13 | 13 |
| Beauty/cosmetics | 4 | 4 | 4 |
| General merchandise and other | 15 | 15 | 15 |
| | 100% | 100% | 100% |

(1) Percentages are estimates based on store point-of-sale data.

**Pharmacy ~** Pharmacy revenues represented approximately 68% of Retail Pharmacy revenues in 2008, 2007 and 2006 respectively. We believe that our pharmacy operations will continue to represent a critical part of our business due to our ability to attract and retain managed care customers, favorable industry trends (e.g., an aging American population consuming a greater number of prescription drugs, pharmaceuticals being used more often as the first line of defense for managing illness) the proliferation of new pharmaceutical products, the federally funded prescription drug benefit promulgated in 2006 as part of the MMA and our on going program of purchasing customer lists from independent pharmacies. We believe our pharmacy business benefits from our investment in both people and technology. Given the nature of prescriptions, people want their prescriptions filled accurately and ready when promised, by professional pharmacists using the latest tools and technology. As such, our Pharmacy Service Initiative, which is designed to resolve potential problems at the point of drop-off that could delay a prescription being filled, has enabled us to improve our dispensing process resulting in improved customer service ratings. Further evidencing our belief in the importance of pharmacy service is our continuing investment in technology, such as our Drug Utilization Review system that checks for harmful interactions between prescription drugs, over-the-counter products, vitamins and herbal remedies; our Rx Connect system; our touch-tone telephone reorder system, Rapid Refill™; CVS/pharmacy Health Savings Pass; Proactive Pharmacy Care™; and our online business, CVS.com.

**Front Store ~** Front store revenues benefited from our strategy to be the first to market with new and unique products and services, using innovative marketing and adjusting our mix of merchandise to match our customers' needs and preferences. A key component of our front store strategy is our ExtraCare® card program, which is helping us continue to build our loyal customer base. In addition, the ExtraCare program is one of the largest and most successful retail loyalty programs in the United States. The ExtraCare program allows us to balance our marketing efforts so we can reward our best customers by providing them automatic sale prices, customized coupons, ExtraBucks® rewards and other benefits. Another component of our front store strategy is our unique product offerings, which include a full range of high-quality CVS brand products that are only available through CVS. We currently carry over 3,300 CVS brand and proprietary brand products, which accounted for approximately 15% of our front store revenues during 2008.

**Store Development ~** The addition of new stores has played, and will continue to play, a major role in our continued growth and success. Our store development program focuses on three areas: entering new markets, adding stores within existing markets and relocating stores to more convenient, freestanding sites. During 2008, we opened 188 new retail pharmacy stores and 2 new specialty pharmacy stores, acquired 529 stores as part of the Longs Acquisition, relocated 129 retail pharmacy stores and 3 specialty pharmacy stores and closed 39 stores. During the last five years, we opened more than 1,300 new and relocated stores, and acquired approximately 2,500 stores. More than two-thirds of our store base was opened or significantly remodeled within the last five years. During 2009, we expect to open between 250 and 300 new or relocated stores. We believe that continuing to grow our store base and locating stores in desirable geographic markets are essential components to compete effectively in the current managed care environment. As a result, we believe that our store development program is an integral part of our ability to maintain our leadership position in the retail drugstore industry.

**Information Systems ~** We have continued to invest in information systems to enable us to deliver a high level of customer service while lowering costs and increasing operating efficiency. We were one of the first in the industry to introduce Drug Utilization Review technology that checks for harmful interactions between prescription drugs, over-the-counter products, vitamins and herbal remedies. We were also one of the first in the industry to install a chain wide automatic prescription refill system, CVS Rapid Refill™, which enables customers to order prescription refills 24 hours a day using a touch-tone telephone. We continue to enhance our Visible Improvement in Profits, Execution and Results ("VIPER") system, a transaction monitoring application designed to mitigate inventory losses attributable to process deficiencies or fraudulent behavior by providing visibility to transactions processed through our point-of-sale systems. In addition, we operate distribution centers with fully integrated technology solutions for storage, product retrieval and order picking. In addition, in 2009, we plan on implementing a new pharmacy fulfillment system Rx Connect, which will reengineer the way our pharmacists communicate and fill prescriptions. Further, we continue to enhance our Assisted Inventory Management system, which is designed to more effectively link our stores and distribution centers with suppliers to speed the delivery of merchandise to our stores in a manner that both increases in-stock positions in the stores and lowers our investment in inventory.

**Customers ~**

**Intellectual Property**

We have registered or applied to register a variety of trademarks, service marks and trade names used in our business. We regard our intellectual property as having significant value in both our segments. We are not aware of any facts that could materially impact our continuing use of any of our intellectual property.

**Government Regulation of Health Care Matters**

**Overview ~** As a participant in the health care industry, our retail and pharmacy services businesses are subject to federal and state laws and regulations that govern the purchase, sale and distribution of prescription drugs and related services, including administration and management of prescription drug benefits. Many of our PBM clients, including insurers and managed care organizations ("MCOs"), are themselves subject to extensive regulations that affect the design and implementation of prescription drug benefit plans that they sponsor. The application of complex standards to the detailed operation of our business creates areas of uncertainty. Moreover, regulation of the health care industry continues to evolve, and there are numerous proposed health care laws and regulations at the federal and state levels, many of which could adversely affect our business if they are enacted. We are unable to predict what additional federal or state legislation or regulatory initiatives may be enacted in the future relating to our business or the health care industry in general, or what effect any such legislation or regulations might have on us. Any failure or alleged failure to comply with applicable laws and regulations, or any adverse applications of, or changes in, the laws and regulations affecting our business, could have a material adverse effect on our operating results and financial condition.

Among the existing federal and state laws and regulations that affect aspects of our business are the following:

**Anti-Remuneration Laws ~** Federal law prohibits, among other things, an entity from knowingly and willfully offering, paying, soliciting or receiving, subject to certain exceptions and "safe harbors," any remuneration to induce the referral of individuals or the purchase, lease or order (or the arranging for or recommending of the purchase, lease or order) of items or services for which payment may be made under Medicare, Medicaid or certain other federal health care programs. A number of states have similar laws, some of which are not limited to services paid for with government funds. State laws and exceptions or safe harbors vary and have been infrequently interpreted by courts or regulatory agencies. Sanctions for violating these federal and state anti-remuneration laws may include imprisonment, criminal and civil fines, and exclusion from participation in Medicare, Medicaid and other government-sponsored health care programs. The federal anti-remuneration law has been interpreted broadly by some courts, the Office of Inspector General (the "OIG") within the United States Department of Health and Human Services ("HHS") and administrative bodies. Because of the federal statute's broad scope, HHS established certain safe harbor regulations that specify various practices that are protected from criminal or civil liability. Safe harbors exist for certain discounts offered to purchasers, certain personal services arrangements, certain payments made by vendors to group purchasing organizations, in certain cases the provision of electronic prescribing technology to physicians, and certain other transactions and relationships. A practice that does not fall within a safe harbor is not necessarily unlawful but may be subject to challenge by HHS.

In April 2003, the OIG issued a Compliance Program Guidance for Pharmaceutical Manufacturers (the "OIG Guidance"). In the OIG Guidance, the OIG identifies potential risk areas for pharmaceutical manufacturers and also discusses a number of traditional relationships between pharmaceutical manufacturers and PBMs, such as discount payments, service offerings and data sales, and recommends that such relationships be structured wherever possible to fit within an applicable safe harbor.

The federal anti-remuneration law has been cited as a partial basis, along with state consumer protection laws, for investigations and multi-state settlements relating to financial incentives provided by drug manufacturers to retail pharmacies in connection with product conversion programs. Additionally, certain governmental entities have commenced investigations of companies in the pharmaceutical services industry and have identified issues concerning development of preferred drug lists, therapeutic interchange programs, pricing of pharmaceutical products and discounts from prescription drug manufacturers.

**Antitrust and Unfair Competition ~** Numerous lawsuits have been filed throughout the United States against pharmaceutical manufactures and/or PBMs under various state and federal antitrust and unfair competition laws challenging, among other things: (i) brand drug pricing practices of pharmaceutical manufacturers, (ii) the maintenance of retail pharmacy networks by PBMs, and (iii) various other business practices of PBMs. To the extent that we appear to have actual or potential market power in a relevant market, our business arrangements and practices may be subject to heightened scrutiny from an anti-competitive perspective and possible challenge by state or federal regulators or private parties. See Item 3, "Legal Proceedings" for further information.

**Comprehensive PBM Regulation ~** Legislation seeking to regulate PBM activities in a comprehensive manner has been introduced or enacted in a number of states. This legislation varies in scope and often contains provisions that: (i) impose certain fiduciary duties upon PBMs to customers and plan participants; (ii) require PBMs to remit to customers or their plan participants certain rebates, discounts and other amounts received by PBMs related to the sale of drugs; (iii) regulate product substitution and intervention; and/or (iv) impose broad disclosure obligations upon PBMs to customers and their plan participants. To the extent states or other government entities enact legislation regulating PBMs that survive legal challenges to their enforceability, such legislation could adversely impact our ability to conduct business on commercially reasonable terms in locations where the legislation is in effect.

In addition, certain quasi-regulatory organizations, including the National Association of Boards of Pharmacy and the National Association of Insurance Commissioners ("NAIC") have issued model regulations or may propose future regulations concerning PBMs and/or PBM activities, and NCQA, the Utilization Review Accreditation Commission ("URAC") or other credentialing organizations may provide voluntary standards regarding PBM activities. In 2007, for example, URAC finalized PBM accreditation standards for PBMs serving the commercially insured market, and Caremark has been accredited as a PBM by URAC. While the actions of these quasi-regulatory organizations do not have the force of law, they may influence states to adopt their requirements or recommendations and influence customer requirements for PBM services. Moreover, any standards established by these organizations could also impact our health plan customers and/or the services we provide to them.

In addition to state statutes and regulations, we are also subject to state common laws to the extent applied to PBMs through judicial interpretation or otherwise. Potential common law claims could involve, for example, breach of fiduciary duty, constructive fraud, fraud or unjust enrichment. The application of these common laws to PBMs and/or PBM activities could have an adverse impact on our ability to conduct business on commercially reasonable terms.

**Consumer Protection Laws ~** The Federal Government and most states have consumer protection laws that have been the basis for investigations, lawsuits and multi-state settlements relating to, among other matters, financial incentives provided by drug manufacturers to pharmacies in connection with therapeutic interchange programs.

**Corporate Integrity Agreements** ~ In September 2005, Caremark's subsidiary, AdvancePCS (now known as CaremarkPCS, L.L.C.), entered into a settlement agreement with the federal government relating to certain alleged PBM business practices, pursuant to which AdvancePCS agreed, among other things, to adhere to certain business practices pursuant to a consent order and to maintain a compliance program in accordance with a corporate integrity agreement entered into with the OIG for a period of five years. Our PBM subsidiaries have agreed, with limited exceptions, to comply with the requirements of the corporate integrity agreement applicable to AdvancePCS.

In March 2008, the Company entered into a settlement agreement with the federal government and a number of states relating to dispensing of the generic drug ranitidine at its retail pharmacies. At the same time, the Company entered into a corporate integrity agreement with the OIG for a period of five years applicable to certain retail and mail service operations of the Company.

Each corporate integrity agreement requires, among other things, maintenance of our compliance program, employee training, specific reviews by an independent review organization and various government reporting obligations. Failure to meet our obligations under these corporate integrity agreements could result in stipulated financial penalties, and failure to comply with material terms could lead to exclusion of our applicable business from participation in federal health care programs.

**Contract Audits ~** We are subject to audits of many of our contracts, including our PBM customer contracts, our pharmacy provider agreements and our contracts relating to the Medicare Drug Benefit. Audits are typically conducted pursuant to certain provisions in our contracts that grant audit rights and set forth applicable audit procedures. Because some of our contracts are with state or federal governments, audits of these agreements are often regulated by the federal or state agencies responsible for administering federal or state benefits programs, including those which operate prescription drug plans or Medicare Advantage organizations under the MMA. The audits generally focus on, among other things, compliance with the applicable terms of our contracts and applicable legal requirements.

**Disease Management Services Regulation ~** We provide customers with clinical services in the form of disease management programs, and we employ nurses and other clinicians, where needed, to develop and implement our disease management programs. All states regulate the practice of medicine and the practice of nursing, and employees engaged in a professional practice must satisfy applicable state licensing requirements.

**ERISA Regulation** ~ The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), provides for comprehensive federal regulation of certain employee pension and benefit plans, including private employer and union sponsored health plans and certain other plans that contract with us to provide PBM services. In general, we assist plan sponsors in the administration of the prescription drug portion of their health benefit plans, in accordance with the plan designs adopted by the plan sponsors. We do not believe that the conduct of our business subjects us to the fiduciary obligations of ERISA, except when we have specifically contracted with a plan sponsor to accept limited fiduciary responsibility for the adjudication of initial prescription drug benefit claims and/or the appeals of denied claims under a plan. We and other PBMs have been named in lawsuits alleging that we act as a fiduciary, as such term is defined by ERISA, with respect to health benefit plans and that we have breached certain fiduciary obligations under ERISA.

ERISA fiduciaries may be held personally liable for entering into service contracts or arrangements, like PBM contracts, on behalf of ERISA plans if the terms of the contract are not reasonable or if the service provider receives more than reasonable compensation for the services provided. In such cases, the service provider may also be required to disgorge any unreasonable compensation received and may be subject to civil penalties imposed by the U.S. Department of Labor.

In December 2007, the Department of Labor issued comprehensive proposed regulations regarding when a service contract or arrangement with an ERISA plan was reasonable. If finalized in the form proposed, the regulations could require service providers, including PBMs, to provide detailed disclosure regarding all direct and indirect compensation to be received in connection with the services to be provided, as well as potential conflicts of interest that could impact the provision of services by the service provider. Under the proposed regulations, failure by the service provider to fully comply with these disclosure requirements would cause the contract to be unreasonable and to violate ERISA. Significant comments were filed in response to the proposed regulations. We cannot be certain when or if, the proposed regulations will be finalized or the extent to which final regulations may apply to our business. The regulations currently in effect provide very little guidance regarding what constitutes a reasonable contract or arrangement or reasonable compensation.

State laws discussed in this Government Regulation section that may be applicable to us or to plan sponsors that are our customers may be preempted in whole or in part by ERISA. However, the scope of ERISA preemption is uncertain and is subject to conflicting court rulings.

**False Claims and Fraudulent Billing Statutes ~** A range of federal civil and criminal laws target false claims and fraudulent billing activities. One of the most significant of these laws is the Federal False Claims Act, which prohibits the submission of a false claim or the making of a false record or statement in order to secure reimbursement from, or limit reimbursement to, a government-sponsored program. Some states have passed substantially similar acts. In recent years, federal and state governments have launched several initiatives aimed at uncovering practices that violate false claims or fraudulent billing laws. The Federal Deficit Reduction Act of 2005 ("DRA"), for example, requires certain entities that receive or make annual Medicaid payments over a certain amount to provide their employees and certain contractors and agents with certain information regarding the federal and state false claims acts, whistleblower protections, and the entity's processes for detecting and preventing fraud, waste and abuse. Claims under these laws may be brought either by the government or by private individuals on behalf of the government through a *qui tam* or "whistleblower" action, as discussed in more detail elsewhere in this Government Regulation section.

In addition, federal and state governments have commenced numerous investigations of various pharmaceutical manufacturers, PBMs, pharmacies and health care providers in recent years with respect to false claims, fraudulent billing and related matters. The federal government has entered into settlement agreements with several companies in the pharmaceutical services industry following claims by the federal government that such parties violated the Federal False Claims Act by: (i) improperly marketing and pricing drugs; (ii) overstating the average wholesale prices of products; (iii) paying illegal remuneration to induce the purchase of drugs; and/or (iv) failing to accurately report "best price" under the Medicaid program.

**FDA Regulation ~** The FDA generally has authority to regulate drug promotional information and materials that are disseminated by a drug manufacturer or by other persons on behalf of a drug manufacturer. We operate a FDA-regulated repackaging facility in which we repackage certain drugs into the most common prescription quantities dispensed from our mail service pharmacies. The FDA also may inspect facilities in connection with procedures implemented to effect recalls of prescription drugs.

**Formulary Regulation ~** A number of states have begun to regulate the administration of prescription drug benefits. For example, some states have passed laws mandating coverage for off-label uses of drug products where those uses are recognized in peer-reviewed medical journals or reference compendia. Other states have enacted laws that regulate the development and use of formularies by insurers, MCOs and other third party payors. These laws have included requirements on the development, review and update of formularies, the role and composition of pharmacy and therapeutics committees, the disclosure of formulary information to health plan members, and a process for allowing members to obtain non-preferred drugs without additional cost-sharing when they are medically necessary and are determined to be clinically appropriate. Additionally, the NAIC has developed a model law, the "Health Carriers Prescription Drug Benefit Management Model Act," that addresses formulary regulation issues for risk-bearing entities regulated by state insurance commissioners and could form the basis of state legislation. The MMA also regulates how formularies are developed for and administered to beneficiaries of the Medicare Drug Benefit. In July 2008, Congress enacted the Medicare Improvements for Patients and Providers Act which requires the Secretary for HHS to identify certain classes and categories of drugs for which, subject to certain exceptions, all the drugs in any such class or category must be included in a Part D plan's formulary. The increasing government regulation of formularies could significantly affect our ability to develop and administer formularies on behalf of our insurer, MCO and other customers.

**Managed Care Reform ~** Proposed legislation has been considered on both the federal and state level, and legislation has been enacted in several states, aimed primarily at providing additional rights and access to drugs to individuals enrolled in managed care plans. This legislation may impact the design and implementation of prescription drug benefit plans sponsored by our PBM health plan customers and/or the services we provide to them. Some of these initiatives would, among other things: (i) require that health plan members have greater access to drugs not included on a plan's formulary; (ii) give health plan members the right to sue their health plans for malpractice if they have been denied care; and/or (iii) mandate the content of the appeals or grievance process when a health plan member is denied coverage. Both the scope of the managed care reform proposals considered by Congress and state legislatures and reforms enacted by states to date vary greatly, and the scope of future legislation that may be enacted is uncertain.

**Medicare Prescription Drug Benefit ~** The MMA created the Medicare Drug Benefit starting in January 2006. Medicare beneficiaries entitled to Medicare benefits under Part A or enrolled in Medicare Part B are eligible for the Medicare Drug Benefit under Medicare Part D. The MMA also created a subsidy available to certain employer, union and other group plans that provide retiree coverage to Part D eligible individuals that is at least equivalent to Part D coverage. Regulations implementing the Medicare Drug Benefit include requirements relating to developing and administering formularies, establishing pharmacy networks, processing and adjudicating claims at point of sale and compliance with electronic prescribing standards. Other government rules and regulations, which continue to evolve, impact the funding available for Medicare programs, the marketing of Part D services, reporting of drug costs and administrative costs for the Medicare Drug Benefit, PBM contracting arrangements with retail pharmacies, pharmaceutical manufacturers, health plans or other parties related to the Medicare Drug Benefit or retiree drug subsidy program and other terms and conditions affecting the Medicare Part D services we provide. For instance, in January 2009, CMS issued a regulation with comment period addressing the calculation of drug costs under the Medicare Drug Benefit and retiree drug subsidy program. For the Medicare Drug Benefit, the regulation requires that, beginning in 2010, any difference between the drug price charged to Part D sponsors by a PBM and the drug price paid by the PBM to the dispensing provider be treated as an administrative cost, rather than a drug cost, to the Part D sponsor for purposes of calculating both the subsidy payments by the government and the drug price to be charged to enrollees. The regulation also requires that any rebates retained by the PBM must reduce the Part D sponsor's drug costs reported to the government, regardless of the terms of the contract between the PBM and Part D sponsor. The regulation does not make either of these changes to the calculation of the plan sponsor's drug costs under the retiree drug subsidy program, but solicits comments on this issue.

The MMA also requires that Part D sponsors support electronic prescribing and comply with electronic prescribing standards issued by CMS. While electronic prescribing is voluntary for pharmacies and prescribers, those pharmacies and prescribers that choose to conduct any of the electronic prescribing transactions are required to do so using the CMS standards, including standards for formulary and benefit transactions, medication history transactions and fill status notification.

The Medicare Drug Benefit continues to attract a high degree of legislative and regulatory scrutiny, and the applicable government rules and regulations continue to evolve. Accordingly, it is possible that legislative and regulatory developments could materially affect our Medicare Part D business or profitability.

**Network Access Legislation ~** A majority of states now have some form of legislation affecting the ability to limit access to a pharmacy provider network or remove network providers. Certain "any willing provider" legislation may require us or our customers to admit a non-participating pharmacy if such pharmacy is willing and able to meet the plan's price and other applicable terms and conditions for network participation. These laws vary significantly from state to state in regard to scope, requirements and application. ERISA plans and payors have challenged the application of such laws on the basis of ERISA preemption. However, the scope of ERISA preemption is uncertain and is subject to conflicting court rulings. In addition, the MMA contains an "any willing provider" requirement for pharmacy participation in the Medicare Drug Benefit, and CMS has interpreted this as requiring that a Medicare Part D sponsor, for each type of pharmacy in its network, allow participation by any pharmacy that meets the applicable terms and conditions for participation. To the extent any state or federal any willing provider laws are determined to apply to us or to certain of our customers or to the pharmacy networks we manage for our PBM customers, such laws could negatively impact the services and economic benefits achievable through a limited pharmacy provider network.

Some states also have enacted "due process" legislation that may prohibit the removal of a provider from a pharmacy network except in compliance with certain procedures. Other state legislation prohibits days' supply limitations or co-payment differentials between mail service and retail pharmacy providers. In addition, under Medicare Part D, CMS requires that if a Part D sponsor offers a 90-day supply at mail, it must allow retail pharmacies to also offer a 90-day supply on the same terms.

**Pharmacy Licensure and Regulation ~** We are subject to state and federal statutes and regulations governing the operation of retail and mail pharmacies, repackaging of drug products, wholesale distribution, dispensing of controlled substances and medical waste disposal. Federal statutes and regulations govern the labeling, packaging, advertising and adulteration of prescription drugs and the dispensing of controlled substances. Federal controlled substance laws require us to register our pharmacies and our repackaging facility with the United States Drug Enforcement Administration and to comply with security, recordkeeping, inventory control and labeling standards in order to dispense controlled substances.

We also are subject to certain federal and state laws affecting online pharmacies because we dispense prescription drugs pursuant to refill orders received through our Internet websites, among other methods. Several states have proposed new laws to regulate online pharmacies, and federal regulation of online pharmacies by the FDA or another federal agency has also been proposed.

Other statutes and regulations may affect our mail service operations. For example, the Federal Trade Commission ("FTC") requires mail service sellers of goods generally to engage in truthful advertising, to stock a reasonable supply of the products to be sold, to fill mail service orders within thirty days and to provide clients with refunds when appropriate. In addition, the United States Postal Service has statutory authority to restrict the transmission of drugs and medicines through the mail.

Our pharmacists are subject to state regulation of the profession of pharmacy, and our employees who are engaged in a professional practice must satisfy applicable state licensing or registration requirements.

**Plan Design Legislation ~** Some states have enacted legislation that prohibits a health plan sponsor from implementing certain restrictive design features, and many states have introduced legislation to regulate various aspects of managed care plans, including provisions relating to pharmacy benefits. For example, some states have adopted "freedom of choice" legislation, which provides that: (i) members of a plan may not be required to use network providers but must instead be provided with benefits even if they choose to use non-network providers or (ii) a plan participant may sue his or her health plan if care is denied. Various states have enacted, or have considered enacting, legislation regarding plan design mandates, including legislation that prohibits or restricts therapeutic interchange, requires coverage of all drugs approved by the FDA or prohibits denial of coverage for non-FDA approved uses. Some states mandate coverage of certain benefits or conditions. Such legislation does not generally apply to us, but it may apply to certain of our customers (generally, MCOs and health insurers). Other states have enacted legislation purporting to prohibit health plans not covered by ERISA from requiring or offering members financial incentives for use of mail service pharmacies or for use of certain health care providers. Legislation imposing plan design mandates may apply to certain of our customers and could have the effect of limiting the economic benefits achievable through PBM services we provide.

**Privacy and Confidentiality Requirements ~** Many of our activities involve the receipt, use and disclosure by us of confidential health information, including disclosure of the confidential information to a participant's health benefit plan, as permitted in accordance with applicable federal and state privacy laws. In addition, we use and disclose de-identified data for analytical and other purposes. The Health Insurance Portability and Accountability Act of 1996 and the regulations issued thereunder (collectively "HIPAA") impose extensive requirements on the way in which health plans, health care providers, health care clearinghouses (known as "covered entities") and their business associates use, disclose and safeguard protected health information ("PHI"), including requirements to protect the integrity, availability and confidentiality of electronic PHI. HIPAA gives individuals the right to know how their PHI is used and disclosed, the right to access, amend and obtain information concerning certain disclosures of PHI. Covered entities, such as pharmacies and health plans, are required to provide a written Notice of Privacy Practices to individuals that describes how the entity uses and discloses PHI, and how individuals may exercise their rights with respect to their PHI. For most uses and disclosures of PHI other than for treatment, payment, health care operations or certain public policy purposes, HIPAA generally requires that covered entities obtain a valid written individual authorization. In most cases, use or disclosure of PHI must be limited to the minimum necessary to achieve the purpose of the use or disclosure. Criminal penalties and civil sanctions may be imposed for failing to comply with HIPAA standards.

In addition to HIPAA, most states have enacted health care information confidentiality laws, which limit the disclosure of confidential medical information. These state laws supersede HIPAA to the extent they are more protective of individual privacy than is HIPAA.

HIPAA also established national standards for conducting certain health care transactions electronically (known as "standard transactions"), as well as national identifiers for employers and health care providers. The National Provider Identifier ("NPI") Rule requires that all health care providers that conduct standard transactions obtain an NPI, and that the NPI be used in any standard transaction where that health care provider's identifier is required. Following the issuance of the NPI Rule, certain states, such as Wisconsin and Minnesota, have enacted laws related to a prescriber's Drug Enforcement Administration ("DEA") number. These state laws generally prohibit the use of a prescriber's DEA number for purposes other than in connection with the prescribing of a controlled substance.

In response to concerns about identity theft, many states have passed security breach notification laws, including laws requiring notification to consumers of security breaches involving personal information. These laws generally require an entity conducting business in the state to notify consumers when their personal information has been, or is reasonably believed to have been, acquired by an unauthorized person. In some cases, the law applies only to unencrypted computerized information, but in others it applies to personal information in any form. In addition to requiring notification to the affected individuals without unreasonable delay, many state laws also require notification to government agencies, such as the state attorney general or consumer protection agencies.

In January 2009, we entered into separate settlement agreements with the FTC and the HHS Office for Civil Rights ("OCR") resolving a joint investigation prompted by 2006 media reports of disposal of patient information in dumpsters at a limited number of CVS/pharmacy locations. As part of the FTC settlement, we agreed to maintain appropriate enterprise-wide information security policies and procedures during the twenty year term of the agreement. The FTC settlement also provides for periodic compliance monitoring by an external assessor. As part of the OCR settlement, we agree to maintain appropriate waste disposal policies and procedures, training and employee sanctions at our retail stores. The OCR settlement has a three year term and provides for annual compliance monitoring by an external assessor.

On February 2009, the President signed into law economic stimulus legislation known as the "American Recovery and Reinvestment Act of 2009" which includes provisions relating to health information technology activities such as e-prescribing and electronic health records and contains revisions to existing federal privacy law. The privacy law changes include new restrictions on the use of PHI without an individual's written authorization, a new requirement to account for routine disclosures of PHI held in an electronic health record, a requirement to notify individuals of breaches to their PHI, new enforcement rights of state attorneys general, extension of the federal privacy and security law provisions and penalties to business associates of covered entities, and increased penalties for violations of the law. Since several of the provisions contemplate future adoption of implementing regulations, we cannot at this time determine the extent to which these changes may apply to or impact our business.

**Reimbursement ~** A portion of our net revenue is derived directly from Medicare, Medicaid and other government-sponsored health care programs, and we are therefore subject to, among other laws and regulations, federal and state anti-remuneration laws, the Stark Law and/or federal and state false claims laws discussed elsewhere in this section. Sanctions for violating these federal and/or state laws may include, without limitation, criminal and civil penalties and exclusion from participation in Medicare, Medicaid and other government health care programs. Also, we provide products and services to managed care entities that provide services to beneficiaries of Medicare, Medicaid and other government-sponsored health care programs, as well as employers that qualify for the retiree drug subsidy.

The Federal Government and numerous state governments have given increased attention to how pharmaceutical manufacturers develop and report pricing information, which, in turn, is used in setting payments under the Medicare and Medicaid programs. One element common to most payment formulas, Average Wholesale Price ("AWP"), has come under criticism for allegedly inaccurately reflecting prices actually charged and paid at the wholesale level. The calculation and reporting of AWP have been the subject of investigations by federal and state governments and litigation brought against pharmaceutical manufacturers and data services that report AWP. We are not responsible for calculations, reports or payments of AWP, however such investigations or lawsuits could impact our business because many of our customer contracts, pharmaceutical purchase agreements, retail network contracts and other agreements use AWP as a pricing benchmark. First DataBank ("FDB"), one of two primary sources of AWP price reporting, and Medi-Span, the other primary source of AWP price reporting, have entered into proposed settlement agreements relating to their AWP reporting, which remain subject to final court approval. Under the terms of the proposed settlement agreements, FDB and Medi-Span have agreed to reduce the reported AWP of certain drugs by four percent. In addition, although not required by the proposed settlement agreements, FDB and Medi-Span have indicated that they intend to reduce the reported AWP for a substantial number of drugs not covered by the settlement and that they intend to discontinue the publishing of AWP in the future. The proposed settlements have not yet received final court approval, so the timing of their implementation, if approved, is uncertain. We have provisions in many of our contracts designed to enable us to mitigate the impact of the proposed AWP reduction or other possible changes to pricing benchmarks, but we cannot predict with certainty the ultimate effect of these changes on our business relationships.

Under the MMA, the Average Sales Price ("ASP"), has replaced AWP as the basis for reimbursing physicians, and sometimes pharmacies, for outpatient prescription drugs under Medicare Part B. For single source drugs, the payment will equal 106 percent of the lesser of: (i) the wholesale acquisition cost ("WAC") of the product; or (ii) the ASP of the product. ASP is the weighted average of a manufacturer's sales to all purchasers in a given quarter, after certain pricing adjustments such as discounts or rebates and excluding sales to certain government and other purchasers.

Further, the federal Medicaid rebate program requires participating drug manufacturers to provide rebates on all drugs purchased by state Medicaid programs. Manufacturers of brand name products must provide a rebate equivalent to the greater of: (a) 15.1% of the Average Manufacturer Price ("AMP") paid by wholesalers for products distributed to the retail pharmacy class of trade or (b) the difference between AMP and the "best price" available to essentially any customer other than the Medicaid program, with certain exceptions. Investigations have been commenced by certain governmental entities that question whether "best price" was properly calculated, reported and paid by the manufacturers to the Medicaid programs. We are not responsible for calculations, reports or payments of "best price" however, these investigations could impact our ability to negotiate rebates from drug manufacturers.

During 2007, CMS issued a final rule implementing provisions under the DRA regarding prescription drugs under the Medicaid program. Among other things, the rule defines AMP and "best price," and specifies the items that must be included and excluded in the calculation of each ("AMP Rule"). Under the AMP Rule, which became effective October 1, 2007, sales to mail pharmacies would be included in the calculation of AMP, but rebates and other discounts negotiated by PBMs in their capacity as PBMs would be excluded. The rule also implements the DRA provision establishing a new reimbursement formula for generic drugs under Medicaid and establishes federal upper limits ("FULs") for generics based on 250 percent of the lowest AMP in a given drug class. In December 2007, the U.S. District Court for the District of Columbia preliminarily enjoined CMS from implementing the AMP Rule to the extent such action affects Medicaid reimbursement rates for retail pharmacies and from posting online or disclosing any AMP data. In October 2008, CMS issued a rule, subject to comment, which modified the definition of multiple source drugs, a component of the AMP calculation, seeking to address one of the legal challenges on which the injunction was issued. Plaintiffs in the litigation responded with an amended complaint asserting that the revised definition continues to be inconsistent with the DRA.

Certain state Medicaid programs only allow for reimbursement to pharmacies residing in the state or in a border state. While we believe that we can service our current Medicaid customers through our existing pharmacies, there can be no assurance that additional states will not enact in-state dispensing requirements for their Medicaid programs. Some states have adopted legislation and regulations requiring that a pharmacy participating in the state Medicaid program give the state the "best price" that the pharmacy makes available to any third party payor. These requirements are sometimes referred to as "most favored nation pricing" payment systems. Other states have enacted "unitary pricing" legislation, which mandates that all wholesale purchasers of drugs within the state be given access to the same discounts and incentives. A number of states have also recently introduced legislation seeking to control drug prices through various statutory limits, rebates or discounts extending to one or more categories of the state's population.

Changes in reporting of AWP, or other adjustments that may be made regarding the reimbursement of drug payments by Medicaid and Medicare, could impact our pricing to customers and other payors and could impact our ability to negotiate discounts or rebates with manufacturers, wholesalers, PBMs or retail pharmacies. In some circumstances, such changes could also impact the reimbursement that we receive from Medicare or Medicaid programs for drugs covered by such programs and from MCOs that contract with government health programs to provide prescription drug benefits.

**Reimportation ~** The MMA amended the Food, Drug and Cosmetic Act by providing that the FDA should promulgate rules that would permit pharmacists and wholesalers to import prescription drugs from Canada into the United States under certain circumstances. However, the promulgation of such rules is subject to a precondition that the FDA certify to Congress that such reimportation would not pose any additional risk to the public's health and safety and that it would result in a significant cost reduction. To date, the FDA has not provided such a certification. In the past, under certain defined circumstances, the FDA has used its discretion to permit individuals and their physicians to bring into the U.S. small quantities of drugs for treatment of a patient's serious condition for which effective treatment is not available in the U.S. In September 2006, Congress expanded this personal use policy in very specific circumstances to allow individuals to personally transport from Canada for their personal use a 90-day supply of any prescription drug, regardless of availability in the U.S. The language does not allow purchases by mail order or via the Internet, and excludes biologics and controlled substances. The FDA continues to strongly oppose efforts to allow the widespread importation of drugs from Canada and elsewhere, citing concerns that such activities undermine the FDA's ability to oversee the quality and safety of the nation's drug supply. If the FDA changes its position and permits the broader importation of drugs from Canada in the future or if new legislation or regulations permit the importation of drugs from the European Union or other countries in the future, our pharmacy services could be impacted.

**Retail Clinics ~** States also regulate retail clinics operated by nurse practitioners or physician assistants through physician oversight, lab licensing and the prohibition of the corporate practice of medicine. A number of states have implemented or proposed laws that impact certain components of retail clinic operations such as physician oversight, signage, third-party contracting requirements, bathroom facilities, and scope of services. These laws and regulations may affect the operation of our owned and managed retail clinics.

**Self-Referral Laws ~** The federal law commonly known as the "Stark Law" prohibits a physician from referring Medicare or Medicaid beneficiaries for "designated health services" (which include, among other things, outpatient prescription drugs, home health services and durable medical equipment and supplies) to an entity with which the physician or an immediate family member of the physician has a "financial relationship" and prohibits the entity receiving a prohibited referral from presenting a claim to Medicare or Medicaid for the designated health service furnished under the prohibited referral. Possible penalties for violation of the Stark Law include denial of payment, refund of amounts collected in violation of the statute, civil monetary penalties and Medicare and Medicaid program exclusion. The Stark Law contains certain statutory and regulatory exceptions for physician referrals and physician financial relationships, including certain physician consulting arrangements, fair market value purchases by physicians and the provision of electronic prescribing technology to physicians.

State statutes and regulations also prohibit payments for the referral of individuals by physicians to health care providers with whom the physicians have a financial relationship. Some of these state statutes and regulations apply to services reimbursed by governmental as well as private payors. Violation of these laws may result in prohibition of payment for services rendered, loss of pharmacy or health care provider licenses, fines and criminal penalties. The laws and exceptions or safe harbors may vary from the federal Stark Law and vary significantly from state to state. The laws are often vague, and, in many cases, have not been interpreted by courts or regulatory agencies.

**State Insurance Laws ~** Fee-for-service prescription drug plans and our PBM service contracts, including those in which we assume certain risk under performance guaranties or similar arrangements, are generally not subject to insurance regulation by the states. However, if a PBM offers to provide prescription drug coverage on a capitated basis or otherwise accepts material financial risk in providing pharmacy benefits, laws and regulations in various states may be applicable. Such laws may require that the party at risk become licensed as an insurer, establish reserves or otherwise demonstrate financial viability. Laws that may apply in such cases include insurance laws and laws governing MCOs and limited prepaid health service plans.

Our SilverScript and Accendo Medicare Part D prescription drug plans each must be licensed as a risk-bearing entity under applicable state laws or they must have obtained a waiver of the licensing requirement from CMS. .As licensed insurance companies, SilverScript and Accendo are subject to various state insurance regulations that generally require, among other things, maintenance of capital and surplus requirements, review of certain material transactions and the filing of various financial and operational reports. If SilverScript or Accendo is unable either to acquire all necessary insurance licenses or to maintain waivers of such licensing requirements, there may be a materially adverse impact on their ability to participate in the Medicare Drug Benefit as PDPs. Pursuant to the MMA, state insurance licensing, insurance agent/broker licensure and solvency laws and regulations are generally applicable to PDPs, but the application of other state laws to the Medicare Drug Benefit are generally preempted by Medicare Part D to the extent that Medicare Part D regulates the issue.

Some states have laws that prohibit submitting a false claim or making a false record or statement in order to secure reimbursement from an insurance company. These state laws vary, and violation of them may lead to the imposition of civil or criminal penalties. Additionally, several states have passed legislation governing the prompt payment of claims that requires, among other things, that health plans and payors pay claims within certain prescribed time periods or pay specified interest penalties. These laws vary from state to state in regard to scope, requirements and application, and it is not clear the extent to which they may apply to our customers or to us. Certain health plans and payors may be exempt from such laws on the basis of ERISA preemption, but the scope of ERISA preemption is unclear.

**State Prescription Drug Assistance Programs ~** Many states have established or modified their drug assistance programs for the elderly so that they constitute qualified state pharmacy assistance programs ("SPAPs") that supplement the Medicare Drug Benefit. Payments by qualified SPAPs on behalf of a Medicare Part D enrollee are treated under Medicare Part D as if they were made by the enrollees themselves, thereby counting towards the enrollees' true out-of-pocket costs and helping them qualify for catastrophic coverage sooner. Part D plans are required to coordinate benefits with SPAPs, including allowing SPAPs to subsidize the Medicare Part D premiums of their members and/or their Medicare Part D cost sharing. Some qualified SPAPs have also received permission from CMS to auto-assign their enrollees that do not choose their own Medicare Part D plans into PDPs. We have been and continue to be in active discussions with SPAPs to coordinate benefits with our Medicare Drug Benefit offerings and, where applicable, enrollment by SPAP members into our PDPs.

**Telemarketing and Other Outbound Calls ~** Certain federal and state laws give the FTC, Federal Communications Commission and state attorneys general law enforcement tools to regulate telemarketing practices and certain automated outbound calls. These laws may require disclosures of specific information, prohibit misrepresentations, limit when consumers may be called, require consumer consent prior to being called, require transmission of Caller ID information, prohibit certain abandoned outbound calls, prohibit unauthorized billing, set payment restrictions for the sale of certain goods and services and require the retention of specific business records.

**Third Party Administration and Other State Licensure Laws ~** Many states have licensure or registration laws governing certain types of administrative organizations, such as preferred provider organizations, third party administrators and companies that provide utilization review services. Several states also have licensure or registration laws governing the organizations that provide or administer consumer card programs (also known as cash card or discount card programs). The scope of these laws differs significantly from state to state, and the application of such laws to our activities often is unclear.

**Whistleblower Statutes ~** Certain federal and state laws, including the Federal False Claims Act, contain provisions permitting the filing of *qui tam* or "whistleblower" lawsuits alleging violations of such laws. Whistleblower provisions allow private individuals to bring lawsuits on behalf of the federal or state government alleging that the defendant has defrauded the government, and there is generally no minimum evidentiary or legal threshold required for bringing such a lawsuit. These lawsuits are typically filed under seal with the applicable federal or state enforcement authority, and such authority is required to review the allegations made and to determine whether it will intervene in the lawsuit and take the lead in the litigation. If the government intervenes in the lawsuit and prevails, the whistleblower plaintiff filing the initial complaint may share in any settlement or judgment. If the government does not intervene in the lawsuit, the whistleblower plaintiff may pursue the action independently. Because a *qui tam* lawsuit typically is filed under seal pending a government review of the allegations, the defendant generally may not be aware of the lawsuit until the government determines whether or not it will intervene or until the lawsuit is otherwise unsealed, a process which may take years. See Item 3, "Legal Proceedings," for further information.

We believe that we are in material compliance with existing laws and regulations applicable to our retail and PBM businesses. We have implemented standard operating procedures, internal controls and a compliance and integrity program designed to help ensure such compliance, and we monitor legislative and judicial developments that could impact our business practices in an effort to ensure future compliance.

We 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, including the laws and regulations described in this Government Regulation section, as they may relate to our business or the retail or pharmacy services industry; (iii) pending or future federal or state governmental investigations of our business or the pharmacy services 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 industry.

### Available Information

CVS Caremark Corporation is a Delaware corporation. Our corporate office is located at One CVS Drive, Woonsocket, Rhode Island 02895, telephone (401) 765-1500. Our common stock is listed on the New York Stock Exchange under the trading symbol "CVS." General information about CVS Caremark is available through our Web site at http://www.cvscaremark.com. Our financial press releases and filings with the Securities and Exchange Commission are available free of charge within the Investors section of our Web site at http://www.cvscaremark.com/investors. In addition, the SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers, such as the Company, that file electronically with the SEC. The address of that Web site is http://www.sec.gov.

## Item 1A. Risk Factors

Our business is subject to various industry, economic, regulatory and other risks and uncertainties. These risks include those described below and may include additional risks and uncertainties not presently known to us or that we currently deem to be immaterial.

***The health of the economy in general and in the markets we serve could adversely affect our business and our financial results.***

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 utilization trends as well as the financial health and number of covered lives of our PBM clients, resulting in an adverse effect on our business and financial results.

In that regard, the current economic recession has resulted in declining drug utilization trends during 2008 and 2009. It is possible that a worsening of these trends will cause further decline in drug utilization, and dampen demand for pharmacy benefit management services as well as consumer demand for products sold in our retail stores. If this were to occur, our business and financial results could be adversely affected.

Further, interest rate fluctuations and changes in capital market conditions 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 sale-leaseback transactions under acceptable terms.

***Inability to realize the benefits of the Caremark Merger.***

We may not be able to achieve all of the anticipated long-term strategic benefits of the Caremark Merger. An inability to realize the full extent of, or any of the anticipated benefits could have an adverse effect on our business, financial position and results of operations, which may affect the value of the shares of our common stock.

***Inability to integrate and realize the benefits of the Longs Acquisition.***

We may not be able to successfully integrate the assets acquired in the Longs Acquisition. An inability to achieve the full extent of, or any of the anticipated synergies, could have an adverse effect on our business, financial position and results of operations, which may affect the value of the shares of our common stock.

***Efforts to reduce reimbursement levels and alter health care financing practices could adversely affect our businesses.***

The continued efforts of health maintenance organizations, managed care organizations, other PBM companies, government entities, and other third party payors to reduce prescription drug costs and pharmacy reimbursement rates may impact our profitability. In particular, increased utilization of generic pharmaceuticals (which normally yield a higher gross profit rate than equivalent brand named drugs), has resulted in pressure to decrease reimbursement payments to retail and mail order pharmacies for generic drugs, causing a reduction in the generic profit rate. In addition, during the past several years, the U.S. health care industry has been subject to an increase in governmental regulation at both the federal and state levels. Efforts to control health care costs, including prescription drug costs, are underway at the federal and state government levels. Changing political, economic and regulatory influences may affect health care financing and reimbursement practices. If the current health care financing and reimbursement system changes significantly, the combined company's business, financial position and results of operations could be materially adversely affected.

The DRA seeks to reduce federal spending by altering the Medicaid reimbursement formula for multi-source (i.e., genericially adversely affected.

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***The possibility of customer loss and/or the failure to win new business may adversely affect our business, financial position and results of operations.***

Our PBM business generates net revenues primarily by contracting with clients to provide prescription drugs and related health care services to plan participants. PBM client contracts generally have terms approximating 3 years in duration. Accordingly, approximately one third of a PBM's customer base typically is subject to renewal each year, and therefore we face challenges in competing for new business and retaining or renewing business. Although none of our PBM clients represented more than 10% of our Company's consolidated revenues in 2008, our top 10 clients are expected to represent approximately 30% of such revenues in 2009. There can be no assurance that we will be able to win new business or secure renewal business on terms as favorable to the Company as the present terms. Accordingly, our failure to renew or win PBM business could adversely affect our business, financial position and results of operations.

***Risks related to the frequency and rate of the introduction of new prescription drugs as well as generic alternatives to brand name prescription products.***

The profitability of retail and mail order pharmacy businesses are dependent upon the utilization of prescription drug products. Utilization trends are affected by the introduction of new and successful prescription pharmaceuticals as well as lower priced generic alternatives to existing brand name products. Accordingly, a slowdown in the introduction of new and successful prescription pharmaceuticals and/or generic alternatives (the sale of which normally yield higher gross profit margins than brand name equivalents) could adversely affect our business, financial position and results of operations.

***Risks of declining gross margins in the PBM industry.***

The PBM industry has been experiencing margin pressure as a result of competitive pressures and increased client demands for lower prices, enhanced service offerings and/or higher service levels. In that regard, our Company maintains contractual relationships with generic pharmaceutical manufacturers and brand name pharmaceutical manufacturers that provide for purchase discounts and/or rebates on drugs dispensed by pharmacies in our national retail network (including CVS/pharmacy and Longs Drug stores) and by our mail order pharmacies (all or a portion of which may be passed on to clients). Manufacturer rebates often depend on a PBM's ability to meet contractual market share or other requirements, including in some cases the placement of a manufacturer's products on the PBM's formularies. Competitive pressures in the PBM industry have caused Caremark and other PBMs to share with clients a larger portion of rebates and/or discounts received from pharmaceutical manufacturers. In addition, changes in existing federal or state laws or regulations or the adoption of new laws or regulations relating to patent term extensions, purchase discount and rebate arrangements with pharmaceutical manufacturers, or to formulary management or other PBM services could also reduce the discounts or rebates we receive. Accordingly, margin pressure in the PBM industry resulting from these trends could adversely affect our business, financial position and results of operations.

***Uncertainty regarding the impact of Medicare Part D may adversely affect our business, financial position and our results of operations.***

Since its inception in 2006, the Medicare Drug Benefit has resulted in increased utilization and decreased pharmacy gross margin rates as higher margin business, such as cash and state Medicaid customers, migrated to Medicare Part D coverage. Further, as a result of the Medicare Drug Benefit, our PBM clients could decide to discontinue providing prescription drug benefits to their Medicare-eligible members. To the extent this occurs, the adverse effects of the Medicare Drug Benefit may outweigh any opportunities for new business generated by the new benefit. In addition, if the cost and complexity of the Medicare Drug Benefit exceed management's expectations or prevent effective program implementation or administration; if changes to the regulations regarding how drug costs are reported for Medicare Drug Benefit and retiree drug subsidy purposes are implemented in a manner that impacts the profitability of our Medicare Part D business; if the government alters Medicare program requirements or reduces funding because of the higher-than-anticipated cost to taxpayers of the Medicare Drug Benefit or for other reasons; if we fail to design and maintain programs that are attractive to Medicare participants; or if we are not successful in retaining enrollees, or winning contract renewals or new contracts under the Medicare Drug Benefit's competitive bidding process, our Medicare Part D services and the ability to expand our Medicare Part D services could be materially and adversely affected, and our business, financial position and results of operations may be adversely affected.

***Changes in industry pricing benchmarks could adversely affect our business, financial position and results of operations.***

Contracts in the prescription drug industry, including Caremark's network contracts and its PBM and specialty client contracts, generally use certain published benchmarks to establish pricing for prescription drugs. These benchmarks include AWP, ASP and WAC. Most of our PBM client contracts utilize the AWP standard. Further, most of the contracts governing the participation of CVS/pharmacy stores in retail pharmacy networks also utilize the AWP standard.

Recent events, including the proposed FDB and Medi-Span settlements described in the Government Regulation of Health Care Matters section, have raised uncertainties as to whether payors, pharmacy providers, PBMs and others in the prescription drug industry will continue to utilize AWP as it has previously been calculated or whether other pricing benchmarks will be adopted for establishing prices within the industry.

Changes in reporting of AWP, or in the basis for calculating reimbursement proposed by the federal government and certain states, and other legislative or regulatory adjustments that may be made regarding the reimbursement of payments for drugs by Medicaid and Medicare, could impact our pricing to customers and other payors and could impact our ability to negotiate rebates and/or discounts with manufacturers, wholesalers, PBMs or retail pharmacies. In some circumstances, such changes could also impact the reimbursement that we receive from Medicare or Medicaid programs for drugs covered by such programs and from MCOs that contract with government health programs to provide prescription drug benefits. In addition, it is possible that payors, pharmacy providers and PBMs will begin to evaluate other pricing benchmarks as the basis for contracting for prescription drugs and PBM services in the future, and the effect of this development on the business of the Company cannot be predicted at this time.

***The industries in whreba lsy cannosre extremely competitive and competition could adversely affect our business, financial position and results of operations.***

Eaebaof the retail pharmacy business and the PBM business currently sy canns in a highly competitive environment. As a pharmacy retailer, we compete with other drugstore chains, suy cmarkets, discount retailers, membership clubs, Internet companies and retail health clinics, as well as other mail order pharmacies and PBMs. In that regard, many pharmacy benefit plans have implemented plan designs that mandate or provide incentives to fill maintenance medications through mail order pharmacies. To the extent this trend continues, our retail pharmacy business could be adversely affected (although the effect of this would likely be mitigated by an increase in our own mail order business). In addition, some of these competitors may offer services and pricing t cms that we may not be willing or able to offer. Competition may also come from other sources in the future. As a result, competition could have an adverse effect on our business, financial position and results of operations.

Competitors in the PBM industry include large national PBM companies, such as Medco Health Solutions, Inc. and Express Scripts, Inc., as well as many local or regional PBMs. In addition, thernosre several large health insurers and managed care plans (e.g., UnitedHealthcare, Wellpoint, Aetna, CIGNA) and retail pharmacies (e.g., Walgreens) whrebahave their own PBM capabilities as well as several other national and regional companies that provide some or all of the same services. Some of these competitors may offer services and pricing t cms that we, even if the anticipated benefits of our merger are realized in full, may not be able to offer. In addition, competition may also come from other sources in the future. As a result, competition could have an adverse effect on our business, financial position and results of operations.

***Existing and new government legislative and regulatory action could adversely affect our business, financial position and results of operations.***

The PBM business and retail drugstore business are subject to numerous federal, state and local laws and regulations. See "Business – Government Regulation of Health Care Matters." Changes in these regulations may require extensive system and operating changes that may be difficult to implement. Untimely compliance or noncompliance with applicable laws and regulations could adversely affect the continued operation of our business, including, but not limited to: imposition of civil or criminal penalties; suspension of payments from government programs; loss of required government certifications or approvals; loss of authorizations to participate in or exclusion from government reimbursement programs, such as the Medicare and Medicaid programs; or loss of licensure. The regulations to whrebalare subject include, but are not limited to: the laws and regulations described in the Government Regulation of Health Care Matters section; accounting standards; tax laws and regulations; laws and regulations relating to the protectionaof the environment and health and safety matters, including those governing exposure to, and the management and disposal of, hazardous substances; and regulations of the FDA, the U.S. Federal Trade Commission, the Drug Enforcement Administration, and the Consumer Product Safety Commission, as well as state regulatory authorities, governing the sale, advertisement and promotion of products that we sell. In that regard, our business, financial position and results of operations could be affected by one or more of the following:

- federal and state laws and regulations governing the purchase, distribution, management, dispensing and reimbursement of prescription drugs and related services, whether at retail or mail, and applicable licensing requirements;
- the effect of the expiration of patents covering brand name drugs and the introduction of generic products;
- the frequency and rate of approvals by the FDA of new brand named and generic drugs, or of over-the-counter status for brand name drugs;
- FDA regulation affecting the retail or PBM industry;
- rules and regulations issued pursuant to the HIPAA; and other federal and state laws affecting the use, disclosure and transmission of health information, such as state security breach laws and state laws limiting the use and disclosure of prescriber information;
- administration of the Medicare Drug Benefit, including legislative changes and/or CMS rulemaking and interpretation;
- government regulation of the development, administration, review and updating of formularies and drug lists;
- state laws and regulations establishing or changing prompt payment requirements for payments to retail pharmacies;
- impact of network access (any willing provider) legislation on ability to manage pharmacy networks;
- managed care reform and plan design legislation;
- insurance licensing and other insurance regulatory requirements applicable to offering a PDP in connection with the Medicare Drug Benefit; and
- direct regulation of pharmacies or PBMs by regulatory and quasi-regulatory bodies.

***Risks related to litigation and other legal proceedings.***

Pharmacy services and retail pharmacy are highly regulated and litigious industries. Our Company is currently subject to various litigation matters and legal proceedings. Resolution of these matters could have a material adverse effect on our business and results of operations. As such we refer you to Item 3. "Legal Proceedings" for additional information.

***Efforts to reform the U.S. health care system may adversely affect our financial performance***

Congress periodically considers proposals to reform the U.S. health care system. These proposals may increase government involvement in health care and regulation of PBM or pharmacy services, or otherwise change the way the combined company or its clients do business. Health plan sponsors may react to these proposals and the uncertainty surrounding them by reducing or delaying purchases of cost control mechanisms and related services that the combined company would provide. The Company cannot predict what effect, if any, these proposals may have on its retail and pharmacy services businesses. Other legislative or market-driven changes in the health care system that the Company cannot anticipate could also materially adversely affect the combined company's consolidated results of operations, consolidated financial position and/or consolidated cash flow from operations.

The foregoing is not a comprehensive listing and there can be no assurance that we have correctly identified and appropriately assessed all factors affecting the business. As such, we refer you to the "Management's Discussion and Analysis of Financial Condition and Results of Operations," which includes our "Cautionary Statement Concerning Forward-Looking Statements" at the end of such section, on pages 18 through 36 of our Annual Report to Stockholders for the fiscal year ended December 31, 2008, which section is incorporated by reference.

## Item 1B. Unresolved Staff Comments

There are no unresolved SEC Staff Comments.

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**Item 2. Properties**

We lease most of our stores under long-term leases that vary as to rental amounts, expiration dates, renewal options and other rental provisions. For additional information on the amount of our rental obligations for our leases, we refer you to the Note "Leases" on page 54 in our Annual Report to Stockholders for the fiscal year ended December 31, 2008, which section is incorporated by reference herein.

As of December 31, 2008, we owned approximately 5.2% of our 6,923 CVS/pharmacy and Longs Drug stores. Net selling space for our retail drugstores increased to 66.3 million square feet as of December 31, 2008. More than two thirds of our store base was opened or significantly remodeled within the last five years.

We own 9 distribution centers located in Alabama, California, Hawaii, Rhode Island, South Carolina, Tennessee and Texas and lease 10 additional facilities located in Arizona, California, Florida, Indiana, Michigan, New Jersey, Pennsylvania, Texas and Virginia. The 19 distribution centers total approximately 11.3 million square feet as of December 31, 2008.

As of December 31, 2008, we owned 3 mail service pharmacies located in Alabama, Pennsylvania and Texas and leased 4 additional mail service pharmacies located in Florida, Illinois and Pennsylvania. We leased call centers located in Arizona, Missouri, Tennessee and Texas. As of December 31, 2008, we also had 19 specialty mail order pharmacies, of which we owned 1 and 58 specialty pharmacy stores, which we leased. The specialty mail order pharmacies and specialty pharmacy stores are located in 26 states, the District of Columbia and Puerto Rico.

Our FDA-regulated repackaging facility is located in Gurnee, Illinois.

In addition, as a result of the Longs Acquisition, we lease a 34,000 square foot pharmacy mail order and central fill facility in Sacramento, California, and an 11,000 square foot office facility in Las Vegas, Nevada, for our mail order call center operations.

We own our corporate headquarters building located in Woonsocket, Rhode Island, which contains approximately 567,524 square feet. In addition, we lease large corporate offices in Scottsdale, Arizona; Antioch, California, Walnut Creek, California, Northbrook, Illinois and Irving, Texas.

In connection with certain business dispositions completed between 1991 and 1997, we continue to guarantee lease obligations for approximately 95 former stores. We are indemnified for these guarantee obligations by the respective purchasers. These guarantees generally remain in effect for the initial lease term and any extension thereof pursuant to a renewal option provided for in the lease prior to the time of the disposition. For additional information, we refer you to the Note "Commitments & Contingencies" on page 60 in our Annual Report to Stockholders for the fiscal year ended December 31, 2008, which section is incorporated by reference herein.

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

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Following is a breakdown by state, District of Columbia and Puerto Rico of our retail and specialty pharmacy stores as well as our specialty mail order pharmacy locations as of December 31, 2008:

| | Retail Stores | Retail Specialty Pharmacy |
| --- | --- | --- |

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**Item 3. Legal Proceedings**

1. Caremark's subsidiary Caremark, Inc. (now known as Caremark, L.L.C.) 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 money damages and alleges that Caremark's processing of Medicaid and certain other government claims on behalf of its clients 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 recent 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 state plaintiffs and the relator have filed a motion asking the court to reconsider its rulings. The United States has asked the court to take the procedural steps necessary for it to take an immediate appeal.

2. 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 an adjudication platform of AdvancePCS (acquired by Caremark in 2004 and now known as CaremarkPCS, L.L.C.). The Company has initiated discussions with the OIG and with the U.S Department of Justice concerning our government claims processing activities on the two adjudication platforms used by AdvancePCS and one adjudication platform used by PharmaCare. We are also cooperating with the requests for information contained in the document subpoena by producing responsive documents on a rolling basis. We cannot predict with certainty the timing, outcome or consequence of any review of such information.

3. 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. In February 2008, the Lauriello trial court proceedings were stayed pending an appeal by McArthur of certain rulings relating to his complaint in intervention. In September 2008, the Alabama Supreme Court entered judgment on the appeal and in December 2008, the trial court lifted its stay and returned the case to its active docket.

4. Various lawsuits have been filed alleging that Caremark and its subsidiaries Caremark Inc. (now known as Caremark, L.L.C.) and AdvancePCS (now known as CaremarkPCS, L.L.C.) have 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 AdvancePCS in Pennsylvania federal court, seeking treble damages and injunctive relief. The claims were initially sent to arbitration based on contract terms between the pharmacies and AdvancePCS.

   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, Caremark Inc., AdvancePCS (acquired by Caremark in March 2004 and now known as CaremarkPCS, L.L.C.) and two PBM competitors, seeking treble damages and injunctive relief. The case against Caremark and Caremark Inc. was transferred to Illinois federal court, and the AdvancePCS case was sent to arbitration based on contract terms between the pharmacies and AdvancePCS. The arbitration was then stayed by the parties pending developments in Caremark's court case.

In August 2006, the Bellevue case and the North Jackson Pharmacy case were 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 has appealed a decision which vacated the order compelling arbitration and staying the proceedings in the Bellevue case to the Third Circuit Court of Appeals. 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.

5. The Company is also a party to other litigation arising in the normal course of its business, none of which is expected to be material to the Company. The Company can give no assurance, however, that our operating results and financial condition 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 industry; (iii) pending or future federal or state governmental investigations of our business or the pharmacy services 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 industry.

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

No matters were submitted to a vote of security holders during the fiscal quarter ended December 31, 2008.

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**Executive Officers of the Registrant**

*Executive Officers of the Registrant*

The following sets forth the name, age and biographical information for each of our executive officers as of February 23, 2009. In each case the officer's term of office extends to the date of the board of directors meeting following the next annual meeting of stockholders of the Company. Previous positions and responsibilities held by each of the executive officers over the past five years are indicated below:

*Troyen A. Brennan, M.D*., age 54, Executive Vice President and Chief Medical Officer of CVS Caremark Corporation since November 2008; Executive Vice President and Chief Medical Officer of Aetna, Inc. from February 2006 through November 2008; President and Chief Executive Officer of Brigham and Women's Physician Hospital Organization from 1997 through February 2006; also President and Chief Executive Officer of Brigham and Women's Physicians Organization from 2000 through February 2006.

*David M. Denton*, age 43, Senior Vice President and Controller/Chief Accounting Officer of CVS Caremark Corporation since March 2008; Senior Vice President, Financial Administration of CVS Caremark Corporation and CVS Pharmacy, Inc. from April 2007 to March 2008; Senior Vice President, Finance and Controller of PharmaCare Management Services, Inc. from October 2005 through April 2007; and Vice President of CVS Pharmacy, Inc. from 2001 through October 2005.

*V. Michael Ferdinandi*, age 58, Senior Vice President of Human Resources of CVS Caremark Corporation and CVS Pharmacy, Inc. since April 2002.

*Helena B. Foulkes*, age 44, Executive Vice President and Chief Marketing Officer of CVS Caremark Corporation since January 2009; Senior Vice President of Health Services of CVS Caremark Corporation from May 2008 through January 2009, and of CVS Pharmacy, Inc. from October 2007 through January 2009; Senior Vice President, Marketing and Operations Services of CVS Pharmacy, Inc. from January 2007 through October 2007, and Senior Vice President, Advertising and Marketing of CVS Pharmacy, Inc. from April 2002 to January 2007.

*Stuart M. McGuigan*, age 50, Senior Vice President and Chief Information Officer of CVS Caremark Corporation since January 2009 and Senior Vice President and Chief Information Officer of CVS Pharmacy, Inc. since December 2008; Senior Vice President and Chief Information Officer of Liberty Mutual Group from September 2004 to November 2008; Deputy Chief Information Officer and Senior Vice President of Liberty Mutual from February 2004 to September 2004; also a director of NetScout Systems, Inc., a leading provider of integrated network and application performance management solutions.

*Howard A. McLure*, age 51, Executive Vice President of CVS Caremark Corporation and President of Caremark Pharmacy Services since March 2007; Senior Executive Vice President and Chief Operating Officer of Caremark from June 2005 until the closing of the CVS-Caremark merger in March 2007; Executive Vice President and Chief Financial Officer of Caremark from May 2000 until June 2005.

*Larry J. Merlo*, age 53, Executive Vice President of CVS Caremark Corporation and President of CVS/pharmacy – Retail since January 2007; Executive Vice President–Stores of CVS Corporation from April 2000 to January 2007; and Executive Vice President–Stores of CVS Pharmacy, Inc. from March 1998 to January 2007.

*David B. Rickard*, age 62, Executive Vice President, Chief Financial Officer and Chief Administrative Officer of CVS Caremark Corporation and CVS Pharmacy, Inc. since September 1999; also a director of Harris Corporation, a communications and information technology company, and Jones Lang LaSalle Incorporated, a real estate and investment management services company.

*Jonathan C. Roberts*, age 53, Executive Vice President, Rx Purchasing, Pricing and Network Relations of CVS Caremark Corporation since January 2009; Senior Vice President and Chief Information Officer of CVS Caremark Corporation from May 2008 until January 2009, and of CVS Pharmacy, Inc. from January 2006 until January 2009; Senior Vice President—Store Operations of CVS Pharmacy, Inc. from August 2002 until December 2005.

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*Thomas M. Ryan,* age 56, Chairman of the Board of CVS Caremark Corporation since November 2007 and, President and Chief Executive Officer of CVS Caremark Corporation since May 1998; formerly was Chairman of CVS Corporation from April 1999 until March 2007; also a director of Bank of America Corporation, a financial services company, and Yum! Brands, Inc., a quick service restaurant company.

*Douglas A. Sgarro,* age 49, Executive Vice President and Chief Legal Officer of CVS Caremark Corporation CVS Pharmacy, Inc. since March 2004 and President of CVS Realty Co., a real estate development company and a division of CVS Pharmacy, Inc., since October 1999; Senior Vice President and Chief Legal Officer of CVS Corporation from September 1997 to March 2004.

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## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

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

| | | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Fiscal Year |
|---|---|---|---|---|---|---|
| **2008** | **High** | **$ 41.53** | **$ 44.29** | **$ 40.14** | **$ 34.90** | **$ 44.29** |
| | **Low** | **34.91** | **39.02** | **31.81** | **23.19** | **23.19** |
| | **Cash dividends per common share** | **0.06000** | **0.06000** | **0.06900** | **0.06900** | **0.25800** |
| 2007: | High | $ 34.93 | $ 39.44 | $ 39.85 | $ 42.60 | $ 42.60 |
| | Low | 30.45 | 34.14 | 34.80 | 36.43 | 30.45 |
| | Cash dividends per common share | 0.04875 | 0.06000 | 0.06000 | 0.06000 | 0.22875 |

CVS Caremark has paid cash dividends every quarter since becoming a public company. Future dividend payments will depend on the Company's earnings, capital requirements, financial condition and other factors considered relevant by the Company's Board of Directors. As of February 23, 2009, there were 19,380 registered shareholders according to the records maintained by our transfer agent.

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 outstanding common stock. The specific timing and amount of repurchases will vary based on market conditions and other factors. As a result of the Longs Acquisition, the Company elected to delay its share repurchase program. The Company intends to complete its share repurchase program in the second half of fiscal 2009.

The Company did not purchase any shares during the fourth quarter ended December 31, 2008. The approximate dollar value of shares that the Company has yet to purchase under the share repurchase program is $2.0 billion as of December 31, 2008.

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**Item 6. Selected Financial Data**

The selected consolidated financial data of CVS Caremark Corporation as of and for the periods indicated in the five-year period ended December 31, 2008 have been derived from the consolidated financial statements of CVS Caremark Corporation. The selected consolidated financial data should be read in conjunction with the consolidated financial statements and the audit reports of Ernst & Young LLP and KPMG LLP, which are incorporated elsewhere herein.

| *In millions, except per share amounts* | 2008[1] | 2007 [2] | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| **Statement of operations data:** | | | | | |
| Net revenues | **$ 87,471.9** | $ 76,329.5 | $ 43,821.4 | $ 37,006.7 | $ 30,594.6 |
| Gross profit | **18,290.4** | 16,107.7 | 11,742.2 | 9,694.6 | 7,915.9 |
| Operating expenses[3][4] | **12,244.2** | 11,314.4 | 9,300.6 | 7,675.1 | 6,461.2 |
| Operating profit[5] | **6,046.2** | 4,793.3 | 2,441.6 | 2,019.5 | 1,454.7 |
| Interest expense, net | **509.5** | 434.6 | 215.8 | 110.5 | 58.3 |
| Income tax provision[6] | **2,192.6** | 1,721.7 | 856.9 | 684.3 | 477.6 |
| Earnings from continuing operations | **3,344.1** | 2,637.0 | 1,368.9 | 1,224.7 | 918.8 |
| Loss from discontinued operations, net of income tax benefit[7] | **(132.0)** | — | — | — | — |
| Net earnings | **$ 3,212.1** | $ 2,637.0 | $ 1,368.9 | $ 1,224.7 | $ 918.8 |
| **Per common share data:** | | | | | |
| Basic earnings per common share: | | | | | |
| Earnings from continuing operations | **$ 2.32** | $ 1.97 | $ 1.65 | $ 1.49 | $ 1.13 |
| Loss from discontinued operations | **(0.09)** | — | — | — | — |
| Net earnings | **$ 2.23** | $ 1.97 | $ 1.65 | $ 1.49 | $ 1.13 |
| Diluted earnings per common share: | | | | | |
| Earnings from continuing operations | **$ 2.27** | $ 1.92 | $ 1.60 | $ 1.45 | $ 1.10 |
| Loss from discontinued operations | **(0.09)** | — | — | — | — |
| Net earnings | **$ 2.18** | $ 1.92 | $ 1.60 | $ 1.45 | $ 1.10 |
| Cash dividends per common share | **0.25800** | 0.22875 | 0.15500 | 0.14500 | 0.13250 |
| **Balance sheet and other data:** | | | | | |
| Total assets | **$ 60,959.9** | $ 54,721.9 | $ 20,574.1 | $ 15,246.6 | $ 14,513.3 |
| Long-term debt (less current portion) | **$ 8,057.2** | $ 8,349.7 | $ 2,870.4 | $ 1,594.1 | $ 1,925.9 |
| Total shareholders' equity | **$ 34,574.4** | $ 31,321.9 | $ 9,917.6 | $ 8,331.2 | $ 6,987.2 |
| Number of stores (at end of period) | **6,923** | 6,301 | 6,205 | 5,474 | 5,378 |

(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 is effective beginning with the fourth quarter of fiscal 2008. Prior to Board approval of this change, the Saturday nearest December 31, 2008 would have resulted in a 53-week fiscal year that would have ended January 3, 2009. As you review our operating performance, please consider that fiscal 2008 includes 368 days, compared to each of the remaining fiscal years presented, which include 364 days.

(2) Effective March 22, 2007, pursuant to the Agreement and Plan of Merger dated as of November 1, 2006, as amended (the "Merger Agreement"), Caremark Rx, Inc. was merged with 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 Securities and Exchange Commission (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 statement resulted in a $40.2 million pre-tax ($24.7 million after-tax) decrease in operating expenses for 2006.

(4) In 2004, the Company conformed its accounting for operating leases and leasehold improvements to the views expressed by the Office of the Chief Accountant of the Securities and Exchange Commission to the American Institute of Certified Public Accountants on February 7, 2005. As a result, the Company recorded a non-cash pre-tax adjustment of $65.9 million ($40.5 million after-tax) to operating expenses, which represents the cumulative effect of the adjustment for a period of approximately 20 years. Since the effect of this non-cash adjustment was not material to 2004, or any previously reported fiscal year, the cumulative effect was recorded in the fourth quarter of 2004.

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

(6) Income tax provision includes the effect of the following: (i) in 2006, a $11.0 million reversal of previously recorded tax reserves through the tax provision principally based on resolving certain state tax matters, (ii) in 2005, a $52.6 million reversal of previously recorded tax reserves through the tax provision principally based on resolving certain state tax matters, and (iii) in 2004, a $60.0 million reversal of previously recorded tax reserves through the tax provision principally based on finalizing certain tax return years and on a 2004 court decision relevant to the industry.

(7) 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. Pursuant to the court order entered on October 16, 2008, Linens Holding Co. is in the process of liquidating the entire Linens n Things retail chain. The loss from discontinued operations includes $132.0 million of lease-related costs ($214.4 million, net of an $82.4 million income tax benefit), which the Company believes it will likely be required to satisfy pursuant to its Linens n Things lease guarantees. These amounts, which are expected to change as each lease is resolved, were calculated in accordance with Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities."

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

We refer you to the "Management's Discussion and Analysis of Financial Condition and Results of Operations," which includes our "Cautionary Statement Concerning Forward-Looking Statements" at the end of such section, on pages 35 through 36 of our Annual Report to Stockholders for the fiscal year ended December 31, 2008, which section is incorporated by reference herein.

## Item 7A. Quantitative and Qualitative Disclosures about Market Risk

As of December 31, 2008, the Company had no derivative financial instruments or derivative commodity instruments in place and believes that its exposure to market risk associated with other financial instruments, principally interest rate risk inherent in its debt portfolio, is not material.

## Item 8. Financial Statements and Supplementary Data

We refer you to the "Consolidated Statements of Operations," "Consolidated Balance Sheets," "Consolidated Statements of Shareholders' Equity," "Consolidated Statements of Cash Flows," and "Notes to Consolidated Financial Statements," on pages 39 through 64, and "Report of Independent Registered Public Accounting Firm" on pages 66 and 67, of our Annual Report to Stockholders for the fiscal year ended December 31, 2008, which sections are incorporated by reference herein.

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

None.

## Item 9A. Controls and Procedures

**Evaluation of disclosure controls and procedures:** The Company's Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (f) and 15d-15(f)) as of December 31, 2008, have concluded that as of such date the Company's disclosure controls and procedures were adequate and effective and designed to ensure that material information relating to the Company and its subsidiaries would be made known to such officers on a timely basis.

**Internal control over financial reporting:** We refer you to "Management's Report on Internal Control Over Financial Reporting" on page 37 and "Report of Independent Registered Public Accounting Firm" on page 38 of our Annual Report to Stockholders for the fiscal year ended December 31, 2008, which are incorporated by reference herein, for Management's report on the Registrant's internal control over financial reporting and the Independent Registered Public Accounting Firm's report with respect to the effectiveness of internal control over financial reporting.

**Changes in internal control over financial reporting:** There have been no changes in our internal controls over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 that occurred during the fourth quarter ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**Item 9B. Other Information**

No events have occurred during the fourth quarter that would require disclosure under this item.

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# PART III

## Item 10. Directors and Executive Officers of the Registrant

We refer you to our Proxy Statement for the 2009 Annual Meeting of Stockholders under the captions "Committees of the Board," "Code of Conduct," "Director Nominations," "Audit Committee Report," "Biographies of our Board Nominees," and "Section 16(a) Beneficial Ownership Reporting Compliance," which sections are incorporated by reference herein. Biographical information on our executive officers is contained in Part I of this Annual Report on Form 10-K.

## Item 11. Executive Compensation

We refer you to our Proxy Statement for the 2009 Annual Meeting of Stockholders under the captions "Executive Compensation and Related Matters," including "Compensation Discussion & Analysis" and "Management Planning and Development Committee Report," which sections are incorporated by reference herein.

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

We refer you to our Proxy Statement for the 2009 Annual Meeting of Stockholders under the captions "Share Ownership of Directors and Certain Executive Officers" and "Share Ownership of Principal Stockholders" which sections are incorporated by reference herein, for information concerning security ownership of certain beneficial owners and management and related stockholder matters.

The following table summarizes information about the Company's common stock that may be issued upon the exercise of options, warrants and rights under all of our equity compensation plans as of December 31, 2008.

| Shares in thousands | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column) |
|---|---|---|---|
| Equity compensation plans approved by stockholders[(1)] | 59,374 | $ 28.21 | 74,600 |
| Equity compensation plans not approved by stockholders | — | — | — |
| Total | 59,374 | $ 28.21 | 74,600 |

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

## Item 13. Certain Relationships and Related Transactions and Director Independence

We refer you to our Proxy Statement for the 2009 Annual Meeting of Stockholders under the caption "Independence Determinations for Directors" and "Certain Transactions with Directors and Officers," which sections are incorporated by reference herein.

## Item 14. Principal Accountant Fees and Services

We refer you to our Proxy Statement for the 2009 Annual Meeting of Stockholders under the caption "Item 2: Ratification of Appointment of Independent Registered Public Accounting Firm," which section is incorporated by reference herein.

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# PART IV

## Item 15. Exhibits, Financial Statement Schedules

### A. Documents filed as part of this report:

**1. Financial Statements:**

The following financial statements are incorporated by reference from pages 18 through 64 and pages 66 through 67 of our Annual Report to Stockholders for the fiscal year ended December 31, 2008, as provided in Item 8 hereof:



**2. Financial Statement Schedules**

The following financial statement schedule is filed on page 43 of this report: Schedule II — Valuation and Qualifying Accounts. All other financial statement schedules are omitted because they are not applicable or the information is included in the financial statements or related notes.

### B. Exhibits

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

| Exhibit | Description |
|---|---|
| 1.1* | Underwriting Agreement dated September 5, 2008 by and among the Registrant and Lehman Brothers Inc., Banc of America Securities LLC, Deutsche Bank Securities Inc., Morgan Stanley & Co. Incorporated and Wachovia Capital Markets, LLC, as Representatives of the Underwriters [incorporated by reference to Exhibit 1.1 to the Registrant's Current Report on Form 8-K dated September 5, 2008 (Commission File No. 001-01011)] |
| 2.1* | Agreement and Plan of Merger dated as of November 1, 2006 among, the Registrant, Caremark Rx. Inc. and Twain MergerSub Corp. [incorporated by reference to Exhibit 2.1 to the Registrant's Registration Statement No. 333-139470 on Form S-4 filed December 19, 2006]. |
| 2.2* | Amendment No. 1 dated as of January 16, 2007 to the Agreement and Plan of Merger dated as of November 1, 2006 among the Registrant, Caremark Rx, Inc. and Twain Merger Sub Corp. [incorporated by reference to Exhibit 2.2 to the Registrant's Registration Statement No. 333-139470 on Form S-4/A filed January 16, 2007]. |
| 2.3* | Waiver Agreement dated as of January 16, 2007 between the Registrant and Caremark Rx, Inc. with respect to the Agreement and Plan Merger dates as of November 1, 2006 by and between Registrant and Caremark Rx, Inc [incorporated by reference to Exhibit 2.3 to the Registrant's Registration Statement No. 333-139470 on Form S-4/A filed January 16, 2007]. |
| 2.4* | Amendment to Waiver Agreement, dated as of February 13, 2007, between Registrant and Caremark Rx, Inc. [incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K dated February 12, 2007 (Commission File No. 001-01011)]. |
| 2.5* | Agreement and Plan of Merger dated as of August 12, 2008 among, the Registrant, Longs Drug Stores Corporation and Blue MergerSub Corp.[incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated August 12, 2008 (Commission File No. 001-01011)]. |
| 3.1* | Amended and Restated Certificate of Incorporation of the Registrant [incorporated by reference |

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| | to Exhibit 3.1 of CVS Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 (Commission File No. 001-01011)]. |
| 3.1A* | Certificate of Amendment to the Amended and Restated Certificate of Incorporation, effective May 13, 1998 [incorporated by reference to Exhibit 4.1A to Registrant's Registration Statement No. 333-52055 on Form S-3/A dated May 18, 1998]. |
| 3.1B* | Certificate of Amendment to the Amended and Restated Certificate of Incorporation [incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K dated March 22, 2007 (Commission File No. 001-01011)]. |
| 3.1C* | Certificate of Merger dated May 9, 2007 [incorporated by reference to Exhibit 3.1C to Registrant's Quarterly Report on Form 10-Q dated November 1, 2007 (Commission File No. 001-01011)]. |
| 3.2* | By-laws of the Registrant, as amended and restated [incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K dated January 21, 2009 (Commission File No. 001-01011)]. |
| 4 | Pursuant to Regulation S-K, Item 601(b)(4)(iii)(A), no instrument which defines the rights of holders of long-term debt of the Registrant and its subsidiaries is filed with this report. The Registrant hereby agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request. |
| 4.1* | Specimen common stock certificate [incorporated by reference to Exhibit 4.1 to the Registration Statement of the Registrant on Form 8-B dated November 4, 1996 (Commission File No. 001-01011)]. |
| 4.2* | Senior Indenture dated August 15, 2006 between the Registrant, as issuer, and The Bank of New York Trust Company, N.A., as trustee, including form of debt security [incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated August 10, 2006 (Commission File No. 001-01011)]. |
| 4.3* | Specimen First Supplemental Indenture between Registrant and The Bank of New York Trust Company, N. A., a national banking association [incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated May 22, 2007 (Commission File No. 001-01011)]. |
| 4.4* | Specimen ECAPS℠ [incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated May 22, 2007 (Commission File No. 001-01011)]. |
| 10.1* | Stock Purchase Agreement dated as of October 14, 1995 between The TJX Companies, Inc. and Melville Corporation, as amended November 17, 1995 [incorporated by reference to Exhibits 2.1 and 2.2 to Melville's Current Report on Form 8-K dated December 4, 1995 (Commission File No. 001-01011)]. |
| 10.2* | Stock Purchase Agreement dated as of March 25, 1996 between Melville Corporation and Consolidated Stores Corporation, as amended May 3, 1996 [incorporated by reference to Exhibits 2.1 and 2.2 to Melville's Current Report on Form 8-K dated May 5, 1996 (Commission File No. 001-01011)]. |
| 10.3* | Distribution Agreement dated as of September 24, 1996 among Melville Corporation, Footstar, Inc. and Footstar Center, Inc. [incorporated by reference to Exhibit 99.1 to Melville's Current Report on Form 8-K dated October 28, 1996 (Commission File No. 001-01011)]. |
| 10.4* | Tax Disaffiliation Agreement dated as of September 24, 1996 among Melville Corporation, Footstar, Inc. and certain subsidiaries named therein [incorporated by reference to Exhibit 99.2 to Melville's Current Report on Form 8-K dated October 28, 1996 (Commission File No. 001-01011)]. |
| 10.5* | Stockholder Agreement dated as of December 2, 1996 between the Registrant, Nashua Hollis CVS, Inc. and Linens 'n Things, Inc. [incorporated by reference to Exhibit 10(i)(6) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 (Commission File No. 001-01011)]. |
| 10.6* | Tax Disaffiliation Agreement dated as of December 2, 1996 between the Registrant and Linens 'n Things, Inc. and certain of their respective affiliates [incorporated by reference to Exhibit 10(i)(7) |

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| | to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 (Commission File No. 001-01011)]. |
| 10.7* | Note Purchase Agreement dated June 7, 1989 by and among Melville Corporation and Subsidiaries Employee Stock Ownership Plan, as Issuer, Melville Corporation, as Guarantor, and the Purchasers listed therein [incorporated by reference to Exhibit 10(i)(9) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 (Commission File No. 001-01011)]. |
| 10.8* | Supplemental Retirement Plan for Select Senior Management of Melville Corporation I as amended through July 1995 [incorporated by reference to Exhibit 10(iii)(A)(vii) to Melville's Annual Report on Form 10-K for the fiscal year ended December 31, 1995 (Commission File No. 001-01011)]. |
| 10.9* | Supplemental Retirement Plan for Select Senior Management of Melville Corporation II as amended through July 1995 [incorporated by reference to Exhibit 10(iii)(A)(viii) to Melville's Annual Report on Form 10-K for the fiscal year ended December 31, 1995 (Commission File No. 001-01011)]. |
| 10.10* | Caremark Rx, Inc. Supplemental Executive Retirement Plan [incorporated by reference to Exhibit 10.10 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 29, 2007 (Commission File No. 001-01011)]. |
| 10.11* | Caremark Rx, Inc. Special Retirement Plan [incorporated by reference to Exhibit 10.11 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 29, 2007 (Commission File No. 001-01011). |
| 10.12* | Income Continuation Policy for Select Senior Executives of Melville Corporation as amended through May 12, 1988 [incorporated by reference to Exhibit 10 (viii) to Melville's Annual Report on Form 10-K for the fiscal year ended December 31, 1994 (Commission File No. 001-01011)]. |
| 10.13* | CVS Corporation 1996 Directors Stock Plan, as amended and restated November 5, 2002 [incorporated by reference to Exhibit 10.18 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 28, 2002 (Commission File No. 001-01011)]. |
| 10.14* | Form of Employment Agreements between the Registrant and the Registrant's executive officers [incorporated by reference to the Registrant's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1996 (Commission File No. 001-01011)]. |
| 10.15* | Deferred Stock Compensation Plan [incorporated by reference to Exhibit 10(iii)(A)(xi) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 (Commission File No. 001-01011)]. |
| 10.16* | 1997 Incentive Compensation Plan as amended [incorporated by reference to Exhibit 99.1 of the Registrant's Registration Statement No. 333-141481 on Form S-8 filed March 22, 2007]. |
| 10.17* | 2007 Incentive Plan [incorporated by reference to Exhibit E of the Registrant's Definitive Proxy Statement filed April 4, 2007 (Commission File No. 001-01011)]. |
| 10.18* | Caremark Rx, Inc. 2004 Incentive Stock Plan [incorporated by reference to Exhibit 99.2 of the Registrant's Registration Statement No. 333-141481 on Form S-8 filed March 22, 2007]. |
| 10.19* | Caremark Rx, Inc. Deferred Compensation Plan, effective April 1, 2005 [incorporated by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 29, 2007 (Commission File No. 001-01011)]. |
| 10.20* | Deferred Compensation Plan [incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 27, 1998 (Commission File No. 001-01011)]. |
| 10.21* | Partnership Equity Program [incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 27, 1998 (Commission File No. 001-01011)]. |
| 10.22* | Form of Collateral Assignment and Executive Life Insurance Agreement between Registrant and the Registrant's executive officers [incorporated by reference to Exhibit 10.11(xv) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 (Commission File No. 001-01011)]. |
| 10.23* | Description of the Long-Term Performance Share Plan [incorporated by reference to Exhibit 10.27 to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 1, 2000 (Commission File No. 001-01011)]. |
| 10.24* | 1999 Employee Stock Purchase Plan [incorporated by reference to Exhibit 99.A of the |

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| | Registrant's Definitive Proxy Statement filed March 4, 1999 (Commission File No. 001-01011)]. |
| 10.25* | 2007 Employee Stock Purchase Plan [incorporated by reference to Exhibit D of the Registrant's Definitive Proxy Statement filed April 4, 2007 (Commission File No. 001-01011)]. |
| 10.26* | Description of the Executive Retention Program [incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2000 (Commission File No. 001-01011)]. |
| 10.27* | Five-year Credit Agreement dated as of June 11, 2004 by and among the Registrant, the Lenders party thereto, Bank of America, N.A., Credit Suisse First Boston and Wachovia Securities, Inc., as Co-Syndication Agents, ABN Amro Bank N.V. as Documentation Agent, and The Bank of New York, as Administrative Agent [incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K dated July 31, 2004 (Commission File No. 001-01011)]. |
| 10.28* | Form of Non-Qualified Stock Option Agreements between the Registrant and the selected employees of the Registrant [incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K dated January 5, 2005 (Commission File No. 001-01011)]. |
| 10.29* | Form of Restricted Stock Unit Agreement between the Registrant and the selected employees of the Registrant [incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K dated January 5, 2005 (Commission File No. 001-01011)]. |
| 10.30* | Form of Replacement Restricted Stock Unit Agreement between the Registrant and the selected employees of the Registrant [incorporated by reference to Exhibit 99.3 to the Registrant's Current Report on Form 8-K dated January 5, 2005 (Commission File No. 001-01011)]. |
| 10.31* | Five Year Credit Agreement dated as of June 3, 2005 by and among the Registrant, the Lenders party hereto, Bank of America, N.A., Credit Suisse First Boston, Wachovia Securities, Inc., and National Association as Co-Syndication Agents, Suntrust Bank as Documentation Agent, and The Bank of New York, as Administrative Agent [incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended July 2, 2005 (Commission File No. 001-01011)]. |
| 10.32* | Retention Agreement dated as of August 5, 2005 between the Registrant and the Registrant's President and Chief Executive Officer [incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended October 1, 2005 (Commission File No. 001-01011)]. |
| 10.33* | Form of Restricted Stock Unit Agreement between the Registrant and the Registrant's President and Chief Executive Officer [incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended October 1, 2005 (Commission File No. 001-01011)]. |
| 10.34* | Five Year Credit Agreement dated as of May 12, 2006 by and among the Registrant, the Lenders party thereto, Bank of America, N.A., Lehman Brothers Inc. and Wachovia Bank, National Association, as Co-Syndication Agents, Keybank National Association, as Documentation Agent, and The Bank of New York, as Administrative Agent [incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K dated June 2, 2006 (Commission File No. 001-01011)]. |
| 10.35* | Bridge Credit Agreement dated as of May 24, 2006 by and among the Registrant, the Lenders party thereto and Lehman Commercial Paper Inc., as Administrative Agent [incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K dated June 2, 2006 (Commission File No. 001-01011)]. |
| 10.36 | Amended and Restated Employment Agreement dated as of December 22, 2008 between the Registrant and the Registrant's Chairman of the Board, President and Chief Executive Officer. |
| 10.37 | Amended and Restated Employment Agreement dated as of December 22, 2008 between the Registrant and the Registrant's Executive Vice President, Chief Financial Officer and Chief Administrative Officer. |
| 10.38 | Amended and Restated Employment Agreement dated as of December 22, 2008 between the Registrant and the Registrant's Executive Vice President and President of CVS/pharmacy – Retail. |

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| 10.39 | Amended and Restated Employment Agreement dated as of December 22, 2008 between the Registrant and the Registrant's Executive Vice President and Chief Legal Officer. |
| 10.40 | Amendment dated as of December 22, 2008 to Term Sheet Agreement dated as of March 22, 2007 between the Registrant and the Registrant's Executive Vice President and President of Caremark Pharmacy Services. |
| 10.41 | Term Sheet Agreement effective as of March 22, 2007 between the Registrant and the Registrant's Executive Vice President and President of Caremark Pharmacy Services. |
| 10.42* | Employment Agreement dated as of December 20, 2001 between the Registrant and the Registrant's Executive Vice President and President of Health Care Services. [incorporated by reference to Exhibit 10.39 to the Registrant's Annual Report on Form 10-K for the annual period ended December 30, 2006 (Commission File No. 001-01011)]. |
| 10.43* | Amendment dated as of July 30, 2008 to the Employment Agreement dated as of December 20, 2001 between the Registrant and the Registrant's Executive Vice President and President of Health Care Services [incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 28, 2008 (Commission File No. 001-01011)]. |
| 10.44* | Five Year Credit Agreement dated as of March 12, 2007 by and among the Registrant, the Lenders party thereto, Lehman Commercial Paper Inc., and Wachovia Bank, National Association, as Co-Syndication Agents, Morgan Stanley Senior Funding, Inc., as Documentation Agent, and The Bank of New York, as Administrative Agent [incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated March 22, 2007 (Commission File No. 001-01011)]. |
| 10.45* | Bridge Credit Agreement dated as of March 15, 2007 by and among the Registrant, the Lenders party thereto, Lehman Commercial Paper Inc., as Administration Agent, Morgan Stanley Senior Funding, Inc., as Syndication Agent, The Bank of New York, Bank of America, N.A. and Wachovia Bank, National Association, as Co-Documentation Agents [incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K dated March 22, 2007 (Commission File No. 001-01011)]. |
| 10.46* | Global Amendment dated as of March 15, 2007, to i) Five Year Credit Agreement dated as of June 11, 2004, (ii) Five Year Credit Agreement dated as of June 2, 2005, (iii) Five Year Credit Agreement dated as of May 12, 2006, (iv) Five Year Credit Agreement, dated as of March 12, 2007, and (v) 364 Day Credit Agreement, dated as of March 12, 2007 [incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K dated March 22, 2007 (Commission File No. 001-01011)]. |
| 10.47* | Confirmation between Registrant and Lehman Brothers OTC Derivatives Inc. dated May 13, 2007 [incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated May 13, 2007 (Commission File No. 001-01011)]. |
| 10.48* | Confirmation between Registrant and Lehman Brothers OTC Derivatives Inc. dated November 6, 2007 [incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated November 7, 2007 (Commission File No. 001-01011)]. |
| 10.49* | Credit Agreement dated September 12, 2008 by and among the Registrant, the Lenders party thereto, Lehman Commercial Paper Inc., as Administrative Agent, Deutsche Bank Securities Inc., as Syndication Agent, and Bank of America, N.A., Morgan Stanley Bank, and Wachovia Bank, National Association, as Co-Documentation Agents [incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 27, 2008 (Commission File No. 001-01011)]. |
| 13 | Portions of the 2008 Annual Report to Stockholders of CVS Caremark Corporation, which are specifically designated in this Form 10-K as being incorporated by reference. |
| 21 | Subsidiaries of the Registrant. |
| 23.1 | Consent of Ernst & Young LLP. |
| 23.2 | Consent of KPMG LLP. |
| 31.1 | Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |

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|---|---|
| 31.2 | Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification by the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders
CVS Caremark Corporation

We have audited the consolidated financial statements of CVS Caremark Corporation as of December 31, 2008 and December 29, 2007, and for the fiscal years then ended, and have issued our report thereon dated February 26, 2009. These consolidated financial statements and our reports thereon are incorporated by reference in the December 31, 2008 Annual Report on Form 10-K of CVS Caremark Corporation. Our audits also included the financial statement schedule for the fiscal years ended December 31, 2008 and December 29, 2007 listed in Item 15 of this Annual Report (Form 10-K). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

In our opinion, the financial statement schedule referred to above for the fiscal years ended December 31, 2008 and December 29, 2007, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 26, 2009

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders
CVS Caremark Corporation:

Under date of February 27, 2007, we reported on the consolidated statements of operations, shareholders' equity and cash flows for the fiscal year ended December 30, 2006 of CVS Caremark Corporation (formerly CVS Corporation) and subsidiaries. These consolidated financial statements and our report thereon are incorporated by reference in the December 31, 2008 Annual Report on Form 10-K of CVS Caremark Corporation. In connection with our audit of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule for the fiscal year ended December 30, 2006 as listed in Item 15 of this Annual Report (Form 10-K). This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audit.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein for the fiscal year ended December 30, 2006.

/s/ KPMG LLP

KPMG LLP
Providence, Rhode Island
February 27, 2007

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## SIGNATURES

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

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|---|---|
| | CVS CAREMARK CORPORATION |
| Date: February 27, 2009 | By: /s/ David B. Rickard |
| | David B. Rickard |
| | Executive Vice President, Chief Financial Officer and Chief Administrative Officer |

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

| Signature | Title(s) | Date |
|---|---|---|
| /s/ Edwin M. Banks<br>Edwin M. Banks | Director | February 27, 2009 |
| /s/ C. David Brown II<br>C. David Brown II | Director | February 27, 2009 |
| /s/ David M. Denton<br>David M. Denton | Senior Vice President – Finance and Controller<br>(Principal Accounting Officer) | February 27, 2009 |
| /s/ David. W. Dorman<br>David W. Dorman | Director | February 27, 2009 |
| /s/ Kristen Gibney Williams<br>Kristen Gibney Williams | Director | February 27, 2009 |
| /s/ Marian L. Heard<br>Marian L. Heard | Director | February 27, 2009 |
| /s/ William H. Joyce<br>William H. Joyce | Director | February 27, 2009 |
| /s/ Jean-Pierre Millon<br>Jean-Pierre Million | Director | February 27, 2009 |
| /s/ Terrence Murray<br>Terrence Murray | Director | February 27, 2009 |
| /s/ C.A. Lance Piccolo<br>C.A. Lance Piccolo | Director | February 27, 2009 |
| /s/ David B. Rickard<br>David B. Rickard | Executive Vice President, Chief Financial Officer and Chief Administrative Officer<br>(Principal Financial Officer) | February 27, 2009 |
| /s/ Sheli Z. Rosenberg<br>Sheli Z. Rosenberg | Director | February 27, 2009 |
| /s/ Thomas M. Ryan<br>Thomas M. Ryan | Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer) | February 27, 2009 |
| /s/ Richard J. Swift<br>Richard J. Swift | Director | February 27, 2009 |

**Exhibit 10.36**

**CVS CAREMARK CORPORATION**

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**Amended and Restated Employment Agreement for Thomas M. Ryan**

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**CVS CAREMARK CORPORATION**

**Amended and Restated Employment Agreement for Thomas M. Ryan**

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

AMENDED AND RESTATED EMPLOYMENT AGREEMENT, made and entered into as of the 22nd day of December, 2008 by and between CVS Caremark Corporation, a Delaware corporation (together with its successors and assigns, the "Company"), and Thomas M. Ryan (the "Executive").

WITNESSETH:

WHEREAS, CVS Corporation and Executive entered into an agreement in or about December, 1996 embodying the terms of Executive's employment by the Company (the "Original Agreement"), which Original Agreement was most recently amended as of December 28, 2006;

WHEREAS, Executive and the Company desire to further amend the Original Agreement in certain respects and to restate the Original Agreement in its entirety to reflect all applicable amendments by entering into this Amended and Restated Employment Agreement for Thomas M. Ryan (the "Agreement");

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

1. Definitions.

(a) "Approved Early Retirement" shall have the meaning set forth in Section 10(f) below.

(b) "Base Salary" shall have the meaning set forth in Section 4 below.

(c) "Board" shall mean the Board of Directors of the Company.

(d) "Cause" shall have the meaning set forth in Section 10(b) below.

(e) "Change in Control" shall have the meaning set forth in Section 10(c) below.

(f) "Committee" shall mean the Management Planning and Development Committee of the Board.

(g) "Confidential Information" shall have the meaning set forth in Section 11(c) below.

(h) "Constructive Termination Without Cause" shall have the meaning set forth in Section 10(c) below.

(i) "Effective Date" shall have the meaning set forth in Section 2 below.

(j) "Normal Retirement" shall have the meaning set forth in Section 10(f) below.

(k) "Original Term of Employment" shall have the meaning set forth in Section 2 below.

(l) "Renewal Term" shall have the meaning set forth in Section 2 below.

(m) "Restriction Period" shall have the meaning set forth in Section 12(b) below.

(n) "Severance Period" shall have the meaning set forth in Section 10(c)(ii) below, except as provided otherwise in Section 10(e) below.

(o) "Subsidiary" shall have the meaning set forth in Section 11(d) below.

(p) "Term of Employment" shall have the meaning set forth in Section 2 below.

(q) "termination of employment", "employment is terminated" and other similar words shall mean

(i) for any plan or arrangement that is subject to the rules of Section 409A of the Internal Revenue Code (the "Code") a "Separation from Service" as such term is defined in the Income Tax Regulations under Section 409A (the "409A Regulations") of the Code as modified by the rules described below:

(A) except in the case where Executive is on a bona fide leave of absence pursuant to the Company's policies as provided below, Executive is deemed to have incurred a Separation from Service on a date if the Company and Executive reasonably anticipate that the level of services to be performed by Executive after such date would be permanently reduced to 20% or less of the average services rendered by Executive during the immediately preceding 36-month period (or the total period of employment, if less than 36 months), disregarding periods during which Executive was on a bona fide leave of absence;

(B) if Executive is absent from work due to military leave, sick leave, or other bona fide leave of absence pursuant to the Company's policies Executive shall incur a Separation from Service on the first date that the rules of (A), above, are satisfied following the later of (i) the six-month anniversary of the commencement of the leave or (ii) the expiration of Executive's right, if any, to reemployment under statute, contract or Company policy;

(C) Executive shall be considered to continue employment and to not have a Separation from Service while on a bona fide leave of absence if the leave does not exceed 6 consecutive months (twelve months for a leave of absence due to Executive's disability) or, if longer, so long as Executive retains a right to reemployment with the Corporation or an Affiliate under an applicable statute, contract or Company policy. For this purpose, a "disability leave of absence" is an absence due to any medically determinable physical or mental impairment or Executive that can be expected to result in death or can be expected to last for a continuous period of not less than 6 months, where such impairment causes the Participant to be unable to perform the duties of his job or a substantially similar job;

(D) for purposes of determining whether another organization is an Affiliate of the Company, common ownership of at least 50% shall be determinative;

(E) the Company specifically reserves the right to determine whether a sale or other disposition of substantial assets to an unrelated party constitutes a Separation from Service with respect to Executive providing services to the seller immediately prior to the transaction and providing services to the buyer after the transaction. Such determination shall be made in accordance with the requirements of Code Section 409A; or

(ii) for any plan or arrangement that is not subject to the rules of Section 409A of the Code, the complete cessation of providing service to the Company or any Affiliate as an employee.

(r) "Termination Without Cause" shall have the meaning set forth in Section 10(c) below.

2. Term of Employment.

(a) The term of Executive's employment under this Agreement shall commence on the date of the Original Agreement (the "Effective Date") and end on the third anniversary of such date (the "Original Term of Employment"), unless terminated earlier in accordance herewith. The Original Term of Employment shall be automatically renewed for successive one-year terms (the "Renewal Terms") unless at least 180 days prior to the expiration of the Original Term of Employment or any Renewal Term, either Party notifies the other Party in writing that he or it is electing to terminate this Agreement at the expiration of the then current Term of Employment. "Term of Employment" shall mean the Original Term of Employment and all Renewal Terms. If a Change in Control shall have occurred during the Term of Employment, notwithstanding any other provision of this Section 2, the Term of Employment shall not expire earlier than two years after such Change in Control.

(b) In the event that this Agreement is not renewed because the Company has given the 180-day notice prescribed in the preceding paragraph on or before the expiration of the Original Term of Employment or any Renewal Term and, in either case, should such notice result in the expiration of the Term of Employment prior to January 1, 2010, such non-renewal shall be treated as a "Constructive Termination Without Cause" pursuant to Section 10(c).

3. Position, Duties and Responsibilities.

(a) Generally. Executive shall serve as Chairman, President and Chief Executive Officer of the Company, as a member of the Board of Directors of the Company, and as President and Chief Executive Officer of CVS Pharmacy Incorporated. For so long as he is serving on the Board of Directors of the Company (the "Board"), Executive agrees to serve as a member of any committee of the Board if the Board shall elect Executive to such positions. In any and all such capacities, Executive shall report only to the Board. Executive shall have and perform such duties, responsibilities, and authorities as are customary for the chairman, president and chief executive officer of corporations of similar size and businesses as the Company, and as are customary for the president and chief executive officer of corporations of similar size and businesses as CVS Pharmacy Incorporated, as they each may exist from time to time and as are consistent with such positions and status. Executive shall devote substantially all of his business time and attention (except for periods of vacation or absence due to illness), and his best efforts, abilities, experience, and talent to the positions of Chairman, President and Chief Executive Officer and for the businesses of the Company and to the positions of President and Chief Executive Officer of CVS Pharmacy Incorporated and for the businesses of CVS Pharmacy Incorporated.

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

(c) Place of Employment. Executive's principal place of employment shall be the corporate offices of the Company.

(d) Rank of Executive Within Company. As Chairman, President and Chief Executive Officer of CVS Caremark Corporation, Executive shall be the highest-ranking executive of CVS Caremark Corporation; and as President and Chief Executive Officer of CVS Pharmacy Incorporated, Executive shall be the highest ranking executive of CVS Pharmacy Incorporated.

4. Base Salary.

Executive shall be paid an annualized salary ("Base Salary"), payable in accordance with the regular payroll practices of the Company, of not less than $600,000 subject to review for increase at the discretion of the Committee.

5. Annual Incentive Awards.

Executive shall participate in the Company's annual cash incentive compensation plan with a target annual incentive award opportunity of no less than 65% of Base Salary. Payment of annual incentive awards shall be made at the same time that other senior-level executives receive their incentive awards.

6. Long-Term Incentive Programs.

Executive shall be eligible to participate in the Company's long-term incentive compensation programs (including stock options and stock grants).

7. Employee Benefit Programs.

During the Term of Employment, Executive shall be entitled to participate in such employee pension and welfare benefit plans and programs of the Company as are made available to the Company's senior-level executives or to its employees generally, as such plans or programs may be in effect from time to time, including, without limitation, health, medical, dental, long-term disability, travel accident, life insurance and deferred compensation plans.

8. Disability.

(a) During the Term of Employment, as well as during the Severance Period, Executive shall be entitled to disability coverage as described in this Section 8(a). In the event Executive becomes disabled, as that term is defined under the Company's Long-Term Disability Plan, Executive shall be entitled to receive pursuant to the Company's Long-Term Disability Plan or otherwise, and in place of his Base Salary, an amount equal to 60% of his Base Salary, at the annual rate in effect on the commencement date of his eligibility for the Company's long-term disability benefits ("Commencement Date") for a period beginning on the Commencement Date and ending with the earlier to occur of (A) Executive's attainment of age 65 or (B) Executive's commencement of retirement benefits from the Company in accordance with Section 10(f) below. If (i) Executive ceases to be disabled during the Term of Employment (as determined in accordance with the terms of the Long-Term Disability Plan), (ii) his position or another senior executive position is then vacant and (iii) the Company requests in writing that he resume such position, he may elect to resume such position by written notice to the Company within 15 days after the Company delivers its request. If he resumes such position, he shall thereafter be entitled to his Base Salary at the annual rate in effect on the Commencement Date and, for the year he resumes his position, a pro rata annual incentive award. If he ceases to be disabled during the Term of Employment and does not resume his position in accordance with the preceding sentence, he shall be treated as if he voluntarily terminated his employment pursuant to Section 10(d) as of the date Executive ceases to be disabled. If Executive is not offered his position or another senior executive position after he ceases to be disabled during the Term of Employment, he shall be treated as if his employment was terminated Without Cause pursuant to Section 10(c) as of the date Executive ceases to be disabled; provided, however, that if a Change in Control shall have occurred during the period of Executive's disability, he shall be treated as if his employment was terminated Without Cause following a Change in Control pursuant to Section 10(e) as of the date Executive ceases to be disabled.

(b) Executive shall be entitled to a pro rata annual cash incentive award for the year in which the Commencement Date occurs based on the most recently established market target annual cash incentive amount, payable in a cash lump sum not later than 15 days after the Commencement Date. Executive shall not be entitled to any annual incentive award with respect to the period following the Commencement Date. If Executive recommences his position in accordance with Section 8(a), he shall be entitled to a pro rata annual incentive award for the year he resumes such position and shall thereafter be entitled to annual incentive awards in accordance with Section 5 hereof.

(c) During the period Executive is receiving disability benefits pursuant to Section 8(a) above, he shall continue to be treated as an employee for purposes of all employee benefits and entitlements in which he was participating on the Commencement Date, including without limitation, the benefits and entitlements referred to in Sections 6 and 7 above, except that the Executive shall not be entitled to receive any annual salary increases or any new long-term incentive plan grants following the Commencement Date. Notwithstanding the foregoing, with respect to any benefit plan or program providing benefits covered by Section 409A of the Code, the definition of "termination of employment" set forth in Section 1(g) above shall apply.

attorneys' fees and expenses) incurred by him in conjunction with preparation and negotiation of this Agreement and any related documents up to a maximum of $10,000.

10. Termination of Employment.

(a) Termination Due to Death. In the event Executive's employment with the Company is terminated due to his death, his estate or his beneficiaries, as the case may be, shall be entitled to and their sole remedies under this Agreement shall be:

(i) Base Salary through the date of death, which shall be paid in a cash lump sum not later than 15 days following Executive's death;

(ii) pro rata annual incentive award for the year in which Executive's death occurs based on the most recently established market target annual cash incentive bonus amount for Executive, which shall be payable in a cash lump sum promptly (but in no event later than 15 days);

(iii) elimination of all restrictions on any restricted or deferred stock awards outstanding at the time of his death (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);

(iv) immediate vesting of all outstanding stock options and the right to exercise such stock options for a period of one year following death or for the remainder of the exercise period, if less (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);

(v) the balance of any incentive awards earned as of December 31 of the prior year (but not yet paid), which shall be paid in a cash lump sum not later than 15 days following the Executive's death;

(vi) settlement of all deferred compensation arrangements in accordance with any then applicable deferred compensation plan or election form; and

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

(b) Termination by the Company for Cause.

(i) "Cause" shall mean:

(A) Executive's willful and material breach of Sections 11, 12 or 13 of this Agreement;

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

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

For purposes of this Agreement, an act or failure to act on Executive's part shall be considered "willful" if it was done or omitted to be done by him not in good faith, and shall not include any act or failure to act resulting from any incapacity of Executive.

(ii) A termination for Cause shall not take effect unless the provisions of this paragraph (ii) are complied with. Executive shall be given written notice by the Company of its intention to terminate him for Cause, such notice (A) to state in detail the particular act or acts or failure or failures to act that constitute the grounds on which the proposed termination for Cause is based and (B) to be given within 90 days of the Company's learning of such act or acts or failure or failures to act. Executive shall have 20 days after the date that such written notice has been given to him in which to cure such conduct, to the extent such cure is possible. If he fails to cure such conduct, Executive shall then be entitled to a hearing before the Committee of the Board at which Executive is entitled to appear. Such hearing shall be held within 25 days of such notice to Executive, provided he requests such hearing within 10 days of the written notice from the Company of the intention to terminate him for Cause. If, within five days following such hearing, Executive is furnished written notice by the Board confirming that, in its judgment, grounds for Cause on the basis of the original notice exist, he shall thereupon be terminated for Cause.

(iii) In the event the Company terminates Executive's employment for Cause, he shall be entitled to and his sole remedies under this Agreement shall be:

(A) Base Salary through the date of the termination of his employment for Cause, which shall be paid in a cash lump sum not later than 15 days following Executive's termination of employment;

(B) any incentive awards earned as of December 31 of the prior year (but not yet paid), which shall be paid in a cash lump sum not later than 15 days following Executive's termination of employment;

(C) settlement of all deferred compensation arrangements in accordance with any then applicable deferred compensation plan or election form; and

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

(c) <u>Termination Without Cause or Constructive Termination Without Cause Prior to Change in Control</u>. In the event Executive's employment with the Company is terminated without Cause (which termination shall be effective as of the date specified by the Company in a written notice to Executive), other than due to death, or in the event there is a Constructive Termination Without Cause (as defined below), in either case prior to a Change in Control (as defined below) the Executive shall be entitled to and his sole remedies under this

Agreement shall be:

(i) Base Salary through the date of termination of Executive's employment, which shall be paid in a cash lump sum not later than 15 days following the Executive's termination of employment;

(ii) Base Salary, at the annualized rate in effect on the date of termination of Executive's employment (or in the event a reduction in Base Salary is a basis for a Constructive Termination Without Cause, then the Base Salary in effect immediately prior to such reduction), for a period of 36 months (the "Severance Period");

(iii) a pro rata annual incentive award for the year in which Executive's termination occurs based on the most recently established Management Incentive Plan target ("MIP Award"), as determined below, for Executive. The MIP Award will be payable at the conclusion of the annual performance cycle, based on actual performance of the Company as determined in accordance with the Company's 2007 Incentive Plan (the "Plan") or other plan for an executive of the Company as may be in effect from time to time, as certified by the applicable Committee of the Board of Directors of the Company, and paid at the same time the annual incentive award is paid to other similarly-situated executives of the Company, unless otherwise previously elected to be deferred by Executive.

(A) The MIP Award is determined by multiplying the Market Payout Percentage as approved by the Committee for Executive's position, by Executive's base salary in effect on the date of termination, based on the Company's performance for the applicable annual performance cycle.

(B) The amount of the pro rata award will be determined by multiplying the full amount of the MIP Award, as determined above, by a fraction, the numerator of which is the number of months that have elapsed since January 1 through the date of termination of Executive's Employment and the denominator of which is twelve (12);

(iv) an amount equal to the most recently established market target MIP Award (without taking into account the Company's performance) for Executive multiplied by three, payable in equal monthly payments over the Severance Period;

(v) elimination of all restrictions on any restricted or deferred stock awards outstanding at the time of termination of employment (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);

(vi) any outstanding stock options which are unvested shall vest and Executive shall have the right to exercise any vested stock options during the Severance Period or for the remainder of the exercise period, if less (other than awards under the Company's

Partnership Equity Program, which shall be governed by the terms of such awards);

(vii) the balance of any incentive awards, except for awards under the Company's Long-Term Incentive Plan or other such plans which are intended to qualify for deductibility under Section 162(m) of the Code, earned as of December 31 of the prior year (but not yet paid), which shall be paid in a cash lump sum not later than 15 days following Executive's termination of employment;

(viii) a pro rata long-term incentive award, as determined below, for the year in which Executive's termination occurs based on the targets for Executive for performance periods not yet closed under the Company's Long-Term Incentive Plan (the "LTIP") with the target for each such performance period being adjusted based on actual performance of the Company as determined in accordance with the LTIP or other plan for an executive of the Company as may be in effect from time to time, as certified by the applicable Committee of the Board of Directors of the Company, and as further adjusted under (A), below, and being payable at the same time such Awards are paid to other similarly-situated executives of the Company, unless otherwise previously elected to be deferred by Executive;

(A) The amount of the pro rata award will be determined by multiplying the full amount of each award, as determined above, by a fraction, the numerator of which is the number of months (treating a part of a month as a full month) that have elapsed since the first day of the applicable performance cycle through the date of termination of Executive's Employment and the denominator of which is the number of months in such performance cycle;

(ix) settlement of all deferred compensation arrangements in accordance with any then applicable deferred compensation plan or election form;

(x) continued participation in all medical, health and life insurance plans at the same benefit level at which he was participating on the date of the termination of his employment until the earlier of:

(A) the end of the Severance Period; or

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

provided that (1) if Executive is precluded from continuing his participation in any employee benefit plan or program as provided in this clause (ix) of this Section 10(c), he shall receive cash payments equal on an after-tax basis to the cost to him of obtaining the benefits provided under the plan or program in which he is unable to participate for the period specified in this clause (ix) of this Section 10(c), (2) such cost shall be deemed to be the lowest reasonable cost that would be incurred by Executive in obtaining such benefit himself on an individual basis, and (3) payment of such amounts shall be made quarterly in advance; and

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

common stock of the Company) becomes the Beneficial Owner (except that a Person shall be deemed to be the Beneficial Owner of all shares that any such Person has the right to acquire pursuant to any agreement or arrangement or upon exercise of conversion rights, warrants or options or otherwise, without regard to the sixty day period referred to in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company or any Significant Subsidiary (as defined below), representing 30% or more of the combined voting power of the Company's or such subsidiary's then outstanding securities;

(ii) during any period of twelve (12) consecutive months, individuals who at the beginning of such period constitute the Board, and any new director whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least a majority of the directors then still in office who either were directors at the beginning of the twelve (12) month period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority of the Board;

(iii) the consummation of a merger or consolidation of the Company (or any subsidiary owning directly or indirectly all or substantially all of the consolidated assets of the Company but in no event assets having a gross fair market value of less than 40% of the total gross fair market value of all of the consolidated assets of the Company (a "Significant Subsidiary")) with any other entity, other than a merger or consolidation which would result in the voting securities of the Company or a Significant Subsidiary outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving or resulting entity) more than 50% of the combined voting power of the surviving or resulting entity outstanding immediately after such merger or consolidation; or

(iv) the consummation of a transaction (or series of transactions within a 12 month period) which constitutes the sale or disposition of all or substantially all of the consolidated assets of the Company but in no event assets having a gross fair market value of less than 40% of the total gross fair market value of all of the consolidated assets of the Company (other than such a sale or disposition immediately after which such assets will be owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the common stock of the Company immediately prior to such sale or disposition)

For purposes of this definition:

(A) The term "Beneficial Owner" shall have the meaning ascribed to such term in Rule 13d-3 under the Exchange Act (including any successor to such Rule).

(B) The term "Exchange Act" means the Securities Exchange

Act of 1934, as amended from time to time, or any successor act thereto.

(C) The term "Person" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including "group" as defined in Section 13(d) thereof.

(d) Voluntary Termination. In the event of a termination of employment by Executive on his own initiative after delivery of 10 business days advance written notice, other than a termination due to death, a Constructive Termination Without Cause, or Approved Early Retirement or Normal Retirement pursuant to Section 10(f) below, Executive shall have the same entitlements as provided in Section 10(b)(iii) above for a termination for Cause, provided that at the Company's election, furnished in writing to Executive within 15 days following such notice of termination, the Company shall in addition pay Executive 50% of his Base Salary for a period of 18 months following such termination in exchange for Executive not engaging in competition with the Company or any Subsidiary as set forth in Section 12(a) below, and further provided that if the Company makes such an election, the Company's obligation to pay Executive his monthly Base Salary and Executive's obligation not to engage in competition with the Company or any Subsidiary shall terminate upon the occurrence of a Change in Control. Notwithstanding any implication to the contrary, Executive shall not have the right to terminate his employment with the Company during the Term of Employment except in the event of a Constructive Termination Without Cause, Approved Early Retirement, or Normal Retirement, and any voluntary termination of employment during the Term of Employment in violation of this Agreement shall be considered a material breach.

(e) Termination Without Cause; Constructive Termination Without Cause or Voluntary Termination Following a Change in Control. In the event Executive's employment with the Company is terminated by the Company without Cause (which termination shall be effective as of the date specified by the Company in a written notice to Executive), other than due to death, or in the event there is a Constructive Termination Without Cause (as defined above), in either case within two years following a Change in Control (as defined above), Executive shall be entitled to and his sole remedies under this Agreement shall be:

(i) Base Salary through the date of termination of Executive's employment, which shall be paid in a cash lump sum not later than 15 days following Executive's termination of employment;

(ii) an amount equal to three times Executive's Base Salary, at the annualized rate in effect on the date of termination of Executive's employment (or in the event a reduction in Base Salary is a basis for a Constructive Termination Without Cause, then the Base Salary in effect immediately prior to such reduction), payable in a cash lump sum promptly (but in no event later than 15 days) following Executive's termination of employment;

(iii) pro rata annual incentive award for the year in which Executive's termination occurs based on the most recently established market target amount for Executive, payable in a cash lump sum promptly (but in no event later than 15 days or by such later date as is required to comply with Section 22) following Executive's termination of employment;

(A) The amount of the pro rata award will be determined by multiplying the market target amount by a fraction, the numerator of which is the number of months that have elapsed since January 1 through the date of termination of Executive's Employment and the denominator of which is twelve (12);

(iv) an amount equal to the MIP Award based on the most recently established market target amount for Executive multiplied by three, payable in a cash lump sum promptly (but in no event later than 15 days) following Executive's termination of employment;

(v) elimination of all restrictions on any restricted or deferred stock awards outstanding at the time of termination of employment (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);

(vi) immediate vesting of all outstanding stock options and the right to exercise such stock options during the Severance Period or in accordance with their terms, if longer (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);

(vii) the balance of any incentive awards earned as of December 31 of the prior year (but not yet paid), which shall be paid in a single lump sum not later than 15 days following the Executive's termination of employment;

(viii) immediate vesting of Executive's accrued benefits under any supplemental retirement benefit plan ("SERP") maintained by the Company, with payment of such benefits to be made in accordance with the terms and conditions of the SERP;

(ix) settlement of all deferred compensation arrangements in accordance with any then applicable deferred compensation plan or election form;

(x) continued participation in all medical, health and life insurance plans at the same benefit level at which he was participating on the date of termination of his employment until the earlier of:

(A) the end of the Severance Period; or

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

provided that (1) if Executive is precluded from continuing his participation in any employee benefit plan or program as provided in this clause (x) of this Section 10(e), he shall receive cash payments equal on an after-tax basis to the cost to him of obtaining the benefits provided under the plan or program in which he is unable to participate for the period specified in this clause (x) of this Section 10(e), (2) such cost shall be deemed to be the lowest reasonable cost that would be incurred by Executive in obtaining such benefit himself on an individual basis, and (3) payment of such amounts shall be made quarterly in advance; and

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

For purposes of any termination pursuant to this Section 10(e), the term "Severance Period" shall mean the period of 36 months following the termination of the Executive's employment.

(f) Approved Early Retirement or Normal Retirement. Upon Executive's Approved Early Retirement or Normal Retirement (each as defined below), Executive shall be entitled to and his sole remedies under this Agreement shall be:

(i) Base Salary through the date of termination of Executive's employment, which shall be paid in a cash lump sum not later than 15 days following Executive's termination of employment;

(ii) pro rata cash portion of MIP Award for the year in which termination occurs, determined in accordance with Section 10(c)(iii) above;

(iii) elimination of all restrictions on any restricted stock awards outstanding at the time of Executive's termination of employment;

(iv) continued vesting (as if Executive remained employed by the Company) of any deferred stock awards outstanding at the time of his termination of employment (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);

(v) continued vesting of all outstanding stock options and the right to exercise such stock options (including, for the avoidance of doubt, after Executive's death by any person to whom the award passes by will or the laws of descent and distribution following Executive's death) for a period of one year following the later of the date the options are fully vested or Executive's termination of employment or for the remainder of the exercise period, if less (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards); provided, however, that options granted pursuant to the Company's 1987 Stock Option Plan shall in no event be exercisable after three years following termination of employment;

(vi) the balance of any incentive awards earned as of December 31 of the prior year (but not yet paid), which shall be paid in a single lump sum not later than 15 days following Executive's termination of employment;

(vii) settlement of all deferred compensation arrangements in accordance with any then applicable deferred compensation plan or election form; and

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

"Approved Early Retirement" shall mean Executive's voluntary termination of employment with the Company at or after attaining age 55 but prior to January 1, 2010, if such termination is approved in advance by the Committee.

"Normal Retirement" shall mean Executive's voluntary termination of employment with the Company at or after January 1, 2010.

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

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

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

(j) Release of Employment Claims. Executive agrees, as a condition to his entitlement to receipt of the termination payments and benefits provided for in this Section 10, that he will execute within sixty (60) days of Executive's termination of employment a release agreement, in a form reasonably satisfactory to the Company, releasing any and all claims arising out of Executive's employment (other than enforcement of this Agreement, Executive's rights under any of the Company's incentive compensation and employee benefit plans and programs to which he is entitled under this Agreement, any rights to indemnification to which Executive may be entitled or which may have been granted to him, any rights of indemnification to which Executive may be entitled under any policy of insurance, and any claim for any tort for personal injury not arising out of or related to his termination of employment).

(k) Subject to the provisions of Section 22(b), all payments to be made pursuant to this Section 10 upon the termination of employment of Executive shall be made or commence, as the case may be, within 75 days after Executive's termination of employment provided, however, that if such termination of employment is after October 17 of a year, the payout or first payment, as the case may be, shall be made at the end of such 75 day period.

(l) For the avoidance of doubt, the provisions of this Agreement, insofar as they pertain to any stock option awarded to Executive, apply and shall be deemed to govern notwithstanding any contrary term in any agreement awarding such stock option to Executive.

(m) For the avoidance of doubt, the provisions of the CVS/pharmacy Long-Term Incentive Plan, insofar as they pertain to any LTIP award to Executive, apply; provided, however, that the terms of the LTIP plan should be read together with this Agreement and the terms and provisions of this Agreement shall be deemed to govern notwithstanding any contrary term or provision in the LTIP plan.

11. Confidentiality; Cooperation with Regard to Litigation; Non-disparagement.

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

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

(c) "Confidential Information" shall mean all information concerning the business of the Company or any Subsidiary relating to any of their products, product development, trade secrets, customers, suppliers, finances, and business plans and strategies. Excluded from the definition of Confidential Information is information (i) that is or becomes part of the public domain, other than through the breach of this Agreement by Executive or (ii) regarding the Company's business or industry properly acquired by Executive in the course of his career as an executive in the Company's industry and independent of Executive's employment by the Company. For this purpose, information known or available generally within the trade or industry of the Company or any Subsidiary shall be deemed to be known or available to the public.

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

(e) Executive agrees to cooperate with the Company, during the Term of Employment and thereafter (including following Executive's termination of employment for any reason), by making himself reasonably available to testify on behalf of the Company or any Subsidiary in any action, suit, or proceeding, whether civil, criminal, administrative, or investigative, and to assist the Company, or any Subsidiary, in any such action, suit, or proceeding, by providing information and meeting and consulting with the Board or its representatives or counsel, or representatives or counsel to the Company, or any Subsidiary as reasonably requested; provided, however, that the same does not materially interfere with his then current professional activities. The Company agrees to reimburse Executive, on an after-tax basis, for all expenses actually incurred in connection with his provision of testimony or assistance.

(f) Executive agrees that, during the Term of Employment and thereafter (including following Executive's termination of employment for any reason) he will not make statements or representations, or otherwise communicate, directly or indirectly, in writing, orally, or otherwise, or take any action which may, directly or indirectly, disparage the Company or any Subsidiary or their respective officers, directors, employees, advisors, businesses or reputations. The Company agrees that, during the Term of Employment and thereafter (including following Executive's termination of employment for any reason), the Company will not make statements or representations, or otherwise communicate, directly or indirectly, in writing, orally, or otherwise, or take any action which may, directly or indirectly, disparage Executive or his business or reputation. Notwithstanding the foregoing, nothing in this Agreement shall preclude either Executive or the Company from making truthful statements or disclosures that are required by applicable law, regulation or legal process.

12. Non-competition.

(a) During the Restriction Period (as defined in Section 12(b) below), Executive shall not engage in Competition with the Company or any Subsidiary. "Competition" shall mean engaging in any activity, except as provided below, for a Competitor of the Company or any Subsidiary, whether as an employee, consultant, principal, agent, officer, director, partner, shareholder (except as a less than one percent shareholder of a publicly traded company) or otherwise. A "Competitor" shall mean any corporation or other entity (and its parents, subsidiaries and affiliates) doing business in a geographical area in which the Company is doing or has imminent plans to do business, and which is engaged in the operation of (a) a retail business which includes or has imminent plans to include a pharmacy (*i.e.*, the sale of prescription drugs) as an offering or component of its business, including, without limitation, chain drug store companies such as Walgreen Co. or Rite Aid Corporation, mass merchants such as Wal-Mart Stores, Inc. or Target Corp., and food/drug combinations such as The Kroger Co. or Supervalu Inc.; and/or (b) a business which includes or has imminent plans to include mail order prescription, specialty pharmacy and/or pharmacy benefits management as an offering or component of its business, such as Medco Health Solutions, Inc., or Express Scripts, Inc.; and/or (c) a business which includes or has imminent plans to include offering, marketing or the sale of basic acute health care services at retail or other business locations, similar to the services provided by MinuteClinic, Inc. (and excluding hospitals, private physicians' offices, or other businesses dedicated to the direct provision of health care services); and/or (d) any other business in which the Company is or has imminent plans to be engaged (whether directly or indirectly, including through any joint venture) at the time of Executive's termination. If Executive commences employment or becomes a consultant, principal, agent, officer, director, partner, or shareholder of any entity that is not a Competitor at the time Executive initially becomes employed or becomes a consultant, principal, agent, officer, director, partner, or shareholder of the entity, future activities of such entity shall not result in a violation of this provision unless (x) such activities were contemplated by Executive at the time Executive initially became employed or becomes a consultant, principal, agent, officer, director, partner, or shareholder of the entity or (y) Executive commences directly or indirectly overseeing or managing the activities of an entity which becomes a Competitor during the Restriction Period, which activities are competitive with the activities of the Company or Subsidiary. Executive shall not be deemed indirectly overseeing or managing the activities of such Competitor which are competitive with the activities of the Company or Subsidiary so long as he does not regularly participate in discussions with regard to the conduct of the competing business. The parties agree that the purpose of this provision is to protect the Company's confidential information, trade secrets and/or business relationships, and that it shall only be enforceable for such purpose.

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

(i) in the case of a termination of Executive's employment without Cause or a Constructive Termination Without Cause, in either case prior to a Change in Control, the earlier of (1) 24 months after such termination and (2) the occurrence of a Change in Control;

(ii) in the case of a termination of Executive's employment for Cause, the earlier of (1) 24 months after such termination and (2) the occurrence of a Change in Control;

(iii) in the case of a voluntary termination of Executive's employment pursuant to Section 10(d) above followed by the Company's election to pay Executive (and subject to the payment of) 50% of his Base Salary, as provided in Section 10(d) above, the earlier of (1) 18 months after such termination and (2) the occurrence of a Change in Control;

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

(v) in the case of Approved Early Retirement or Normal Retirement pursuant to Section 10(f) above, the remainder of the Term of Employment; or

(vi) in the case of a termination of Executive's employment without Cause or a Constructive Termination Without Cause, in either case following a Change in Control, immediately upon such termination of employment.

(vii) notwithstanding Section 12(b)(i) – (vi), above, in the case of a termination of employment on or after December 31, 2009 for any reason other than death or disability, the date that is ten (10) years after such date of termination of employment.

13. Non-solicitation.

During the period beginning with Effective Date and ending at the end of the Restriction Period, as defined in Section 12(b), Executive shall not induce employees of the Company or any Subsidiary to terminate their employment, nor shall Executive solicit or encourage any of the Company's or any Subsidiary's non-retail customers, or any corporation or other entity in a joint venture relationship (directly or indirectly) with the Company or any Subsidiary, to terminate or diminish their relationship with the Company or any Subsidiary or to violate any agreement with any of them. During such period, Executive shall not hire, either directly or through any employee, agent or representative, any employee of the Company or any Subsidiary or any person who was employed by the Company or any Subsidiary within 180 days of such hiring.

14. Remedies.

If Executive breaches any of the provisions contained in Sections 11, 12 or 13 above, the Company (a) subject to Section 15, shall have the right to immediately terminate all payments and benefits due under this Agreement and (b) shall have the right to seek injunctive relief. Executive acknowledges that such a breach of Sections 11, 12 or 13 would cause irreparable injury and that money damages would not provide an adequate remedy for the Company; provided, however, the foregoing shall not prevent Executive from contesting the issuance of any such injunction on the ground that no violation or threatened violation of Section 11, 12 or 13 has occurred.

15. Resolution of Disputes.

Any controversy or claim arising out of or relating to this Agreement or any breach or asserted breach hereof or questioning the validity and binding effect hereof arising under or in connection with this Agreement, other than seeking injunctive relief under Section 14, shall be resolved by binding arbitration, to be held at an office closest to the Company's principal offices in accordance with the rules and procedures of the American Arbitration Association. Judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Pending the resolution of any arbitration or court proceeding, the Company shall continue payment of all amounts and benefits due Executive under this Agreement. All costs and expenses of any arbitration or court proceeding (including fees and disbursements of counsel) shall be borne by the respective party incurring such costs and expenses, but the Company shall reimburse Executive for such reasonable costs and expenses in the event he substantially prevails in such arbitration or court proceeding. Notwithstanding the foregoing, following a Change in Control all reasonable costs and expenses (including fees and disbursements of counsel) incurred by Executive pursuant to this Section 15 shall be paid on behalf of or reimbursed to Executive promptly by the Company; provided, however, that no reimbursement shall be made of such expenses if and to the extent the arbitrator(s) determine(s) that any of Executive's litigation assertions or defenses were in bad faith or frivolous.

16. Indemnification.

(a) Company Indemnity. The Company agrees that if Executive is made a party, or is threatened to be made a party, to any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that he is or was a director, officer or employee of the Company or any Subsidiary or is or was serving at the request of the Company or any Subsidiary as a director, officer, member, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether or not the basis of such Proceeding is Executive's alleged action in an official capacity while serving as a director, officer, member, employee or agent, Executive shall be indemnified and held harmless by the Company to the fullest extent legally permitted or authorized by the Company's certificate of incorporation or bylaws or resolutions of the Company's Board or, if greater, by the laws of the State of Delaware against all cost, expense, liability and loss (including, without limitation, attorney's fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by Executive in connection therewith, and such indemnification shall continue as to Executive even if he has ceased to be a director, member, officer, employee or agent of the Company or other entity and shall inure to the benefit of Executive's heirs, executors and administrators. The Company shall advance to Executive all reasonable costs and expenses to be incurred by him in connection with a Proceeding within 20 days after receipt by the Company of a written request for such advance. Such request shall include an undertaking by Executive to repay the amount of such advance if it shall ultimately be determined that he is not entitled to be indemnified against such costs and expenses. The provisions of this Section 16(a) shall not be deemed exclusive of any other rights of indemnification to which Executive may be entitled or which may be granted to him, and it shall be in addition to any rights of indemnification to which he may be entitled under any policy of insurance.

(b) No Presumption Regarding Standard of Conduct. Neither the failure of the Company (including its Board, independent legal counsel or stockholders) to have made a determination prior to the commencement of any proceeding concerning payment of amounts claimed by Executive under Section 16(a) above that indemnification of Executive is proper because he has met the applicable standard of conduct, nor a determination by the Company (including its Board, independent legal counsel or stockholders) that Executive has not met such applicable standard of conduct, shall create a presumption that Executive has not met the applicable standard of conduct.

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

17. Excise Tax Gross-Up.

If while a member of the Business Planning Committee Executive becomes entitled to one or more payments (with a "payment" including, without limitation, the vesting of an option or other non-cash benefit or property), whether pursuant to the terms of this Agreement or any other plan, arrangement, or agreement with the Company or any affiliated company (the "Total Payments"), which are or become subject to the tax imposed by Section 4999 of the Code (or any similar tax that may hereafter be imposed) (the "Excise Tax"), the Company shall pay to Executive at the time specified below an additional amount (the "Gross-up Payment") (which shall include, without limitation, reimbursement for any penalties and interest that may accrue in respect of such Excise Tax) such that the net amount retained by the Executive, after reduction for any Excise Tax (including any penalties or interest thereon) on the Total Payments and any federal, state and local income or employment tax and Excise Tax on the Gross-up Payment provided for by this Section 17, but before reduction for any federal, state, or local income or employment tax on the Total Payments, shall be equal to the sum of (a) the Total Payments, and (b) an amount equal to the product of any deductions disallowed for federal, state, or local income tax purposes because of the inclusion of the Gross-up Payment in Executive's adjusted gross income multiplied by the highest applicable marginal rate of federal, state, or local income taxation, respectively, for the calendar year in which the Gross-up Payment is to be made. For purposes of determining whether any of the Total Payments will be subject to the Excise Tax and the amount of such Excise Tax:

(i) The Total Payments shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(b)(1) of the Code shall be treated as subject to the Excise Tax, unless, and except to the extent that, in the written opinion of independent compensation consultants, counsel or auditors of nationally recognized standing ("Independent Advisors") selected by the Company and reasonably acceptable to the Executive, the Total Payments (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code or are otherwise not subject to the Excise Tax;

(ii) The amount of the Total Payments which shall be treated as subject to the Excise Tax shall be equal to the lesser of (A) the total amount of the

Total Payments or (B) the total amount of excess parachute payments within the meaning of Section 280G(b)(1) of the Code (after applying clause (i) above); and

(iii) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the Independent Advisors in accordance with the principles of Sections 280G(d)(3) and (4) of the Code.

For purposes of determining the amount of the Gross-up Payment, Executive shall be deemed (A) to pay federal income taxes at the highest marginal rate of federal income taxation for the calendar year in which the Gross-up Payment is to be made; (B) to pay any applicable state and local income taxes at the highest marginal rate of taxation for the calendar year in which the Gross-up Payment is to be made, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes if paid in such year (determined without regard to limitations on deductions based upon the amount of Executive's adjusted gross income); and (C) to have otherwise allowable deductions for federal, state, and local income tax purposes at least equal to those disallowed because of the inclusion of the Gross-up Payment in Executive's adjusted gross income. In the event that the Excise Tax is subsequently determined to be less than the amount taken into account hereunder at the time the Gross-up Payment is made, Executive shall repay to the Company at the time that the amount of such reduction in Excise Tax is finally determined (but, if previously paid to the taxing authorities, not prior to the time the amount of such reduction is refunded to Executive or otherwise realized as a benefit by Executive) the portion of the Gross-up Payment that would not have been paid if such Excise Tax had been applied in initially calculating the Gross-up Payment, plus interest on the amount of such repayment at the rate provided in Section 1274(b)(2)(B) of the Code. In the event that the Excise Tax is determined to exceed the amount taken into account hereunder at the time the Gross-up Payment is made (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-up Payment), the Company shall make an additional Gross-up Payment in respect of such excess (plus any interest and penalties payable with respect to such excess) at the time that the amount of such excess is finally determined.

The Gross-up Payment provided for above shall be paid on the 30th day (or such earlier date as the Excise Tax becomes due and payable to the taxing authorities) after it has been determined that the Total Payments (or any portion thereof) are subject to the Excise Tax; provided, however, that if the amount of such Gross-up Payment or portion thereof cannot be finally determined on or before such day, the Company shall pay to Executive on such day an estimate, as determined by the Independent Advisors, of the minimum amount of such payments and shall pay the remainder of such payments (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code), as soon as the amount thereof can be determined. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to Executive, payable on the fifth day after demand by the Company (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code). If more than one Gross-up Payment is made, the amount of each Gross-up Payment shall be computed so as not to duplicate any prior Gross-up Payment. The Company shall have the right to control all proceedings with the Internal Revenue Service that may arise in connection with the determination and assessment of any Excise Tax and, at its sole option, the Company may pursue or forego any and all administrative appeals, proceedings, hearings, and conferences with any taxing authority in respect of such Excise Tax (including any interest or penalties thereon); provided, however, that the Company's control over any such proceedings shall be limited to issues with respect to which a Gross-up Payment would be payable hereunder, and Executive shall be entitled to settle or contest any other issue raised by the Internal Revenue Service or any other taxing authority. Executive shall cooperate with the Company in any proceedings relating to the determination and assessment of any Excise Tax and shall not take any position or action that would materially increase the amount of any Gross-Up Payment hereunder.

18. Effect of Agreement on Other Benefits.

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

19. Assignability; Binding Nature.

This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, heirs (in the case of Executive) and permitted assigns. No rights or obligations of the Company under this Agreement may be assigned or transferred by the Company except that such rights or obligations may be assigned or transferred in connection with the sale or transfer of all or substantially all of the assets of the Company, provided that the assignee or transferee is the successor to all or substantially all of the assets of the Company and such assignee or transferee assumes the liabilities, obligations and duties of the Company, as contained in this Agreement, either contractually or as a matter of law. The Company further agrees that, in the event of a sale or transfer of assets as described in the preceding sentence, it shall take whatever action it legally can in order to cause such assignee or transferee to expressly assume the liabilities, obligations and duties of the Company hereunder. No rights or obligations of Executive under this Agreement may be assigned or transferred by Executive other than his rights to compensation and benefits, which may be transferred only by will or operation of law, except as provided in Section 25 below.

20. Representation.

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

21. Entire Agreement.

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

22. Amendment or Waiver; Section 409A of the Code.

(a) No provision in this Agreement may be amended unless such amendment is agreed to in writing and signed by Executive and an authorized officer of the Company. Except as set forth herein, no delay or omission to exercise any right, power or remedy accruing to any Party shall impair any such right, power or remedy or shall be construed to be a waiver of or an acquiescence to any breach hereof. No waiver by either Party of any breach by the other Party of any condition or provision contained in this Agreement to be performed by such other Party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and signed by Executive or an authorized officer of the Company, as the case may be.

(b) Executive and Company agree that it is the intent of the parties that this Agreement not violate any applicable provision of, or result in any additional tax or penalty under, Section 409A of the Internal Revenue Code of 1986 (the "Code"), as amended, and that to the extent any provisions of this Agreement do not comply with such Code Section 409A the parties will make such changes as are mutually agreed upon in order to comply with Code Section 409A. In all events, to the extent required to avoid a violation of the applicable rules under all Section 409A by reason of Section 409A(a)(2)(B)(i) of the Code, payment of any amounts subject to Section 409A of the Code shall be delayed until the relevant date of payment that will result in compliance with the rules of Section 409A(a)(2)(B)(i) of the Code.

23. Severability.

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

24. Survivorship.

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

25. Beneficiaries/References.

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

26. Governing Law/Jurisdiction.

This Agreement shall be governed by and construed and interpreted in accordance with the laws of Rhode Island without reference to principles of conflict of laws. Subject to Section 15, the Company and Executive hereby consent to the jurisdiction of any or all of the following courts for purposes of resolving any dispute under this Agreement: (i) the United States District Court for Rhode Island or (ii) any of the courts of the State of Rhode Island. The Company and Executive further agree that any service of process or notice requirements in any such proceeding shall be satisfied if the rules of such court relating thereto have been substantially satisfied. The Company and Executive hereby waive, to the fullest extent permitted by applicable law, any objection which it or he may now or hereafter have to such jurisdiction and any defense of inconvenient forum.

27. Notices.

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

| | |
|---|---|
| If to the Company: | CVS Caremark Corporation<br>One CVS Drive<br>Woonsocket, Rhode Island 02895<br>Attention: Corporate Secretary |
| If to Executive: | Thomas M. Ryan<br>135 Cliff Drive<br>Narragansett, Rhode Island 02882 |

28. Headings.

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

29. Counterparts.

This Agreement may be executed in two or more counterparts.

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

| | |
|---|---|
| **CVS CAREMARK CORPORATION** | **THOMAS M. RYAN** |
| By: ______________________ | ______________________ |
| Sheli Z. Rosenberg<br>Chair, Management Planning and Development Committee of the Board of Directors of CVS Caremark Corporation | |

**Exhibit 10.37**

**CVS CAREMARK CORPORATION**

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**Amended and Restated Employment Agreement for David B. Rickard**

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**CVS CAREMARK CORPORATION**

**Amended and Restated Employment Agreement for David B. Rickard**

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

AMENDED AND RESTATED EMPLOYMENT AGREEMENT, made and entered into as of the 22nd day of December, 2008 by and between CVS Caremark Corporation, a Delaware corporation (together with its successors and assigns, the "Company"), and David B. Rickard (the "Executive").

WITNESSETH:

WHEREAS, CVS Corporation and Executive entered into an agreement in or about August 1999 embodying the terms of Executive's employment by the Company (the "Original Agreement"), which Original Agreement was amended as of December 19, 2006;

WHEREAS, Executive and the Company desire to further amend the Original Agreement in certain respects and to restate the Original Agreement in its entirety to reflect all applicable amendments by entering into this Amended and Restated Employment Agreement for David B. Rickard (the "Agreement");

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

1 . Definitions.

(a) "Approved Early Retirement" shall have the meaning set forth in Section 10(f) below.

(b) "Base Salary" shall have the meaning set forth in Section 4 below.

(c) "Board" shall mean the Board of Directors of the Company.

(d) "Cause" shall have the meaning set forth in Section 10(b) below.

(e) "Change in Control" shall have the meaning set forth in Section 10(c) below.

(f) "Committee" shall mean the Management Planning and Development Committee of the Board.

(g) "Confidential Information" shall have the meaning set forth in Section 11(c) below.

(h) "Constructive Termination Without Cause" shall have the meaning set forth in Section 10(c) below.

(i) "Effective Date" shall have the meaning set forth in Section 2 below.

(j) "Normal Retirement" shall have the meaning set forth in Section 10(f) below.

(k) "Original Term of Employment" shall have the meaning set forth in Section 2 below.

(l) "Renewal Term" shall have the meaning set forth in Section 2 below.

(m) "Restriction Period" shall have the meaning set forth in Section 12(b) below.

(n) "Severance Period" shall have the meaning set forth in Section 10(c)(ii) below, except as provided otherwise in Section 10(e) below.

(o) "Subsidiary" shall have the meaning set forth in Section 11(d) below.

(p) "Term of Employment" shall have the meaning set forth in Section 2 below.

(q) "termination of employment", "employment is terminated" and other similar words shall mean

(i) for any plan or arrangement that is subject to the rules of Section 409A of the Internal Revenue Code (the "Code") a "Separation from Service" as such term is defined in the Income Tax Regulations under Section 409A (the "409A Regulations") of the Code as modified by the rules described below:

(A) except in the case where Executive is on a bona fide leave of absence pursuant to the Company's policies as provided below, Executive is deemed to have incurred a Separation from Service on a date if the Company and Executive reasonably anticipate that the level of services to be performed by Executive after such date would be permanently reduced to 20% or less of the average services rendered by Executive during the immediately preceding 36-month period (or the total period of employment, if less than 36 months), disregarding periods during which Executive was on a bona fide leave of absence;

(B) if Executive is absent from work due to military leave, sick leave, or other bona fide leave of absence pursuant to the Company's policies Executive shall incur a Separation from Service on the first date that the rules of (A), above, are satisfied following the later of (i) the six-month anniversary of the commencement of the leave or (ii) the expiration of Executive's right, if any, to reemployment under statute, contract or Company policy;

(C) Executive shall be considered to continue employment and to not have a Separation from Service while on a bona fide leave of absence if the leave does not exceed 6 consecutive months (twelve months for a leave of absence due to Executive's disability) or, if longer, so long as Executive retains a right to reemployment with the Corporation or an Affiliate under an applicable statute, contract or Company policy. For this purpose, a "disability leave of absence" is an absence due to any medically determinable physical or mental impairment or Executive that can be expected to result in death or can be expected to last for a continuous period of not less than 6 months, where such impairment causes the Participant to be unable to perform the

duties of his job or a substantially similar job;

(D) for purposes of determining whether another organization is an Affiliate of the Company, common ownership of at least 50% shall be determinative;

(E) the Company specifically reserves the right to determine whether a sale or other disposition of substantial assets to an unrelated party constitutes a Separation from Service with respect to Executive providing services to the seller immediately prior to the transaction and providing services to the buyer after the transaction. Such determination shall be made in accordance with the requirements of Code Section 409A; or

(ii) for any plan or arrangement that is not subject to the rules of Section 409A of the Code, the complete cessation of providing service to the Company or any Affiliate as an employee

(r) "Termination Without Cause" shall have the meaning set forth in Section 10(c) below.

2. Term of Employment.

The term of Executive's employment under this Agreement shall commence on the date of the Original Agreement (the "Effective Date") and end on the third anniversary of such date (the "Original Term of Employment"), unless terminated earlier in accordance herewith. The Original Term of Employment shall be automatically renewed for successive one-year terms (the "Renewal Terms") unless at least 180 days prior to the expiration of the Original Term of Employment or any Renewal Term, either Party notifies the other Party in writing that he or it is electing to terminate this Agreement at the expiration of the then current Term of Employment. "Term of Employment" shall mean the Original Term of Employment and all Renewal Terms. If a Change in Control shall have occurred during the Term of Employment, notwithstanding any other provision of this Section 2, the Term of Employment shall not expire earlier than two years after such Change in Control.

3. Position, Duties and Responsibilities.

(a) Generally. Executive shall serve as a senior officer of the Company. Executive shall have and perform such duties, responsibilities, and authorities as shall be specified by the Company from time to time and as are customary for a senior officer of a publicly held corporation of the size, type, and nature of the Company as they may exist from time to time and as are consistent with such position and status. Executive shall devote substantially all of his business time and attention (except for periods of vacation or absence due to illness), and his best efforts, abilities, experience, and talent to his position and the businesses of the Company.

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

(c) Place of Employment. Executive's principal place of employment shall be the corporate offices of the Company.

4. Base Salary.

Executive shall be paid an annualized salary ("Base Salary"), payable in accordance with the regular payroll practices of the Company, of not less than $575,000 subject to review for increase at the discretion of the Committee.

5. Annual Incentive Awards.

Executive shall participate in the Company's annual cash incentive compensation plan with a target annual incentive award opportunity of no less than 90% of Base Salary. Payment of annual incentive awards shall be made at the same time that other senior-level executives receive their incentive awards.

6. Long-Term Incentive Programs.

Executive shall be eligible to participate in the Company's long-term incentive compensation programs (including stock options and stock grants).

7. Employee Benefit Programs.

(a) General Benefits. During the Term of Employment, Executive shall be entitled to participate in such employee pension and welfare benefit plans and programs of the Company as are made available to the Company's senior-level executives or to its employees generally, as such plans or programs may be in effect from time to time, including, without limitation, health, medical, dental, long-term disability, travel accident, life insurance and deferred compensation plans.

(b) Additional Payment Upon Attainment of Normal Retirement Age. If Executive continues to be employed by the Company until the date on which he attains age 64, or in the event Executive's employment terminates either due to an Approved Early Retirement, death, Termination Without Cause, or Constructive Termination Without Cause, the amount of $350,000 shall be credited, without any election or additional action by the Executive, to an unfunded bookkeeping account subject to rules (including notional investment and related account adjustment provisions) similar to those applicable to the CVS Caremark Corporation Deferred Compensation Plan or any successor or replacement plan but payable (unless further deferred in accordance with the terms of such Plan) in accordance with this Section 7(b). The adjusted balance of such account, determined under the terms thereof and reduced by applicable withholdings, shall be paid to Executive within 15 days (or by such later date as is required to comply with Section 22(b)) following Executive's Normal Retirement, Approved Early Retirement, death, Termination Without Cause or Constructive Termination Without Cause.

8. Disability.

(a) During the Term of Employment, as well as during the Severance Period, Executive shall be entitled to disability coverage as described in this Section 8(a). In the event Executive becomes disabled, as that term is defined under the Company's Long-Term Disability Plan, Executive shall be entitled to receive pursuant to the Company's Long-Term Disability Plan or otherwise, and in place of his Base Salary, an amount equal to 60% of his Base Salary, at the annual rate in effect on the commencement date of his eligibility for the Company's long-term disability benefits ("Commencement Date") for a period beginning on the Commencement Date and ending with the earlier to occur of (A) Executive's attainment of age 65 or (B) Executive's commencement of retirement benefits from the Company in accordance with Section 10(f) below. If (i) Executive ceases to be disabled during the Term of Employment (as determined in accordance with the terms of the Long-Term Disability Plan), (ii) his position or another senior executive position is then vacant and (iii) the Company requests in writing that he resume such position, he may elect to resume such position by written notice to the Company within 15 days after the Company delivers its request. If he resumes such position, he shall thereafter be entitled to his Base Salary at the annual rate in effect on the Commencement Date and, for the year he resumes his position, a pro rata annual incentive award. If he ceases to be disabled during the Term of Employment and does not resume his position in accordance with the preceding sentence, he shall be treated as if he voluntarily terminated his employment pursuant to Section 10(d) as of the date Executive ceases to be disabled. If Executive is not offered his position or another senior executive position after he ceases to be disabled during the Term of Employment, he shall be treated as if his employment was terminated Without Cause pursuant to Section 10(c) as of the date Executive ceases to be disabled; provided, however, that if a Change in Control shall have occurred during the period of Executive's disability, he shall be treated as if his employment was terminated Without Cause following a Change in Control pursuant to Section 10(e) as of the date Executive ceases to be disabled.

(b) Executive shall be entitled to a pro rata annual cash incentive award for the year in which the Commencement Date occurs based on the most recently established market target annual cash incentive amount, payable in a cash lump sum not later than 15 days after the Commencement Date. Executive shall not be entitled to any annual incentive award with respect to the period following the Commencement Date. If Executive recommences his position in accordance with Section 8(a), he shall be entitled to a pro rata annual incentive award for the year he resumes such position and shall thereafter be entitled to annual incentive awards in accordance with Section 5 hereof.

(c) During the period the Executive is receiving disability benefits pursuant to Section 8(a) above, he shall continue to be treated as an employee for purposes of all employee benefits and entitlements in which he was participating on the Commencement Date, including without limitation, the benefits and entitlements referred to in Sections 6 and 7 above, except that the Executive shall not be entitled to receive any annual salary increases or any new long-term incentive plan grants following the Commencement Date. Notwithstanding the foregoing, with respect to any benefit plan or program providing benefits covered by Section 409A of the Code, the definition of "termination of employment" set forth in Section 1(g) above shall apply.

(d) In the event that Executive ceases before his 64th birthday to be employed by the Company by reason of disability, as that term is defined under the Company's Long-Term Disability Plan, Executive shall be entitled to full acceleration and immediate vesting of any unvested equity awards, including stock options outstanding at the time of his termination of employment.

(e) The provisions of this Agreement in Section 8(a)-(d), above, shall apply in the event Executive shall become disabled, as that term is defined in the Company's Long-Term Disability Plan and, except as provided in Section 8(a), the provisions of Section 10 shall not apply if the Executive has a termination of employment due to such disability.

9. Reimbursement of Business and Other Expenses.

Executive is authorized to incur reasonable expenses in carrying out his duties and responsibilities under this Agreement, and the Company shall promptly reimburse him for all business expenses incurred in connection therewith, subject to documentation in accordance with the Company's policy. During the Term of Employment, the Company shall pay or reimburse Executive, upon demand, for out-of-pocket expenses incurred in connection with personal financial and tax planning up to a maximum of $15,000 per annum. The Company shall pay or reimburse the Executive for the expenses (including, without limitation, reasonable attorneys' fees and expenses) incurred by him in conjunction with preparation and negotiation of this Agreement and any related documents up to a maximum of $10,000.

10. Termination of Employment.

(a) Termination Due to Death. In the event Executive's employment with the Company is terminated due to his death, his estate or his beneficiaries, as the case may be, shall be entitled to and their sole remedies under this Agreement shall be:

(i) Base Salary through the date of death, which shall be paid in a cash lump sum not later than 15 days following Executive's death;

(ii) pro rata annual incentive award for the year in which Executive's death occurs based on the most recently established market target annual cash incentive amount for Executive, which shall be payable in a cash lump sum promptly (but in no event later than 15 days);

(iii) elimination of all restrictions on any restricted or deferred stock awards outstanding at the time of his death (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);

(iv) immediate vesting of all outstanding stock options and the right to exercise such stock options for a period of one year following death or for the remainder of the exercise period, if less (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);

(v) the balance of any incentive awards earned as of December 31 of the prior year (but not yet paid), which shall be paid in a cash lump sum not later than 15 days following the Executive's death;

(vi) settlement of all deferred compensation arrangements in accordance with any then applicable deferred compensation plan or election form; and

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

(b) Termination by the Company for Cause.

(i) "Cause" shall mean:

(A) Executive's willful and material breach of Sections 11, 12 or 13 of this Agreement;

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

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

For purposes of this Agreement, an act or failure to act on Executive's part shall be considered "willful" if it was done or omitted to be done by him not in good faith, and shall not include any act or failure to act resulting from any incapacity of Executive.

(ii) A termination for Cause shall not take effect unless the provisions of this paragraph (ii) are complied with. Executive shall be given written notice by the Company of its intention to terminate him for Cause, such notice (A) to state in detail the particular act or acts or failure or failures to act that constitute the grounds on which the proposed termination for Cause is based and (B) to be given within 90 days of the Company's learning of such act or acts or failure or failures to act. Executive shall have 20 days after the date that such written notice has been given to him in which to cure such conduct, to the extent such cure is possible. If he fails to cure such conduct, Executive shall then be entitled to a hearing before the Committee of the Board at which Executive is entitled to appear. Such hearing shall be held within 25 days of such notice to Executive, provided he requests such hearing within 10 days of the written notice from the Company of the intention to terminate him for Cause. If, within five days following such hearing, Executive is furnished written notice by the Board confirming that, in its judgment, grounds for Cause on the basis of the original notice exist, he shall thereupon be terminated for Cause.

(iii) In the event the Company terminates Executive's employment for Cause, he shall be entitled to and his sole remedies under this Agreement shall be:

(A) Base Salary through the date of the termination of his employment for Cause, which shall be paid in a cash lump sum not later than 15 days following Executive's termination of employment;

(B) any incentive awards earned as of December 31 of the prior year (but not yet paid), which shall be paid in a cash lump sum not later than 15 days following Executive's termination of employment;

(C) settlement of all deferred compensation arrangements in accordance with any then applicable deferred compensation plan or election form; and

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

(c) Termination Without Cause or Constructive Termination Without Cause Prior to Change in Control. In the event Executive's employment with the Company is terminated without Cause (which termination shall be effective as of the date specified by the Company in a written notice to Executive), other than due to death, or in the event there is a

Constructive Termination Without Cause (as defined below), in either case prior to a Change in Control (as defined below) the Executive shall be entitled to and his sole remedies under this Agreement shall be:

(i) Base Salary through the date of termination of Executive's employment, which shall be paid in a cash lump sum not later than 15 days following the Executive's termination of employment;

(ii) Base Salary, at the annualized rate in effect on the date of termination of Executive's employment (or in the event a reduction in Base Salary is a basis for a Constructive Termination Without Cause, then the Base Salary in effect immediately prior to such reduction), for a period of 24 months (the "Severance Period");

(iii) a pro rata annual incentive award for the year in which Executive's termination occurs based on the most recently established Management Incentive Plan market target amount, as adjusted in (A) below, for Executive ("MIP Award"). The MIP Award will be payable at the conclusion of the annual performance cycle, based on actual performance of the Company as determined in accordance with the Company's 2007 Incentive Plan (the "Plan") or other plan for an executive of the Company as may be in effect from time to time, as certified by the applicable Committee of the Board of Directors of the Company, and paid at the same time the annual incentive award is paid to other similarly-situated executives of the Company, unless otherwise previously elected to be deferred by Executive.

(A) The MIP Award is determined by multiplying the Market Payout Percentage as approved by the Committee for Executive's position, by Executive's base salary in effect on the date of termination, based on the Company's performance for the applicable annual performance cycle.

(B) The amount of the pro rata award will be determined by multiplying the full amount of the MIP Award, as determined above, by a fraction, the numerator of which is the number of months that have elapsed since January 1 through the date of termination of Executive's Employment and the denominator of which is twelve (12);

(iv) an amount equal to the most recently established market target MIP Award (without taking into account the Company's performance) for Executive multiplied by two, payable in equal monthly payments over the Severance Period;

(v) elimination of all restrictions on any restricted or deferred stock awards outstanding at the time of termination of employment (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);

(vi) any outstanding stock options which are unvested shall vest and Executive shall have the right to exercise any vested stock options during the Severance Period or for the remainder of the exercise period, if less (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);

(vii) the balance of any incentive awards, except for awards under the Company's Long-Term Incentive Plan or other such plans which are intended to qualify for deductibility under Section 162(m) of the Code, earned as of December 31 of the prior year (but not yet paid), which shall be paid in a cash lump sum not later than 15 days following Executive's termination of employment;

(viii) a pro rata long-term incentive award, as determined below, for the year in which Executive's termination occurs based on the targets for Executive for performance periods not yet closed under the Company's Long-Term Incentive Plan (the "LTIP") with the target for each such performance period being adjusted based on actual performance of the Company as determined in accordance with the LTIP or other plan for an executive of the Company as may be in effect from time to time, as certified by the applicable Committee of the Board of Directors of the Company, and as further adjusted under (A), below, and being payable at the same time such Awards are paid to other similarly-situated executives of the Company, unless otherwise previously elected to be deferred by Executive;

(A) The amount of the pro rata award will be determined by multiplying the full amount of each award, as determined above, by a fraction, the numerator of which is the number of months (treating a part of a month as a full month) that have elapsed since the first day of the applicable performance cycle through the date of termination of Executive's Employment and the denominator of which is the number of months in such performance cycle;

(ix) settlement of all deferred compensation arrangements in accordance with any then applicable deferred compensation plan or election form;

(x) continued participation in all medical, health and life insurance plans at the same benefit level at which he was participating on the date of the termination of his employment until the earlier of:

(A) the end of the Severance Period; or

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

provided that (1) if Executive is precluded from continuing his participation in any employee benefit plan or program as provided in this clause (ix) of this Section 10(c), he shall receive cash payments equal on an after-tax basis to the cost to him of obtaining the benefits provided under the plan or program in which he is unable to participate for the period specified in this clause (ix) of this Section 10(c), (2) such cost shall be deemed to be the lowest reasonable cost that would be incurred by Executive in obtaining such benefit himself on an individual basis, and (3) payment of such amounts shall be made quarterly in arrears; and

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

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

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

(A) an assignment of any duties to Executive which are materially inconsistent with his status as a senior officer of the Company;

(B) a material decrease in Executive's annual Base Salary or target annual cash incentive award opportunity below 90% of Base Salary;

(C) any other failure by the Company to perform any material obligation under, or breach by the Company of any material provision of, this Agreement that is not cured within 30 days; or

(D) any failure to secure the agreement of any successor corporation or other entity to the Company to fully assume the Company's obligations under this Agreement.

In addition, following a Change in Control, "Constructive Termination Without Cause" shall also mean a termination of Executive's employment at his initiative as provided in this Section 10(c) following the occurrence, without Executive's written consent, of (i) a relocation of his principal place of employment outside a 35-mile radius of his principal place of employment as in effect immediately prior to such Change in Control or (ii) a material diminution or change, adverse to Executive, in Executive's positions, titles, offices, status, rank, nature of responsibility, or authority within the Company, as in effect immediately prior to such Change in Control, or a removal of Executive from or any failure to elect or re-elect, or as the case may be, nominate Executive to any such positions or offices. Notwithstanding the foregoing no termination of Executive's employment shall constitute a "Constructive Termination Without Cause" unless Executive notifies the Company in writing no later than 90 days after the initial existence of the applicable event described above and such event is not remedied by the Company within 30 days of the Company's receipt of such notice from the Executive.

A "Change in Control" shall be deemed to have occurred if:

(i) any Person (other than the Company, any trustee or other fiduciary holding securities under any employee benefit plan of the Company, or any company owned, directly or indirectly, by the stockholders of the Company immediately prior to the occurrence with respect to which the evaluation is being made in substantially the same proportions as their ownership of the common stock of the Company) becomes the Beneficial Owner (except that a Person shall be deemed to be the Beneficial Owner of all shares that any such Person has the right to acquire pursuant to any agreement or arrangement or upon exercise of conversion rights, warrants or options or otherwise, without regard to the sixty day period referred to in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company or any Significant Subsidiary (as defined below), representing 30% or more of the combined voting power of the Company's or such subsidiary's then outstanding securities;

(ii) during any period of twelve (12) consecutive months, individuals who at the beginning of such period constitute the Board, and any new director whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least a majority of the directors then still in office who either were directors at the beginning of the twelve (12) month period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority of the Board;

(iii) the consummation of a merger or consolidation of the Company (or any subsidiary owning directly or indirectly all or substantially all of the consolidated assets of the Company but in no event assets having a gross fair market value of less than 40% of the total gross fair market value of all of the consolidated assets of the Company (a "Significant Subsidiary")) with any other entity, other than a merger or consolidation which would result in the voting securities of the Company or a Significant Subsidiary outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving or resulting entity) more than 50% of the combined voting power of the surviving or resulting entity outstanding immediately after such merger or consolidation; or

(iv) the consummation of a transaction (or series of transactions within a 12 month period) which constitutes the sale or disposition of all or substantially all of the consolidated assets of the Company but in no event assets having a gross fair market value of less than 40% of the total gross fair market value of all of the consolidated assets of the Company (other than such a sale or disposition immediately after which such assets will be owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the common stock of the Company immediately prior to such sale or disposition)

For purposes of this definition:

(A) The term "Beneficial Owner" shall have the meaning ascribed to such term in Rule 13d-3 under the Exchange Act (including any successor to such Rule).

(B) The term "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.

(C) The term "Person" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including "group" as defined in Section 13(d) thereof.

(d) Voluntary Termination. In the event of a termination of employment by Executive on his own initiative after delivery of 10 business days advance written notice, other than a termination due to death, a Constructive Termination Without Cause, or Approved Early Retirement or Normal Retirement pursuant to Section 10(f) below, Executive shall have the same entitlements as provided in Section 10(b)(iii) above for a termination for Cause, provided that at the Company's election, furnished in writing to Executive within 15 days following such notice of termination, the Company shall in addition pay the Executive 50% of his Base Salary for a period of 18 months following such termination in exchange for Executive not engaging in competition with the Company or any Subsidiary as set forth in Section 12(a) below, and further provided that if the Company makes such an election, the Company's obligation to pay Executive his monthly Base Salary and Executive's obligation not to engage in competition with the Company or any Subsidiary shall terminate upon the occurrence of a Change in Control. Notwithstanding any implication to the contrary, Executive shall not have the right to terminate his employment with the Company during the Term of Employment except in the event of a Constructive Termination Without Cause, Approved Early Retirement, or Normal Retirement, and any voluntary termination of employment during the Term of Employment in violation of this Agreement shall be considered a material breach.

(e) Termination Without Cause; Constructive Termination Without Cause or Voluntary Termination Following a Change in Control. In the event Executive's employment with the Company is terminated by the Company without Cause (which termination shall be effective as of the date specified by the Company in a written notice to Executive), other than due to death, or in the event there is a Constructive Termination Without Cause (as defined above), in either case within two years following a Change in Control (as defined above), Executive shall be entitled to and his sole remedies under this Agreement shall be:

(i) Base Salary through the date of termination of Executive's employment, which shall be paid in a cash lump sum not later than 15 days following Executive's termination of employment;

(ii) an amount equal to three times Executive's Base Salary, at the annualized rate in effect on the date of termination of Executive's employment (or in the event a reduction in Base Salary is a basis for a Constructive Termination Without Cause, then the Base Salary in effect immediately prior to such reduction), payable in a cash lump sum promptly (but in no event later than 15 days) following Executive's termination of employment;

(iii) pro rata annual incentive award for the year in which Executive's termination occurs based on the most recently established market target amount for Executive, payable in a cash lump sum promptly (but in no event later than 15 days or by such later date as is required to comply with Section 22) following Executive's termination of employment;

(A) The amount of the pro rata award will be determined by multiplying the market target amount by a fraction, the numerator of which is the number of months that have elapsed since January 1 through the date of termination of Executive's Employment and the denominator of which is twelve (12);

(iv) an amount equal to the MIP Award based on the most recently established market target amount for Executive multiplied by three, payable in a cash lump sum promptly (but in no event later than 15 days) following Executive's termination of employment;

(v) elimination of all restrictions on any restricted or deferred stock awards outstanding at the time of termination of employment (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);

(vi) immediate vesting of all outstanding stock options and the right to exercise such stock options during the Severance Period or in accordance with their terms, if longer (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);

(vii) the balance of any incentive awards earned as of December 31 of the prior year (but not yet paid), which shall be paid in a single lump sum not later than 15 days following the Executive's termination of employment;

(viii) immediate vesting of Executive's accrued benefits under any supplemental retirement benefit plan ("SERP") maintained by the Company, with payment of such benefits to be made in accordance with the terms and conditions of the SERP;

(ix) settlement of all deferred compensation arrangements in accordance with any then applicable deferred compensation plan or election form;

(x) continued participation in all medical, health and life insurance plans at the same benefit level at which he was participating on the date of termination of his employment until the earlier of:

(A) the end of the Severance Period; or

(B) [illegible]

in this clause (x) of this Section 10(e), he shall receive cash payments equal on an after-tax basis to the cost to him of obtaining the benefits provided under the plan or program in which he is unable to participate for the period specified in this clause (x) of this Section 10(e), (2) such cost shall be deemed to be the lowest reasonable cost that would be incurred by Executive in obtaining such benefit himself on an individual basis, and (3) payment of such amounts shall be made quarterly in arrears; and

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

For purposes of any termination pursuant to this Section 10(e), the term "Severance Period" shall mean the period of 36 months following the termination of the Executive's employment.

(f) Approved Early Retirement or Normal Retirement. Upon Executive's Approved Early Retirement or Normal Retirement (each as defined below), Executive shall be entitled to and his sole remedies under this Agreement shall be:

(i) Base Salary through the date of termination of Executive's employment, which shall be paid in a cash lump sum not later than 15 days following Executive's termination of employment;

(ii) pro rata portion of MIP Award for the year in which termination occurs, determined in accordance with Section 10(c)(iii) above;

(iii) elimination of all restrictions on any restricted stock awards outstanding at the time of Executive's termination of employment;

(iv) continued vesting (as if Executive remained employed by the Company) of any deferred stock awards outstanding at the time of his termination of employment (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);

(v) continued vesting of all outstanding stock options and the right to exercise such stock options (including, for the avoidance of doubt, after Executive's death by any person to whom the award passes by will or the laws of descent and distribution following Executive's death) for a period of one year following the later of the date the options are fully vested or Executive's termination of employment or for the remainder of the exercise period, if less (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards); provided, however, that options granted pursuant to the Company's 1987 Stock Option Plan shall in no event be exercisable after three years following termination of employment;

(vi) the balance of any incentive awards earned as of December 31 of the prior year (but not yet paid), which shall be paid in a single lump sum not later than 15 days following Executive's termination of employment;

(vii) settlement of all deferred compensation arrangements in accordance with any then applicable deferred compensation plan or election form; and

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

"Approved Early Retirement" shall mean Executive's voluntary termination of employment with the Company at or after attaining age 55 but prior to attaining age 64, if such termination is approved in advance by the Committee.

"Normal Retirement" shall mean Executive's voluntary termination of employment with the Company at or after attaining age 64.

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

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

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

(j) Release of Employment Claims. Executive agrees, as a condition to his entitlement to receipt of the termination payments and benefits provided for in this Section 10, that he will execute within sixty (60) days of Executive's termination of employment a release agreement, in a form reasonably satisfactory to the Company, releasing any and all claims arising out of Executive's employment (other than enforcement of this Agreement, Executive's rights under any of the Company's incentive compensation and employee benefit plans and programs to which he is entitled under this Agreement, any rights to indemnification to which Executive may be entitled or which may have been granted to him, any rights of indemnification to which Executive may be entitled under any policy of insurance, and any claim for any tort for personal injury not arising out of or related to his termination of employment).

(k) Subject to the provisions of Section 22(b), all payments to be made pursuant to this Section 10 upon the termination of employment of Executive shall be made or commence, as the case may be, within 75 days after Executive's termination of employment provided, however, that if such termination of employment is after October 17 of a year, the payout or first payment, as the case may be, shall be made at the end of such 75 day period.

(l) For the avoidance of doubt, the provisions of this Agreement, insofar as they pertain to any stock option awarded to Executive, apply and shall be deemed to govern notwithstanding any contrary term in any agreement awarding such stock option to Executive.

(m) For the avoidance of doubt, the provisions of the CVS/pharmacy Long-Term Incentive Plan, insofar as they pertain to any LTIP award to Executive, apply; provided, however, that the terms of the LTIP plan should be read together with this Agreement and the terms and provisions of this Agreement shall be deemed to govern notwithstanding any contrary term or provision in the LTIP plan.

11. Confidentiality; Cooperation with Regard to Litigation; Non-disparagement.

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

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

(c) "Confidential Information" shall mean all information concerning the business of the Company or any Subsidiary relating to any of their products, product development, trade secrets, customers, suppliers, finances, and business plans and strategies. Excluded from the definition of Confidential Information is information (i) that is or becomes part of the public domain, other than through the breach of this Agreement by Executive or (ii) regarding the Company's business or industry properly acquired by Executive in the course of his career as an executive in the Company's industry and independent of Executive's employment by the Company. For this purpose, information known or available generally within the trade or industry of the Company or any Subsidiary shall be deemed to be known or available to the public.

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

(e) Executive agrees to cooperate with the Company, during the Term of Employment and thereafter (including following Executive's termination of employment for any reason), by making himself reasonably available to testify on behalf of the Company or any Subsidiary in any action, suit, or proceeding, whether civil, criminal, administrative, or investigative, and to assist the Company, or any Subsidiary, in any such action, suit, or proceeding, by providing information and meeting and consulting with the Board or its representatives or counsel, or representatives or counsel to the Company, or any Subsidiary as reasonably requested; provided, however, that the same does not materially interfere with his then current professional activities. The Company agrees to reimburse Executive, on an after-tax basis, for all expenses actually incurred in connection with his provision of testimony or assistance.

(f) Executive agrees that, during the Term of Employment and thereafter (including following Executive's termination of employment for any reason) he will not make statements or representations, or otherwise communicate, directly or indirectly, in writing, orally, or otherwise, or take any action which may, directly or indirectly, disparage the Company or any Subsidiary or their respective officers, directors, employees, advisors, businesses or reputations. The Company agrees that, during the Term of Employment and thereafter (including following Executive's termination of employment for any reason), the Company will not make statements or representations, or otherwise communicate, directly or indirectly, in writing, orally, or otherwise, or take any action which may, directly or indirectly, disparage Executive or his business or reputation. Notwithstanding the foregoing, nothing in this Agreement shall preclude either Executive or the Company from making truthful statements or disclosures that are required by applicable law, regulation or legal process.

12. Non-competition.

(a) During the Restriction Period (as defined in Section 12(b) below), Executive shall not engage in Competition with the Company or any Subsidiary. "Competition" shall mean engaging in any activity, except as provided below, for a Competitor of the Company or any Subsidiary, whether as an employee, consultant, principal, agent, officer, director, partner, shareholder (except as a less than one percent shareholder of a publicly traded company) or otherwise. A "Competitor" shall mean any corporation or other entity (and its parents, subsidiaries and affiliates) doing business in a geographical area in which the Company is doing or has imminent plans to do business, and which is engaged in the operation of (a) a retail business which includes or has imminent plans to include a pharmacy (*i.e.*, the sale of prescription drugs) as an offering or component of its business, including, without limitation, chain drug store companies such as Walgreen Co. or Rite Aid Corporation, mass merchants such as Wal-Mart Stores, Inc. or Target Corp., and food/drug combinations such as The Kroger Co. or Supervalu Inc.; and/or (b) a business which includes or has imminent plans to include mail order prescription, specialty pharmacy and/or pharmacy benefits management as an offering or component of its business, such as Medco Health Solutions, Inc., or Express Scripts, Inc.; and/or (c) a business which includes or has imminent plans to include offering, marketing or the sale of basic acute health care services at retail or other business locations, similar to the services provided by MinuteClinic, Inc. (and excluding hospitals, private physicians' offices, or other businesses dedicated to the direct provision of health care services); and/or (d) any other business in which the Company is or has imminent plans to be engaged (whether directly or indirectly, including through any joint venture) at the time of Executive's termination. If Executive commences employment or becomes a consultant, principal, agent, officer, director, partner, or shareholder of any entity that is not a Competitor at the time Executive initially becomes employed or becomes a consultant, principal, agent, officer, director, partner, or shareholder of the entity, future activities of such entity shall not result in a violation of this provision unless (x) such activities were contemplated by Executive at the time Executive initially became employed or becomes a consultant, principal, agent, officer, director, partner, or shareholder of the entity or (y) Executive commences directly or indirectly overseeing or managing the activities of an entity which becomes a Competitor during the Restriction Period, which activities are competitive with the activities of the Company or Subsidiary. Executive shall not be deemed indirectly overseeing or managing the activities of such Competitor which are competitive with the activities of the Company or Subsidiary so long as he does not regularly participate in discussions with regard to the conduct of the competing business. The parties agree that the purpose of this provision is to protect the Company's confidential information, trade secrets and/or business relationships, and that it shall only be enforceable for such purpose.

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

(i) in the case of a termination of Executive's employment without Cause or a Constructive Termination Without Cause, in either case prior to a Change in Control, the earlier of (1) 24 months after such termination and (2) the occurrence of a Change in Control;

(ii) in the case of a termination of Executive's employment for Cause, the earlier of (1) 24 months after such termination and (2) the occurrence of a Change in Control;

(iii) in the case of a voluntary termination of Executive's employment pursuant to Section 10(d) above followed by the Company's election to pay Executive (and subject to the payment of) 50% of his Base Salary, as provided in Section 10(d) above, the earlier of (1) 18 months after such termination and (2) the occurrence of a Change in Control;

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

(v) in the case of Approved Early Retirement or Normal Retirement pursuant to Section 10(f) above, the remainder of the Term of Employment; or

(vi) in the case of a termination of Executive's employment without Cause or a Constructive Termination Without Cause, in either case following a Change in Control, immediately upon such termination of employment.

13. Non-solicitation.

During the period beginning with Effective Date and ending at the end of the Restriction Period, as defined in Section 12(b), Executive shall not induce employees of the Company or any Subsidiary to terminate their employment, nor shall Executive solicit or encourage any of the Company's or any Subsidiary's non-retail customers, or any corporation or other entity in a joint venture relationship (directly or indirectly) with the Company or any Subsidiary, to terminate or diminish their relationship with the Company or any Subsidiary or to violate any agreement with any of them. During such period, Executive shall not hire, either directly or through any employee, agent or representative, any employee of the Company or any Subsidiary or any person who was employed by the Company or any Subsidiary within 180 days of such hiring.

14. Remedies.

If Executive breaches any of the provisions contained in Sections 11, 12 or 13 above, the Company (a) subject to Section 15, shall have the right to immediately terminate all payments and benefits due under this Agreement and (b) shall have the right to seek injunctive relief. Executive acknowledges that such a breach of Sections 11,12 or 13 would cause irreparable injury and that money damages would not provide an adequate remedy for the

Company; provided, however, the foregoing shall not prevent Executive from contesting the issuance of any such injunction on the ground that no violation or threatened violation of Section 11, 12 or 13 has occurred.

15. Resolution of Disputes.

Any controversy or claim arising out of or relating to this Agreement or any breach or asserted breach hereof or questioning the validity and binding effect hereof arising under or in connection with this Agreement, other than seeking injunctive relief under Section 14, shall be resolved by binding arbitration, to be held at an office closest to the Company's principal offices in accordance with the rules and procedures of the American Arbitration Association. Judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Pending the resolution of any arbitration or court proceeding, the Company shall continue payment of all amounts and benefits due Executive under this Agreement. All costs and expenses of any arbitration or court proceeding (including fees and disbursements of counsel) shall be borne by the respective party incurring such costs and expenses, but the Company shall reimburse Executive for such reasonable costs and expenses in the event he substantially prevails in such arbitration or court proceeding. Notwithstanding the foregoing, following a Change in Control all reasonable costs and expenses (including fees and disbursements of counsel) incurred by Executive pursuant to this Section 15 shall be paid on behalf of or reimbursed to Executive promptly by the Company; provided, however, that no reimbursement shall be made of such expenses if and to the extent the arbitrator(s) determine(s) that any of Executive's litigation assertions or defenses were in bad faith or frivolous.

16. Indemnification.

(a) Company Indemnity. The Company agrees that if Executive is made a party, or is threatened to be made a party, to any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that he is or was a director, officer or employee of the Company or any Subsidiary or is or was serving at the request of the Company or any Subsidiary as a director, officer, member, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether or not the basis of such Proceeding is Executive's alleged action in an official capacity while serving as a director, officer, member, employee or agent, Executive shall be indemnified and held harmless by the Company to the fullest extent legally permitted or authorized by the Company's certificate of incorporation or bylaws or resolutions of the Company's Board or, if greater, by the laws of the State of Delaware against all cost, expense, liability and loss (including, without limitation, attorney's fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by Executive in connection therewith, and such indemnification shall continue as to Executive even if he has ceased to be a director, member, officer, employee or agent of the Company or other entity and shall inure to the benefit of Executive's heirs, executors and administrators. The Company shall advance to Executive all reasonable costs and expenses to be incurred by him in connection with a Proceeding within 20 days after receipt by the Company of a written request for such advance. Such request shall include an undertaking by Executive to repay the amount of such advance if it shall ultimately be determined that he is not entitled to be indemnified against such costs and expenses. The provisions of this Section 16(a) shall not be deemed exclusive of any other rights of indemnification to which Executive may be entitled or which may be granted to him, and it shall be in addition to any rights of indemnification to which he may be entitled under any policy of insurance.

(b) No Presumption Regarding Standard of Conduct. Neither the failure of the Company (including its Board, independent legal counsel or stockholders) to have made a determination prior to the commencement of any proceeding concerning payment of amounts claimed by Executive under Section 16(a) above that indemnification of Executive is proper because he has met the applicable standard of conduct, nor a determination by the Company (including its Board, independent legal counsel or stockholders) that Executive has not met such applicable standard of conduct, shall create a presumption that Executive has not met the applicable standard of conduct.

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

17. Excise Tax Gross-Up.

If while a member of the Business Planning Committee Executive becomes entitled to one or more payments (with a "payment" including, without limitation, the vesting of an option or other non-cash benefit or property), whether pursuant to the terms of this Agreement or any other plan, arrangement, or agreement with the Company or any affiliated company (the "Total Payments"), which are or become subject to the tax imposed by Section 4999 of the Code (or any similar tax that may hereafter be imposed) (the "Excise Tax"), the Company shall pay to Executive at the time specified below an additional amount (the "Gross-up Payment") (which shall include, without limitation, reimbursement for any penalties and interest that may accrue in respect of such Excise Tax) such that the net amount retained by the Executive, after reduction for any Excise Tax (including any penalties or interest thereon) on the Total Payments and any federal, state and local income or employment tax and Excise Tax on the Gross-up Payment provided for by this Section 17, but before reduction for any federal, state, or local income or employment tax on the Total Payments, shall be equal to the sum of (a) the Total Payments, and (b) an amount equal to the product of any deductions disallowed for federal, state, or local income tax purposes because of the inclusion of the Gross-up Payment in Executive's adjusted gross income multiplied by the highest applicable marginal rate of federal, state, or local income taxation, respectively, for the calendar year in which the Gross-up Payment is to be made. For purposes of determining whether any of the Total Payments will be subject to the Excise Tax and the amount of such Excise Tax:

(i) The Total Payments shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(b)(1) of the Code shall be treated as subject to the Excise Tax, unless, and except to the extent that, in the written opinion of independent compensation consultants, counsel or auditors of nationally recognized standing ("Independent Advisors") selected by the Company and reasonably acceptable to the Executive, the Total Payments (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code or are otherwise not subject to the Excise Tax;

(ii) The amount of the Total Payments which shall be treated as subject to the Excise Tax shall be equal to the lesser of (A) the total amount of the Total Payments or (B) the total amount of excess parachute payments within the meaning of Section 280G(b)(1) of the Code (after applying clause (i) above); and

(iii) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the Independent Advisors in accordance with the principles of Sections 280G(d)(3) and (4) of the Code.

For purposes of determining the amount of the Gross-up Payment, Executive shall be deemed (A) to pay federal income taxes at the highest marginal rate of federal income taxation for the calendar year in which the Gross-up Payment is to be made; (B) to pay any applicable state and local income taxes at the highest marginal rate of taxation for the calendar year in which the Gross-up Payment is to be made, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes if paid in such year (determined without regard to limitations on deductions based upon the amount of Executive's adjusted gross income); and (C) to have otherwise allowable deductions for federal, state, and local income tax purposes at least equal to those disallowed because of the inclusion of the Gross-up Payment in Executive's adjusted gross income. In the event that the Excise Tax is subsequently determined to be less than the amount taken into account hereunder at the time the Gross-up Payment is made, Executive shall repay to the Company at the time that the amount of such reduction in Excise Tax is finally determined (but, if previously paid to the taxing authorities, not prior to the time the amount of such reduction is refunded to Executive or otherwise realized as a benefit by Executive) the portion of the Gross-up Payment that would not have been paid if such Excise Tax had been applied in initially calculating the Gross-up Payment, plus interest on the amount of such repayment at the rate provided in Section 1274(b)(2)(B) of the Code. In the event that the Excise Tax is determined to exceed the amount taken into account hereunder at the time the Gross-up Payment is made (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-up Payment), the Company shall make an additional Gross-up Payment in respect of such excess (plus any interest and penalties payable with respect to such excess) at the time that the amount of such excess is finally determined.

The Gross-up Payment provided for above shall be paid on the 30th day (or such earlier date as the Excise Tax becomes due and payable to the taxing authorities) after it has been determined that the Total Payments (or any portion thereof) are subject to the Excise Tax; provided, however, that if the amount of such Gross-up Payment or portion thereof cannot be finally determined on or before such day, the Company shall pay to Executive on such day an estimate, as determined by the Independent Advisors, of the minimum amount of such payments and shall pay the remainder of such payments (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code), as soon as the amount thereof can be determined. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to Executive, payable on the fifth day after demand by the Company (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code). If more than one Gross-up Payment is made, the amount of each Gross-up Payment shall be computed so as not to duplicate any prior Gross-up Payment. The Company shall have the right to control all proceedings with the Internal Revenue Service that may arise in connection with the determination and assessment of any Excise Tax and, at its sole option, the Company may pursue or forego any and all administrative appeals, proceedings, hearings, and conferences with any taxing authority in respect of such Excise Tax (including any interest or penalties thereon); provided, however, that the Company's control over any such proceedings shall be limited to issues with respect to which a Gross-up Payment would be payable hereunder, and Executive shall be entitled to settle or contest any other issue raised by the Internal Revenue Service or any other taxing authority. Executive shall cooperate with the Company in any proceedings relating to the determination and assessment of any Excise Tax and shall not take any position or action that would materially increase the amount of any Gross-Up Payment hereunder.

18. Effect of Agreement on Other Benefits.

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

19. Assignability; Binding Nature.

This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, heirs (in the case of Executive) and permitted assigns. No rights or obligations of the Company under this Agreement may be assigned or transferred by the Company except that such rights or obligations may be assigned or transferred in connection with the sale or transfer of all or substantially all of the assets of the Company, provided that the assignee or transferee is the successor to all or substantially all of the assets of the Company and such assignee or transferee assumes the liabilities, obligations and duties of the Company, as contained in this Agreement, either contractually or as a matter of law. The Company further agrees that, in the event of a sale or transfer of assets as described in the preceding sentence, it shall take whatever action it legally can in order to cause such assignee or transferee to expressly assume the liabilities, obligations and duties of the Company hereunder. No rights or obligations of Executive under this Agreement may be assigned or transferred by Executive other than his rights to compensation and benefits, which may be transferred only by will or operation of law, except as provided in Section 25 below.

20. Representation.

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

21. Entire Agreement.

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

22. Amendment or Waiver; Section 409A of the Code.

(a) No provision in this Agreement may be amended unless such amendment is agreed to in writing and signed by Executive and an authorized officer of the Company. Except as set forth herein, no delay or omission to exercise any right, power or remedy accruing to any Party shall impair any such right, power or remedy or shall be construed to be a waiver of or an acquiescence to any breach hereof. No waiver by either Party of any breach by the other Party of any condition or provision contained in this Agreement to be performed by such other Party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and signed by Executive or an authorized officer of the Company, as the case may be.

(b) Executive and Company agree that it is the intent of the parties that this Agreement not violate any applicable provision of, or result in any additional tax or penalty under, Section 409A of the Internal Revenue Code of 1986 (the "Code"), as amended, and that to the extent any provisions of this Agreement do not comply with such Code Section 409A the parties will make such changes as are mutually agreed upon in order to comply with Code Section 409A. In all events, to the extent required to avoid a violation of the applicable rules under all Section 409A by reason of Section 409A(a)(2)(B)(i) of the Code, payment of any amounts subject to Section 409A of the Code shall be delayed until the relevant date of payment that will result in compliance with the rules of Section 409A(a)(2)(B)(i) of the Code.

23. Severability.

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

24. Survivorship.

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

25. Beneficiaries/References.

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

26. Governing Law/Jurisdiction.

This Agreement shall be governed by and construed and interpreted in accordance with the laws of Rhode Island without reference to principles of conflict of laws. Subject to Section 15, the Company and Executive hereby consent to the jurisdiction of any or all of the following courts for purposes of resolving any dispute under this Agreement: (i) the United States District Court for Rhode Island or (ii) any of the courts of the State of Rhode Island. The Company and Executive further agree that any service of process or notice requirements in any such proceeding shall be satisfied if the rules of such court relating thereto have been substantially satisfied. The Company and Executive hereby waive, to the fullest extent permitted by applicable law, any objection which it or he may now or hereafter have to such jurisdiction and any defense of inconvenient forum.

27. Notices.

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

| | |
|---|---|
| If to the Company: | CVS Caremark Corporation<br>One CVS Drive<br>Woonsocket, Rhode Island 02895<br>Attention: Corporate Secretary |
| If to Executive: | David B. Rickard<br>51 Clubhouse Way<br>Sutton, Massachusetts 01590 |

28. Headings.

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

29. Counterparts.

This Agreement may be executed in two or more counterparts.

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

**CVS CAREMARK CORPORATION**

By: ______________________________

V. Michael Ferdinandi
Senior Vice President, Human Resources and Corporate Communications

**DAVID B. RICKARD**

______________________________

**Exhibit 10.38**

**CVS CAREMARK CORPORATION**

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**Amended and Restated Employment Agreement for Larry Merlo**

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**CVS CAREMARK CORPORATION**

**Amended and Restated Employment Agreement for Larry Merlo**

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

AMENDED AND RESTATED EMPLOYMENT AGREEMENT, made and entered into as of the 22nd day of December, 2008 by and between CVS Caremark Corporation, a Delaware corporation (together with its successors and assigns, the "Company"), and Larry Merlo (the "Executive").

WITNESSETH:

WHEREAS, CVS Corporation and Executive entered into an agreement in or about December 1996 embodying the terms of Executive's employment by the Company (the "Original Agreement"), which Original Agreement was amended as of December 22, 2006;

WHEREAS, Executive and the Company desire to further amend the Original Agreement in certain respects and to restate the Original Agreement in its entirety to reflect all applicable amendments by entering into this Amended and Restated Employment Agreement for Larry Merlo (the "Agreement");

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

1 . Definitions.

(a) "Approved Early Retirement" shall have the meaning set forth in Section 10(f) below.

(b) "Base Salary" shall have the meaning set forth in Section 4 below.

(c) "Board" shall mean the Board of Directors of the Company.

(d) "Cause" shall have the meaning set forth in Section 10(b) below.

(e) "Change in Control" shall have the meaning set forth in Section 10(c) below.

(f) "Committee" shall mean the Management Planning and Development Committee of the Board.

(g) "Confidential Information" shall have the meaning set forth in Section 11(c) below.

(h) "Constructive Termination Without Cause" shall have the meaning set forth in Section 10(c) below.

(i) "Effective Date" shall have the meaning set forth in Section 2 below.

(j) "Normal Retirement" shall have the meaning set forth in Section 10(f) below.

(k) "Original Term of Employment" shall have the meaning set forth in Section 2 below.

(l) "Renewal Term" shall have the meaning set forth in Section 2 below.

(m) "Restriction Period" shall have the meaning set forth in Section 12(b) below.

(n) "Severance Period" shall have the meaning set forth in Section 10(c)(ii) below, except as provided otherwise in Section 10(e) below.

(o) "Subsidiary" shall have the meaning set forth in Section 11(d) below.

(p) "Term of Employment" shall have the meaning set forth in Section 2 below.

(q) "termination of employment", "employment is terminated" and other similar words shall mean

(i) for any plan or arrangement that is subject to the rules of Section 409A of the Internal Revenue Code (the "Code") a "Separation from Service" as such term is defined in the Income Tax Regulations under Section 409A (the "409A Regulations") of the Code as modified by the rules described below:

(A) except in the case where Executive is on a bona fide leave of absence pursuant to the Company's policies as provided below, Executive is deemed to have incurred a Separation from Service on a date if the Company and Executive reasonably anticipate that the level of services to be performed by Executive after such date would be permanently reduced to 20% or less of the average services rendered by Executive during the immediately preceding 36-month period (or the total period of employment, if less than 36 months), disregarding periods during which Executive was on a bona fide leave of absence;

(B) if Executive is absent from work due to military leave, sick leave, or other bona fide leave of absence pursuant to the Company's policies Executive shall incur a Separation from Service on the first date that the rules of (A), above, are satisfied following the later of (i) the six-month anniversary of the commencement of the leave or (ii) the expiration of Executive's right, if any, to reemployment under statute, contract or Company policy;

(C) Executive shall be considered to continue employment and to not have a Separation from Service while on a bona fide leave of absence if the leave does not exceed 6 consecutive months (twelve months for a leave of absence due to Executive's disability) or, if longer, so long as Executive retains a right to reemployment with the Corporation or an Affiliate under an applicable statute, contract or Company policy. For this purpose, a "disability leave of absence" is an absence due to any medically determinable physical or mental impairment or Executive that can be expected to result in death or can be expected to last for a continuous period of not less than 6 months, where such impairment causes the Participant to be unable to perform the

duties of his job or a substantially similar job;

(D) for purposes of determining whether another organization is an Affiliate of the Company, common ownership of at least 50% shall be determinative;

(E) the Company specifically reserves the right to determine whether a sale or other disposition of substantial assets to an unrelated party constitutes a Separation from Service with respect to Executive providing services to the seller immediately prior to the transaction and providing services to the buyer after the transaction. Such determination shall be made in accordance with the requirements of Code Section 409A; or

(ii) for any plan or arrangement that is not subject to the rules of Section 409A of the Code, the complete cessation of providing service to the Company or any Affiliate as an employee.

(r) "Termination Without Cause" shall have the meaning set forth in Section 10(c) below.

2. Term of Employment.

The term of Executive's employment under this Agreement shall commence on the date of the Original Agreement (the "Effective Date") and end on the third anniversary of such date (the "Original Term of Employment"), unless terminated earlier in accordance herewith. The Original Term of Employment shall be automatically renewed for successive one-year terms (the "Renewal Terms") unless at least 180 days prior to the expiration of the Original Term of Employment or any Renewal Term, either Party notifies the other Party in writing that he or it is electing to terminate this Agreement at the expiration of the then current Term of Employment. "Term of Employment" shall mean the Original Term of Employment and all Renewal Terms. If a Change in Control shall have occurred during the Term of Employment, notwithstanding any other provision of this Section 2, the Term of Employment shall not expire earlier than two years after such Change in Control.

3. Position, Duties and Responsibilities.

(a) Generally. Executive shall serve as a senior officer of the Company. Executive shall have and perform such duties, responsibilities, and authorities as shall be specified by the Company from time to time and as are customary for a senior officer of a publicly held corporation of the size, type, and nature of the Company as they may exist from time to time and as are consistent with such position and status. Executive shall devote substantially all of his business time and attention (except for periods of vacation or absence due to illness), and his best efforts, abilities, experience, and talent to his position and the businesses of the Company.

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

(c) Place of Employment. Executive's principal place of employment shall be the corporate offices of the Company.

4. Base Salary.

Executive shall be paid an annualized salary ("Base Salary"), payable in accordance with the regular payroll practices of the Company, of not less than $275,000 subject to review for increase at the discretion of the Committee.

5. Annual Incentive Awards.

Executive shall participate in the Company's annual cash incentive compensation plan with a target annual incentive award opportunity of no less than 50% of Base Salary. Payment of annual incentive awards shall be made at the same time that other senior-level executives receive their incentive awards.

6. Long-Term Incentive Programs.

Executive shall be eligible to participate in the Company's long-term incentive compensation programs (including stock options and stock grants).

7. Employee Benefit Programs.

During the Term of Employment, Executive shall be entitled to participate in such employee pension and welfare benefit plans and programs of the Company as are made available to the Company's senior-level executives or to its employees generally, as such plans or programs may be in effect from time to time, including, without limitation, health, medical, dental, long-term disability, travel accident, life insurance and deferred compensation plans.

8. Disability.

(a) During the Term of Employment, as well as during the Severance Period, Executive shall be entitled to disability coverage as described in this Section 8(a). In the event Executive becomes disabled, as that term is defined under the Company's Long-Term Disability Plan, Executive shall be entitled to receive pursuant to the Company's Long-Term Disability Plan or otherwise, and in place of his Base Salary, an amount equal to 60% of his Base Salary, at the annual rate in effect on the commencement date of his eligibility for the Company's long-term disability benefits ("Commencement Date") for a period beginning on the Commencement Date and ending with the earlier to occur of (A) Executive's attainment of age 65 or (B) Executive's commencement of retirement benefits from the Company in accordance with Section 10(f) below. If (i) Executive ceases to be disabled during the Term of Employment (as determined in accordance with the terms of the Long-Term Disability Plan), (ii) his position or another senior executive position is then vacant and (iii) the Company requests in writing that he resume such position, he may elect to resume such position by written notice to the Company within 15 days after the Company delivers its request. If he resumes such position, he shall thereafter be entitled to his Base Salary at the annual rate in effect on the Commencement Date and, for the year he resumes his position, a pro rata annual incentive award. If he ceases to be disabled during the Term of Employment and does not resume his position in accordance with the preceding sentence, he shall be treated as if he voluntarily terminated his employment pursuant to Section 10(d) as of the date Executive ceases to be disabled. If Executive is not offered his position or another senior executive position after he ceases to be disabled during the Term of Employment, he shall be treated as if his employment was terminated Without Cause pursuant to Section 10(c) as of the date Executive ceases to be disabled; provided, however, that if a Change in Control shall have occurred during the period of Executive's disability, he shall be treated as if his employment was terminated Without Cause following a Change in Control pursuant to Section 10(e) as of the date Executive ceases to be disabled.

(b) Executive shall be entitled to a pro rata annual cash incentive award for the year in which the Commencement Date occurs based on the most recently established

market target annual cash incentive amount, payable in a cash lump sum not later than 15 days after the Commencement Date. Executive shall not be entitled to any annual incentive award with respect to the period following the Commencement Date. If Executive recommences his position in accordance with Section 8(a), he shall be entitled to a pro rata annual incentive award for the year he resumes such position and shall thereafter be entitled to annual incentive awards in accordance with Section 5 hereof.

(c) During the period the Executive is receiving disability benefits pursuant to Section 8(a) above, he shall continue to be treated as an employee for purposes of all employee benefits and entitlements in which he was participating on the Commencement Date, including without limitation, the benefits and entitlements referred to in Sections 6 and 7 above, except that the Executive shall not be entitled to receive any annual salary increases or any new long-term incentive plan grants following the Commencement Date. Notwithstanding the foregoing, with respect to any benefit plan or program providing benefits covered by Section 409A of the Code, the definition of "termination of employment" set forth in Section 1(g) above shall apply.

(d) The provisions of this Agreement in Section 8(a)-(c), above, shall apply in the event Executive shall become disabled, as that term is defined in the Company's Long-Term Disability Plan and, except as provided in Section 8(a), the provisions of Section 10 shall not apply if the Executive has a termination of employment due to such disability.

9. Reimbursement of Business and Other Expenses.

Executive is authorized to incur reasonable expenses in carrying out his duties and responsibilities under this Agreement, and the Company shall promptly reimburse him for all business expenses incurred in connection therewith, subject to documentation in accordance with the Company's policy. During the Term of Employment, the Company shall pay or reimburse Executive, upon demand, for out-of-pocket expenses incurred in connection with personal financial and tax planning up to a maximum of $15,000 per annum. The Company shall pay or reimburse the Executive for the expenses (including, without limitation, reasonable attorneys' fees and expenses) incurred by him in conjunction with preparation and negotiation of this Agreement and any related documents up to a maximum of $10,000.

10. Termination of Employment.

(a) Termination Due to Death. In the event Executive's employment with the Company is terminated due to his death, his estate or his beneficiaries, as the case may be, shall be entitled to and their sole remedies under this Agreement shall be:

(i) Base Salary through the date of death, which shall be paid in a cash lump sum not later than 15 days following Executive's death;

(ii) pro rata annual incentive award for the year in which Executive's death occurs based on the most recently established market target annual cash incentive amount for Executive, which shall be payable in a cash lump sum promptly (but in no event later than 15 days);

(iii) elimination of all restrictions on any restricted or deferred stock awards outstanding at the time of his death (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);

(iv) immediate vesting of all outstanding stock options and the right to exercise such stock options for a period of one year following death

or for the remainder of the exercise period, if less (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);

(v) the balance of any incentive awards earned as of December 31 of the prior year (but not yet paid), which shall be paid in a cash lump sum not later than 15 days following the Executive's death;

(vi) settlement of all deferred compensation arrangements in accordance with any then applicable deferred compensation plan or election form; and

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

(b) Termination by the Company for Cause.

(i) "Cause" shall mean:

(A) Executive's willful and material breach of Sections 11, 12 or 13 of this Agreement;

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

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

For purposes of this Agreement, an act or failure to act on Executive's part shall be considered "willful" if it was done or omitted to be done by him not in good faith, and shall not include any act or failure to act resulting from any incapacity of Executive.

(ii) A termination for Cause shall not take effect unless the provisions of this paragraph (ii) are complied with. Executive shall be given written notice by the Company of its intention to terminate him for Cause, such notice (A) to state in detail the particular act or acts or failure or failures to act that constitute the grounds on which the proposed termination for Cause is based and (B) to be given within 90 days of the Company's learning of such act or acts or failure or failures to act. Executive shall have 20 days after the date that such written notice has been given to him in which to cure such conduct, to the extent such cure is possible. If he fails to cure such conduct, Executive shall then be entitled to a hearing before the Committee of the Board at which Executive is entitled to appear. Such hearing shall be held within 25 days of such notice to Executive, provided he requests such hearing within 10 days of the written notice from the Company of the intention to terminate him for Cause. If, within five days following such hearing, Executive is furnished written notice by the Board confirming that, in its judgment, grounds for Cause on the basis of the original notice exist, he shall thereupon be terminated for Cause.

(iii) In the event the Company terminates Executive's employment for Cause, he shall be entitled to and his sole remedies under this Agreement shall be:

(A) Base Salary through the date of the termination of his employment for Cause, which shall be paid in a cash lump sum not later than 15 days following Executive's termination of employment;

(B) any incentive awards earned as of December 31 of the prior year (but not yet paid), which shall be paid in a cash lump sum not later than 15 days following Executive's termination of employment;

(C) settlement of all deferred compensation arrangements in accordance with any then applicable deferred compensation plan or election form; and

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

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

(i) Base Salary through the date of termination of Executive's employment, which shall be paid in a cash lump sum not later than 15 days following the Executive's termination of employment;

(ii) Base Salary, at the annualized rate in effect on the date of termination of Executive's employment (or in the event a reduction in Base Salary is a basis for a Constructive Termination Without Cause, then the Base Salary in effect immediately prior to such reduction), for a period of 24 months (the "Severance Period");

(iii) a pro rata annual incentive award for the year in which Executive's termination occurs based on the most recently established Management Incentive Plan target ("MIP Award"), as determined below, for Executive. The MIP Award will be payable at the conclusion of the annual performance cycle, based on actual performance of the Company as determined in accordance with the Company's 2007 Incentive Plan (the "Plan") or other plan for an executive of the Company as may be in effect from time to time, as certified by the applicable Committee of the Board of Directors of the Company, and paid at the same time the annual incentive award is paid to other similarly-situated executives of the Company, unless otherwise previously elected to be deferred by Executive.

(A) The MIP Award is determined by multiplying the Market Payout Percentage as approved by the Committee for Executive's position, by Executive's base salary in effect on the date of termination, based on the Company's performance for the applicable annual performance cycle.

(B) The amount of the pro rata award will be determined by multiplying the full amount of the MIP Award, as determined above, by a fraction, the numerator of which is the number of months that have elapsed since January 1 through the date of termination of Executive's Employment and the denominator of which is twelve (12);

(iv) an amount equal to the most recently established market target MIP Award (without taking into account the Company's performance) for Executive multiplied by two, payable in equal monthly payments over the Severance Period;

(v) elimination of all restrictions on any restricted or deferred stock awards outstanding at the time of termination of employment (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);

(vi) any outstanding stock options which are unvested shall vest and Executive shall have the right to exercise any vested stock options during the Severance Period or for the remainder of the exercise period, if less (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);

(vii) the balance of any incentive awards, except for awards under the Company's Long-Term Incentive Plan or other such plans which are intended to qualify for deductibility under Section 162(m) of the Code, earned as of December 31 of the prior year (but not yet paid), which shall be paid in a cash lump sum not later than 15 days following Executive's termination of employment;

(viii) a pro rata long-term incentive award, as determined below, for the year in which Executive's termination occurs based on the targets for Executive for performance periods not yet closed under the Company's Long Term Incentive Plan (the "LTIP") with the target for each such performance period being adjusted based on actual performance of the Company as determined in accordance with the LTIP or other plan for an executive of the Company as may be in effect from time to time, as certified by the applicable Committee of the Board of Directors of the Company, and as further adjusted under (A), below, and being payable at the same time such Awards are paid to other similarly-situated executives of the Company, unless otherwise previously elected to be deferred by Executive;

(A) The amount of the pro rata award will be determined by multiplying the full amount of each award, as determined above, by a fraction, the numerator of which is the number of months (treating a part of a month as a full month) that have elapsed since the first day of the applicable performance cycle through the date of termination of Executive's Employment and the denominator of which is the number of months in such performance cycle;

(ix) settlement of all deferred compensation arrangements in accordance with any then applicable deferred compensation plan or election form;

(x) continued participation in all medical, health and life insurance plans at the same benefit level at which he was participating on the date of the termination of his employment until the earlier of:

(A) the end of the Severance Period; or

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

provided that (1) if Executive is precluded from continuing his participation in any employee benefit plan or program as provided in this clause (ix) of this Section 10(c), he shall receive cash payments equal on an after-tax basis to the cost to him of obtaining the benefits provided under the plan or program in which he is unable to participate for the period specified in this clause (ix) of this Section 10(c), (2) such cost shall be deemed to be the lowest reasonable cost that would be incurred by Executive in obtaining such benefit himself on an individual basis, and (3) payment of such amounts shall be made quarterly in advance; and

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

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

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

(A) an assignment of any duties to Executive which are materially inconsistent with his status as a senior officer of the Company;

(B) a material decrease in Executive's annual Base Salary or target annual cash incentive award opportunity below 50% of Base Salary;

(C) any other failure by the Company to perform any material obligation under, or breach by the Company of any material provision of, this Agreement that is not cured within 30 days; or

(D) any failure to secure the agreement of any successor corporation or other entity to the Company to fully assume the Company's obligations under this Agreement.

In addition, following a Change in Control, "Constructive Termination Without Cause" shall also mean a termination of Executive's employment at his initiative as provided in this Section 10(c) following the occurrence, without Executive's written consent, of (i) a relocation of his principal place of employment outside a 35-mile radius of his principal place of employment as in effect immediately prior to such Change in Control or (ii) a material diminution or change, adverse to Executive, in Executive's positions, titles, offices, status, rank, nature of responsibility, or authority within the Company, as in effect immediately prior to such Change in Control, or a removal of Executive from or any failure to elect or re-elect, or as the case may be, nominate Executive to any such positions or offices. Notwithstanding the foregoing no termination of Executive's employment shall constitute a "Constructive Termination Without Cause" unless Executive notifies the Company in writing no later than 90 days after the initial existence of the applicable event described above and such event is not remedied by the Company within 30 days of the Company's receipt of such notice from the Executive.

A "Change in Control" shall be deemed to have occurred if:

(i) any Person (other than the Company, any trustee or other fiduciary holding securities under any employee benefit plan of the Company, or any company owned, directly or indirectly, by the stockholders of the Company immediately prior to the occurrence with respect to which the evaluation is being made in substantially the same proportions as their ownership of the common stock of the Company) becomes the Beneficial Owner (except that a Person shall be deemed to be the Beneficial Owner of all shares that any such Person has the right to acquire pursuant to any agreement or arrangement or upon exercise of conversion rights, warrants or options or otherwise, without regard to the sixty day period referred to in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company or any Significant Subsidiary (as defined below), representing 30% or more of the combined voting power of the Company's or such subsidiary's then outstanding securities;

(ii) during any period of twelve (12) consecutive months, individuals who at the beginning of such period constitute the Board, and any new director whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least a majority of the directors then still in office who either were directors at the beginning of the twelve (12) month period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority of the Board;

(iii) the consummation of a merger or consolidation of the Company (or any subsidiary owning directly or indirectly all or substantially all of the consolidated assets of the Company but in no event assets having a gross fair market value of less than 40% of the total gross fair market value of all of the consolidated assets of the Company (a "Significant Subsidiary")) with any other entity, other than a merger or consolidation which would result in the voting securities of the Company or a Significant Subsidiary outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving or resulting entity) more than 50% of the combined voting power of the surviving or resulting entity outstanding immediately after such merger or consolidation; or

(iv) the consummation of a transaction (or series of transactions within a 12 month period) which constitutes the sale or disposition of all or substantially all of the consolidated assets of the Company but in no event assets having a gross fair market value of less than 40% of the total gross fair market value of all of the consolidated assets of the Company (other than such a sale or disposition immediately after which such assets will be owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the common stock of the Company immediately prior to such sale or disposition)

For purposes of this definition:

(A) The term "Beneficial Owner" shall have the meaning ascribed to such term in Rule 13d-3 under the Exchange Act (including any successor to such Rule).

(B) The term "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.

(C) The term "Person" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including "group" as defined in Section 13(d) thereof.

(d) Voluntary Termination. In the event of a termination of employment by Executive on his own initiative after delivery of 10 business days advance written notice, other than a termination due to death, a Constructive Termination Without Cause, or Approved Early Retirement or Normal Retirement pursuant to Section 10(f) below, Executive shall have the same entitlements as provided in Section 10(b)(iii) above for a termination for Cause, provided that at the Company's election, furnished in writing to Executive within 15 days following such notice of termination, the Company shall in addition pay the Executive 50% of his Base Salary for a period of 18 months following such termination in exchange for Executive not engaging in competition with the Company or any Subsidiary as set forth in Section 12(a) below, and further provided that if the Company makes such an election, the Company's obligation to pay

Executive his monthly Base Salary and Executive's obligation not to engage in competition with the Company or any Subsidiary shall terminate upon the occurrence of a Change in Control. Notwithstanding any implication to the contrary, Executive shall not have the right to terminate his employment with the Company during the Term of Employment except in the event of a Constructive Termination Without Cause, Approved Early Retirement, or Normal Retirement, and any voluntary termination of employment during the Term of Employment in violation of this Agreement shall be considered a material breach.

(e) Termination Without Cause; Constructive Termination Without Cause or Voluntary Termination Following a Change in Control. In the event Executive's employment with the Company is terminated by the Company without Cause (which termination shall be effective as of the date specified by the Company in a written notice to Executive), other than due to death, or in the event there is a Constructive Termination Without Cause (as defined above), in either case within two years following a Change in Control (as defined above), Executive shall be entitled to and his sole remedies under this Agreement shall be:

(i) Base Salary through the date of termination of Executive's employment, which shall be paid in a cash lump sum not later than 15 days following Executive's termination of employment;

(ii) an amount equal to three times Executive's Base Salary, at the annualized rate in effect on the date of termination of Executive's employment (or in the event a reduction in Base Salary is a basis for a Constructive Termination Without Cause, then the Base Salary in effect immediately prior to such reduction), payable in a cash lump sum promptly (but in no event later than 15 days) following Executive's termination of employment;

(iii) pro rata annual incentive award for the year in which Executive's termination occurs based on the most recently established market target amount for Executive, payable in a cash lump sum promptly (but in no event later than 15 days or by such later date as is required to comply with Section 22) following Executive's termination of employment;

(A) The amount of the pro rata award will be determined by multiplying the market target amount by a fraction, the numerator of which is the number of months that have elapsed since January 1 through the date of termination of Executive's Employment and the denominator of which is twelve (12);

(iv) an amount equal to the MIP Award based on the most recently established market target amount, for Executive multiplied by three, payable in a cash lump sum promptly (but in no event later than 15 days) following Executive's termination of employment;

(v) elimination of all restrictions on any restricted or deferred stock awards outstanding at the time of termination of employment (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);

(vi) immediate vesting of all outstanding stock options and the right to exercise such stock options during the Severance Period or in accordance with their terms, if longer (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);

(vii) the balance of any incentive awards earned as of December 31 of the prior year (but not yet paid), which shall be paid in a single lump sum not later than 15 days following the Executive's termination of employment;

(viii) immediate vesting of Executive's accrued benefits under any supplemental retirement benefit plan ("SERP") maintained by the Company, with payment of such benefits to be made in accordance with the terms and conditions of the SERP;

(ix) settlement of all deferred compensation arrangements in accordance with any then applicable deferred compensation plan or election form;

(x) continued participation in all medical, health and life insurance plans at the same benefit level at which he was participating on the date of termination of his employment until the earlier of:

(A) the end of the Severance Period; or

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

provided that (1) if Executive is precluded from continuing his participation in any employee benefit plan or program as provided in this clause (x) of this Section 10(e), he shall receive cash payments equal on an after-tax basis to the cost to him of obtaining the benefits provided under the plan or program in which he is unable to participate for the period specified in this clause (x) of this Section 10(e), (2) such cost shall be deemed to be the lowest reasonable cost that would be incurred by Executive in obtaining such benefit himself on an individual basis, and (3) payment of such amounts shall be made quarterly in advance; and

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

For purposes of any termination pursuant to this Section 10(e), the term "Severance Period" shall mean the period of 36 months following the termination of the Executive's employment.

(f) Approved Early Retirement or Normal Retirement. Upon Executive's Approved Early Retirement or Normal Retirement (each as defined below), Executive shall be entitled to and his sole remedies under this Agreement shall be:

(i) Base Salary through the date of termination of Executive's employment, which shall be paid in a cash lump sum not later than 15 days following Executive's termination of employment;

(ii) pro rata cash portion of MIP Award for the year in which termination occurs, determined in accordance with Section 10(c)(iii) above;

(iii) elimination of all restrictions on any restricted stock awards outstanding at the time of Executive's termination of employment;

(iv) continued vesting (as if Executive remained employed by the Company) of any deferred stock awards outstanding at the time of his termination of employment (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);

(v) continued vesting of all outstanding stock options and the right to exercise such stock options (including, for the avoidance of doubt, after Executive's death by any person to whom the award passes by will or the laws of descent and distribution following Executive's death) for a period of one year following the later of the date the options are fully vested or Executive's termination of employment or for the remainder of the exercise period, if less (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards); provided, however, that options granted pursuant to the Company's 1987 Stock Option Plan shall in no event be exercisable after three years following termination of employment;

(vi) the balance of any incentive awards earned as of December 31 of the prior year (but not yet paid), which shall be paid in a single lump sum not later than 15 days following Executive's termination of employment;

(vii) settlement of all deferred compensation arrangements in accordance with any then applicable deferred compensation plan or election form; and

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

"Approved Early Retirement" shall mean Executive's voluntary termination of employment with the Company at or after attaining age 55 but prior to attaining age 60, if such termination is approved in advance by the Committee.

"Normal Retirement" shall mean Executive's voluntary termination of employment with the Company at or after attaining age 60.

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

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

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

(j) Release of Employment Claims. Executive agrees, as a condition to his entitlement to receipt of the termination payments and benefits provided for in this Section 10, that he will execute within sixty (60) days of Executive's termination of employment a release agreement, in a form reasonably satisfactory to the Company, releasing any and all claims arising out of Executive's employment (other than enforcement of this Agreement, Executive's rights under any of the Company's incentive compensation and employee benefit plans and programs to which he is entitled under this Agreement, any rights to indemnification to which Executive may be entitled or which may have been granted to him, any rights of indemnification to which Executive may be entitled under any policy of insurance, and any claim for any tort for personal injury not arising out of or related to his termination of employment).

(k) Subject to the provisions of Section 22(b), all payments to be made pursuant to this Section 10 upon the termination of employment of Executive shall be made or commence, as the case may be, within 75 days after Executive's termination of employment provided, however, that if such termination of employment is after October 17 of a year, the payout or first payment, as the case may be, shall be made at the end of such 75 day period.

(l) For the avoidance of doubt, the provisions of this Agreement, insofar as they pertain to any stock option awarded to Executive, apply and shall be deemed to govern notwithstanding any contrary term in any agreement awarding such stock option to Executive.

(m) For the avoidance of doubt, the provisions of the CVS/pharmacy Long-Term Incentive Plan, insofar as they pertain to any LTIP award to Executive, apply; provided, however, that the terms of the LTIP plan should be read together with this Agreement and the terms and provisions of this Agreement shall be deemed to govern notwithstanding any contrary term or provision in the LTIP plan.

11. Confidentiality; Cooperation with Regard to Litigation; Non-disparagement.

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

(b) During the Term of Employment and thereafter, Executive shall not disclose the existence or contents of this Agreement beyond what is disclosed in the proxy statement or documents filed with the government unless and to the extent such disclosure is required by law, by a governmental agency, or in a document required by law to be filed with a governmental agency or in connection with enforcement of his rights under this Agreement. In the event that disclosure is so required, Executive shall give prompt written notice to the

Company in order to allow the Company the opportunity to object to or otherwise resist such requirement. This restriction shall not apply to such disclosure by him to members of his immediate family, his tax, legal or financial advisors, any lender, or tax authorities, or to potential future employers to the extent necessary, each of whom shall be advised not to disclose such information.

(c) "Confidential Information" shall mean all information concerning the business of the Company or any Subsidiary relating to any of their products, product development, trade secrets, customers, suppliers, finances, and business plans and strategies. Excluded from the definition of Confidential Information is information (i) that is or becomes part of the public domain, other than through the breach of this Agreement by Executive or (ii) regarding the Company's business or industry properly acquired by Executive in the course of his career as an executive in the Company's industry and independent of Executive's employment by the Company. For this purpose, information known or available generally within the trade or industry of the Company or any Subsidiary shall be deemed to be known or available to the public.

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

(e) Executive agrees to cooperate with the Company, during the Term of Employment and thereafter (including following Executive's termination of employment for any reason), by making himself reasonably available to testify on behalf of the Company or any Subsidiary in any action, suit, or proceeding, whether civil, criminal, administrative, or investigative, and to assist the Company, or any Subsidiary, in any such action, suit, or proceeding, by providing information and meeting and consulting with the Board or its representatives or counsel, or representatives or counsel to the Company, or any Subsidiary as reasonably requested; provided, however, that the same does not materially interfere with his then current professional activities. The Company agrees to reimburse Executive, on an after-tax basis, for all expenses actually incurred in connection with his provision of testimony or assistance.

(f) Executive agrees that, during the Term of Employment and thereafter (including following Executive's termination of employment for any reason) he will not make statements or representations, or otherwise communicate, directly or indirectly, in writing, orally, or otherwise, or take any action which may, directly or indirectly, disparage the Company or any Subsidiary or their respective officers, directors, employees, advisors, businesses or reputations. The Company agrees that, during the Term of Employment and thereafter (including following Executive's termination of employment for any reason), the Company will not make statements or representations, or otherwise communicate, directly or indirectly, in writing, orally, or otherwise, or take any action which may, directly or indirectly, disparage Executive or his business or reputation. Notwithstanding the foregoing, nothing in this Agreement shall preclude either Executive or the Company from making truthful statements or disclosures that are required by applicable law, regulation or legal process.

12. Non-competition.

(a) During the Restriction Period (as defined in Section 12(b) below), Executive shall not engage in Competition with the Company or any Subsidiary. "Competition" shall mean engaging in any activity, except as provided below, for a Competitor of the Company or any Subsidiary, whether as an employee, consultant, principal, agent, officer, director, partner, shareholder (except as a less than one percent shareholder of a publicly traded company) or otherwise. A "Competitor" shall mean any corporation or other entity (and its parents, subsidiaries and affiliates) doing business in a geographical area in which the

Company is doing or has imminent plans to do business, and which is engaged in the operation of (a) a retail business which includes or has imminent plans to include a pharmacy (*i.e.*, the sale of prescription drugs) as an offering or component of its business, including, without limitation, chain drug store companies such as Walgreen Co. or Rite Aid Corporation, mass merchants such as Wal-Mart Stores, Inc. or Target Corp., and food/drug combinations such as The Kroger Co. or Supervalu Inc.; and/or (b) a business which includes or has imminent plans to include mail order prescription, specialty pharmacy and/or pharmacy benefits management as an offering or component of its business, such as Medco Health Solutions, Inc., or Express Scripts, Inc.; and/or (c) a business which includes or has imminent plans to include offering, marketing or the sale of basic acute health care services at retail or other business locations, similar to the services provided by MinuteClinic, Inc. (and excluding hospitals, private physicians' offices, or other businesses dedicated to the direct provision of health care services); and/or (d) any other business in which the Company is or has imminent plans to be engaged (whether directly or indirectly, including through any joint venture) at the time of Executive's termination. Executive shall not be deemed indirectly overseeing or managing the activities of such Competitor which are competitive with the activities of the Company or Subsidiary so long as he does not regularly participate in discussions with regard to the conduct of the competing business. The parties agree that the purpose of this provision is to protect the Company's confidential information, trade secrets and/or business relationships, and that it shall only be enforceable for such purpose.

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

(i) in the case of a termination of Executive's employment without Cause or a Constructive Termination Without Cause, in either case prior to a Change in Control, the earlier of (1) 24 months after such termination and (2) the occurrence of a Change in Control;

(ii) in the case of a termination of Executive's employment for Cause, the earlier of (1) 24 months after such termination and (2) the occurrence of a Change in Control;

(iii) in the case of a voluntary termination of Executive's employment pursuant to Section 10(d) above followed by the Company's election to pay Executive (and subject to the payment of) 50% of his Base Salary, as provided in Section 10(d) above, the earlier of (1) 18 months after such termination and (2) the occurrence of a Change in Control;

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

(v) in the case of Approved Early Retirement or Normal Retirement pursuant to Section 10(f) above, the remainder of the Term of Employment; or

(vi) in the case of a termination of Executive's employment without Cause or a Constructive Termination Without Cause, in either case following a Change in Control, immediately upon such termination of employment.

13. Non-solicitation.

During the period beginning with Effective Date and ending at the end of the Restriction Period, as defined in Section 12(b), Executive shall not induce employees of the Company or any Subsidiary to terminate their employment, nor shall Executive solicit or encourage any of the Company's or any Subsidiary's non-retail customers, or any corporation or other entity in a joint venture relationship (directly or indirectly) with the Company or any Subsidiary, to terminate or diminish their relationship with the Company or any Subsidiary or to violate any agreement with any of them. During such period, Executive shall not hire, either directly or through any employee, agent or representative, any employee of the Company or any Subsidiary or any person who was employed by the Company or any Subsidiary within 180 days of such hiring.

14. Remedies.

If Executive breaches any of the provisions contained in Sections 11, 12 or 13 above, the Company (a) subject to Section 15, shall have the right to immediately terminate all payments and benefits due under this Agreement and (b) shall have the right to seek injunctive relief. Executive acknowledges that such a breach of Sections 11,12 or 13 would cause irreparable injury and that money damages would not provide an adequate remedy for the Company; provided, however, the foregoing shall not prevent Executive from contesting the issuance of any such injunction on the ground that no violation or threatened violation of Section 11, 12 or 13 has occurred.

15. Resolution of Disputes.

Any controversy or claim arising out of or relating to this Agreement or any breach or asserted breach hereof or questioning the validity and binding effect hereof arising under or in connection with this Agreement, other than seeking injunctive relief under Section 14, shall be resolved by binding arbitration, to be held at an office closest to the Company's principal offices in accordance with the rules and procedures of the American Arbitration Association. Judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Pending the resolution of any arbitration or court proceeding, the Company shall continue payment of all amounts and benefits due Executive under this Agreement. All costs and expenses of any arbitration or court proceeding (including fees and disbursements of counsel) shall be borne by the respective party incurring such costs and expenses, but the Company shall reimburse Executive for such reasonable costs and expenses in the event he substantially prevails in such arbitration or court proceeding. Notwithstanding the foregoing, following a Change in Control all reasonable costs and expenses (including fees and disbursements of counsel) incurred by Executive pursuant to this Section 15 shall be paid on behalf of or reimbursed to Executive promptly by the Company; provided, however, that no reimbursement shall be made of such expenses if and to the extent the arbitrator(s) determine(s) that any of Executive's litigation assertions or defenses were in bad faith or frivolous.

16. Indemnification.

(a) Company Indemnity. The Company agrees that if Executive is made a party, or is threatened to be made a party, to any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that he is or was a director, officer or employee of the Company or any Subsidiary or is or was serving at the request of the Company or any Subsidiary as a director, officer, member, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether or not the basis of such Proceeding is Executive's alleged action in an official capacity while serving as a director, officer, member, employee or agent, Executive shall be indemnified and held harmless by the Company to the fullest extent legally permitted or authorized by the Company's certificate of incorporation or bylaws or resolutions of the Company's Board or, if greater, by the laws of the State of Delaware against all cost, expense, liability and loss (including, without limitation, attorney's fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by Executive in connection therewith, and such indemnification shall continue as to Executive even if he has ceased to be a director, member, officer, employee or agent of the Company or other entity and shall inure to the benefit of Executive's heirs, executors and administrators. The Company shall advance to Executive all reasonable costs and expenses to be incurred by him in connection with a Proceeding within 20 days after receipt by the Company of a written request for such advance. Such request shall include an undertaking by Executive to repay the amount of such advance if it shall ultimately be determined that he is not entitled to be indemnified against such costs and expenses. The provisions of this Section 16(a) shall not be deemed exclusive of any other rights of indemnification to which Executive may be entitled or which may be granted to him, and it shall be in addition to any rights of indemnification to which he may be entitled under any policy of insurance.

(b) No Presumption Regarding Standard of Conduct. Neither the failure of the Company (including its Board, independent legal counsel or stockholders) to have made a determination prior to the commencement of any proceeding concerning payment of amounts claimed by Executive under Section 16(a) above that indemnification of Executive is proper because he has met the applicable standard of conduct, nor a determination by the Company (including its Board, independent legal counsel or stockholders) that Executive has not met such applicable standard of conduct, shall create a presumption that Executive has not met the applicable standard of conduct.

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

17. Excise Tax Gross-Up.

If while a member of the Business Planning Committee Executive becomes entitled to one or more payments (with a "payment" including, without limitation, the vesting of an option or other non-cash benefit or property), whether pursuant to the terms of this Agreement or any other plan, arrangement, or agreement with the Company or any affiliated company (the "Total Payments"), which are or become subject to the tax imposed by Section 4999 of the Code (or any similar tax that may hereafter be imposed) (the "Excise Tax"), the Company shall pay to Executive at the time specified below an additional amount (the "Gross-up Payment") (which shall include, without limitation, reimbursement for any penalties and interest that may accrue in respect of such Excise Tax) such that the net amount retained by the Executive, after reduction for any Excise Tax (including any penalties or interest thereon) on the Total Payments and any federal, state and local income or employment tax and Excise Tax on the Gross-up Payment provided for by this Section 17, but before reduction for any federal, state, or local income or employment tax on the Total Payments, shall be equal to the sum of (a) the Total Payments, and (b) an amount equal to the product of any deductions disallowed for federal, state, or local income tax purposes because of the inclusion of the Gross-up Payment in Executive's adjusted gross income multiplied by the highest applicable marginal rate of federal, state, or local income taxation, respectively, for the calendar year in which the Gross-up Payment is to be made. For purposes of determining whether any of the Total Payments will be subject to the Excise Tax and the amount of such Excise Tax:

(i) The Total Payments shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(b)(1) of the Code shall be treated as subject to the Excise Tax, unless, and except to the extent that, in the written opinion of independent compensation consultants, counsel or auditors of nationally recognized standing ("Independent Advisors") selected by the Company and reasonably acceptable to the Executive, the Total Payments (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code or are otherwise not subject to the Excise Tax;

(ii) The amount of the Total Payments which shall be treated as subject to the Excise Tax shall be equal to the lesser of (A) the total amount of the Total Payments or (B) the total amount of excess parachute payments within the meaning of Section 280G(b)(1) of the Code (after applying clause (i) above); and

(iii) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the Independent Advisors in accordance with the principles of Sections 280G(d)(3) and (4) of the Code.

For purposes of determining the amount of the Gross-up Payment, Executive shall be deemed (A) to pay federal income taxes at the highest marginal rate of federal income taxation for the calendar year in which the Gross-up Payment is to be made; (B) to pay any applicable state and local income taxes at the highest marginal rate of taxation for the calendar year in which the Gross-up Payment is to be made, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes if paid in such year (determined without regard to limitations on deductions based upon the amount of Executive's adjusted gross income); and (C) to have otherwise allowable deductions for federal, state, and local income tax purposes at least equal to those disallowed because of the inclusion of the Gross-up Payment in Executive's adjusted gross income. In the event that the Excise Tax is subsequently determined to be less than the amount taken into account hereunder at the time the Gross-up Payment is made, Executive shall repay to the Company at the time that the amount of such reduction in Excise Tax is finally determined (but, if previously paid to the taxing authorities, not prior to the time the amount of such reduction is refunded to Executive or otherwise realized as a benefit by Executive) the portion of the Gross-up Payment that would not have been paid if such Excise Tax had been applied in initially calculating the Gross-up Payment, plus interest on the amount of such repayment at the rate provided in Section 1274(b)(2)(B) of the Code. In the event that the Excise Tax is determined to exceed the amount taken into account hereunder at the time the Gross-up Payment is made (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-up Payment), the Company shall make an additional Gross-up Payment in respect of such excess (plus any interest and penalties payable with respect to such excess) at the time that the amount of such excess is finally determined.

The Gross-up Payment provided for above shall be paid on the 30th day (or such earlier date as the Excise Tax becomes due and payable to the taxing authorities) after it has been determined that the Total Payments (or any portion thereof) are subject to the Excise Tax; provided, however, that if the amount of such Gross-up Payment or portion thereof cannot be finally determined on or before such day, the Company shall pay to Executive on such day an estimate, as determined by the Independent Advisors, of the minimum amount of such payments and shall pay the remainder of such payments (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code), as soon as the amount thereof can be determined. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to Executive, payable on the fifth day after demand by the Company (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code). If more than one Gross-up Payment is made, the amount of each Gross-up Payment shall be computed so as not to duplicate any prior Gross-up Payment. The Company shall have the right to control all proceedings with the Internal Revenue Service that may arise in connection with the determination and assessment of any Excise Tax and, at its sole option, the Company may pursue or forego any and all administrative appeals, proceedings, hearings, and conferences with any taxing authority in respect of such Excise Tax (including any interest or penalties thereon); provided, however, that the Company's control over any such proceedings shall be limited to issues with respect to which a Gross-up Payment would be payable hereunder, and Executive shall be entitled to settle or contest any other issue raised by the Internal Revenue Service or any other taxing authority. Executive shall cooperate with the Company in any proceedings relating to the determination and assessment of any Excise Tax and shall not take any position or action that would materially increase the amount of any Gross-Up Payment hereunder.

18. Effect of Agreement on Other Benefits.

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

19. Assignability; Binding Nature.

This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, heirs (in the case of Executive) and permitted assigns. No rights or obligations of the Company under this Agreement may be assigned or transferred by the Company except that such rights or obligations may be assigned or transferred in connection with the sale or transfer of all or substantially all of the assets of the Company, provided that the assignee or transferee is the successor to all or substantially all of the assets of the Company and such assignee or transferee assumes the liabilities, obligations and duties of the Company, as contained in this Agreement, either contractually or as a matter of law. The Company further agrees that, in the event of a sale or transfer of assets as described in the preceding sentence, it shall take whatever action it legally can in order to cause such assignee or transferee to expressly assume the liabilities, obligations and duties of the Company hereunder. No rights or obligations of Executive under this Agreement may be assigned or transferred by Executive other than his rights to compensation and benefits, which may be transferred only by will or operation of law, except as provided in Section 25 below.

20. Representation.

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

21. Entire Agreement.

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

22. Amendment or Waiver; Section 409A of the Code.

(a) No provision in this Agreement may be amended unless such amendment is agreed to in writing and signed by Executive and an authorized officer of the Company. Except as set forth herein, no delay or omission to exercise any right, power or remedy accruing to any Party shall impair any such right, power or remedy or shall be construed to be a waiver of or an acquiescence to any breach hereof. No waiver by either Party of any breach by the other Party of any condition or provision contained in this Agreement to be performed by such other Party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and signed by Executive or an authorized officer of the Company, as the case may be.

(b) Executive and Company agree that it is the intent of the parties that this Agreement not violate any applicable provision of, or result in any additional tax or penalty under, Section 409A of the Internal Revenue Code of 1986 (the "Code"), as amended, and that to the extent any provisions of this Agreement do not comply with such Code Section 409A the parties will make such changes as are mutually agreed upon in order to comply with Code Section 409A. In all events, to the extent required to avoid a violation of the applicable rules under all Section 409A by reason of Section 409A(a)(2)(B)(i) of the Code, payment of any amounts subject to Section 409A of the Code shall be delayed until the relevant date of payment that will result in compliance with the rules of Section 409A(a)(2)(B)(i) of the Code.

23. Severability.

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

24. Survivorship.

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

25. Beneficiaries/References.

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

26. Governing Law/Jurisdiction.

This Agreement shall be governed by and construed and interpreted in accordance with the laws of Rhode Island without reference to principles of conflict of laws. Subject to Section 15, the Company and Executive hereby consent to the jurisdiction of any or all of the following courts for purposes of resolving any dispute under this Agreement: (i) the United States District Court for Rhode Island or (ii) any of the courts of the State of Rhode Island. The Company and Executive further agree that any service of process or notice requirements in any such proceeding shall be satisfied if the rules of such court relating thereto have been substantially satisfied. The Company and Executive hereby waive, to the fullest extent permitted by applicable law, any objection which it or he may now or hereafter have to such jurisdiction and any defense of inconvenient forum.

27. Notices.

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

| | |
|---|---|
| If to the Company: | CVS Caremark Corporation<br>One CVS Drive<br>Woonsocket, Rhode Island 02895<br>Attention: Corporate Secretary |
| If to Executive: | Larry Merlo<br>3 Clauson Court<br>East Greenwich, Rhode Island 02818 |

28. Headings.

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

29. Counterparts.

This Agreement may be executed in two or more counterparts.

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

| | |
|---|---|
| **CVS CAREMARK CORPORATION** | **LARRY MERLO** |
| By: ______________________________ | ______________________________ |
| V. Michael Ferdinandi<br>Senior Vice President, Human Resources<br>and Corporate Communications | |

**Exhibit 10.39**

**CVS CAREMARK CORPORATION**

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**Amended and Restated Employment Agreement for Douglas A. Sgarro**

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**CVS CAREMARK CORPORATION**

**Amended and Restated Employment Agreement for Douglas A. Sgarro**

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

AMENDED AND RESTATED EMPLOYMENT AGREEMENT, made and entered into as of the 22nd day of December, 2008 by and between CVS Caremark Corporation, a Delaware corporation (together with its successors and assigns, the "Company"), and Douglas A. Sgarro (the "Executive").

WITNESSETH:

WHEREAS, CVS Corporation and Executive entered into an agreement in or about October 1997 embodying the terms of Executive's employment by the Company (the "Original Agreement"), which Original Agreement was amended as of January 9, 2007;

WHEREAS, Executive and the Company desire to further amend the Original Agreement in certain respects and to restate the Original Agreement in its entirety to reflect all applicable amendments by entering into this Amended and Restated Employment Agreement for Douglas A. Sgarro (the "Agreement");

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

1 . Definitions.

(a) "Approved Early Retirement" shall have the meaning set forth in Section 10(f) below.

(b) "Base Salary" shall have the meaning set forth in Section 4 below.

(c) "Board" shall mean the Board of Directors of the Company.

(d) "Cause" shall have the meaning set forth in Section 10(b) below.

(e) "Change in Control" shall have the meaning set forth in Section 10(c) below.

(f) "Committee" shall mean the Management Planning and Development Committee of the Board.

(g) "Confidential Information" shall have the meaning set forth in Section 11(c) below.

(h) "Constructive Termination Without Cause" shall have the meaning set forth in Section 10(c) below.

(i) "Effective Date" shall have the meaning set forth in Section 2 below.

(j) "Normal Retirement" shall have the meaning set forth in Section 10(f) below.

(k) "Original Term of Employment" shall have the meaning set forth in Section 2 below.

(l) "Renewal Term" shall have the meaning set forth in Section 2 below.

(m) "Restriction Period" shall have the meaning set forth in Section 12(b) below.

(n) "Severance Period" shall have the meaning set forth in Section 10(c)(ii) below, except as provided otherwise in Section 10(e) below.

(o) "Subsidiary" shall have the meaning set forth in Section 11(d) below.

(p) "Term of Employment" shall have the meaning set forth in Section 2 below.

(q) "termination of employment", "employment is terminated" and other similar words shall mean

(i) for any plan or arrangement that is subject to the rules of Section 409A of the Internal Revenue Code (the "Code") a "Separation from Service" as such term is defined in the Income Tax Regulations under Section 409A (the "409A Regulations") of the Code as modified by the rules described below:

(A) except in the case where Executive is on a bona fide leave of absence pursuant to the Company's policies as provided below, Executive is deemed to have incurred a Separation from Service on a date if the Company and Executive reasonably anticipate that the level of services to be performed by Executive after such date would be permanently reduced to 20% or less of the average services rendered by Executive during the immediately preceding 36-month period (or the total period of employment, if less than 36 months), disregarding periods during which Executive was on a bona fide leave of absence;

(B) if Executive is absent from work due to military leave, sick leave, or other bona fide leave of absence pursuant to the Company's policies Executive shall incur a Separation from Service on the first date that the rules of (A), above, are satisfied following the later of (i) the six-month anniversary of the commencement of the leave or (ii) the expiration of Executive's right, if any, to reemployment under statute, contract or Company policy;

(C) Executive shall be considered to continue employment and to not have a Separation from Service while on a bona fide leave of absence if the leave does not exceed 6 consecutive months (twelve months for a leave of absence due to Executive's disability) or, if longer, so long as Executive retains a right to reemployment with the Corporation or an Affiliate under an applicable statute, contract or Company policy. For this purpose, a "disability leave of absence" is an absence due to any medically determinable physical or mental impairment or Executive that can be expected to result in death or can be expected to last for a continuous period of not less than 6 months, where such impairment causes the Participant to be unable to perform the

duties of his job or a substantially similar job;

(D) for purposes of determining whether another organization is an Affiliate of the Company, common ownership of at least 50% shall be determinative;

(E) the Company specifically reserves the right to determine whether a sale or other disposition of substantial assets to an unrelated party constitutes a Separation from Service with respect to Executive providing services to the seller immediately prior to the transaction and providing services to the buyer after the transaction. Such determination shall be made in accordance with the requirements of Code Section 409A; or

(ii) for any plan or arrangement that is not subject to the rules of Section 409A of the Code, the complete cessation of providing service to the Company or any Affiliate as an employee.

(r) "Termination Without Cause" shall have the meaning set forth in Section 10(c) below.

2. Term of Employment.

The term of Executive's employment under this Agreement shall commence on the date of the Original Agreement (the "Effective Date") and end on the third anniversary of such date (the "Original Term of Employment"), unless terminated earlier in accordance herewith. The Original Term of Employment shall be automatically renewed for successive one-year terms (the "Renewal Terms") unless at least 180 days prior to the expiration of the Original Term of Employment or any Renewal Term, either Party notifies the other Party in writing that he or it is electing to terminate this Agreement at the expiration of the then current Term of Employment. "Term of Employment" shall mean the Original Term of Employment and all Renewal Terms. If a Change in Control shall have occurred during the Term of Employment, notwithstanding any other provision of this Section 2, the Term of Employment shall not expire earlier than two years after such Change in Control.

3. Position, Duties and Responsibilities.

(a) Generally. Executive shall serve as a senior officer of the Company. Executive shall have and perform such duties, responsibilities, and authorities as shall be specified by the Company from time to time and as are customary for a senior officer of a publicly held corporation of the size, type, and nature of the Company as they may exist from time to time and as are consistent with such position and status. Executive shall devote substantially all of his business time and attention (except for periods of vacation or absence due to illness), and his best efforts, abilities, experience, and talent to his position and the businesses of the Company.

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

(c) Place of Employment. Executive's principal place of employment shall be the corporate offices of the Company.

4. Base Salary.

Executive shall be paid an annualized salary ("Base Salary"), payable in accordance with the regular payroll practices of the Company, of not less than $315,000 subject to review for increase at the discretion of the Committee.

5. Annual Incentive Awards.

Executive shall participate in the Company's annual cash incentive compensation plan with a target annual incentive award opportunity of no less than 50% of Base Salary. Payment of annual incentive awards shall be made at the same time that other senior-level executives receive their incentive awards.

6. Long-Term Incentive Programs.

Executive shall be eligible to participate in the Company's long-term incentive compensation programs (including stock options and stock grants).

7. Employee Benefit Programs.

During the Term of Employment, Executive shall be entitled to participate in such employee pension and welfare benefit plans and programs of the Company as are made available to the Company's senior-level executives or to its employees generally, as such plans or programs may be in effect from time to time, including, without limitation, health, medical, dental, long-term disability, travel accident, life insurance and deferred compensation plans.

8. Disability.

(a) During the Term of Employment, as well as during the Severance Period, Executive shall be entitled to disability coverage as described in this Section 8(a). In the event Executive becomes disabled, as that term is defined under the Company's Long-Term Disability Plan, Executive shall be entitled to receive pursuant to the Company's Long-Term Disability Plan or otherwise, and in place of his Base Salary, an amount equal to 60% of his Base Salary, at the annual rate in effect on the commencement date of his eligibility for the Company's long-term disability benefits ("Commencement Date") for a period beginning on the Commencement Date and ending with the earlier to occur of (A) Executive's attainment of age 65 or (B) Executive's commencement of retirement benefits from the Company in accordance with Section 10(f) below. If (i) Executive ceases to be disabled during the Term of Employment (as determined in accordance with the terms of the Long-Term Disability Plan), (ii) his position or another senior executive position is then vacant and (iii) the Company requests in writing that he resume such position, he may elect to resume such position by written notice to the Company within 15 days after the Company delivers its request. If he resumes such position, he shall thereafter be entitled to his Base Salary at the annual rate in effect on the Commencement Date and, for the year he resumes his position, a pro rata annual incentive award. If he ceases to be disabled during the Term of Employment and does not resume his position in accordance with the preceding sentence, he shall be treated as if he voluntarily terminated his employment pursuant to Section 10(d) as of the date Executive ceases to be disabled. If Executive is not offered his position or another senior executive position after he ceases to be disabled during the Term of Employment, he shall be treated as if his employment was terminated Without Cause pursuant to Section 10(c) as of the date Executive ceases to be disabled; provided, however, that if a Change in Control shall have occurred during the period of Executive's disability, he shall be treated as if his employment was terminated Without Cause following a Change in Control pursuant to Section 10(e) as of the date Executive ceases to be disabled.

(b) Executive shall be entitled to a pro rata annual cash incentive award for the year in which the Commencement Date occurs based on the most recently established market target annual cash incentive amount, payable in a cash lump sum not later than 15 days after the Commencement Date. Executive shall not be entitled to any annual incentive award with respect to the period following the Commencement Date. If Executive recommences his position in accordance with Section 8(a), he shall be entitled to a pro rata annual incentive award for the year he resumes such position and shall thereafter be entitled to annual incentive awards in accordance with Section 5 hereof.

(c) During the period the Executive is receiving disability benefits pursuant to Section 8(a) above, he shall continue to be treated as an employee for purposes of all employee benefits and entitlements in which he was participating on the Commencement Date, including without limitation, the benefits and entitlements referred to in Sections 6 and 7 above, except that the Executive shall not be entitled to receive any annual salary increases or any new long-term incentive plan grants following the Commencement Date. Notwithstanding the foregoing, with respect to any benefit plan or program providing benefits covered by Section 409A of the Code, the definition of "termination of employment" set forth in Section 1(g) above shall apply.

(d) The provisions of this Agreement in Section 8(a)-(c), above, shall apply in the event Executive shall become disabled, as that term is defined in the Company's Long-Term Disability Plan and, except as provided in Section 8(a), the provisions of Section 10 shall not apply if the Executive has a termination of employment due to such disability.

9. Reimbursement of Business and Other Expenses.

Executive is authorized to incur reasonable expenses in carrying out his duties and responsibilities under this Agreement, and the Company shall promptly reimburse him for all business expenses incurred in connection therewith, subject to documentation in accordance with the Company's policy. During the Term of Employment, the Company shall pay or reimburse Executive, upon demand, for out-of-pocket expenses incurred in connection with personal financial and tax planning up to a maximum of $15,000 per annum. The Company shall pay or reimburse the Executive for the expenses (including, without limitation, reasonable attorneys' fees and expenses) incurred by him in conjunction with preparation and negotiation of this Agreement and any related documents up to a maximum of $10,000.

10. Termination of Employment.

(a) Termination Due to Death. In the event Executive's employment with the Company is terminated due to his death, his estate or his beneficiaries, as the case may be, shall be entitled to and their sole remedies under this Agreement shall be:

(i) Base Salary through the date of death, which shall be paid in a cash lump sum not later than 15 days following Executive's death;

(ii) pro rata annual incentive award for the year in which Executive's death occurs based on the most recently established market target annual cash incentive amount for Executive, which shall be payable in a cash lump sum promptly (but in no event later than 15 days);

(iii) elimination of all restrictions on any restricted or deferred stock awards outstanding at the time of his death (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);

(iv) immediate vesting of all outstanding stock options and the right to exercise such stock options for a period of one year following death or for the remainder of the exercise period, if less (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);

(v) the balance of any incentive awards earned as of December 31 of the prior year (but not yet paid), which shall be paid in a cash lump sum not later than 15 days following the Executive's death;

(vi) settlement of all deferred compensation arrangements in accordance with any then applicable deferred compensation plan or election form; and

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

(b) Termination by the Company for Cause.

(i) "Cause" shall mean:

(A) Executive's willful and material breach of Sections 11, 12 or 13 of this Agreement;

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

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

For purposes of this Agreement, an act or failure to act on Executive's part shall be considered "willful" if it was done or omitted to be done by him not in good faith, and shall not include any act or failure to act resulting from any incapacity of Executive.

(ii) A termination for Cause shall not take effect unless the provisions of this paragraph (ii) are complied with. Executive shall be given written notice by the Company of its intention to terminate him for Cause, such notice (A) to state in detail the particular act or acts or failure or failures to act that constitute the grounds on which the proposed termination for Cause is based and (B) to be given within 90 days of the Company's learning of such act or acts or failure or failures to act. Executive shall have 20 days after the date that such written notice has been given to him in which to cure such conduct, to the extent such cure is possible. If he fails to cure such conduct, Executive shall then be entitled to a hearing before the Committee of the Board at which Executive is entitled to appear. Such hearing shall be held within 25 days of such notice to Executive, provided he requests such hearing within 10 days of the written notice from the Company of the intention to terminate him for Cause. If, within five days following such hearing, Executive is furnished written notice by the Board confirming that, in its judgment, grounds for Cause on the basis of the original notice exist, he shall thereupon be terminated for Cause.

(iii) In the event the Company terminates Executive's employment for Cause, he shall be entitled to and his sole remedies under this Agreement shall be:

(A) Base Salary through the date of the termination of his employment for Cause, which shall be paid in a cash lump sum not later than 15 days following Executive's termination of employment;

(B) any incentive awards earned as of December 31 of the prior year (but not yet paid), which shall be paid in a cash lump sum not later than 15 days following Executive's termination of employment;

(C) settlement of all deferred compensation arrangements in accordance with any then applicable deferred compensation plan or election form; and

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

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

(i) Base Salary through the date of termination of Executive's employment, which shall be paid in a cash lump sum not later than 15 days following the Executive's termination of employment;

(ii) Base Salary, at the annualized rate in effect on the date of termination of Executive's employment (or in the event a reduction in Base Salary is a basis for a Constructive Termination Without Cause, then the Base Salary in effect immediately prior to such reduction), for a period of 24 months (the "Severance Period");

(iii) a pro rata annual incentive award for the year in which Executive's termination occurs based on the most recently established Management Incentive Plan target ("MIP Award"), as determined below, for Executive. The MIP Award will be payable at the conclusion of the annual performance cycle, based on actual performance of the Company as determined in accordance with the Company's 2007 Incentive Plan (the "Plan") or other plan for an executive of the Company as may be in effect from time to time, as certified by the applicable Committee of the Board of Directors of the Company, and paid at the same time the annual incentive award is paid to other similarly-situated executives of the Company, unless otherwise previously elected to be deferred by Executive.

(A) The MIP Award is determined by multiplying the Market Payout Percentage as approved by the Committee for Executive's position, by Executive's base salary in effect on the date of termination, based on the Company's performance for the applicable annual performance cycle.

(B) The amount of the pro rata award will be determined by multiplying the full amount of the MIP Award, as determined above, by a fraction, the numerator of which is the number of months that have elapsed since January 1 through the date of termination of Executive's Employment and the denominator of which is twelve (12);

(iv) an amount equal to the most recently established market target MIP Award (without taking into account the Company's performance) for Executive multiplied by two, payable in equal monthly payments over the Severance Period;

(v) elimination of all restrictions on any restricted or deferred stock awards outstanding at the time of termination of employment (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);

(vi) any outstanding stock options which are unvested shall vest and Executive shall have the right to exercise any vested stock options during the Severance Period or for the remainder of the exercise period, if less (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);

(vii) the balance of any incentive awards, except for awards under the Company's Long-Term Incentive Plan or other such plans which are intended to qualify for deductibility under Section 162(m) of the Code, earned as of December 31 of the prior year (but not yet paid), which shall be paid in a cash lump sum not later than 15 days following Executive's termination of employment;

(viii) a pro rata long-term incentive award, as determined below, for the year in which Executive's termination occurs based on the targets for Executive for performance periods not yet closed under the Company's Long Term Incentive Plan (the "LTIP") with the target for each such performance period being adjusted based on actual performance of the Company as determined in accordance with the LTIP or other plan for an executive of the Company as may be in effect from time to time, as certified by the applicable Committee of the Board of Directors of the Company, and as further adjusted under (A), below, and being payable at the same time such Awards are paid to other similarly-situated executives of the Company, unless otherwise previously elected to be deferred by Executive;

(A) The amount of the pro rata award will be determined by multiplying the full amount of each award, as determined above, by a fraction, the numerator of which is the number of months (treating a part of a month as a full month) that have elapsed since the first day of the applicable performance cycle through the date of termination of Executive's Employment and the denominator of which is the number of months in such performance cycle;

(ix) settlement of all deferred compensation arrangements in accordance with any then applicable deferred compensation plan or election form;

(x) continued participation in all medical, health and life insurance plans at the same benefit level at which he was participating on the date of the termination of his employment until the earlier of:

(A) the end of the Severance Period; or

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

provided that (1) if Executive is precluded from continuing his participation in any employee benefit plan or program as provided in this clause (ix) of this Section 10(c), he shall receive cash payments equal on an after-tax basis to the cost to him of obtaining the benefits provided under the plan or program in which he is unable to participate for the period specified in this clause (ix) of this Section 10(c), (2) such cost shall be deemed to be the lowest reasonable cost that would be incurred by Executive in obtaining such benefit himself on an individual basis, and (3) payment of such amounts shall be made quarterly in advance; and

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

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

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

(A) an assignment of any duties to Executive which are materially inconsistent with his status as a senior officer of the Company;

(B)

approved, cease for any reason to constitute at least a majority of the Board;

(iii) the consummation of a merger or consolidation of the Company (or any subsidiary owning directly or indirectly all or substantially all of the consolidated assets of the Company but in no event assets having a gross fair market value of less than 40% of the total gross fair market value of all of the consolidated assets of the Company (a "Significant Subsidiary")) with any other entity, other than a merger or consolidation which would result in the voting securities of the Company or a Significant Subsidiary outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving or resulting entity) more than 50% of the combined voting power of the surviving or resulting entity outstanding immediately after such merger or consolidation; or

(iv) the consummation of a transaction (or series of transactions within a 12 month period) which constitutes the sale or disposition of all or substantially all of the consolidated assets of the Company but in no event assets having a gross fair market value of less than 40% of the total gross fair market value of all of the consolidated assets of the Company (other than such a sale or disposition immediately after which such assets will be owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the common stock of the Company immediately prior to such sale or disposition)

For purposes of this definition:

(A) The term "Beneficial Owner" shall have the meaning ascribed to such term in Rule 13d-3 under the Exchange Act (including any successor to such Rule).

(B) The term "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.

(C) The term "Person" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including "group" as defined in Section 13(d) thereof.

(d) Voluntary Termination. In the event of a termination of employment by Executive on his own initiative after delivery of 10 business days advance written notice, other than a termination due to death, a Constructive Termination Without Cause, or Approved Early Retirement or Normal Retirement pursuant to Section 10(f) below, Executive shall have the same entitlements as provided in Section 10(b)(iii) above for a termination for Cause, provided that at the Company's election, furnished in writing to Executive within 15 days following such notice of termination, the Company shall in addition pay the Executive 50% of his Base Salary for a period of 18 months following such termination in exchange for Executive not engaging in competition with the Company or any Subsidiary as set forth in Section 12(a) below, and further provided that if the Company makes such an election, the Company's obligation to pay

Executive his monthly Base Salary and Executive's obligation not to engage in competition with the Company or any Subsidiary shall terminate upon the occurrence of a Change in Control. Notwithstanding any implication to the contrary, Executive shall not have the right to terminate his employment with the Company during the Term of Employment except in the event of a Constructive Termination Without Cause, Approved Early Retirement, or Normal Retirement, and any voluntary termination of employment during the Term of Employment in violation of this Agreement shall be considered a material breach.

(e) Termination Without Cause; Constructive Termination Without Cause or Voluntary Termination Following a Change in Control. In the event Executive's employment with the Company is terminated by the Company without Cause (which termination shall be effective as of the date specified by the Company in a written notice to Executive), other than due to death, or in the event there is a Constructive Termination Without Cause (as defined above), in either case within two years following a Change in Control (as defined above), Executive shall be entitled to and his sole remedies under this Agreement shall be:

(i) Base Salary through the date of termination of Executive's employment, which shall be paid in a cash lump sum not later than 15 days following Executive's termination of employment;

(ii) an amount equal to three times Executive's Base Salary, at the annualized rate in effect on the date of termination of Executive's employment (or in the event a reduction in Base Salary is a basis for a Constructive Termination Without Cause, then the Base Salary in effect immediately prior to such reduction), payable in a cash lump sum promptly (but in no event later than 15 days) following Executive's termination of employment;

(iii) pro rata annual incentive award for the year in which Executive's termination occurs based on the most recently established market target amount, as determined below, for Executive, payable in a cash lump sum promptly (but in no event later than 15 days or by such later date as is required to comply with Section 22) following Executive's termination of employment;

(A) The amount of the pro rata award will be determined by multiplying the full amount of the market target amount, by a fraction, the numerator of which is the number of months that have elapsed since January 1 through the date of termination of Executive's Employment and the denominator of which is twelve (12);

(iv) an amount equal to the MIP Award based on the most recently established market target amount for Executive multiplied by three, payable in a cash lump sum promptly (but in no event later than 15 days) following Executive's termination of employment;

(v) elimination of all restrictions on any restricted or deferred stock awards outstanding at the time of termination of employment (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);

(vi) immediate vesting of all outstanding stock options and the right to exercise such stock options during the Severance Period or in accordance with their terms, if longer (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);

(vii) the balance of any incentive awards earned as of December 31 of the prior year (but not yet paid), which shall be paid in a single lump sum not later than 15 days following the Executive's termination of employment;

(viii) immediate vesting of Executive's accrued benefits under any supplemental retirement benefit plan ("SERP") maintained by the Company, with payment of such benefits to be made in accordance with the terms and conditions of the SERP;

(ix) settlement of all deferred compensation arrangements in accordance with any then applicable deferred compensation plan or election form;

(x) continued participation in all medical, health and life insurance plans at the same benefit level at which he was participating on the date of termination of his employment until the earlier of:

(A) the end of the Severance Period; or

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

provided that (1) if Executive is precluded from continuing his participation in any employee benefit plan or program as provided in this clause (x) of this Section 10(e), he shall receive cash payments equal on an after-tax basis to the cost to him of obtaining the benefits provided under the plan or program in which he is unable to participate for the period specified in this clause (x) of this Section 10(e), (2) such cost shall be deemed to be the lowest reasonable cost that would be incurred by Executive in obtaining such benefit himself on an individual basis, and (3) payment of such amounts shall be made quarterly in advance; and

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

For purposes of any termination pursuant to this Section 10(e), the term "Severance Period" shall mean the period of 36 months following the termination of the Executive's employment.

(f) Approved Early Retirement or Normal Retirement. Upon Executive's Approved Early Retirement or Normal Retirement (each as defined below), Executive shall be entitled to and his sole remedies under this Agreement shall be:

(i) Base Salary through the date of termination of Executive's employment, which shall be paid in a cash lump sum not later than 15 days following Executive's termination of employment;

(ii) pro rata cash portion of MIP Award for the year in which termination occurs, determined in accordance with Section 10(c)(iii) above;

(iii) elimination of all restrictions on any restricted stock awards outstanding at the time of Executive's termination of employment;

(iv) continued vesting (as if Executive remained employed by the Company) of any deferred stock awards outstanding at the time of his termination of employment (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards);

(v) continued vesting of all outstanding stock options and the right to exercise such stock options (including, for the avoidance of doubt, after Executive's death by any person to whom the award passes by will or the laws of descent and distribution following Executive's death) for a period of one year following the later of the date the options are fully vested or Executive's termination of employment or for the remainder of the exercise period, if less (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards); provided, however, that options granted pursuant to the Company's 1987 Stock Option Plan shall in no event be exercisable after three years following termination of employment;

(vi) the balance of any incentive awards earned as of December 31 of the prior year (but not yet paid), which shall be paid in a single lump sum not later than 15 days following Executive's termination of employment;

(vii) settlement of all deferred compensation arrangements in accordance with any then applicable deferred compensation plan or election form; and

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

"Approved Early Retirement" shall mean Executive's voluntary termination of employment with the Company at or after attaining age 55 but prior to attaining age 60, if such termination is approved in advance by the Committee.

"Normal Retirement" shall mean Executive's voluntary termination of employment with the Company at or after attaining age 60.

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

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

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

(j) Release of Employment Claims. Executive agrees, as a condition to his entitlement to receipt of the termination payments and benefits provided for in this Section 10, that he will execute within sixty (60) days of Executive's termination of employment a release agreement, in a form reasonably satisfactory to the Company, releasing any and all claims arising out of Executive's employment (other than enforcement of this Agreement, Executive's rights under any of the Company's incentive compensation and employee benefit plans and programs to which he is entitled under this Agreement, any rights to indemnification to which Executive may be entitled or which may have been granted to him, any rights of indemnification to which Executive may be entitled under any policy of insurance, and any claim for any tort for personal injury not arising out of or related to his termination of employment).

(k) Subject to the provisions of Section 22(b), all payments to be made pursuant to this Section 10 upon the termination of employment of Executive shall be made or commence, as the case may be, within 75 days after Executive's termination of employment provided, however, that if such termination of employment is after October 17 of a year, the payout or first payment, as the case may be, shall be made at the end of such 75 day period.

(l) For the avoidance of doubt, the provisions of this Agreement, insofar as they pertain to any stock option awarded to Executive, apply and shall be deemed to govern notwithstanding any contrary term in any agreement awarding such stock option to Executive.

(m) For the avoidance of doubt, the provisions of the CVS/pharmacy Long-Term Incentive Plan, insofar as they pertain to any LTIP award to Executive, apply; provided, however, that the terms of the LTIP plan should be read together with this Agreement and the terms and provisions of this Agreement shall be deemed to govern notwithstanding any contrary term or provision in the LTIP plan.

11. Confidentiality; Cooperation with Regard to Litigation; Non-disparagement.

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

(b) During the Term of Employment and thereafter, Executive shall not disclose the existence or contents of this Agreement beyond what is disclosed in the proxy statement or documents filed with the government unless and to the extent such disclosure is required by law, by a governmental agency, or in a document required by law to be filed with a governmental agency or in connection with enforcement of his rights under this Agreement. In the event that disclosure is so required, Executive shall give prompt written notice to the

Company in order to allow the Company the opportunity to object to or otherwise resist such requirement. This restriction shall not apply to such disclosure by him to members of his immediate family, his tax, legal or financial advisors, any lender, or tax authorities, or to potential future employers to the extent necessary, each of whom shall be advised not to disclose such information.

(c) "Confidential Information" shall mean all information concerning the business of the Company or any Subsidiary relating to any of their products, product development, trade secrets, customers, suppliers, finances, and business plans and strategies. Excluded from the definition of Confidential Information is information (i) that is or becomes part of the public domain, other than through the breach of this Agreement by Executive or (ii) regarding the Company's business or industry properly acquired by Executive in the course of his career as an executive in the Company's industry and independent of Executive's employment by the Company. For this purpose, information known or available generally within the trade or industry of the Company or any Subsidiary shall be deemed to be known or available to the public.

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

(e) Executive agrees to cooperate with the Company, during the Term of Employment and thereafter (including following Executive's termination of employment for any reason), by making himself reasonably available to testify on behalf of the Company or any Subsidiary in any action, suit, or proceeding, whether civil, criminal, administrative, or investigative, and to assist the Company, or any Subsidiary, in any such action, suit, or proceeding, by providing information and meeting and consulting with the Board or its representatives or counsel, or representatives or counsel to the Company, or any Subsidiary as reasonably requested; provided, however, that the same does not materially interfere with his then current professional activities. The Company agrees to reimburse Executive, on an after-tax basis, for all expenses actually incurred in connection with his provision of testimony or assistance.

(f) Executive agrees that, during the Term of Employment and thereafter (including following Executive's termination of employment for any reason) he will not make statements or representations, or otherwise communicate, directly or indirectly, in writing, orally, or otherwise, or take any action which may, directly or indirectly, disparage the Company or any Subsidiary or their respective officers, directors, employees, advisors, businesses or reputations. The Company agrees that, during the Term of Employment and thereafter (including following Executive's termination of employment for any reason), the Company will not make statements or representations, or otherwise communicate, directly or indirectly, in writing, orally, or otherwise, or take any action which may, directly or indirectly, disparage Executive or his business or reputation. Notwithstanding the foregoing, nothing in this Agreement shall preclude either Executive or the Company from making truthful statements or disclosures that are required by applicable law, regulation or legal process.

12. Non-competition.

(a) During the Restriction Period (as defined in Section 12(b) below), Executive shall not engage in Competition with the Company or any Subsidiary. "Competition" shall mean engaging in any activity, except as provided below, for a Competitor of the Company or any Subsidiary, whether as an employee, consultant, principal, agent, officer, director, partner, shareholder (except as a less than one percent shareholder of a publicly traded company) or otherwise. A "Competitor" shall mean any corporation or other entity (and its parents, subsidiaries and affiliates) doing business in a geographical area in which the

Company is doing or has imminent plans to do business, and which is engaged in the operation of (a) a retail business which includes or has imminent plans to include a pharmacy (*i.e.*, the sale of prescription drugs) as an offering or component of its business, including, without limitation, chain drug store companies such as Walgreen Co. or Rite Aid Corporation, mass merchants such as Wal-Mart Stores, Inc. or Target Corp., and food/drug combinations such as The Kroger Co. or Supervalu Inc.; and/or (b) a business which includes or has imminent plans to include mail order prescription, specialty pharmacy and/or pharmacy benefits management as an offering or component of its business, such as Medco Health Solutions, Inc., or Express Scripts, Inc.; and/or (c) a business which includes or has imminent plans to include offering, marketing or the sale of basic acute health care services at retail or other business locations, similar to the services provided by MinuteClinic, Inc. (and excluding hospitals, private physicians' offices, or other businesses dedicated to the direct provision of health care services); and/or (d) any other business in which the Company is or has imminent plans to be engaged (whether directly or indirectly, including through any joint venture) at the time of Executive's termination. Executive shall not be deemed indirectly overseeing or managing the activities of such Competitor which are competitive with the activities of the Company or Subsidiary so long as he does not regularly participate in discussions with regard to the conduct of the competing business. The parties agree that the purpose of this provision is to protect the Company's confidential information, trade secrets and/or business relationships, and that it shall only be enforceable for such purpose.

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

(i) in the case of a termination of Executive's employment without Cause or a Constructive Termination Without Cause, in either case prior to a Change in Control, the earlier of (1) 24 months after such termination and (2) the occurrence of a Change in Control;

(ii) in the case of a termination of Executive's employment for Cause, the earlier of (1) 24 months after such termination and (2) the occurrence of a Change in Control;

(iii) in the case of a voluntary termination of Executive's employment pursuant to Section 10(d) above followed by the Company's election to pay Executive (and subject to the payment of) 50% of his Base Salary, as provided in Section 10(d) above, the earlier of (1) 18 months after such termination and (2) the occurrence of a Change in Control;

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

(v) in the case of Approved Early Retirement or Normal Retirement pursuant to Section 10(f) above, the remainder of the Term of Employment; or

(vi) in the case of a termination of Executive's employment without Cause or a Constructive Termination Without Cause, in either case following a Change in Control, immediately upon such termination of employment.

13. Non-solicitation.

During the period beginning with Effective Date and ending at the end of the Restriction Period, as defined in Section 12(b), Executive shall not induce employees of the Company or any Subsidiary to terminate their employment, nor shall Executive solicit or encourage any of the Company's or any Subsidiary's non-retail customers, or any corporation or other entity in a joint venture relationship (directly or indirectly) with the Company or any Subsidiary, to terminate or diminish their relationship with the Company or any Subsidiary or to violate any agreement with any of them. During such period, Executive shall not hire, either directly or through any employee, agent or representative, any employee of the Company or any Subsidiary or any person who was employed by the Company or any Subsidiary within 180 days of such hiring.

14. Remedies.

If Executive breaches any of the provisions contained in Sections 11, 12 or 13 above, the Company (a) subject to Section 15, shall have the right to immediately terminate all payments and benefits due under this Agreement and (b) shall have the right to seek injunctive relief. Executive acknowledges that such a breach of Sections 11, 12 or 13 would cause irreparable injury and that money damages would not provide an adequate remedy for the Company; provided, however, the foregoing shall not prevent Executive from contesting the issuance of any such injunction on the ground that no violation or threatened violation of Section 11, 12 or 13 has occurred.

15. Resolution of Disputes.

Any controversy or claim arising out of or relating to this Agreement or any breach or asserted breach hereof or questioning the validity and binding effect hereof arising under or in connection with this Agreement, other than seeking injunctive relief under Section 14, shall be resolved by binding arbitration, to be held at an office closest to the Company's principal offices in accordance with the rules and procedures of the American Arbitration Association. Judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Pending the resolution of any arbitration or court proceeding, the Company shall continue payment of all amounts and benefits due Executive under this Agreement. All costs and expenses of any arbitration or court proceeding (including fees and disbursements of counsel) shall be borne by the respective party incurring such costs and expenses, but the Company shall reimburse Executive for such reasonable costs and expenses in the event he substantially prevails in such arbitration or court proceeding. Notwithstanding the foregoing, following a Change in Control all reasonable costs and expenses (including fees and disbursements of counsel) incurred by Executive pursuant to this Section 15 shall be paid on behalf of or reimbursed to Executive promptly by the Company; provided, however, that no reimbursement shall be made of such expenses if and to the extent the arbitrator(s) determine(s) that any of Executive's litigation assertions or defenses were in bad faith or frivolous.

16. Indemnification.

(a) Company Indemnity. The Company agrees that if Executive is made a party, or is threatened to be made a party, to any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that he is or was a director, officer or employee of the Company or any Subsidiary or is or was serving at the request of the Company or any Subsidiary as a director, officer, member, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether or not the basis of such Proceeding is Executive's alleged action in an official capacity while serving as a director, officer, member, employee or agent, Executive shall be indemnified and held harmless by the Company to the fullest extent legally permitted or authorized by the Company's certificate of incorporation or bylaws or resolutions of the Company's Board or, if greater, by the laws of the State of Delaware against all cost, expense, liability and loss (including, without limitation, attorney's fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by Executive in connection therewith, and such indemnification shall continue as to Executive even if he has ceased to be a director, member, officer, employee or agent of the Company or other entity and shall inure to the benefit of Executive's heirs, executors and administrators. The Company shall advance to Executive all reasonable costs and expenses to be incurred by him in connection with a Proceeding within 20 days after receipt by the Company of a written request for such advance. Such request shall include an undertaking by Executive to repay the amount of such advance if it shall ultimately be determined that he is not entitled to be indemnified against such costs and expenses. The provisions of this Section 16(a) shall not be deemed exclusive of any other rights of indemnification to which Executive may be entitled or which may be granted to him, and it shall be in addition to any rights of indemnification to which he may be entitled under any policy of insurance.

(b) No Presumption Regarding Standard of Conduct. Neither the failure of the Company (including its Board, independent legal counsel or stockholders) to have made a determination prior to the commencement of any proceeding concerning payment of amounts claimed by Executive under Section 16(a) above that indemnification of Executive is proper because he has met the applicable standard of conduct, nor a determination by the Company (including its Board, independent legal counsel or stockholders) that Executive has not met such applicable standard of conduct, shall create a presumption that Executive has not met the applicable standard of conduct.

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

17. Excise Tax Gross-Up.

If while a member of the Business Planning Committee Executive becomes entitled to one or more payments (with a "payment" including, without limitation, the vesting of an option or other non-cash benefit or property), whether pursuant to the terms of this Agreement or any other plan, arrangement, or agreement with the Company or any affiliated company (the "Total Payments"), which are or become subject to the tax imposed by Section 4999 of the Code (or any similar tax that may hereafter be imposed) (the "Excise Tax"), the Company shall pay to Executive at the time specified below an additional amount (the "Gross-up Payment") (which shall include, without limitation, reimbursement for any penalties and interest that may accrue in respect of such Excise Tax) such that the net amount retained by the Executive, after reduction for any Excise Tax (including any penalties or interest thereon) on the Total Payments and any federal, state and local income or employment tax and Excise Tax on the Gross-up Payment provided for by this Section 17, but before reduction for any federal, state, or local income or employment tax on the Total Payments, shall be equal to the sum of (a) the Total Payments, and (b) an amount equal to the product of any deductions disallowed for federal, state, or local income tax purposes because of the inclusion of the Gross-up Payment in Executive's adjusted gross income multiplied by the highest applicable marginal rate of federal, state, or local income taxation, respectively, for the calendar year in which the Gross-up Payment is to be made. For purposes of determining whether any of the Total Payments will be subject to the Excise Tax and the amount of such Excise Tax:

(i) The Total Payments shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(b)(1) of the Code shall be treated as subject to the Excise Tax, unless, and except to the extent that, in the written opinion of independent compensation consultants, counsel or auditors of nationally recognized standing ("Independent Advisors") selected by the Company and reasonably acceptable to the Executive, the Total Payments (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code or are otherwise not subject to the Excise Tax;

(ii) The amount of the Total Payments which shall be treated as subject to the Excise Tax shall be equal to the lesser of (A) the total amount of the Total Payments or (B) the total amount of excess parachute payments within the meaning of Section 280G(b)(1) of the Code (after applying clause (i) above); and

(iii) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the Independent Advisors in accordance with the principles of Sections 280G(d)(3) and (4) of the Code.

For purposes of determining the amount of the Gross-up Payment, Executive shall be deemed (A) to pay federal income taxes at the highest marginal rate of federal income taxation for the calendar year in which the Gross-up Payment is to be made; (B) to pay any applicable state and local income taxes at the highest marginal rate of taxation for the calendar year in which the Gross-up Payment is to be made, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes if paid in such year (determined without regard to limitations on deductions based upon the amount of Executive's adjusted gross income); and (C) to have otherwise allowable deductions for federal, state, and local income tax purposes at least equal to those disallowed because of the inclusion of the Gross-up Payment in Executive's adjusted gross income. In the event that the Excise Tax is subsequently determined to be less than the amount taken into account hereunder at the time the Gross-up Payment is made, Executive shall repay to the Company at the time that the amount of such reduction in Excise Tax is finally determined (but, if previously paid to the taxing authorities, not prior to the time the amount of such reduction is refunded to Executive or otherwise realized as a benefit by Executive) the portion of the Gross-up Payment that would not have been paid if such Excise Tax had been applied in initially calculating the Gross-up Payment, plus interest on the amount of such repayment at the rate provided in Section 1274(b)(2)(B) of the Code. In the event that the Excise Tax is determined to exceed the amount taken into account hereunder at the time the Gross-up Payment is made (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-up Payment), the Company shall make an additional Gross-up Payment in respect of such excess (plus any interest and penalties payable with respect to such excess) at the time that the amount of such excess is finally determined.

The Gross-up Payment provided for above shall be paid on the 30th day (or such earlier date as the Excise Tax becomes due and payable to the taxing authorities) after it has been determined that the Total Payments (or any portion thereof) are subject to the Excise Tax; provided, however, that if the amount of such Gross-up Payment or portion thereof cannot be finally determined on or before such day, the Company shall pay to Executive on such day an estimate, as determined by the Independent Advisors, of the minimum amount of such payments and shall pay the remainder of such payments (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code), as soon as the amount thereof can be determined. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to Executive, payable on the fifth day after demand by the Company (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code). If more than one Gross-up Payment is made, the amount of each Gross-up Payment shall be computed so as not to duplicate any prior Gross-up Payment. The Company shall have the right to control all proceedings with the Internal Revenue Service that may arise in connection with the determination and assessment of any Excise Tax and, at its sole option, the Company may pursue or forego any and all administrative appeals, proceedings, hearings, and conferences with any taxing authority in respect of such Excise Tax (including any interest or penalties thereon); provided, however, that the Company's control over any such proceedings shall be limited to issues with respect to which a Gross-up Payment would be payable hereunder, and Executive shall be entitled to settle or contest any other issue raised by the Internal Revenue Service or any other taxing authority. Executive shall cooperate with the Company in any proceedings relating to the determination and assessment of any Excise Tax and shall not take any position or action that would materially increase the amount of any Gross-Up Payment hereunder.

18. Effect of Agreement on Other Benefits.

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

19. Assignability; Binding Nature.

This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, heirs (in the case of Executive) and permitted assigns. No rights or obligations of the Company under this Agreement may be assigned or transferred by the Company except that such rights or obligations may be assigned or transferred in connection with the sale or transfer of all or substantially all of the assets of the Company, provided that the assignee or transferee is the successor to all or substantially all of the assets of the Company and such assignee or transferee assumes the liabilities, obligations and duties of the Company, as contained in this Agreement, either contractually or as a matter of law. The Company further agrees that, in the event of a sale or transfer of assets as described in the preceding sentence, it shall take whatever action it legally can in order to cause such assignee or transferee to expressly assume the liabilities, obligations and duties of the Company hereunder. No rights or obligations of Executive under this Agreement may be assigned or transferred by Executive other than his rights to compensation and benefits, which may be transferred only by will or operation of law, except as provided in Section 25 below.

20. Representation.

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

21. Entire Agreement.

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

22. Amendment or Waiver; Section 409A of the Code.

(a) No provision in this Agreement may be amended unless such amendment is agreed to in writing and signed by Executive and an authorized officer of the Company. Except as set forth herein, no delay or omission to exercise any right, power or remedy accruing to any Party shall impair any such right, power or remedy or shall be construed to be a waiver of or an acquiescence to any breach hereof. No waiver by either Party of any breach by the other Party of any condition or provision contained in this Agreement to be performed by such other Party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and signed by Executive or an authorized officer of the Company, as the case may be.

(b) Executive and Company agree that it is the intent of the parties that this Agreement not violate any applicable provision of, or result in any additional tax or penalty under, Section 409A of the Internal Revenue Code of 1986 (the "Code"), as amended, and that to the extent any provisions of this Agreement do not comply with such Code Section 409A the parties will make such changes as are mutually agreed upon in order to comply with Code Section 409A. In all events, to the extent required to avoid a violation of the applicable rules under all Section 409A by reason of Section 409A(a)(2)(B)(i) of the Code, payment of any amounts subject to Section 409A of the Code shall be delayed until the relevant date of payment that will result in compliance with the rules of Section 409A(a)(2)(B)(i) of the Code.

23. Severability.

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

24. Survivorship.

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

25. Beneficiaries/References.

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

26. Governing Law/Jurisdiction.

This Agreement shall be governed by and construed and interpreted in accordance with the laws of Rhode Island without reference to principles of conflict of laws. Subject to Section 15, the Company and Executive hereby consent to the jurisdiction of any or all of the following courts for purposes of resolving any dispute under this Agreement: (i) the United States District Court for Rhode Island or (ii) any of the courts of the State of Rhode Island. The Company and Executive further agree that any service of process or notice requirements in any such proceeding shall be satisfied if the rules of such court relating thereto have been substantially satisfied. The Company and Executive hereby waive, to the fullest extent permitted by applicable law, any objection which it or he may now or hereafter have to such jurisdiction and any defense of inconvenient forum.

27. Notices.

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

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| If to the Company: | CVS Caremark Corporation<br>One CVS Drive<br>Woonsocket, Rhode Island 02895<br>Attention: Corporate Secretary |
| If to Executive: | Douglas A. Sgarro<br>307 Rumstick Road<br>Barrington, Rhode Island 02806 |

28. Headings.

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

29. Counterparts.

This Agreement may be executed in two or more counterparts.

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

**CVS CAREMARK CORPORATION**

By: ______________________________

V. Michael Ferdinandi
Senior Vice President, Human Resources
and Corporate Communications

**DOUGLAS A. SGARRO**

______________________________

**Exhibit 10.40**

**Amendments to Term Sheet**

WHEREAS, Howard McLure ("**Executive**") is covered by a Term Sheet that became effective on March 22, 2008; and

WHEREAS, CVS Caremark Corporation (the "**Company**") and the Executive wish to make the amendments described below in order to comply with the provisions of Section 409A of the Internal Revenue Code ("**IRC**") as well as make certain other conforming changes.

NOW, THEREFORE, for good and valuable consideration the parties hereto agree to the following changes to the Term Sheet, such changes to be effective December 31, 2008.

1. The following words shall be added to the end of the second to last sentence in the Deferral Account section of the Term Sheet.

   "if Executive is a "specified employee" as defined in the Section 409A Definitions for Term Sheet Amendments Document."

2. The following words shall be added to the end of the Benefits section of the Term Sheet.

   "such continuation to be accomplished in a manner that does not violate Section 409A of the IRC."

3. The first clause (ii) in the Termination section of the Term Sheet is changed to read as follows:

   "(ii) a lump sum pro rata portion of Executive's market target annual cash incentive amount for the year of termination as adjusted for actual performance of the Company for the applicable performance period in a manner similar to the adjustment for other similarly situated executives and multiplied by a fraction, the numerator of which is the number of months (treating a partial month as a month) and the denominator of which is the number of months in the performance period ("Pro Rata Bonus")."

4. The third clause (iii) in the Termination Section of the Term Sheet is changed to read as follows:

"(iii) an amount equal to 1.5 times the sum of Executive's (A) Base Salary and (B) market target annual cash incentive amount, payable in a cash lump sum promptly (but in no event earlier than 15 days) following Executive's termination of employment."

5. The definition of the term Change in Control of the Company in Attachment A is deleted and the term "Change in Control" shall have the meaning described in the Section 409A Definitions for Term Sheet Amendments Document, provided that the final sentence of Attachment A ("For the avoidance of doubt, the Merger shall not constitute a Change in Control of the Company.") shall remain as the final sentence of Attachment A.

6. For purposes of the Term Sheet, "termination of employment," "employment terminates" and similar words shall have the meaning described in the Section 409A Definitions for Term Sheet Amendments Document.

7. The Excise Tax section of the Term Sheet is amended to read as follows:

"To the extent that any payments or benefits received by the Executive (i) as a result of the Merger, or (ii) as a result of a Change in Control that occurs while the Executive is a member of the Business Planning Committee of the Company, result in an excise tax payable by the Executive under IRC § 4999, the Company shall promptly pay to the Executive an additional amount necessary to place the Executive in the after-tax position that Executive would be in if IRC § 4999 did not apply with respect to such payments or benefits received by the Executive in (i) provided, however, that any payment of such amount to the Executive shall be delayed to the minimum extent necessary to avoid the imposition of additional tax under § 409A of the IRC."

8. The following language is added at the end of the Term Sheet:

"All payments to be made to Executive under the Term Sheet upon Executive's termination of employment shall be made no later than 75 days after such termination of employment."

9. This amendment may be executed in this or more counterparts.

IN WITNESS WHEREOF, the undersigned has executed this Agreement on the dates shown below.

Date: December 22, 2008

**CVS Caremark Corporation**

By: ______________________
V. Michael Ferdinandi
Senior Vice President, Human Resources, Corporate Communications & Community Relations

Date: December , 2008

______________________
Howard McLure

**Exhibit 10.41**

**CVS CORPORATION**

**TO:** Howard McLure
**FROM:** CVS Corporation
**DATE:** November 1, 2006

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Caremark Rx, Inc. ("**Caremark**") has entered into an Agreement and Plan of Merger among Caremark, CVS Corporation (the "**Company**") and a merger subsidiary formed by the Company (the "**Merger Agreement**"), pursuant to which Caremark will become an indirect wholly owned subsidiary of the Company (the "**Merge**r") effective as of the Effective Time, as defined in the Merger Agreement (the "**Effective Time**"). You, CVS and Caremark hereby agree that effective as of the Effective Time you will transfer your employment from Caremark to the Company pursuant to the terms provided in the attached Term Sheet, which is incorporated herein by reference (the "**Term Sheet**"), and the Company agrees to employ you pursuant to the terms of the Term Sheet. Subject to the conditions set forth in the Term Sheet, effective as of the Effective Time the agreement embodied in this letter agreement and the Term Sheet shall supersede and replace your existing employment agreement with Caremark dated December 3, 2001 (as amended) (the "**Caremark Agreement**"). You and the Company have agreed to act in good faith to enter into a formal written Employment Agreement incorporating the terms set forth in the Term Sheet, with the intention that such Employment Agreement will be executed prior to the Effective Time; provided, however, that this letter agreement and the attached Term Sheet will remain effective and will be fully binding upon you and the Company unless and until such Employment Agreement is executed and approved in writing by you and the Company.

If the terms above and the terms set forth in the Term Sheet fully and accurately reflect our agreement regarding the matters addressed, please indicate your agreement by signing in the space provided.

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| CVS Corporation | Caremark Rx, Inc. |
| By: ______________ | By: ______________ |
| Name: | Name: |

I, Howard McLure, hereby agree that the terms set forth in this letter and the attached Term Sheet fully and accurately reflect our agreement regarding the matters addressed.

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**TERM SHEET**

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| Definitions: | Except as otherwise provided, defined terms used herein shall have the meaning set forth in the accompanying letter agreement. |
| Position/Duties: | Howard McLure (the "**Executive**") shall serve as President of PBM with duties and responsibilities consistent with such position and reporting directly to the CEO of the Company for a period of 36 months commencing as of the Effective Time or such shorter period determined under the termination provisions set forth below (such period of service, the "**Employment Term**"). During the Employment Term, the Executive shall devote Executive's efforts and attention to the business of the Company on a full time basis and shall perform such duties as shall reasonably be determined by the CEO of the Company consistent with Executive's position. If the Executive remains employed as of the end of the foregoing 36-month period, the Executive and the Company acting in good faith will seek to negotiate a new employment agreement for stated periods commencing after the 36th month. |
| Compensation: | During the Employment Term, the Company shall pay the Executive an annual base salary equal to at least $728,000 (the "**Base Salary**") and the Executive shall be eligible for an annual bonus with a target of at least 100% of the Executive's Base Salary (the "**Target Bonus**"). The Company may increase (but not decrease) the Base Salary and Target Bonus during the Employment Term and the terms Base Salary and Target Bonus shall refer to such items as they may be increased from time to time. |
| Deferral Account: | As of the Effective Time, the Company will establish for the Executive a deferred compensation account in the Executive's name with an initial balance (the "**Deferred Amount**") equal to the Designated Percentage (defined below) of the maximum amount of all severance benefits that the Executive would be entitled to receive pursuant to Section 4(4)(d) of the Caremark Agreement (including the present value of the benefits provided thereunder, but excluding equity compensation benefits), if Executive's employment and the Caremark Agreement were terminated immediately after the Effective Time (the "**Severance Benefits**"). For the duration of the deferral period, the Deferred Amount shall earn interest at a rate equal to the prior month 1 Year Constant Maturity Treasury Rate as determined each month by the Federal Reserve, compounded quarterly. In addition, as of the Effective Time, the Company shall grant the Executive restricted stock units (the "**Deferred Stock Units**") in respect of the number |

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| | of shares of Company common stock with a value (based on the closing price of a share of Company common stock as of the Effective Date) equal to the Designated Percentage (defined below) of the amount of the Severance Benefits. Dividend equivalents will be paid during the deferral period and when dividends are paid on the Company's common stock. The "**Designated Percentage**" shall mean: (1) with respect to the Deferred Stock Units, a percentage not to exceed 50 as designated by the Executive not later than 30 days prior to the Effective Time and (2) with respect to the Deferred Amount, a percentage equal to 100 minus the percentage number designated by the Executive under (1) above. The Deferred Amount plus accrued interest and the Deferred Stock Units shall be distributed to the Executive in a lump sum as soon as practicable after the third anniversary of the Effective Time or such later date the Executive has irrevocably elected; provided however, that the Deferred Amount plus accrued interest and the Deferred Stock Units shall be settled to the Executive (or Executive's designated beneficiary or estate, as the case may be) as soon as practicable after Executive's death or any termination of Executive's employment. The Deferred Amount plus accrued interest shall be paid in cash and the Deferred Stock Units shall be settled in properly registered shares of Company common stock. The foregoing payments will be delayed to the minimum extent required to avoid additional tax under Section 409A of the IRC. The Deferred Amount, any accrued interest and the Deferred Stock Units shall hereinafter be referred to collectively as the "**Deferral Account**". |
| Restricted Stock Unit Grant: | As of the Effective Time, the Company will award to the Executive a Restricted Stock Unit grant in respect of the number of shares of Company common stock with a value (based on the closing price of a share of Company common stock as of the Effective Date) equal to $1,500,000 ("**RSU Award**"). The RSU Award will cliff vest on the 3rd anniversary of the grant date, subject to the termination provisions below. Dividend equivalents on the RSU Award will be paid to the Executive in cash during the vesting period and when dividends are paid on the Company's common stock. The RSU Award will be in addition to the Executive's normal annual equity opportunity. The RSU Award will be settled in properly registered shares of Company common stock as of the date they become vested or such later date the Executive has irrevocably elected. The settlement of the RSU Award will be subject to delay to the minimum extent required under Section 409A of the IRC. |
| Benefits: | During the Employment Term, the Executive shall receive benefits and perquisites comparable to the benefits and perquisites provided |

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| | to similarly situated senior executives of the Company. Following termination of the Executive's services hereunder during the Employment Term for any reason other than death, disability or termination by the Company for Cause or by the Executive without Good Reason, the Executive shall be entitled to a continuation of Executive's benefits for two years. |
| Termination: | Upon a termination of the Executive's employment, all payments and benefits shall be structured, or delayed to the minimum extent required, to avoid additional tax under § 409A of the IRC.<br>Upon a termination of the Executive's employment during the Employment Term by the Company without Cause or by the Executive for Good Reason, the Executive shall be entitled, upon execution of a general waiver and release of claims against the Company and its affiliates, to:<br>(i) earned but unpaid Base Salary and Target Bonus as of the termination date ("**Accrued Compensation**")<br>(ii) a lump sum pro rata portion of Executive's Target Bonus for the year of termination ("**Pro Rata Bonus**")<br>(iii) settlement of 100% of the Executive's Deferral Account balance, as described above<br>(iv) 100% vesting and settlement of the RSU Award, as described above<br>Upon a termination of the Executive's employment during the Employment Term due to death or disability, the Executive, or the Executive's estate, shall be entitled to receive:<br>(i) Accrued Compensation<br>(ii) Pro Rata Bonus<br>(iii) settlement of 100% of the Executive's Deferral Account balance as described above<br>(iv) 100% vesting and settlement of the RSU Award, as described above<br>Upon a termination of the Executive's employment during the Employment Term by the Company for Cause or by the Executive without Good Reason, the Executive shall be entitled to:<br>(i) Accrued Compensation<br>(ii) settlement of 100% of the Executive's Deferral Account balance as described above<br>In the event of a termination of the Executive's employment during the Employment Term by the Company for Cause or by the Executive without Good Reason, the Executive will forfeit the RSU Award. |

For purposes of this Term Sheet, "**Good Reason**" shall mean: (i) an involuntary relocation of Executive's principal place of employment outside a 35-mile radius of Executive's principal place of employment as of the Effective Time, (ii) a material diminution in Executive's position, duties and responsibilities or reporting relationship specified above, (iii) an assignment of any duties or responsibilities to the Executive which are inconsistent with Executive's status as a senior executive of the Company, (iv) a reduction in Executive's Base Pay or Target Bonus or (v) a reduction in Executive's benefits and perquisites below the level provided to similarly situated executives of the Company.

For purposes of this Term Sheet, "**Cause**" means (i) the Executive's willful and continued failure to perform Executive's duties hereunder after written demand is delivered by the Company to the Executive specifying the manner in which the Executive has failed to perform such duties; (ii) the Executive's misappropriation of any significant assets or opportunities of the Company; (iii) willful conduct by the Executive which is demonstrably injurious to the Company; (iv) the Executive's breach of the Restrictive Covenants below; provided that no termination shall be for Cause unless the Executive has been provided a reasonable "cure" period after notice from the Company, to the extent susceptible of cure.

Notwithstanding anything to the contrary, in the event the Executive's employment with the Company is terminated by the Company without Cause (other than due to death or disability) or in the event there is a Termination Without Cause, in either case during the Employment Term and within two years following a Change in Control of the Company, the Executive shall be entitled to receive the following benefits in lieu of the benefits described above:

(i) Accrued Compensation

(ii) Pro Rata Bonus

(iii) an amount equal to 1.5 times the sum of Executive's Base Salary and Target Bonus payable in a cash lump sum promptly (but in no event later than 15 days) following the Executive's termination of employment

(iv) settlement of 100% of Executive's Deferral Account balance (as described above), 100% vesting and settlement of the RSU Award (as described above) and elimination of all restrictions on any restricted or deferred stock awards outstanding at the time of termination of employment (other than awards under the Company's Partnership Equity Program, which shall be governed by the terms of such awards)

(v) immediate vesting of all outstanding stock options and the right to exercise such stock options as per terms of the plan under which the awards were granted

(vi) the balance of any incentive awards earned as of December 31 of the prior year (but not yet paid), which shall be paid in a single lump sum not later than 15 days following the Executive's termination of employment

(vii) settlement of all deferred compensation arrangements in accordance with any then applicable deferred compensation plan or election form

(viii) continued participation in all medical, health and life insurance plans at the same benefit level at which he/she was participating on the date of termination of Executive's employment until the earlier of:

(A) the end of the 18 months following the termination of employment, or

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

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

The term "**Change in Contro**l" is defined on Attachment A hereto.

"**Termination Without Cause**" shall mean a termination following a Change in Control of the Company of the Executive's employment at Executive's initiative following the occurrence, without the Executive's written consent, of one or more of the following events (except as a result of a prior termination):

(i) the assignment of any duties to Executive which are inconsistent with Executive's status as a member of the Company's senior management,

(ii) a decrease in the Executive's annual Base Salary or Target Bonus,

(iii) any failure to secure the agreement of any successor corporation or other entity to the Company to fully assume the Company's obligations under this Agreement,

(iv) a relocation of Executive's principal place of employment more than 35 miles from Executive's place of employment before such relocation,

(v) a diminution in Executive's position, duties and responsibilities or reporting relationship specified above, or

(iv) a reduction in Executive's benefits and perquisites below the level provided to similarly situated executives of the Company.

Restrictive Covenants: For the period commencing at the Effective Time and ending on the second anniversary of the termination of Executive's employment with the Company for any reason, the Executive shall not, without the Company's prior written consent (i) directly or indirectly, establish, engage, own, manage, operate, join or control, or participate in the establishment, ownership, management, operation or control or be a director, officer, employee, salesman, agent or representative of, or be a consultant to, any person or entity in any business in competition with the Company or its subsidiaries in any state where the Company or any of its affiliates are then conducting, any business; or (ii) directly or indirectly, in any capacity, for the benefit of any person or entity, solicit, interfere with, hire, or divert, any person who is a customer, patient, supplier, employee, salesman, agent or representative of the Company or its subsidiaries, in connection with any business in competition with the Company or its subsidiaries. The Executive acknowledges and agrees that the restrictive covenants above and the covenants of the Executive below are essential to the Company.

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| | At no time shall the Executive divulge any secret or confidential information, knowledge or data relating to the Company or any of its affiliates which the Executive has obtained in connection with Executive's employment or services on behalf of the Company or any predecessors and which has not become public knowledge (other than by the Executive's violation of the foregoing).<br><br>The foregoing Restrictive Covenants shall be enforceable by injunction, it being agreed that the damages suffered by the Company from any breach or threatened breach of these Restrictive Covenants could not be adequately remedied solely by monetary damages alone. |
| Cooperation: | The Executive agrees to cooperate with the Company, during the Employment Term and thereafter (including following Executive's termination of employment for any reason), by making himself reasonably available to testify on behalf of the Company or any of its subsidiaries in any action, suit, or proceeding, whether civil, criminal, administrative, or investigative, and to assist the Company, or any its Subsidiaries, in any such action, suit, or proceeding, by providing information and meeting and consulting with the board of directors of the Company or its representatives or counsel, or representatives or counsel to the Company, or any of its subsidiaries as reasonably requested; *provided, however*, that the same does not materially interfere with Executive's then current professional activities. The Company agrees to reimburse Executive, on an after-tax basis, for all expenses actually incurred in connection with Executive's provision of testimony or assistance. |
| Excise Tax: | To the extent that any payments or benefits received by the Executive as a result of the Merger or the Executive's Deferral Account or RSU Award result in an excise tax payable by the Executive under IRC § 4999, the Company shall promptly pay to the Executive an additional amount necessary to place the Executive in the after-tax position that Executive would be in if IRC § 4999 did not apply with respect to the payments or benefits received by the Executive in connection with the Merger and this Term Sheet; provided, however, that any payment of such amount to the Executive shall be delayed to the minimum extent necessary to avoid the imposition of additional tax under § 409A of the IRC. |
| Governing Law: | The agreements embodied in this Term Sheet and the accompanying letter agreement (collectively the "**Present Agreement**") shall be construed under and governed by the internal laws of the State of Rhode Island, without regard to Rhode Island's choice of law rules. The Company and the Executive hereby consent to the jurisdiction of any or all of the following |

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| | courts for purposes of resolving any dispute with respect to the agreements made hereunder: (i) the United States District Court for Rhode Island or (ii) any of the courts of the State of Rhode Island. The Company and Executive further agree that any service of process or notice requirements in any such proceeding shall be satisfied if the rules of such court relating thereto have been substantially satisfied. The Company and Executive hereby waive, to the fullest extent permitted by applicable law, any objection which it or Executive may now or hereafter have to such jurisdiction and any defense of inconvenient forum. Notwithstanding the foregoing, the Company may seek equitable relief for Executive's violation of the restrictive covenants above, and may seek to enforce any judgment in any appropriate court or jurisdiction. If the Executive incurs any legal expenses to enforce Executive's rights under the Present Agreement or the resulting Employment Agreement, the Company shall pay all of Executive's reasonable and proper legal expenses and any related expenses, including any reasonable expenses for travel to and stay in the State of Rhode Island to enforce such rights, unless the Executive's claims are found to have been frivolous by the relevant court. |
| Effectiveness: | The operative effect of the agreements embodied in the Present Agreement are conditioned upon (i) the occurrence under the Merger Agreement of the Closing, as defined in the Merger Agreement (the "Closing") and (ii) Executive's continued employment by Caremark as of the date immediately preceding the Closing Date as defined in the Merger Agreement. If these conditions are satisfied, effective as of the Effective Time, Executive shall transfer Executive's employment from Caremark to the Company and the Present Agreement shall supersede and prospectively render null and void the Caremark Agreement. For the avoidance of doubt, if the conditions above are satisfied, Executive shall not be entitled to receive any benefits under the Caremark Agreement. If the Closing does not occur prior to the End Date (as defined in the Merger Agreement and any amendment to the Merger Agreement) (the "End Date") then effective as of the End Date the Present Agreement shall be deemed null and void ab initio and shall be of no force or effect and the Caremark Agreement shall remain in full force and effect in accordance with its terms. If Executive's employment by Caremark terminates prior to the Closing Date, then effective as of the date of such termination of employment, the Present Agreement shall become null and void ab initio and shall be of no force or effect and the Caremark Agreement (including the restrictive covenants thereunder) shall remain in full force and effect in accordance with its terms. |

**<u>Attachment A</u>**

**Definition of Change in Control of the Company**

"**Change in Control of the Company**" shall be deemed to have occurred if:

(i) any Person (other than the Company, any trustee or other fiduciary holding securities under any employee benefit plan of the Company, or any company owned, directly or indirectly, by the stockholders of the Company immediately prior to the occurrence with respect to which the evaluation is being made in substantially the same proportions as their ownership of the common stock of the Company) becomes the Beneficial Owner (except that a Person shall be deemed to be the Beneficial Owner of all shares that any such Person has the right to acquire pursuant to any agreement or arrangement or upon exercise of conversion rights, warrants or options or otherwise, without regard to the sixty day period referred to in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company or any Significant Subsidiary (as defined below), representing 25% or more of the combined voting power of the Company's or such subsidiary's then outstanding securities;

(ii) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board, and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in clause (i), (iii), or (iv) of this paragraph) whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the two-year period or whose election or nomination for election was previously so approved but excluding for this purpose any such new director whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of an individual, corporation, partnership, group, associate or other entity or Person other than the Board, cease for any reason to constitute at least a majority of the Board;

(iii) the consummation of a merger or consolidation of the Company or any subsidiary owning directly or indirectly all or substantially all of the consolidated assets of the Company (a "**Significant Subsidiary**") with any other entity, other than a merger or consolidation which would result in the voting securities of the Company or a

Significant Subsidiary outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving or resulting entity) more than 50% of the combined voting power of the surviving or resulting entity outstanding immediately after such merger or consolidation;

(iv) the stockholders of the Company approve a plan or agreement for the sale or disposition of all or substantially all of the consolidated assets of the Company (other than such a sale or disposition immediately after which such assets will be owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the common stock of the Company immediately prior to such sale or disposition) in which case the Board shall determine the effective date of the Change in Control resulting therefrom; or

(v) any other event occurs which the Board determines, in its discretion, would materially alter the structure of the Company or its ownership.

For purposes of this definition:

"**Beneficial Owner**" shall have the meaning ascribed to such term in Rule 13d-3 under the Exchange Act (including any successor to such Rule).

"**Board**" means the board of directors of the Company.

"**Exchange Act**" means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.

**"Person**" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including "group" as defined in Section 13(d) thereof.

For the avoidance of doubt, the Merger shall not constitute a Change in Control of the Company.

*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 (the "Company") is the largest provider of prescriptions in the United States. We fill or manage more than one billion prescriptions annually. 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, Caremark Pharmacy Services®; our more than 6,900 CVS/pharmacy® and Longs Drug® retail stores; our retail-based health clinic subsidiary, MinuteClinic®; and our online pharmacy, CVS.com®.

We strive to improve clinical outcomes to help employers and health plans control their health care costs. In that regard, we offer disease management, health assessment and wellness services to help plan participants manage and protect against potential health risks and avoid future health costs.

Today's health care delivery system is rapidly changing. Health care is becoming more consumer-centric as the U.S. health care system struggles to manage growing costs and employers are shifting more of the responsibility for managing those costs to employees. In addition, the aging population, increasing incidences of chronic diseases and increasing utilization of the Medicare drug benefit are fueling the demand for prescriptions and pharmacy services. Further, cost-effective generic drugs are becoming more widely available and new drug therapies are being introduced to treat unmet health care needs and reduce hospital stays. Consumers require medication management programs and better information to help them get the most out of their health care dollars. As a fully integrated pharmacy services company, we believe we are well positioned to provide solutions to address these trends and improve the pharmacy services experience for consumers.

Our business includes two operating segments: Pharmacy Services and Retail Pharmacy.

***The Caremark Merger***

Effective March 22, 2007, we closed our merger with Caremark Rx., Inc. (the "Caremark Merger"). Following the Caremark Merger we changed our name to CVS Caremark Corporation and Caremark Rx, Inc. became a wholly-owned subsidiary, Caremark Rx, L.L.C. ("Caremark"). The Caremark Merger has positioned our Company to deliver significant benefits to (i) health plan sponsors through effective cost management solutions and innovative programs and (ii) consumers through expanded choice, improved access and more personalized services.

The Caremark Merger has enabled us to achieve significant synergies from purchasing scale and operating efficiencies. The purchasing synergies include additional purchase discounts (including rebates obtained from pharmaceutical manufacturers) and cost efficiencies obtained from our national network of retail pharmacies. Operating synergies include cost savings resulting from productivity increases and other efficiencies obtained by eliminating duplicate facilities and excess capacity and combining complementary operations.

We believe the Caremark Merger has also created significant incremental revenue opportunities for our Company through a variety of new programs and plan designs that benefit from our client relationships, our integrated information systems and the ability of our more than 25,000 pharmacists, nurse practitioners and physicians assistants to interact personally with the millions of consumers who shop our stores every day. In that regard, during 2008, we introduced Proactive Pharmacy Care, an earlier, easier, more effective approach to engaging plan participants in behaviors that can help lower costs, improve health, and save lives. Examples of Proactive Pharmacy Care programs include: Maintenance Choice (a flexible fulfillment option that affords eligible plan participants the convenient choice of picking up their 90-day supply of maintenance medications at any CVS/pharmacy store or obtaining them through mail order in either case at the cost of mail for both the plan participant and payor); Bridge Supply (which enables eligible plan participants to avoid gaps in care while waiting for their medications to arrive in the mail by obtaining a bridge supply of their prescriptions at any CVS/pharmacy at no additional charge); and a new ExtraCare® Health Card program (which offers discounts to eligible plan participants on certain Flexible Spending Account-eligible over-the-counter health care products sold in any of our CVS/pharmacy stores ). We are also creating new compliance and persistency programs designed to ensure that patients take their medications in the correct manner as well as enhanced disease management programs that are targeted at managing chronic disease states. In addition, we are working with our clients to (i) decrease unnecessary and expensive emergency room visits by encouraging plan participants to use our MinuteClinic locations for everyday common ailments and (ii) create pilot programs that offer convenient, unique services available at MinuteClinic such as injection training for specialty pharmacy patients.

While certain of these programs (like Maintenance Choice, Bridge Supply and the ExtraCare Health Card program) have already been adopted by many CVS Caremark clients, others are still in the formative stage and require additional information system enhancements and/or changes in work processes. Accordingly, over the long-term, there can be no assurance as to the timing or amount of incremental revenues that can be achieved with these kinds of programs.

We believe the breadth of capabilities resulting from the Caremark Merger are resonating with our clients and contributed to our success at renewing existing clients and obtaining a significant number of new clients in the 2008 selling season. Please see Note 2 to the consolidated financial statements for additional information about the Caremark Merger.

***Overview of Our Pharmacy Services Segment***

Our Pharmacy Services business provides a full range of prescription benefit management ("PBM") services including mail order pharmacy services, specialty pharmacy services, plan design and administration, formulary management and claims processing. Our customers 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 60,000 retail pharmacies (which include our CVS/pharmacy and Longs Drug stores) to eligible participants in the benefit plans maintained by our customers 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 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 27 conditions, through our Accordant Care 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.

Our pharmacy services business generates net revenues primarily by contracting with clients to provide prescription drugs to plan participants. 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 business operates under the Caremark Pharmacy Services®, Caremark®, CVS Caremark™, CarePlus CVS/pharmacy™ , CarePlus™, RxAmerica® Accordant Care and TheraCom® names. As of December 31, 2008, the Pharmacy Services segment operated 58 retail specialty pharmacy stores, 19 specialty mail order pharmacies and 7 mail service pharmacies located in 26 states, Puerto Rico and the District of Columbia.

***Overview of Our Retail Pharmacy Segment***

Our retail pharmacy business 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 Drug retail stores and online through CVS.com.

CVS/pharmacy is the nation's largest retail pharmacy chain. With more than 45 years of dynamic growth in the retail pharmacy industry, the Retail

Pharmacy Segment generates approximately 68% of its revenue from prescription sales and is committed to providing superior customer service by being the easiest pharmacy retailer for customers to use.

CVS/pharmacy fills more than one out of every six retail prescriptions in the United States, and more than one out of every five prescriptions in the markets we serve.

Our retail pharmacy business also provides health care services through our MinuteClinic health care clinics. Our health care clinics utilize nationally recognized medical protocols to diagnose and treat minor health conditions and are staffed by nurse practitioners and physician assistants. We believe our clinics provide quality services that are quick, affordable and convenient.

Our proprietary loyalty card program, ExtraCare®, has well over 50 million active cardholders, making it one of the largest and most successful retail loyalty card programs in the country.

As of December 31, 2008, our retail pharmacy business included 6,923 retail drugstores (of which 6,857 operated a pharmacy) located in 41 states and the District of Columbia operating primarily under the CVS/pharmacy® or Longs Drug® names, our online retail website, CVS.com® and 560 retail health care clinics operating under the MinuteClinic® name (of which 534 were located in CVS/pharmacy stores).

***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 retail industry. The fiscal year change was effective beginning with the fourth quarter of fiscal 2008. Prior to Board approval of this change, the Saturday nearest December 31, 2008 would have resulted in a 53-week fiscal year that would have ended January 3, 2009.

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 |
|---|---|---|---|
| 2008 | December 31, 2008 | December 30, 2007 - December 31, 2008 | 368 days |
| 2007 | December 29, 2007 | December 31, 2006 - December 29, 2007 | 364 days |
| 2006 | December 30, 2006 | January 1, 2006 - December 30, 2006 | 364 days |

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

**Summary of our Consolidated Financial Results**

| *In millions, except per common share amounts* | Fiscal Year 2008 | Fiscal Year 2007 | Fiscal Year 2006 |
|---|---|---|---|
| Net revenues | **$ 87,471.9** | $ 76,329.5 | $ 43,821.4 |
| Gross profit | **18,290.4** | 16,107.7 | 11,742.2 |
| Total operating expenses | **12,244.2** | 11,314.4 | 9,300.6 |
| Operating profit | **6,046.2** | 4,793.3 | 2,441.6 |
| Interest expense, net | **509.5** | 434.6 | 215.8 |
| Earnings before income tax provision | **5,536.7** | 4,358.7 | 2,225.8 |
| Income tax provision | **2,192.6** | 1,721.7 | 856.9 |
| Earnings from continuing operations | **3,344.1** | 2,637.0 | 1,368.9 |
| Loss from discontinued operations, net of income tax benefit of $82.4[(2)] | **(132.0)** | — | — |
| Net earnings | **$ 3,212.1** | $ 2,637.0 | $ 1,368.9 |
| Diluted earnings per common share: | | | |
| Earnings from continuing operations | **$ 2.27** | $ 1.92 | $ 1.60 |
| Loss from discontinued operations | **(0.09)** | — | — |
| Net earnings | **$ 2.18** | $ 1.92 | $ 1.60 |

***Net revenues*** increased $11.1 billion and $32.5 billion during 2008 and 2007, respectively. As you review our performance in this area, we believe you should consider the following important information:

- During 2008, the Caremark Merger increased net revenues by $6.9 billion (net of intersegment eliminations of $1.0 billion), compared to 2007. 2008 includes a full year of net revenues from Caremark, compared to 2007, which includes net revenues from Caremark from the merger date (March 22, 2007) forward.
- 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"). 2008 includes net revenues from the Longs Drug Stores and RxAmerica from the acquisition date forward. During 2008, the Longs Acquisition increased net revenues by $1.1 billion, compared to 2007.
- During 2008, the 4 additional days in the 2008 reporting period increased net revenues by $1.1 billion, compared to 2007.

- During 2007, the Caremark Merger increased net revenues by $26.5 billion (net of intersegment eliminations of $3.3 billion), compared to 2006. As noted previously in this document, 2007 includes net revenues from Caremark from the merger date (March 22, 2007) forward, compared to 2006, which includes no net revenues from Caremark.
- On June 2, 2006, we acquired 701 standalone drug stores and other related assets from Albertson's, Inc. (the "Albertson's Acquisition"). 2007 includes a full year of net revenues from these stores, compared to 2006, which includes net revenues from these stores from the acquisition date forward. During 2007, the Albertson's Acquisition increased net revenues by $2.2 billion, compared to 2006.

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

***Gross profit*** increased $2.2 billion and $4.4 billion during 2008 and 2007, respectively. As you review our performance in this area, we believe you should consider the following important information:

- During 2008, the Caremark Merger increased gross profit by approximately $553 million, compared to 2007. 2008 includes a full year of gross profit from Caremark, compared to 2007, which includes gross profit from Caremark from the merger date (March 22, 2007) forward.
- During 2008, the Longs Acquisition increased gross profit by approximately $314 million, compared to 2007. 2008 includes gross profit from the Longs Drug Stores and RxAmerica from the acquisition date (October 20, 2008) forward.
- During 2008, the 4 additional days in the 2008 reporting period increased gross profit by approximately $238 million, compared to 2007.
- During 2008 and 2007, our gross profit benefited from significant purchasing synergies from the Caremark Merger.
- In addition, 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 Retail Pharmacy and Pharmacy Services segments.

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

***Operating expenses*** increased $929.8 million and $2.0 billion during 2008 and 2007, respectively. As you review our performance in this area, we believe you should consider the following important information:

- During 2008, the Caremark Merger increased total operating expenses by approximately $92 million, compared to 2007. 2008 includes a full year of operating expenses from Caremark, compared to 2007, which includes operating expenses from Caremark from the merger date (March 22, 2007) forward.
- During 2008, the Longs Acquisition increased total operating expenses by approximately $260 million, compared to 2007. 2008 includes operating expenses from the Longs Drug Stores and RxAmerica from the acquisition date (October 20, 2008) forward.
- During 2008, the 4 additional days in the 2008 reporting period increased total operating expenses by approximately $146 million, compared to 2007.
- During 2007, our total operating expenses increased primarily due to the Caremark Merger, which resulted in incremental operating expenses, depreciation and amortization related to the intangible assets acquired and merger-related integration costs.

- Total operating expenses for 2006 were reduced by $40.2 million due to the adoption of Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in current Year Financial Statements" ("SAB 108").

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

***Interest expense, net*** consisted of the following:

| In millions | 2008 | 2007 | 2006 |
|---|---|---|---|
| Interest expense | **$ 529.8** | $ 468.3 | $ 231.7 |
| Interest income | **(20.3)** | (33.7) | (15.9) |
| Interest expense, net | **$ 509.5** | $ 434.6 | $ 215.8 |

During 2008, net interest expense increased by $74.9 million, compared to 2007, due to a combination of higher interest rates and an increase in our average debt balance, which resulted primarily from the borrowings used to fund an accelerated share repurchase program and the Longs Acquisition.

During 2007, net interest expense increased by $218.8 million, compared to 2006, due to an increase in our average debt balance, which resulted primarily from the borrowings used to fund the special cash dividend paid to Caremark shareholders and the accelerated share repurchase program that commenced subsequent to the Caremark Merger.

During 2006, net interest expense increased by $105.3 million, compared to 2005, due to a combination of higher interest rates and higher average debt balances, which resulted from the borrowings used to fund the Albertson's Acquisition.

***Income tax provision*** **~** Our effective income tax rate was 39.6% in 2008, 39.5% in 2007 and 38.5% in 2006.

As you review our results in this area, we believe you should consider the following important information:

- During 2008 and 2007, our effective income tax rate was negatively impacted by an increase in interest on income tax reserves and higher state income taxes primarily due to the Caremark Merger, which resulted in a change in the distribution of our income between states.
- During the fourth quarter of 2006, the Company recorded reductions of previously recorded income tax reserves through the income tax provision of $11.0 million. For internal comparisons, we find it useful to assess year-to-year performance by excluding the effect of this reversal from our 2006 results. As such, we consider 39.0% to be our comparable effective income tax rate for 2006.

***Earnings from continuing operations*** increased $707.1 million or 26.8% to $3.3 billion (or $2.27 per diluted share) in 2008. This compares to $2.6 billion (or $1.92 per diluted share) in 2007 and $1.4 billion (or $1.60 per diluted share) in 2006. For internal comparisons, we find it useful to assess year-to-year performance by excluding the $40.2 million pre-tax ($24.7 million after-tax) impact of the SAB 108 adjustments and the $11.0 million reduction of previously recorded income tax reserves from our 2006 results. As such, we consider $1.3 billion (or $1.56 per diluted share) to be our comparable net earnings in 2006.

***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. Pursuant to the court order entered on October 16, 2008, Linens Holding Co. is in the process of liquidating the entire Linens n Things retail chain.

The Company's loss from discontinued operations includes $132.0 million (or $0.09 per diluted share) of lease-related costs (consisting of $214.4 million of pre-tax lease-related costs, net of an $82.4 million income tax benefit), which the Company believes it will likely be required to satisfy pursuant to its Linens n Things lease guarantees. These amounts, which are expected to change as each lease is resolved, were calculated in accordance with Statement of Financial Accounting Standards ("SFAS") No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." Please see Off-Balance Sheet Arrangements later in this document for additional information about our lease guarantees.

***Net earnings*** increased $575.1 million or 21.8% to $3.2 billion (or $2.18 per diluted share) in 2008. This compares to $2.6 billion (or $1.92 per diluted share) in 2007 and $1.4 billion (or $1.60 per diluted share) in 2006.

***Segment Analysis***

We evaluate segment performance based on net revenues, gross profit and operating profit before the effect of certain intersegment activities and charges. Following is a reconciliation of the Company's business segments to the consolidated financial statements:

| *In millions* | Pharmacy Services Segment (1) | Retail Pharmacy Segment | Intersegment Eliminations (2) | Consolidated Totals |
|---|---|---|---|---|
| **2008:** | | | | |
| **Net revenues** | **$ 43,769.2** | **$ 48,989.9** | **$ (5,287.2)** | **$ 87,471.9** |
| **Gross profit** | **3,550.0** | **14,740.4** | | **18,290.4** |
| **Operating profit** | **2,562.5** | **3,483.7** | | **6,046.2** |
| 2007: | | | | |
| Net revenues | $ 34,938.4 | $ 45,086.5 | $ (3,695.4) | $ 76,329.5 |
| Gross profit | 2,997.1 | 13,110.6 | | 16,107.7 |
| Operating profit | 2,102.0 | 2,691.3 | | 4,793.3 |
| 2006: | | | | |
| Net revenues | $ 3,691.3 | $ 40,285.6 | $ (155.5) | $ 43,821.4 |
| Gross profit | 458.8 | 11,283.4 | | 11,742.2 |
| Operating profit | 318.1 | 2,123.5 | | 2,441.6 |

(1) Net revenues of the Pharmacy Services Segment include approximately $6,348.3 million and $4,618.2 million of Retail Co-payments for 2008 and 2007, respectively. Please see Note 1 to the consolidated financial statements additional information about Retail Co-payments.

(2) Intersegment eliminations relate to intersegment revenues that occur when a Pharmacy Services Segment customer uses a Retail Pharmacy Segment store to purchase covered products. When this occurs, both segments record the revenue on a standalone basis.

**Pharmacy Services Segment**

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

| *In millions* | Fiscal Year Ended 2008[3] | 2007 | 2006 |
|---|---|---|---|
| Net revenues | **$ 43,769.2** | $ 34,938.4 | $ 3,691.3 |
| Gross profit | **3,550.0** | 2,997.1 | 458.8 |
| Gross profit % of net revenues | **8.1%** | 8.6% | 12.4% |
| Operating expenses | **987.5** | 895.1 | 140.7 |
| Operating expenses % of net revenues | **2.3%** | 2.6% | 3.8% |
| Operating profit | **2,562.5** | 2,102.0 | 318.1 |
| Operating profit % of net revenues | **5.9%** | 6.0% | 8.6% |
| Net revenues: | | | |
| Mail service | **$ 14,901.1** | $ 13,835.5 | $ 2,935.4 |
| Retail network | **28,489.3** | 20,831.3 | 732.7 |
| Other | **378.8** | 271.6 | 23.2 |
| Comparable Financial Information[1] | | | |
| Net revenues | **$ 43,769.2** | $ 43,349.0 | $ 40,514.0 |
| Gross profit | **3,550.0** | 3,557.6 | 2,848.8 |
| Gross profit % of net revenues | **8.1%** | 8.2% | 7.0% |
| Operating expenses | **987.5** | 1,271.6 | 982.2 |
| Merger and integration costs[2] | **(22.3)** | (273.2) | — |
| Total operating expenses | **965.2** | 998.4 | 982.2 |
| Operating expenses % of net revenues | **2.2%** | 2.3% | 2.4% |
| Operating profit | **2,584.8** | 2,559.2 | 1,866.6 |
| Operating profit % of net revenues | **5.9%** | 5.9% | 4.6% |
| Net revenues: | | | |
| Mail service | **$ 14,901.1** | $ 16,790.7 | $ 15,519.4 |
| Retail network | **28,489.3** | 26,218.9 | 24,668.3 |
| Other | **378.8** | 339.4 | 326.3 |
| Pharmacy claims processed: | | | |
| Total | **633.4** | 607.2 | 605.9 |
| Mail service | **60.9** | 73.9 | 73.3 |
| Retail network | **572.5** | 533.3 | 532.6 |
| Generic dispensing rate: | | | |
| Total | **65.1%** | 60.1% | 55.8% |
| Mail service | **54.4%** | 48.1% | 43.3% |
| Retail network | **66.2%** | 61.7% | 57.4% |
| Mail order penetration rate | **22.9%** | 28.2% | 28.0% |

(1) The Comparable Financial Information above combines the historical Pharmacy Services Segment results of CVS and Caremark assuming the Caremark Merger occurred at the beginning of each period presented. In each period presented, the comparable results include incremental depreciation and amortization expense resulting from the fixed and intangible assets recorded in connection with the Caremark Merger and exclude merger-related expenses and integration costs. **The comparable financial information has been provided for illustrative purposes only and does not purport to be indicative of the actual results that would have been achieved by the combined business segment for the periods presented or that will be achieved by the combined business segment in the future.**

(2) Merger and integration costs for 2008 primarily include severance and retention, system integration and facility consolidation costs. Merger and integration costs for 2007 primarily include $80.3 million of stock option expense associated with the accelerated vesting of certain Caremark stock options, which vested upon consummation of the merger due to the change in control provisions of the underlying Caremark stock option plans, $42.9 million of change-in-control payments due upon the consummation of the Caremark Merger, resulting from the change-in-control provisions in certain Caremark employment agreements, and merger-related costs of $150.1 million.

(3) 2008 includes the results of RxAmerica from the acquisition date (October 20, 2008) forward.

During 2008 and 2007, the Pharmacy Services Segment's results of operations were significantly affected by the Caremark Merger. As such, the primary focus of our Pharmacy Services Segment discussion is based on the comparable financial information presented previously in this document. Prior to the Caremark Merger, our pharmacy services business did not meet the threshold for separate disclosure and the trends for the pharmacy services business, which included our PharmaCare Management Services, L.L.C. ("PharmaCare") subsidiary, did not differ materially from the trends of the consolidated Company. Consequently, we do not believe that a comparison of the historical financial results provides meaningful information.

***Net revenues*** ~ As you review our Pharmacy Services Segment's revenue performance, we believe you should consider the following important information:

- During 2008 and 2007, the Caremark Merger increased net revenues by $7.9 billion and $29.8 billion, compared to 2007 and 2006, respectively. 2008 includes a full year of net revenues from Caremark, compared to 2007, which includes net revenues from Caremark from the merger date (March 22, 2007) forward. 2006 includes no net revenues from Caremark.
- The Pharmacy Services Segment recognizes revenues for its national retail pharmacy network transactions based on individual contract terms. In accordance with Emerging Issues Task Force Issue ("EITF") No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," Caremark's contracts are predominantly accounted for using the gross method. Prior to September 2007, PharmaCare's contracts were accounted for using the net method. Effective September 1, 2007, we converted a number PharmaCare's retail pharmacy network contracts to the Caremark contract structure, which resulted in those contracts being accounted for using the gross method. As a result, net revenues increased by approximately $1.8 billion and $1.0 billion during 2008 and 2007, compared to 2007 and 2006, respectively. RxAmerica's contracts are also accounted for using the net method. We expect to convert a number of RxAmerica's contracts to the Caremark contract structure during 2009. Please see Note 1 to the consolidated financial statements for additional information about the Pharmacy Services Segment's revenue recognition policies.
- During 2008, the 4 additional days in the 2008 reporting period increased our total net revenue by approximately $495 million, compared to 2007.
- During 2008, our comparable mail service claims processed decreased 17.6% to 60.9 million claims, compared to 73.9 million claims in 2007. This decrease was primarily due to the termination of the Federal Employees Health Benefit Plan ("FEP") mail contract on December 31, 2007. During 2007, our comparable mail service claims increased 0.9% to 73.9 million claims, compared to 73.3 million claims in 2006.
- During 2008 and 2007, our comparable average revenue per mail service claim increased by 7.8% and 7.2%, compared to 2007 and 2006, respectively. These increases were primarily due to an increase in specialty mail service claims (which have significantly higher average net revenues per claim) and higher drug costs. This was offset, in part, by an increase in the percentage of generic drugs dispensed and changes in client pricing.
- During 2008 and 2007, our comparable mail service generic dispensing rates increased to 54.4% and 48.1%, compared to 2007 and 2006, respectively. These increases were primarily due to new generic drug introductions and our continued efforts to encourage plan participants to use generic drugs when they are available. In addition, the termination of the FEP mail contract caused our comparable mail service generic dispensing rate to increase by approximately 120 basis points during 2008, compared to 2007.
- During 2008, our comparable retail network claims processed increased to 572.5 million, compared to 533.3 million and 532.6 million in 2007 and 2006, respectively. These increases were primarily due to the addition of approximately 13.5 million RxAmerica claims (beginning October 20, 2008), growth in our existing business (including our Medicare Part D business), the 4 additional days in the 2008 reporting period and new clients.

- During 2008, our comparable average revenue per retail network claim processed increased by 1.2%, compared to 2007. This increase was primarily due to the change in the revenue recognition method from net to gross for certain PharmaCare contracts (discussed previously in this document) and higher drug costs, which normally result in higher claim revenues. These factors increased our average revenue per retail network claim by approximately 6.6%. These increases were offset, in part by (i) the inclusion of RxAmerica's results (beginning October 20, 2008), which decreased our average revenue per retail network claim by 2.1%, (ii) customer pricing, (iii) claims mix and (iv) an increase in the percentage of generic drugs dispensed.
- During 2007, our comparable average revenue per retail network claim processed increased by 6.2%, compared to 2006. This increase was primarily due to the change in the revenue recognition method from net to gross for certain PharmaCare contracts (discussed previously in this document), one additional contract in the second quarter of 2006 and higher drug costs, which normally result in higher claim revenues. These increases were offset, in part, by an increase in the percentage of generic drugs dispensed.
- During 2008, our comparable retail network generic dispensing rates increased to 66.2%, compared to 61.7% and 57.4% in 2007 and 2006, respectively. These increases were primarily due to new generic drug introductions and our continued efforts to encourage plan participants to use generic drugs when they are available. 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 participants to utilize generic drugs when they are available.
- During 2008 and 2007, our net revenues benefited 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"). 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 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 have divided the responsibility for providing Medicare Part D services to the affected plan members beginning with the 2009 plan year. 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*** 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 national retail 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 8.1%, 8.6% and 12.4% in 2008, 2007 and 2006, respectively.

During 2008 and 2007, the Caremark Merger significantly affected our gross profit dollars and gross profit rates. As you review our Pharmacy Services Segment's performance in this area, we believe you should consider the following important information:

- Our comparable gross profit as a percentage of total net revenues was 8.1%, 8.2% and 7.0% during 2008, 2007 and 2006, respectively.
- As discussed previously in this document, we review our national retail 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. Under these rules, the majority of Caremark's national retail network contracts are accounted for using the gross method, which results in higher revenues, higher cost of revenues and lower gross profit rates. The conversion of certain PharmaCare 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 35 basis points and 20 basis points during 2008 and 2007, respectively.

- Our comparable gross profit rates were impacted by decreases in our mail penetration rate to 22.9% in 2008, compared to 28.2% and 28.0% in 2007 and 2006, respectively. This and the impact of accounting for certain PharmaCare contracts using the gross method were offset, in part, by increases in revenues from generic drugs, which normally yield a higher gross profit rate than equivalent brand name drugs. Our comparable total generic dispensing rate increased to 65.1% in 2008, compared to 60.1% and 55.8% in 2007 and 2006, respectively.
- During 2008 and 2007, our comparable gross profit rates benefited from the purchasing synergies resulting from the Caremark Merger.
- Our gross profit dollars and gross profit rates continued to be impacted by our efforts to (i) retain existing customers, (ii) obtain new business, and (iii) maintain or improve the purchase discounts we received from manufacturers, wholesalers and retail pharmacies. In that regard, during the 2008 selling season, the Company renewed a number of existing clients and obtained new clients at lower rates, which will result in additional gross profit compression in 2009.

***Total operating expenses,*** which include selling, general and administrative expenses (including integration and other merger-related expenses), depreciation and amortization related to selling, general and administrative activities and retail specialty pharmacy store and administrative payroll, employee benefits and occupancy costs decreased to 2.3% of net revenues in 2008, compared to 2.6% and 3.8% in 2007 and 2006, respectively.

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

- During 2008 and 2007, the Caremark Merger significantly affected our total operating expenses. Total operating expenses for 2008 include $18.6 million of integration and other related expenses and $209.1 million of amortization expense resulting from the intangible assets recorded in connection with the Caremark Merger. Total operating expenses for 2007 include $81.7 million of merger, integration and other related expenses and $162.6 million of incremental amortization expense resulting from the intangible assets recorded in connection with the Caremark Merger.
- During 2008, comparable total operating expenses decreased 3.3% to $965.2 million (or 2.2% of net revenues), compared to $998.4 million (or 2.3% of net revenues) and $982.2 million (or 2.4% of net revenues) during 2007 and 2006, respectively. As noted previously in this document, our comparable results include incremental depreciation and amortization expense resulting from the fixed and intangible assets recorded in connection with the Caremark Merger, but exclude merger-related expenses and integration costs.

***Retail Pharmacy Segment***

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

| | Fiscal Year Ended | | |
|---|---|---|---|
| *In millions* | 2008[2] | 2007 | 2006 |
| Net revenues | $ **48,989.9** | $ 45,086.5 | $ 40,285.6 |
| Gross profit | **14,740.4** | 13,110.6 | 11,283.4 |
| Gross profit % of net revenues | **30.1%** | 29.1% | 28.0% |
| Operating expenses | **11,256.7** | 10,419.3 | 9,159.9 |
| Operating expenses % of net revenues | **23.0%** | 23.1% | 22.7% |
| Operating profit | **3,483.7** | 2,691.3 | 2,123.5 |
| Operating profit % of net revenues | **7.1%** | 6.0% | 5.3% |
| Net revenue increase: | | | |
| Total | **8.7%** | 11.9% | 18.2% |
| Pharmacy | **8.1%** | 10.9% | 17.9% |
| Front Store | **9.9%** | 14.0% | 18.7% |
| Same store revenue increase:[1] | | | |
| Total | **4.5%** | 5.3% | 8.1% |
| Pharmacy | **4.8%** | 5.2% | 9.0% |
| Front Store | **3.6%** | 5.3% | 6.2% |
| Pharmacy % of net revenues | **67.5%** | 67.8% | 68.4% |
| Third party % of pharmacy revenue | **96.1%** | 95.3% | 94.7% |
| Retail prescriptions filled | **559.0** | 527.5 | 481.7 |
| Generic % of retail prescription filled | **67.4%** | 63.2% | 59.1% |

*(1) Same store revenue increase includes the stores acquired in the Albertson's Acquisition beginning in July 2007. Same store revenue increase excludes the Longs Drug Stores, which were acquired effective October 20, 2008. These stores will be included in same store revenues beginning in November 2009.*

*(2) Except as discussed in Note (1) above, 2008 includes the results of the Longs Drug stores from the acquisition date (October 20, 2008) forward.*

***Net revenues*** ~ As you review our Retail Pharmacy Segment's performance in this area, we believe you should consider the following important information:

- During 2008, net revenues from the Longs Drug Stores contributed approximately 2.2% to our total net revenue percentage increase, compared to 2007.
- During 2008, net revenues from the 4 additional days in the 2008 reporting period contributed approximately 1.3% to our total net revenue percentage increase, compared to 2007.
- During 2007, the inclusion of a full year of net revenues from the stores acquired in the Albertson's Acquisition contributed approximately 4.9% to our total net revenue percentage increase, compared to 2006.
- During 2006, net revenues from the stores acquired in the Albertson's Acquisition contributed approximately 8.7% to our total net revenue percentage increase, compared to 2005.
- As of December 31, 2008, we operated 6,923 retail stores, compared to 6,245 retail stores on December 29, 2007. Total net revenues from new stores (excluding acquired stores) contributed approximately 1.5%, 1.3%, and 1.3% to our total net revenue percentage increase in 2008, 2007 and 2006, respectively.
- Total net revenues continued to benefit from our active relocation program, which moves existing in-line shopping center stores to larger, more convenient, freestanding locations. Historically, we have achieved significant improvements in customer count and net revenue when we do this. As of December 31, 2008, approximately 62% of our existing stores were freestanding, compared to approximately 64% and 61% at December 29, 2007 and December 30, 2006, respectively. During 2008, the decrease in the percentage of freestanding stores resulted from the addition of the Longs Drug Stores.
- Pharmacy revenue growth continued to benefit from new market expansions, increased penetration in existing markets, the increased utilization under the Medicare Part D drug benefit introduced in 2006, our 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.

- 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 adversely affected by a decline in utilization trends attributable to a weakening economy which could continue in 2009, 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***, which 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, as a percentage of net revenues was 30.1% in 2008. This compares to 29.1% in 2007 and 28.0% in 2006.

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

- During 2008, our front store revenues increased to 32.5% of total revenues, compared to 32.2% and 31.6% in 2007 and 2006, respectively. The increase in 2008 is primarily due to the Longs Drug stores, which are larger than CVS/pharmacy stores and devote more square footage to front store offerings, as well as, the increase in generic drug revenues. On average, our gross profit on front store revenues is higher than our average gross profit on pharmacy revenues.
- During 2008, our front store gross profit rate continued to benefit from improved product mix (including increases in private label and proprietary brand product sales, which normally yield a higher gross profit rate than other front store products) and benefits derived from our ExtraCare loyalty program.
- During 2008, our pharmacy gross profit rate continued to benefit from a portion of the purchasing synergies resulting from the Caremark Merger.
- During 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. However, 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 96.1% of pharmacy revenues in 2008, compared to 95.3% and 94.7% of pharmacy revenues in 2007 and 2006, 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 2008.
- On February 8, 2006, the Deficit Reduction Act of 2005 (the "DRA") was signed into law. The DRA seeks to reduce federal spending by altering the Medicaid reimbursement formula for multi-source (i.e., generic) drugs. According to the Congressional Budget Office, retail pharmacies are expected to negotiate with individual states for higher dispensing fees to mitigate the adverse effect of these changes. These changes were scheduled to begin to take effect during the first quarter of 2007 and were expected to result in reduced Medicaid reimbursement rates for retail pharmacies.

  During 2007, CMS issued a final rule implementing provisions under the DRA regarding prescription drugs under the Medicaid program. Among other things, the rule defines AMP and "best price," and specifies the items that must be included and excluded in the calculation of each (the "AMP Rule"). Under the AMP Rule, which became effective October 1, 2007, sales to mail pharmacies would be included in the calculation of AMP, but rebates and other discounts negotiated by PBMs in their capacity as PBMs would be excluded. The rule also implements the DRA provision establishing a new reimbursement formula for generic drugs under Medicaid and establishes federal upper limits ("FULs") for generics based on 250 percent of the lowest AMP in a given drug class. In December 2007, the U.S. District Court for the District of Columbia preliminarily enjoined CMS from implementing the AMP Rule to the extent such action affects Medicaid reimbursement rates for retail pharmacies and from posting online or disclosing any AMP data.

In October 2008, CMS issued a rule, subject to comment, which modified the definition of multiple source drugs, a component of the AMP calculation, seeking to address one of the legal challenges on which the injunction was issued. Plaintiffs in the litigation responded with an amended complaint asserting that the revised definition continues to be inconsistent with the DRA.

As a result of the above, we cannot currently determine the extent or timing of any reductions in Medicaid reimbursement rates or their future impact on the Company.

- 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.

***Total operating expenses,*** which include store and administrative payroll, employee benefits, store and administrative occupancy costs, selling expenses, advertising expenses, administrative expenses and depreciation and amortization expense decreased to 23.0% of net revenues in 2008, compared to 23.1% and 22.7% of net revenues in 2007 and 2006, respectively.

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

- During 2008, total operating expenses as a percentage of net revenues continued to be impacted by an increase in generic drug revenues. Generic drugs typically have a lower selling price than their brand named equivalents.
- Total operating expenses as a percentage of net revenues increased during 2007 and 2006, due to increased store payroll costs, primarily driven by the stores acquired in the Albertson's Acquisition, which operate at higher costs due to the geographic locations of the stores.
- Total operating expenses for 2006 were reduced by $40.2 million due to the adoption of SAB 108.

***Liquidity and Capital Resources***

***Net cash provided by operating activities*** increased to $3.9 billion in 2008. This compares to $3.2 billion in 2007 and $1.7 billion in 2006. 2008 includes a full year of net cash provided by operating activities from Caremark, compared to 2007, which includes Caremark from the merger date (March 22, 2007) forward. 2008 also includes net cash provided by operating activities from the Longs Drug Stores and RxAmerica from the acquisition date (October 20, 2008) forward. The increase in net cash provided by operations during 2007 was primarily due to an increase in cash receipts from revenues due to the Caremark Merger and improved operating performance. The increase in net cash provided by operating activities during 2006 was primarily due to an increase in cash receipts from revenues received from the stores acquired in the Albertson's Acquisition and improved operating performance.

***Net cash used in investing activities*** increased to $4.6 billion in 2008. This compares to $3.1 billion in 2007 and $4.6 billion in 2006. The increase in net cash used in investing activities during 2008 was primarily due to the Longs Acquisition. The $3.1 billion of net cash used in investing activities during 2007 was primarily due to the Caremark Merger. The increase in net cash used in investing activities during 2006 was primarily due to the Albertson's Acquisition.

Gross capital expenditures totaled $2.2 billion during 2008, compared to $1.8 billion in 2007 and 2006. During 2008, approximately 58.3% of our total capital expenditures were for new store construction, 16.4% were for store expansion and improvements and 25.3% were for technology and other corporate initiatives. During 2009, we plan to invest over $2.8 billion in gross capital expenditures, which will include spending for approximately 250 – 300 new or relocated stores.

Under the Company's fee-based preferred developer program, the Company directly funds approximately 65% of its new and relocation store projects and typically monetizes those projects in the institutional sale-leaseback market. Proceeds from sale-leaseback transactions totaled $203.8 million in 2008. This compares to $601.3 million in 2007 and $1.4 billion in 2006, which included approximately $800 million in proceeds associated with a sale-leaseback transaction that included certain properties acquired in the Albertson's Acquisition. Under the sale-leaseback transactions, the properties are sold at fair value, which approximates net book value, and the resulting leases qualify and are accounted for as operating leases. During 2008, we delayed our scheduled fourth quarter sale-leaseback transaction because of unfavorable market conditions. The specific timing and amount of future sale-leaseback transactions will vary depending on future market conditions and other factors.

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

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Total stores (beginning of year) | **6,301** | 6,205 | 5,474 |
| New and acquired stores | **719** | 140 | 848 |
| Closed stores | **(39)** | (44) | (117) |
| Total stores (end of year) | **6,981** | 6,301 | 6,205 |
| Relocated stores(1) | **129** | 137 | 118 |

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

**Net cash provided by financing activities** was $929.3 million in 2008, compared to net cash provided by financing activities of $377.9 million in 2007 and net cash used in financing activities of $2.9 billion in 2006. 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 retire $353 million of debt assumed as part of the Longs Acquisition. Net cash provided by financing activities during 2007 was primarily due to the increase in long-term borrowings used to fund the special cash dividend paid to Caremark shareholders in connection with the Caremark Merger and was offset, in part, by the repayment of short-term borrowings and the repurchase of common shares. Net cash provided by financing activities during 2006 was primarily due to the financing of the Albertson's Acquisition. This increase was offset, in part, by the repayment of the $300 million, 5.625% unsecured senior notes, which matured during the first quarter of 2006. During 2008, we paid common stock dividends totaling $369.7 million, or $0.258 per common share.

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

***Share repurchase programs*** **~** On May 7, 2008, our Board of Directors authorized, effective May 21, 2008, a share repurchase program for up to $2.0 billion of outstanding common stock. The specific timing and amount of repurchases will vary based on market conditions and other factors. From May 21, 2008 through December 31, 2008, we repurchased 0.6 million shares of common stock for $23.0 million. As a result of the Longs Acquisition, we elected to delay the completion of our share repurchase program. The Company currently intends to complete its share repurchase program in the second half of 2009. We will continue to evaluate alternatives for optimizing our capital structure on an ongoing basis.

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 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 67.5 million shares of common stock; an open market repurchase program, which concluded in November 2007 and resulted in 5.3 million shares of common stock being repurchased for $211.9 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.

In connection with the Caremark Merger, on March 28, 2007, we commenced a tender offer to purchase up to 150 million common shares, or about 10%, of our outstanding common stock at a price of $35.00 per share. The offer to purchase shares expired on April 24, 2007 and resulted in approximately 10.3 million shares being tendered. The shares were placed into our treasury account.

***Short-term borrowings*** **~** We had $2.5 billion of commercial paper outstanding at a weighted average interest rate of 6.08% as of December 31, 2008. In connection with our commercial paper program, we maintain a $675 million, five-year unsecured back-up credit facility, which expires on June 11, 2009, a $675 million, five-year unsecured back-up credit facility, which expires on June 2, 2010, a $1.4 billion, five-year unsecured back-up credit facility, which expires on May 12, 2011 and a $1.3 billion, five-year unsecured back-up credit facility, which expires on March 12, 2012. On September 12, 2008, we entered into a $1.2 billion unsecured back-up credit facility, which expires on September 11, 2009, to serve as a bridge facility to finance a portion of the Longs Acquisition. The credit facilities allow for borrowings at various rates that are dependent, in part, on our public debt rating. As of December 31, 2008, we had $500 million of borrowings outstanding against the bridge facility at an interest rate of

1.72%. There were no borrowings outstanding under the other credit facilities.

***Long-term borrowings*** **~** 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.

On May 22, 2007, we issued $1.75 billion of floating rate senior notes due June 1, 2010, $1.75 billion of 5.75% unsecured senior notes due June 1, 2017, and $1.0 billion of 6.25% unsecured senior notes due June 1, 2027 (collectively the "2007 Notes"). Also on May 22, 2007, we entered into an underwriting agreement pursuant to which we agreed to issue and sell $1.0 billion of Enhanced Capital Advantaged Preferred Securities ("ECAPS") due June 1, 2062 to the underwriters. The ECAPS bear interest at 6.30% per year until June 1, 2012 at which time they will pay interest based on a floating rate. The 2007 Notes and the ECAPS pay interest semiannually 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 2007 Notes and ECAPS were used to repay the bridge credit facility and a portion of the outstanding commercial paper borrowings.

Our credit facilities, backup credit facility, unsecured senior notes and ECAPS 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, 2008 and December 29, 2007, we had no freestanding derivatives in place.

***Debt Ratings*** **~** As of December 31, 2008, our long-term debt was rated "Baa2" by Moody's and "BBB+" by Standard & Poor's, and our commercial paper program was rated "P-2" by Moody's and "A-2" by Standard & Poor's. Upon completion of the Caremark Merger in March 2007, Standard & Poor's raised the Company's credit watch outlook from negative to stable. On May 15, 2008, Moody's raised the Company's credit watch from stable to positive. 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, the Longs Acquisition, the Caremark Merger 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*** **~** On January 12, 2009, the Company's Board of Directors approved a 10.5% increase in the quarterly dividend on the common stock of the Company to 7.625 cents 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 in our consolidated balance sheet.

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, 2008, the Company guaranteed approximately 95 such store leases (excluding the lease guarantees related to Linens n Things), with the maximum remaining lease term extending through 2018. 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, 2008:

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | | Within | 1-3 | 3-5 | After 5 |
| *In millions* | Total | 1 Year | Years | Years | Years |
| Operating leases | $ 23,294.6 | $ 1,744.2 | $ 3,463.4 | $ 3,266.0 | $ 14,821.0 |
| Leases from discontinued operations | 214.4 | 2.4 | 37.8 | 78.0 | 96.2 |
| Long-term debt | 8,557.1 | 651.3 | 2,903.1 | 1,002.2 | 4,000.5 |
| Interest payments on long-term debt(1) | 3,209.8 | 442.7 | 801.3 | 637.0 | 1,328.8 |
| Other long-term liabilities reflected in our consolidated balance sheet | 163.0 | 40.3 | 22.4 | 24.7 | 75.6 |
| Capital lease obligations | 169.9 | 17.0 | 34.4 | 35.5 | 83.0 |
| | $ 35,608.8 | $ 2,897.9 | $ 7,262.4 | $ 5,043.4 | $ 20,405.1 |

(1) Interest payments on long-term debt are calculated on outstanding balances and interest rates in effect on December 31, 2008.

### *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 below are applicable to both 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.

#### Goodwill and Intangible Assets

We account for goodwill and intangible assets in accordance with SFAS No. 141, "Business Combinations," SFAS No. 142, "Goodwill and Other Intangible Assets" and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

Identifiable intangible assets consist primarily of trademarks, customer contracts and relationships, favorable and unfavorable 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 market 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 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 impairment reviews annually, or if changes or events indicate 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 on a reporting unit basis using the expected present value of future cash flows. In accordance with SFAS 142, goodwill impairment is determined 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. 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.

Our impairment loss calculation contains uncertainty since we must use judgment to estimate each reporting unit's future revenues, profitability and cash flows. When 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. These estimates can be affected by a number of factors including, but not limited to, general economic conditions, 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 intangible assets covered by this critical accounting policy was $35.9 billion as of December 31, 2008. We did not record any impairment losses related to goodwill or intangible assets during 2008, 2007 or 2006. Although we believe we have sufficient current and historical information available to us to test for impairment, it is possible that actual cash flows could differ from the estimated cash flows used in our impairment tests. Due to the nature of the uncertainties discussed previously in this document, we cannot determine a reasonably likely change.

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 in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." As such, when a leased store is closed, we record a liability for the estimated present value of the remaining obligation under the non-cancelable lease, which includes future real estate taxes, common area maintenance and other charges, if applicable. The liability is reduced by estimated future sublease income.

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.

Our total closed store lease liability covered by this critical accounting policy was $600.1 million as of December 31, 2008. This amount is net of $404.7 million of estimated sublease income that is subject to the uncertainties discussed above. 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 above, 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 $40.5 million as of December 31, 2008.

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 $395.8 million as of December 31, 2008. 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 above, 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 $39.6 million as of December 31, 2008.

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

## Inventory

Our inventory is 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, average cost to determine cost of sales and inventory in our mail service and specialty pharmacies and the cost method of accounting to determine inventory in the Longs Drug Stores and our distribution centers. The Longs Drug Stores will be conformed to the retail method of accounting when their accounting systems are converted in 2009. 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 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.

Our total reserve for estimated inventory losses covered by this critical accounting policy was $126.5 million as of December 31, 2008. 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 above, 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 $12.6 million as of December 31, 2008.

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 above are reasonable and the related calculations conform to U.S. Generally Accepted Accounting Principles, actual results could differ from our estimates, and such differences could be material.

***Recent Accounting Pronouncements***

In the first quarter of 2008, we adopted EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements" ("EITF 06-4"). EITF 06-4 requires the application of the provisions of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("SFAS 106") (if, in substance, a postretirement benefit plan exists), or Accounting Principles Board Opinion No. 12 (if the arrangement is, in substance, an individual deferred compensation contract) to endorsement split-dollar life insurance arrangements. SFAS 106 requires the recognition of a liability for the discounted value of the future premium benefits that will be incurred through the death of the underlying insureds. The adoption of this statement did not have a material effect on our consolidated results of operations, financial position and cash flows.

In the first quarter of 2008, we adopted EITF Issue No. 06-10 "Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements" ("EITF 06-10") effective fiscal 2008. EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation, as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. The adoption of this statement did not have a material effect on our consolidated results of operations, financial position and cash flows.

In the first quarter of 2008, we adopted Financial Accounting Standards Board ("FASB") Staff Position No. FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active", which clarifies the application of SFAS No. 157 in a market that is not active. The adoption of statement did not have a material impact on our consolidated results of operations, financial position and cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations ("SFAS 141R"), which replaces SFAS 141. SFAS 141R 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 Statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of business combinations. SFAS 141R is effective for fiscal years beginning after December 15, 2008.

As of December 31, 2008, we had $202.3 million of unrecognized tax benefits (after considering the federal benefit of state taxes) related to business combinations that would have been treated as an adjustment to the purchase price allocation if they had been recognized under SFAS 141. It is possible that a significant portion of these benefits will be recognized within the next twelve months. To the extent these benefits are recognized after the adoption of SFAS 141R in 2009, their recognition would affect the Company's effective income tax rate rather than being treated as an adjustment to the purchase price allocation of the acquiree.

In February 2008, the FASB issued FASB Staff Position ("FSP") No. SFAS 157-2, "Effective Date of FASB Statement No. 157" ("FSP 157-2"), which defers the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years and interim periods within those fiscal years, beginning after November 15, 2008. We do not believe the adoption of this statement will have a material effect on our consolidated results of operations, financial position and cash flows.

In April 2008, the FASB issued FSP No. FAS 142-3, "Determining the Useful Life of Intangible Assets", which amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful lives of recognized intangible assets. This statement is effective for fiscal years beginning after December 15, 2008. We do not believe the adoption of this statement will have a material effect on our consolidated results of operations, financial position and cash flows.

In June 2008, the FASB reached consensus on EITF Issue No. 08-3, "Accounting by Lessees for Nonrefundable Maintenance Deposits" ("EITF 08-3"). Under EITF 08-3, lessees should account for nonrefundable maintenance deposits as deposit assets if it is probable that maintenance activities will occur and the deposit is therefore realizable. Amounts on deposit that are not probable of being used to fund future maintenance activities should be expensed. EITF 08-3 is effective for fiscal years beginning after December 15, 2008. Early application is not permitted. We do not believe the adoption of this statement will have a material effect on our consolidated results of operations, financial position and cash flows.

In December 2008, the FASB issued FSP No. FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets", which enhances the required disclosures about plan assets in an employer's defined benefit pension or other postretirement plan, including investment allocation decisions, inputs and valuation techniques used to measure the fair value of plan assets and significant concentrations of risks within plan assets. This statement is effective for financial statements issued for fiscal years ending after December 15, 2009. We are currently evaluating the potential impact the adoption of this statement may have on our consolidated financial statement disclosures.

***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, 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.

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 and changes in capital market conditions 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 incremental revenues, synergies and other benefits from the Caremark Merger as expected in accordance with the expected timing;
- Our ability to successfully integrate the assets acquired in the Longs Acquisition and realize the synergies and other planned benefits 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;
- The frequency and rate of introduction of successful new prescription drugs as well as generic alternatives to existing brand drugs;
- 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 at current levels;
- 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;
- 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 effective 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 arancOrganizst/benhe pr toTes dwayo ross/be. Thial valumit th.00004 es viewhe pr todocu33.6 mit t,nting 39.66BT0 144.oevalumit the pr to4 -igno reportinn rehmely sp

**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, 2008, 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 the Company'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, 2008, 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 sheet of CVS Caremark Corporation as of December 31, 2008 and the related consolidated statements of operations, shareholders' equity and cash flows for the fiscal year ended December 31, 2008 and our report dated February 26, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 26, 2009

## Consolidated Statements of Operations

| In millions, except per share amounts | Fiscal Year Ended Dec. 31, 2008 | Dec. 29, 2007 | Dec. 30, 2006 |
|---|---|---|---|
| Net revenues | **$ 87,471.9** | $ 76,329.5 | $ 43,821.4 |
| Cost of revenues | **69,181.5** | 60,221.8 | 32,079.2 |
| Gross profit | **18,290.4** | 16,107.7 | 11,742.2 |
| Total operating expenses | **12,244.2** | 11,314.4 | 9,300.6 |
| Operating profit | **6,046.2** | 4,793.3 | 2,441.6 |
| Interest expense, net | **509.5** | 434.6 | 215.8 |
| Earnings before income tax provision | **5,536.7** | 4,358.7 | 2,225.8 |
| Income tax provision | **2,192.6** | 1,721.7 | 856.9 |
| Earnings from continuing operations | **3,344.1** | 2,637.0 | 1,368.9 |
| Loss from discontinued operations, net of income tax benefit of $82.4 | **(132.0)** | — | — |
| Net earnings | **3,212.1** | 2,637.0 | 1,368.9 |
| Preference dividends, net of income tax benefit | **14.1** | 14.2 | 13.9 |
| Net earnings available to common shareholders | **$ 3,198.0** | $ 2,622.8 | $ 1,355.0 |
| **Basic earnings per common share:** | | | |
| Earnings from continuing operations | **$ 2.32** | $ 1.97 | $ 1.65 |
| Loss from discontinued operations | **(0.09)** | — | — |
| Net earnings | **$ 2.23** | $ 1.97 | $ 1.65 |
| Weighted average common shares outstanding | **1,433.5** | 1,328.2 | 820.6 |
| **Diluted earnings per common share:** | | | |
| Earnings from continuing operations | **$ 2.27** | $ 1.92 | $ 1.60 |
| Loss from discontinued operations | **(0.09)** | — | — |
| Net earnings | **$ 2.18** | $ 1.92 | $ 1.60 |
| Weighted average common shares outstanding | **1,469.1** | 1,371.8 | 853.2 |
| **Dividends declared per common share** | **$ 0.25800** | $ 0.22875 | $ 0.15500 |

See accompanying notes to consolidated financial statements.

## Consolidated Balance Sheets

| *In millions, except shares and per share amounts* | Dec. 31, 2008 | Dec. 29, 2007 |
|---|---|---|
| **Assets:** | | |
| Cash and cash equivalents | **$ 1,352.4** | $ 1,056.6 |
| Short-term investments | **—** | 27.5 |
| Accounts receivable, net | **5,384.3** | 4,579.6 |
| Inventories | **9,152.6** | 8,008.2 |
| Deferred income taxes | **435.2** | 329.4 |
| Other current assets | **201.7** | 148.1 |
| **Total current assets** | **16,526.2** | 14,149.4 |
| Property and equipment, net | **8,125.2** | 5,852.8 |
| Goodwill | **25,493.9** | 23,922.3 |
| Intangible assets, net | **10,446.2** | 10,429.6 |
| Other assets | **368.4** | 367.8 |
| **Total assets** | **$60,959.9** | $54,721.9 |
| **Liabilities:** | | |
| Accounts payable | **$ 3,800.7** | $ 3,593.0 |
| Claims and discounts payable | **2,814.2** | 2,484.3 |
| Accrued expenses | **3,177.6** | 2,556.8 |
| Short-term debt | **3,044.1** | 2,085.0 |
| Current portion of long-term debt | **653.3** | 47.2 |
| **Total current liabilities** | **13,489.9** | 10,766.3 |
| Long-term debt | **8,057.2** | 8,349.7 |
| Deferred income taxes | **3,701.7** | 3,426.1 |
| Other long-term liabilities | **1,136.7** | 857.9 |
| Commitments and contingencies (Note 12) | **—** | — |
| **Shareholders' equity:** | | |
| Preferred stock, $0.01 par value: authorized 120,619 shares; no shares issued or outstanding | **—** | — |
| Preference stock, series one ESOP convertible, par value $1.00: authorized 50,000,000 shares; issued and outstanding 3,583,000 shares at December 31, 2008 and 3,798,000 shares at December 29, 2007 | **191.5** | 203.0 |
| Common stock, par value $0.01: authorized 3,200,000,000 shares; issued 1,603,267,000 shares at December 31, 2008 and 1,590,139,000 shares at December 29, 2007 | **16.0** | 15.9 |
| Treasury stock, at cost: 164,502,000 shares at December 31, 2008 and 153,682,000 shares at December 29, 2007 | **(5,812.3)** | (5,620.4) |
| Shares held in trust, 1,700,000 shares at December 31, 2008 and 9,224,000 shares at December 29, 2007 | **(55.5)** | (301.3) |
| Guaranteed ESOP obligation | **—** | (44.5) |
| Capital surplus | **27,279.6** | 26,831.9 |
| Retained earnings | **13,097.8** | 10,287.0 |
| Accumulated other comprehensive loss | **(142.7)** | (49.7) |
| **Total shareholders' equity** | **34,574.4** | 31,321.9 |
| **Total liabilities and shareholders' equity** | **$60,959.9** | $54,721.9 |

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

| | Fiscal Year Ended | | |
|---|---|---|---|
| | Dec. 31, | Dec. 29, | Dec. 30, |
| *In millions* | 2008 | 2007 | 2006 |
| **Cash flows from operating activities:** | | | |
| Cash receipts from revenues | **$ 69,493.7** | $ 61,986.3 | $ 43,273.7 |
| Cash paid for inventory | **(51,374.7)** | (45,772.6) | (31,422.1) |
| Cash paid to other suppliers and employees | **(11,832.0)** | (10,768.6) | (9,065.3) |
| Interest and dividends received | **20.3** | 33.6 | 15.9 |
| Interest paid | **(573.7)** | (468.2) | (228.1) |
| Income taxes paid | **(1,786.5)** | (1,780.8) | (831.7) |
| **Net cash provided by operating activities** | **3,947.1** | 3,229.7 | 1,742.4 |
| **Cash flows from investing activities:** | | | |
| Additions to property and equipment | **(2,179.9)** | (1,805.3) | (1,768.9) |
| Proceeds from sale-leaseback transactions | **203.8** | 601.3 | 1,375.6 |
| Acquisitions (net of cash acquired) and other investments | **(2,650.7)** | (1,983.3) | (4,224.2) |
| Cash outflow from hedging activities | **—** | — | (5.3) |
| Sale of short-term investments | **27.5** | — | — |
| Proceeds from sale or disposal of assets | **18.7** | 105.6 | 29.6 |
| **Net cash used in investing activities** | **(4,580.6)** | (3,081.7) | (4,593.2) |
| **Cash flows from financing activities:** | | | |
| Net additions to short-term debt | **959.0** | 242.3 | 1,589.3 |
| Repayment of debt assumed in acquisition | **(352.8)** | — | — |
| Additions to long-term debt | **350.0** | 6,000.0 | 1,500.0 |
| Reductions in long-term debt | **(1.8)** | (821.8) | (310.5) |
| Dividends paid | **(383.0)** | (322.4) | (140.9) |
| Proceeds from exercise of stock options | **327.8** | 552.4 | 187.6 |
| Excess tax benefits from stock-based compensation | **53.1** | 97.8 | 42.6 |
| Repurchase of common stock | **(23.0)** | (5,370.4) | — |
| **Net cash provided by financing activities** | **929.3** | 377.9 | 2,868.1 |
| Net increase in cash and cash equivalents | **295.8** | 525.9 | 17.3 |
| Cash and cash equivalents at beginning of year | **1,056.6** | 530.7 | 513.4 |
| **Cash and cash equivalents at end of year** | **$ 1,352.4** | $ 1,056.6 | $ 530.7 |
| **Reconciliation of net earnings to net cash provided by operating activities:** | | | |
| Net earnings | **$ 3,212.1** | $ 2,637.0 | $ 1,368.9 |
| Adjustments required to reconcile net earnings to net cash provided by operating activities: | | | |
| Depreciation and amortization | **1,274.2** | 1,094.6 | 733.3 |
| Stock-based compensation | **92.5** | 78.0 | 69.9 |
| Deferred income taxes and other non-cash items | **(3.4)** | 40.1 | 98.2 |
| Change in operating assets and liabilities providing/(requiring) cash, net of effects from acquisitions: | | | |
| Accounts receivable, net | **(291.0)** | 279.7 | (540.1) |
| Inventories | **(488.1)** | (448.0) | (624.1) |
| Other current assets | **12.5** | (59.2) | (21.4) |
| Other assets | **19.1** | (26.4) | (17.2) |
| Accounts payable | **(63.9)** | (181.4) | 396.7 |
| Accrued expenses | **182.5** | (168.2) | 328.9 |
| Other long-term liabilities | **0.6** | (16.5) | (50.7) |
| **Net cash provided by operating activities** | **$ 3,947.1** | $ 3,229.7 | $ 1,742.4 |

See accompanying notes to consolidated financial statements.

### Consolidated Statements of Shareholders' Equity

| In millions | Shares Dec. 31, 2008 | Shares Dec. 29, 2007 | Shares Dec. 30, 2006 | Dollars Dec. 31, 2008 | Dollars Dec. 29, 2007 | Dollars Dec. 30, 2006 |
|---|---|---|---|---|---|---|
| **Preference stock:** | | | | | | |
| Beginning of year | **3.8** | 4.0 | 4.2 | **$ 203.0** | $ 213.3 | $ 222.6 |
| Conversion to common stock | **(0.2)** | (0.2) | (0.2) | **(11.5)** | (10.3) | (9.3) |
| End of year | **3.6** | 3.8 | 4.0 | **191.5** | 203.0 | 213.3 |
| **Common stock:** | | | | | | |
| Beginning of year | **1,590.1** | 847.3 | 838.8 | **15.9** | 8.5 | 8.4 |
| Common stock issued for Caremark Merger | **—** | 712.7 | — | **—** | 7.1 | — |
| Stock options exercised and awards | **13.2** | 30.1 | 8.5 | **0.1** | 0.3 | 0.1 |
| End of year | **1,603.3** | 1,590.1 | 847.3 | **16.0** | 15.9 | 8.5 |
| **Treasury stock:** | | | | | | |
| Beginning of year | **(153.7)** | (21.5) | | | | |

## Consolidated Statements of Shareholders' Equity

| | Shares | | | Dollars | | |
|---|---|---|---|---|---|---|
| | Dec. 31, 2008 | Dec. 29, 2007 | Dec. 30, 2006 | Dec. 31, 2008 | Dec. 29, 2007 | Dec. 30, 2006 |
| ***In millions*** | | | | | | |
| **Accumulated other comprehensive loss:** | | | | | | |
| Beginning of year | | | | **(49.7)** | (72.6) | (90.3) |
| Recognition of unrealized gain/(loss) on derivatives, net of income tax | | | | **3.4** | 3.4 | (0.3) |
| Pension liability adjustment, net of income tax | | | | **(96.4)** | 19.5 | 23.6 |
| Pension liability adjustment to initially apply SFAS No. 158, net of income tax | | | | **—** | — | (5.6) |
| End of year | | | | **(142.7)** | (49.7) | (72.6) |
| **Retained earnings:** | | | | | | |
| Beginning of year | | | | **10,287.0** | 7,966.6 | 6,738.6 |
| Net earnings | | | | **3,212.1** | 2,637.0 | 1,368.9 |
| Common stock dividends | | | | **(369.7)** | (308.8) | (127.0) |
| Preference stock dividends | | | | **(14.0)** | (14.8) | (15.6) |
| Tax benefit on preference stock dividends | | | | **0.6** | 1.2 | 1.7 |
| Adoption of EITF 06-04 and EITF 06-10 | | | | **(18.2)** | — | — |
| Adoption of FIN 48 | | | | **—** | 5.8 | — |
| End of year | | | | **13,097.8** | 10,287.0 | 7,966.6 |
| **Total shareholders' equity** | | | | **$ 34,574.4** | $ 31,321.9 | $ 9,917.6 |
| **Comprehensive income:** | | | | | | |
| Net earnings | | | | **$ 3,212.1** | $ 2,637.0 | $ 1,368.9 |
| Recognition of unrealized gain/(loss) on derivatives, net of income tax | | | | **3.4** | 3.4 | (0.3) |
| Pension liability, net of income tax | | | | **(96.4)** | 19.5 | 23.6 |
| **Comprehensive income** | | | | **$ 3,119.1** | $ 2,659.9 | $ 1,392.2 |

See accompanying notes to consolidated financial statements.

**1Significant Accounting Policies**

**Description of business** ~ CVS Caremark Corporation (the "Company") operates one of the largest pharmacy services businesses and the largest retail pharmacy business (based on revenues and store count) in the United States.

*Pharmacy Services Segment (the "PSS")* ~ The PSS provides a full range of prescription benefit management services including mail order pharmacy services, specialty pharmacy services, plan design and administration, formulary management and claims processing. The Company's customers 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 our mail order pharmacies and national network of approximately 60,000 retail pharmacies (which include our CVS/pharmacy® and Longs Drug® stores) to eligible participants in the benefits plans maintained by our customers 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 Caremark® and CarePlus CVS/pharmacy™ names.

The PSS also provides health management programs, which include integrated disease management for 27 conditions, through our Accordant® health management offering.

In addition, through our 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 (see Note 2 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.

Our pharmacy services business generates net revenues primarily by contracting with clients to provide prescription drugs to plan participants. 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 business operates under the Caremark Pharmacy Services®, Caremark®, CVS Caremark™, CarePlus CVS/pharmacy™, CarePlus™, RxAmerica® Accordant Care and TheraCom® names. As of December 31, 2008, the Pharmacy Services segment operated 58 retail specialty pharmacy stores, 19 specialty mail order pharmacies and 7 mail service pharmacies located in 26 states, Puerto Rico and the District of Columbia.

*Retail Pharmacy Segment ( the "RPS")* ~ The RPS sells prescription drugs 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 Drug retail stores and online through CVS.com®.

The RPS also provides health care services through its MinuteClinic health care clinics. These health care clinics utilize nationally recognized medical protocols to diagnose and treat minor health conditions and are staffed by nurse practitioners and physician assistants.

As of December 31, 2008, our retail pharmacy business included 6,923 retail drugstores (of which 6,857 operated a pharmacy) located in 41 states and the District of Columbia operating primarily under the CVS/pharmacy®

or Longs Drug® names, our online retail website, CVS.com® and 560 retail health care clinics operating under the MinuteClinic® name (of which 534 were located in CVS/pharmacy stores).

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

**Fiscal Year 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. Prior to Board approval of this change, the Saturday nearest December 31, 2008 would have resulted in a 53-week fiscal year that would have ended January 3, 2009.

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

| Fiscal Year | Fiscal Year-End | Fiscal Period | Fiscal Period Includes |
|---|---|---|---|
| 2008 | December 31, 2008 | December 30, 2007 - December 31, 2008 | 368 days |
| 2007 | December 29, 2007 | December 31, 2006 - December 29, 2007 | 364 days |
| 2006 | December 30, 2006 | January 1, 2006 - December 30, 2006 | 364 days |

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

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

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

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

**Short-term investments ~** The Company's short-term investments consisted of auction rate securities with initial maturities of greater than three months when purchased. These investments, which were classified as available-for-sale, were carried at historical cost, which approximated fair value at December 29, 2007. The Company had no short-term investments at December 31, 2008.

**Accounts receivable ~** Accounts receivable are stated net of an allowance for uncollectible accounts of $188.8 million and $107.8 million as of December 31, 2008 and December 29, 2007, respectively. The balance primarily includes amounts due from third party providers (e.g., pharmacy benefit managers, insurance companies and governmental agencies) and vendors as well as clients, participants and manufacturers.

**Fair value of financial instruments** ~ As of December 31, 2008, 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 $7.9 billion and $6.9 billion, respectively as of December 31, 2008. The carrying amount and estimated fair value of long-term debt was $8.2 billion as of December 29, 2007. 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 $7.0 million as of

December 31, 2008 and $5.7 million as of December 29, 2007. There were no outstanding investments in derivative financial instruments as of December 31, 2008 or December 29, 2007.

**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 our CVS/pharmacy stores, average cost to determine cost of sales and inventory in our mail service and specialty pharmacies and the cost method of accounting to determine inventory in the Longs Drug Stores and our distribution centers. The Longs Drug Stores will be conformed to the retail method of accounting when their accounting systems are converted in 2009. 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 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 and equipment. Repair and maintenance costs are charged directly to expense as incurred. Major renewals or replacements that substantially extend the useful life of an asset are capitalized and depreciated.

Following are the components of property and equipment:

| *In millions* | Dec. 31, 2008 | Dec. 29, 2007 |
|---|---|---|
| Land | **$ 1,304.1** | $ 586.4 |
| Building and improvements | **1,343.1** | 896.0 |
| Fixtures and equipment | **6,216.1** | 4,947.4 |
| Leasehold improvements | **2,581.3** | 2,133.2 |
| Capitalized software | **665.6** | 474.6 |
| Capital leases | **181.7** | 181.7 |
| | **12,291.9** | 9,219.3 |
| Accumulated depreciation and amortization | **(4,166.7)** | (3,366.5) |
| | **$ 8,125.2** | $ 5,852.8 |

The Company capitalizes application development stage costs for significant internally developed software projects. These costs are amortized over the estimated useful lives of the software, which generally range from 3 to 5 years. Unamortized costs were $70.0 million as of December 31, 2008 and $74.2 million as of December 29, 2007.

**Goodwill ~** The Company accounts for goodwill and intangibles under Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." As such, 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 of up to 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 accounts for the impairment of long-lived assets in accordance with SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets." As such, 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 individual store's estimated future cash flows (undiscounted and without interest charges). If the estimated future cash flows used in this analysis are less than the carrying amount of the asset 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).

**Revenue Recognition:**

*Pharmacy Services Segment* ~ The PSS sells prescription drugs directly through its mail service pharmacies and indirectly through its national retail pharmacy network. The PSS recognizes revenues from prescription drugs sold by its mail service pharmacies and under national retail pharmacy network contracts where the PSS is the principal using the gross method at the contract prices negotiated with its customers. Net revenue from the PSS includes: (i) the portion of the price the customer pays directly to the PSS, net of any volume-related or other discounts paid back to the customer (see "Drug Discounts" later in this document), (ii) the portion of the price paid to the PSS ("Mail Co-Payments") or a third party pharmacy in the PSS' national retail pharmacy network ("Retail Co-Payments") by individuals included in its

customers' benefit plans and (iii) administrative fees for national retail pharmacy network contracts where the PSS is not the principal as discussed later in this document.

SEC Staff Accounting Bulletin 104, "Revenue Recognition, corrected copy" ( "SAB 104") provides the general criteria for the timing aspect of revenue recognition, including consideration of whether: (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 in accordance with SAB 104:

- 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 customer contracts and does not experience a significant level of reshipments.
- Revenues generated from prescription drugs sold by third party pharmacies in the PSS' national retail pharmacy network and associated

administrative fees are recognized at the PSS' point-of-sale, which is when the claim is adjudicated by the PSS' online claims processing system.

The PSS determines whether it is the principal or agent for its national retail pharmacy network transactions using the indicators set forth in Emerging Issues Task Force ("EITF") Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent" 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 customer 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 national retail pharmacy network contracts. Pursuant to these contracts, the PSS is contractually required to pay the third party pharmacies in its national retail pharmacy network for products sold, regardless of whether the PSS is paid by its customers. The PSS' responsibilities under its customer 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 discounts paid to its customers as required by EITF No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" ("EITF 01-9"). The PSS pays discounts to its customers in accordance with the terms of its customer contracts, which are normally based on a fixed discount per prescription for specific products dispensed or a percentage of manufacturer discounts received for specific products dispensed. The liability for discounts due to the PSS' customers is included in "Claims and discounts payable" in the accompanying consolidated balance sheets.

Medicare Part D ~ The PSS began participating in the Federal Government's Medicare Part D program as a Prescription Drug Plan ("PDP") on January 1, 2006. 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 its net revenues. 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 1.3% and 0.8% of consolidated net revenues in 2008 and 2007, 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), which include the application of EITF 99-19. 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 national retail pharmacy network, (ii) shipping and handling costs and (iii) the operating costs of its mail service pharmacies and customer 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 participants in customers' 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' national 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 under the guidance provided by EITF Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for

Certain Consideration Received from a Vendor," and EITF Issue No. 03-10, "Application of EITF Issue No. 02-16 by Resellers to Sales Incentives Offered to Consumers by Manufacturers."

*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.

The PSS earns purchase discounts at various points in its business cycle (e.g., when the product is purchased, when the vendor is paid or when the product is dispensed) for products sold through its mail service pharmacies and third party pharmacies included in its national retail pharmacy network. 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" as required by EITF 02-16.

*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. Funds 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.

**Shares held in trust ~** As a result of the Caremark Merger (see Note 2 for additional information about the Caremark Merger), the Company maintains grantor trusts, which held approximately 1.7 million and 9.2 million shares of its common stock at December 31, 2008 and December 29, 2007, respectively. 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.

**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.

**Store opening and closing costs** ~ New store opening costs, other than capital expenditures, are charged directly to expense when incurred. When the Company closes a store, the present value of estimated unrecoverable costs, including the remaining lease obligation less estimated sublease income and the book value of abandoned property and equipment, are charged to expense. The long-term portion of the lease obligations associated with store closings was $398.6 million and $370.0 million in 2008 and 2007, respectively.

**Advertising costs** ~ Advertising costs are expensed when the related advertising takes place. Advertising costs, net of vendor funding, (included in operating expenses), were $323.8 million in 2008, $290.6 million in 2007 and $265.3 million in 2006.

**Interest expense, net** ~ Interest expense was $529.8 million, $468.3 million and $231.7 million, and interest income was $20.3 million, $33.7 million and $15.9 million in 2008, 2007 and 2006, respectively. Capitalized interest totaled $27.8 million in 2008, $23.7 million in 2007 and $20.7 million in 2006.

**Accumulated other comprehensive loss** ~ Accumulated other comprehensive loss consists of changes in the net actuarial gains and losses associated with pension and other post retirement benefit plans, unrealized losses on derivatives and an adjustment to initially apply SFAS No. 158. In accordance with SFAS No. 158, the amount included in accumulated other comprehensive income related to the Company's pension and post retirement plans was $216.9 million pre-tax ($132.3 million after-tax) as of December 31, 2008 and $58.7 million pre-tax ($35.9 million after-tax) as of December 29, 2007. The unrealized loss on derivatives totaled $16.6 million pre-tax ($10.5 million after-tax) and $21.9 million pre-tax ($13.8 million after-tax) as of December 31, 2008 and December 29, 2007, respectively.

**Stock-based compensation** ~ On January 1, 2006, the Company adopted SFAS No. 123(R), "Share-Based Payment," using the modified prospective transition method. Under this method, compensation expense is recognized for options granted on or after January 1, 2006 as well as any unvested options on the date of adoption. As allowed under the modified prospective transition method, prior period financial statements have not been restated. Prior to January 1, 2006, the Company accounted for its stock-based compensation plans under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, no stock-based employee compensation costs were reflected in net earnings for options granted under those plans since they had an exercise price equal to the fair market value of the underlying common stock on the date of grant. See Note 10 for additional information about stock-based compensation.

**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. See Note 11 for additional information about income taxes.

**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. Pursuant to the court order entered on October 16, 2008, Linens Holding Co. is in the process of liquidating the entire Linens n Things retail chain. The Company's loss from discontinued operations includes $132.0 million of lease-related costs ($214.4 million, net of an $82.4 million income tax benefit), which the Company believes it will likely be required to satisfy pursuant to its Linens n Things lease guarantees. These amounts, which are expected to change as each lease is resolved, were calculated in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities."

**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, the Company assumes that the ESOP preference stock is converted into common stock and all dilutive stock awards are exercised. After the assumed ESOP preference stock conversion, the ESOP Trust would hold common stock rather than ESOP preference stock and would receive common stock dividends ($0.25800 per share in 2008, $0.22875 per share in 2007 and $0.15500 per share in 2006) rather than ESOP preference stock dividends (currently $3.90 per share). Since the ESOP Trust uses the dividends it receives to service its debt, the Company would have to increase its contribution to the ESOP Trust to compensate it for the lower dividends. This additional contribution would reduce the Company's net earnings, which in turn, would reduce the amounts that would be accrued under the Company's incentive compensation plans.

Diluted earnings per common share is computed by dividing: (i) net earnings, after accounting for the difference between the dividends on the ESOP preference stock and common stock and after making adjustments for the incentive compensation plans, by (ii) Basic Shares plus the additional shares that would be issued assuming that all dilutive stock awards are exercised and the ESOP preference stock is converted into common stock. Options to purchase 20.9 million, 10.7 million, and 4.7 million shares of common stock were outstanding as of December 31, 2008, December 29, 2007 and December 30, 2006, 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.

**New Accounting Pronouncements** ~ In the first quarter of 2008, the Company adopted EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements" ("EITF 06-4"). EITF 06-4 requires the application of the provisions of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("SFAS 106") (if, in substance, a postretirement benefit plan exists), or Accounting Principles Board Opinion No. 12 (if the arrangement is, in substance, an individual deferred compensation contract) to endorsement split-dollar life insurance arrangements. SFAS 106 requires the recognition of a liability for the discounted value of the future premium benefits that will be incurred through the death of the underlying insureds. The adoption of this statement did not have a material effect on the Company's consolidated results of operations, financial position and cash flows.

In the first quarter of 2008, the Company adopted EITF No. 06-10 "Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements" ("EITF 06-10") effective fiscal 2008. EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. The adoption of this statement did not have a material effect on the Company's consolidated results of operations, financial position and cash flows.

In the first quarter of 2008, the Company adopted Financial Accounting Standards Board ("FASB") Staff Position No. FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active", which clarifies the application of SFAS No. 157 in a market that is not active. The adoption of this statement did not have a material impact on the Company's consolidated results of operations, financial position and cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations ("SFAS 141R"), which replaces SFAS 141. SFAS 141R 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 Statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of business combinations. SFAS 141R is effective for fiscal years beginning after December 15, 2008.

As of December 31, 2008, the Company had $202.3 million of unrecognized tax benefits (after considering the federal benefit of state taxes) related to business combinations that would have been treated as an adjustment to the purchase price allocation if they had been recognized under SFAS 141. It is possible that a significant portion of these benefits will be recognized within the next twelve months. To the extent these benefits are recognized after the adoption of SFAS 141R, their recognition would affect the Company's effective income tax rate rather than being treated as an adjustment to the purchase price allocation of the acquiree.

In February 2008, the FASB issued FASB Staff Position ("FSP") No. SFAS 157-2, "Effective Date of FASB Statement No. 157", which defers the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years and interim periods within those fiscal years, beginning after November 15, 2008. The Company does not believe the adoption of this statement will have a material effect on its consolidated results of operations, financial position and cash flows.

In April 2008, the FASB issued FSP No. FAS 142-3, Determining the Useful Life of Intangible Assets, which amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful lives of recognized intangible assets. This statement is effective for fiscal years beginning after December 15, 2008. The Company does not believe the adoption of this statement will have a material effect on its consolidated results of operations, financial position and cash flows.

In June 2008, the FASB reached consensus on EITF Issue No. 08-3, Accounting by Lessees for Nonrefundable Maintenance Deposits ("EITF 08-3"). Under EITF 08-3, lessees should account for nonrefundable maintenance deposits as deposit assets if it is probable that maintenance activities will occur and the deposit is therefore realizable. Amounts on deposit that are not probable of being used to fund future maintenance activities should be expensed. EITF 08-3 is effective for fiscal years beginning after December 15, 2008. Early application is not permitted. The Company does not believe the adoption of this statement will have a material effect on its consolidated results of operations, financial position and cash flows.

In December 2008, the FASB issued FSP No. FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets", which enhances the required disclosures about plan assets in an employer's defined benefit pension or other postretirement plan, including investment allocations decisions, inputs and valuations techniques used to measure the fair value of plan assets and significant concentrations of risks within plan assets. This statement is effective for financial statements issued for fiscal years ending after December 15, 2009. The Company is currently evaluating the potential impact the adoption of this statement may have on its consolidated financial statement disclosures.

## 2Business Combinations

### Caremark Merger

Effective March 22, 2007, pursuant to the Agreement and Plan of Merger dated as of November 1, 2006, as amended (the "Merger Agreement"), Caremark Rx, Inc. was merged with a newly formed subsidiary of CVS Corporation, with Caremark Rx, Inc., L.L.C. ("Caremark") continuing as the surviving entity (the "Caremark Merger"). Following the merger, the Company changed its name to CVS Caremark Corporation.

Under the terms of the Merger Agreement, Caremark shareholders received 1.67 shares of common stock, par value $0.01 per share, of the Company for each share of common stock of Caremark, par value $0.001 per share, issued and outstanding immediately prior to the effective time of the merger. In addition, Caremark shareholders of record as of the close of business on the day immediately preceding the closing date of the merger received a special cash dividend of $7.50 per share.

The merger was accounted for using the purchase method of accounting under SFAS No. 141, "Business Combinations" ("SFAS 141") using the purchase method of accounting. Under the purchase method of accounting, CVS Corporation is considered the acquirer of Caremark for accounting purposes and the total purchase price was allocated to the assets acquired and liabilities assumed from Caremark based on their fair values as of March 22, 2007. Under the purchase method of accounting, the total consideration was approximately $26.9 billion and includes amounts related to Caremark common stock ($23.3 billion), Caremark stock options ($0.6 billion) and special cash dividend ($3.2 billion), less shares held in trust ($0.3 billion). The consideration associated with the common stock and stock options was based on the average closing price of CVS common stock for the five trading days ending February 14, 2007, which was $32.67 per share. The difference between the total consideration paid and the amounts allocated to the assets acquired and liabilities assumed has been recognized as goodwill in the accompanying consolidated balance sheets. The results of the operations of Caremark have been included in the consolidated statements of operations since March 22, 2007.

Following is a summary of the assets acquired and liabilities assumed as of March 22, 2007.

**Assets Acquired and Liabilities Assumed**
**as of March 22, 2007**

| ***In millions*** | |
|---|---|
| Cash and cash equivalents | $ 1,293.4 |
| Short-term investments | 27.5 |
| Accounts receivable | 2,472.7 |
| Inventories | 442.3 |
| Deferred tax asset | 95.4 |
| Other current assets | 31.2 |
| **Total current assets** | 4,362.5 |
| Property and equipment | 305.3 |
| Goodwill | 20,924.3 |
| Intangible assets (1) | 9,319.7 |
| Other assets | 67.2 |
| **Total assets acquired** | 34,979.0 |
| Accounts payable | 960.8 |
| Claims and discounts payable | 2,430.1 |
| Accrued expenses (2) | 1,062.9 |
| Total current liabilities | 4,453.8 |
| Deferred tax liability | 3,581.4 |
| Other long-term liabilities | 93.2 |

| | |
|---|---|
| **Total liabilities** | 8,128.4 |
| **Net assets acquired** | $26,850.6 |

(1)Intangible assets include customer contracts and relationships ($2.9 billion) with an estimated weighted average life of 14.7 years, proprietary technology ($108.1 million) with an estimated weighted average life of 3.5 years, net favorable leasehold interests ($12.7 million) with an estimated weighted average life of 6.2 years, covenants not to compete ($9.0 million) with an estimated average life of 2 years and trade names ($6.4 billion), which are indefinitely lived.

(2)Accrued expenses include $54.9 million for estimated severance, benefits and outplacement costs for approximately 340 Caremark employees terminated in connection with the Caremark Merger. As of December 31, 2008, $49.7 million of the liability has been settled with cash payments. The remaining liability will require future cash payments through 2009.

In addition, 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 merger was accounted for using the purchase method of accounting under SFAS 141. 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.

**3Goodwill and Other Intangibles**

The Company accounts for goodwill and intangibles under SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, 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 an impairment may exist.

When evaluating goodwill for potential impairment, the Company first compares the fair value of the reporting unit, based on estimated future discounted cash flows, to its carrying amount. If the estimated fair value of the reporting unit is less than its carrying amount, an impairment loss calculation is prepared. The impairment loss calculation compares the implied fair value of 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 2008, the Company performed its required annual goodwill impairment tests. The Company concluded there were no goodwill impairments as of the testing date or December 31, 2008.

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.

The carrying amount of goodwill was $25.5 billion and $23.9 billion as of December 31, 2008 and December 29, 2007, respectively. During 2008, goodwill increased primarily due to the Longs Acquisition.

The carrying amount of indefinitely-lived assets was $6.4 billion as of December 31, 2008 and December 29, 2007.

Intangible assets with finite useful lives are amortized over their estimated useful lives. The increase in the gross carrying amount of the Company's amortizable intangible assets was primarily due to the preliminary purchase price allocations (which may change and the result of such changes, if any, may be material) the Company recorded in connection with the Longs Acquisition. Amortization expense for intangible assets totaled $405.0 million in 2008, $344.1 million in 2007 and $161.2 million in 2006. The anticipated annual amortization expense for these intangible assets is $421.4 million in 2009, $408.8 million in 2010, $399.0 million in 2011, $376.3 million in 2012 and $355.0 million in 2013.

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

| | ***Dec. 31, 2008*** | | ***Dec. 29, 2007*** | |
|---|---|---|---|---|
| ***In millions*** | **Gross Carrying Amount** | **Accumulated Amortization** | **Gross Carrying Amount** | **Accumulated Amortization** |
| Trademarks (indefinitely-lived) | **$ 6,398.0** | **$ —** | $ 6,398.0 | $ — |
| Customer contracts and relationships and Covenants not to compete | **4,748.8** | **(1,240.4)** | 4,444.1 | (876.9) |
| Favorable leases and Other | **719.3** | **(179.5)** | 623.0 | (158.6) |
| | **$ 11,866.1** | **$ (1,419.9)** | $ 11,465.1 | $ (1,035.5) |

**4Share 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 outstanding common stock. The specific timing and amount of repurchases will vary based on market conditions and other factors. From May 21, 2008 through December 31, 2008, the Company repurchased 0.6 million shares of common stock for $23.0 million. As a result of the Longs Acquisition, the Company elected to delay the completion of its share repurchase program. The Company currently intends to complete its share repurchase program in the second half of 2009.

On May 9, 2007, the Board of Directors of the Company authorized a share repurchase program for up to $5.0 billion of our 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 67.5 million shares of common stock; an open market repurchase program, which concluded in November 2007 and resulted in 5.3 million shares of common stock being repurchased for $211.9 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.

**5Borrowing and Credit Agreements**

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

| *In millions* | **Dec. 31, 2008** | **Dec. 29, 2007** |
|---|---|---|
| Commercial paper | **$ 2,544.1** | $ 2,085.0 |
| Bridge credit facility | **500.0** | — |
| 4.0% senior notes due 2009 | **650.0** | 650.0 |
| Floating rate notes due 2010(2) | **350.0** | — |
| Floating rate notes due 2010(2) | **1,750.0** | 1,750.0 |
| 5.75% senior notes due 2011 | **800.0** | 800.0 |
| 4.875% senior notes due 2014 | **550.0** | 550.0 |
| 6.125% senior notes due 2016 | **700.0** | 700.0 |
| 5.75% senior notes due 2017 | **1,750.0** | 1,750.0 |
| 6.25% senior notes due 2027 | **1,000.0** | 1,000.0 |
| 8.52% ESOP notes due 2008(1) | **—** | 44.5 |
| 6.302% Enhanced Capital Advantage Preferred Securities | **1,000.0** | 1,000.0 |
| Mortgage notes payable | **7.1** | 7.3 |
| Capital lease obligations | **153.4** | 145.1 |
| | **11,754.6** | 10,481.9 |
| Less: | | |
| Short-term debt | **(3,044.1)** | (2,085.0) |
| Current portion of long-term debt | **(653.3)** | (47.2) |
| | **$ 8,057.2** | $ 8,349.7 |

(1)See Note 8 for additional information about the Company's ESOP.

(2)As of December 31, 2008, the weighted average interest rate for the Company's floating rate notes due in 2010 was 2.70%.

In connection with its commercial paper program, the Company maintains a $675 million, five-year unsecured back-up credit facility, which expires on June 11, 2009, a $675 million, five-year unsecured back-up credit facility, which expires on June 2, 2010, a $1.4 billion, five-year unsecured back-up credit facility, which expires on May 12, 2011 and a $1.3 billion, five-year unsecured back-up credit facility, which expires on March 12, 2012. On September 12, 2008 the Company entered into a $1.2 billion unsecured backup credit facility, which expires on September 11, 2009, to serve as a bridge facility to finance a portion of the Longs Acquisition. 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, 2008 the Company had $500 million of borrowings outstanding against the bridge facility at an interest rate of 1.72%. As of December 31, 2008, the Company had no outstanding borrowings against the other credit facilities. The weighted average interest rate for short-term debt was 5.36% as of December 31, 2008 and 5.3% as of December 29, 2007.

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 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.

On May 22, 2007, the Company issued $1.75 billion of floating rate senior notes due June 1, 2010, $1.75 billion of 5.75% unsecured senior notes due June 1, 2017, and $1.0 billion of 6.25% unsecured senior notes due June 1, 2027 (collectively the "2007 Notes"). Also on May 22, 2007, the Company entered into an underwriting agreement pursuant to which the Company agreed to issue and sell $1.0 billion of Enhanced Capital Advantaged Preferred Securities ("ECAPS") due June 1, 2062 to the underwriters. The ECAPS bear interest at 6.302% per year until June 1, 2012 at which time they will pay interest based on a floating rate. The 2007 Notes and 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. The net proceeds from the 2007 Notes and ECAPS were used to repay a portion of the bridge credit facility and commercial paper borrowings used to fund a portion of the Longs Acquisition purchase price and retire $353 million of debt assumed as part of the Longs Acquisition.

The credit facilities, back-up credit facility, 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, 2008 are $653.3 million in 2009, $2.1 billion in 2010, $803.9 million in 2011, $1.0 billion in 2012 and $3.8 million in 2013.

**6Leases**

The Company leases most of its retail and mail locations, ten of its distribution centers and certain corporate offices under non-cancelable 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 non-cancelable 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.

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

| *In millions* | 2008 | 2007 | 2006 |
|---|---|---|---|
| Minimum rentals | **$ 1,691.3** | $ 1,557.0 | $ 1,361.2 |
| Contingent rentals | **57.8** | 65.1 | 61.5 |
| | **1,749.1** | 1,622.1 | 1,422.7 |
| Less: sublease income | **(24.9)** | (21.5) | (26.4) |
| | **$ 1,724,2** | $ 1,600.6 | $ 1,396.3 |

Following is a summary of the future minimum lease payments under capital and operating leases as of December 31, 2008:

| *In millions* | Capital Leases | Operating Leases |
|---|---|---|
| 2009 | $ 17.0 | $ 1,744.2 |
| 2010 | 17.2 | 1,854.4 |
| 2011 | 17.2 | 1,609.0 |
| 2012 | 17.6 | 1,682.6 |
| 2013 | 17.9 | 1,583.4 |
| Thereafter | 83.0 | 14,821.0 |
| | $ 169.9 | $ 23,294.6 |
| Less: imputed interest | (125.6) | — |

| | | |
|---|---|---|
| Present value of capital lease obligations | $ 44.3 | $ 23,294.6 |

The Company finances a portion of its store development program through sale-leaseback transactions. The properties are sold and the resulting leases qualify and are accounted for as operating leases. The Company does not have any retained or contingent interests in the stores 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 $203.8 million in 2008. This compares to $601.3 million in 2007 and $1.4 billion in 2006, which included approximately $800 million in proceeds associated with the sale and leaseback of some of the properties, acquired from Albertson's, Inc. Under the transactions, the properties are sold at fair value, which approximates net book 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 above table.

**7Medicare Part D**

The Company offers Medicare Part D benefits through SilverScript, which has contracted with CMS to be a PDP and, pursuant to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("MMA"), must be a risk-bearing entity regulated under state insurance laws or similar statutes. In addition, RxAmerica offered Medicare Part D benefits under insurance waivers from CMS. RxAmerica has acquired a registered insurance company, subsequently renamed Accendo Insurance Company, which is now licensed to operate as an insurance company in all 50 states. The acquisition of Accendo will allow RxAmerica to continue to offer Medicare Part D benefits through Accendo after the expiration of its insurance waivers from CMS on January 1, 2009.

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 2009; (ii) estimates of amounts payable to or receivable from other PDPs for claims costs incurred as a result of retroactive enrollment changes, which were communicated by CMS after such claims had been incurred; and (iii) 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.

**8Employee Stock Ownership Plan**

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

In 1989, the ESOP Trust issued and sold $357.5 million of 20-year, 8.52% notes, which were due and retired on December 31, 2008 (the "ESOP Notes"). The proceeds from the ESOP Notes were used to purchase 6.7 million shares of Series One ESOP Convertible Preference Stock (the "ESOP Preference Stock") from the Company. Since the ESOP Notes 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 accompanying consolidated balance sheets.

Each share of ESOP Preference Stock has a guaranteed minimum liquidation value of $53.45, is convertible into 4.628 shares of common stock and is 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, 2008, 3.6 million 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 is afforded 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.

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

| ***In millions*** | **2008** | **2007** | **2006** |
|---|---|---|---|
| ESOP expense recognized | **$ 34.3** | $ 29.8 | $ 26.0 |
| Dividends paid | **14.0** | 14.8 | 15.6 |
| Cash contributions | **34.3** | 29.8 | 26.0 |
| Interest payments | **3.8** | 7.0 | 9.7 |
| ESOP shares allocated | **0.4** | 0.4 | 0.4 |

**9Pension 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 compensation and receive matching contributions that they would have otherwise received under the 401(k) Savings Plan if not for certain restrictions and limitations under the Internal Revenue Code. The Company's contribution under the above defined contribution plans totaled $117.1 million in 2008, $80.6 million in 2007, and $63.7 million in 2006. The Company also sponsors an Employee Stock Ownership Plan. See Note 8 for additional information about this plan.

**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, 2008 the Company's postretirement medical plans have an accumulated postretirement benefit obligation of $17.1 million. Net periodic benefit costs related to these postretirement medical plans were $0.9 million and $0.8 million for 2008 and 2007, respectively. As of December 31, 2007, the Company's postretirement medical plans had an accumulated postretirement benefit obligation of $18.2 million.

**Pension Plans**

The Company sponsors nine non-contributory defined benefit pension plans that cover certain full-time employees, which were frozen in prior periods. These plans are funded based on actuarial calculations and applicable federal regulations. As of December 31, 2008, the Company's qualified defined benefit plans have a projected benefit obligation of $545.9 million and plan assets of $285.8 million. As of December 31, 2007, the Company's qualified defined benefit plans had a projected benefit obligation of $517.5 million and plan assets of $420.7 million. Net periodic pension costs related to these qualified benefit plans were $9.4 million and $13.6 million in 2008 and 2007, respectively.

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 6.25% in 2008 and ranged 5.25% to 6.25% in 2007. The expected long-term rate of return is determined by using the 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 8.5% in 2008 and 2007.

The Company uses an investment strategy, which emphasizes equities in order to produce higher expected returns, and in the long run, lower expected expense and cash contribution requirements. The pension plan assets allocation targets for the Retail Pharmacy Segment are 70% equity and 30% fixed income. The pension plan asset allocation targets for the Pharmacy Services Segment are 65% equity, 33% fixed income and 2% cash equivalents. The Retail Pharmacy Segment's qualified defined benefit pension plans asset allocations as of December 31, 2008 were 60% equity, 39% fixed income and 1% other. The Pharmacy Services Segment qualified defined benefit pension plans asset allocations as of December 31, 2008 were 68% equity, 29% fixed income and 3% other.

The Company utilized a measurement date of December 31 to determine pension and other postretirement benefit measurements. The Company plans to make a $29.4 million contribution to the pension plans during the upcoming year.

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 $49.3 million in 2008, $40.0 million in 2007, and $37.6 million in 2006. The Company also has nonqualified supplemental executive retirement plans in place for certain key employees.

The Company adopted SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)," effective December 15, 2006. SFAS No. 158 requires an employer to recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status, measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year, and recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes are reported in comprehensive income and in a separate component of shareholders' equity. The adoption of this statement did not have a material impact on the Company's consolidated results of operations, financial position or cash flows.

**10Stock Incentive Plans**

On January 1, 2006, the Company adopted SFAS No. 123(R), "Share-Based Payment," using the modified prospective transition method. Under this method, compensation expense is recognized for options granted on or after January 1, 2006 as well as any unvested options on the date of adoption. Compensation expense for unvested stock options outstanding at January 1, 2006 is recognized over the requisite service period based on the grant-date fair value of those options and awards as previously calculated under the SFAS No. 123(R) pro forma disclosure requirements. As allowed under the modified prospective transition method, prior period financial statements have not been restated. Prior to January 1, 2006, the Company accounted for its stock-based compensation plans under the recognition and measurement principles of APB No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, no stock-based employee compensation costs were reflected in net earnings for options granted under those plans since they had an exercise price equal to the fair market value of the underlying common stock on the date of grant.

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 $106.3 million for 2008, compared to $84.5 million for 2007. The recognized tax benefit was $33.2 million and $26.9 million for 2008 and 2007, respectively. Compensation expense related to restricted stock awards totaled $18.9 million for 2008, compared to $12.1 million for 2007. Compensation costs associated with the Company's share-based payments are included in selling, general and administrative expenses.

The 1999 ESPP provides for the purchase of up to 14.8 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 15.0 million shares of common stock. During 2008, 2.2 million shares of common stock were purchased, under the provisions of the 1999 ESPP, at an average price of $35.67 per share. As of December 31, 2008, 14.8 million shares of common stock have been issued under the 1999 ESPP. As of December 31, 2008, 1.4 million shares of common stock had been issued under the 2007 ESPP.

The fair value of stock compensation expense 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 and is recorded as a liability, which is adjusted to reflect the fair value of the award at the end of each reporting period until settlement date.

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

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Dividend yield(1) | **0.32%** | 0.33% | 0.26% |
| Expected volatility(2) | **25.22%** | 21.72% | 26.00% |
| Risk-free interest rate(3) | **2.75%** | 5.01% | 5.08% |
| Expected life (in years)(4) | **0.5** | 0.5 | 0.5 |

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

The Company's 1997 Incentive Compensation Plan (the "ICP") provides for the granting of up to 152.8 million shares of common stock in the form of stock options and other awards to selected officers, employees and directors of the Company. The ICP allows for up to 7.2 million restricted shares to be issued. The Company's restricted awards are considered nonvested share awards as defined under SFAS No. 123(R). The restricted awards 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.

The Company granted 1,274,000, 1,129,000, and 673,000 restricted stock units with a weighted average fair value of $40.70, $33.75, and $29.40 in 2008, 2007 and 2006, respectively. In addition, the Company granted 5,000 shares of restricted stock with a weighted average per share grant date fair value of $28.71 in 2006. Compensation costs for restricted shares and units totaled $18.9 million in 2008, $12.1 million in 2007, and $9.2 million in 2006, respectively.

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 ICP discussed above.

Following is a summary of the restricted share award activity under the ICP as of December 31, 2008:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| *Shares in thousands* | Shares | Weighted Average Grant Date Fair Value | Shares | Weighted Average Grant Date Fair Value |
| Nonvested at beginning of year | **161** | **$ 22.40** | 306 | $ 22.08 |
| Granted | **—** | **—** | — | — |
| Vested | **(67)** | **39.75** | (129) | 32.75 |
| Forfeited | **(11)** | **18.75** | (16) | 22.00 |
| Nonvested at end of year | **83** | **$ 22.16** | 161 | $ 22.40 |

Following is a summary of the restricted unit award activity under the ICP as of December 31, 2008:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| *Units in thousands* | Units | Weighted Average Grant Date Fair Value | Units | Weighted Average Grant Date Fair Value |
| Nonvested at beginning of year | **2,915** | **$ 28.23** | 2,009 | $ 25.22 |
| Granted | **1,274** | **40.70** | 1,129 | 33.75 |
| Vested | **(180)** | **38.96** | (198) | 34.99 |
| Forfeited | **(40)** | **35.08** | (25) | 23.24 |
| Nonvested at end of year | **3,969** | **$ 32.08** | 2,915 | $ 28.23 |

All grants under the 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 compensation expense 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. As of December 31, 2008, there were 61.0 million shares available for future grants under the ICP.

SFAS No. 123(R) requires that the benefit of tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow as required under prior guidance. Excess tax benefits of $53.1 million and $97.8 million were included in financing activities in the accompanying consolidated statement of cash flow during 2008 and 2007, respectively. Cash received from stock options exercised, which includes the ESPP, totaled $327.8 million and $552.4 million during 2008 and 2007, respectively. The total intrinsic value of options exercised during 2008 was $250.4 million, compared to $642.3 million and $117.8 million in 2007 and 2006, respectively. The fair value of options exercised during 2008 was $482.4 million, compared to $1.2 billion and $257.1 million during 2007 and 2006, 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:

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Dividend yield (1) | **0.60%** | 0.69% | 0.50% |
| Expected volatility (2) | **22.98%** | 23.84% | 24.58% |
| Risk-free interest rate (3) | **2.28%** | 4.49% | 4.74% |
| Expected life *(in years)*(4) | **4.3** | 5.1 | 4.2 |
| Weighted-average grant date fair value | **$ 8.53** | $ 8.29 | $ 8.46 |

(1)The dividend yield is based on annual dividends paid and the fair market value of the Company's stock at the period end 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, 2008, unrecognized compensation expense related to unvested options totaled $150.7 million, which the Company expects to be recognized over a weighted-average period of 1.75 years. After considering anticipated forfeitures, the Company expects approximately 23.6 million of the unvested options to vest over the requisite service period.

Following is a summary of the Company's stock option activity as of December 31, 2008:

| *Shares in thousands* | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at December 29, 2007 | **60,022** | **$ 19.23** | — | — |
| Granted | **13,735** | **40.69** | — | — |
| Exercised | **(12,844)** | **18.59** | — | — |
| Forfeited | **(1,303)** | **35.67** | — | — |
| Expired | **(236)** | **23.82** | — | — |
| Outstanding at December 31, 2008 | **59,374** | **$ 28.21** | **4.63** | **$ 277,599,232** |
| Exercisable at December 31, 2008 | **34,832** | **$ 21.55** | **3.86** | **$ 276,911,898** |

### 11Income Taxes

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

| *In millions* | 2008 | 2007 | 2006 |
|---|---|---|---|
| Current: Federal | **$ 1,680.4** | $ 1,250.8 | $ 676.6 |
| State | **364.5** | 241.3 | 127.3 |
| | **2,044.9** | 1,492.1 | 803.9 |
| Deferred: Federal | **132.5** | 206.0 | 47.6 |
| State | **15.2** | 23.6 | 5.4 |
| | **147.7** | 229.6 | 53.0 |
| Total | **$ 2,192.6** | $ 1,721.7 | $ 856.9 |

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

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Statutory income tax rate | **35.0%** | 35.0% | 35.0% |
| State income taxes, net of federal tax benefit | **4.1** | 4.2 | 3.9 |
| Other | **0.5** | 0.3 | 0.1 |
| Federal and net State reserve release | — | — | (0.5) |
| Effective tax rate | **39.6%** | 39.5% | 38.5% |

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

| *In millions* | Dec. 31, 2008 | Dec. 29, 2007 |
|---|---|---|
| Deferred tax assets: | | |
| Lease and rents | **$ 317.6** | $ 276.2 |
| Inventory | **72.9** | 56.7 |
| Employee benefits | **241.3** | 188.9 |
| Accumulated other comprehensive items | **91.2** | 31.8 |
| Allowance for bad debt | **95.4** | 74.6 |
| Retirement benefits | **13.8** | 6.2 |
| Other | **234.4** | 170.9 |
| NOL | **13.2** | 26.9 |
| Total deferred tax assets | **1,079.8** | 832.2 |
| Deferred tax liabilities: | | |
| Depreciation and Amortization | **(4,346.3)** | (3,928.9) |
| Total deferred tax liabilities | **(4,346.3)** | (3,928.9) |
| Net deferred tax (liability)/assets | **$ (3,266.5)** | $ (3,096.7) |

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

During the fourth quarter of 2006, an assessment of tax reserves resulted in the Company recording a reduction of previously recorded tax reserves through the income tax provision of $11.0 million.

The following is a summary of our income tax reserve:

| *In millions* | **2008** | **2007** |
|---|---|---|
| Beginning Balance | **$233.4** | $ 43.2 |
| Additions based on tax positions related to the current year | **6.0** | 207.5 |
| Additions based on tax positions related to prior years | **48.4** | 4.5 |
| Reductions for tax positions of prior years | **(7.8)** | (6.7) |
| Expiration of statute of limitations | **(9.1)** | (2.0) |
| Settlements | **(13.6)** | (13.1) |
| Ending Balance | **$257.3** | $233.4 |

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 1992. 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 $213.7 million.

During 2008, the Internal Revenue Service (the "IRS") completed examinations of the Company's 2006 consolidated U.S. income tax return and Caremark's 2004 and 2005 consolidated U.S. income tax returns.

The IRS is currently examining the Company's 2007 and 2008 consolidated U.S. income tax returns 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. In addition to the CAP examinations, the IRS is examining Caremark's consolidated U.S. income tax returns for 2006 and for its short tax year ended March 22, 2007. The Company and its subsidiaries are also currently under examination by a number of state and local tax authorities. As of December 31, 2008, 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 fiscal year ended December 31, 2008, the Company recognized interest of approximately $27.1 million. The Company had approximately $61.8 million accrued for interest and penalties as of December 31, 2008.

There are no material reserves established at December 31, 2008 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 $229.1 million, after considering the federal benefit of state income taxes.

**12Commitments & 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, 2008, the Company guaranteed approximately 95 such store leases (excluding the lease guarantees related to Linens n Things, which is discussed in Note 1 previously in this document), with the maximum remaining lease term extending through 2018. 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's subsidiary Caremark, Inc. (now known as Caremark, L.L.C.) 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 money damages and alleges that Caremark's processing of Medicaid and certain other government claims on behalf of its clients 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 recent 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 state plaintiffs and the relator have filed a motion asking the court to reconsider its rulings. The United States has asked the court to take the procedural steps necessary for it to take an immediate appeal.

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 an adjudication platform of AdvancePCS (acquired by Caremark in 2004 and now known as CaremarkPCS, L.L.C.). The Company has initiated discussions with the OIG and with the U.S Department of Justice concerning our government claims processing activities on the two adjudication platforms used by AdvancePCS and one adjudication platform used by PharmaCare. We are also cooperating with the requests for information contained in the document subpoena by producing responsive documents on a rolling basis. We cannot predict with certainty the timing, outcome or consequence 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. In February 2008, the Lauriello trial court proceedings were stayed pending an appeal by McArthur of certain rulings relating to his complaint in intervention. In September 2008, the Alabama Supreme Court entered judgment on the appeal and in December 2008, the trial court lifted its stay and returned the case to its active docket.

Various lawsuits have been filed alleging that Caremark and its subsidiaries Caremark Inc. (now known as Caremark, L.L.C.) and AdvancePCS (now known as CaremarkPCS, L.L.C.) have 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 AdvancePCS in Pennsylvania federal court, seeking treble damages and injunctive relief. The claims were initially sent to arbitration based on contract terms between the pharmacies and AdvancePCS.

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, Caremark Inc., AdvancePCS (acquired by Caremark in March 2004 and now known as CaremarkPCS, L.L.C.) and two PBM competitors, seeking treble damages and injunctive relief. The case against Caremark and Caremark Inc. was transferred to Illinois federal court, and the AdvancePCS case was sent to arbitration based on contract terms between the pharmacies and AdvancePCS. The arbitration was then stayed by the parties pending developments in Caremark's court case.

In August 2006, the Bellevue case and the North Jackson Pharmacy case were 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 has appealed a decision which vacated the order compelling arbitration and staying the proceedings in the Bellevue case to the Third Circuit Court of Appeals. 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.

The Company is also a party to other litigation arising in the normal course of its business, none of which is expected to be material to the Company. The Company can give no assurance, however, that our operating results and financial condition 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 industry; (iii) pending or future federal or state governmental investigations of our business or the pharmacy services 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 industry.

**13Business Segments**

The Company currently operates two business segments: Pharmacy Services and Retail Pharmacy. The operating segments are businesses of the Company for which separate financial information is available and for which operating results are evaluated on a regular basis by executive management in deciding how to allocate resources and in assessing performance. The Company's business segments offer different products and services and require distinct technology and marketing strategies.

The Company evaluates segment performance based on net revenues, gross profit and operating profit before the effect of certain intersegment activities and charges. See Note 1 previously in this document for a description of the Pharmacy Services and Retail Pharmacy businesses and related significant accounting policies.

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

| *In millions* | Pharmacy Services Segment [1] | Retail Pharmacy Segment | Intersegment Eliminations [2] | Consolidated Totals |
|---|---|---|---|---|
| **2008:** | | | | |
| **Net revenues** | **$ 43,769.2** | **$ 48,989.9** | **$ (5,287.2)** | **$ 87,471.9** |
| **Gross profit** | **3,550.0** | **14,740.4** | | **18,290.4** |
| **Operating profit** | **2,562.5** | **3,483.7** | | **6,046.2** |
| **Depreciation and amortization** | **355.0** | **919.2** | | **1,274.2** |
| **Total assets** | **32,904.1** | **28,404.5** | **(348.7)** | **60,959.9** |
| **Goodwill** | **18,817.6** | **6,676.3** | | **25,493.9** |
| **Additions to property and equipment** | **252.9** | **1,927.0** | | **2,179.9** |
| 2007: | | | | |
| Net revenues | $ 34,938.4 | $ 45,086.5 | $ (3,695.4) | $ 76,329.5 |
| Gross profit | 2,997.1 | 13,110.6 | | 16,107.7 |
| Operating profit | 2,102.0 | 2,691.3 | | 4,793.3 |
| Depreciation and amortization | 289.3 | 805.3 | | 1,094.6 |
| Total assets | 32,133.4 | 22,844.3 | (255.8) | 54,721.9 |
| Goodwill | 18,454.9 | 5,467.4 | | 23,922.3 |
| Additions to property and equipment | 94.1 | 1,711.2 | | 1,805.3 |
| 2006: | | | | |
| Net revenues | $ 3,691.3 | $ 40,285.6 | $ (155.5) | $ 43,821.4 |
| Gross profit | 458.8 | 11,283.4 | | 11,742.2 |
| Operating profit | 318.1 | 2,123.5 | | 2,441.6 |
| Depreciation and amortization | 41.4 | 691.9 | | 733.3 |
| Total assets | 1,603.4 | 19,038.8 | (68.1) | 20,574.1 |
| Goodwill | 622.8 | 2,572.4 | | 3,195.2 |
| Additions to property and equipment | 18.4 | 1,750.5 | | 1,768.9 |

(1) Net Revenues of the Pharmacy Services Segment include approximately $6,348.3 million and $4,618.2 million of Retail Co-Payments in 2008 and 2007 respectively.

(2) Intersegment eliminations relate to intersegment revenues and accounts receivable that occur when a Pharmacy Services Segment customer uses a Retail Pharmacy Segment store to purchase covered products. When this occurs, both segments record the revenue on a standalone basis.

## 14 Reconciliation of Earnings Per Common Share

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

| *In millions, except per share amounts* | 2008 | 2007 | 2006 |
| --- | --- | --- | --- |
| **Numerator for earnings per common share calculation:** | | | |
| Earnings from continuing operations | **$ 3,344.1** | $ 2,637.0 | $ 1,368.9 |
| Preference dividends, net of income tax benefit | **(14.1)** | (14.2) | (13.9) |
| Earnings from continuing operations available to common shareholders, basic | **$ 3,330.0** | $ 2,622.8 | $ 1,355.0 |
| Loss from discontinued operations, net of income tax benefit | **(132.0)** | — | — |
| Net earnings available to common shareholders, basic | **$ 3,198.0** | $ 2,622.8 | $ 1,355.0 |
| Earnings from continuing operations | **$ 3,344.1** | $ 2,637.0 | $ 1,368.9 |
| Dilutive earnings adjustments | **(3.4)** | (3.6) | (4.2) |
| Earnings from continuing operations available to common shareholders, diluted | **$ 3,340.7** | $ 2,633.4 | $ 1,364.7 |
| Loss from discontinued operations, net of income tax benefit | **(132.0)** | — | — |
| Net earnings available to common shareholders, diluted | **$ 3,208.7** | $ 2,633.4 | $ 1,364.7 |
| **Denominator for earnings per common share calculation:** | | | |
| Weighted average common shares, basic | **1,433.5** | 1,328.2 | 820.6 |
| Preference stock | **17.1** | 18.0 | 18.8 |
| Stock options | **13.8** | 22.3 | 11.5 |
| Restricted stock units | **4.7** | 3.3 | 2.3 |
| Weighted average common shares, diluted | **1,469.1** | 1,371.8 | 853.2 |
| **Basic earnings per common share:** | | | |
| Earnings from continuing operations | **$ 2.32** | $ 1.97 | $ 1.65 |
| 623 Loss from discontinued operations | **(0.09)** | — | — |
| Net earnings | **$ 2.23** | $ 1.97 | $ 1.65 |
| **Diluted earnings per common share:** | | | |
| Earnings from continuing operations | **$ 2.27** | $ 1.92 | $ 1.60 |
| Loss from discontinued operations | **(0.09)** | — | — |
| Net earnings | **$ 2.18** | $ 1.92 | $ 1.60 |

## 15 Quarterly Financial Information (Unaudited)

| *In millions, except per share amounts* | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Fiscal Year |
|---|---|---|---|---|---|
| **2008[1]:** | | | | | |
| **Net revenues** | **$ 21,326.0** | **$ 21,140.3** | **$ 20,863.4** | **$ 24,142.2** | **$ 87,471.9** |
| **Gross profit** | **4,293.0** | **4,373.2** | **4,400.6** | **5,223.6** | **18,290.4** |
| **Operating profit** | **1,370.1** | **1,478.1** | **1,466.2** | **1,731.8** | **6,046.2** |
| **Earnings from continuing operations** | **748.5** | **823.5** | **818.8** | **953.3** | **3,344.1** |
| **Loss from discontinued operations, net of income tax benefit** | **—** | **(48.7)** | **(82.8)** | **(0.5)** | **(132.0)** |
| **Net earnings** | **748.5** | **774.8** | **736.0** | **952.8** | **3,212.1** |
| **Earnings per share from continuing operations, basic** | **0.52** | **0.57** | **0.57** | **0.66** | **2.32** |
| **Loss per common share from discontinued operations** | **—** | **(0.03)** | **(0.06)** | **—** | **(0.09)** |
| **Net earnings per common share, basic** | **0.52** | **0.54** | **0.51** | **0.66** | **2.23** |
| **Earnings per common share from continuing operations, diluted** | **0.51** | **0.56** | **0.56** | **0.65** | **2.27** |
| **Loss per common share from discontinued operations** | **—** | **(0.03)** | **(0.06)** | **—** | **(0.09)** |
| **Net earnings per common share, diluted** | **0.51** | **0.53** | **0.50** | **0.65** | **2.18** |
| **Dividends per common share** | **0.06000** | **0.06000** | **0.06900** | **0.06900** | **0.25800** |
| **Stock price: (New York Stock Exchange)** | | | | | |
| **High** | **41.53** | **44.29** | **40.14** | **34.90** | **44.29** |
| **Low** | **34.91** | **39.02** | **31.81** | **23.19** | **23.19** |
| 2007: | | | | | |
| Net revenues | $ 13,188.6 | $ 20,703.3 | $ 20,495.2 | $ 21,942.4 | $ 76,329.5 |
| Gross profit | 3,303.2 | 4,158.5 | 4,195.2 | 4,450.8 | 16,107.7 |
| Operating profit | 736.5 | 1,309.8 | 1,271.1 | 1,475.9 | 4,793.3 |
| Net earnings | 408.9 | 723.6 | 689.5 | 815.0 | 2,637.0 |
| Net earnings per common share, basic | 0.45 | 0.48 | 0.47 | 0.56 | 1.97 |
| Net earnings per common share, diluted | 0.43 | 0.47 | 0.45 | 0.55 | 1.92 |
| Dividends per common share | 0.04875 | 0.06000 | 0.06000 | 0.06000 | 0.22875 |
| Stock price: (New York Stock Exchange) | | | | | |
| High | 34.93 | 39.44 | 39.85 | 42.60 | 42.60 |
| Low | 30.45 | 34.14 | 34.80 | 36.43 | 30.45 |

(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 of fiscal 2008. Prior to Board approval of this change, the Saturday nearest December 31, 2008 would have resulted in a 53-week fiscal year that would have ended January 3, 2009. As you review our operating performance, please consider that fiscal years 2008 and 2007 and fiscal quarters 2008 and 2007 include 368 days, 364 days, 95 days and 91 days, respectively.

## Five-Year Financial Summary

| *In millions, except per share amounts* | 2008[1] | 2007 [2] | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| **Statement of operations data:** | | | | | |
| Net revenues | **$ 87,471.9** | $ 76,329.5 | $ 43,821.4 | $ 37,006.7 | $ 30,594.6 |
| Gross profit | **18,290.4** | 16,107.7 | 11,742.2 | 9,694.6 | 7,915.9 |
| Operating expenses[3][4] | **12,244.2** | 11,314.4 | 9,300.6 | 7,675.1 | 6,461.2 |
| Operating profit[5] | **6,046.2** | 4,793.3 | 2,441.6 | 2,019.5 | 1,454.7 |
| Interest expense, net | **509.5** | 434.6 | 215.8 | 110.5 | 58.3 |
| Income tax provision[6] | **2,192.6** | 1,721.7 | 856.9 | 684.3 | 477.6 |
| Earnings from continuing operations | **3,344.1** | 2,637.0 | 1,368.9 | 1,224.7 | 918.8 |
| Loss from discontinued operations, net of income tax benefit[7] | **(132.0)** | — | — | — | — |
| Net earnings | **$ 3,212.1** | $ 2,637.0 | $ 1,368.9 | $ 1,224.7 | $ 918.8 |
| **Per common share data:** | | | | | |
| Basic earnings per common share: | | | | | |
| Earnings from continuing operations | **$ 2.32** | $ 1.97 | $ 1.65 | $ 1.49 | $ 1.13 |
| Loss from discontinued operations | **(0.09)** | — | — | — | — |
| Net earnings | **$ 2.23** | $ 1.97 | $ 1.65 | $ 1.49 | $ 1.13 |
| Diluted earnings per common share: | | | | | |
| Earnings from continuing operations | **$ 2.27** | $ 1.92 | $ 1.60 | $ 1.45 | $ 1.10 |
| Loss from discontinued operations | **(0.09)** | — | — | — | — |
| Net earnings | **$ 2.18** | $ 1.92 | $ 1.60 | $ 1.45 | $ 1.10 |
| Cash dividends per common share | **0.25800** | 0.22875 | 0.15500 | 0.14500 | 0.13250 |
| **Balance sheet and other data:** | | | | | |
| Total assets | **$ 60,959.9** | $ 54,721.9 | $ 20,574.1 | $ 15,246.6 | $ 14,513.3 |
| Long-term debt (less current portion) | **$ 8,057.2** | $ 8,349.7 | $ 2,870.4 | $ 1,594.1 | $ 1,925.9 |
| Total shareholders' equity | **$ 34,574.4** | $ 31,321.9 | $ 9,917.6 | $ 8,331.2 | $ 6,987.2 |
| Number of stores (at end of period) | **6,923** | 6,301 | 6,205 | 5,474 | 5,378 |

(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. Prior to Board approval of this change, the Saturday nearest December 31, 2008 would have resulted in a 53-week fiscal year that would have ended January 3, 2009. As you review our operating performance, please consider that fiscal 2008 includes 368 days, compared to each of the remaining fiscal years presented, which include 364 days.

(2) Effective March 22, 2007, pursuant to the Agreement and Plan of Merger dated as of November 1, 2006, as amended (the "Merger Agreement"), Caremark Rx, Inc. was merged with and into a newly formed subsidiary of CVS Corporation, with the CVS subsidiary, Caremark Rx, L.L.C. ("Caremark"), 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 Securities and Exchange Commission (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 statement resulted in a $40.2 million pre-tax ($24.7 million after-tax) decrease in operating expenses for 2006.

(4) In 2004, the Company conformed its accounting for operating leases and leasehold improvements to the views expressed by the Office of the Chief Accountant of the Securities and Exchange Commission to the American Institute of Certified Public Accountants on February 7, 2005. As a result, the Company recorded a non-cash pre-tax adjustment of $65.9 million ($40.5 million after-tax) to operating expenses, which represents the cumulative effect of the adjustment for a period of approximately 20 years. Since the effect of this non-cash adjustment was not material to 2004, or any previously reported fiscal year, the cumulative effect was recorded in the fourth quarter of 2004.

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

(6) Income tax provision includes the effect of the following: (i) in 2006, a $11.0 million reversal of previously recorded tax reserves through the tax provision principally based on resolving certain state tax matters, (ii) in 2005, a $52.6 million reversal of previously recorded tax reserves through the tax provision principally based on resolving certain state tax matters, and (iii) in 2004, a $60.0 million reversal of previously recorded tax reserves through the tax provision principally based on finalizing certain tax return years and on a 2004 court decision relevant to the industry.

(7) 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. Pursuant to the court order entered on October 16, 2008, Linens Holding Co. is in the process of liquidating the entire Linens 'n Things retail chain. The loss from discontinued operations includes $132.0 million of lease-related costs ($214.4 million, net of an $82.4 million income tax benefit), which the Company believes it will likely be required to satisfy pursuant to its Linens 'n Things lease guarantees. These amounts, which are expected to change as each lease is resolved, were calculated in accordance with Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities."

**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, 2008 and December 29, 2007, and the related consolidated statements of operations, shareholders' equity, and cash flows for the fiscal years ended December 31, 2008 and December 29, 2007. 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 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 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, 2008 and December 29, 2007, and the consolidated results of its operations and its cash flows for the fiscal years ended December 31, 2008 and December 29, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, effective December 31, 2006, CVS Caremark Corporation adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* and effective December 30, 2007, CVS Caremark Corporation adopted Emerging Issues Task Force (EITF) No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements* and EITF No. 06-10, *Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements*.

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, 2008, 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 26, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 26, 2009

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders
CVS Caremark Corporation

We have audited the accompanying consolidated statements of operations, shareholders' equity and cash flows of CVS Caremark Corporation (formerly CVS Corporation) and subsidiaries for the fiscal year ended December 30, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of CVS Caremark Corporation and subsidiaries for the fiscal year ended December 30, 2006, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP
KPMG LLP
Providence, Rhode Island
February 27, 2007

**Exhibit 21**

**SUBSIDIARIES OF THE REGISTRANT**

As of January 1, 2009, CVS Caremark Corporation had the following significant subsidiaries:

CVS Pharmacy, Inc. (a Rhode Island corporation)(1)
Revco Discount Drug Centers, Inc. (a Michigan corporation)(2)
Hook-SupeRx, L.L.C. (a Delaware limited liability company)
Holiday CVS, L.L.C. (a Florida limited liability company)
Garfield Beach CVS, L.L.C. (a California limited liability company)
CVS Albany, L.L.C. (a New York limited liability company)
Massachusetts CVS Pharmacy, L.L.C. (a Massachusetts limited liability company)
Longs Drug Stores California, L.L.C. (a California limited liability company)
Caremark Rx, L.L.C. (a Delaware limited liability company)(3)
Caremark, L.L.C. (a California limited liability company)
CaremarkPCS Health, L.L.C. (a Delaware limited liability company)
SilverScript, L.L.C. (a Delaware limited liability company)
SilverScript Insurance Company (a Tennessee corporation)
PharmaCare Management Services, L.L.C. (a Delaware limited liability company)
RxAmerica, LLC (a Delaware limited liability company)

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(1) CVS Pharmacy, Inc. is the immediate parent of approximately 700 entities that operate drugstores, all of which drugstores are in the United States and its territories.
(2) Revco Discount Drug Centers, Inc. (a Michigan corporation) is the immediate parent corporation of two corporations and the indirect parent of one corporation that operate drugstores, all of which drugstores are in the United States and its territories.
(3) Caremark Rx, L.L.C., the parent of the Registrant's pharmacy services subsidiaries, is the immediate or indirect parent of several mail order, specialty mail and retail specialty pharmacy subsidiaries, all of which operate in the United States and its territories.

**Exhibit 23.1**

## Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Nos. 333-49407, 333-34927, 333-28043, 333-91253, 333-63664, 333-139470 and 333-141481 on Form S-8 and 333-143110 on Form S-3) of CVS Caremark Corporation and in the related Prospectuses of our reports dated February 26, 2009, with respect to the consolidated financial statements and schedule of CVS Caremark Corporation as of December 31, 2008 and December 29, 2007 and for the fiscal years ended December 31, 2008 and December 29, 2007 and the effectiveness of internal control over financial reporting of CVS Caremark Corporation as of December 31, 2008, incorporated by reference or included in this Annual Report (Form 10-K) and to the reference to our firm under the heading "Selected Financial Data", included therein, filed with the Securities and Exchange Commission.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 26, 2009

**Exhibit 23.2**

## Consent of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
CVS Caremark Corporation:

We consent to the incorporation by reference in the Registration Statements Numbers 333-49407, 333-34927, 333-28043, 333-91253, 333-63664, 333-139470 and 333-141481 on Form S-8, and 333-143110 on Form S-3 of CVS Caremark Corporation of our reports dated February 27, 2007, with respect to the consolidated statements of operations, shareholders' equity and cash flows for the fiscal year ended December 30, 2006, and the related consolidated financial statement schedule, which reports appear or are incorporated by reference in the December 31, 2008 Annual Report on Form 10-K of CVS Caremark Corporation, and to the reference to our firm under the heading "Selected Financial Data" in the December 31, 2008 Annual Report on Form 10-K of CVS Caremark Corporation.

/s/ KPMG LLP

KPMG LLP
Providence, Rhode Island
February 26, 2009

**Exhibit 31.1**

**Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

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

1. I have reviewed this annual report on Form 10-K of CVS Caremark Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2009

By: /s/ Thomas M. Ryan

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

**Exhibit 31.2**

**Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

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

1. I have reviewed this annual report on Form 10-K of CVS Caremark Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   - (a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
   - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
   - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2009

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

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

The certification set forth below is being submitted in connection with the Annual Report of CVS Caremark Corporation (the "Company") on Form 10-K for the period ended December 31, 2008 (the "Report"), for the purpose of complying with Rule 13(a)-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, Thomas M. Ryan, Chairman of the Board, President and Chief Executive Officer of the Company, certify that, to the best of my knowledge:

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

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

February 27, 2009

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

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

The certification set forth below is being submitted in connection with the Annual Report of CVS Caremark Corporation (the "Company") on Form 10-K for the period ended December 31, 2008 (the "Report"), for the purpose of complying with Rule 13(a)-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, David B. Rickard, Executive Vice President, Chief Financial Officer and Chief Administrative Officer of the Company, certify that, to the best of my knowledge:

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

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

February 27, 2009

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