

## **Exhibit 4-D**

# **Item 1 of CVS Health's 2013 Annual Report on Form 10-K**

## PART I

### Item 1. Business

#### Overview

CVS Caremark Corporation (“CVS Caremark”, the “Company”, “we,” “our” or “us”), together with its subsidiaries, is the largest integrated pharmacy health care provider in the United States. We are uniquely positioned to deliver significant benefits to health plan sponsors through effective cost management solutions and innovative programs that engage plan members and promote healthier and more cost-effective behaviors. Our integrated pharmacy services model enhances our ability to offer plan members and consumers expanded choice, greater access and more personalized services to help them on their path to better health. We effectively manage pharmaceutical costs and improve health care outcomes through our pharmacy benefit management (“PBM”), mail order and specialty pharmacy division, CVS Caremark<sup>®</sup> Pharmacy Services; our more than 7,600 CVS/pharmacy<sup>®</sup>, Longs Drugs<sup>®</sup> and Drogaria Onofre<sup>®</sup> retail stores; our retail-based health clinic subsidiary, MinuteClinic<sup>®</sup>; and our online retail pharmacies, CVS.com<sup>®</sup> and Onofre.com.br.

We currently have three reportable segments: Pharmacy Services, Retail Pharmacy and Corporate.

#### Pharmacy Services Segment

The Pharmacy Services Segment provides a full range of PBM services, as described more fully below, to our clients consisting primarily of employers, insurance companies, unions, government employee groups, managed care organizations (“MCOs”) and other sponsors of health benefit plans and individuals throughout the United States. In addition, through our SilverScript Insurance Company (“SilverScript”) subsidiary, we are a national provider of drug benefits to eligible beneficiaries under the Federal Government’s Medicare Part D program. The Pharmacy Services Segment operates under the CVS Caremark<sup>®</sup> Pharmacy Services, Caremark<sup>®</sup>, CVS Caremark<sup>®</sup>, CarePlus CVS/pharmacy<sup>®</sup>, RxAmerica<sup>®</sup>, Accordant<sup>®</sup>, SilverScript<sup>®</sup> and Novologix<sup>®</sup> names. As of December 31, 2013, the Pharmacy Services Segment operated 25 retail specialty pharmacy stores, 11 specialty mail order pharmacies and four mail service dispensing pharmacies located in 22 states, Puerto Rico and the District of Columbia.

**Pharmacy Services Business Strategy** - Our business strategy centers on providing innovative pharmaceutical solutions and quality client service in order to enhance clinical outcomes for our clients’ health benefit plan members while assisting our clients and their plan members in better managing overall health care costs. Our goal is to produce superior results for our clients and their plan members by leveraging our expertise in core PBM services, including: plan design and administration, formulary management, discounted drug purchase arrangements, Medicare Part D services, mail order, specialty pharmacy and infusion services, retail pharmacy network management services, prescription management systems, clinical services, disease management services and medical spend management.

In addition, as a fully integrated pharmacy services company, we are able to offer our clients and their plan members a variety of programs and plan designs that benefit from our integrated information systems and the ability of our more than 26,000 pharmacists, nurse practitioners and physician assistants to interact personally with the many plan members who shop our stores every day. Through our multiple member touch points (retail stores, mail order and specialty pharmacies, retail clinics, call centers, proprietary websites and mobile devices), we seek to engage plan members in behaviors that lower cost and improve health care outcomes. Examples of these programs and services include: Maintenance Choice<sup>®</sup>, a program where eligible client plan members can elect to fill their maintenance prescriptions at our retail pharmacy stores for the same price as mail order; Pharmacy Advisor<sup>®</sup>, a program that facilitates face-to-face and telephone counseling by our pharmacists to help participating plan members with certain chronic diseases, such as diabetes and cardiovascular conditions, to identify gaps in care, adhere to their prescribed medications and manage their health conditions; compliance and persistency programs designed to ensure that patients take their medications in the proper manner; enhanced disease management programs that are targeted at managing chronic disease states; and an ExtraCare<sup>®</sup> Health Card program which offers discounts to eligible plan members on certain over-the-counter health care products sold in our CVS/pharmacy stores. In addition, MinuteClinic<sup>®</sup> is an important and differentiated part of the enterprise capabilities available to PBM members. Ways we are working with our clients include partnerships with health plan clients sponsoring patient centered medical homes, biometric screening opportunities, closing gaps in care, co-pay reductions to encourage use of MinuteClinic and onsite clinics at client corporate headquarters.

**PBM Services** - Our PBM services are described more fully below.

**Plan Design and Administration** - Our clients sponsor pharmacy benefit plans that facilitate the ability of eligible members in these plans to receive prescribed medications. We assist our clients in designing pharmacy benefit plans that minimize the costs to the client while prioritizing the welfare and safety of the clients’ members. We also administer these benefit plans for our

clients and assist them in monitoring the effectiveness of these plans through frequent, informal communications as well as through a formal annual client review.

We make recommendations to our clients encouraging them to design benefit plans promoting the use of the lowest cost, most clinically appropriate drug. We help our clients control costs by recommending plan designs that encourage the use of generic equivalents of brand name drugs when such equivalents are available. Our clients also have the option, through plan design, to further lower their pharmacy benefit plan costs by setting different member payment levels for different products on their 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 member access to clinically appropriate alternatives under the client's pharmacy benefit plan. To improve clinical outcomes for members and clients, we conduct ongoing, independent reviews of all drugs, including, but not limited to, those appearing on the drug lists and generic equivalent products, as well as our clinical programs. Many of our clients choose to adopt our drug lists as part of their plan design.

*Discounted Drug Purchase Arrangements* - We negotiate with pharmaceutical companies 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 clients that choose to adopt our drug lists. The discounted drug purchase arrangements we negotiate typically provide for volume discounts and/or the payment by the pharmaceutical companies of retroactive discounts, or rebates, from established list prices. For certain products that are purchased by our pharmacies, we receive discounts at the time of purchase and/or discounts for prompt payment of invoices. We also receive various purchase discounts under our wholesale contracts, which may include retroactive discounts, or rebates, if we exceed contractually-defined purchase volumes. We record these discounts, regardless of their form, as a reduction of our cost of revenues.

*Medicare Part D Services* - We participate in the administration of the drug benefit added to the Medicare program under Part D of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 ("Medicare Part D") 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 subsidiary, SilverScript, which has been approved as a PDP by the Centers for Medicare and Medicaid Services ("CMS"), 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.

*Mail Order Pharmacy* - As of December 31, 2013, we operated four mail service dispensing pharmacies in the United States. Plan members or their prescribers submit prescriptions or refill requests, primarily for maintenance medications, to these pharmacies via mail, telephone, fax, e-prescribing or the Internet. We also operate a network of smaller mail service specialty pharmacies described below. 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 prescriber and, with the prescriber's approval, can result in generic substitution, therapeutic interchange or other actions designed to reduce cost and improve quality of treatment. These pharmacies have been awarded Mail Service Pharmacy accreditation from Utilization Review Accreditation Commission ("URAC"), a Washington DC-based health care accrediting organization that establishes quality standards for the health care industry.

*Specialty Pharmacy* - Our specialty pharmacies support individuals that require complex and expensive drug therapies. As of December 31, 2013, our specialty pharmacies were comprised of 11 specialty mail order pharmacies located throughout the United States that are used for delivery of advanced medications to individuals with chronic or genetic diseases and disorders. Substantially all of these pharmacies have been accredited by the Joint Commission, which is an independent, not-for-profit organization that accredits and certifies more than 20,000 health care organizations and programs in the United States. These pharmacies have also been awarded Specialty Pharmacy accreditation from URAC. As of December 31, 2013, the Company operated a network of 25 retail specialty pharmacy stores, which operate under the CarePlus CVS/pharmacy name. These stores average 2,600 square feet in size and sell prescription drugs and a limited assortment of front store items such as alternative medications, homeopathic remedies and vitamins. In January 2014, we enhanced our offerings of specialty infusion services and began offering enteral nutrition services through our subsidiary Coram LLC ("Coram"), which we acquired on January 16, 2014. Coram is one of the nation's largest providers of comprehensive infusion services, caring for approximately 165,000 patients annually.

*Retail Pharmacy Network Management* - We maintain a national network of nearly 68,000 retail pharmacies, consisting of approximately 41,000 chain pharmacies (which includes our CVS/pharmacy stores) and 27,000 independent pharmacies, in the

United States, including Puerto Rico and the District of Columbia. 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 plan member data and eligibility, while also performing a drug utilization review to evaluate clinical appropriateness and safety and confirming that the pharmacy will receive payment for the prescription.

*Prescription Management Systems* - We dispense prescription drugs both directly, through one of our mail service or specialty pharmacies, or through a network of retail pharmacies. All prescriptions, whether they are filled through one of our mail service dispensing 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 review of 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.

*Clinical Services* - We offer multiple clinical programs and services to help clients manage overall pharmacy and health care costs in a clinically appropriate manner. Our programs are primarily designed to promote safety, and to target inappropriate utilization and non-adherence to medication, each of which may result in adverse medical events that negatively impact member health and client pharmacy and medical spend. In this regard, we offer various utilization management, medication management, quality assurance, adherence and counseling programs to complement the client's plan design and clinical strategies.

*Disease Management Programs* - Our clinical services utilize advanced protocols and offer clients convenience in working with health care providers and other third parties. Our Accordant<sup>®</sup> programs include integrated rare disease management programs, which cover diseases such as rheumatoid arthritis, Parkinson's disease, seizure disorders and multiple sclerosis. The majority of these integrated programs are accredited by the National Committee for Quality Assurance, a private, not-for-profit organization that evaluates, accredits and certifies a wide range of health care organizations. They have also been awarded Case Management Accreditation from URAC.

*Medical Pharmacy Management* - We offer a technology platform that helps identify and capture cost savings opportunities for specialty drugs billed under the medical benefit and helps ensure appropriate clinical use of these drugs.

**Pharmacy Services Information Systems** - We currently operate several adjudication platforms to support our Pharmacy Services Segment. The information systems incorporate architecture that centralizes the data generated from filling mail service prescriptions, adjudicating retail pharmacy claims and fulfilling other services we provide to PBM clients.

**Pharmacy Services Clients** - Our clients are primarily sponsors of health benefit plans (employers, insurance companies, unions, government employee groups and MCOs) and individuals located throughout the United States. We provide pharmaceuticals to eligible members in benefit plans maintained by our clients and utilize our information systems, among other things, 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 members in benefit plans maintained by our clients. No single PBM client accounted for 10% or more of our total consolidated revenues in 2013. Our client agreements are subject to renegotiation of terms. See "Risk Factors — Efforts to reduce reimbursement levels and alter health care financing practices" and "Risk Factors — Risks of declining gross margins in the PBM industry." During the year ended December 31, 2013, our PBM filled or managed approximately 902 million prescriptions.

**Pharmacy Services Seasonality** - The majority of our Pharmacy Services Segment revenues are not seasonal in nature.

**Pharmacy Services 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 clients' 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 clients; and (viii) the quality, scope and costs of products and services offered to clients and their members. The Pharmacy Services Segment has a significant number of competitors offering PBM services (e.g., Express Scripts, OptumRx, Catamaran and Prime Therapeutics) including large, national PBM companies, PBMs owned by large national health plans and smaller standalone PBMs.

## **Retail Pharmacy Segment**

As of December 31, 2013, the Retail Pharmacy Segment included 7,660 retail drugstores, of which 7,603 operated a pharmacy, our online retail pharmacy websites, CVS.com and Onofre.com.br, 17 onsite pharmacy stores and our retail health care clinics.

The retail drugstores are located in 43 states, the District of Columbia, Puerto Rico and Brazil operating primarily under the CVS/pharmacy<sup>\*</sup>, Longs Drugs<sup>\*</sup> and Drogeria Onofre<sup>\*</sup> names. We currently operate in 95 of the top 100 U.S. drugstore markets and hold the number one or number two market share in 86 of these markets. CVS/pharmacy stores sell prescription drugs and a wide assortment of over-the-counter and personal care products, beauty and cosmetic products, and general merchandise, which we refer to as “front store” products. Existing retail stores range in size from approximately 5,000 to 30,000 square feet, although most new stores range in size from approximately 8,000 to 13,000 square feet and typically include a drive-thru pharmacy. During 2013, we filled 734 million retail prescriptions, or approximately 21% of the U.S. retail pharmacy market.

As of December 31, 2013, we operated 800 retail health care clinics in 28 states and the District of Columbia under the MinuteClinic<sup>\*</sup> name, 792 of which were located within CVS/pharmacy stores.

**Retail Pharmacy Business Strategy** - Our integrated pharmacy services model has enhanced the ability of our retail pharmacy stores to expand customer access to care while helping to lower overall health care costs and improve health outcomes. In that regard, the role of our retail pharmacist is shifting from primarily dispensing prescriptions to also providing services, including flu vaccinations as well as face-to-face patient counseling with respect to adherence to drug therapies, closing gaps in care and more cost effective drug therapies. In addition, personalization is core to our retail strategy. We have a number of initiatives underway, such as ExtraCare and a weekly individually tailored circular that acts as a personal shopper for the customer, that are designed to help us connect directly with individual consumers to deliver a personalized experience. We also provide a broad assortment of quality merchandise at competitive prices using a retail format that emphasizes service, innovation and convenience. 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.

**Retail Pharmacy Products and Services** - A typical CVS/pharmacy store sells prescription drugs and a wide assortment of high-quality, nationally advertised brand name and proprietary brand merchandise. Front store categories include over-the-counter drugs, beauty products and cosmetics, 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 likely have a material effect on the business.

Retail Pharmacy Segment net revenues by major product group are as follows:

	Percentage of Net Revenues <sup>(1)</sup>		
	2013	2012	2011
Prescription drugs	69.5%	68.8%	68.3%
Over-the-counter and personal care	11.0	10.9	10.9
Beauty/cosmetics	4.9	5.0	5.2
General merchandise and other	14.6	15.3	15.6
	100.0%	100.0%	100.0%

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

**Pharmacy** - Pharmacy revenues represented more than two-thirds of Retail Pharmacy revenues in each of 2013, 2012 and 2011. We believe that our pharmacy operations will continue to represent a critical part of our business due to 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, and the impact of expanded health insurance coverage through the Affordable Care Act), the introduction of new pharmaceutical products, Medicare Part D and our ongoing 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 by professional pharmacists using the latest tools and technology, and ready when promised. Consumers need medication management programs and better information to help them get the most out of their health care dollars. To assist our customers with these needs, we have introduced integrated pharmacy health care services that provide an earlier, easier and more effective approach to engaging them in behaviors that can help lower costs, improve health, and save lives. Examples include: our Patient Care Initiative, an enhanced medication adherence program; Maintenance Choice<sup>\*</sup>, a program where eligible client plan members can elect to fill their maintenance prescriptions at our retail pharmacy stores for the same price as mail order; and Pharmacy Advisor<sup>\*</sup>, our program that facilitates pharmacist counseling, both face-to-face and over the telephone, to help participating

plan members with certain chronic diseases, such as diabetes and cardiovascular conditions, to identify gaps in care, adhere to their prescribed medications and manage their health conditions. 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 pharmacy fulfillment system, Rx Connect; our prescription refill program, ReadyFill<sup>®</sup>; and our online business, CVS.com<sup>®</sup>.

*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<sup>®</sup> card program, which is helping us continue to build our loyal customer base. The ExtraCare program is one of the largest and most successful retail loyalty programs in the United States. In addition, 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<sup>®</sup> 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/pharmacy<sup>®</sup> and proprietary brand products that are only available through CVS/pharmacy stores. We currently carry over 4,300 CVS/pharmacy and proprietary brand products, which accounted for approximately 18% of our front store revenues during 2013. Furthermore, we are tailoring certain groups of stores, such as our urban cluster stores, to better meet the needs of our customers.

*MinuteClinic* - As of December 31, 2013, we operated 800 MinuteClinic<sup>®</sup> locations in 28 states and the District of Columbia; of which 792 were located in CVS/pharmacy stores. MinuteClinics are staffed by nurse practitioners and physician assistants who utilize nationally recognized protocols to diagnose and treat minor health conditions, perform health screenings, monitor chronic conditions and deliver vaccinations. Many locations have also begun treating a variety of chronic conditions. Insurers value MinuteClinic because it provides convenient, high-quality, cost-effective care, in many cases offering an attractive alternative to more expensive sites of care. As a result, visits paid for by employers, health insurers or other third parties accounted for approximately 85% of MinuteClinic's total revenues in 2013. We anticipate opening up approximately 150 new clinics in CVS/pharmacy stores during 2014. MinuteClinic is collaborating with our Pharmacy Services Segment to help meet the needs of CVS Caremark's client plan members by offering programs that can improve member health and lower costs. MinuteClinic is now affiliated with 30 major health systems.

*Onsite Pharmacies* - We also operate a limited number of small pharmacies located at client sites under the CarePlus CVS/pharmacy<sup>®</sup> or CVS/pharmacy<sup>®</sup> name, which provide certain health plan members and customers with a convenient alternative for filling their prescriptions.

**Retail Pharmacy 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 2013, we opened 169 new retail pharmacy stores, relocated 78 stores and closed 13 stores. During the last five years, we opened more than 1,300 new and relocated stores, and acquired 82 stores. During 2014, we expect square footage growth of between 2% to 3%. 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 health 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.

**Retail Pharmacy Information Systems** - We have continued to invest in information systems to enable us to deliver exceptional customer service, enhance safety and quality, and expand our patient care services while lowering operating costs. In 2012, we completed the rollout of our proprietary WeCARE Workflow to all retail pharmacy locations. WeCARE Workflow is an integrated suite of enhancements to our RxConnect fulfillment system, pharmacy POS terminals and phone system to support our pharmacy colleagues and customers by seamlessly integrating and prioritizing prescription fulfillment, prescriber contact management, customer service actions and patient care interventions into a cohesive workflow. In the near term, this solution delivers improved efficiency and enhances the customer experience. Longer term, the solution provides a framework to accommodate the evolution of pharmacy practice and the expansion of our clinical programs. Our Consumer Engagement Engine<sup>®</sup> technology and proprietary clinical algorithms enable us to identify opportunities for our pharmacists to deliver face-to-face counseling regarding patient health and safety matters, including adherence issues, gaps in care and management of certain chronic health conditions. Our digital strategy empowers the consumer to navigate their pharmacy experience and manage their condition through our on-line and mobile tools that offer utility and convenience. CVS.com gained a new look and added new tools, such as access to world-class drug information and personalization of pharmacy services. We experienced strong adoption of our digital solutions with our mobile app receiving critical acclaim for ease of use and our text message program experiencing unprecedented growth.

**Retail Pharmacy Customers** - Managed care organizations, government-funded health care programs (including state Medicaid plans and Medicare Part D drug plans), commercial employers and other third party plans accounted for 97.9% of our

2013 pharmacy revenues. The loss of any one payor should not have a material effect on our business. No single retail payor accounts for 10% or more of our total consolidated revenues. However, the success of our retail drugstore business is dependent upon our ability to establish and maintain contractual relationships with PBMs and other payors on acceptable terms. Our contracts with commercial payors and government-funded programs are subject to renegotiation of reimbursement rates. See “Government Regulation — Reimbursement” and Item 1A., “Risk Factors — Efforts to reduce reimbursement levels and alter health care financing practices.”

**Retail Pharmacy Seasonality** - The majority of our revenues, particularly pharmacy revenues, are generally not seasonal in nature. However, front store revenues tend to be higher during the December holiday season. For additional information, we refer you to Note 16 “Quarterly Financial Information” in our Annual Report to Stockholders for the year ended December 31, 2013, which section is incorporated by reference herein.

**Retail Pharmacy Competition** - The retail drugstore business is highly competitive. We believe that we compete principally on the basis of: (i) store location and convenience, (ii) customer service and satisfaction, (iii) product selection and variety and (iv) price. In the markets we serve, we compete with other drugstore chains, supermarkets, discount retailers, independent pharmacies, membership clubs, Internet companies, and retail health clinics, as well as other mail order pharmacies and PBMs.

### **Corporate Segment**

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

### **Generic Sourcing Venture**

In December 2013, we announced the signing of an agreement with Cardinal Health, Inc. (“Cardinal Health”) to form a generic pharmaceutical sourcing entity. This entity is expected to be operational as soon as July 1, 2014, and will have an initial term of ten years. Under this arrangement, both companies are contributing their sourcing and supply chain expertise to this entity and are committing to source and negotiate generic pharmaceutical supply contracts for both CVS Caremark and Cardinal Health through the entity.

### **Working Capital Practices**

We fund the growth of our business through a combination of cash flow from operations, commercial paper, proceeds from sale-leaseback transactions and long-term borrowings. For additional information on our working capital practices, we refer you to the caption “Liquidity and Capital Resources” in our Annual Report to Stockholders for the year ended December 31, 2013, which section is incorporated by reference herein. The majority of our non-pharmacy revenues are paid in cash, debit or credit cards, while managed care and other third party insurance programs, which typically settle in less than 30 days, represented approximately 99.2% of our consolidated pharmacy revenues, including both Retail Pharmacy and Pharmacy Services combined, in 2013. The remainder of consolidated pharmacy revenues are paid in cash, debit or credit cards. Our customer returns are not significant.

### **Colleague Development**

As of December 31, 2013, we employed approximately 208,000 colleagues, which included more than 26,000 pharmacists, nurse practitioners and physician assistants. The total included, approximately 78,000 part-time colleagues who work less than 30 hours per week. To deliver the highest levels of service to our customers, we devote considerable time and attention to our people and service standards. We emphasize attracting and training knowledgeable, friendly and helpful associates to work in our organization.

### **Intellectual Property**

We have registered and/or applied to register a variety of our trademarks and service marks used throughout our business, as well as domain names, and rely on a combination of copyright, patent, trademark and trade secret laws, in addition to contractual restrictions, to establish and protect our proprietary rights. We regard our intellectual property as having significant value in our Pharmacy Services and Retail Pharmacy segments. We are not aware of any facts that could materially impact our continuing use of any of our intellectual property.

## Government Regulation

**Overview** - Our business is 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 and our payors in the Retail Pharmacy Segment, including insurers and MCOs, are themselves subject to extensive regulations that affect the design and implementation of prescription drug benefit plans that they sponsor. The application of these complex legal and regulatory requirements to the detailed operation of our business creates areas of uncertainty, particularly following the enactment of the Medicare Modernization Act ("MMA") and the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, "ACA"), some of the most significant legal and regulatory developments in the past 50 years. In addition to the MMA and ACA, there are numerous proposed health care laws and regulations at the federal and state levels, some of which could adversely affect our business if they are enacted. We are unable to predict what 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 our business. Any failure or alleged failure to comply with applicable laws and regulations as summarized below, 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/or financial condition.

**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. See Item 3, "Legal Proceedings" for further information.

**Antitrust and Unfair Competition** - The Federal Trade Commission ("FTC") has authority under Section 5 of the Federal Trade Commission Act ("FTCA") to investigate and prosecute practices that are "unfair trade practices" or "unfair methods of competition." Numerous lawsuits have been filed throughout the United States against pharmaceutical manufacturers, retail pharmacies 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 and retail pharmacies. To the extent that we appear to have actual or potential market power in a relevant market, our business arrangements and uses of confidential information 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.

**Consumer Protection Laws** - The federal government has many consumer protection laws, such as the FTCA, the Federal Postal Service Act and the FTC's Telemarketing Sales Rule. Most states also have similar consumer protection laws. These laws have been the basis for investigations, lawsuits and multi-state settlements relating to, among other matters, the marketing of loyalty programs and health care services, pricing accuracy, expired front store products and financial incentives provided by drug manufacturers to pharmacies in connection with therapeutic interchange programs.

**Contract Audits** - We are subject to audits of many of our contracts, including our PBM client contracts, our PBM rebate contracts, our contracts relating to Medicare Part D and the agreement our pharmacies enter into with payors. Because some of our contracts are with state or federal governments or with entities contracted with state or federal agencies, 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 Medicaid fee for service plans, Managed Medicaid plans, Medicare Part D plans or Medicare Advantage organizations.

**Disease Management Services Regulation** - We provide disease management programs to PBM plan members for rare medical conditions and arrange for them to receive disease management programs for common medical conditions. State laws regulate the practice of medicine, the practice of pharmacy and the practice of nursing. Clinicians engaged in a professional practice in connection with the provision of disease management services must satisfy applicable state licensing requirements.

**Environmental Regulation** - Our business is subject to various federal, state and local laws, regulations and other requirements pertaining to protection of the environment and public health, including, for example, regulations governing the management of waste materials and waste waters. Governmental agencies on the federal, state and local levels have, in recent



years, increasingly focused on the retail sector's compliance with such laws and regulations, and have at times pursued enforcement activities.

**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, such as for the adjudication of initial prescription drug benefit claims and/or the appeals of denied claims under a plan, and with respect to the Contraceptive Coverage Mandate, one of the health reforms included in ACA. 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.

In addition to its fiduciary provisions, ERISA imposes civil and criminal liability on service providers to health plans and certain other persons if certain forms of illegal remuneration are made or received. These provisions of ERISA are similar, but not identical, to the health care anti-remuneration statutes discussed above, although ERISA lacks the statutory and regulatory "safe harbor" exceptions incorporated into the health care statutes. Similar to these health care statutes, the corresponding provisions of ERISA are broadly written and their application to specific business practices is often uncertain.

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 ("FCA"), 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. The Fraud Enforcement and Recovery Act of 2009 ("FERA") implemented substantial changes to the FCA which expands the scope of FCA liability, provides for new investigative tools and makes it easier for *qui tam* relators (often referred to as "whistleblowers") to bring and maintain FCA suits on behalf of the government. ACA further eased the burden for whistleblowers to bring and maintain FCA suits by modifying the "public disclosure" and "original source" provisions of the FCA. Most states have passed substantially similar acts. In recent years, federal and state government authorities have launched several initiatives aimed at uncovering practices that violate false claims or fraudulent billing laws, and they have conducted numerous investigations of pharmaceutical manufacturers, PBMs, pharmacies and health care providers with respect to false claims, fraudulent billing and related matters. See Item 3, "Legal Proceedings" for further information.

**FDA Regulation** - The United States Food and Drug Administration ("FDA") generally has authority to regulate drugs, drug classifications and drug promotional information and materials that are disseminated by a drug manufacturer or by other persons on behalf of a drug manufacturer. The FDA also has the regulatory authority (i) over many of the products sold through retail pharmacies, including certain food items, cosmetics, dietary supplements and over-the-counter ("OTC") medications, and (ii) to require the submission and implementation of a risk evaluation and mitigation strategy ("REMS") if the FDA determines that a REMS is necessary for the safe and effective marketing of a drug. To the extent we dispense products subject to REMS requirements or provide REMS services to pharmaceutical manufacturers, we are subject to audit by the FDA and the pharmaceutical manufacturer. The FDA also has regulatory authority over medical devices such as OTC genetic tests and genetic tests conducted by medical laboratories, and the FDA continues to evaluate the need for further regulation of such tests.

**Federal Employee Health Benefits Program** - We have a contractual arrangement with the BlueCross BlueShield Association ("BCBSA") to provide pharmacy services to federal employees, postal workers, annuitants, and their dependents under the Government-wide Service Benefit Plan, as authorized by the Federal Employees Health Benefits Act ("FEHBA") and as part of the Federal Employees Health Benefits Program ("FEHBP"). This arrangement subjects us to FEHBA, and other federal regulations, such as the Federal Employees Health Benefits Acquisition Regulation, that otherwise are not applicable to us.

**Formulary Regulation** - A number of states regulate the administration of prescription drug benefits. Additionally, the National Association of Insurance Commissioners ("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. Medicare Part D regulates how formularies are developed and administered, including requiring the inclusion of all drugs in certain classes and categories, subject to limited exceptions, on a Medicare Part D plan's formulary. ACA's Essential Health Benefits Rule also imposes minimum drug coverage

requirement for health plans subject to these requirements, including plans offered through the Federal or State Exchanges. The increasing government regulation of formularies could significantly affect our ability to develop and administer formularies on behalf of our insurer, MCO and other clients.

**Government Agreements and Mandates** - In March 2008, the Company entered into a settlement agreement with the federal government and a number of states related to the 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. This 2008 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. In April 2011, we entered into an amendment of the corporate integrity agreement in connection with the previously announced settlement of a federal and state government investigation of certain retail pharmacy billing practices with respect to "dual eligible" customers having both Medicaid coverage and other third-party insurance coverage. This amendment requires the Company to comply with the corporate integrity agreement, as amended, for a period of three years and further requires, among other things, additional employee training obligations, additional reporting obligations and periodic Medicaid billing reviews by an independent review organization. Failure to meet our obligations under this corporate integrity agreement, as amended, 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.

In January 2009, we entered into separate settlement agreements with the FTC and the HHS Office for Civil Rights ("OCR") resolving a joint investigation of disposal of patient information at a limited number of CVS/pharmacy locations. As part of the FTC settlement, we agreed to maintain an appropriate enterprise-wide information security program during the twenty-year term of the agreement with biennial compliance monitoring by an external assessor. As part of the OCR settlement, we agreed to maintain confidential waste disposal policies and procedures, training and employee sanctions at our retail stores. The OCR settlement provided for annual compliance monitoring by an external assessor. In June 2013, we received from the OCR a closure letter that noted we were in material compliance with our OCR settlement agreement and we had significantly improved our retail store processes surrounding protected health information and that our mandatory monitoring and reporting obligations were satisfied.

In October 2010, the Company entered into a non-prosecution agreement and civil settlement agreement with the U.S. Department of Justice ("DOJ") and various United States Attorneys' Offices relating to the sale and distribution of pseudoephedrine products at certain CVS/pharmacy stores, primarily in California and Nevada. The Company also entered into a related memorandum of agreement with the U.S. Drug Enforcement Administration ("DEA"). The non-prosecution agreement and the memorandum of agreement contain certain ongoing compliance requirements for the Company, and failure to comply with the terms of these documents could lead to civil or criminal remedies, financial penalties and/or administrative remedies against the DEA registrations for our retail pharmacies and distribution centers. The term of the non-prosecution agreement was three years and ended in October 2013. The term of the memorandum of agreement is five years.

In May 2012, a previously announced proposed consent order between the FTC and the Company became final and concluded an FTC investigation of the Company that commenced in 2009. The final consent order prohibits the Company from misrepresenting the price or cost of Medicare Part D prescription drugs or other prices or costs associated with Medicare Part D prescription drug plans.

On October 12, 2012, the DEA Administrator published its Final Decision and Order revoking the DEA license registrations for dispensing controlled substances at two of our retail pharmacy stores in Sanford, Florida. The license revocations for the two stores formally became effective on November 13, 2012. The pharmacies had voluntarily suspended dispensing controlled substances since April 2012, and have continued operating in that manner in compliance with the DEA Order.

In addition to the government agreements described above, the Company and/or its various affiliates are subject to other consent decrees or settlement agreements with various federal, state and local authorities that may contain certain ongoing reporting, monitoring or other compliance requirements for the Company. These agreements relate to such matters as privacy practices, waste disposal practices, selling expired products, environmental and safety matters, tobacco sales, marketing and advertising practices, pharmacy operations and various other business practices.

**Health Reform Legislation** - Congress passed major health reform legislation in 2010 referred to in this document as ACA. This legislation affects virtually every aspect of health care in the country. In addition to establishing the framework for every individual to have health coverage beginning in 2014, ACA enacted a number of significant health care reforms. While not all of these reforms affect our business directly, many affect the coverage and plan designs that are or will be provided by many of our health plan clients. As a result, these reforms could indirectly impact many of our services and business practices, and, in many other cases, directly impact our services and business practices. Given that many of the regulations implementing ACA

are still being finalized and that ongoing sub-regulatory guidance is still being issued, there is considerable uncertainty as to its full impact on our Company.

**Managed Care Reform** - In addition to health reforms enacted by ACA, proposed legislation has been considered at the 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 clients and/or the services we provide to them. Both the scope of the managed care reform proposals considered by state legislatures and reforms enacted by states to date vary greatly, and the scope of future legislation that may be enacted is uncertain.

**Medicare Part D** - The Medicare Part D program, which makes prescription drug coverage available to eligible Medicare beneficiaries through private insurers, regulates all aspects of the provision of Medicare drug coverage, including enrollment, formularies, pharmacy networks, marketing, and claims processing. The Medicare Part D program has undergone significant legislative and regulatory changes since its inception, including changes made by ACA.

In April 2012, CMS issued a rule that requires coverage other than basic prescription drug coverage offered through Medicare Part D employer group waiver plans ("EGWPs") to be included in the definition of "other health or prescription drug coverage," starting January 1, 2014. CMS has clarified that, because the supplemental benefits primarily reduce cost sharing on claims covered under the basic benefit, they will continue as a practical matter to be subject to the Medicare Part D rules.

Medicare Part D continues to attract a high degree of legislative and regulatory scrutiny, and the applicable government rules and regulations continue to evolve. CMS sanctions for non-compliance may include suspension of enrollment and even termination from the program. CMS has imposed restrictions and consent requirements for automatic prescription delivery programs, further limited the circumstances under which Medicare Part D plans may recoup payments to pharmacies for claims that are subsequently determined not payable under Medicare Part D and, is expected to issue a proposed regulation that may limit the ability of Medicare Part D plans to establish preferred pharmacy networks. Accordingly, it is possible that legislative and regulatory developments and regulatory oversight 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 clients 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. To the extent any state or federal any willing provider laws are determined to apply to us or to certain of our clients or to the pharmacy networks we manage for our PBM clients, such laws could negatively impact the services and economic benefits achievable through a limited pharmacy provider network.

**PBM Laws and 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 may impact our Company. 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 NAIC have issued model regulations or may propose future regulations concerning PBMs and/or PBM activities. Similarly, credentialing organizations such as the National Committee for Quality Assurance and the URAC may establish voluntary standards regarding PBM or specialty pharmacy activities. While the actions of these quasi-regulatory or standard-setting organizations do not have the force of law, they may influence states to adopt their requirements or recommendations and influence client requirements for PBM or specialty pharmacy services. Moreover, any standards established by these organizations could also impact our health plan clients and/or the services we provide to them.

**Pharmacy and Professional Licensure and Regulation** - We are subject to state and federal statutes and regulations governing the operation of retail and mail pharmacies, the transfer of prescriptions, repackaging of drug products, wholesale distribution, dispensing of controlled substance and listed chemical products, and medical and controlled substance waste disposal. Federal and state statutes and regulations govern the labeling, packaging, advertising and adulteration of prescription drugs and the dispensing of controlled substances, and some state regulations require compliance with standards established by the United States Pharmacopeia with respect to the packaging, storing and shipping of pharmaceuticals. Federal and state controlled substance laws require us to register our pharmacies and distribution centers with the DEA and state controlled substances agencies and to comply with security, recordkeeping, inventory control, personnel and labeling standards in order to

possess and dispense controlled substances and listed chemical products. We undergo audits by these regulatory bodies on a regular basis.

**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. Legislation imposing plan design mandates may apply to certain of our clients 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 personally identifiable information ("PII") as permitted in accordance with applicable federal and state privacy and data security laws, which require organizations to provide appropriate privacy protections and security safeguards for such information. In addition to PII, we use and disclose de-identified data for analytical and other purposes.

The federal 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"). HIPAA also gives individuals certain 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 the individual's written authorization. Criminal penalties and civil sanctions may be imposed for failing to comply with HIPAA standards. In January 2013, HHS issued a rule implementing the Health Information Technology for Economic and Clinical Health Act (the "HITECH Act"), enacted as part of the American Recovery and Reinvestment Act of 2009. Among other things, the rule expands the circumstances under which authorizations are required to send communications to individuals that are funded by third parties and extends HIPAA privacy and security requirements and penalties directly to business associates of covered entities.

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.

HHS has also issued regulations requiring federal and state exchanges to impose privacy and security standards on non-Exchange entities to protect PII obtained through the exchanges beginning in 2014. In proposed regulations, HHS has defined the term "non-exchange entities" to include insurers offering plans through the exchanges and would require that these entities in turn impose the same or more stringent privacy and security standards on their "downstream entities". If this rule is finalized as proposed, unless HIPAA-covered entities are able to negotiate with an exchange to accept compliance with HIPAA privacy and security standards as a substitute for complying with the exchange privacy and security standards, insurers offering plans through the exchanges and their business associates could potentially be subject to additional privacy and security standards in addition to HIPAA and existing more stringent state laws.

**Reimbursement** - A significant 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 reimbursement laws and regulatory requirements, anti-remuneration laws, the Stark Law and/or federal and state false claims laws. (See the "Self-Referral Laws" section below for explanation of the Stark Law.) Sanctions for violating these federal and/or state laws may include, without limitation, recoupment or reduction of government reimbursement amounts, criminal and civil penalties and exclusion from participation in Medicare, Medicaid and other government health care programs. See Item 3, "Legal Proceedings," for further information.

Changes in reporting of Average Wholesale Price ("AWP"), Average Manufacturer Price ("AMP"), or Average Sales Price, which are pricing elements common to most payment formulas, 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/or could impact our ability to negotiate discounts or rebates with manufacturers, wholesalers, PBMs or retail and mail 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. 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 or pending health 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 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 or regulations 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 and expansion of our owned and managed retail clinics.

**Safety Regulations** - The Occupational Safety and Health Act of 1970, as amended ("OSHA"), establishes certain employer responsibilities, including maintenance of a workplace free of recognized hazards likely to cause death or serious injury, compliance with standards promulgated under OSHA, and various record keeping, reporting and procedural requirements. Many of these OSHA standards, as well as various state and local laws and regulations pertaining to employee safety and health, including some that apply specifically to healthcare employees, apply to our operations. Any failure to comply with these regulations could result in fines or other sanctions by government authorities.

**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. 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** - PDPs and our PBM service contracts, including those in which we assume certain risk under performance guarantees 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. The Company offers a PDP through SilverScript, which is subject to state insurance laws regarding licensure and solvency.

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 clients 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.

**Telemarketing and Other Outbound Contacts** - Certain federal and state laws, such as the Telephone Consumer Protection Act ("TCPA"), give the FTC, Federal Communications Commission ("FCC") and state attorneys general law enforcement tools to regulate telemarketing practices and certain automated outbound contacts such as phone calls, texts or emails. These laws may, among other things, impose registration requirements, require disclosures of specific information, prohibit misrepresentations, limit when, where and how consumers may be contacted, require consumer consent prior to being contacted, 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, require the establishment of certain policies and training of personnel and require the retention of specific business records. In October 2013, new FCC rules went into effect aimed at better aligning the FCC's regulatory response under the TCPA with the FTC's response, as well as requiring written prior consent for calls using an automatic telephone dialing system (call to a mobile number) or an artificial or prerecorded

voice (call to a residential or mobile number). The Company's use of telemarketing and other outbound contacts could be impacted by these laws and regulations.

**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 FCA, 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. 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.

Although we believe that we are in material compliance with existing laws and regulations applicable to our various business lines, we cannot give any assurances 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, the pharmacy services, retail pharmacy or retail clinic industry or to the health care industry generally; (iii) pending or future federal or state governmental investigations of our business or the pharmacy services, retail pharmacy or retail clinic industry or of the health care industry generally; (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, retail pharmacy or retail clinic industry or the health care industry generally.

#### 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 the Company's Web site at <http://info.cvscaremark.com>. Our financial press releases and filings with the U.S. Securities and Exchange Commission ("SEC") 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. Our business, financial condition, results of operations, cash flows and prospects could be materially adversely affected by any one or more of the following risk factors and by 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.*

Our business is affected by the economy in general, including changes in consumer purchasing power, preferences and/or spending patterns. Although an economic recovery might be underway, it is possible that a worsening of the economic environment will cause a decline in drug utilization, and dampen demand for pharmacy benefit management services as well as consumer demand for products sold in our retail stores. Further, interest rate fluctuations, changes in capital market conditions and regulatory changes may affect our ability to obtain necessary financing on acceptable terms, our ability to secure suitable store locations under acceptable terms and our ability to execute sale-leaseback transactions under acceptable terms. These circumstances could result in an adverse effect on our business and financial results.