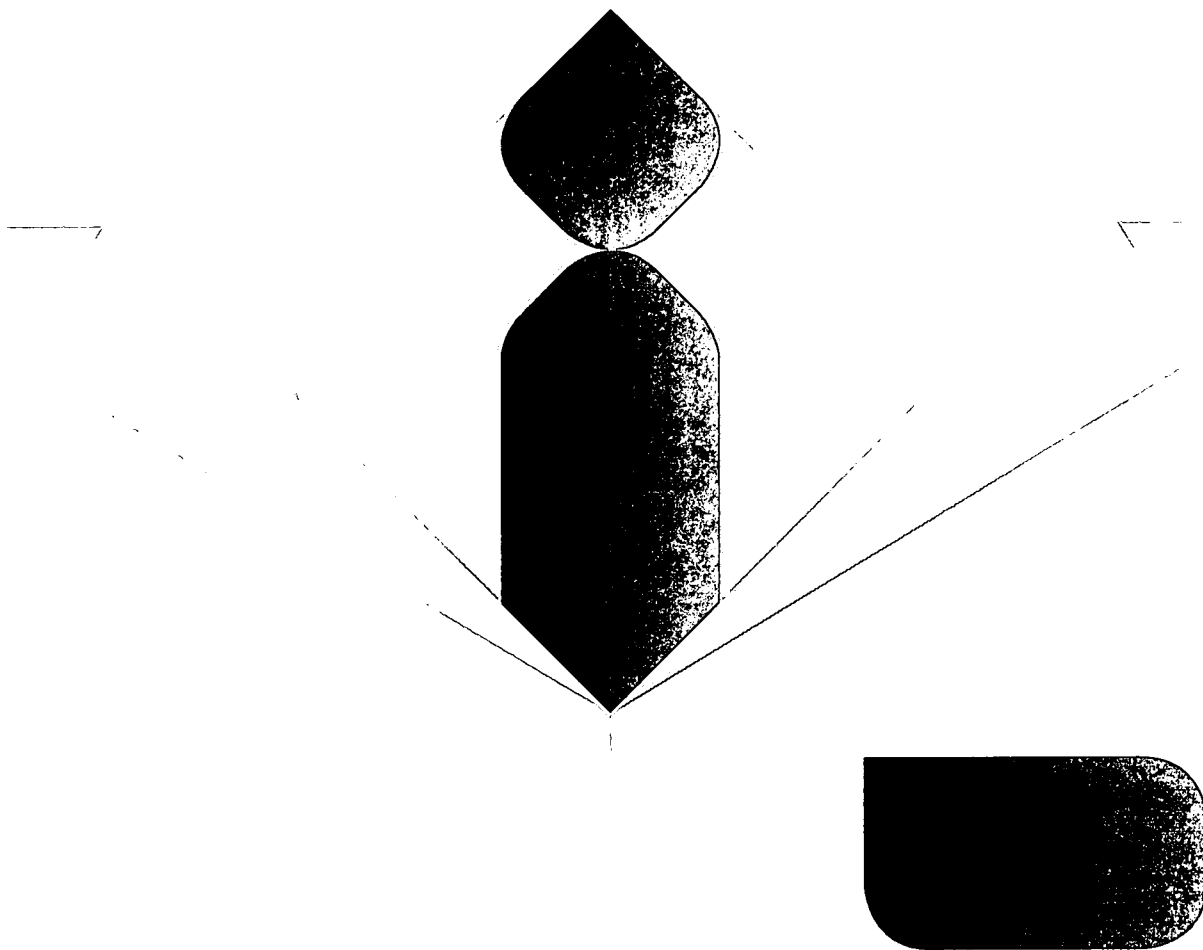


Exhibit 10-D

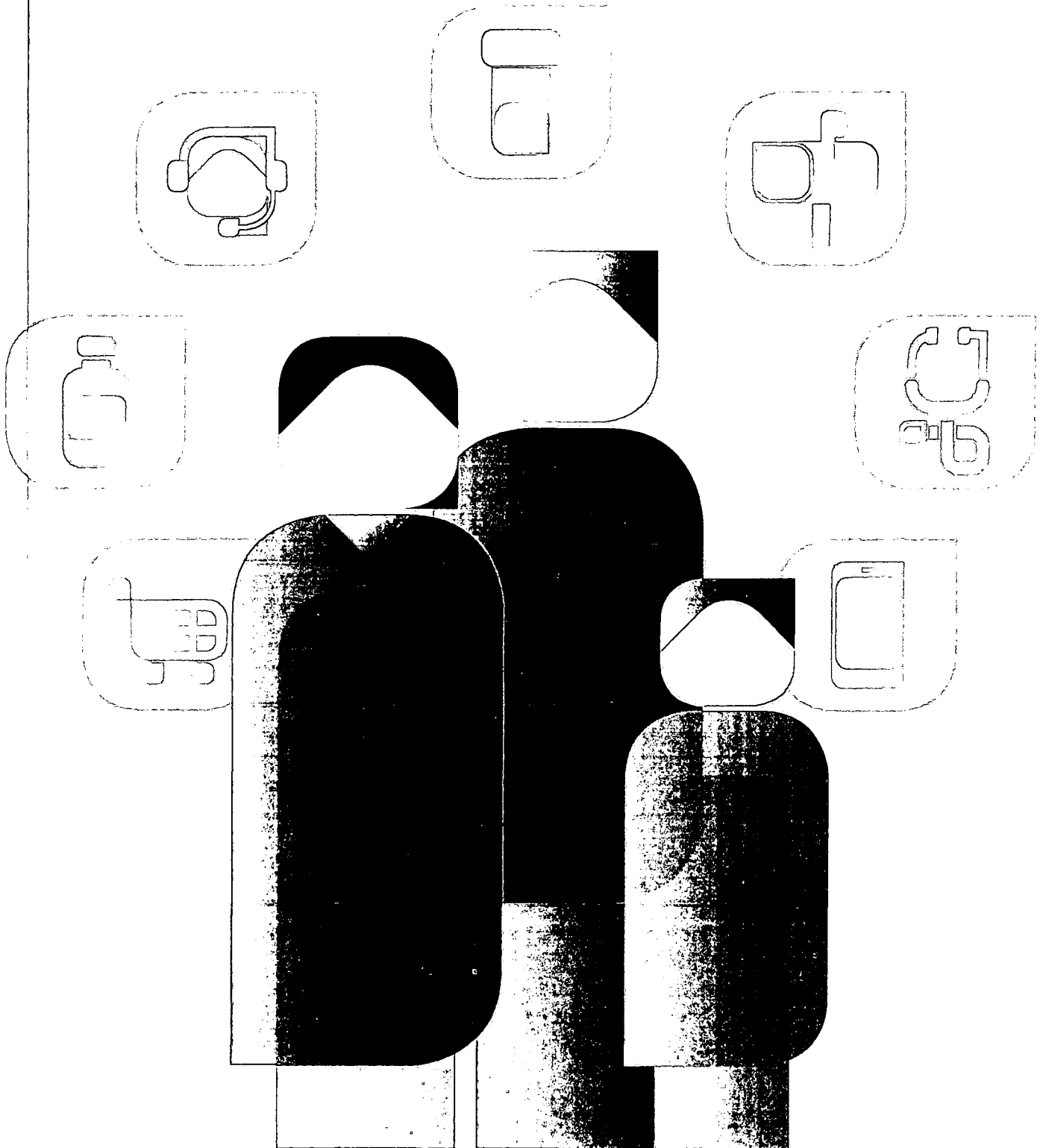
CVS Health's 2013 Annual Report to Stockholders (including audited consolidated Financial Statements and the independent public accounting firm's report thereon) as well and CVS Health Form 10-K Filed with the SEC For Fiscal Year Ended December 31, 2013



CVS
CAREMARK | Redefining
what's possible.

2013 Annual Report

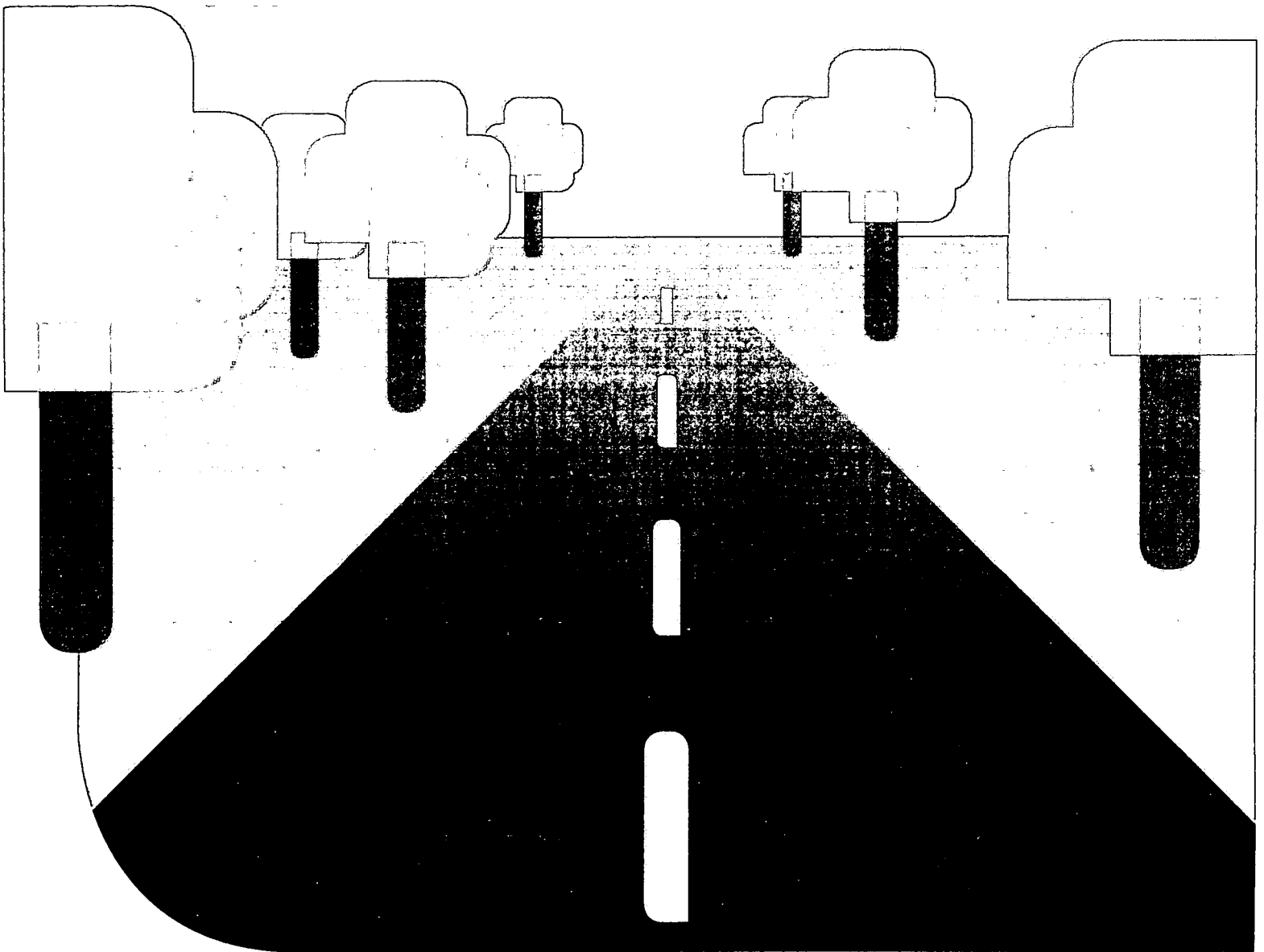
- 1** Redefining What's Possible
- 14** Financial Highlights
- 15** Letter to Shareholders
- 22** In the Community
- 23** 2013 Financial Report



Redefining what's possible in pharmacy health care.

CVS Caremark is redefining the role that pharmacy can play in improving health outcomes. We're doing it by asking questions, and the answers highlight how we are capitalizing on our unique integrated model to deliver innovative solutions for today's health care challenges.

2.





How can we remove one of the biggest roadblocks to being healthy?

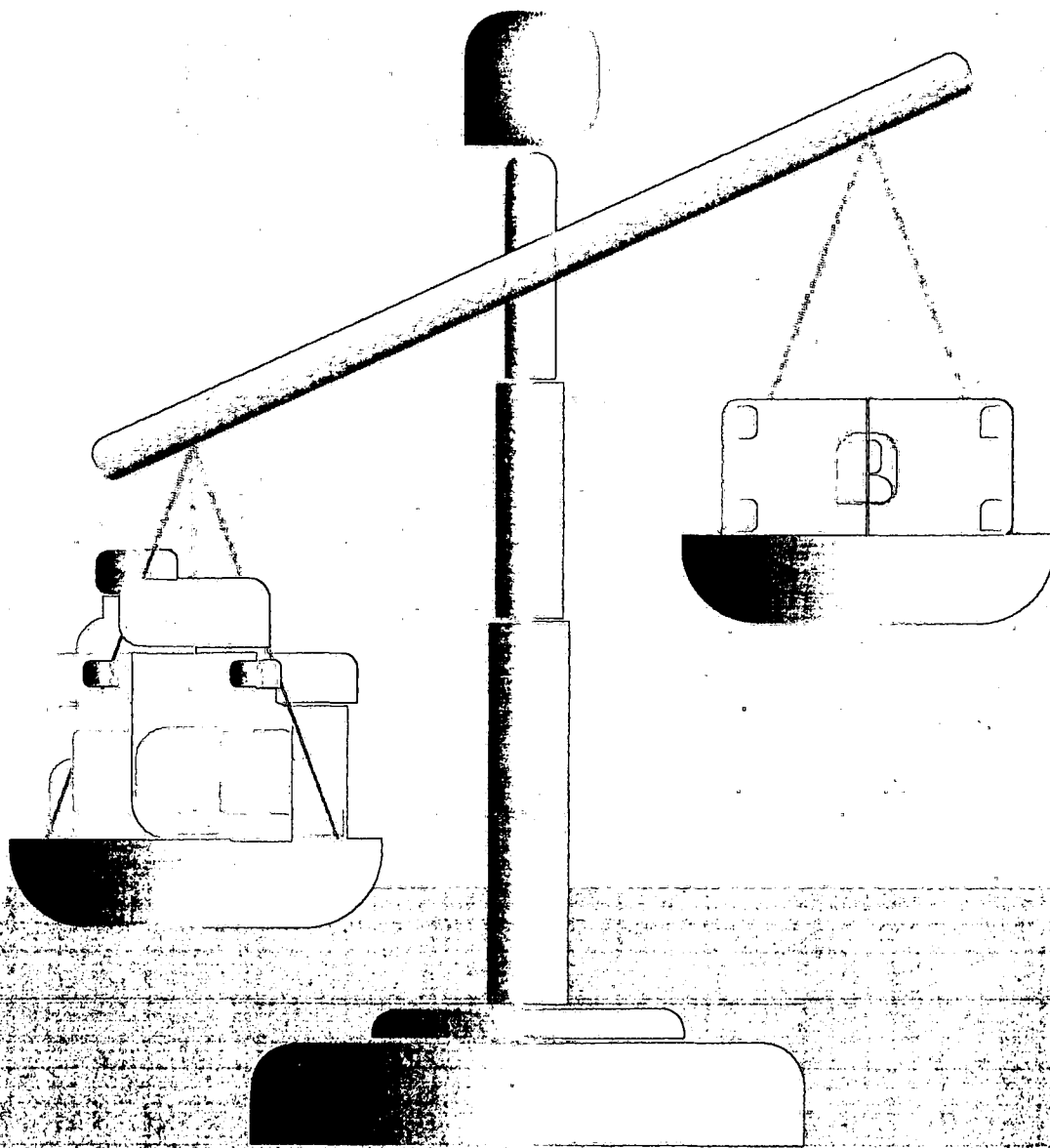
It starts with a conversation. By engaging patients and providing them with the most accessible and personalized care, CVS Caremark is helping patients on their path to better health. Among our industry-leading clinical programs, Pharmacy Advisor® helps patients get on – and stay on – the right medications.

"Pharmacy Advisor helps our PBM plan members with chronic conditions such as diabetes and high blood pressure by promoting medication adherence and closing gaps in care," explains CVS Caremark Chief Medical Officer Troy Brennan, M.D. "We do this by engaging patients face-to-face when they choose to fill prescriptions at a CVS/pharmacy® or by phone if they choose to get their medications by mail. Our interventions can also include reaching out directly to their doctors or referring patients to disease management programs for additional support."

Pharmacy Advisor for diabetes launched in early 2011. We have since expanded the program to

cover 10 chronic conditions. In 2013, we broadened its reach to include patients with asthma, breast cancer, chronic obstructive pulmonary disease (COPD), depression, and osteoporosis.

Research on the Pharmacy Advisor program shows that pharmacist contact with patients and their doctors increases patient medication adherence rates and physician initiation of prescriptions. The greatest improvements can be seen in patients counseled face-to-face at retail pharmacies. Moreover, third-party studies indicate that \$1 spent on adherence produces anywhere from \$5 to \$10 in medical cost savings.



Can we give patients more while payors spend less?

We are uniquely positioned to engage members and promote healthier, cost-effective behaviors. At the same time, we are helping payors to reduce health care costs and improve outcomes. This is especially important as payors grapple with the rapidly rising costs and complexities of treating specialty patients.

"Our approach to specialty is about providing integrated, coordinated solutions to managing specialty patients rather than just managing their medications," notes Alan Lotvin, CVS Caremark's executive vice president of specialty pharmacy. "This is critical because specialty utilizers represent just 3.6 percent of patients, but they consume 25 percent of a payor's total health care costs."

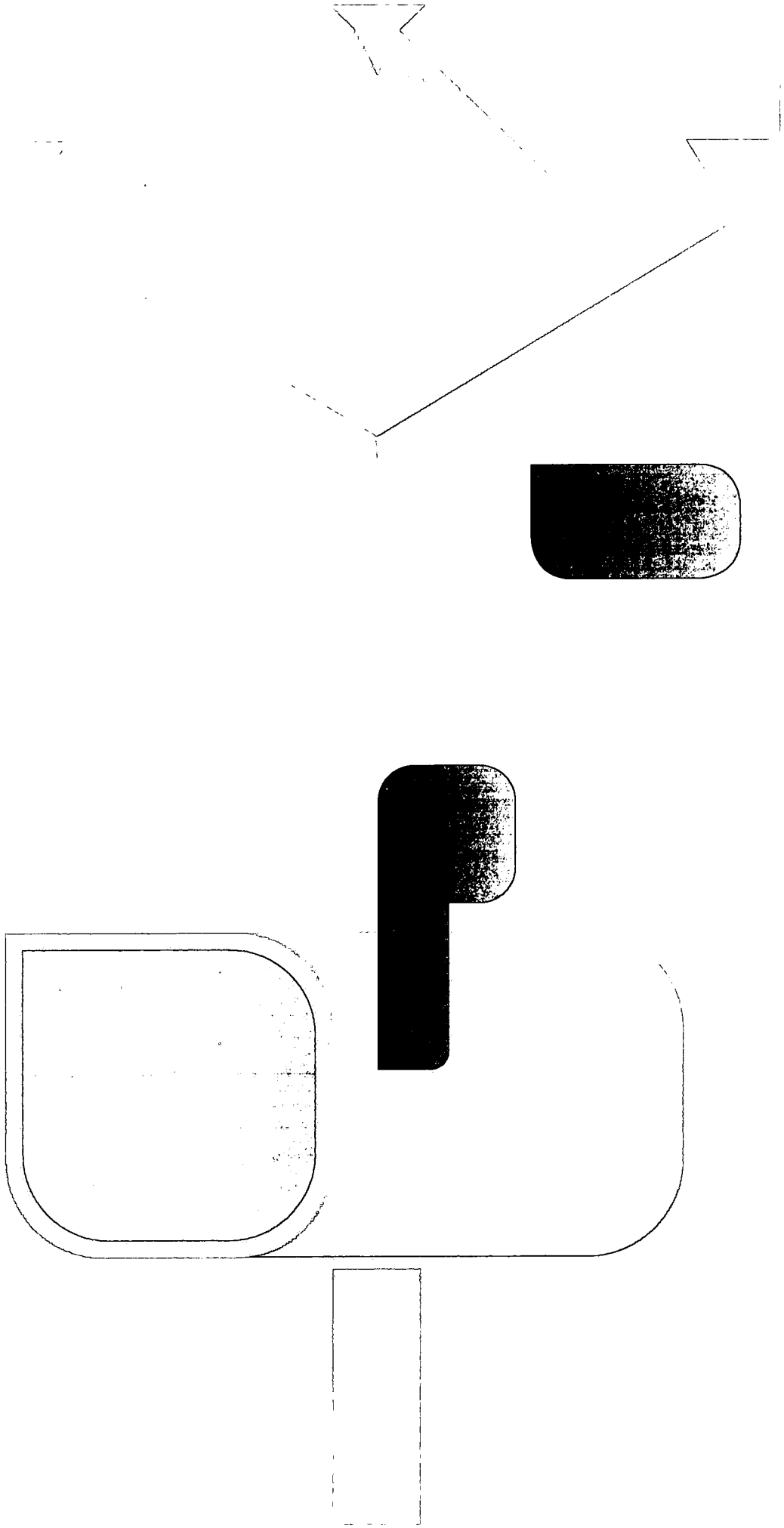
CVS Caremark now has assets to manage all aspects of our specialty patients' health care spend. These assets include market-leading home infusion services with Coram, the integration of rare disease management with specialty through Accordant, an integrated retail/mail option for specialty patients with Specialty Connect, and a unique automated medical claims management technology based on

our NovoLogix platform. This combination of tools enables comprehensive trend management for all specialty drugs and the associated medical costs.

Many other opportunities exist across our enterprise to save payors and plan members money while ensuring the quality of care. For example, our 7,600 retail locations make CVS/pharmacy an attractive option for other PBMs that want to create preferred or narrow pharmacy networks. CVS Caremark was also the first PBM to roll out a formulary exclusion process that removed select branded drugs in favor of more cost-effective alternatives. This program is expected to save our clients approximately \$1 billion in 2014, and significant opportunity remains for traditional and specialty drugs.



CVS Caremark



Can we deliver outside the box?

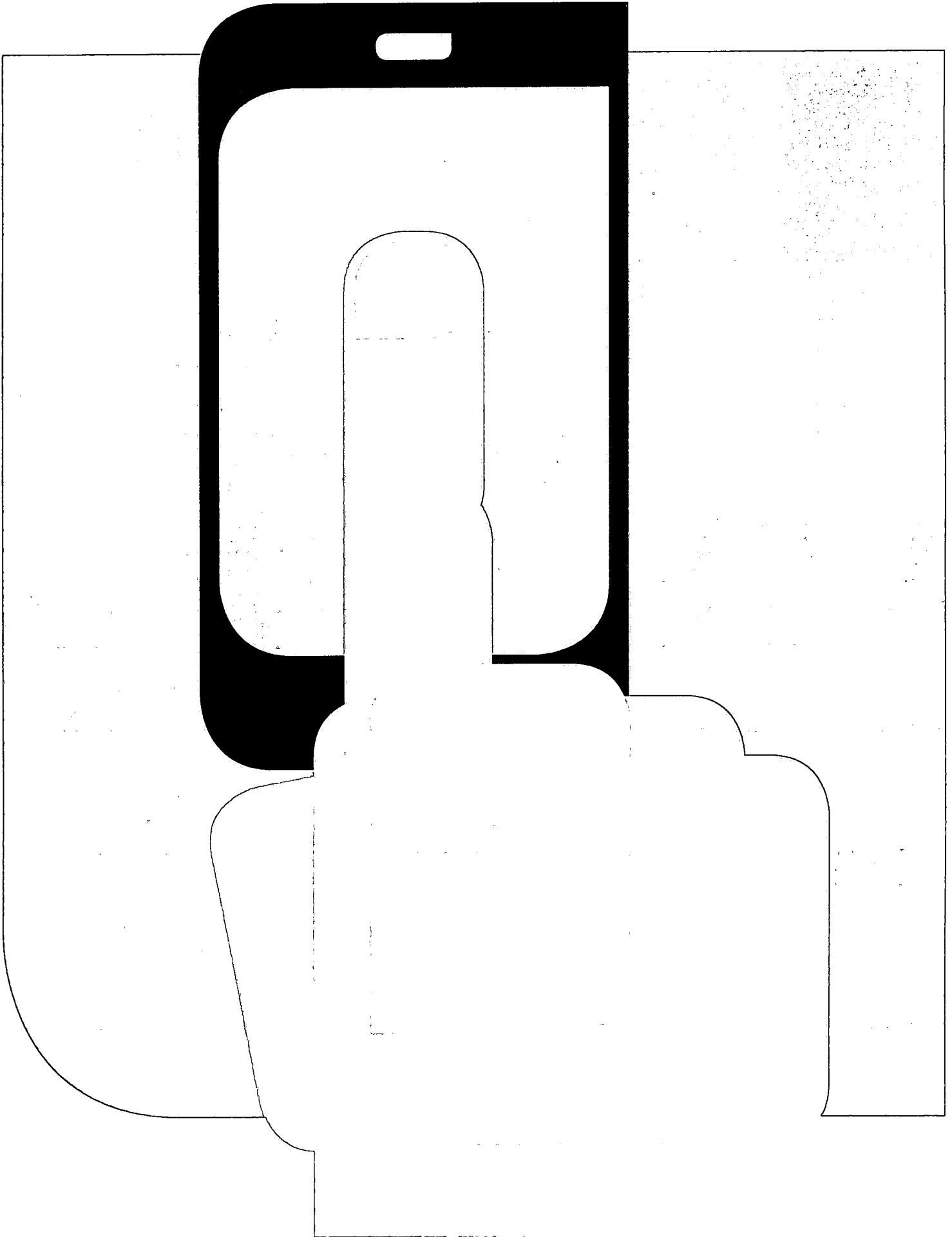
With our Maintenance Choice® and Specialty Connect™ offerings, delivery options have never been greater. Both products give consumers the option of obtaining their prescriptions by mail or at our convenient retail pharmacies.

"Maintenance Choice and Specialty Connect exemplify our ability to offer consumers expanded choice, greater access, and more personalized services," notes Jon Roberts, president of CVS Caremark Pharmacy Services. "These are unique offerings in the market that capitalize on our integrated model, and no competitor has been able to replicate them."

By allowing patients to obtain their 90-day maintenance medications in the way that suits them best, Maintenance Choice has helped drive significantly higher adherence rates among eligible members. Customers who opt for in-store pickup also benefit from face-to-face engagement with our pharmacists. These innovative features combine to lower overall health care costs for our PBM clients.

Specialty Connect fills a similar unmet need for greater convenience and access to specialty medications. Patients can choose to pick up their specialty medications at their local CVS/pharmacy or have them mailed to their homes from our specialty mail order pharmacies. Either way, patients receive the same clinical, financial, and logistical support from our therapy-specific specialty care teams at CVS Caremark. Given the temperature-sensitive nature of many of these products, allowing patients the choice of picking them up at their local CVS/pharmacy means that they no longer have to wait at home for delivery to ensure the integrity of their medications.

CVS Caremark



How can we be in touch anytime, anywhere?

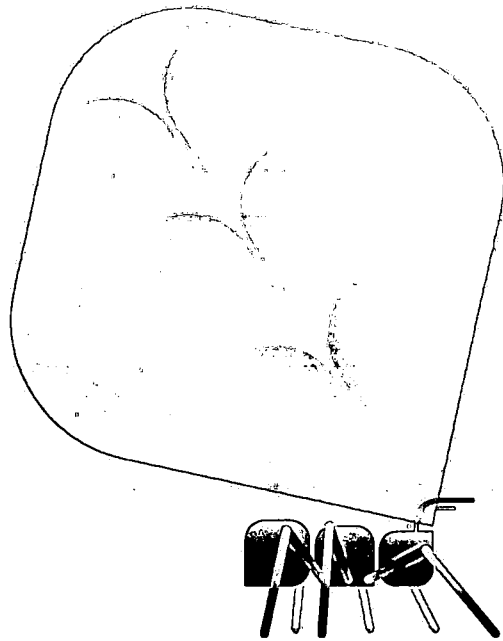
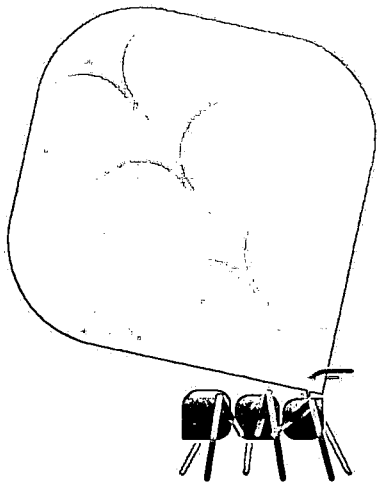
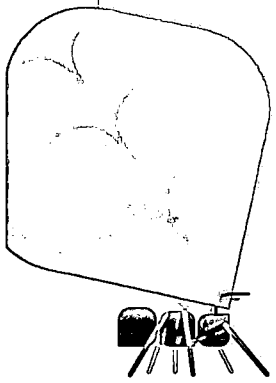
Our digital offerings are seamlessly extending access to pharmacy services and in-store savings – day or night. Whether it’s through a home computer or mobile device, we’re making it easier than ever to manage, refill, and pick up medications. In fact, the proportion of overall traffic to CVS.com® from mobile devices jumped from 30 percent in 2012 to more than 50 percent in 2013.

“We’ve been working hard to take our digital presence across the enterprise to the next level,” says CVS/pharmacy President Helena Foulkes. “Our myCVS® retail app is highly rated with a great set of features, and its popularity has increased significantly over the past year. When combined with our mobile website, traffic jumped by 250 percent in 2013.”

Our PBM plan members now enjoy many of the same features on their mobile app as they do at Caremark.com. Among them, plan members can easily refill prescriptions and check for potential drug interactions. In 2014, we will focus on enhancing the specialty pharmacy digital experience. We’ll also

begin to deliver on our vision of allowing customers to manage all their retail and mail order prescriptions in one place – a real breakthrough experience that only CVS Caremark can deliver.

The customer data and insights we’ve gained from our highly successful ExtraCare® loyalty program have long contributed to the CVS/pharmacy shopping experience. In 2013, we leveraged ExtraCare to launch personalized digital circulars. Titled myWeeklyAd, these circulars arrive via email and highlight the particular categories, offers, and items that interest each cardholder. It’s just one more way in which we are enhancing customer engagement.



Can a small clinic solve a big problem?

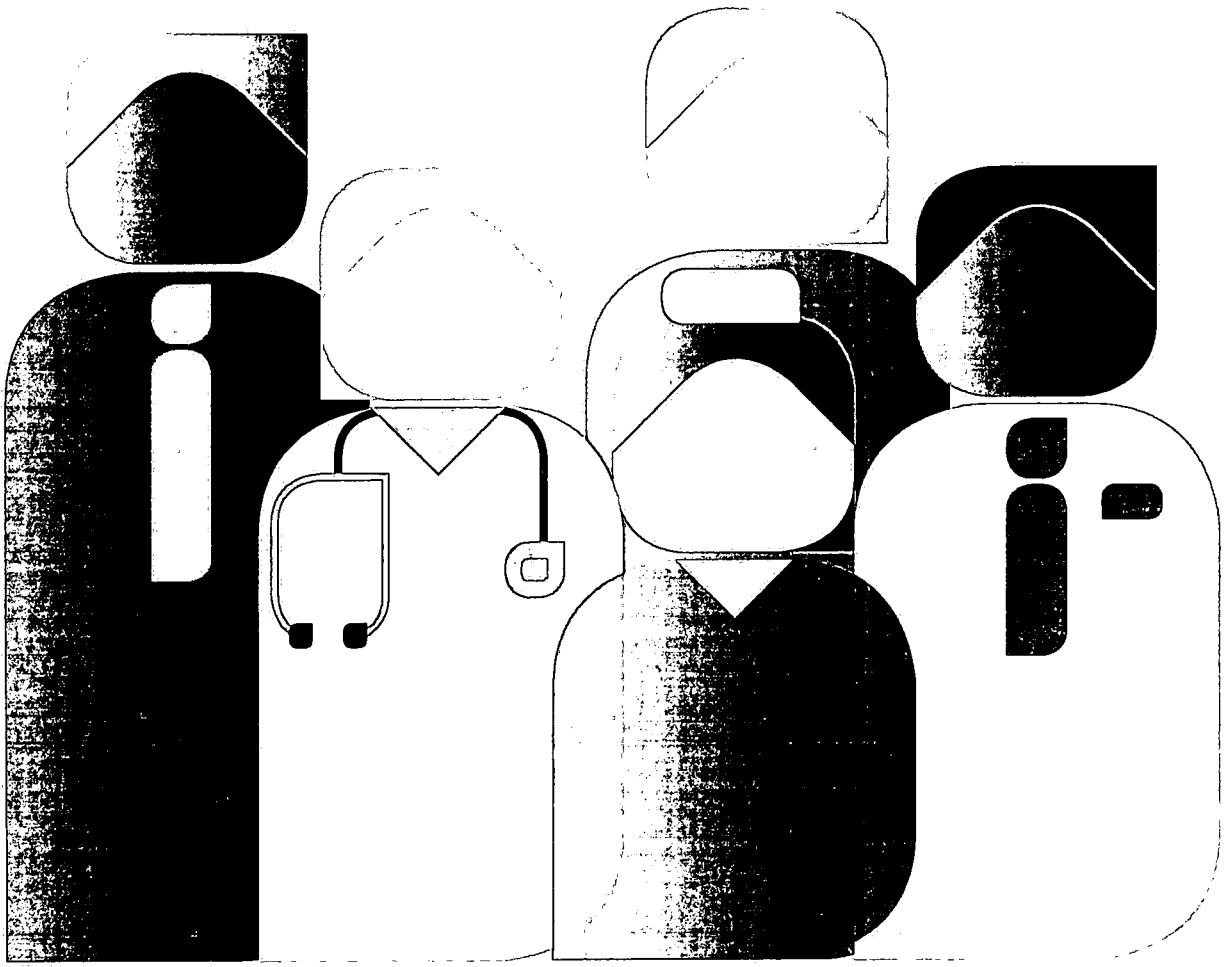
Our MinuteClinic® locations offer unparalleled convenience and are backed by CVS Caremark's broad range of clinical offerings. As a result, MinuteClinic will play an important role in patient care as the United States faces a growing shortage of primary care doctors.

"The shortage of primary care physicians is expected to reach 45,000 by 2020," explains MinuteClinic President Andy Sussman, M.D. "We believe that our convenience, affordability, and growing list of services for patients with both common acute and chronic illnesses make MinuteClinic a valuable complement to primary care practices."

MinuteClinic is forming strategic alliances with leading U.S. health systems and is emerging as a valuable partner for PBM clients. As part of their benefits, many of our plan members can now visit their local MinuteClinic for biometric screenings, wellness coaching, and other services that help manage chronic diseases and close gaps in care. A pilot program that reduces PBM member co-pays

is showing promising results, with total health care spending among MinuteClinic users declining by 10 percent.

With health care reform shifting more of the financial risk for patient outcomes onto physicians, it is important for patients to be treated at the most cost-effective and appropriate site of care. As a result, physicians and large health systems are beginning to look to CVS Caremark and MinuteClinic to help improve adherence and patient outcomes. We are assisting on a number of fronts, from helping to reduce costs related to unwarranted emergency room visits to the seamless integration of electronic medical records.



Who has the best team to tackle tomorrow's health care challenges?

CVS Caremark is collaborating with providers and health plans to improve care and reduce costs. These strategic alliances position us well for the new health care paradigm, which includes the growth of accountable care organizations and patient-centered medical homes.

"With our focus on moving patients to generic alternatives, improving adherence, and closing gaps in care, we are going to play an important role in the changing health care landscape," explains CVS Caremark Chief Medical Officer Troy Brennan, M.D. "The truly unique aspect of our model is the ability to support health plans and physicians through our assets across the enterprise whether or not we're the PBM. Our consumer expertise in this new business-to-consumer world of health care is being welcomed by plans across the country."

Leveraging our enterprise assets has allowed us to forge alliances with Aetna, Cigna, Florida Blue, Humana, and nearly 50 other regional and national health plans. Some are PBM clients; others are not. Regardless, we are supporting their consumer

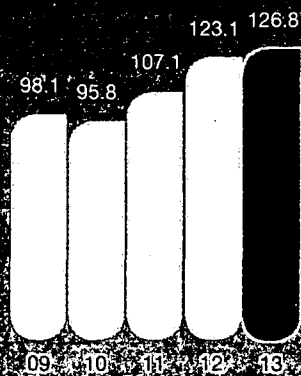
marketing initiatives, participating in preferred or restricted pharmacy networks, providing exclusive specialty pharmacy services, and offering the convenience and affordability of our MinuteClinic locations.

As health systems and providers take on greater risk for the cost of care through accountable care organizations and patient-centered medical homes, our capabilities will help them rein in spending and improve outcomes. For example, we can assist in preventing costly hospital re-admissions by delivering discharge medications to the bedside and scheduling in-home pharmacist visits for patients with more complicated needs. We are also working to give doctors direct access to our industry-leading Pharmacy Advisor program for improving adherence.

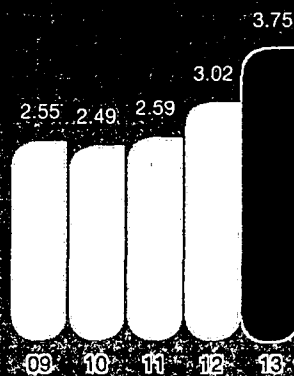
Financial Highlights

| (in millions, except per share figures) | fiscal year 2013 | fiscal year 2012 | % change |
|---|---------------------|---------------------|----------|
| Net revenues | \$ 126,761 | \$ 123,120 | 3.0% |
| Operating profit | \$ 8,037 | \$ 7,210 | 11.5% |
| Net income attributable to CVS Caremark | \$ 4,592 | \$ 3,864 | 18.8% |
| Diluted EPS from continuing operations | \$ 3.75 | \$ 3.02 | 24.0% |
| Stock price at year-end | \$ 71.57 | \$ 48.35 | 48.0% |
| Market capitalization at year-end | \$ 84,436 | \$ 59,527 | 41.8% |

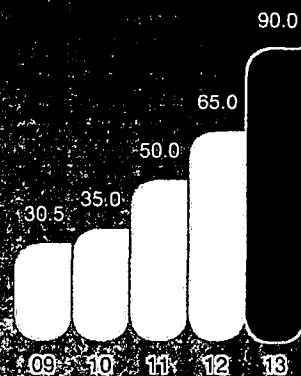
NET REVENUE
(in billions of dollars)



DILUTED EPS FROM CONTINUING OPERATIONS
(in dollars)



CASH DIVIDENDS
(in cents per common share)





LARRY J. MERLO
President and Chief Executive Officer

Dear Fellow Shareholders:

The U.S. health care landscape is currently undergoing its most transformative change in decades, due in large part to the implementation of the Affordable Care Act (ACA). More than 30 million Americans are expected to gain health care coverage by 2018, with enrollment expansion occurring primarily through Medicare, Medicaid, and the public exchanges. Health care consumers are taking on greater responsibility for choosing their own plans and controlling costs – what we're calling the “retailization” of health care. In this environment, payors and physicians are increasingly looking for new ways to improve the health care value equation.

As a pharmacy innovation company, CVS Caremark has the unique combination of ability and agility needed to capitalize on these changing market dynamics. Our PBM business serves more than 63 million plan members and has strong positions in the rapidly growing Medicare, Medicaid, and specialty pharmacy markets. Through our 7,600 retail pharmacies, we engage directly with more than five million customers daily. We also operate the nation's largest retail medical care clinic, with 800 MinuteClinic® locations. The combination of these assets allows us to offer innovative and cost-effective solutions that enhance access to care and deliver better health outcomes to our clients and customers – all while we gain a greater share of their pharmacy and health care spend.

Integrated pharmacy health care model is driving significant shareholder value

This letter will expand on these and other topics shortly. First, I want to share some highlights of our outstanding

results in 2013. They reflect our ongoing focus on the three pillars that we consider keys to enhancing value for CVS Caremark shareholders:

- Driving productive, long-term growth;
- Generating significant free cash flow; and
- Optimizing capital allocation.

Net revenues for the year increased 3 percent to a record \$127 billion, while adjusted earnings per share from continuing operations rose 23 percent to \$4.00. We achieved solid growth enterprise-wide, gaining share in claims dispensed and managed.

CVS Caremark dispensed more than 80 percent of prescriptions with generic drugs in 2013, thereby lowering costs for patients and payors while driving greater profitability. Despite an unprecedented level of brand-to-generic conversions in 2012 and 2013, we still anticipate significant new generic introductions over the next few years. We recently announced an exciting

10-year agreement with Cardinal Health to form the largest generic-sourcing entity in the United States. We will collaborate with generic manufacturers to develop innovative purchasing methodologies, improve supply chain efficiencies, and use our compelling scale to create attractive offerings for these suppliers.

The power of our integrated model has created a sustainable competitive advantage for us. This is highlighted by the growth of CVS/pharmacy's share of our own PBM's retail network claims. That figure has jumped from 19 percent in 2008 – just following our merger – to 30 percent in 2013. This is a clear indicator that our channel-agnostic approach is better positioned to capture share over the long-term, regardless of changes in payor mix, plan design strategies, or patient preferences.

We generated \$4.4 billion in free cash flow in 2013, and we returned more than \$5 billion to shareholders through dividends and share repurchases. We increased our quarterly dividend by 38 percent in 2013 and recently announced another 22 percent increase for 2014, which marks our 11th consecutive year of increases. This recent dividend increase should allow us to achieve a 25 percent payout ratio sometime this year, up from 14 percent in 2010. Looking forward, we recently set a target payout ratio of 35 percent by 2018 as we continue to focus on returning value to our shareholders. Furthermore, after spending approximately \$11 billion on share repurchases from 2011 through 2013, our board of directors recently authorized a new \$6 billion share repurchase program. Our current plans call for the repurchase of approximately \$4 billion of our shares in 2014, consistent with last year.

Our 2013 acquisitions of Drogaria Onofre and NovoLogix, and of Coram, which closed in January 2014, offer good examples of how we apply disciplined capital allocation practices to supplement existing assets and bolster our offerings. Drogaria Onofre, a 46-store retail drugstore chain in Brazil, represents our first retail foray into the international markets, while NovoLogix and Coram have broadened our already compelling specialty solutions.

Our focus on enhancing shareholder value paid off handsomely in 2013, with our shares producing a total return to shareholders of 50.4 percent for the year. That

far surpassed the total returns of both the S&P 500 Index and Dow Jones Industrial Average over the same period. We have outperformed these broader indices on a three-, five-, and 10-year basis as well.

Our differentiated PBM offerings continue to gain momentum

Our PBM business posted another strong year in 2013 with nice momentum heading into 2014. For the 2014 selling season, gross new business wins totaled \$5.3 billion. Factoring in a 96 percent retention rate, we gained approximately \$2.4 billion in client net new business for 2014. Not reflected in that number is \$1.3 billion in lost revenue in 2014 resulting from last year's Medicare Part D sanction. I'm pleased to report that the sanction was lifted on January 1, 2014, and that we have once again started enrolling new members into our SilverScript prescription drug plans (PDPs) as they age into the Medicare program.


Although price is still a very important part of their decision process, clients are telling us that we're also being selected because of the unique capabilities we deliver. Among them, our Pharmacy Advisor® program helps participating plan members with certain chronic diseases, such as diabetes and cardiovascular conditions, to identify gaps in care, adhere to their prescribed medications, and better manage their health conditions. We have also expanded this program to Medicare beneficiaries, which is helping health plan clients achieve better clinical star ratings.

Maintenance Choice® remains a unique offering in the market that no competitor has been able to replicate. It allows plan members to receive their 90-day maintenance prescriptions by mail or at one of our convenient retail stores for the same price. Client adoption has risen significantly over the past two years, with 17 million members currently enrolled, up 55 percent in that time frame. Moreover, significant opportunity for growth remains, with potential adoption among current clients representing up to a total of 34 million members.


Regarding our long-term partnership with Aetna, we have successfully completed the migration of Aetna's commercial membership to our destination platform. Aetna's Medicare Part D business will transition in




33 million
Customer Care Center
calls annually




1.8 billion
CVS/pharmacy visits
annually




6 million
web users
annually



4 million
MinuteClinic visits
annually



3.2 million
Pharmacy Advisor
interventions annually



70 million
active ExtraCare
cardholders

Helping people on their
path to better health



\$100 billion+
in pharmacy and health services
revenues


Substantial scale across the pharmacy and health care spectrum

| | |
|--|---|
| <p>Retail Pharmacy \$200 billion market 21% share</p> | <p>Front Store (Health/OTC) \$15 billion market 9% share</p> |
| <p>Mail Pharmacy \$40 billion market 22% share</p> | <p>Specialty Pharmacy \$100 billion market 21% share</p> |
| <p>MinuteClinic \$20 billion market 12% share</p> | |

Industry-leading adherence
Medical Possession Ratio 2012-2013

82% CVS/pharmacy

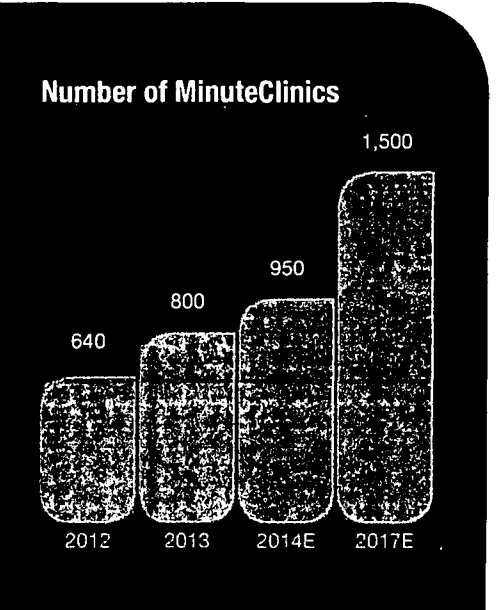
73% Top 3 Retail Competitors



7,600
retail pharmacies in 43 U.S.
states, the District of Columbia,
Puerto Rico, and Brazil

**Rapid
medical care
clinic
expansion**

expect to have
1,500
locations in 35+
states by 2017



* Specialty Pharmacy market includes estimate of medical pharmacy spend.
† MinuteClinic addressable market reflects outpatient and emergency department visits for the ten diagnoses most commonly seen in retail clinics. Sources: National Center for Health Statistics; 2009 Rand study.



\$127 billion
net revenues
in 2013



2.4%
store square footage
growth in 2013



80%+
generic dispensing
rates in 2013



11.5%
operating profit
growth in 2013



\$4.4 billion
free cash flow*
in 2013



\$4.0 billion
share repurchases
in 2013

\$4.00
adjusted EPS† from
continuing operations

22.7% growth in 2013

\$0.90
annual dividend

38% growth in 2013

Focused on
enhancing
shareholder value

**Driving
productive
long-term growth**

since 2010...

~\$25 billion
in PBM net new
business

~400
net new retail stores

**Generating
significant free
cash flow**

since 2010...

21%
increase in cash from
operations

\$1.2 billion
of excess retail
inventory removed

**Optimizing
capital
allocation**

since 2010...

increased dividend
payout ratio from
14% to 24%

more than
\$11 billion
in share repurchases

* Free cash flow is defined as net cash provided by operating activities less net additions to properties and equipment (i.e., additions to property and equipment plus proceeds from sale-leaseback transactions).

† Adjusted earnings per share is defined as income before income tax provision plus amortization, less adjusted income tax provision, plus net loss attributable to noncontrolling interest divided by the weighted average diluted common shares outstanding.

January 2015. With the Aetna commercial business now on our platform, Aetna has the ability to market CVS Caremark's integrated offerings as well.

Back in 2010, we undertook an extensive PBM streamlining initiative that included consolidating our facilities, redesigning our pharmacy front-end processes, opening two new automated mail order pharmacies, and consolidating our claims adjudication systems. These programs are on track to deliver cumulative savings of more than \$1 billion by the end of 2015.

Our comprehensive specialty offering helps improve outcomes and lower costs

Specialty pharmacy continues to grow at a much faster rate than the pharmacy industry overall, with industry projections for this market to grow from \$92 billion in 2012 to \$235 billion by 2018. By that time, specialty pharmaceuticals are expected to account for 50 percent of the total spent on drugs in the United States. CVS Caremark's specialty business is growing faster than the overall market, with specialty revenues expected to reach \$26 billion in 2014.

Many believe that specialty medications represent the pinnacle of achievement in biologic science and have revolutionized the treatment of a host of debilitating and life-threatening illnesses. At the same time, managing these expensive agents and the specialty patient population brings its own share of complexities, and our clients are clamoring for help in controlling the rapidly rising costs. CVS Caremark has assembled what we believe to be the most complete and coordinated solution in our industry to address the needs of specialty patients and payors.

Our solutions include comprehensive trend management in which CVS Caremark aggressively manages all drugs irrespective of route of administration or site of service, or whether a drug is covered by the medical or pharmacy benefit. Our acquisition of the NovoLogix technology gives us automated medical claims management capabilities that no other large PBM offers.

Our differentiated clinical care model integrates our Accordant® rare disease care management services to enhance care and reduce costs. Our clinical model can reduce total health care spending for specialty patients by as much as 11 percent. Through our Specialty

Connect™ integrated delivery option, patients also have the flexibility to receive their drugs by mail or at one of our stores. This program is analogous to Maintenance Choice. Our pilot launch of Specialty Connect has revealed that half of specialty patients prefer to pick up their drugs at a CVS/pharmacy location and that this program is helping to drive improved adherence rates.

Finally, our acquisition of Coram has significantly expanded our capabilities in the infusion market. Coram serves 165,000 patients annually through its 85 branch locations and 600 home infusion nurses around the country. Coram also complements our existing specialty competencies, creating cross-selling opportunities and making us a compelling option for narrow networks that are trying to improve outcomes while driving down costs.

CVS/pharmacy® stores are in the right growth markets and outperforming competitors on medication adherence

Our retail business posted solid results in 2013, especially given the continued evidence of a cautious consumer. Same-store sales grew by 1.7 percent overall, with the pharmacy up 2.6 percent and the front of the store down 0.5 percent.

Our stores now command a 21.3 percent share of the U.S. retail prescription drug market, and we are poised to capitalize on health care reform over the next few years. With 30 million Americans expected to gain health care coverage through the public exchanges and the expansion of Medicaid, we believe that we are well-positioned with the power and reach of our brand, as well as the trusting relationships that exist between our 23,000 pharmacists and millions of patients.

Turning to our real estate program, we opened 247 new or relocated stores in 2013. Factoring in closings, net units increased by 156 stores. That equates to 2.4 percent retail square footage growth for the year, in line with our annual goal. We expect to continue to expand our retail square footage at roughly the same pace going forward. Looking at just the top 10 states that are expected to see the largest increases in their insurance rolls – California, Texas, and Florida topping the list – we already have strong market positions with plans to expand in counties where the greatest opportunities exist.

Our pharmacists executed close to 80 million live clinical interventions during the year. That helped CVS/pharmacy deliver best-in-class adherence results compared to our top three retail competitors in areas that include diabetes therapy, cholesterol therapy, and blood pressure therapy. Among patients that take medication for high blood pressure, our adherence rate translates into the prevention of 20,000 heart attacks, 5,000 strokes, and 3,000 deaths each year. These outcomes are obviously meaningful to our patients and their families. They also broadly benefit a health care system that incurs \$300 billion in avoidable medical costs each year due to medication non-adherence.

ExtraCare® and store-brand initiatives continue to drive profitable sales in the front of the store

Our ExtraCare loyalty program has been a key driver of our profitable front store sales, and it is helping us deliver a more personalized experience to each customer. The industry's longest-running loyalty program, ExtraCare has 70 million active cardholders who accounted for 70 percent of front store transactions during the past year. These cardholders get two percent back every day and received \$3.6 billion in ExtraBucks savings and rewards in 2013.

It's important to note that we have spent 16 years gathering insights and perfecting ExtraCare, which means that no competitor can match the depth of our customer analytics. We've leveraged our ExtraCare insights to convert customers to categories they shop elsewhere, to launch personalized digital circulars, and to tailor our merchandise mix to better meet customer needs.

Our store and proprietary brands represent another key driver of profitable front store sales growth. These products are sold under a variety of proprietary labels such as Gold Emblem™ and Essence of Beauty® and accounted for 17.8 percent of front store sales in 2013. Importantly, they also provide significantly higher margins than national brands while saving our customers money. We have an aggressive strategy in place to move their penetration to well over 20 percent in the next few years.

MinuteClinic® provides unmatched offerings to our PBM clients and aligns with leading health systems

MinuteClinic today represents a small percentage of our revenues, but it is significant to our overall health care

strategy and is expected to play an important role in the rapidly evolving health care system. Our 2,200 nurse practitioners and physician assistants provide high-quality, affordable walk-in medical care services seven days a week without appointments. With more than 800 clinics currently in 28 states and the District of Columbia, MinuteClinic is expected to grow to 1,500 locations in over 35 states by 2017. Through this expanding network of locations, MinuteClinic will play an important role in helping alleviate the growing shortage of primary care physicians in the United States, especially as more people obtain health insurance.

MinuteClinic now has more than 30 major health system affiliations, adding seven in 2013 alone. We are working with the nation's leading health care systems to ensure that patients receive high-quality, cost-effective care at the appropriate site of service. MinuteClinic is becoming an integral part of the services these organizations offer as they develop accountable care organizations, patient-centered medical homes, and other new models of care. In addition to providing care for common acute illnesses, injuries, and skin conditions, MinuteClinic offers chronic disease and wellness services while integrating medical records with primary care providers. As we look for new ways of improving care while lowering costs, we will offer innovative new services such as TeleHealth™ at MinuteClinic, which is currently being piloted in certain markets.

The new health care environment presents growth opportunities across our enterprise

With health care reform and major demographic shifts underway in the United States, our industry landscape is poised to change significantly in the coming years. There are a number of moving parts related to coverage expansion, and the initial rollout of the ACA has come with its challenges. That said, we continue to expect that coverage expansion will provide a long-term tailwind for the industry. The importance of government payors and health plans is clearly rising, and we believe that CVS Caremark is very well-positioned for this trend.

We have strong positions in the Medicare and Medicaid markets across both our retail and PBM businesses. Let's look at Managed Medicaid, where 30 million people are currently enrolled. This number is expected

to increase to 43 million people by 2016. Growth will come from the continuing transition of fee-for-service Medicaid members to Managed Medicaid as well as from new enrollees resulting from the ACA's expanded eligibility. CVS Caremark is the clear market leader among Managed Medicaid PBMs with a 28 percent share of covered lives, and our capabilities will help us maintain this position. We also have a 20 percent share of Medicaid prescription volumes through our retail stores. Our retail footprint and capabilities give us an opportunity to gain even greater share as Managed Medicaid providers show an interest in narrowing their retail pharmacy networks to save costs.

The Medicare Part D market remains a very important part of our growth strategy as well. With 15 million people aging into Medicare by 2020, drug spending in the Medicare space is expected to grow at an 8.6 percent compounded annual growth rate. We remain the number three player in the PBM market, covering 6.8 million lives through our SilverScript product or through our health plan clients where we serve as the PBM.

We will also participate in coverage expansion through both public and private health insurance exchanges. Looking at the private exchanges, we can reach active employees not only through our commercial health plan partners, but also through direct relationships on key exchanges. We connect with Medicare-eligible retirees through our MA-PD and PDP health plan partners and our CVS Caremark SilverScript PDP. Looking at public exchanges, our PBM covers 70 percent of the eligible exchange population through our health plan customer relationships. Access to the exchange population rises further if you factor in states where we have CVS/pharmacy preferred-network relationships.

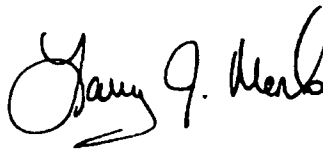
With the growth in exchanges and government lines of business, our ability to serve health plans whether or not they are PBM clients is increasingly important. Leveraging our retail footprint, we can support health plan marketing initiatives ranging from limited pilot marketing programs to full-scale educational programs. Some of our health plan partnerships also include participation in preferred or restricted pharmacy networks. Many plans are taking advantage of MinuteClinic's convenient and affordable services as well as cost-saving PBM

services and programs to better manage rising specialty pharmacy costs.

Our recently announced decision to remove cigarettes and all tobacco products from our store shelves by October 2014 has generated an overwhelmingly positive response from customers, health plan and employer clients, legislators, and public health and Medicaid officials. They all see the health benefit of this move and the role that pharmacy can play in smoking cessation. Some 16 million people in this country already have at least one disease from smoking, and it still accounts for approximately 480,000 deaths each year. Simply put, the sale of tobacco is inconsistent with our corporate purpose of helping people on their path to better health. As the delivery of health care evolves with an emphasis on better health outcomes, reducing chronic disease, and controlling costs, we're playing an expanded role in providing care through our pharmacists, nurse practitioners, and physician assistants. This significant action further distinguishes us in how we are serving our patients, clients, and health care providers, and better positions us for continued growth in the evolving health care marketplace. Although this decision will have some impact on revenues and profits, we believe that it is the right thing to do given our expanding role as a health care company.

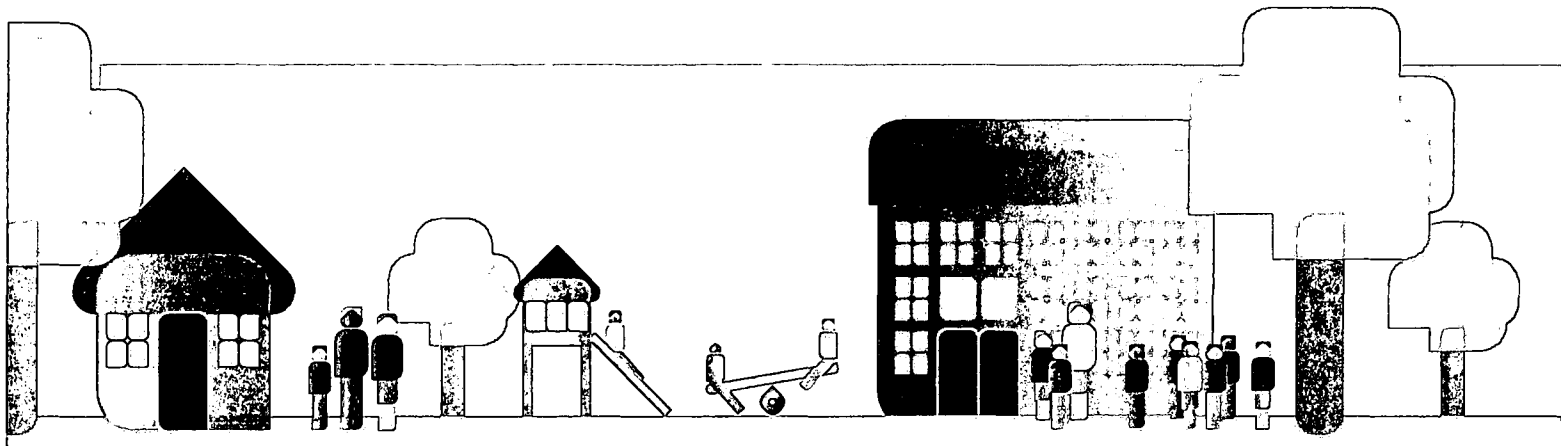
Clearly, we are in the midst of an exciting and pivotal moment for our company and our industry. In closing, I want to thank our board of directors, our shareholders, and the more than 200,000 colleagues who have played such an important role in CVS Caremark's achievements. They have worked hard to develop our sustainable competitive advantage and to meet the needs of the health care system of the future.

Sincerely,



Larry J. Merlo
President and Chief Executive Officer

February 11, 2014



In what other ways does CVS Caremark make a difference?

Looking beyond our business operations, CVS Caremark is equally committed to investing in our people, improving the health of our communities, and reducing our impact on our planet.

Our corporate social responsibility (CSR) priorities include helping patients and customers achieve their best health, conducting business ethically and responsibly, and engaging with suppliers that share our values. We are also committed to being good environmental stewards, providing a great workplace for our colleagues, and investing in our local communities in meaningful ways.

In 2013, we made strong progress in advancing our CSR strategy. Achievements included minimizing our environmental footprint and measurably decreasing our carbon intensity to bring us closer to our reduction goal of 15 percent by 2018. We also strengthened our commitment to human rights as part of our Supplier Ethics Policy.

A big part of our CSR efforts is focused on supporting local communities and making sure that the people we serve each and every day have access to quality health care. Our charitable giving programs reflect this commitment. Through our company and our foundation, the

CVS Caremark Charitable Trust, we support organizations that are providing greater access to health care, wellness, and prevention programs – especially for underserved populations.

While changes in our health care system qualify more people for health coverage, it continues to be a challenge for many to find quality care. In 2013, we announced a \$5 million commitment to expand access to quality care nationwide through new partnerships with the National Association of Free & Charitable Clinics and the School-Based Health Alliance, and the second year of our partnership with the National Association of Community Health Centers. These grant programs are funding and promoting innovative approaches to chronic disease management, coordinated care models, health care IT enhancements, primary care for children, and much more.

We report on our CSR progress annually. Additional information can be found in our six consecutive CSR reports, which are available at cvscaremark.com.

2013 Financial Report

- 24** Management's Discussion and Analysis of Financial Condition and Results of Operations
- 51** Management's Report on Internal Control Over Financial Reporting
- 52** Report of Independent Registered Public Accounting Firm
- 53** Consolidated Statements of Income
- 54** Consolidated Statements of Comprehensive Income
- 55** Consolidated Balance Sheets
- 56** Consolidated Statements of Cash Flows
- 57** Consolidated Statements of Shareholders' Equity
- 58** Notes to Consolidated Financial Statements
- 90** Five-Year Financial Summary
- 91** Report of Independent Registered Public Accounting Firm
- 92** Stock Performance Graph

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

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

Overview of Our Business

CVS Caremark Corporation ("CVS Caremark", the "Company", "we", "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® Pharmacy Services; our more than 7,600 CVS/pharmacy® and Drogaria Onofre® retail stores; our retail-based health clinic subsidiary, MinuteClinic®; and our online retail pharmacies, CVS.com® and Onofre.com.br.

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

Overview of Our Pharmacy Services Segment

Our Pharmacy Services business provides a full range of PBM services, including mail order and specialty pharmacy and infusion services, plan design and administration, formulary management, discounted drug purchase arrangements, Medicare Part D services, retail pharmacy network management services, prescription management systems, clinical services and disease management services.

Our clients are primarily employers, insurance companies, unions, government employee groups, managed care organizations and other sponsors of health benefit plans and individuals throughout the United States.

As a pharmacy benefits manager, we manage the dispensing of pharmaceuticals through our mail order pharmacies, specialty pharmacies and 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, to eligible members in the benefit plans maintained by our clients and utilize our information systems to perform, among other things, safety checks, drug interaction screenings and brand to generic substitutions.

Our specialty pharmacies support individuals that require complex and expensive drug therapies. Our specialty pharmacy business includes mail order and retail specialty pharmacies that operate under the CVS Caremark® and CarePlus CVS/pharmacy® names. Substantially all of our mail service specialty pharmacies have been accredited by The Joint Commission, which is an independent, not-for-profit organization that accredits and certifies health care organizations and programs in the United States.

We also provide health management programs, which include integrated disease management for 17 conditions, through our Accordant® rare disease 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") subsidiary, we are a national provider of drug benefits to eligible beneficiaries under the Federal Government's Medicare Part D program. We currently provide Medicare Part D plan benefits to approximately 4.3 million beneficiaries through SilverScript.

Our Pharmacy Services Segment generates net revenues primarily by contracting with clients to provide prescription drugs to plan members. Net revenues are also generated by providing additional services to clients, including administrative services such as claims processing and formulary management, as well as health care-related services such as disease management.

The Pharmacy Services Segment operates under the CVS Caremark® Pharmacy Services, Caremark®, CVS Caremark®, CarePlus CVS/pharmacy®, RxAmerica®, Accordant®, SilverScript® and Novologix® 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.

Overview of Our Retail Pharmacy Segment

Our Retail Pharmacy Segment sells prescription drugs and a wide assortment of general merchandise, including over-the-counter drugs, beauty products and cosmetics, photo finishing, seasonal merchandise, greeting cards and convenience foods through our CVS/pharmacy®, Longs Drugs® and Drogaria Onofre® retail stores and online through CVS.com® and Onofre.com.br. Our Retail Pharmacy Segment derives the majority of its revenues through the sale of prescription drugs, which are dispensed by our more than 23,500 retail pharmacists. The role of our retail pharmacists is shifting from primarily dispensing prescriptions to also providing services, including flu vaccinations as well as face-to-face patient counseling with respect to adherence to drug therapies, closing gaps in care, and more cost-effective drug therapies. Our integrated pharmacy services model enables us to enhance access to care while helping to lower overall health care costs and improve health outcomes.

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

Our proprietary loyalty card program, ExtraCare®, has approximately 70 million active cardholders, making it one of the largest and most successful retail loyalty card programs in the country.

As of December 31, 2013, our Retail Pharmacy Segment included 7,660 retail drugstores (of which 7,603 operated a pharmacy) located in 43 states, the District of Columbia, Puerto Rico and Brazil operating primarily under the CVS/pharmacy®, Longs Drugs® and Drogaria Onofre® names, 17 onsite pharmacies and 800 retail health care clinics operating under the MinuteClinic® name (of which 792 were located in CVS/pharmacy stores), and our online retail websites, CVS.com® and Onofre.com.br.

Overview of Our Corporate Segment

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

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

Results of Operations

Summary of Our Consolidated Financial Results

| In millions, except per common share amounts | YEAR ENDED DECEMBER 31, | | |
|--|-------------------------|------------|------------|
| | 2013 | 2012 | 2011 |
| Net revenues | \$ 126,761 | \$ 123,120 | \$ 107,080 |
| Cost of revenues | 102,978 | 100,632 | 86,518 |
| Gross profit | 23,783 | 22,488 | 20,562 |
| Operating expenses | 15,746 | 15,278 | 14,231 |
| Operating profit | 8,037 | 7,210 | 6,331 |
| Interest expense, net | 509 | 557 | 584 |
| Loss on early extinguishment of debt | — | 348 | — |
| Income before income tax provision | 7,528 | 6,305 | 5,747 |
| Income tax provision | 2,928 | 2,436 | 2,258 |
| Income from continuing operations | 4,600 | 3,869 | 3,489 |
| Loss from discontinued operations, net of tax | (8) | (7) | (31) |
| Net income | 4,592 | 3,862 | 3,458 |
| Net loss attributable to noncontrolling interest | — | 2 | 4 |
| Net income attributable to CVS Caremark | \$ 4,592 | \$ 3,864 | \$ 3,462 |
| Diluted earnings per common share: | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 3.75 | \$ 3.02 | \$ 2.59 |
| Loss from discontinued operations attributable to CVS Caremark | \$ (0.01) | \$ (0.01) | \$ (0.02) |
| Net income attributable to CVS Caremark | \$ 3.74 | \$ 3.02 | \$ 2.57 |

Net revenues increased \$3.6 billion in 2013 compared to 2012, and increased \$16.0 billion in 2012 compared to 2011. As you review our performance in this area, we believe you should consider the following important information:

- During 2013, net revenues in our Pharmacy Services Segment increased 3.8% and net revenues in our Retail Pharmacy Segment increased 3.1% compared to the prior year.
- During 2012, net revenues in our Pharmacy Services Segment increased by 24.7% and net revenues in our Retail Pharmacy Segment increased 6.8% compared to the prior year.
- The increase in our generic dispensing rates in both of our operating segments continued to have an adverse effect on net revenue in 2013 as compared to 2012, as well as in 2012 as compared to 2011. In 2012, the Pharmacy Services Segment had a greater impact from net new business as compared to 2013.

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

Gross profit increased \$1.3 billion, or 5.8% in 2013, to \$23.8 billion, or 18.8% of net revenues, as compared to \$22.5 billion, or 18.3% of net revenues in 2012. Gross profit increased \$1.9 billion, or 9.4% in 2012, to \$22.5 billion, or 18.3% of net revenues, as compared to \$20.6 billion, or 19.2% of net revenues in 2011.

- During 2013, gross profit in our Pharmacy Services Segment and Retail Pharmacy Segment increased by 11.3% and 5.3%, respectively, compared to the prior year. For the year ended December 31, 2013, gross profit as a percent of net revenues in our Pharmacy Services Segment and Retail Pharmacy Segment was 5.6% and 30.6%, respectively.
- During 2012, gross profit in our Pharmacy Services Segment and Retail Pharmacy Segment increased by 16.1% and 9.3%, respectively, compared to the prior year. For the year ended December 31, 2012, gross profit as a percent of net revenues in our Pharmacy Services Segment and Retail Pharmacy Segment was 5.2% and 30.0%, respectively.
- The increased weighting toward the Pharmacy Services Segment, which has a lower gross profit than the Retail Pharmacy Segment, resulted in a decline in consolidated gross profit as a percent of net revenues in 2012 as compared to 2011. In addition, gross profit for 2013, 2012 and 2011 has been negatively impacted by the efforts of managed care organizations, pharmacy benefit managers and governmental and other third-party payors to reduce their prescription drug costs.
- In addition, for the three years 2011 through 2013, our gross profit continued to benefit from the increased utilization of generic drugs (which normally yield a higher gross profit rate than equivalent brand name drugs) in both the Pharmacy Services and Retail Pharmacy segments. This contributed to the increase in gross profit as a percent of net revenues in 2013 as compared to 2012.

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

Operating expenses increased \$468 million, or 3.1% in the year ended December 31, 2013, as compared to the prior year. Operating expenses as a percent of net revenues remained flat at 12.4% in the year ended December 31, 2013, despite the dampening effect of generics on net revenues. The increase in operating expenses in the year ended December 31, 2013 was primarily due to incremental store operating costs associated with a higher store count as compared to the prior year, as well as strategic initiatives. The increase was partially offset by a \$72 million gain on a legal settlement recorded in the third quarter.

Operating expenses increased \$1.0 billion in the year ended December 31, 2012 as compared to the prior year. Operating expenses as a percent of net revenues improved approximately 90 basis points to 12.4% in the year ended December 31, 2012. The increase in operating expense dollars in the year ended December 31, 2012 was primarily due to incremental store operating costs associated with a higher store count as compared to the prior year, as well as the expansion of our Medicare Part D business. The improvement in operating expenses as a percent of net revenues is primarily due to expense leverage from net revenue growth and expense control initiatives.

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

Interest expense, net for the years ended December 31 consisted of the following:

| <i>In millions</i> | 2013 | 2012 | 2011 |
|-----------------------|-----------------|--------|--------|
| Interest expense | \$ 517 | \$ 561 | \$ 588 |
| Interest income | (8) | (4) | (4) |
| Interest expense, net | \$ 509 | \$ 557 | \$ 584 |

Net interest expense decreased \$48 million during the year ended December 31, 2013, which resulted from lower average interest rates during 2013. During 2012, net interest expense decreased by \$27 million, to \$557 million compared to 2011, due to a reduction in our average outstanding short-term and long-term debt.

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

Income tax provision – Our effective income tax rate was 38.9%, 38.6% and 39.3% in 2013, 2012 and 2011, respectively. The effective income tax was higher in 2013 than in 2012 primarily due to certain permanent items in 2012. These same items were the principal factors for the lower effective income tax rate in 2012 compared to 2011.

Income from continuing operations increased \$731 million or 18.9% to \$4.6 billion in 2013. Income from continuing operations increased \$380 million or 10.9% to \$3.9 billion in 2012 as compared to \$3.5 billion in 2011. The 2013 increase in income from continuing operations was primarily related to increases in generic dispensing rates for both operating segments, increased volume across all channels in our Pharmacy Services Segment, as well as increased sales in the Retail Pharmacy Segment.

Loss from discontinued operations – In connection with certain business dispositions completed between 1991 and 1997, the Company retained guarantees on store lease obligations for a number of former subsidiaries, including Linens 'n Things, which filed for bankruptcy in 2008. The Company's loss from discontinued operations includes lease-related costs which the Company believes it will likely be required to satisfy pursuant to its Linens 'n Things lease guarantees.

We incurred a loss from discontinued operations of \$8 million in 2013, a loss from discontinued operations of \$7 million in 2012 and a loss from discontinued operations of \$31 million in 2011. The loss from discontinued operations in 2013 and 2012 was primarily due to costs related to Linens 'n Things lease guarantees. The loss from discontinued operations in 2011 was primarily due to the disposition of our TheraCom subsidiary. We recognized a \$53 million pre-tax gain and a \$37 million after-tax loss on the sale of TheraCom. The after-tax loss was caused by the income tax treatment of TheraCom's nondeductible goodwill.

See Note 3 "Discontinued Operations" to the consolidated financial statements for additional information about discontinued operations and Note 12 "Commitments and Contingencies" for additional information about our lease guarantees.

Net loss attributable to noncontrolling interest represents the minority shareholders' portion of the net loss from our subsidiary, Generation Health, Inc., prior to June 2012. We acquired the remaining 40% interest of Generation Health, Inc. on June 29, 2012 and as a result, there was no longer a noncontrolling interest in Generation Health, Inc. for the year ended December 31, 2013. The net loss attributable to noncontrolling interest for the years ended December 31, 2012 and 2011 was \$2 million and \$4 million, respectively.

Net income attributable to CVS Caremark increased \$728 million or 18.8% to \$4.6 billion (or \$3.74 per diluted share) in 2013. This compares to \$3.9 billion (or \$3.02 per diluted share) in 2012 and \$3.5 billion (or \$2.57 per diluted share) in 2011. As discussed previously, the 2013 increase in net income attributable to CVS Caremark was primarily related to increased generic drug dispensing in both operating segments, increased volume across all channels in our Pharmacy Services Segment, and increased sales in our Retail Pharmacy Segment. The increase in net income attributable to CVS Caremark per diluted share was also driven by increased share repurchase activity in 2013 and 2012.

Segment Analysis

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

| <i>In millions</i> | Pharmacy Services Segment ⁽¹⁾⁽²⁾ | Retail Pharmacy Segment ⁽²⁾ | Corporate Segment | Intersegment Eliminations ⁽²⁾ | Consolidated Totals |
|-------------------------|---|--|-------------------|--|---------------------|
| 2013: | | | | | |
| Net revenues | \$ 76,208 | \$ 65,618 | \$ — | \$(15,065) | \$126,761 |
| Gross profit | 4,237 | 20,112 | — | (566) | 23,783 |
| Operating profit (loss) | 3,086 | 6,268 | (751) | (566) | 8,037 |
| 2012: | | | | | |
| Net revenues | \$ 73,444 | \$ 63,641 | \$ — | \$ (13,965) | \$ 123,120 |
| Gross profit | 3,808 | 19,091 | — | (411) | 22,488 |
| Operating profit (loss) | 2,679 | 5,636 | (694) | (411) | 7,210 |
| 2011: | | | | | |
| Net revenues | \$ 58,874 | \$ 59,579 | \$ — | \$ (11,373) | \$ 107,080 |
| Gross profit | 3,279 | 17,469 | — | (186) | 20,562 |
| Operating profit (loss) | 2,220 | 4,913 | (616) | (186) | 6,331 |

(1) Net revenues of the Pharmacy Services Segment include approximately \$7.9 billion, \$8.4 billion and \$7.9 billion of Retail Co-Payments for 2013, 2012 and 2011, respectively. See Note 1 to the consolidated financial statements for additional information about Retail Co-Payments.

(2) Intersegment eliminations relate to two types of transactions: (i) Intersegment revenues that occur when Pharmacy Services Segment customers use Retail Pharmacy Segment stores to purchase covered products. When this occurs, both the Pharmacy Services and Retail Pharmacy segments record the revenue on a standalone basis, and (ii) Intersegment revenues, gross profit and operating profit that occur when Pharmacy Services Segment customers, through the Company's intersegment activities (such as the Maintenance Choice[®] program), elect to pick-up their maintenance prescriptions at Retail Pharmacy Segment stores instead of receiving them through the mail. When this occurs, both the Pharmacy Services and Retail Pharmacy segments record the revenue, gross profit and operating profit on a standalone basis. Beginning in the fourth quarter of 2011, the Maintenance Choice eliminations reflect all discounts available for the purchase of mail order prescription drugs. The following amounts are eliminated in consolidation in connection with the item (ii) intersegment activity: net revenues of \$4.3 billion, \$3.4 billion and \$2.6 billion for the years ended December 31, 2013, 2012 and 2011, respectively; gross profit and operating profit of \$566 million, \$411 million and \$186 million for the years ended December 31, 2013, 2012 and 2011, respectively.

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

Pharmacy Services Segment

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

| In millions | YEAR ENDED DECEMBER 31, | | |
|--|-------------------------|-----------|-----------|
| | 2013 | 2012 | 2011 |
| Net revenues | \$ 76,208 | \$ 73,444 | \$ 58,874 |
| Gross profit | \$ 4,237 | \$ 3,808 | \$ 3,279 |
| Gross profit % of net revenues | 5.6% | 5.2% | 5.6% |
| Operating expenses | \$ 1,151 | \$ 1,129 | \$ 1,059 |
| Operating expenses % of net revenues | 1.5% | 1.5% | 1.8% |
| Operating profit | \$ 3,086 | \$ 2,679 | \$ 2,220 |
| Operating profit % of net revenues | 4.1% | 3.6% | 3.8% |
| Net revenues ⁽¹⁾ : | | | |
| Mail choice ⁽²⁾ | \$ 24,791 | \$ 22,843 | \$ 18,616 |
| Pharmacy network ⁽³⁾ | \$ 51,211 | \$ 50,411 | \$ 40,040 |
| Other | \$ 206 | \$ 190 | \$ 218 |
| Pharmacy claims processed ⁽¹⁾ : | | | |
| Total | 902.1 | 880.5 | 774.6 |
| Mail choice ⁽²⁾ | 83.3 | 81.7 | 70.6 |
| Pharmacy network ⁽³⁾ | 818.8 | 798.8 | 704.0 |
| Generic dispensing rate ⁽¹⁾ : | | | |
| Total | 80.8% | 78.5% | 74.1% |
| Mail choice ⁽²⁾ | 76.0% | 72.0% | 64.9% |
| Pharmacy network ⁽³⁾ | 81.3% | 79.1% | 75.0% |
| Mail choice penetration rate | 22.6% | 22.7% | 22.3% |

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

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

(3) Pharmacy network is defined as claims filled at retail pharmacies, including our retail drugstores, but excluding Maintenance Choice activity.

Medicare Part D Update – The Company participates in the Medicare Part D program by (1) providing Medicare Part D-related PBM services to our health plan and other clients that have qualified as Medicare Part D plans, and (2) offering Medicare Part D pharmacy benefits through the Company's own SilverScript Prescription Drug Plan ("PDP"), which offers benefits to individual members and through employer group waiver plans ("EGWPs"). At the beginning of the 2013 Medicare Part D plan year, the Company implemented an enrollment systems conversion process and other actions to consolidate its Medicare Part D PDPs into the Company's SilverScript PDP. These consolidation efforts impacted certain enrollment and coverage determination services the Company provided to SilverScript enrollees following commencement of the 2013 plan year. Effective January 15, 2013, Centers for Medicare and Medicaid Services ("CMS") imposed intermediate sanctions on the SilverScript PDP, consisting of immediate suspension of further plan enrollment and marketing activities. On December 20, 2013, the Company announced that CMS completed its review of the corrective actions taken to address the coverage determination issues resulting from the Company's plan consolidation efforts and the sanctions were removed.

Net revenues in our Pharmacy Services Segment increased \$2.8 billion, or 3.8%, to \$76.2 billion for the year ended December 31, 2013, as compared to the prior year. The increase in net revenues was primarily due to drug cost inflation in the specialty pharmacy business. Conversely, the increase in our generic dispensing rate had a negative impact on our revenue in 2013, as it did in 2012.

Net revenues increased \$14.6 billion, or 24.7%, to \$73.4 billion for the year ended December 31, 2012, as compared to the prior year. The increase in 2012 was primarily due to new client starts on January 1, 2012, drug cost inflation and the growth of our Medicare Part D business. Additionally, the increase in our generic dispensing rate had a negative impact on our revenue in 2012 as it did in 2011.

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

- Our mail choice claims processed increased 1.9% to 83.3 million claims in the year ended December 31, 2013, compared to 81.7 million claims in the prior year. The increase in mail choice claim volume was primarily due to increased claims associated with the continuing client adoption of our Maintenance Choice offerings. During 2012, our mail choice claims processed increased 15.7% to 81.7 million claims. The increase in mail choice claim volume was primarily due to a significant number of 2012 new client starts, as well as increased claims associated with the continued adoption of our Maintenance Choice offerings.
- During 2013 and 2012, our average revenue per mail choice claim increased by 6.5% and 6.0%, compared to 2012 and 2011, respectively. This increase was primarily due to drug cost inflation particularly in our specialty business, partially offset by increases in the percentage of generic prescription drugs dispensed and changes in client pricing.
- Our mail choice generic dispensing rate was 76.0%, 72.0% and 64.9% in the years ended December 31, 2013, 2012 and 2011, respectively.
- Our pharmacy network generic dispensing rate increased to 81.3% in the year ended December 31, 2013, compared to 79.1% in the prior year. During 2012, our pharmacy network generic dispensing rate increased to 79.1% compared to our pharmacy network generic dispensing rate of 75.0% in 2011. These continued increases in both mail choice and pharmacy network generic dispensing rates were primarily due to the impact of new generic drug introductions, primarily in 2012, and our continuous efforts to encourage plan members to use generic drugs when they are available. We believe our generic dispensing rates will continue to increase in future periods, albeit, at a slower pace. This increase will be affected by, among other things, the number of new generic drug introductions and our success at encouraging plan members to utilize generic drugs when they are available and clinically appropriate.
- Our pharmacy network claims processed increased 2.5% to 818.8 million claims in the year ended December 31, 2013, compared to 798.8 million claims in the prior year. During 2012, our pharmacy network claims processed increased 13.5% to 798.8 million compared to 704.0 million pharmacy network claims processed in 2011. The increase in the pharmacy network claim volume was primarily due to higher claims activity associated with our Medicare Part D program.
- Our average revenue per pharmacy network claim processed decreased 0.9% in the year ended December 31, 2013 as compared to the prior year. This decrease was primarily due to increases in the generic dispensing rate. During 2012, our average revenue per pharmacy network claim processed increased by 11.0%, compared to 2011. This increase was primarily due to drug cost inflation partially offset by increases in the generic dispensing rate.
- The Pharmacy Services Segment recognizes revenues for its pharmacy network transactions based on individual contract terms. In accordance with ASC 605, *Revenue Recognition*, CVS Caremark Pharmacy Services' contracts are predominantly accounted for using the gross method.



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

Gross profit in our Pharmacy Services Segment includes net revenues less cost of revenues. Cost of revenues includes (i) the cost of pharmaceuticals dispensed, either directly through our mail service and specialty retail pharmacies or indirectly through our pharmacy network, (ii) shipping and handling costs and (iii) the operating costs of our mail service dispensing pharmacies, customer service operations and related information technology support.

Gross profit increased \$429 million, or 11.3% to \$4.2 billion in the year ended December 31, 2013, as compared to the prior year. Gross profit as a percentage of net revenues increased to 5.6% for the year ended December 31, 2013, compared to 5.2% in the prior year. The increase in gross profit dollars and gross profit as a percentage of net revenues in the year ended December 31, 2013 was primarily due to an increase in generic dispensing.

During 2012, gross profit increased \$529 million, or 16.1%, to \$3.8 billion in the year ended December 31, 2012, as compared to the prior year. Gross profit as a percentage of net revenues was 5.2% for the year ended December 31, 2012, compared to 5.6% in the prior year. The increase in gross profit dollars in the year ended December 31, 2012 was primarily due to a significant number of 2012 new client starts, an increase in generic dispensing and drug cost inflation. The decrease in gross profit as a percentage of revenue was driven primarily by client pricing compression, increased payroll and other expenses associated with our mail and specialty operations, and expanding Medicare Part D operations, which has lower margins. The increase in expenses associated with our mail operations was the result of the significant number of 2012 new client starts.

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

- Our gross profit dollars and gross profit as a percentage of net revenues continued to be impacted by our efforts to (i) retain existing clients, (ii) obtain new business and (iii) maintain or improve the rebates and/or discounts we received from manufacturers, wholesalers and retail pharmacies. In particular, competitive pressures in the PBM industry have caused us and other PBMs to continue to share a larger portion of rebates and/or discounts received from pharmaceutical manufacturers with clients. In addition, market dynamics and regulatory changes have impacted our ability to offer plan sponsors pricing that includes retail network "differential" or "spread". We expect these trends to continue. The "differential" or "spread" is any difference between the drug price charged to plan sponsors, including Medicare Part D plan sponsors, by a PBM and the price paid for the drug by the PBM to the dispensing provider. The increased use of generic drugs has positively impacted our gross profit margins but has resulted in third party payors augmenting their efforts to reduce reimbursement payments for prescriptions. This trend, which we expect to continue, reduces the benefit we realize from brand to generic product conversions.
- We review our network contracts on an individual basis to determine if the related revenues should be accounted for using the gross method or net method under the applicable accounting rules. CVS Caremark Pharmacy Services' network contracts are predominantly accounted for using the gross method, which results in higher revenues, higher cost of revenues and lower gross profit rates.
- Our gross profit as a percentage of revenues benefited from the increase in our total generic dispensing rate, which increased to 80.8% and 78.5% in 2013 and 2012, respectively, compared to our generic dispensing rate of 74.1% in 2011. These increases were primarily due to new generic drug introductions and our continued efforts to encourage plan members to use generic drugs when they are available. We expect these trends to continue, albeit at a slower pace.

Operating expenses in our Pharmacy Services Segment, which include selling, general and administrative expenses, depreciation and amortization related to selling, general and administrative activities and retail specialty pharmacy store and administrative payroll, employee benefits and occupancy costs, remained flat at 1.5% of net revenues in 2013 compared to 1.5% in 2012, and decreased from 1.8% in 2011.

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

- Operating expenses increased \$22 million or 1.9%, to \$1.2 billion, in the year ended December 31, 2013, compared to the prior year. The increase in operating expenses is primarily related to costs associated with the remediation of Medicare Part D sanctions and coverage determination issues discussed previously. The increase was partially offset by the Pharmacy Services Segment's \$11 million share of a gain on a legal settlement recorded in the third quarter of 2013.
- During 2012, the increase in operating expenses of \$70 million or 6.6%, to \$1.1 billion compared to 2011, is primarily related to increased costs associated with the expansion of our Medicare Part D business. The decrease in operating expenses as a percentage of net revenues from 1.8% to 1.5% is primarily due to expense leverage from net revenue growth and expense control initiatives.



Retail Pharmacy Segment

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

| In millions | YEAR ENDED DECEMBER 31, | | |
|---|-------------------------|-----------|-----------|
| | 2013 | 2012 | 2011 |
| Net revenues | \$ 65,618 | \$ 63,641 | \$ 59,579 |
| Gross profit | \$ 20,112 | \$ 19,091 | \$ 17,469 |
| Gross profit % of net revenues | 30.6% | 30.0% | 29.3% |
| Operating expenses | \$ 13,844 | \$ 13,455 | \$ 12,556 |
| Operating expenses % of net revenues | 21.1% | 21.1% | 21.1% |
| Operating profit | \$ 6,268 | \$ 5,636 | \$ 4,913 |
| Operating profit % of net revenues | 9.6% | 8.9% | 8.2% |
| Retail prescriptions filled (90 Day = 1 prescription) | 734.3 | 717.4 | 657.7 |
| Retail prescriptions filled (90 Day = 3 prescriptions) ⁽¹⁾ | 890.1 | 845.8 | 763.6 |
| Net revenue increase: | | | |
| Total | 3.1% | 6.8% | 3.9% |
| Pharmacy | 4.1% | 7.6% | 4.3% |
| Front Store | 1.0% | 5.1% | 3.0% |
| Total prescription volume (90 Day = 1 prescription) | 2.4% | 9.1% | 3.4% |
| Total prescription volume (90 Day = 3 prescriptions) ⁽¹⁾ | 5.2% | 11.0% | 5.5% |
| Same store sales increase: | | | |
| Total | 1.7% | 5.6% | 2.3% |
| Pharmacy | 2.6% | 6.6% | 3.0% |
| Front Store | (0.5)% | 3.4% | 0.8% |
| Prescription volume (90 Day = 1 prescription) | 1.5% | 8.1% | 2.3% |
| Prescription volume (90 Day = 3 prescriptions) ⁽¹⁾ | 4.4% | 10.0% | 4.3% |
| Generic dispensing rates | 81.4% | 79.2% | 75.6% |
| Pharmacy % of net revenues | 69.5% | 68.8% | 68.3% |
| Third party % of pharmacy revenue | 97.9% | 97.5% | 97.8% |

(1) Includes the adjustment to convert 90-day prescriptions to the equivalent of three 30-day prescriptions. This adjustment reflects the fact that these prescriptions include approximately three times the amount of product days supplied compared to a normal prescription.

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

Net revenues increased approximately \$2.0 billion, or 3.1%, to \$65.6 billion for the year ended December 31, 2013, as compared to the prior year. This increase was primarily driven by a same store sales increase of 1.7% and net revenues from new and acquired stores, which accounted for approximately 130 basis points of our total net revenue percentage increase during the year. Additionally, we continued to see a positive impact on our net revenues due to the growth of our Maintenance Choice program.

Net revenues in our Retail Pharmacy Segment increased \$4.1 billion, or 6.8% to \$63.6 billion for the year ended December 31, 2012, as compared to the prior year. This increase was primarily driven by a same store sales increase of 5.6% and net revenues from new stores, which accounted for approximately 110 basis points of our total net revenue percentage increase during the year. Additionally, we continued to see a positive impact on our net revenues due to the growth of our Maintenance Choice program.

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

- Front store same store sales declined 0.5% in the year ended December 31, 2013, as compared to the prior year. 2013 had one less day as a result of 2012 being a leap year, which had a negative impact on front store same store sales of approximately 40 basis points. Front store same store sales were negatively impacted by a decrease in customer traffic, partially offset by an increase in basket size.
- Pharmacy same store sales rose 2.6% in the year ended December 31, 2013, as compared to the prior year. Pharmacy same store sales were positively impacted by increased prescription volume, partially offset by the negative impact of the increase in generic dispensing, reimbursement pressure, and the impact of 2013 having one fewer day as a result of 2012 being a leap year.
- Pharmacy revenues continue to be negatively impacted by the conversion of brand name drugs to equivalent generic drugs, which typically have a lower selling price. Pharmacy same store sales were negatively impacted by approximately 540 and 700 basis points for the years ended December 31, 2013 and 2012, respectively, due to recent generic introductions. The decrease in the impact from 2012 to 2013 was primarily due to a smaller impact from new generic drug introductions. In addition, our pharmacy growth has also been adversely affected by the lack of significant new brand name 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.
- As of December 31, 2013, we operated 7,660 retail stores compared to 7,458 retail stores as of December 31, 2012 and 7,327 retail stores as of December 31, 2011. Total net revenues from new stores (excluding acquired stores) contributed approximately 1.0%, 1.1% and 1.3% to our total net revenue percentage increase in 2013, 2012, and 2011, respectively.
- Pharmacy revenue growth continued to benefit from increased utilization by Medicare Part D beneficiaries, the ability to attract and retain managed care customers and favorable industry trends. These trends include an aging American population; many "baby boomers" are now in their fifties and sixties and are consuming a greater number of prescription drugs. In addition, the increased use of pharmaceuticals as the first line of defense for individual health care also contributed to the growing demand for pharmacy services. We believe these favorable industry trends will continue.

Gross profit in our Retail Pharmacy Segment includes net revenues less the cost of merchandise sold during the reporting period and the related purchasing costs, warehousing costs, delivery costs and actual and estimated inventory losses.

Gross profit increased \$1.0 billion, or 5.3%, to \$20.1 billion in the year ended December 31, 2013, as compared to the prior year. Gross profit as a percentage of net revenues increased to 30.6% in year ended December 31, 2013, from 30.0% in 2012. The increase in gross profit dollars in the year ended December 31, 2013, was primarily driven by increases in the generic dispensing rate, same store sales and new store sales. The increase in gross profit as a percentage of net revenues was primarily driven by increased pharmacy margins due to the positive impact of increased generic dispensing rates and increased front store margins, partially offset by continued reimbursement pressure.

Gross profit increased \$1.6 billion, or 9.3%, to \$19.1 billion for the year ended December 31, 2012, as compared to the prior year. Gross profit as a percentage of net revenues increased to 30.0% for the year ended December 31, 2012, compared to 29.3% for the prior year. The increase in gross profit dollars in the year ended December 31, 2012, was primarily driven by same store sales increases. The increase in gross profit as a percentage of revenue was primarily driven by increased pharmacy margins due to the positive impact of increased generic drugs dispensed, partially offset by continued reimbursement pressure and lower front store margins.

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

- Gross profit was positively impacted by approximately \$31 million for the year ended December 31, 2012 as a result of the change in inventory accounting methods described in Note 2 to our consolidated financial statements. The impact of this change on gross profit as a percentage of net revenues for the year ended December 31, 2012 was approximately five basis points.
- On average, our gross profit on front store revenues is generally higher than our gross profit on pharmacy revenues. Front store revenues were 30.5%, 31.2% and 31.7% of total revenues, in 2013, 2012 and 2011, respectively. Pharmacy revenues were 69.5%, 68.8% and 68.3% of total revenues, in 2013, 2012 and 2011, respectively. This shift in sales mix had a negative effect on our overall gross profit for the years ended December 31, 2013, 2012 and 2011, respectively. The negative effect was offset by increasing generic drug dispensing rates.
- Our pharmacy gross profit rates have been adversely affected by the efforts of managed care organizations, pharmacy benefit managers and governmental and other third party payors to reduce their prescription drug costs. In the event this trend continues, we may not be able to sustain our current rate of revenue growth and gross profit dollars could be adversely impacted.
- The increased use of generic drugs has positively impacted our gross profit margins but has resulted in third party payors augmenting their efforts 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 are a large component of our total pharmacy business. On average, our gross profit on third party pharmacy revenues is lower than our gross profit on cash pharmacy revenues. Third party pharmacy revenues were 97.9% of pharmacy revenues in 2013, compared to 97.5% and 97.8% of pharmacy revenues in 2012 and 2011, respectively.
- The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, "ACA") made several significant changes to Medicaid rebates and to reimbursement. One of these changes was the proposed revision of the definition of Average Manufacturer Price ("AMP") and the reimbursement formula for multi-source drugs. Changes in reporting of AMP 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. See "Government Regulation" within Part I, Item 1, Business, for additional information.

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

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

Operating expenses increased \$389 million, or 2.9% to \$13.8 billion, or 21.1% as a percentage of net revenues, in the year ended December 31, 2013, as compared to \$13.5 billion, or 21.1% as a percentage of net revenues, in the prior year. Operating expenses increased \$899 million, or 7.2%, to \$13.5 billion, or 21.1% as a percentage of net revenues, in the year ended December 31, 2012, as compared to \$12.6 billion, or 21.1% as a percentage of net revenues, in the prior year. Operating expenses as a percentage of net revenues remained consistent from 2011 through 2013 primarily due to disciplined cost control, despite the negative impact of generics on net revenues. The increase in operating expense dollars in 2013 and 2012 was the result of higher store operating costs associated with our increased store count. The increase was partially offset by the Retail Pharmacy Segment's \$61 million share of a gain on a legal settlement recorded in the third quarter of 2013.

Corporate Segment

Operating expenses increased \$57 million, or 8.3%, to \$751 million in the year ended December 31, 2013, as compared to the prior year. Operating expenses increased \$78 million, or 12.5%, to \$694 million in the year ended December 31, 2012. Operating expenses within the Corporate Segment include executive management, corporate relations, legal, compliance, human resources, corporate information technology and finance related costs. The increase in operating expenses in 2013 was primarily due to higher benefit costs and strategic initiatives. The increase in operating expenses in 2012 was primarily due to higher benefit costs and information technology expenses.

Liquidity and Capital Resources

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

Net cash provided by operating activities was \$5.8 billion for the year ended December 31, 2013, compared to \$6.7 billion in 2012, and \$5.9 billion in 2011. The decrease in 2013 was primarily due to increased accounts receivable due to the timing of payments from CMS in connection with our Medicare Part D operations, partially offset by improved inventory management. The increase in 2012 was primarily due to the significant increase in net income, improved receivables management, improved payables management, and the timing of payments.

Net cash used in investing activities was \$1.8 billion in 2013 and 2012. This compares to approximately \$2.4 billion in 2011. The decrease in 2012 was primarily due to the \$1.3 billion acquisition of the Medicare prescription drug business of Universal American Corp. (the "UAM Medicare Part D Business") which occurred in April 2011.

In 2013, gross capital expenditures totaled approximately \$2.0 billion, a decrease of \$46 million compared to the prior year. During 2013, approximately 45% of our total capital expenditures were for new store construction, 25% were for store, fulfillment and support facilities expansion and improvements and 30% were for technology and other corporate initiatives. Gross capital expenditures totaled approximately \$2.0 billion during 2012, compared to approximately \$1.9 billion in 2011. The increase in gross capital expenditures during 2012 was primarily due to the increased spending on store expansion and improvements. During 2012, approximately 45% of our total capital expenditures were for new store construction, 40% were for store expansion and improvements and 15% were for technology and other corporate initiatives.

Proceeds from sale-leaseback transactions totaled \$600 million in 2013. This compares to \$529 million in 2012 and \$592 million in 2011. Under the sale-leaseback transactions, the properties are generally sold at net book value, which generally approximates fair value, and the resulting leases generally qualify and are accounted for as operating leases. The specific timing and amount of future sale-leaseback transactions will vary depending on future market conditions and other factors.

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

| | 2013 ⁽²⁾ | 2012 ⁽²⁾ | 2011 ⁽²⁾ |
|--|---------------------|---------------------|---------------------|
| Total stores (beginning of year) | 7,508 | 7,388 | 7,248 |
| New and acquired stores ⁽¹⁾ | 213 | 150 | 162 |
| Closed stores ⁽¹⁾ | (19) | (30) | (22) |
| Total stores (end of year) | 7,702 | 7,508 | 7,388 |
| Relocated stores | 78 | 90 | 86 |

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

(2) Excludes specialty mail order facilities.

Net cash used in financing activities was approximately \$1.2 billion in 2013, compared to net cash used in financing activities of \$4.9 billion in 2012 and \$3.5 billion in 2011. Net cash used in financing activities decreased \$3.7 billion in 2013 primarily due to greater net borrowings than in the prior year. Net cash used in financing activities increased \$1.4 billion in 2012 primarily due to \$1.3 billion more repurchases of common stock than in the prior year.

Share repurchase programs – On December 17, 2013, the Company's Board of Directors authorized a new share repurchase program for up to \$6.0 billion of outstanding common stock (the "2013 Repurchase Program"). On September 19, 2012, the Company's Board of Directors authorized a share repurchase program for up to \$6.0 billion of outstanding common stock (the "2012 Repurchase Program"). Each of these share repurchase authorizations, which were effective immediately, permit the Company to effect repurchases from time to time through a combination of open market repurchases, privately negotiated transactions, accelerated share repurchase transactions, and/or other derivative transactions. The 2013 and 2012 Repurchase Programs may be modified or terminated by the Board of Directors at any time.

On August 23, 2011, our Board of Directors authorized a share repurchase program for up to \$4.0 billion of outstanding common stock (the "2011 Repurchase Program"). This share repurchase authorization, which was effective immediately, permitted us to effect repurchases from time to time through a combination of open market repurchases, privately negotiated transactions, accelerated share repurchase transactions, and/or other derivative transactions. The 2011 Repurchase Program has been completed, as described below.

Pursuant to the authorization under the 2012 Repurchase Program, effective October 1, 2013, we entered into a \$1.7 billion fixed dollar accelerated share repurchase ("ASR") agreement with Barclays Bank PLC ("Barclays"). Upon payment of the \$1.7 billion purchase price on October 1, 2013, we received a number of shares of our common stock equal to 50% of the \$1.7 billion notional amount of the ASR agreement or approximately 14.9 million shares at a price of \$56.88 per share. The Company received approximately 11.7 million shares of common stock on December 30, 2013 at an average price of \$63.83 per share, representing the remaining 50% of the \$1.7 billion notional amount of the ASR agreement and thereby concluding the agreement. The total of 26.6 million shares of common stock delivered to the Company by Barclays over the term of the October 2013 ASR agreement were placed into treasury stock.

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

Pursuant to the authorizations under the 2011 and 2012 Repurchase Programs, on September 19, 2012, we entered into a \$1.2 billion fixed dollar ASR agreement with Barclays. Upon payment of the \$1.2 billion purchase price on September 20, 2012, we received a number of shares of our common stock equal to 50% of the \$1.2 billion notional amount of the ASR agreement or approximately 12.6 million shares at a price of \$47.71 per share. We received approximately 13.0 million shares of common stock on November 16, 2012 at an average price of \$46.96 per share, representing the remaining 50% of the \$1.2 billion notional amount of the ASR agreement and thereby concluding the agreement, and completing the 2011 Repurchase Program. The total of 25.6 million shares of common stock delivered to us by Barclays over the term of the September 2012 ASR agreement were placed into treasury stock.

Pursuant to the authorization under the 2011 Repurchase Program, on August 24, 2011, we entered into a \$1.0 billion fixed dollar ASR agreement with Barclays. The ASR agreement contained provisions that establish the minimum and maximum number of shares to be repurchased during its term. Pursuant to this ASR agreement, on August 25, 2011, we paid \$1.0 billion to Barclays in exchange for Barclays delivering 20.3 million shares of common stock to us. On September 16, 2011, upon establishment of the minimum number of shares to be repurchased, Barclays delivered an additional 5.4 million shares of common stock to us. At the conclusion of the transaction, Barclays delivered a final installment of 1.6 million shares of common stock on December 29, 2011. The aggregate 27.3 million shares of common stock delivered to us by Barclays under the August 2011 ASR agreement, were placed into treasury stock. This represented all the repurchases that occurred during the year ended December 31, 2011 under the 2011 Repurchase Program.

During the years ended December 31, 2013 and 2012, we repurchased an aggregate of 66.2 million and 95.0 million shares of common stock for approximately \$4.0 and \$4.3 billion, respectively, under the 2012 and 2011 Repurchase Programs. As of December 31, 2013, there remained an aggregate of approximately \$6.7 billion available for future repurchases under the 2013 and 2012 Repurchase Programs.

On June 14, 2010, our Board of Directors authorized a share repurchase program for up to \$2.0 billion of our outstanding common stock (the "2010 Repurchase Program"). During the year ended December 31, 2011, we repurchased an aggregate of 56.4 million shares of common stock for approximately \$2.0 billion, completing the 2010 Repurchase Program.

Short-term borrowings – There was no commercial paper outstanding as of December 31, 2013. In connection with our commercial paper program, we maintain a \$1.25 billion, four-year unsecured back-up credit facility, which expires on May 23, 2016, a \$1.25 billion, five-year unsecured back-up credit facility, which expires on February 17, 2017, and a \$1.0 billion, five-year unsecured back-up credit facility, which expires on May 23, 2018. The credit facilities allow for borrowings at various rates that are dependent, in part, on the Company's public debt ratings and require the Company to pay a weighted average quarterly facility fee of approximately 0.03%, regardless of usage. As of December 31, 2013, there were no borrowings outstanding under the back-up credit facilities.

Long-term borrowings – On December 2, 2013, the Company issued \$750 million of 1.2% unsecured senior notes due December 5, 2016; \$1.25 billion of 2.25% unsecured senior notes due December 5, 2018; \$1.25 billion of 4% unsecured senior notes due December 5, 2023; and \$750 million of 5.3% unsecured senior notes due December 5, 2043 (the "2013 Notes") for total proceeds of approximately \$4.0 billion, net of discounts and underwriting fees. The 2013 Notes pay interest semi-annually and may be redeemed, in whole at any time, or in part from time to time, at the Company's option at a defined redemption price plus accrued and unpaid interest to the redemption date. The net proceeds of the 2013 Notes were used to repay commercial paper outstanding at the time of issuance and to fund the acquisition of Coram LLC in January 2014. The remainder will be used for general corporate purposes.

On November 26, 2012, we issued \$1.25 billion of 2.75% unsecured senior notes due December 1, 2022 (the "2012 Notes") for total proceeds of approximately \$1.24 billion, net of discounts and underwriting fees. The 2012 Notes pay interest semi-annually and may be redeemed, in whole at any time, or in part from time to time, at our option at a defined redemption price plus accrued and unpaid interest to the redemption date. The net proceeds of the 2012 Notes were used for general corporate purposes and to repay certain corporate debt.

Also on November 26, 2012, we announced tender offers for any and all of the 6.6% Senior Notes due 2019, and up to a maximum amount of the 6.125% Senior Notes due 2016 and 5.75% Senior Notes due 2017, for up to an aggregate principal amount of \$1.0 billion. In December 2012, we increased the aggregate principal amount of the tender offers to \$1.325 billion and completed the repurchase for the maximum amount. We paid a premium of \$332 million in excess of the debt principal in connection with the tender offers, wrote off \$13 million of unamortized deferred financing costs and incurred \$3 million in fees, for a total loss on the early extinguishment of debt of \$348 million. The loss was recorded in income from continuing operations on the consolidated statement of income.

In connection with our acquisition of the UAM Medicare Part D Business in April 2011, we assumed \$110 million of long-term debt in the form of Trust Preferred Securities that mature through 2037. During the years ended December 31, 2012 and 2011, we repaid \$50 million and \$60 million, respectively, of the Trust Preferred Securities at par.

On May 12, 2011, we issued \$550 million of 4.125% unsecured senior notes due May 15, 2021 and issued \$950 million of 5.75% unsecured senior notes due May 15, 2041 (collectively, the "2011 Notes") for total proceeds of approximately \$1.5 billion, net of discounts and underwriting fees. The 2011 Notes pay interest semi-annually and may be redeemed, in whole at any time, or in part from time to time, at our option at a defined redemption price plus accrued and unpaid interest to the redemption date. The net proceeds of the 2011 Notes were used to repay commercial paper borrowings and certain other corporate debt, and were used for general corporate purposes.

In December 2011 and July 2012, we repurchased \$958 million and \$1 million of the principal amount of our Enhanced Capital Advantaged Preferred Securities ("ECAPS") at par. The fees and write-off of deferred issuance costs associated with the early extinguishment of the ECAPS were *de minimis*. The remaining \$41 million of outstanding ECAPS are due in 2062 and had a fixed rate of interest of 6.302% per year until June 1, 2012, at which time we began paying interest based on a floating rate (2.3% and 2.59% at December 31, 2013 and 2012, respectively). The ECAPS pay interest semi-annually and may be redeemed at any time, in whole or in part, at a defined redemption price plus accrued interest.

Our backup credit facilities, unsecured senior notes and ECAPS (see Note 6 to the Consolidated Financial Statements) contain customary restrictive financial and operating covenants.

These covenants do not include a requirement for the acceleration of our debt maturities in the event of a downgrade in our credit rating. We do not believe the restrictions contained in these covenants materially affect our financial or operating flexibility.

As of December 31, 2013 and 2012, we had no outstanding derivative financial instruments.

Debt Ratings – As of December 31, 2013, our long-term debt was rated "Baa1" by Moody's with a stable outlook and "BBB+" by Standard & Poor's with a stable outlook, and our commercial paper program was rated "P-2" by Moody's and "A-2" by Standard & Poor's. In assessing our credit strength, we believe that both Moody's and Standard & Poor's considered, among other things, our capital structure and financial policies as well as our consolidated balance sheet, our historical acquisition activity and other financial information. Although we currently believe our long-term debt ratings will remain investment grade, we cannot guarantee the future actions of Moody's and/or Standard & Poor's. Our debt ratings have a direct impact on our future borrowing costs, access to capital markets and new store operating lease costs.

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

Quarterly Dividend Increase – In December 2013, our Board of Directors authorized a 22% increase in our quarterly common stock dividend to \$0.275 per share. This increase equates to an annual dividend rate of \$1.10 per share. In December 2012, our Board of Directors authorized a 38% increase in our quarterly common stock dividend to \$0.225 per share. This increase equated to an annual dividend rate of \$0.90 per share. In December 2011, our Board of Directors authorized a 30% increase in our quarterly common stock dividend to \$0.1625 per share. This increase equated to an annual dividend rate of \$0.65 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 generally qualify and are accounted for as operating leases. We do not have any retained or contingent interests in the stores, and we do not provide any guarantees, other than a guarantee of the lease payments, in connection with the transactions. In accordance with generally accepted accounting principles, our operating leases are not reflected on our consolidated balance sheets.

Between 1991 and 1997, we 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 agreed to indemnify 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, 2013, we guaranteed approximately 73 such store leases (excluding the lease guarantees related to Linens 'n Things), with the maximum remaining lease term extending through 2026. 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 mentioned in this document for further information regarding our guarantee of certain Linens 'n Things' store lease obligations.

Below is a summary of our significant contractual obligations as of December 31, 2013:

| <i>In millions</i> | Total | Payments Due by Period | | | |
|---|-----------|------------------------|-----------------|-----------------|------------|
| | | 2014 | 2015 to 2016 | 2017 to 2018 | Thereafter |
| Operating leases | \$ 27,090 | \$ 2,175 | \$ 4,184 | \$ 3,817 | \$ 16,914 |
| Lease obligations from discontinued operations | 71 | 18 | 32 | 14 | 7 |
| Capital lease obligations | 789 | 46 | 93 | 94 | 556 |
| Long-term debt | 13,012 | 551 | 1,749 | 2,574 | 8,138 |
| Interest payments on long-term debt ⁽¹⁾ | 7,821 | 596 | 1,111 | 915 | 5,199 |
| Other long-term liabilities reflected in our consolidated balance sheet | 514 | 54 | 158 | 81 | 221 |
| | \$ 49,297 | \$ 3,440 | \$ 7,327 | \$ 7,495 | \$ 31,035 |

(1) Interest payments on long-term debt are calculated on outstanding balances and interest rates in effect on December 31, 2013.

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. We have discussed the development and selection of our critical accounting policies with the Audit Committee of our Board of Directors and the Audit Committee has reviewed our disclosures relating to them.

Revenue Recognition

Pharmacy Services Segment

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

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

- Revenues generated from prescription drugs sold by mail service dispensing pharmacies are recognized when the prescription is delivered. At the time of delivery, the Pharmacy Services Segment has performed substantially all of its obligations under its client contracts and does not experience a significant level of returns or reshippers.
- Revenues generated from prescription drugs sold by third party pharmacies in the Pharmacy Services Segment's retail pharmacy network and associated administrative fees are recognized at the Pharmacy Services Segment's point-of-sale, which is when the claim is adjudicated by the Pharmacy Services Segment's online claims processing system.

We determine whether we are the principal or agent for our retail pharmacy network transactions on a contract by contract basis. In the majority of our contracts, we have determined we are the principal due to us: (i) being the primary obligor in the arrangement, (ii) having latitude in establishing the price, changing the product or performing part of the service, (iii) having discretion in supplier selection, (iv) having involvement in the determination of product or service specifications, and (v) having credit risk. Our obligations under our client contracts for which revenues are reported using the gross method are separate and distinct from our obligations to the third party pharmacies included in our retail pharmacy network contracts. Pursuant to these contracts, we are contractually required to pay the third

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

party pharmacies in our retail pharmacy network for products sold, regardless of whether we are paid by our clients. Our responsibilities under these client contracts typically include validating eligibility and coverage levels, communicating the prescription price and the co-payments due to the third party retail pharmacy, identifying possible adverse drug interactions for the pharmacist to address with the physician prior to dispensing, suggesting clinically appropriate generic alternatives where appropriate and approving the prescription for dispensing. Although we do not have credit risk with respect to Retail Co-Payments, we believe that all of the other indicators of gross revenue reporting are present. For contracts under which we act as an agent, we record revenues using the net method.

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

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

In addition to these premiums, our net revenues include co-payments, coverage gap benefits, deductibles and co-insurance (collectively, the "Member Co-Payments") related to PDP members' actual prescription claims. In certain cases, CMS subsidizes a portion of these Member Co-Payments and we are paid an estimated prospective Member Co-Payment subsidy, each month. The prospective Member Co-Payment subsidy amounts received from CMS are also included in our net revenues. We assume no risk for these amounts, which represented 7.0%, 7.7% and 3.1% of consolidated net revenues in 2013, 2012 and 2011, respectively. If the prospective Member Co-Payment subsidies received differ from the amounts based on actual prescription claims, the difference is recorded in either accounts receivable or accrued expenses. We account for fully insured CMS obligations and Member Co-Payments (including the amounts subsidized by CMS) using the gross method consistent with our revenue recognition policies for Mail Co-Payments and Retail Co-Payments. We have recorded estimates of various assets and liabilities arising from our participation in the Medicare Part D program based on information in our claims management and enrollment systems. Significant estimates arising from our participation in the Medicare Part D program include: (i) estimates of low-income cost subsidy and reinsurance amounts ultimately payable to or receivable from CMS based on a detailed claims reconciliation, (ii) an estimate of amounts payable to CMS under a risk-sharing feature of the Medicare Part D program design, referred to as the risk corridor and (iii) estimates for claims that have been reported and are in the process of being paid or contested and for our estimate of claims that have been incurred but have not yet been reported. Actual amounts of Medicare Part D-related assets and liabilities could differ significantly from amounts recorded. Historically, the effect of these adjustments has not been material to our results of operations or financial position.

Retail Pharmacy Segment

Our Retail Pharmacy Segment recognizes revenue from the sale of merchandise (other than prescription drugs) at the time the merchandise is purchased by the retail customer. Prior to the fourth quarter of 2013, revenue from the sale of prescription drugs was recognized at the time the prescription was filled as opposed to upon delivery as required under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification 605, *Revenue Recognition*. For substantially all prescriptions, the fill date and the delivery date occur in the same reporting period. The effect on both revenue and income of recording prescription drug sales upon fill as opposed to delivery is immaterial. During the fourth quarter of 2013, the Company began recognizing revenue from the sale of prescription drugs when the prescription is picked up by the customer. See Note 1 to our consolidated financial statements for the impact of this change.

Customer returns are not material. Revenue generated from the performance of services in our health care clinics is recognized at the time the services are performed. Sales taxes are not included in revenue.

Vendor Allowances and Purchase Discounts

Pharmacy Services Segment

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

Retail Pharmacy Segment

Vendor allowances received by the Retail Pharmacy Segment reduce the carrying cost of inventory and are recognized in cost of revenues when the related inventory is sold, unless they are specifically identified as a reimbursement of incremental costs for promotional programs and/or other services provided. Amounts that are directly linked to advertising commitments are recognized as a reduction of advertising expense (included in operating expenses) when the related advertising commitment is satisfied. Any such allowances received in excess of the actual cost incurred also reduce the carrying cost of inventory. The total value of any upfront payments received from vendors that are linked to purchase commitments is initially deferred. The deferred amounts are then amortized to reduce cost of revenues over the life of the contract based upon purchase volume. The total value of any upfront payments received from vendors that are not linked to purchase commitments is also initially deferred. The deferred amounts are then amortized to reduce cost of revenues on a straight-line basis over the life of the related contract.

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

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

Inventory

Effective January 1, 2012, the Company changed its methods of accounting for prescription drug inventories in the Retail Pharmacy Segment. Prior to 2012, the Company valued prescription drug inventories at the lower of cost or market on a first-in, first-out ("FIFO") basis in retail pharmacies using the retail inventory method and in distribution centers using the FIFO cost method. Effective January 1, 2012, all prescription drug inventories in the Retail Pharmacy Segment have been valued at the lower of cost or market using the weighted average cost method. These changes affected approximately 51% of consolidated inventories as of January 1, 2012.

These changes were made primarily to bring all of the pharmacy operations of the Company to a common inventory valuation methodology and to provide the Company with better information to manage its retail pharmacy operations. The Company believes the weighted average cost method is preferable to the retail inventory method and the FIFO cost method because it results in greater precision in the determination of cost of revenues and inventories by specific drug product and results in a consistent inventory valuation method for all of the Company's prescription drug inventories as the Pharmacy Services Segment's mail service and specialty pharmacies were already on the weighted average cost method. Most of these mail service and specialty pharmacies in the Pharmacy Services Segment were acquired in the Company's 2007 acquisition of Caremark Rx, Inc.

The Company recorded the cumulative effect of these changes in accounting principle as of January 1, 2012. The Company determined that retrospective application for periods prior to 2012 is impracticable, as the period-specific information necessary to value prescription drug inventories in the Retail Pharmacy Segment under the weighted average cost method is unavailable. The Company implemented a new pharmacy cost accounting system to value prescription drug inventory as of January 1, 2012 and calculated the cumulative impact. The effect of these changes in accounting principle as of January 1, 2012 was a decrease in inventories of \$146 million, an increase in current deferred income tax assets of \$57 million and a decrease in retained earnings of \$89 million.

The weighted average cost method continues to be used to determine cost of sales and inventory in our mail service and specialty pharmacies in our Pharmacy Services Segment. Front store inventory in our Retail Pharmacy Segment is stated at the lower of cost or market on a FIFO basis using the retail method of accounting to determine cost of sales and inventory, and the cost method of accounting on a FIFO basis to determine front store inventory in our distribution centers. Under the retail method, inventory is stated at cost, which is determined by applying a cost-to-retail ratio to the ending retail value of our inventory. Since the retail value of our inventory is adjusted on a regular basis to reflect current market conditions, our carrying value should approximate the lower of cost or market. In addition, we reduce the value of our ending inventory for estimated inventory losses that have occurred during the interim period between physical inventory counts. Physical inventory counts are taken on a regular basis in each store and a continuous cycle count process is the primary procedure used to validate the inventory balances on hand in each distribution center and mail facility to ensure that the amounts reflected in the accompanying consolidated financial statements are properly stated. The accounting for inventory contains uncertainty since we must use judgment to estimate the inventory losses that have occurred during the interim period between physical inventory counts. When estimating these losses, we consider a number of factors, which include, but are not limited to, historical physical inventory results on a location-by-location basis and current physical inventory loss trends.

Our total reserve for estimated inventory losses covered by this critical accounting policy was \$240 million as of December 31, 2013. 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 \$24 million as of December 31, 2013.

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

Goodwill and Intangible Assets

Identifiable intangible assets consist primarily of trademarks, client contracts and relationships, favorable leases and covenants not to compete. These intangible assets arise primarily from the determination of their respective fair market values at the date of acquisition.

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

We evaluate the recoverability of certain long-lived assets, including intangible assets with finite lives, but excluding goodwill and intangible assets with indefinite lives which are tested for impairment using separate tests, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. We group and evaluate these long-lived assets for impairment at the lowest level at which individual cash flows can be identified. When evaluating these long-lived assets for potential impairment, we first compare the carrying amount of the asset group to the asset group's estimated future cash flows (undiscounted and without interest charges). If the estimated future cash flows are less than the carrying amount of the asset group, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the asset group to the asset group's estimated future cash flows (discounted and with interest charges). If required, an impairment loss is recorded for the portion of the asset group's carrying value that exceeds the asset group's estimated future cash flows (discounted and with interest charges). Our long-lived asset impairment loss calculation contains uncertainty since we must use judgment to estimate each asset group's future sales, profitability and cash flows. When preparing these estimates, we consider historical results and current operating trends and our consolidated sales, profitability and cash flow results and forecasts.

These estimates can be affected by a number of factors including, but not limited to, general economic and regulatory conditions, efforts of third party organizations to reduce their prescription drug costs and/or increased member co-payments, the continued efforts of competitors to gain market share and consumer spending patterns.

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

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

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

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

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

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

The carrying value of goodwill and other intangible assets covered by this critical accounting policy was \$26.5 billion and \$9.5 billion as of December 31, 2013, respectively. We did not record any impairment losses related to goodwill or other intangible assets during 2013, 2012 or 2011. During the third quarter of 2013, we performed our required annual impairment tests of goodwill and indefinitely-lived trademarks. The results of the impairment tests concluded that there was no impairment of goodwill or trademarks. The goodwill impairment test resulted in the fair value of our Pharmacy Services and Retail Pharmacy reporting units exceeding their carrying values by a significant margin. The carrying value of goodwill as of December 31, 2013, in our Pharmacy Services and Retail Pharmacy reporting units was \$19.6 billion and \$6.9 billion, respectively.

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

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

Closed Store Lease Liability

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

The initial calculation and subsequent evaluations of our closed store lease liability contain uncertainty since we must use judgment to estimate the timing and duration of future vacancy periods, the amount and timing of future lump sum settlement payments and the amount and timing of potential future sublease income. When estimating these potential termination costs and their related timing, we consider a number of factors, which include, but are not limited to, historical settlement experience, the owner of the property, the location and condition of the property, the terms of the underlying lease, the specific marketplace demand and general economic conditions.

Our total closed store lease liability covered by this critical accounting policy was \$310 million as of December 31, 2013. This amount is net of \$178 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 \$18 million as of December 31, 2013.

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 our self-insurance liability to determine if it 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 \$612 million as of December 31, 2013. 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 \$61 million as of December 31, 2013.

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

New Accounting Pronouncements

In July 2012, the FASB issued Accounting Standards Update ("ASU") 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment* ("ASU 2012-02"). ASU 2012-02 allows entities to use a qualitative approach to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount and recognize an impairment loss, if any, to the extent the carrying value exceeds its fair value. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of ASU 2012-02 did not have a material effect on the Company's consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* ("ASU 2013-02"). ASU 2013-02 adds new disclosure requirements for items reclassified out of accumulated other comprehensive income. The additional disclosures include: (1) changes in accumulated other comprehensive income balances by component and (2) significant items reclassified out of accumulated other comprehensive income. The changes in accumulated other comprehensive income balance by component will be disaggregated to separately present reclassification adjustments and current-period other comprehensive income. Significant items reclassified out of accumulated other comprehensive income by component are required to be presented either on the face of the statement of income or as separate disclosure in the notes to the financial statements. These additional disclosures may be presented before-tax or net-of-tax as long as the income tax benefit or expense attributed to each component of other comprehensive income and reclassification adjustments is presented in the financial statement or in the notes to the financial statements. ASU 2013-02 is effective for interim and annual periods beginning after December 15, 2012 and should be applied prospectively. The adoption of ASU 2013-02 did not have a material effect on the Company's consolidated financial statements. The expanded disclosures are included in Note 1 to the Consolidated Financial Statements.

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

Recently Proposed Accounting Standard Update

In May 2013, the FASB issued a revised proposed accounting standard update on lease accounting that will require entities to recognize assets and liabilities arising from lease contracts on the balance sheet. The proposed accounting standard update states that lessees and lessors should apply a "right-of-use model" in accounting for all leases. Under the proposed model, lessees would recognize an asset for the right to use the leased asset, and a liability for the obligation to make rental payments over the lease term. The lease term is defined as the noncancelable term that takes into account renewal options and termination options if there is a significant economic incentive for an entity to exercise or not exercise the option. The accounting by a lessor would reflect its retained exposure to the risks or benefits of the underlying leased asset. A lessor would recognize an asset representing its right to receive lease payments based on the expected term of the lease. The Company cannot presently determine the potential impact the proposed standard would have on its results of operations. While the Company believes that the proposed standard, as currently drafted, will likely have a material impact on its financial position, it will not have a material impact on its liquidity; however, until the proposed standard is finalized, such evaluation cannot be completed.

Cautionary Statement Concerning Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 (the "Reform Act") provides a safe harbor for forward-looking statements made by or on behalf of CVS Caremark Corporation. The Company and its representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in the Company's filings with the SEC 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 corporate strategy; revenue growth; earnings or earnings per common share growth; adjusted earnings or adjusted earnings per common share growth; free cash flow; debt ratings; inventory levels; inventory turn and loss rates; store development; relocations and new market entries; retail pharmacy business, sales trends and operations; PBM business, sales trends and operations; the Company's ability to attract or retain customers and clients; Medicare Part D competitive bidding, enrollment and operations; new product development; and the impact of industry developments, 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:

- *Risks relating to the health of the economy in general and in the markets we serve, which could impact consumer purchasing power, preferences and/or spending patterns, drug utilization trends, the financial health of our PBM clients or other payors doing business with the Company and our ability to secure necessary financing, suitable store locations and sale-leaseback transactions on acceptable terms.*
- *Efforts to reduce reimbursement levels and alter health care financing practices, including pressure to reduce reimbursement levels for generic drugs.*

- *The possibility of PBM client loss and/or the failure to win new PBM business, including as a result of failure to win renewal of expiring contracts, contract termination rights that may permit clients to terminate a contract prior to expiration and early or periodic renegotiation of pricing by clients prior to expiration of a contract.*
- *The possibility of loss of Medicare Part D business and/or failure to obtain new Medicare Part D business, whether as a result of the annual Medicare Part D competitive bidding process or otherwise.*
- *Risks related to the frequency and rate of the introduction of generic drugs and brand name prescription products.*
- *Risks of declining gross margins in the PBM industry attributable to increased competitive pressures, increased client demand for lower prices, enhanced service offerings and/or higher service levels and market dynamics and regulatory changes that impact our ability to offer plan sponsors pricing that includes the use of retail “differential” or “spread.”*
- *Regulatory changes, business changes and compliance requirements and restrictions that may be imposed by Centers for Medicare and Medicaid Services (“CMS”), Office of Inspector General or other government agencies relating to CVS Caremark’s participation in Medicare, Medicaid and other federal and state government-funded programs, including sanctions and remedial actions that may be imposed by CMS on its Medicare Part D business.*
- *Risks and uncertainties related to the timing and scope of reimbursement from Medicare, Medicaid and other government-funded programs, including the impact of sequestration, the impact of other federal budget, debt and deficit negotiations and legislation that could delay or reduce reimbursement from such programs and the impact of any closure, suspension or other changes affecting federal or state government funding or operations.*
- *Possible changes in industry pricing benchmarks used to establish pricing in many of our PBM client contracts, pharmaceutical purchasing arrangements, retail network contracts, specialty payor agreements and other third party payor contracts.*
- *An extremely competitive business environment, including the uncertain impact of increased consolidation in the PBM industry, uncertainty concerning the ability of our retail pharmacy business to secure and maintain contractual relationships with PBMs and other payors on acceptable terms, uncertainty concerning the ability of our PBM business to secure and maintain competitive access, pricing and other contract terms from retail network pharmacies in an environment where some PBM clients are willing to consider adopting narrow or more restricted retail pharmacy networks.*
- *The Company’s ability to fully integrate and to realize the planned benefits associated with the acquisition of Coram LLC in accordance with the expected timing.*
- *Risks relating to our ability to secure timely and sufficient access to the products we sell from our domestic and/or international suppliers.*
- *Reform of the U.S. health care system, including ongoing implementation of the Patient Protection and Affordable Care Act, continuing legislative efforts, regulatory changes and judicial interpretations impacting our health care system and the possibility of shifting political and legislative priorities related to reform of the health care system in the future.*
- *Risks relating to our failure to properly maintain our information technology systems, our information security systems and our infrastructure to support our business and to protect the privacy and security of sensitive customer and business information.*

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

- *Risks related to compliance with a broad and complex regulatory framework, including compliance with new and existing federal, state and local laws and regulations relating to health care, accounting standards, corporate securities, tax, environmental and other laws and regulations affecting our business.*
- *Risks related to litigation, government investigations and other legal proceedings as they relate to our business, the pharmacy services, retail pharmacy or retail clinic industries or to the health care industry generally.*
- *Other risks and uncertainties detailed from time to time in our filings with the SEC.*

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 a material adverse effect on the Company's business, financial condition and results of operations. For these reasons, you are cautioned not to place undue reliance on the Company's forward-looking statements.

Management's Report on Internal Control Over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting. Our Company's internal control over financial reporting includes those policies and procedures that pertain to the Company's ability to record, process, summarize and report a system of internal accounting controls and procedures to provide reasonable assurance, at an appropriate cost/benefit relationship, that the unauthorized acquisition, use or disposition of assets are prevented or timely detected and that transactions are authorized, recorded and reported properly to permit the preparation of financial statements in accordance with generally accepted accounting principles (GAAP) and receipt and expenditures are duly authorized. In order to ensure the Company's internal control over financial reporting is effective, management regularly assesses such controls and did so most recently for its financial reporting as of December 31, 2013.

We conducted an assessment of the effectiveness of our internal controls over financial reporting based on the criteria set forth in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework). This evaluation included review of the documentation, evaluation of the design effectiveness and testing of the operating effectiveness of controls. Our system of internal control over financial reporting is enhanced by periodic reviews by our internal auditors, written policies and procedures and a written Code of Conduct adopted by our Company's Board of Directors, applicable to all employees of our Company. In addition, we have an internal Disclosure Committee, comprised of management from each functional area within the Company, which performs a separate review of our disclosure controls and procedures. There are inherent limitations in the effectiveness of any system of internal controls over financial reporting.

Based on our assessment, we conclude our Company's internal control over financial reporting is effective and provides reasonable assurance that assets are safeguarded and that the financial records are reliable for preparing financial statements as of December 31, 2013.

Ernst & Young LLP, independent registered public accounting firm, is appointed by the Board of Directors and ratified by our Company's shareholders. They were engaged to render an opinion regarding the fair presentation of our consolidated financial statements as well as conducting an audit of internal control over financial reporting. Their accompanying reports are based upon an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States).

February 10, 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of CVS Caremark Corporation

We have audited CVS Caremark Corporation's internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). CVS Caremark Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on CVS Caremark Corporation's internal control over financial reporting based on our audit.

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

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

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

In our opinion, CVS Caremark Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of CVS Caremark Corporation as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2013 of CVS Caremark Corporation and our report dated February 10, 2014 expressed an unqualified opinion thereon.

Ernst + Young LLP

Boston, Massachusetts
February 10, 2014

Consolidated Statements of Income

YEAR ENDED DECEMBER 31,

| <i>In millions, except per share amounts</i> | 2013 | 2012 | 2011 |
|--|-----------------|------------|------------|
| Net revenues | \$ 126,761 | \$ 123,120 | \$ 107,080 |
| Cost of revenues | 102,978 | 100,632 | 86,518 |
| Gross profit | 23,783 | 22,488 | 20,562 |
| Operating expenses | 15,746 | 15,278 | 14,231 |
| Operating profit | 8,037 | 7,210 | 6,331 |
| Interest expense, net | 509 | 557 | 584 |
| Loss on early extinguishment of debt | — | 348 | — |
| Income before income tax provision | 7,528 | 6,305 | 5,747 |
| Income tax provision | 2,928 | 2,436 | 2,258 |
| Income from continuing operations | 4,600 | 3,869 | 3,489 |
| Loss from discontinued operations, net of tax | (8) | (7) | (31) |
| Net income | 4,592 | 3,862 | 3,458 |
| Net loss attributable to noncontrolling interest | — | 2 | 4 |
| Net income attributable to CVS Caremark | \$ 4,592 | \$ 3,864 | \$ 3,462 |
| Basic earnings per common share: | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 3.78 | \$ 3.05 | \$ 2.61 |
| Loss from discontinued operations attributable to CVS Caremark | \$ (0.01) | \$ (0.01) | \$ (0.02) |
| Net income attributable to CVS Caremark | \$ 3.77 | \$ 3.04 | \$ 2.59 |
| Weighted average common shares outstanding | 1,217 | 1,271 | 1,338 |
| Diluted earnings per common share: | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 3.75 | \$ 3.02 | \$ 2.59 |
| Loss from discontinued operations attributable to CVS Caremark | \$ (0.01) | \$ (0.01) | \$ (0.02) |
| Net income attributable to CVS Caremark | \$ 3.74 | \$ 3.02 | \$ 2.57 |
| Weighted average common shares outstanding | 1,226 | 1,280 | 1,347 |
| Dividends declared per common share | \$ 0.90 | \$ 0.65 | \$ 0.50 |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

| <i>In millions</i> | YEAR ENDED DECEMBER 31, | | |
|--|-------------------------|----------|----------|
| | 2013 | 2012 | 2011 |
| Net income | \$ 4,592 | \$ 3,862 | \$ 3,458 |
| Other comprehensive income (loss): | | | |
| Foreign currency translation adjustments, net of tax | (30) | — | — |
| Net cash flow hedges, net of tax | 3 | 3 | (9) |
| Pension and other postretirement benefits, net of tax | 59 | (12) | (20) |
| Total other comprehensive income (loss) | 32 | (9) | (29) |
| Comprehensive income | 4,624 | 3,853 | 3,429 |
| Comprehensive loss attributable to noncontrolling interest | — | 2 | 4 |
| Comprehensive income attributable to CVS Caremark | \$ 4,624 | \$ 3,855 | \$ 3,433 |

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

DECEMBER 31,

In millions, except per share amounts

| | 2013 | 2012 |
|--|------------------|------------------|
| Assets: | | |
| Cash and cash equivalents | \$ 4,089 | \$ 1,375 |
| Short-term investments | 88 | 5 |
| Accounts receivable, net | 8,729 | 6,479 |
| Inventories | 11,045 | 11,032 |
| Deferred income taxes | 902 | 693 |
| Other current assets | 472 | 577 |
| Total current assets | 25,325 | 20,161 |
| Property and equipment, net | 8,615 | 8,632 |
| Goodwill | 26,542 | 26,395 |
| Intangible assets, net | 9,529 | 9,753 |
| Other assets | 1,515 | 1,280 |
| Total assets | \$ 71,526 | \$ 66,221 |
| Liabilities: | | |
| Accounts payable | \$ 5,548 | \$ 5,070 |
| Claims and discounts payable | 4,548 | 3,974 |
| Accrued expenses | 4,768 | 4,411 |
| Short-term debt | — | 690 |
| Current portion of long-term debt | 561 | 5 |
| Total current liabilities | 15,425 | 14,150 |
| Long-term debt | 12,841 | 9,133 |
| Deferred income taxes | 3,901 | 3,784 |
| Other long-term liabilities | 1,421 | 1,501 |
| Commitments and contingencies (Note 12) | — | — |
| Shareholders' equity: | | |
| Preferred stock, par value \$0.01: 0.1 shares authorized; none issued or outstanding | — | — |
| Common stock, par value \$0.01: 3,200 shares authorized; 1,680 shares issued and 1,180 shares outstanding at December 31, 2013 and 1,667 shares issued and 1,231 shares outstanding at December 31, 2012 | 17 | 17 |
| Treasury stock, at cost: 500 shares at December 31, 2013 and 435 shares at December 31, 2012 | (20,169) | (16,270) |
| Shares held in trust: 1 share at December 31, 2013 and 2012 | (31) | (31) |
| Capital surplus | 29,777 | 29,120 |
| Retained earnings | 28,493 | 24,998 |
| Accumulated other comprehensive loss | (149) | (181) |
| Total shareholders' equity | 37,938 | 37,653 |
| Total liabilities and shareholders' equity | \$ 71,526 | \$ 66,221 |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

YEAR ENDED DECEMBER 31,

| In millions | 2013 | 2012 | 2011 |
|--|-----------------|------------|-----------|
| Cash flows from operating activities: | | | |
| Cash receipts from customers | \$ 114,993 | \$ 113,205 | \$ 97,688 |
| Cash paid for inventory and prescriptions dispensed by retail network pharmacies | (91,178) | (90,032) | (75,148) |
| Cash paid to other suppliers and employees | (14,295) | (13,643) | (13,635) |
| Interest received | 8 | 4 | 4 |
| Interest paid | (534) | (581) | (647) |
| Income taxes paid | (3,211) | (2,282) | (2,406) |
| Net cash provided by operating activities | 5,783 | 6,671 | 5,856 |
| Cash flows from investing activities: | | | |
| Purchases of property and equipment | (1,984) | (2,030) | (1,872) |
| Proceeds from sale-leaseback transactions | 600 | 529 | 592 |
| Proceeds from sale of property and equipment and other assets | 54 | 23 | 4 |
| Acquisitions (net of cash acquired) and other investments | (415) | (378) | (1,441) |
| Purchase of available-for-sale investments | (226) | — | (3) |
| Maturity of available-for-sale investments | 136 | — | 60 |
| Proceeds from sale of subsidiary | — | 7 | 250 |
| Net cash used in investing activities | (1,835) | (1,849) | (2,410) |
| Cash flows from financing activities: | | | |
| Increase (decrease) in short-term debt | (690) | (60) | 450 |
| Proceeds from issuance of long-term debt | 3,964 | 1,239 | 1,463 |
| Repayments of long-term debt | — | (1,718) | (2,122) |
| Purchase of noncontrolling interest in subsidiary | — | (26) | — |
| Dividends paid | (1,097) | (829) | (674) |
| Derivative settlements | — | — | (19) |
| Proceeds from exercise of stock options | 500 | 836 | 431 |
| Excess tax benefits from stock-based compensation | 62 | 28 | 21 |
| Repurchase of common stock | (3,976) | (4,330) | (3,001) |
| Other | — | — | (9) |
| Net cash used in financing activities | (1,237) | (4,860) | (3,460) |
| Effect of exchange rate changes on cash and cash equivalents | 3 | — | — |
| Net increase (decrease) in cash and cash equivalents | 2,714 | (38) | (14) |
| Cash and cash equivalents at the beginning of the year | 1,375 | 1,413 | 1,427 |
| Cash and cash equivalents at the end of the year | \$ 4,089 | \$ 1,375 | \$ 1,413 |
| Reconciliation of net income to net cash provided by operating activities: | | | |
| Net income | \$ 4,592 | \$ 3,862 | \$ 3,458 |
| Adjustments required to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 1,870 | 1,753 | 1,568 |
| Stock-based compensation | 141 | 132 | 135 |
| Loss on early extinguishment of debt | — | 348 | — |
| Gain on sale of subsidiary | — | — | (53) |
| Deferred income taxes and other noncash items | (86) | (111) | 144 |
| Change in operating assets and liabilities, net of effects from acquisitions: | | | |
| Accounts receivable, net | (2,210) | (387) | (748) |
| Inventories | 12 | (853) | 586 |
| Other current assets | 105 | 3 | (420) |
| Other assets | (135) | (99) | (49) |
| Accounts payable and claims and discounts payable | 1,024 | 1,147 | 1,128 |
| Accrued expenses | 471 | 766 | 105 |
| Other long-term liabilities | (1) | 110 | 2 |
| Net cash provided by operating activities | \$ 5,783 | \$ 6,671 | \$ 5,856 |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

| In millions | SHARES | | | DOLLARS | | |
|---|-------------------------|-------|-------|-------------------------|------------------|------------------|
| | YEAR ENDED DECEMBER 31, | | | YEAR ENDED DECEMBER 31, | | |
| | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 |
| Common stock: | | | | | | |
| Beginning of year | 1,667 | 1,640 | 1,624 | \$ 17 | \$ 16 | \$ 16 |
| Stock options exercised and issuance of stock awards | 13 | 27 | 16 | — | 1 | — |
| End of year | 1,680 | 1,667 | 1,640 | \$ 17 | \$ 17 | \$ 16 |
| Treasury stock: | | | | | | |
| Beginning of year | (435) | (340) | (259) | \$ (16,270) | \$ (11,953) | \$ (9,030) |
| Purchase of treasury shares | (66) | (95) | (84) | (3,976) | (4,330) | (3,001) |
| Employee stock purchase plan issuances | 1 | 1 | 3 | 77 | 47 | 78 |
| Transfer of shares from shares held in trust | — | (1) | — | — | (34) | — |
| End of year | (500) | (435) | (340) | \$ (20,169) | \$ (16,270) | \$ (11,953) |
| Shares held in trust: | | | | | | |
| Beginning of year | (1) | (2) | (2) | \$ (31) | \$ (56) | \$ (56) |
| Transfer of shares to treasury stock | — | 1 | — | — | 25 | — |
| End of year | (1) | (1) | (2) | \$ (31) | \$ (31) | \$ (56) |
| Capital surplus: | | | | | | |
| Beginning of year | | | | \$ 29,120 | \$ 28,126 | \$ 27,610 |
| Stock option activity and stock awards | | | | 588 | 955 | 495 |
| Tax benefit on stock options and stock awards | | | | 69 | 28 | 21 |
| Transfer of shares held in trust to treasury stock | | | | — | 9 | — |
| Purchase of noncontrolling interest in subsidiary | | | | — | 2 | — |
| End of year | | | | \$ 29,777 | \$ 29,120 | \$ 28,126 |
| Retained earnings: | | | | | | |
| Beginning of year | | | | \$ 24,998 | \$ 22,052 | \$ 19,303 |
| Adjustment to opening balance ⁽¹⁾ | | | | — | — | (39) |
| Beginning of year, as adjusted | | | | 24,998 | 22,052 | 19,264 |
| Changes in inventory accounting principles (Note 2) | | | | — | (89) | — |
| Net income attributable to CVS Caremark | | | | 4,592 | 3,864 | 3,462 |
| Common stock dividends | | | | (1,097) | (829) | (674) |
| End of year | | | | \$ 28,493 | \$ 24,998 | \$ 22,052 |
| Accumulated other comprehensive loss: | | | | | | |
| Beginning of year | | | | \$ (181) | \$ (172) | \$ (143) |
| Foreign currency translation adjustments, net of tax | | | | (30) | — | — |
| Net cash flow hedges, net of tax | | | | 3 | 3 | (9) |
| Pension and other postretirement benefits, net of tax | | | | 59 | (12) | (20) |
| End of year | | | | \$ (149) | \$ (181) | \$ (172) |
| Total shareholders' equity | | | | \$ 37,938 | \$ 37,653 | \$ 38,013 |

(1) See Note 1 – Significant Accounting Policies (Revenue Recognition – Retail Pharmacy Segment).

See accompanying notes to consolidated financial statements.

1 Significant Accounting Policies

Description of business – CVS Caremark Corporation and its subsidiaries (the “Company”) is the largest integrated pharmacy health care provider in the United States based upon revenues and prescriptions filled. The Company currently has three reportable business segments, Pharmacy Services, Retail Pharmacy and Corporate, which are described below.

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

As a pharmacy benefits manager, the PSS manages the dispensing of pharmaceuticals through the Company’s mail order pharmacies and national network of nearly 68,000 retail pharmacies, consisting of approximately 41,000 chain pharmacies and 27,000 independent pharmacies, to eligible members in the benefits plans maintained by the Company’s clients and utilizes its information systems to perform, among other things, safety checks, drug interaction screenings and brand to generic substitutions.

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

The PSS also provides health management programs, which include integrated disease management for 17 conditions, through the Company’s Accordant® rare disease management offering.

In addition, through the Company’s SilverScript Insurance Company (“SilverScript”) subsidiary, the PSS is a national provider of drug benefits to eligible beneficiaries under the Federal Government’s Medicare Part D program.

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

The pharmacy services business operates under the CVS Caremark® Pharmacy Services, Caremark®, CVS Caremark®, CarePlus CVS/pharmacy®, RxAmerica®, Accordant®, SilverScript® and Novologix® names. As of December 31, 2013, the PSS 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.

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

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

As of December 31, 2013, the retail pharmacy business included 7,660 retail drugstores (of which 7,603 operated a pharmacy) located in 43 states, the District of Columbia, Puerto Rico and Brazil operating primarily under the CVS/pharmacy and Drogaria Onofre® names, the online retail websites, CVS.com and Onofre.com.br, and 800 retail health care clinics operating under the MinuteClinic® name (of which 792 were located in CVS/pharmacy stores).

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

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

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

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

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

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

Short-term investments – The Company's short-term investments consist of certificate of deposits with initial maturities of greater than three months when purchased. These investments, which were classified as available-for-sale within Level 1 of the fair value hierarchy, were carried at fair value, which approximated historical cost at December 31, 2013 and 2012.

Fair value of financial instruments – As of December 31, 2013, the Company's financial instruments include cash and cash equivalents, short-term investments, 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 total long-term debt was \$13.4 billion and \$14.2 billion, respectively, as of December 31, 2013. The fair value of the Company's long-term debt was estimated based on quoted rates currently offered in active markets for the Company's debt, which is considered Level 1 of the fair value hierarchy. The Company had outstanding letters of credit, which guaranteed foreign trade purchases, with a fair value of \$3.6 million as of December 31, 2013. There were no outstanding derivative financial instruments as of December 31, 2013 and 2012.

Notes to Consolidated Financial Statements

Foreign currency translation and transactions – For local currency functional locations, assets and liabilities are translated at end-of-period rates while revenues and expenses are translated at average rates in effect during the period. Equity is translated at historical rates and the resulting cumulative translation adjustments are included as a component of accumulated other comprehensive income/(loss).

For U.S. dollar functional currency locations, foreign currency assets and liabilities are remeasured into U.S. dollars at end-of-period exchange rates, except for nonmonetary balance sheet accounts, which are remeasured at historical exchange rates. Revenue and expense are remeasured at average exchange rates in effect during each period, except for those expenses related to the nonmonetary balance sheet amounts, which are remeasured at historical exchange rates. Gains or losses from foreign currency remeasurement are included in income.

Gains and losses arising from foreign currency transactions and the effects of remeasurements were not material for all period presented.

Accounts receivable – Accounts receivable are stated net of an allowance for doubtful accounts. The accounts receivable balance primarily includes amounts due from third party providers (e.g., pharmacy benefit managers, insurance companies and governmental agencies), clients and members, as well as vendors and manufacturers. Charges to bad debt are based on both historical write-offs and specifically identified receivables.

The activity in the allowance for doubtful accounts receivable for the years ended December 31 is as follows:

| <i>In millions</i> | 2013 | 2012 | 2011 |
|---------------------------------------|-----------------|--------|--------|
| Beginning balance | \$ 243 | \$ 189 | \$ 182 |
| Additions charged to bad debt expense | 195 | 149 | 129 |
| Write-offs charged to allowance | (182) | (95) | (122) |
| Ending balance | \$ 256 | \$ 243 | \$ 189 |

Inventories – Prior to 2012, inventories were stated at the lower of cost or market on a first-in, first-out basis using the retail inventory method in the retail pharmacy stores, the weighted average cost method in the mail service and specialty pharmacies, and the cost method on a first-in, first-out basis in the distribution centers. Effective January 1, 2012, the Company changed its methods of accounting for prescription drug inventories in the RPS to the weighted average cost method. See Note 2 for additional information regarding the accounting change. Physical inventory counts are taken on a regular basis in each store and a continuous cycle count process is the primary procedure used to validate the inventory balances on hand in each distribution center and mail facility to ensure that the amounts reflected in the accompanying consolidated financial statements are properly stated. During the interim period between physical inventory counts, the Company accrues for anticipated physical inventory losses on a location-by-location basis based on historical results and current trends.

Property and equipment – Property, equipment and improvements to leased premises are depreciated using the straight-line method over the estimated useful lives of the assets, or when applicable, the term of the lease, whichever is shorter. Estimated useful lives generally range from 10 to 40 years for buildings, building improvements and leasehold improvements and 3 to 10 years for fixtures, equipment and internally developed software. Repair and maintenance costs are charged directly to expense as incurred. Major renewals or replacements that substantially extend the useful life of an asset are capitalized and depreciated. Application development stage costs for significant internally developed software projects are capitalized and depreciated.

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

| <i>In millions</i> | 2013 | 2012 |
|---|-----------------|-------------|
| Land | \$ 1,460 | \$ 1,429 |
| Building and improvements | 2,694 | 2,614 |
| Fixtures and equipment | 8,419 | 7,928 |
| Leasehold improvements | 3,320 | 3,105 |
| Software | 1,515 | 1,230 |
| | 17,408 | 16,306 |
| Accumulated depreciation and amortization | (8,793) | (7,674) |
| Property and equipment, net | \$ 8,615 | \$ 8,632 |

The gross amount of property and equipment under capital leases was \$260 million and \$219 million as of December 31, 2013 and 2012, respectively. Accumulated amortization of property and equipment under capital lease was \$74 million and \$64 million as of December 31, 2013 and 2012, respectively. Amortization of property and equipment under capital lease is included within depreciation expense. Depreciation expense totaled \$1.4 billion, \$1.3 billion and \$1.1 billion in 2013, 2012 and 2011, respectively.

Goodwill and other indefinitely-lived assets – Goodwill and other indefinitely-lived assets are not amortized, but are subject to impairment reviews annually, or more frequently if necessary. See Note 4 for additional information on goodwill and other indefinitely-lived assets.

Intangible assets – Purchased customer contracts and relationships are amortized on a straight-line basis over their estimated useful lives between 10 and 20 years. Purchased customer lists are amortized on a straight-line basis over their estimated useful lives of up to 10 years. Purchased leases are amortized on a straight-line basis over the remaining life of the lease. See Note 4 for additional information about intangible assets.

Impairment of long-lived assets – The Company groups and evaluates fixed and finite-lived intangible assets for impairment at the lowest level at which individual cash flows can be identified, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If indicators of impairment are present, the Company first compares the carrying amount of the asset group to the estimated future cash flows associated with the asset group (undiscounted and without interest charges). If the estimated future cash flows used in this analysis are less than the carrying amount of the asset group, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the asset group to the asset group's estimated future cash flows (discounted and with interest charges). If required, an impairment loss is recorded for the portion of the asset group's carrying value that exceeds the asset group's estimated future cash flows (discounted and with interest charges).

Redeemable noncontrolling interest – Through June 29, 2012, the Company had an approximately 60% ownership interest in Generation Health, Inc. ("Generation Health") and consolidated Generation Health in its consolidated financial statements. The nonemployee noncontrolling shareholders of Generation Health held put rights for the remaining interest in Generation Health that if exercised would require the Company to purchase the remaining interest in Generation Health in 2015 for a minimum of \$26 million and a maximum of \$159 million, depending on certain financial metrics of Generation Health in 2014. Since the noncontrolling shareholders of Generation Health had a redemption feature as a result of the put rights, the Company had classified the redeemable noncontrolling interest in Generation Health in the mezzanine section of the consolidated balance sheet outside of shareholders' equity. On June 29, 2012, the Company acquired the remaining 40% interest in Generation Health from minority shareholders and employee option holders for \$26 million and \$5 million, respectively, for a total of \$31 million.

Notes to Consolidated Financial Statements

The following is a reconciliation of the changes in the redeemable noncontrolling interest for the years ended December 31, 2012 and 2011:

| <i>In millions</i> | 2012 | 2011 |
|--|-------|-------|
| Beginning balance | \$ 30 | \$ 34 |
| Net loss attributable to noncontrolling interest | (2) | (4) |
| Purchase of noncontrolling interest | (26) | — |
| Reclassification to capital surplus in connection with purchase of noncontrolling interest | (2) | — |
| Ending balance | \$ — | \$ 30 |

Revenue Recognition

Pharmacy Services Segment – The PSS sells prescription drugs directly through its mail service dispensing pharmacies and indirectly through its retail pharmacy network. The PSS recognizes revenue from prescription drugs sold by its mail service dispensing pharmacies and under retail pharmacy network contracts where it is the principal using the gross method at the contract prices negotiated with its clients. Net revenues include: (i) the portion of the price the client pays directly to the PSS, net of any volume-related or other discounts paid back to the client (see “Drug Discounts” later in this document), (ii) the price paid to the PSS by client plan members for mail order prescriptions (“Mail Co-Payments”) and the price paid to retail network pharmacies by client plan members for retail prescriptions (“Retail Co-Payments”), and (iii) administrative fees for retail pharmacy network contracts where the PSS is not the principal as discussed below. Sales taxes are not included in revenue.

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

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

The PSS determines whether it is the principal or agent for its retail pharmacy network transactions on a contract by contract basis. In the majority of its contracts, the PSS has determined it is the principal due to it: (i) being the primary obligor in the arrangement, (ii) having latitude in establishing the price, changing the product or performing part of the service, (iii) having discretion in supplier selection, (iv) having involvement in the determination of product or service specifications, and (v) having credit risk. The PSS’s obligations under its client contracts for which revenues are reported using the gross method are separate and distinct from its obligations to the third party pharmacies included in its retail pharmacy network contracts. Pursuant to these contracts, the PSS is contractually required to pay the third party pharmacies in its retail pharmacy network for products sold, regardless of whether the PSS is paid by its clients. The PSS’s responsibilities under its client contracts typically include validating eligibility and coverage levels, communicating the prescription price and the co-payments due to the third party retail pharmacy, identifying possible adverse drug interactions for the pharmacist to address with the prescriber prior to dispensing, suggesting generic alternatives where clinically 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 applicable indicators of gross revenue reporting are present. For contracts under which the PSS acts as an agent, revenue is recognized using the net method.

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

Medicare Part D – The PSS, through its SilverScript Insurance Company subsidiary, participates in the Federal Government’s Medicare Part D program as a Prescription Drug Plan (“PDP”). 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 direct premium paid by CMS and a beneficiary premium, which is the responsibility of the PDP member, but is subsidized by CMS in the case of low-income members. 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, net revenues include co-payments, coverage gap benefits, deductibles and co-insurance (collectively, the “Member Co-Payments”) related to PDP members’ actual prescription claims. In certain cases, CMS subsidizes a portion of these Member Co-Payments and pays the PSS an estimated prospective Member Co-Payment subsidy amount each month. The prospective Member Co-Payment subsidy amounts received from CMS are also included in net revenues. The Company assumes no risk for these amounts. 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).

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. Prior to the fourth quarter of 2013, revenue from the sale of prescription drugs was recognized at the time the prescription was filled as opposed to upon delivery as required under the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification 605, *Revenue Recognition*. For substantially all prescriptions, the fill date and the delivery date occur in the same reporting period. The effect on both revenue and income of recording prescription drug sales upon fill as opposed to delivery is immaterial. During the fourth quarter of 2013, the Company began recognizing revenue from the sale of prescription drugs when the prescription is picked up by the customer. This immaterial error correction is reflected in all annual and quarterly financial statements presented. For the year ended December 31, 2012, the correction reduced net revenues and net income attributable to CVS Caremark by \$13 million and \$13 million. For the year ended December 31, 2011, the correction reduced net revenues by \$20 million and increased net income attributable to CVS Caremark by \$1 million. Diluted earnings per share from net income attributable to CVS Caremark was reduced by \$0.01 for the year ended December 31, 2012. There was no impact on diluted earnings per share from net income attributable to CVS Caremark in any other annual or interim period impacted by the immaterial error correction. The adjustment increased total assets and total liabilities by \$309 million and \$360 million as of December 31, 2012 and decreased retained earnings by \$38 million and \$39 million as of December 31, 2011 and 2010, respectively.

Customer returns are not material. Revenue generated from the performance of services in the RPS’s health care clinics is recognized at the time the services are performed. Sales taxes are not included in revenue.

See Note 13 for additional information about the revenues of the Company’s business segments.

Notes to Consolidated Financial Statements

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

Retail Pharmacy Segment – The RPS' cost of revenues includes: the cost of merchandise sold during the reporting period and the related purchasing costs, warehousing and delivery costs (including depreciation and amortization) and actual and estimated inventory losses.

See Note 13 for additional information about the cost of revenues of the Company's business segments.

Vendor allowances and purchase discounts

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

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

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

reduce cost of revenues over the life of the contract based upon purchase volume. The total value of any upfront payments received from vendors that are not linked to purchase commitments is also initially deferred. The deferred amounts are then amortized to reduce cost of revenues on a straight-line basis over the life of the related contract. The total amortization of these upfront payments was not material to the accompanying consolidated financial statements.

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

Facility opening and closing costs – New facility opening costs, other than capital expenditures, are charged directly to expense when incurred. When the Company closes a facility, the present value of estimated unrecoverable costs, including the remaining lease obligation less estimated sublease income and the book value of abandoned property and equipment, are charged to expense. The long-term portion of the lease obligations associated with facility closings was \$246 million and \$288 million in 2013 and 2012, respectively.

Advertising costs – Advertising costs are expensed when the related advertising takes place. Advertising costs, net of vendor funding (included in operating expenses), were \$177 million, \$221 million and \$211 million in 2013, 2012 and 2011, respectively.

Interest expense, net – Interest expense, net of capitalized interest, was \$517 million, \$561 million and \$588 million, and interest income was \$8 million, \$4 million and \$4 million in 2013, 2012 and 2011, respectively. Capitalized interest totaled \$25 million, \$29 million and \$37 million in 2013, 2012 and 2011, respectively.

Shares held in trust – The Company maintains grantor trusts, which held approximately 1 million shares of its common stock at December 31, 2013 and 2012, 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.

Accumulated other comprehensive loss – Accumulated other comprehensive loss consists of changes in the net actuarial gains and losses associated with pension and other postretirement benefit plans, unrealized losses on derivatives from cash flow hedges executed in previous years associated with the issuance of long-term debt, and foreign currency translation adjustments. The amount included in accumulated other comprehensive loss related to the Company's pension and postretirement plans was \$172 million pre-tax (\$106 million after-tax) as of December 31, 2013 and \$268 million pre-tax (\$165 million after-tax) as of December 31, 2012. The net impact on cash flow hedges totaled \$22 million pre-tax (\$13 million after-tax) and \$26 million pre-tax (\$16 million after-tax) as of December 31, 2013 and 2012, respectively. Cumulative foreign currency translation adjustments at December 31, 2013 were \$30 million.

Notes to Consolidated Financial Statements

Changes in accumulated other comprehensive income (loss) by component are shown below:

YEAR ENDED DECEMBER 31, 2013 ⁽¹⁾

| In millions | Losses on Cash Flow Hedges | Pension and Other Postretirement Benefits | Foreign Currency | Total |
|---|-------------------------------|--|---------------------|----------|
| Balance, December 31, 2012 | \$ (16) | \$ (165) | \$ — | \$ (181) |
| Other comprehensive income (loss) before reclassifications | — | — | (30) | (30) |
| Amounts reclassified from accumulated other comprehensive income ⁽²⁾ | 3 | 59 | — | 62 |
| Net other comprehensive income (loss) | 3 | 59 | (30) | 32 |
| Balance, December 31, 2013 | \$ (13) | \$ (106) | \$ (30) | \$ (149) |

(1) All amounts are net of tax.

(2) The amounts reclassified from accumulated other comprehensive income for cash flow hedges are recorded within interest expense, net on the consolidated statement of income. The amounts reclassified from accumulated other comprehensive income for pension and other postretirement benefits are included in operating expenses on the consolidated statement of income.

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

Related party transactions – The Company has an equity method investment in SureScripts, LLC (“SureScripts”), which operates a clinical health information network. The Pharmacy Services and Retail Pharmacy segments utilize this clinical health information network in providing services to its client plan members and retail customers. The Company expensed fees of approximately \$48 million, \$32 million and \$28 million in the years ended December 31, 2013, 2012 and 2011, respectively, for the use of this network.

The Company's investment in and equity in earnings in SureScripts for all periods presented is immaterial.

Income taxes – The Company provides for income taxes currently payable, as well as for those deferred because of timing differences between reported income and expenses for financial statement purposes versus income tax return purposes. Income tax credits are recorded as a reduction of income taxes. Deferred income 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 return purposes. Deferred income 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 income tax rates is recognized as income or expense in the period of the change.

Earnings per common share – Basic earnings per common share is computed by dividing: (i) net earnings by (ii) the weighted average number of common shares outstanding during the year (the “Basic Shares”). Diluted earnings per common share is computed by dividing: (i) net earnings by (ii) Basic Shares plus the additional shares that would be issued assuming that all dilutive stock awards are exercised. Options to purchase 6.2 million, 5.9 million and 30.5 million shares of common stock were outstanding as of December 31, 2013, 2012 and 2011, respectively, but were not included in the calculation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

New Accounting Pronouncements

In July 2012, the FASB issued Accounting Standards Update (“ASU”) 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment* (“ASU 2012-02”). ASU 2012-02 allows entities to use a qualitative approach to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount and recognize an impairment loss, if any, to the extent the carrying value exceeds its fair value. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of ASU 2012-02 did not have a material effect on the Company’s consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (“ASU 2013-02”). ASU 2013-02 adds new disclosure requirements for items reclassified out of accumulated other comprehensive income. The additional disclosures include: (1) changes in accumulated other comprehensive income balances by component and (2) significant items reclassified out of accumulated other comprehensive income. The changes in accumulated other comprehensive income balance by component will be disaggregated to separately present reclassification adjustments and current-period other comprehensive income. Significant items reclassified out of accumulated other comprehensive income by component are required to be presented either on the face of the statement of income or as separate disclosure in the notes to the financial statements. These additional disclosures may be presented before-tax or net-of-tax as long as the income tax benefit or expense attributed to each component of other comprehensive income and reclassification adjustments is presented in the financial statement or in the notes to the financial statements. ASU 2013-02 is effective for interim and annual periods beginning after December 15, 2012 and should be applied prospectively. The adoption of ASU 2013-02 did not have a material effect on the Company’s consolidated financial statements. The expanded disclosures have been included in Note 1 to these consolidated financial statements.

2 Changes in Accounting Principle

Effective January 1, 2012, the Company changed its methods of accounting for prescription drug inventories in the RPS. Prior to 2012, the Company valued prescription drug inventories at the lower of cost or market on a first-in, first-out (“FIFO”) basis in retail pharmacies using the retail inventory method and in distribution centers using the FIFO cost method. Effective January 1, 2012, all prescription drug inventories in the RPS have been valued at the lower of cost or market using the weighted average cost method. These changes affected approximately 51% of consolidated inventories as of January 1, 2012.

These changes were made primarily to bring all of the pharmacy operations of the Company to a common inventory valuation methodology and to provide the Company with better information to manage its retail pharmacy operations. The Company believes the weighted average cost method is preferable to the retail inventory method and the FIFO cost method because it results in greater precision in the determination of cost of revenues and inventories by specific drug product and results in a consistent inventory valuation method for all of the Company’s prescription drug inventories as the PSS’s mail service and specialty pharmacies were already on the weighted average cost method. Most of these mail service and specialty pharmacies in the PSS were acquired in the Company’s 2007 acquisition of Caremark Rx, Inc.

Notes to Consolidated Financial Statements

The Company recorded the cumulative effect of these changes in accounting principle as of January 1, 2012. The Company determined that retrospective application for periods prior to 2012 is impracticable, as the period-specific information necessary to value prescription drug inventories in the Retail Pharmacy Segment under the weighted average cost method is unavailable. The Company implemented a new pharmacy cost accounting system to value prescription drug inventory as of January 1, 2012 and calculated the cumulative impact. The effect of these changes in accounting principle as of January 1, 2012 was a decrease in inventories of \$146 million, an increase in current deferred income tax assets of \$57 million and a decrease in retained earnings of \$89 million.

Had the Company not made these changes in accounting principle, for the year ended December 31, 2012, income from continuing operations and net income attributable to CVS Caremark would have been approximately \$19 million lower. For the year ended December 31, 2012, basic and diluted earnings per common share for income from continuing operations attributable to CVS Caremark and net income attributable to CVS Caremark would have been reduced by \$0.01.

3 Discontinued Operations

On November 1, 2011, the Company sold its TheraCom, L.L.C. ("TheraCom") subsidiary to AmerisourceBergen Corporation for \$250 million, plus a working capital adjustment of \$7 million which the Company received in March 2012. TheraCom is a provider of commercialization support services to the biotech and pharmaceutical industries. The TheraCom business had historically been part of the Company's PSS. The results of the TheraCom business are presented as discontinued operations and have been excluded from both continuing operations and segment results for all periods presented.

In connection with certain business dispositions completed between 1991 and 1997, the Company retained guarantees on store lease obligations for a number of former subsidiaries, including Linens 'n Things which filed for bankruptcy in 2008. The Company's income (loss) from discontinued operations includes lease-related costs which the Company believes it will likely be required to satisfy pursuant to its Linens 'n Things lease guarantees.

Below is a summary of the results of discontinued operations for the years ended December 31:

| <i>In millions</i> | 2013 | 2012 | 2011 |
|---|-------------|-------------|-------------|
| Net revenues of TheraCom | \$ — | \$ — | \$ 650 |
| Income from operations of TheraCom | \$ — | \$ — | \$ 18 |
| Gain on disposal of TheraCom | — | — | 53 |
| Loss on disposal of Linens 'n Things | (12) | (12) | (7) |
| Income tax benefit (provision) | 4 | 5 | (95) |
| Loss from discontinued operations, net of tax | \$ (8) | \$ (7) | \$ (31) |

4 Goodwill and Other Intangibles

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

When evaluating goodwill for potential impairment, the Company first compares the fair value of its two reporting units, the PSS and RPS, to their respective carrying amounts. The Company estimates the fair value of its reporting units using a combination of a future discounted cash flow valuation model and a comparable market transaction model. 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 2013, the Company performed its required annual goodwill impairment tests. The Company concluded there were no goodwill impairments as of the testing date. The carrying amount of goodwill was \$26.5 billion and \$26.4 billion as of December 31, 2013 and 2012, respectively (see Note 13 for a breakdown of goodwill by segment). During the year ended December 31, 2013, goodwill increased \$12 million in PSS and \$135 million in RPS for a total increase of \$147 million. The increase in PSS was primarily due to an immaterial acquisition. The \$135 million net increase in RPS was due to an immaterial acquisition which increased goodwill by \$160 million, which was partially offset by a decrease of \$25 million related to foreign currency translation adjustments.

Indefinitely-lived intangible assets are tested for impairment by comparing the estimated fair value of the asset to its carrying value. The Company estimates the fair value of its indefinitely-lived trademark using the relief from royalty method under the income approach. If the carrying value of the asset exceeds its estimated fair value, an impairment loss is recognized and the asset is written down to its estimated fair value. During the third quarter of 2013, the Company performed its annual impairment test of the indefinitely-lived trademark and concluded there was no impairment as of the testing date. The carrying amount of its indefinitely-lived trademark was \$6.4 billion as of December 31, 2013 and 2012.

The Company amortizes intangible assets with finite lives over the estimated useful lives of the respective assets, which have a weighted average useful life of 13.0 years. The weighted average useful lives of the Company's customer contracts and relationships and covenants not to compete are 12.5 years. The weighted average lives of the Company's favorable leases and other intangible assets are 17.1 years. Amortization expense for intangible assets totaled \$494 million, \$486 million and \$452 million in 2013, 2012 and 2011, respectively. The anticipated annual amortization expense for these intangible assets for the next five years is \$457 million in 2014, \$427 million in 2015, \$398 million in 2016, \$375 million in 2017 and \$357 million in 2018.

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

| In millions | 2013 | | | 2012 | | |
|---|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Trademark (indefinitely-lived) | \$ 6,398 | \$ — | \$ 6,398 | \$ 6,398 | \$ — | \$ 6,398 |
| Customer contracts and relationships and covenants not to compete | 5,840 | (3,083) | 2,757 | 5,745 | (2,812) | 2,933 |
| Favorable leases and other | 800 | (426) | 374 | 802 | (380) | 422 |
| | \$ 13,038 | \$ (3,509) | \$ 9,529 | \$ 12,945 | \$ (3,192) | \$ 9,753 |

5 Share Repurchase Programs

On December 17, 2013, the Company's Board of Directors authorized a new share repurchase program for up to \$6.0 billion of outstanding common stock (the "2013 Repurchase Program"). On September 19, 2012, the Company's Board of Directors authorized a share repurchase program for up to \$6.0 billion of outstanding common stock (the "2012 Repurchase Program"). On August 23, 2011, the Company's Board of Directors authorized a share repurchase program for up to \$4.0 billion of outstanding common stock (the "2011 Repurchase Program"). On June 14, 2010, our Board of Directors authorized a share repurchase program for up to \$2.0 billion of outstanding common stock (the "2010 Repurchase Program"). The share repurchase authorizations, each of which was effective immediately, permitted the Company to effect repurchases from time to time through a combination of open market repurchases, privately negotiated transactions, accelerated share repurchase transactions, and/or other derivative transactions. The 2013 and 2012 Repurchase Programs may be modified or terminated by the Board of Directors at any time. The 2011 and 2010 Repurchase Programs have been completed, as described below.

Pursuant to the authorization under the 2012 Repurchase Program, effective October 1, 2013, the Company entered into a \$1.7 billion fixed dollar accelerated share repurchase ("ASR") agreement with Barclays Bank PLC ("Barclays"). Upon payment of the \$1.7 billion purchase price on October 1, 2013, the Company received a number of shares of its common stock equal to 50% of the \$1.7 billion notional amount of the ASR agreement or approximately 14.9 million shares at a price of \$56.88 per share. The Company received approximately 11.7 million shares of common stock on December 30, 2013 at an average price of \$63.83 per share, representing the remaining 50% of the \$1.7 billion notional amount of the ASR agreement and thereby concluding the agreement. The total of 26.6 million shares of common stock delivered to the Company by Barclays over the term of the October 2013 ASR agreement were placed into treasury stock.

Pursuant to the authorizations under the 2011 and 2012 Repurchase Programs, on September 19, 2012, the Company entered into a \$1.2 billion fixed dollar ASR agreement with Barclays. Upon payment of the \$1.2 billion purchase price on September 20, 2012, the Company received a number of shares of its common stock equal to 50% of the \$1.2 billion notional amount of the ASR agreement or approximately 12.6 million shares at a price of \$47.71 per share. The Company received approximately 13.0 million shares of common stock on November 16, 2012 at an average price of \$46.96 per share, representing the remaining 50% of the \$1.2 billion notional amount of the ASR agreement and thereby concluding the agreement. The total of 25.6 million shares of common stock delivered to the Company by Barclays over the term of the September 2012 ASR agreement were placed into treasury stock.

Pursuant to the authorization under the 2011 Repurchase Program, on August 24, 2011, the Company entered into a \$1.0 billion fixed dollar ASR agreement with Barclays. The ASR agreement contained provisions that establish the minimum and maximum number of shares to be repurchased during its term. Pursuant to the ASR agreement, on August 25, 2011, the Company paid \$1.0 billion to Barclays in exchange for Barclays delivering 20.3 million shares of common stock to the Company. On September 16, 2011, upon establishment of the minimum number of shares

to be repurchased, Barclays delivered an additional 5.4 million shares of common stock to the Company. At the conclusion of the transaction on December 28, 2011, Barclays delivered a final installment of 1.6 million shares of common stock on December 29, 2011. The aggregate 27.3 million shares of common stock delivered to the Company by Barclays, were placed into treasury stock. This represented all the repurchases that occurred during the year ended December 31, 2011 under the 2011 Repurchase Program.

Each of the ASR transactions described previously were accounted for as an initial treasury stock transaction and a forward contract. The forward contract was classified as an equity instrument. The initial repurchase of the shares and delivery of the remainder of the shares to conclude each ASR, resulted in an immediate reduction of the outstanding shares used to calculate the weighted average common shares outstanding for basic and diluted net income per share.

During the year ended December 31, 2013, the Company repurchased an aggregate of 66.2 million shares of common stock for approximately \$4.0 billion under the 2012 Repurchase Program, which includes shares received from the October 2013 ASR agreement described previously. As of December 31, 2013, there remained an aggregate of approximately \$6.7 billion available for future repurchases under the 2013 and 2012 Repurchase Programs.

During the year ended December 31, 2012, the Company repurchased an aggregate of 95.0 million shares of common stock for approximately \$4.3 billion under the 2012 and 2011 Repurchase Programs, which includes shares received from the September 2012 ASR agreement described previously. As of December 31, 2012, the 2011 Repurchase Program was complete.

During the year ended December 31, 2011, the Company repurchased an aggregate of 56.4 million shares of common stock for approximately \$2.0 billion, completing the 2010 Repurchase Program.

Notes to Consolidated Financial Statements

6 Borrowing and Credit Agreements

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

| <i>In millions</i> | 2013 | 2012 |
|---|------------------|-----------------|
| Commercial paper | \$ — | \$ 690 |
| 4.875% senior notes due 2014 | 550 | 550 |
| 3.25% senior notes due 2015 | 550 | 550 |
| 1.2% senior notes due 2016 | 750 | — |
| 6.125% senior notes due 2016 | 421 | 421 |
| 5.75% senior notes due 2017 | 1,310 | 1,310 |
| 2.25% senior notes due 2018 | 1,250 | — |
| 6.6% senior notes due 2019 | 394 | 394 |
| 4.75% senior notes due 2020 | 450 | 450 |
| 4.125% senior notes due 2021 | 550 | 550 |
| 2.75% senior notes due 2022 | 1,250 | 1,250 |
| 4.0% senior notes due 2023 | 1,250 | — |
| 6.25% senior notes due 2027 | 1,000 | 1,000 |
| 6.125% senior notes due 2039 | 1,500 | 1,500 |
| 5.75% senior notes due 2041 | 950 | 950 |
| 5.3% senior notes due 2043 | 750 | — |
| Enhanced Capital Advantage Preferred Securities due 2062 ⁽¹⁾ | 41 | 41 |
| Deferred acquisition payables due 2015-2017 ⁽²⁾ | 42 | — |
| Mortgage notes payable | 4 | 1 |
| Capital lease obligations | 390 | 171 |
| | 13,402 | 9,828 |
| Less: | | |
| Short-term debt (commercial paper) | — | (690) |
| Current portion of long-term debt | (561) | (5) |
| | \$ 12,841 | \$ 9,133 |

(1) The Enhanced Capital Advantage Preferred Securities ("ECAPS") had a stated rate of interest of 6.302% through June 1, 2012, at which time the rate converted to a variable rate which was 2.3% and 2.6% at December 31, 2013 and 2012.

(2) Deferred acquisition payables are denominated in Brazilian real and bear interest at the Brazilian interbank deposit certificate rate which was 9.77% at December 31, 2013.

The Company had no commercial paper outstanding as of December 31, 2013. In connection with its commercial paper program, the Company maintains a \$1.25 billion, four-year unsecured back-up credit facility, which expires on May 23, 2016, a \$1.25 billion, five-year unsecured back-up credit facility, which expires on February 17, 2017, and a \$1.0 billion, five-year unsecured back-up credit facility, which expires on May 23, 2018. The credit facilities allow for borrowings at various rates that are dependent, in part, on the Company's public debt ratings and require the Company to pay a weighted average quarterly facility fee of approximately 0.03%, regardless of usage. As of December 31, 2013, there were no borrowings outstanding under the back-up credit facilities. The weighted average interest rate for short-term debt was 0.27% as of December 31, 2013 and 0.35% as of December 31, 2012.

On December 2, 2013, the Company issued \$750 million of 1.2% unsecured senior notes due December 5, 2016; \$1.25 billion of 2.25% unsecured senior notes due December 5, 2018; \$1.25 billion of 4.0% unsecured senior notes due December 5, 2023; and \$750 million of 5.3% unsecured senior notes due December 5, 2043 (the "2013 Notes") for total proceeds of approximately \$4.0 billion, net of discounts and underwriting fees. The 2013 Notes pay interest semi-annually and may be redeemed, in whole at any time, or in part from time to time, at the Company's option at a defined redemption price plus accrued and unpaid interest to the redemption date. The net proceeds of the 2013 Notes were used to repay commercial paper outstanding at the time of issuance and to fund the acquisition of Coram LLC in January 2014 (See Note 15). The remainder will be used for general corporate purposes.

On November 26, 2012, the Company issued \$1.25 billion of 2.75% unsecured senior notes due December 1, 2022 (the "2012 Notes") for total proceeds of approximately \$1.24 billion, net of discounts and underwriting fees. The 2012 Notes pay interest semi-annually and may be redeemed, in whole at any time, or in part from time to time, at the Company's option at a defined redemption price plus accrued and unpaid interest to the redemption date. The net proceeds of the 2012 Notes were used for general corporate purposes and to repay certain corporate debt.

On November 26, 2012, the Company announced tender offers for any and all of the 6.6% Senior Notes due 2019, and up to a maximum amount of the 6.125% Senior Notes due 2016 and 5.75% Senior Notes due 2017, for up to an aggregate principal amount of \$1.0 billion. In December 2012, the Company increased the aggregate principal amount of the tender offers to \$1.325 billion and completed the repurchase for the maximum amount. The Company paid a premium of \$332 million in excess of the debt principal in connection with the tender offers, wrote off \$13 million of unamortized deferred financing costs and incurred \$3 million in fees, for a total loss on the early extinguishment of debt of \$348 million. The loss was recorded in income from continuing operations on the consolidated statement of income.

In connection with the Company's acquisition of the UAM Medicare Part D Business in April 2011, the Company assumed \$110 million of long-term debt in the form of Trust Preferred Securities that mature through 2037. During the years ended December 31, 2012 and 2011, the Company repaid \$50 million and \$60 million, respectively, of the Trust Preferred Securities at par.

On May 12, 2011, the Company issued \$550 million of 4.125% unsecured senior notes due May 15, 2021 and issued \$950 million of 5.75% unsecured senior notes due May 15, 2041 (collectively, the "2011 Notes") for total proceeds of approximately \$1.5 billion, net of discounts and underwriting fees. The 2011 Notes pay interest semi-annually and may be redeemed, in whole at any time, or in part from time to time, at the Company's option at a defined redemption price plus accrued and unpaid interest to the redemption date. The net proceeds of the 2011 Notes were used to repay commercial paper borrowings and certain other corporate debt, and were used for general corporate purposes.

In December 2011 and July 2012, the Company repurchased \$958 million and \$1 million of the principal amount of its ECAPS at par. The fees and write-off of deferred issuance costs associated with the early extinguishment of the ECAPS were *de minimis*. The remaining \$41 million of outstanding ECAPS at December 31, 2013 are due in 2062. The ECAPS pay interest semi-annually and may be redeemed at any time, in whole or in part at a defined redemption price plus accrued interest.

The credit facilities, back-up credit facilities, unsecured senior notes and ECAPS contain customary restrictive financial and operating covenants. The covenants do not materially affect the Company's financial or operating flexibility.

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2013 are \$561 million in 2014, \$576 million in 2015, \$1.2 billion in 2016, \$1.3 billion in 2017 and \$1.3 billion in 2018.

Notes to Consolidated Financial Statements

7 Leases

The Company leases most of its retail and mail order locations, ten of its distribution centers and certain corporate offices under noncancelable operating leases, typically with initial terms of 15 to 25 years and with options that permit renewals for additional periods. The Company also leases certain equipment and other assets under noncancelable operating leases, typically with initial terms of 3 to 10 years. Minimum rent is expensed on a straight-line basis over the term of the lease. In addition to minimum rental payments, certain leases require additional payments based on sales volume, as well as reimbursement for real estate taxes, common area maintenance and insurance, which are expensed when incurred.

The following table is a summary of the Company's net rental expense for operating leases for the years ended December 31:

| <i>In millions</i> | 2013 | 2012 | 2011 |
|-----------------------|-----------------|----------|----------|
| Minimum rentals | \$ 2,210 | \$ 2,165 | \$ 2,087 |
| Contingent rentals | 41 | 48 | 49 |
| | 2,251 | 2,213 | 2,136 |
| Less: sublease income | (21) | (20) | (19) |
| | \$ 2,230 | \$ 2,193 | \$ 2,117 |

The following table is a summary of the future minimum lease payments under capital and operating leases as of December 31, 2013:

| <i>In millions</i> | Capital Leases | Operating Leases ⁽¹⁾ |
|--|----------------|---------------------------------|
| 2014 | \$ 46 | \$ 2,175 |
| 2015 | 46 | 2,129 |
| 2016 | 47 | 2,055 |
| 2017 | 47 | 1,964 |
| 2018 | 47 | 1,853 |
| Thereafter | 556 | 16,914 |
| Total future lease payments | 789 | \$ 27,090 |
| Less: imputed interest | (399) | |
| Present value of capital lease obligations | \$ 390 | |

(1) Future operating lease payments have not been reduced by minimum sublease rentals of \$224 million due in the future under noncancelable subleases.

The Company finances a portion of its store development program through sale-leaseback transactions. The properties are generally sold at net book value, which generally approximates fair value, and the resulting leases generally qualify and are accounted for as operating leases. The operating leases that resulted from these transactions are included in the above table. The Company does not have any retained or contingent interests in the stores and does not provide any guarantees, other than a guarantee of lease payments, in connection with the sale-leaseback transactions. Proceeds from sale-leaseback transactions totaled \$600 million in 2013, \$529 million in 2012 and \$592 million in 2011.

8 Medicare 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.

SilverScript is a licensed domestic insurance company under the applicable laws and regulations. Pursuant to these laws and regulations, SilverScript 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, reinsurance amounts, and coverage gap discount amounts ultimately payable to or receivable from CMS based on a detailed claims reconciliation that will occur in the following year; (ii) an estimate of amounts receivable from or payable to CMS under a risk-sharing feature of the Medicare Part D program design, referred to as the risk corridor and (iii) estimates for claims that have been reported and are in the process of being paid or contested and for our estimate of claims that have been incurred but have not yet been reported.

As of December 31, 2013 and 2012, amounts due from CMS included in accounts receivable were \$2.4 billion and \$0.7 billion, respectively.

9 Pension Plans and Other Postretirement Benefits

Defined Contribution Plans

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

At the participant's option, account balances, including the Company's matching contribution, can be moved without restriction among various investment options, including the Company's common stock fund under one of the defined contribution plans. The Company also maintains a nonqualified, unfunded Deferred Compensation Plan for certain key employees. This plan provides participants the opportunity to defer portions of their eligible compensation and receive matching contributions equivalent to what they could have received under the CVS Caremark 401(k) Plan absent certain restrictions and limitations under the Internal Revenue Code. The Company's contributions under the above defined contribution plans were \$235 million, \$199 million and \$187 million in 2013, 2012 and 2011, respectively.

Other Postretirement Benefits

The Company provides postretirement health care and life insurance benefits to certain retirees who meet eligibility requirements. The Company's funding policy is generally to pay covered expenses as they are incurred. For retiree medical plan accounting, the Company reviews external data and its own historical trends for health care costs to determine the health care cost trend rates. As of December 31, 2013 and 2012, the Company's other postretirement benefits have an accumulated postretirement benefit obligation of \$27 million and \$16 million, respectively. Net periodic benefit costs related to these other postretirement benefits were approximately \$11 million in 2013 and \$1 million in 2012 and 2011. The net periodic benefit costs for 2013 include a settlement loss of \$8 million.

Notes to Consolidated Financial Statements

Pursuant to various labor agreements, the Company also contributes to multiemployer health and welfare plans that cover certain union-represented employees. The plans provide postretirement health care and life insurance benefits to certain employees who meet eligibility requirements. Total Company contributions to multiemployer health and welfare plans were \$55 million, \$50 million and \$47 million in 2013, 2012 and 2011, respectively.

Pension Plans

During the year ended December 31, 2013, the Company sponsored ten defined benefit pension plans. Four of the plans are tax-qualified plans that are funded based on actuarial calculations and applicable federal laws and regulations. The other six plans are unfunded nonqualified supplemental retirement plans. Most of the plans were frozen in prior periods. During the years ended December 31, 2012 and 2011, the Company had a total of nine defined benefit pension plans.

As of December 31, 2013, the Company's pension plans had a projected benefit obligation of \$694 million and plan assets of \$568 million. As of December 31, 2012, the Company's pension plans had a projected benefit obligation of \$758 million and plan assets of \$527 million. Actual return on plan assets was \$49 million and \$62 million in 2013 and 2012, respectively. Net periodic pension costs related to these pension plans were \$19 million, \$31 million and \$49 million in 2013, 2012 and 2011, respectively. The net periodic pension costs for 2012 include a curtailment loss of \$2 million. The net periodic pension costs for 2011 include a settlement loss of \$25 million due to the impact of lump sum payouts.

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 4.75% in 2013 and 4.0% in 2012. The expected long-term rate of return on plan assets is determined by using the plan's target allocation and historical returns for each asset class on a plan by plan basis. The expected long-term rate of return for all plans was 7.25% in 2013, 2012 and 2011.

Historically, the Company used an investment strategy which emphasized equities in order to produce higher expected returns, and in the long run, lower expected expense and cash contribution requirements. The qualified pension plan asset allocation targets were 50% equity and 50% fixed income for 2012 and 2011. Beginning in 2013, the Company changed its investment strategy to be liability management driven. The qualified pension plan asset allocation targets in 2013 were revised to hold more fixed income investments based on the change in the investment strategy. Investment allocations for the four qualified defined benefit plans range from 60% to 85% in fixed income and 15% to 40% in equities as of December 31, 2013.

As of December 31, 2013, the Company's qualified defined benefit pension plan assets consisted of 23% equity, 76% fixed income and 1% money market securities of which 17% were classified as Level 1 and 83% as Level 2 in the fair value hierarchy. The Company's qualified defined benefit pension plan assets as of December 31, 2012 consisted of 50% equity, 48% fixed income and 2% money market securities of which 84% were classified as Level 1 and 16% as Level 2 in the fair value hierarchy.

The Company contributed \$33 million, \$36 million and \$92 million to the pension plans during 2013, 2012 and 2011, respectively. The Company plans to make approximately \$41 million in contributions to the pension plans during 2014.

The Company also contributes to a number of multiemployer pension plans under the terms of collective-bargaining agreements that cover its union-represented employees. The risks of participating in these multiemployer plans are different from single-employer pension plans in the following aspects: (i) assets contributed to the multiemployer plan

by one employer may be used to provide benefits to employees of other participating employers, (ii) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers, and (iii) if the Company chooses to stop participating in some of its multiemployer plans, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

None of the multiemployer pension plans in which the Company participates are individually significant to the Company. Total Company contributions to multiemployer pension plans were \$13 million, \$12 million and \$11 million in 2013, 2012 and 2011, respectively.

10 Stock Incentive Plans

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

Compensation expense related to stock options, which includes the 2007 Employee Stock Purchase Plan (the "2007 ESPP") totaled \$100 million, \$102 million and \$112 million for 2013, 2012 and 2011, respectively. The recognized tax benefit was \$32 million, \$33 million and \$38 million for 2013, 2012 and 2011, respectively. Compensation expense related to restricted stock awards totaled \$41 million, \$30 million and \$21 million for 2013, 2012 and 2011, respectively.

The 2007 ESPP provides for the purchase of up to 15 million shares of common stock. In March 2013, the Board of Directors approved an amendment to the 2007 ESPP to provide an additional 15 million shares of common stock for issuance. 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. During 2013, approximately 2 million shares of common stock were purchased under the provisions of the 2007 ESPP at an average price of \$41.44 per share. As of December 31, 2013, approximately 17 million shares of common stock were available for issuance under the 2007 ESPP.

The fair value of stock-based compensation associated with the 2007 ESPP is estimated on the date of grant (the first day of the six month offering period) using the Black-Scholes Option Pricing Model.

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

| | 2013 | 2012 | 2011 |
|---|----------|---------|---------|
| Dividend yield ⁽¹⁾ | 0.86% | 0.73% | 0.69% |
| Expected volatility ⁽²⁾ | 16.94% | 22.88% | 20.42% |
| Risk-free interest rate ⁽³⁾ | 0.10% | 0.10% | 0.15% |
| Expected life (in years) ⁽⁴⁾ | 0.50 | 0.50 | 0.50 |
| Weighted-average grant date fair value | \$ 10.08 | \$ 9.22 | \$ 7.21 |

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

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

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

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

Notes to Consolidated Financial Statements

In May 2010, the Company's Board of Directors adopted and the shareholders approved the 2010 Incentive Compensation Plan (the "2010 ICP"). The terms of the 2010 ICP 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. Payment of such annual incentive and long-term performance awards will be in cash, stock, other awards or other property, at the discretion of the Management Planning and Development Committee of the Company's Board of Directors. The 2010 ICP allows for a maximum of 74 million shares to be reserved and available for grants. The 2010 ICP is the only compensation plan under which the Company grants stock options, restricted stock and other stock-based awards to its employees, with the exception of the Company's 2007 ESPP. In November 2012, the Company's Board of Director's approved an amendment to the 2010 ICP to eliminate the share recycling provision of the 2010 ICP. As of December 31, 2013, there were approximately 38 million shares available for future grants under the 2010 ICP.

The Company's restricted awards are considered non-vested share awards and require no payment from the employee. Compensation cost is recorded based on the market price on the grant date and is recognized on a straight-line basis over the requisite service period. The Company granted 1,715,000, 1,811,000 and 1,121,000 restricted stock units with a weighted average fair value of \$54.30, \$44.80 and \$34.84 in 2013, 2012 and 2011, respectively. As of December 31, 2013, there was \$89 million of total unrecognized compensation cost related to the restricted stock units that are expected to vest. These costs are expected to be recognized over a weighted-average period of 2.1 years. The total fair value of restricted shares vested during 2013, 2012 and 2011 was \$41 million, \$81 million and \$33 million, respectively.

The following table is a summary of the restricted stock unit and restricted share award activity for the year ended December 31, 2013.

| <i>Units in thousands</i> | Units | Weighted Average Grant Date Fair Value |
|--------------------------------|-------|--|
| Nonvested at beginning of year | 2,350 | \$ 33.32 |
| Granted | 1,715 | 54.30 |
| Vested | (802) | 54.58 |
| Forfeited | (242) | 46.17 |
| Nonvested at end of year | 3,021 | \$ 38.56 |

All grants under the 2010 ICP are awarded at fair market value on the date of grant. The fair value of stock options is estimated using the Black-Scholes Option Pricing Model and stock-based compensation is recognized on a straight-line basis over the requisite service period. Options granted through 2010 generally become exercisable over a three-year period from the grant date. Beginning in 2011, options granted generally become exercisable over a four-year period from the grant date. Options generally expire seven years after the grant date.

Excess tax benefits of \$62 million, \$28 million and \$21 million were included in financing activities in the accompanying consolidated statements of cash flow during 2013, 2012 and 2011, respectively. Cash received from stock options exercised, which includes the 2007 ESPP, totaled \$500 million, \$836 million and \$431 million during 2013, 2012 and 2011, respectively. The total intrinsic value of options exercised was \$282 million, \$321 million and \$161 million in 2013, 2012 and 2011, respectively. The total fair value of options vested during 2013, 2012 and 2011 was \$329 million, \$386 million and \$452 million, 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:

| | 2013 | 2012 | 2011 |
|---|----------|----------|---------|
| Dividend yield ⁽¹⁾ | 1.65% | 1.44% | 1.43% |
| Expected volatility ⁽²⁾ | 30.96% | 32.49% | 32.62% |
| Risk-free interest rate ⁽³⁾ | 0.73% | 0.84% | 1.81% |
| Expected life (in years) ⁽⁴⁾ | 4.70 | 4.70 | 4.70 |
| Weighted-average grant date fair value | \$ 12.50 | \$ 11.12 | \$ 9.19 |

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

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

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

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

As of December 31, 2013, unrecognized compensation expense related to unvested options totaled \$170 million, which the Company expects to be recognized over a weighted-average period of 2.1 years. After considering anticipated forfeitures, the Company expects approximately 19 million of the unvested options to vest over the requisite service period.

The following table is a summary of the Company's stock option activity for the year ended December 31, 2013:

| Shares in thousands | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|--|----------|---------------------------------|---|---------------------------|
| Outstanding at December 31, 2012 | 40,929 | \$ 36.57 | 4.34 | \$ 482,249,000 |
| Granted | 8,556 | \$ 54.60 | — | — |
| Exercised | (12,568) | \$ 35.04 | — | — |
| Forfeited | (1,619) | \$ 41.87 | — | — |
| Expired | (560) | \$ 31.18 | — | — |
| Outstanding at December 31, 2013 | 34,738 | \$ 41.40 | 4.39 | \$ 1,047,976,191 |
| Exercisable at December 31, 2013 | 14,573 | \$ 35.21 | 2.95 | \$ 529,832,395 |
| Vested and expected to vest at December 31, 2013 | 33,601 | \$ 41.17 | 4.34 | \$ 1,021,486,782 |

Notes to Consolidated Financial Statements

11 Income Taxes

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

| <i>In millions</i> | 2013 | 2012 | 2011 |
|--------------------|-----------------|----------|----------|
| Current: | | | |
| Federal | \$ 2,623 | \$ 2,226 | \$ 1,807 |
| State | 437 | 410 | 338 |
| | 3,060 | 2,636 | 2,145 |
| Deferred: | | | |
| Federal | (115) | (182) | 101 |
| State | (17) | (18) | 12 |
| | (132) | (200) | 113 |
| Total | \$ 2,928 | \$ 2,436 | \$ 2,258 |

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

| | 2013 | 2012 | 2011 |
|--|-----------------|-------|-------|
| Statutory income tax rate | 35.0% | 35.0% | 35.0% |
| State income taxes, net of federal tax benefit | 4.0 | 3.9 | 3.9 |
| Other | (0.1) | (0.3) | 0.4 |
| Effective income tax rate | 38.9% | 38.6% | 39.3% |

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

| <i>In millions</i> | 2013 | 2012 |
|---------------------------------|-------------------|------------|
| Deferred tax assets: | | |
| Lease and rents | \$ 344 | \$ 336 |
| Inventories | — | 141 |
| Employee benefits | 213 | 202 |
| Allowance for doubtful accounts | 79 | 137 |
| Retirement benefits | 172 | 115 |
| Net operating losses | 10 | 5 |
| Depreciation | 192 | — |
| Other | 598 | 430 |
| Valuation allowance | (3) | — |
| Total deferred tax assets | 1,605 | 1,366 |
| Deferred tax liabilities: | | |
| Inventories | (69) | — |
| Depreciation and amortization | (4,512) | (4,457) |
| Total deferred tax liabilities | (4,581) | (4,457) |
| Net deferred tax liabilities | \$ (2,976) | \$ (3,091) |

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

| <i>In millions</i> | 2013 | 2012 |
|---|-----------------|------------|
| Deferred tax assets – current | \$ 902 | \$ 693 |
| Deferred tax assets – noncurrent (included in other assets) | 23 | — |
| Deferred tax liabilities – noncurrent | (3,901) | (3,784) |
| Net deferred tax liabilities | \$ (2,976) | \$ (3,091) |

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

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

| <i>In millions</i> | 2013 | 2012 | 2011 |
|--|-----------------|-------|-------|
| Beginning balance | \$ 80 | \$ 38 | \$ 35 |
| Additions based on tax positions related to the current year | 19 | 15 | 3 |
| Additions based on tax positions related to prior years | 37 | 42 | 13 |
| Reductions for tax positions of prior years | (1) | (2) | — |
| Expiration of statutes of limitation | (17) | (12) | (7) |
| Settlements | (1) | (1) | (6) |
| Ending balance | \$ 117 | \$ 80 | \$ 38 |

The Company and most of its subsidiaries are subject to U.S. federal income tax as well as income tax of numerous state and local jurisdictions. The Internal Revenue Service (“IRS”) is currently examining the Company’s 2012 and 2013 consolidated U.S. federal income tax returns under its Compliance Assurance Process (“CAP”) program. The CAP program is a voluntary program under which participating taxpayers work collaboratively with the IRS to identify and resolve potential tax issues through open, cooperative and transparent interaction prior to the filing of their federal income tax return.

The Company and its subsidiaries are also currently under income tax examinations by a number of state and local tax authorities. As of December 31, 2013, 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.

Substantially all material state and local income tax matters have been concluded for fiscal years through 2008. The Company and its subsidiaries anticipate that a number of state and local income tax examinations will be concluded and statutes of limitation for open years will expire over the next twelve months, which may result in the utilization or reduction of the Company’s reserve for uncertain tax positions of up to approximately \$13 million.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties in income tax expense. During the years ended December 31, 2013, 2012 and 2011, the Company recognized interest of approximately \$4 million, \$4 million and \$2 million, respectively. The Company had approximately \$10 million accrued for interest and penalties as of December 31, 2013 and 2012.

There are no material uncertain tax positions as of December 31, 2013 the ultimate deductibility of which 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 a period earlier than expected.

The total amount of unrecognized tax benefits that, if recognized, would affect the effective income tax rate is approximately \$95 million, after considering the federal benefit of state income taxes.

12 Commitments and Contingencies

Lease Guarantees

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 agreed to indemnify 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, 2013, the Company guaranteed approximately 73 such store leases (excluding the lease guarantees related to Linens 'n Things, which are discussed in Note 3), with the maximum remaining lease term extending through 2026. 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.

Legal Matters

The Company is a party to legal proceedings, investigations and claims in the ordinary course of its business, including the matters described below. The Company records accruals for outstanding legal matters when it believes it is probable that a loss will be incurred and the amount can be reasonably estimated. The Company evaluates, on a quarterly basis, developments in legal matters that could affect the amount of any accrual and developments that would make a loss contingency both probable and reasonably estimable. If a loss contingency is not both probable and estimable, the Company does not establish an accrued liability. None of the Company's accruals for outstanding legal matters are material individually or in the aggregate to the Company's financial position.

The Company's contingencies are subject to significant uncertainties, including, among other factors: (i) the procedural status of pending matters; (ii) whether class action status is sought and certified; (iii) whether asserted claims or allegations will survive dispositive motion practice; (iv) the extent of potential damages, fines or penalties, which are often unspecified or indeterminate; (v) the impact of discovery on the legal process; (vi) whether novel or unsettled legal theories are at issue; (vii) the settlement posture of the parties, and/or (viii) in the case of certain government agency investigations, whether a sealed *qui tam* lawsuit ("whistleblower" action) has been filed and whether the government agency makes a decision to intervene in the lawsuit following investigation.

Except as otherwise noted, the Company cannot predict with certainty the timing or outcome of the legal matters described below, and is unable to reasonably estimate a possible loss or range of possible loss in excess of amounts already accrued for these matters.

- Caremark (the term "Caremark" being used herein to generally refer to any one or more pharmacy benefit management subsidiaries of the Company, as applicable) was 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 sought monetary damages and alleged that Caremark's processing of Medicaid and certain other government claims on behalf of its clients (which allegedly resulted in underpayments from our clients to the applicable government agencies) on one of Caremark's adjudication platforms violated 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. Thereafter, in 2008, the Company prevailed on several motions for partial summary judgment and, following an appellate ruling from the Fifth Circuit Court of Appeals in 2011 which affirmed in part and reversed in part these prior rulings, the claims asserted in the case against Caremark were substantially narrowed. In December 2013, this case was dismissed following a settlement between the Company and the plaintiffs.

In a related matter, in December 2007, the Company received a document subpoena from the Office of Inspector General (“OIG”) within the U.S. Department of Health and Human Services (“HHS”), requesting information relating to the processing of Medicaid and other government agency claims on a different adjudication platform of Caremark. The Company has provided documents and other information in response to this request for information. The Company has been conducting discussions with the United States Department of Justice (“DOJ”) and the OIG regarding a possible settlement of this matter.

- 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. Following the close of class discovery, the trial court entered an Order on August 15, 2012 that granted the plaintiffs’ motion to certify a class pursuant to Alabama Rule of civil Procedures 23(b)(3) but denied their request that the class also be certified pursuant to Rule 23(b)(1). In addition, the August 15, 2012 Order appointed class representatives and class counsel. The defendants’ appeal and plaintiffs’ cross-appeal are pending before the Alabama Supreme Court. The proceedings in the trial court are stayed by statute pending a decision on the appeal and cross-appeal by the Alabama Supreme Court.
- Various lawsuits have been filed alleging that Caremark has violated applicable antitrust laws in establishing and maintaining retail pharmacy networks for client health plans. In August 2003, Bellevue Drug Co., Robert Schreiber, Inc. d/b/a Burns Pharmacy and Rehn-Huerbinger Drug Co. d/b/a Parkway Drugs #4, together with Pharmacy Freedom Fund and the National Community Pharmacists Association filed a putative class action against Caremark in Pennsylvania federal court, seeking treble damages and injunctive relief. This case was initially sent to arbitration based on the contract terms between the pharmacies and Caremark. In October 2003, two independent pharmacies, North Jackson Pharmacy, Inc. and C&C, Inc. d/b/a Big C Discount Drugs, Inc., filed a putative class action complaint in Alabama federal court against Caremark and two PBM competitors, seeking treble damages and injunctive relief. The North Jackson Pharmacy case against two of the Caremark entities named as defendants was transferred to Illinois federal court, and the case against a separate Caremark entity was sent to arbitration based on contract terms between the pharmacies and Caremark. The Bellevue arbitration was then stayed by the parties pending developments in the North Jackson Pharmacy court case.

In August 2006, the Bellevue case and the North Jackson Pharmacy case were both transferred to Pennsylvania federal court by the Judicial Panel on Multidistrict Litigation for coordinated and consolidated proceedings with other cases before the panel, including cases against other PBMs. Caremark appealed the decision which vacated an order compelling arbitration and staying the proceedings in the Bellevue case and, following the appeal, the Court of Appeals reinstated the order compelling arbitration of the Bellevue case. Following remand, plaintiffs in the Bellevue case sought dismissal of their complaint to permit an immediate appeal of the reinstated order compelling arbitration and pursued an appeal to the Third Circuit Court of Appeals. In November 2012, the Third Circuit Court reversed the district court ruling and directed the parties to proceed in federal court. Motions for class certification in the coordinated cases within the multidistrict litigation, including the North Jackson Pharmacy case, remain pending, and the court has permitted certain additional class discovery and briefing. The consolidated action is now known as the In Re Pharmacy Benefit Managers Antitrust Litigation.

Notes to Consolidated Financial Statements

- In November 2009, a securities class action lawsuit was filed in the United States District Court for the District of Rhode Island purportedly on behalf of purchasers of CVS Caremark Corporation stock between May 5, 2009 and November 4, 2009. Plaintiffs subsequently amended the lawsuit to allege a class period beginning October 30, 2008. The lawsuit names the Company and certain officers as defendants and includes allegations of securities fraud relating to public disclosures made by the Company concerning the PBM business and allegations of insider trading. In addition, a shareholder derivative lawsuit was filed in December 2009 in the same court against the directors and certain officers of the Company. This lawsuit, which was stayed pending developments in the related securities class action, includes allegations of, among other things, securities fraud, insider trading and breach of fiduciary duties and further alleges that the Company was damaged by the purchase of stock at allegedly inflated prices under its share repurchase program. In January 2011, both lawsuits were transferred to the United States District Court for the District of New Hampshire. In June 2012, the court granted the Company's motion to dismiss the securities class action. The plaintiffs subsequently appealed the court's ruling on the motion to dismiss. In May 2013, the First Circuit Court of Appeals vacated the prior ruling and remanded the case to the district court for further proceedings. In December 2013, the district court denied the Company's renewed motion to dismiss the lawsuit. The derivative lawsuit will remain stayed until the Company answers the securities class action complaint.
- In March 2010, the Company learned that various State Attorneys General offices and certain other government agencies were conducting a multi-state investigation of certain of the Company's business practices similar to those being investigated at that time by the U.S. Federal Trade Commission ("FTC"). Twenty-eight states, the District of Columbia and the County of Los Angeles are known to be participating in this investigation. The prior FTC investigation, which commenced in August 2009, was officially concluded in May 2012 when the consent order entered into between the FTC and the Company became final. The Company has cooperated in the multi-state investigation.
- In March 2010, the Company received a subpoena from the OIG requesting information about programs under which the Company has offered customers remuneration conditioned upon the transfer of prescriptions for drugs or medications to the Company's pharmacies in the form of gift cards, cash, non-prescription merchandise or discounts or coupons for non-prescription merchandise. The subpoena relates to an investigation of possible false or otherwise improper claims for payment under the Medicare and Medicaid programs. The Company has provided documents and other information in response to this request for information.
- The Company received a subpoena from the U.S. Securities and Exchange Commission ("SEC") in February 2011 and subsequently received additional subpoenas and other requests for information. The SEC's requests related to, among other things, public disclosures made by the Company during 2009, transactions in the Company's securities by certain officers and employees of the Company during 2009 and the purchase accounting for the Longs Drug Stores acquisition. The Company has provided the documents and other information requested by the SEC and has been cooperating with the SEC in this investigation. The Company has reached an agreement in principle with the staff of the Boston Regional Office of the SEC to settle certain allegations that, during the third and fourth quarters of 2009, the Company violated certain provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934, including certain anti-fraud provisions of those statutes. The agreement in principle will be entered into by the Company on a "no admit or deny" basis, and the Company will not be restating its financial statements for any reporting period. The Company has agreed to pay a \$20 million civil penalty when the settlement is finalized, and this amount has been fully reserved in the Company's financial statements. The Company will continue to cooperate with the SEC to document the settlement terms, and the settlement remains subject to approval by the Commission and federal court as required.

- In January 2012, the United States District Court for the Eastern District of Pennsylvania unsealed a first amended *qui tam* complaint filed in August 2011 by an individual relator, who is described in the complaint as having once been employed by a firm providing pharmacy prescription benefit audit and recovery services. The complaint seeks monetary damages and alleges that Caremark's processing of Medicare claims on behalf of one of its clients violated the federal false claims act. The United States, acting through the U.S. Attorney's Office in Philadelphia, Pennsylvania, declined to intervene in the lawsuit. Caremark filed a motion to dismiss the amended complaint and the DOJ filed a Statement of Interest with regard to Caremark's motion to dismiss. In December 2012, the court denied Caremark's motion to dismiss the amended complaint.
- In January 2012, the Company received a subpoena from the OIG requesting information about its Health Savings Pass program, a prescription drug discount program for uninsured or underinsured individuals, in connection with an investigation of possible false or otherwise improper claims for payment involving HHS programs. In February 2012, the Company also received a civil investigative demand from the Office of the Attorney General of the State of Texas requesting a copy of information produced under this OIG subpoena and other information related to prescription drug claims submitted by the Company's pharmacies to Texas Medicaid for reimbursement. The Company is providing documents and other information in response to these requests for information.
- A purported shareholder derivative action was filed on behalf of nominal defendant CVS Caremark Corporation against certain of the Company's officers and members of its Board of Directors. The action, which alleged a single claim for breach of fiduciary duty relating to the Company's alleged failure to properly implement internal regulatory controls to comply with the Controlled Substances Act and the Combat Methamphetamine Epidemic Act, was originally filed in June 2012. In addition, an amended complaint was filed in November 2012 and a Supplemental Complaint was filed in April 2013. In October 2013, the court granted the Company's motion to dismiss and entered judgment dismissing the action, without prejudice. Following dismissal of the action, the same purported shareholder sent a letter to the Company's Board of Directors demanding that the Board investigate her allegations and pursue legal action against certain directors and officers of the Company. A committee of the Board of Directors is conducting a review and intends to respond to the letter as appropriate.
- In November 2012, the Company received a subpoena from the OIG requesting information concerning automatic refill programs used by pharmacies to refill prescriptions for customers. The Company has been cooperating and providing documents and other information in response to this request for information.

The Company is also a party to other legal proceedings, inquiries and audits 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 its business, financial condition and results of operations will not be materially adversely affected, or that the Company will not be required to materially change its 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 the Company's business, the pharmacy services, retail pharmacy or retail clinic industries or to the health care industry generally; (iii) pending or future federal or state governmental investigations of the Company's 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 the Company; (v) adverse developments in any pending *qui tam* lawsuit against the Company, whether sealed or unsealed, or in any future *qui tam* lawsuit that may be filed against the Company; or (vi) adverse developments in other pending or future legal proceedings against the Company or affecting the pharmacy services, retail pharmacy or retail clinic industry or the health care industry generally.

Notes to Consolidated Financial Statements

13 Segment Reporting

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

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

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

| <i>In millions</i> | Pharmacy Services Segment ⁽¹⁾ (2) | Retail Pharmacy Segment ⁽²⁾ | Corporate Segment | Intersegment Eliminations ⁽²⁾ | Consolidated Totals |
|-------------------------------------|--|--|----------------------|---|------------------------|
| 2013: | | | | | |
| Net revenues | \$ 76,208 | \$ 65,618 | \$ — | \$ (15,065) | \$126,761 |
| Gross profit | 4,237 | 20,112 | — | (566) | 23,783 |
| Operating profit | 3,086 | 6,268 | (751) | (566) | 8,037 |
| Depreciation and amortization | 560 | 1,217 | 93 | — | 1,870 |
| Total assets | 38,343 | 30,191 | 4,420 | (1,428) | 71,526 |
| Goodwill | 19,658 | 6,884 | — | — | 26,542 |
| Additions to property and equipment | 313 | 1,610 | 61 | — | 1,984 |
| 2012: | | | | | |
| Net revenues | \$ 73,444 | \$ 63,641 | \$ — | \$ (13,965) | \$ 123,120 |
| Gross profit | 3,808 | 19,091 | — | (411) | 22,488 |
| Operating profit | 2,679 | 5,636 | (694) | (411) | 7,210 |
| Depreciation and amortization | 517 | 1,153 | 83 | — | 1,753 |
| Total assets | 36,057 | 29,492 | 1,408 | (736) | 66,221 |
| Goodwill | 19,646 | 6,749 | — | — | 26,395 |
| Additions to property and equipment | 422 | 1,555 | 53 | — | 2,030 |
| 2011: | | | | | |
| Net revenues | \$ 58,874 | \$ 59,579 | \$ — | \$ (11,373) | \$ 107,080 |
| Gross profit | 3,279 | 17,469 | — | (186) | 20,562 |
| Operating profit | 2,220 | 4,913 | (616) | (186) | 6,331 |
| Depreciation and amortization | 433 | 1,060 | 75 | — | 1,568 |
| Total assets | 35,704 | 28,632 | 1,121 | (605) | 64,852 |
| Goodwill | 19,657 | 6,801 | — | — | 26,458 |
| Additions to property and equipment | 461 | 1,353 | 58 | — | 1,872 |

(1) Net revenues of the Pharmacy Services Segment include approximately \$7.9 billion, \$8.4 billion and \$7.9 billion of Retail co-payments for the years ended December 31, 2013, 2012 and 2011, respectively.

(2) Intersegment eliminations relate to two types of transactions: (i) Intersegment revenues that occur when Pharmacy Services Segment clients use Retail Pharmacy Segment stores to purchase covered products. When this occurs, both the Pharmacy Services and Retail Pharmacy segments record the revenue on a standalone basis and (ii) Intersegment revenues, gross profit and operating profit that occur when Pharmacy Services Segment clients, through the Company's intersegment activities (such as the Maintenance Choice program), elect to pick up their maintenance prescriptions at Retail Pharmacy Segment stores instead of receiving them through the mail. When this occurs, both the Pharmacy Services and Retail Pharmacy segments record the revenue, gross profit and operating profit on a standalone basis. Beginning in the fourth quarter of 2011, the Maintenance Choice eliminations reflect all discounts available for the purchase of mail order prescription drugs. The following amounts are eliminated in consolidation in connection with the item (ii) intersegment activity: net revenues of \$4.3 billion, \$3.4 billion and \$2.6 billion for the years ended December 31, 2013, 2012 and 2011, respectively; gross profit and operating profit of \$566 million, \$411 million and \$186 million for the years ended December 31, 2013, 2012 and 2011, respectively.

14 Earnings Per Common Share

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

| <i>In millions, except per share amounts</i> | 2013 | 2012 | 2011 |
|--|-----------------|-----------|-----------|
| Numerator for earnings per common share calculation: | | | |
| Income from continuing operations | \$ 4,600 | \$ 3,869 | \$ 3,489 |
| Net loss attributable to noncontrolling interest | — | 2 | 4 |
| Income from continuing operations attributable to CVS Caremark | 4,600 | 3,871 | 3,493 |
| Loss from discontinued operations, net of tax | (8) | (7) | (31) |
| Net income attributable to CVS Caremark | \$ 4,592 | \$ 3,864 | \$ 3,462 |
| Denominator for earnings per common share calculation: | | | |
| Weighted average common shares, basic | 1,217 | 1,271 | 1,338 |
| Stock options | 8 | 8 | 8 |
| Restricted stock units | 1 | 1 | 1 |
| Weighted average common shares, diluted | 1,226 | 1,280 | 1,347 |
| Basic earnings per common share: | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 3.78 | \$ 3.05 | \$ 2.61 |
| Loss from discontinued operations attributable to CVS Caremark | \$ (0.01) | \$ (0.01) | \$ (0.02) |
| Net income attributable to CVS Caremark | \$ 3.77 | \$ 3.04 | \$ 2.59 |
| Diluted earnings per common share: | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 3.75 | \$ 3.02 | \$ 2.59 |
| Loss from discontinued operations attributable to CVS Caremark | \$ (0.01) | \$ (0.01) | \$ (0.02) |
| Net income attributable to CVS Caremark | \$ 3.74 | \$ 3.02 | \$ 2.57 |

87

2013 Annual Report

15 Subsequent Event

On January 16, 2014, the Company acquired Coram LLC ("Coram"), the specialty infusion services and enteral nutrition business unit of Apria Healthcare Group Inc. for approximately \$2.1 billion. Coram is one of the nation's largest providers of comprehensive infusion services, caring for approximately 165,000 patients annually. Coram has approximately 4,600 employees, including approximately 600 nurses and 250 dietitians, operating primarily through 85 branch locations and six centers of excellence for patient intake. Coram's results of operations will be included in the Company's Pharmacy Services Segment beginning January 16, 2014.

Notes to Consolidated Financial Statements

16 Quarterly Financial Information (Unaudited)

| <i>In millions, except per share amounts</i> | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Year |
|--|------------------|-------------------|------------------|-------------------|-------------------|
| 2013: | | | | | |
| Net revenues | \$ 30,751 | \$ 31,248 | \$ 31,932 | \$ 32,830 | \$ 126,761 |
| Gross profit | 5,577 | 5,841 | 6,027 | 6,338 | 23,783 |
| Operating profit | 1,694 | 1,972 | 2,154 | 2,217 | 8,037 |
| Income from continuing operations | 954 | 1,125 | 1,255 | 1,266 | 4,600 |
| Loss from discontinued operations, net of tax | — | (1) | (6) | (1) | (8) |
| Net income | 954 | 1,124 | 1,249 | 1,265 | 4,592 |
| Net loss attributable to noncontrolling interest | — | — | — | — | — |
| Net income attributable to CVS Caremark | \$ 954 | \$ 1,124 | \$ 1,249 | \$ 1,265 | \$ 4,592 |
| Basic earnings per common share: | | | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 0.77 | \$ 0.92 | \$ 1.03 | \$ 1.06 | \$ 3.78 |
| Loss from discontinued operations attributable to CVS Caremark | \$ — | \$ — | \$ — | \$ — | \$ (0.01) |
| Net income attributable to CVS Caremark | \$ 0.77 | \$ 0.92 | \$ 1.03 | \$ 1.06 | \$ 3.77 |
| Diluted earnings per common share: | | | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 0.77 | \$ 0.91 | \$ 1.02 | \$ 1.05 | \$ 3.75 |
| Loss from discontinued operations attributable to CVS Caremark | \$ — | \$ — | \$ — | \$ — | \$ (0.01) |
| Net income attributable to CVS Caremark | \$ 0.77 | \$ 0.91 | \$ 1.02 | \$ 1.05 | \$ 3.74 |
| Dividends per common share | \$ 0.2250 | \$ 0.2250 | \$ 0.2250 | \$ 0.2250 | \$ 0.9000 |
| Stock price: (New York Stock Exchange) | | | | | |
| High | \$ 56.07 | \$ 60.70 | \$ 62.36 | \$ 71.99 | \$ 71.99 |
| Low | \$ 49.00 | \$ 53.94 | \$ 56.68 | \$ 56.32 | \$ 49.00 |

| <i>In millions, except per share amounts</i> | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Year |
|---|------------------|-------------------|------------------|-------------------|------------|
| 2012: | | | | | |
| Net revenues | \$ 30,792 | \$ 30,694 | \$ 30,237 | \$ 31,397 | \$ 123,120 |
| Gross profit | 5,106 | 5,443 | 5,645 | 6,294 | 22,488 |
| Operating profit | 1,397 | 1,702 | 1,812 | 2,299 | 7,210 |
| Income from continuing operations | 772 | 962 | 1,010 | 1,125 | 3,869 |
| Income (loss) from discontinued operations, net of tax | (1) | (1) | (5) | — | (7) |
| Net income | 771 | 961 | 1,005 | 1,125 | 3,862 |
| Net loss attributable to noncontrolling interest | 1 | 1 | — | — | 2 |
| Net income attributable to CVS Caremark | \$ 772 | \$ 962 | \$ 1,005 | \$ 1,125 | \$ 3,864 |
| Basic earnings per common share: | | | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 0.60 | \$ 0.75 | \$ 0.80 | \$ 0.91 | \$ 3.05 |
| Income (loss) from discontinued operations attributable to CVS Caremark | \$ — | \$ — | \$ — | \$ — | \$ (0.01) |
| Net income attributable to CVS Caremark | \$ 0.59 | \$ 0.75 | \$ 0.79 | \$ 0.91 | \$ 3.04 |
| Diluted earnings per common share: | | | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 0.59 | \$ 0.75 | \$ 0.79 | \$ 0.90 | \$ 3.02 |
| Income (loss) from discontinued operations attributable to CVS Caremark | \$ — | \$ — | \$ — | \$ — | \$ (0.01) |
| Net income attributable to CVS Caremark | \$ 0.59 | \$ 0.75 | \$ 0.79 | \$ 0.90 | \$ 3.02 |
| Dividends per common share | \$ 0.1625 | \$ 0.1625 | \$ 0.1625 | \$ 0.1625 | \$ 0.650 |
| Stock price: (New York Stock Exchange) | | | | | |
| High | \$ 45.88 | \$ 46.93 | \$ 48.69 | \$ 49.80 | \$ 49.80 |
| Low | \$ 41.01 | \$ 43.08 | \$ 43.65 | \$ 44.33 | \$ 41.01 |

See Note 1 – Significant Accounting Policies (Revenue Recognition – Retail Pharmacy Segment).

Five-Year Financial Summary

| <i>In millions, except per share amounts</i> | 2013 | 2012 ⁽⁴⁾ | 2011 | 2010 | 2009 |
|---|-----------|---------------------|------------|-----------|-----------|
| Statement of operations data: | | | | | |
| Net revenues | \$126,761 | \$ 123,120 | \$ 107,080 | \$ 95,766 | \$ 98,144 |
| Gross profit | 23,783 | 22,488 | 20,562 | 20,215 | 20,348 |
| Operating expenses | 15,746 | 15,278 | 14,231 | 14,082 | 13,933 |
| Operating profit | 8,037 | 7,210 | 6,331 | 6,133 | 6,415 |
| Interest expense, net | 509 | 557 | 584 | 536 | 525 |
| Loss on early extinguishment of debt | — | 348 | — | — | — |
| Income tax provision ⁽¹⁾ | 2,928 | 2,436 | 2,258 | 2,178 | 2,196 |
| Income from continuing operations | 4,600 | 3,869 | 3,489 | 3,419 | 3,694 |
| Income (loss) from discontinued operations, net of tax ⁽²⁾ | (8) | (7) | (31) | 2 | (4) |
| Net income | 4,592 | 3,862 | 3,458 | 3,421 | 3,690 |
| Net loss attributable to noncontrolling interest ⁽³⁾ | — | 2 | 4 | 3 | — |
| Net income attributable to CVS Caremark | \$ 4,592 | \$ 3,864 | \$ 3,462 | \$ 3,424 | \$ 3,690 |
| Per common share data: | | | | | |
| Basic earnings per common share: | | | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 3.78 | \$ 3.05 | \$ 2.61 | \$ 2.50 | \$ 2.58 |
| Loss from discontinued operations attributable to CVS Caremark | \$ (0.01) | \$ (0.01) | \$ (0.02) | \$ — | \$ — |
| Net income attributable to CVS Caremark | \$ 3.77 | \$ 3.04 | \$ 2.59 | \$ 2.50 | \$ 2.57 |
| Diluted earnings per common share: | | | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 3.75 | \$ 3.02 | \$ 2.59 | \$ 2.49 | \$ 2.55 |
| Loss from discontinued operations attributable to CVS Caremark | \$ (0.01) | \$ (0.01) | \$ (0.02) | \$ — | \$ — |
| Net income attributable to CVS Caremark | \$ 3.74 | \$ 3.02 | \$ 2.57 | \$ 2.49 | \$ 2.55 |
| Cash dividends per common share | \$ 0.900 | \$ 0.650 | \$ 0.500 | \$ 0.350 | \$ 0.305 |
| Balance sheet and other data: | | | | | |
| Total assets | \$ 71,526 | \$ 66,221 | \$ 64,852 | \$ 62,457 | \$ 61,919 |
| Long-term debt | \$ 12,841 | \$ 9,133 | \$ 9,208 | \$ 8,652 | \$ 8,755 |
| Total shareholders' equity | \$ 37,938 | \$ 37,653 | \$ 38,014 | \$ 37,662 | \$ 35,732 |
| Number of stores (at end of year) | 7,702 | 7,508 | 7,388 | 7,248 | 7,095 |

See Note 1 to the consolidated financial statements – Significant Accounting Policies (Revenue Recognition – Retail Pharmacy Segment) to the consolidated financial statements.

(1) Income tax provision includes the effect of the following: (i) in 2010, the recognition of \$47 million of previously unrecognized tax benefits, including interest, relating to the expiration of various statutes of limitation and settlements with tax authorities and (ii) in 2009, the recognition of \$167 million of previously unrecognized tax benefits, including interest, relating to the expiration of various statutes of limitation and settlements with tax authorities.

(2) As discussed in Note 3 to the consolidated financial statements, the results of the TheraCom business are presented as discontinued operations and have been excluded from continuing operations for all periods presented.

In connection with certain business dispositions completed between 1991 and 1997, the Company retained guarantees on store lease obligations for a number of former subsidiaries, including Linens 'n Things which filed for bankruptcy in 2008. The Company's income (loss) from discontinued operations includes lease-related costs which the Company believes it will likely be required to satisfy pursuant to its Linens 'n Things lease guarantees.

Below is a summary of the results of discontinued operations:

| <i>In millions</i> | YEAR ENDED DECEMBER 31, | | | | |
|--|-------------------------|--------|---------|-------|--------|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| Income from operations of TheraCom | \$ — | \$ — | \$ 18 | \$ 28 | \$ 13 |
| Gain on disposal of TheraCom | — | — | 53 | — | — |
| Loss on disposal of Linens 'n Things | (12) | (12) | (7) | (24) | (19) |
| Income tax benefit (provision) | 4 | 5 | (95) | (2) | 2 |
| Income (loss) from discontinued operations, net of tax | \$ (8) | \$ (7) | \$ (31) | \$ 2 | \$ (4) |

(3) Represents the minority shareholders' portion of the net loss from our majority owned subsidiary, Generation Health, Inc., acquired in the fourth quarter of 2009. In June 2012, the Company acquired the remaining 40% interest in Generation Health, Inc. from minority shareholders and employee option holders for \$26 million and \$5 million, respectively, for a total of \$31 million.

(4) Effective January 1, 2012, the Company changed its methods of accounting for prescription drug inventories in the Retail Pharmacy Segment. Additional details of the accounting change are discussed in Note 2 to the consolidated financial statements.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of CVS Caremark Corporation

We have audited the accompanying consolidated balance sheets of CVS Caremark Corporation as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. 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, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company has elected changes in its methods of accounting for prescription drug inventories in the Retail Pharmacy Segment effective January 1, 2012.

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, 2013, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated February 10, 2014 expressed an unqualified opinion thereon.

Ernst + Young LLP

Boston, Massachusetts
February 10, 2014

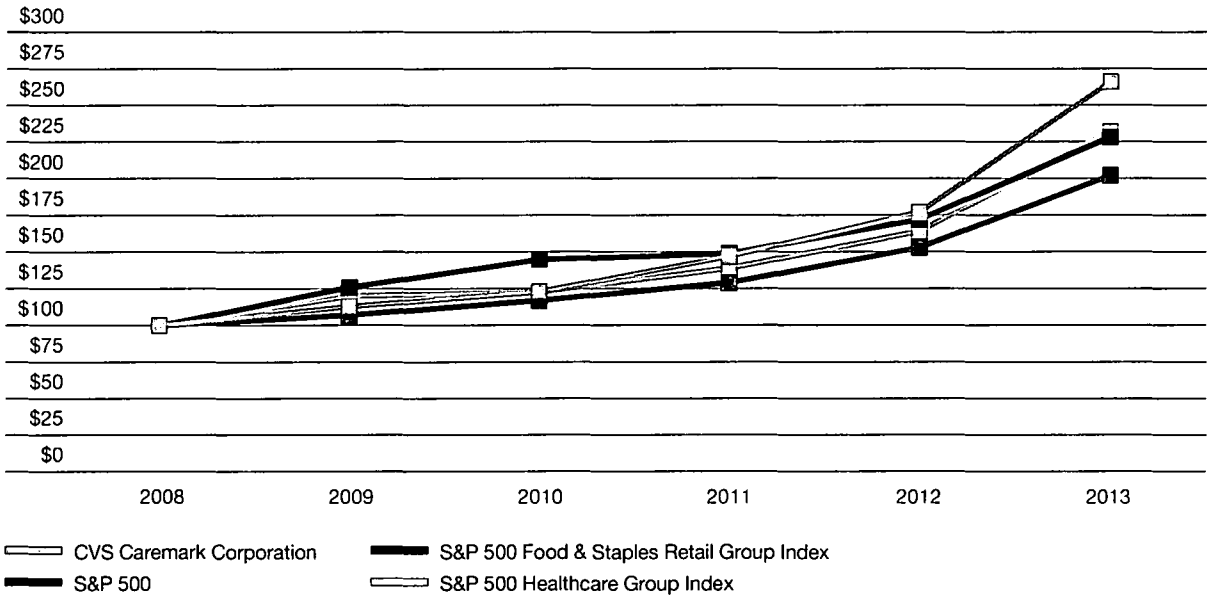


Stock Performance Graph

The following graph shows changes over the past five-year period in the value of \$100 invested in: (1) our common stock; (2) S&P 500 Index; (3) S&P 500 Food and Staples Retail Group Index, which currently includes eight retail companies; (4) S&P 500 Healthcare Group Index, which currently includes 55 health care companies.

Relative Total Returns Since 2008 – Annual

December 31, 2008 to December 31, 2013



| | Year End | | | | | | Annual Return Rate (1 Year) | Compound Annual Return Rate (3 Year) | Compound Annual Return Rate (5 Year) |
|--|----------|-------|-------|-------|-------|-------|-----------------------------|--------------------------------------|--------------------------------------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | | | |
| CVS Caremark Corporation | \$100 | \$113 | \$123 | \$147 | \$177 | \$266 | 50.4% | 29.1% | 21.6% |
| S&P 500 ⁽¹⁾ | \$100 | \$126 | \$145 | \$149 | \$172 | \$228 | 32.4% | 16.2% | 17.9% |
| S&P 500 Food & Staples Retail Group Index ⁽²⁾ | \$100 | \$107 | \$117 | \$129 | \$153 | \$202 | 32.6% | 20.0% | 15.1% |
| S&P 500 Healthcare Group Index ⁽³⁾ | \$100 | \$120 | \$123 | \$139 | \$164 | \$232 | 41.5% | 23.4% | 18.3% |

Note: Analysis assumes reinvestment of dividends.

(1) Includes CVS Caremark.

(2) Includes eight companies: (COST, CVS, KR, SWY, SYY, WAG, WFM, WMT).

(3) Includes 55 companies.

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

Shareholder Information

OFFICERS

Larry J. Merlo
President and Chief Executive Officer

Troyen A. Brennan, M.D.
Executive Vice President and
Chief Medical Officer

David M. Denton
Executive Vice President and
Chief Financial Officer

Helena B. Foulkes
Executive Vice President and
President - CVS Pharmacy

Dr. David Joyner
Executive Vice President,
Sales and Account Services
CVS Caremark Pharmacy Services

Per C. H. Lofberg
Executive Vice President

Thomas M. Moriarty
Executive Vice President and
General Counsel

Jonathan G. Roberts
Executive Vice President and
President - CVS Caremark
Pharmacy Services

Lisa G. Giacchi
Senior Vice President and
Chief Human Resources Officer

Eva C. Boratto
Senior Vice President, Controller
and Chief Accounting Officer

John M. Buckley
Senior Vice President and
Chief Compliance Officer

Nancy R. Christal
Senior Vice President - Investor Relations

Carol A. DeNale
Senior Vice President and
Corporate Treasurer

Stephen J. Gold
Senior Vice President and
Chief Information Officer

Colleen M. McIntosh
Senior Vice President and
Corporate Secretary

Andrew J. Syssman, M.D.
Senior Vice President and Associate Chief
Medical Officer, President - MinuteClinic

Thomas S. Moffatt
Vice President and Assistant
Corporate Secretary

OFFICERS' CERTIFICATIONS

The Company has filed the required certifications under Section 302 of the Sarbanes-Oxley Act of 2002 regarding the quality of our public disclosures as Exhibits 31.1 and 31.2 to our annual report on Form 10-K for the fiscal year ended December 31, 2013. After our 2013 annual meeting of stockholders, the Company filed with the New York Stock Exchange the CEO certification regarding its compliance with the NYSE corporate governance listing standards that are required by NYSE Rule 303A.1(a).

DIRECTORS

C. David Brown III⁽¹⁾
Chairman of the Firm
Broad and Cassel

Nancy Ann McDePatie⁽²⁾
Partner
Consonance Capital Partners, LLC

David W. Dorman⁽¹⁾
Chairman of the Board
CVS Caremark Corporation

Anne M. Finucane⁽²⁾
Global Strategy and Marketing Officer
Bank of America Corporation

Larry J. Merlo
President and Chief Executive Officer
CVS Caremark Corporation

Jean-Pierre Millon⁽³⁾
Former President and Chief Executive
Officer PCS Health Services, Inc.

Richard J. Swift⁽³⁾
Former Chairman of the Board
President and Chief Executive Officer
Foster Wheeler Ltd.

William C. Waldon⁽¹⁾
Former Chairman of the Board and
Chief Executive Officer
Johnson & Johnson

Tony B. White⁽¹⁾
Former Chairman of the Board
President and Chief Executive Officer
Applied Biosystems, Inc.

⁽¹⁾ Member of the Management Planning
and Development Committee

⁽²⁾ Member of the Nominating and
Corporate Governance Committee

⁽³⁾ Member of the Audit Committee

SHAREHOLDER INFORMATION

Corporate Headquarters
CVS Caremark Corporation
One CVS Drive, Woonsocket, RI 02896
(401) 765-1500

Annual Shareholders Meeting
May 8, 2014
CVS Caremark Corporate Headquarters

Stock Market Listing
The New York Stock Exchange
Symbol: CVS

Transfer Agent and Registrar
Questions regarding stock holdings,
certificate placement, transfer, dividends
and address changes should be directed to:

Wells Fargo Shareowner Services
P.O. Box 16187
St. Paul, MN 55116-0187
Toll Free: (877) CVS-PLAN (677-7526)
International: (651) 591-4064
Email: stocktrans@wellsfargo.com
Website: www.shareowner.com

**Direct Stock Purchase/Dividend
Reinvestment Program**
Shareowner Services Plus PlanSM provides a
convenient and economical way for you to
purchase your first shares or additional
shares of CVS Caremark common stock. The
program is sponsored and administered by
Wells Fargo Bank, N.A. For more information,
including an enrollment form, please contact
Wells Fargo Bank, N.A. at (877) 237-7526.

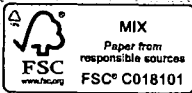
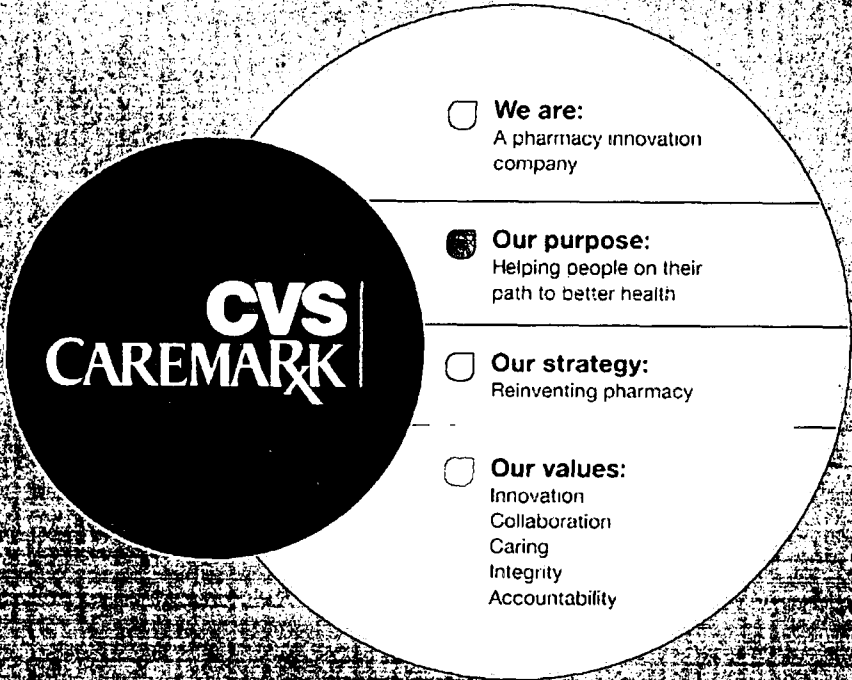
Financial and Other Company Information

The Company's Annual Report on Form 10-K
will be sent without charge to any share-
holder upon request by contacting:

Nancy R. Christal
Senior Vice President - Investor Relations
CVS Caremark Corporation
670 White Plains Road - Suite 210
Scarsdale, NY 10598
(800) 201-0938

In addition, financial reports and recent
filings with the Securities and Exchange
Commission, including our Form 10-K,
as well as other Company information
are available via the Investor
Investors.sharemark.com.

Designed and produced by stockcity - Atlanta & San Antonio



The CVS Caremark 2018 Annual Report saved the following resources by printing on paper containing 10 percent post-consumer recycled content. Impact estimates made using the Environmental Paper Network Calculator.

| Trees | Wastewater | Energy | Solid waste | Greenhouse gases | Waterborne waste |
|-----------------|----------------|-------------------|--------------|------------------|------------------|
| 123 fully grown | 57,034 gallons | 55,000,000 MMBtus | 3,818 pounds | 10,516 pounds | 37 pounds |

**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, 2013**
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 **050494040**
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

One CVS Drive, Woonsocket, Rhode Island **02895**
(Address of principal executive offices) (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 Title of each class | New York Stock Exchange 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 whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Indicate by check mark whether the registrant is 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 \$69,980,197.924 as of June 30, 2013, 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 4, 2014, the registrant had 1,182,427,156 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:

Portions of our Annual Report to Stockholders for the fiscal year ended December 31, 2013 are incorporated by reference in our response to Items 7, 8 and 9 of Part II.

Information contained in our Proxy Statement for the 2014 Annual Meeting of Stockholders is incorporated by reference in our response to Items 10 through 14 of Part III.

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| Part I | |
| <u>Item 1: Business</u> | <u>3</u> |
| <u>Item 1A: Risk Factors</u> | <u>15</u> |
| <u>Item 1B: Unresolved Staff Comments</u> | <u>20</u> |
| <u>Item 2: Properties</u> | <u>21</u> |
| <u>Item 3: Legal Proceedings</u> | <u>23</u> |
| <u>Item 4: Mine Safety Disclosures</u> | <u>25</u> |
| <u>Executive Officers of the Registrant</u> | <u>26</u> |
| Part II | |
| <u>Item 5: Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | <u>28</u> |
| <u>Item 6: Selected Financial Data</u> | <u>29</u> |
| <u>Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>30</u> |
| <u>Item 7A: Quantitative and Qualitative Disclosures About Market Risk</u> | <u>30</u> |
| <u>Item 8: Financial Statements and Supplementary Data</u> | <u>30</u> |
| <u>Item 9: Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u> | <u>30</u> |
| <u>Item 9A: Controls and Procedures</u> | <u>30</u> |
| <u>Item 9B: Other Information</u> | <u>30</u> |
| Part III | |
| <u>Item 10: Directors, Executive Officers and Corporate Governance</u> | <u>31</u> |
| <u>Item 11: Executive Compensation</u> | <u>31</u> |
| <u>Item 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> | <u>31</u> |
| <u>Item 13: Certain Relationships and Related Transactions and Director Independence</u> | <u>31</u> |
| <u>Item 14: Principal Accountant Fees and Services</u> | <u>31</u> |
| Part IV | |
| <u>Item 15: Exhibits and Financial Statement Schedules</u> | <u>32</u> |
| <u>Signatures</u> | <u>37</u> |

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[®] Pharmacy Services; our more than 7,600 CVS/pharmacy[®], Longs Drugs[®] and Drogaria Onofre[®] retail stores; our retail-based health clinic subsidiary, MinuteClinic[®]; and our online retail pharmacies, CVS.com[®] 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[®] Pharmacy Services, Caremark[®], CVS Caremark[®], CarePlus CVS/pharmacy[®], RxAmerica[®], Accordant[®], SilverScript[®] and Novologix[®] 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[®], 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[®], 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[®] 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[®] 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[®] 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[®], Longs Drugs[®] and Drogeria Onofre[®] 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[®] 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 ⁽¹⁾ | | |
|------------------------------------|---|--------|--------|
| | 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[®], 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[®], 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[®]; 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. 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[®] 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[®] 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[®] 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[®] or CVS/pharmacy[®] 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[®] 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.

Efforts to reduce reimbursement levels and alter health care financing practices.

The continued efforts of health maintenance organizations, managed care organizations, 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. Historically, the effect of this trend on generic profitability has been mitigated by our efforts to negotiate reduced acquisition costs of generic pharmaceuticals with manufacturers. However, in recent years, there has been significant consolidation within the generic manufacturing industry, and it is possible that this dynamic may enhance the ability of manufacturers to sustain or increase pricing of generic pharmaceuticals and diminish our ability to negotiate reduced acquisition costs.

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 significantly affect health care financing and reimbursement practices.

ACA made several significant changes to Medicaid rebates and to reimbursement. One of these changes was to revise the definition of AMP and the reimbursement formula for multi-source (i.e., generic) drugs. In addition, ACA made other changes that affect the coverage and plan designs that are or will be provided by many of our health plan clients, including the requirement for health insurers to meet a minimum medical loss ratio to avoid having to pay rebates to enrollees. These ACA changes may not affect our business directly, but they could indirectly impact our services and/or business practices.

The possibility of PBM client loss and/or the failure to win new PBM business.

Our PBM business generates net revenues primarily by contracting with clients to provide prescription drugs and related health care services to plan members. PBM client contracts often have terms of approximately three years in duration, so approximately one third of a PBM's client base typically is subject to renewal each year. In some cases, however, PBM clients may negotiate a shorter or longer contract term or may require early or periodic renegotiation of pricing prior to expiration of a contract. In addition, the reputational impact of a service-related incident could negatively affect our ability to grow and retain our client base. Further, the PBM industry has been impacted by consolidation activity that may continue in the future. In the event one or more of our PBM clients is acquired by an entity that is not also our client, we may be unable to retain all or a portion of the acquired business. These circumstances, either individually or in the aggregate, could result in an adverse effect on our business and financial results. Therefore, we continually face challenges in competing for new PBM business and retaining or renewing our existing PBM business. There can be no assurance that we will be able to win new business or secure renewal business on terms as favorable to us as the present terms.

Risks related to the frequency and rate of the introduction of generic drugs and brand name prescription products.

The profitability of our business is dependent upon the utilization of prescription drug products. Utilization trends are affected by, among other factors, the introduction of new and successful prescription pharmaceuticals as well as lower-priced generic alternatives to existing brand name products. Accordingly, our business could be impacted by 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).

Risks relating to the market availability, suppliers and safety profiles of prescription drugs that we purchase and sell.

We dispense significant volumes of brand-name and generic drugs from our retail and mail-order pharmacies and through our PBM's network of retail pharmacies. When increased safety risk profiles or manufacturing or other supply issues of specific drugs or classes of drugs occur, or drugs become subject to greater restrictions as controlled substances, physicians may cease writing prescriptions for these drugs or the utilization of these drugs may be otherwise reduced. Additionally, adverse publicity regarding drugs with higher safety risk profiles may result in reduced consumer demand for such drugs. On occasion, products are withdrawn by their manufacturers or transition to over-the-counter products, which can result in lower prescription utilization. In addition, future FDA rulings could restrict the supply or increase the cost of products sold to our customers. Our volumes, net revenues, profitability and cash flows may decline as a result of such regulatory rulings or market changes.

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, we maintain 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 retail network 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. If we lose our relationship with one or more pharmaceutical manufacturers, or if the discounts or rebates provided by pharmaceutical manufacturers decline, our business and financial results could be adversely affected. Further, competitive pressures in the PBM industry have caused our PBM and other PBMs to share with clients a larger portion of rebates and/or discounts received from pharmaceutical manufacturers. In addition, market dynamics and regulatory changes have impacted our ability to offer plan sponsors pricing that includes the use of retail "differential" or "spread", which could negatively impact our future profitability. Further, 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. Our Retail Pharmacy Segment has also been impacted by the margin pressures described above.

Regulatory and business changes relating to our participation in Medicare Part D.

Since its inception in 2006, Medicare Part D 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 ACA and changes to Medicare Part D, such as the elimination in 2013 of the tax deductibility of the retiree drug subsidy payment received by sponsors of retiree drug plans, 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 increasing customer migration into Medicare Part D may outweigh the benefits we realize from growth of our Medicare Part D business. In addition, if the cost and complexity of Medicare Part D exceed management's expectations or prevent effective program implementation or administration; if changes to the regulations regarding how drug costs are reported for Medicare Part D 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 Medicare Part D or for other reasons; if we fail to design and maintain programs that are attractive to Medicare participants; if CMS imposes restrictions on our Medicare Part D business as a result of audits or other regulatory actions; if we fail to successfully implement corrective action or other remedial measures sufficient to prevent or remove any applicable restrictions that may be imposed by CMS; if we fail to effectively integrate and operate the Medicare Part D businesses we have acquired; or if we are not successful in retaining enrollees, or winning contract renewals or new contracts under Medicare Part D's competitive bidding process, our Medicare Part D services and the ability to expand our Medicare Part D services could be impacted.

Possible changes in industry pricing benchmarks.

It is possible that the pharmaceutical industry or regulators may evaluate and/or develop an alternative pricing reference to replace AWP, which is the pricing reference used for many of our PBM client contracts, pharmaceutical purchase agreements, retail network contracts, specialty payor agreements and other contracts with third party payors. Future changes to the use of AWP or to other published pricing benchmarks used to establish pharmaceutical pricing, including changes in the basis for calculating reimbursement by federal and state health programs and/or other payors, could impact the reimbursement we receive from Medicare and Medicaid programs, the reimbursement we receive from PBM clients and other payors and/or our ability to negotiate rebates and/or discounts with pharmaceutical manufacturers, wholesalers, PBMs and retail pharmacies. The effect of these possible changes on our business cannot be predicted at this time.

An extremely competitive business environment.

Each of the retail pharmacy business and the pharmacy services business currently operates in a highly competitive and evolving health care environment. Our competitive success is impacted by the ability of our retail pharmacy business to establish and maintain contractual relationships with PBMs and other payors on acceptable terms and by the ability of our pharmacy services business to establish and maintain contractual relationships with network pharmacies in an environment where some PBM clients are considering adopting narrow or restricted retail pharmacy networks.

As a pharmacy retailer, 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. 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, any negative impact in our retail pharmacy could out-weigh an increase in our own mail order business and/or an increase in participation in our Maintenance Choice program. In addition, some of these competitors may offer services and pricing terms that we may not be willing or able to offer. Competition may also come from other sources in the future.

Competitors in the PBM industry (e.g., Express Scripts, OptumRx, Catamaran and Prime Therapeutics), include large, national PBM companies, PBMs owned by large national health plans and smaller standalone PBMs. Some of these competitors may offer services and pricing terms that we may not be willing or able to offer. In addition, competition may also come from other sources in the future. Unless we can demonstrate enhanced value to our clients through innovative product and service offerings, particularly in a rapidly changing industry, we may be unable to remain competitive. In addition, changes in the overall composition of our pharmacy networks, or reduced pharmacy access under our networks, could adversely affect our claims volume and/or our competitiveness generally.

Relationship with our retail customers and the demand for our products and services

The success of our retail business depends in part on customer loyalty, superior customer service and our ability to persuade customers to purchase products in additional categories and our proprietary brands. Failure to timely identify or effectively respond to changing consumer preferences and spending patterns, an inability to expand the products being purchased by our customers, or the failure or inability to obtain or offer particular categories of products could negatively affect our relationship with our customers and the demand for our products and services.

Reform of the U.S. health care system.

Congressional efforts to reform the U.S. health care system finally came to fruition in 2010 with the passage of ACA, which is resulting in significant structural changes to the health insurance system. See “Business - Government Regulation”. Many of the structural changes enacted by ACA are being implemented in 2014, and some of the applicable regulations and sub-regulatory guidance have not yet been issued and/or finalized. Therefore, there remains considerable uncertainty as to the full impact of ACA on our business. While these reforms may not affect our business directly, they affect the coverage and plan designs that are or will be provided by many of our health plan clients. As a result, they could indirectly impact many of our services and business practices. We cannot predict what effect, if any, the ACA changes may have on our retail pharmacy and pharmacy services businesses, and it is possible that other legislative or market-driven changes in the health care system that we cannot anticipate could also occur.

The failure or disruption of our information technology systems, our information security systems and our infrastructure to support our business and to protect the privacy and security of sensitive customer and business information.

Many aspects of our operations are dependent on our information systems and the information collected, processed, stored, and handled by these systems. Throughout our operations, we receive, retain and transmit certain confidential information, including personally identifiable information that our customers and clients provide to purchase products or services, enroll in programs or services, register on our websites, interact with our personnel, or otherwise communicate with us. In addition, for these operations, we depend in part on the secure transmission of confidential information over public networks. Our information systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches including credit card information breaches, vandalism, catastrophic events and human error. Although we deploy a layered approach to address information security threats and vulnerabilities, including ones from a cybersecurity standpoint, designed to protect confidential information against data security breaches, a compromise of our information security controls or of those businesses with whom we interact, which results in confidential information being accessed, obtained, damaged, or used by unauthorized or improper persons, could harm our reputation and expose us to regulatory actions and claims from customers and clients, financial institutions, payment card associations and other persons, any of which could adversely affect our business, financial position, and results of operations. Moreover, a data security breach could require that we expend significant resources related to our information systems and infrastructure, and could distract management and other key personnel from performing their primary operational duties. If our information systems are damaged, fail to work properly or otherwise become unavailable, or if we are unable to successfully complete our planned consolidation of our PBM claims adjudication platforms, we may incur substantial costs to repair or replace them, and may experience loss of critical information, customer disruption and interruptions or delays in our ability to perform essential functions and implement new and innovative services. In addition, compliance with changes in privacy and information security laws and standards may result in considerable expense due to increased investment in technology and the development of new operational processes.

Risks related to compliance with a broad and complex regulatory framework.

Our business is subject to numerous federal, state and local laws and regulations. See “Business — Government Regulation.” 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 or disgorgement 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 registrations or licensure. The regulations to which we are subject include, but are not limited to: the laws and regulations described in the Government Regulation section; accounting standards; securities laws and regulations; tax laws and regulations; laws and regulations relating to the protection of the environment and health and safety matters, including those governing exposure to, and the management and disposal of, hazardous materials and wastes; and regulations of the FDA, the FTC, the FCC, the DEA, and the Consumer Product Safety Commission, as well as state regulatory authorities, governing the sale, advertisement and promotion of products that we sell. In addition, our business interests outside of the United States are subject to the Foreign Corrupt Practices Act and other applicable domestic and international laws and regulations. We are also subject to the terms of various government agreements and mandates, including those described in the Government Regulation section. In that regard, our business, financial position and results of operations could be affected by existing and new government legislative and regulatory action, including, without limitation, any one or more of the following:

- federal and state laws and regulations governing the purchase, distribution, tracking, management, dispensing and reimbursement of prescription drugs and related services, whether at retail or mail, and applicable registration or 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 name and generic drugs, or of over-the-counter status for brand name drugs;
- FDA regulation affecting the retail or PBM industry;
- consumer protection laws affecting our health care services, our loyalty programs, the products we sell, the informational calls we make and/or the marketing of our goods and services;
- rules and regulations issued pursuant to HIPAA and the HITECH Act; and other federal and state laws affecting the collection, use, disclosure and transmission of health or other personal information, such as federal laws on information privacy precipitated by concerns about information collection through the Internet, state security breach laws and state laws limiting the use and disclosure of prescriber information;
- administration of Medicare Part D, including legislative changes and/or CMS rulemaking and interpretation;
- government regulation of the development, administration, review and updating of formularies and drug lists;
- federal, state and local waste management laws and regulations applicable to our business, including the management of pharmaceutical wastes and photo processing solutions, as well as the storage and transportation of hazardous materials;
- state laws and regulations establishing or changing prompt payment requirements for payments to retail pharmacies;
- impact of network access legislation or regulations, including “any willing provider” laws, on our ability to manage pharmacy networks;
- health care reform, managed care reform and plan design legislation;
- insurance licensing and other insurance regulatory requirements applicable to offering Medicare Part D programs and services or other health care services; 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. We are currently subject to various litigation matters, investigations, audits, government inquiries, regulatory and legal proceedings. Litigation, and particularly securities and collective or class action litigation, is often expensive and disruptive. We cannot predict the outcome of such matters, and the costs incurred may be substantial regardless of outcome. Our business, financial condition and results of operations may be adversely affected, or we may be required to materially change our business practices, as a result of such proceedings. We refer you to Item 3, "Legal Proceedings" for additional information.

The foregoing is not a comprehensive listing of all possible risks 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 "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 of our Annual Report to Stockholders for the year ended December 31, 2013, which section is incorporated by reference.

Item 1B. Unresolved Staff Comments

There are no unresolved SEC Staff Comments.

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 Note 7 "Leases" in our Annual Report to Stockholders for the year ended December 31, 2013, which section is incorporated by reference herein.

As of December 31, 2013, we owned approximately 5.9% of our 7,660 retail stores. Net selling space for our retail drugstores increased to 75.0 million square feet as of December 31, 2013. More than one third of our store base was opened or significantly remodeled within the last five years.

We own ten distribution centers located in Alabama, California, Hawaii, New York, Rhode Island, South Carolina, Tennessee and Texas and lease ten additional distribution facilities located in Arizona, Florida, Indiana, Michigan, New Jersey, Pennsylvania, Texas, Virginia and Brazil. The 20 distribution centers total approximately 11.5 million square feet as of December 31, 2013.

As of December 31, 2013, we owned one mail service dispensing pharmacy located in Texas and leased three additional mail service dispensing pharmacies located in Hawaii, Illinois and Pennsylvania. We leased call centers located in Missouri, Pennsylvania, Tennessee and Texas. As of December 31, 2013, we leased 17 onsite pharmacy stores and 25 specialty pharmacy stores, and operated 11 specialty mail order pharmacies, one of which we owned.

We own our corporate offices located in Woonsocket, Rhode Island, which totals approximately 1,000,000 square feet. In addition, we lease large corporate offices in Scottsdale, Arizona, Northbrook, Illinois, Irving, Texas and Sao Paulo, Brazil.

In connection with certain business dispositions completed between 1991 and 1997, we continue to guarantee lease obligations for approximately 73 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 Note 12 "Commitments and Contingencies" in our Annual Report to Stockholders for the year ended December 31, 2013, 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.

The following is a breakdown by state, District of Columbia, Puerto Rico and Brazil of our retail stores, onsite pharmacy stores, specialty pharmacy stores, specialty pharmacy stores, specialty mail order pharmacies and mail service dispensing pharmacies as of December 31, 2013:

| | Retail Stores | Onsite Pharmacy Stores | Specialty Pharmacy Stores | Specialty Mail Order Pharmacies | Mail Service Dispensing Pharmacies | Total |
|----------------------|----------------------|-------------------------------|----------------------------------|--|---|--------------|
| United States: | | | | | | |
| Alabama | 155 | — | 1 | — | — | 156 |
| Arkansas | 1 | — | — | — | — | 1 |
| Arizona | 139 | — | 1 | — | — | 140 |
| California | 856 | — | 4 | 1 | — | 861 |
| Colorado | — | — | 1 | — | — | 1 |
| Connecticut | 149 | 1 | — | — | — | 150 |
| Delaware | 12 | — | — | — | — | 12 |
| District of Columbia | 58 | — | 1 | — | — | 59 |
| Florida | 716 | — | 1 | 1 | — | 718 |
| Georgia | 316 | 2 | 1 | — | — | 319 |
| Hawaii | 53 | — | 1 | — | 1 | 55 |
| Iowa | 17 | 1 | — | — | — | 18 |
| Illinois | 274 | 1 | 1 | 1 | 1 | 278 |
| Indiana | 297 | — | — | — | — | 297 |
| Kansas | 35 | — | — | 1 | — | 36 |
| Kentucky | 65 | — | — | — | — | 65 |
| Louisiana | 109 | — | — | — | — | 109 |
| Maine | 22 | — | — | — | — | 22 |
| Maryland | 171 | 1 | — | — | — | 172 |
| Massachusetts | 355 | — | 2 | 1 | — | 358 |
| Michigan | 248 | 1 | — | 1 | — | 250 |
| Minnesota | 57 | 1 | — | — | — | 58 |
| Mississippi | 50 | — | — | — | — | 50 |
| Missouri | 77 | 1 | 1 | — | — | 79 |
| Montana | 14 | — | — | — | — | 14 |
| Nebraska | 18 | — | — | — | — | 18 |
| Nevada | 85 | — | — | — | — | 85 |
| New Hampshire | 41 | — | — | — | — | 41 |
| New Jersey | 277 | 2 | — | 1 | — | 280 |
| New Mexico | 15 | — | — | — | — | 15 |
| New York | 471 | — | 1 | — | — | 472 |
| North Carolina | 312 | — | 1 | 1 | — | 314 |
| North Dakota | 6 | — | — | — | — | 6 |
| Ohio | 317 | 2 | — | — | — | 319 |
| Oklahoma | 53 | — | — | — | — | 53 |
| Oregon | — | — | 1 | — | — | 1 |
| Pennsylvania | 404 | 1 | 1 | 1 | 1 | 408 |
| Puerto Rico | 19 | — | — | 1 | — | 20 |
| Rhode Island | 62 | — | 1 | — | — | 63 |
| South Carolina | 194 | — | 1 | — | — | 195 |
| Tennessee | 134 | 1 | — | 1 | — | 136 |
| Texas | 588 | 1 | 3 | — | 1 | 593 |
| Utah | 2 | — | — | — | — | 2 |
| Vermont | 5 | — | — | — | — | 5 |
| Virginia | 271 | — | — | — | — | 271 |
| Washington | — | — | 1 | — | — | 1 |
| West Virginia | 50 | — | — | — | — | 50 |

| | | | | | | |
|---------------------|--------------|-----------|-----------|-----------|----------|--------------|
| Wisconsin | <u>45</u> | <u>1</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>46</u> |
| Total United States | <u>7,615</u> | <u>17</u> | <u>25</u> | <u>11</u> | <u>4</u> | <u>7,672</u> |
| Brazil | <u>45</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>45</u> |
| Total | <u>7,660</u> | <u>17</u> | <u>25</u> | <u>11</u> | <u>4</u> | <u>7,717</u> |

Item 3. Legal Proceedings

I. Legal Proceedings

1. Caremark (the term "Caremark" being used herein to generally refer to any one or more PBM subsidiaries of the Company, as applicable) was 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 sought monetary damages and alleged that Caremark's processing of Medicaid and certain other government claims on behalf of its clients (which allegedly resulted in underpayments from Caremark clients to the applicable government agencies) on one of Caremark's adjudication platforms violated 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. Thereafter, in 2008, the Company prevailed on several motions for partial summary judgment and, following an appellate ruling from the Fifth Circuit Court of Appeals in 2011 that affirmed in part and reversed in part these prior rulings, the claims asserted in the case against Caremark were substantially narrowed. In December 2013, this case was dismissed following a settlement between the Company and the plaintiffs.

In a related matter, in December 2007, the Company received a document subpoena from the Office of Inspector General ("OIG") within the U.S. Department of Health and Human Services ("HHS"), requesting information relating to the processing of Medicaid and other government agency claims on a different adjudication platform of Caremark. The Company has provided documents and other information in response to this request for information. The Company has been conducting discussions with the United States Department of Justice ("DOJ") and the OIG regarding a possible settlement of this legal matter.

2. 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, among others, Caremark and several insurance companies 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. Following the close of class discovery, the trial court entered an Order on August 15, 2012 that granted the plaintiffs' motion to certify a class pursuant to Alabama Rule of Civil Procedures 23(b)(3) but denied their request that the class also be certified pursuant to Rule 23(b)(1). In addition, the August 15, 2012 Order appointed class representatives and class counsel. The defendants' appeal and plaintiffs' cross-appeal are pending before the Alabama Supreme Court. The proceedings in the trial court are stayed by statute pending a decision on the appeal and cross-appeal by the Alabama Supreme Court.
3. Various lawsuits have been filed alleging that Caremark has violated applicable antitrust laws in establishing and maintaining retail pharmacy networks for client health plans. In August 2003, Bellevue Drug Co., Robert Schreiber, Inc. d/b/a Burns Pharmacy and Rehn-Huerbinger Drug Co. d/b/a Parkway Drugs #4, together with Pharmacy Freedom Fund and the National Community Pharmacists Association filed a putative class action against Caremark in Pennsylvania federal court, seeking treble damages and injunctive relief. This case was initially sent to arbitration based on the contract terms between the pharmacies and Caremark. In October 2003, two independent pharmacies, North Jackson Pharmacy, Inc. and C&C, Inc. d/b/a Big C Discount Drugs, Inc., filed a putative class action complaint in Alabama federal court against Caremark and two PBM competitors, seeking treble damages and injunctive relief. The North Jackson Pharmacy case against two of the Caremark entities named as defendants was transferred to Illinois federal court, and the case against a separate Caremark entity was sent to arbitration based on contract terms between the pharmacies and Caremark. The Bellevue arbitration was then stayed by the parties pending developments in the North Jackson Pharmacy court case.

In August 2006, the Bellevue case and the North Jackson Pharmacy case were both transferred to Pennsylvania federal court by the Judicial Panel on Multidistrict Litigation for coordinated and consolidated proceedings with other cases before the panel, including cases against other PBMs. Caremark appealed the decision which vacated an order compelling arbitration and staying the proceedings in the Bellevue case and, following the appeal, the Court of Appeals reinstated the order compelling arbitration of the Bellevue case. Following remand, plaintiffs in the Bellevue case sought dismissal of their complaint to permit an immediate appeal of the reinstated order compelling arbitration and pursued an appeal to the Third Circuit Court of Appeals. In November 2012, the Third Circuit Court reversed the district court ruling and directed the parties to proceed in federal court. Motions for class certification in the coordinated cases within the multidistrict

litigation, including the North Jackson Pharmacy case, remain pending, and the court has permitted certain additional class discovery and briefing. The consolidated action is now known as the In Re Pharmacy Benefit Managers Antitrust Litigation.

4. In November 2009, a securities class action lawsuit was filed in the United States District Court for the District of Rhode Island purportedly on behalf of purchasers of CVS Caremark Corporation stock between May 5, 2009 and November 4, 2009. Plaintiffs subsequently amended the lawsuit to allege a class period beginning October 30, 2008. The lawsuit names the Company and certain officers as defendants and includes allegations of securities fraud relating to public disclosures made by the Company concerning the PBM business and allegations of insider trading. In addition, a shareholder derivative lawsuit was filed in December 2009 in the same court against the directors and certain officers of the Company. This lawsuit, which was stayed pending developments in the related securities class action, includes allegations of, among other things, securities fraud, insider trading and breach of fiduciary duties and further alleges that the Company was damaged by the purchase of stock at allegedly inflated prices under its share repurchase program. In January 2011, both lawsuits were transferred to the United States District Court for the District of New Hampshire. In June 2012, the court granted the Company's motion to dismiss the securities class action. The plaintiffs subsequently appealed the court's ruling on the motion to dismiss. In May 2013, the First Circuit Court of Appeals vacated the prior ruling and remanded the case to the district court for further proceedings. In December 2013, the district court denied the Company's renewed motion to dismiss the lawsuit. The derivative lawsuit will remain stayed until the Company answers the securities class action complaint.
5. In March 2010, the Company learned that various State Attorneys General offices and certain other government agencies were conducting a multi-state investigation of certain of the Company's business practices similar to those being investigated at that time by the U.S. Federal Trade Commission ("FTC"). Twenty-eight states, the District of Columbia and the County of Los Angeles are known to be participating in this investigation. The prior FTC investigation, which commenced in August 2009, was officially concluded in May 2012 when the consent order entered into between the FTC and the Company became final. The Company has cooperated with the multi-state investigation.
6. In March 2010, the Company received a subpoena from the OIG requesting information about programs under which the Company has offered customers remuneration conditioned upon the transfer of prescriptions for drugs or medications to the Company's pharmacies in the form of gift cards, cash, non-prescription merchandise or discounts or coupons for non-prescription merchandise. The subpoena relates to an investigation of possible false or otherwise improper claims for payment under the Medicare and Medicaid programs. The Company has provided documents and other information in response to this request for information.
7. The Company received a subpoena from the U.S. Securities and Exchange Commission ("SEC") in February 2011 and subsequently received additional subpoenas and other requests for information. The SEC's requests related to, among other things, public disclosures made by the Company during 2009, transactions in the Company's securities by certain officers and employees of the Company during 2009 and the purchase accounting for the Longs Drug Stores acquisition. The Company has provided the documents and other information requested by the SEC and has been cooperating with the SEC in this investigation. The Company has reached an agreement in principle with the staff of the Boston Regional Office of the SEC to settle certain allegations that, during the third and fourth quarters of 2009, the Company violated certain provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934, including certain anti-fraud provisions of those statutes. The agreement in principle will be entered into by the Company on a "no admit or deny" basis, and the Company will not be restating its financial statements for any reporting period. The Company has agreed to pay a \$20 million civil penalty when the settlement is finalized, and this amount has been fully reserved in the Company's financial statements. The Company will continue to cooperate with the SEC to document the settlement terms, and the settlement remains subject to approval by the Commission and federal court as required.
8. In January 2012, the United States District Court for the Eastern District of Pennsylvania unsealed a first amended *qui tam* complaint filed in August 2011 by an individual relator, who is described in the complaint as having once been employed by a firm providing pharmacy prescription benefit audit and recovery services. The complaint seeks monetary damages and alleges that Caremark's processing of Medicare claims on behalf of one of its clients violated the federal false claims act. The United States, acting through the U.S. Attorney's Office in Philadelphia, Pennsylvania, declined to intervene in the lawsuit. Caremark filed a motion to dismiss the amended complaint and the DOJ filed a Statement of Interest with regard to Caremark's motion to dismiss. In December 2012, the court denied Caremark's motion to dismiss the amended complaint.
9. In January 2012, the Company received a subpoena from the OIG requesting information about its Health Savings Pass program, a prescription drug discount program for uninsured or underinsured individuals, in connection with an

investigation of possible false or otherwise improper claims for payment involving HHS programs. In February 2012, the Company also received a civil investigative demand from the Office of the Attorney General of the State of Texas requesting a copy of information produced under this OIG subpoena and other information related to prescription drug claims submitted by the Company's pharmacies to Texas Medicaid for reimbursement. The Company is providing documents and other information in response to these requests for information.

10. A purported shareholder derivative action was filed on behalf of nominal defendant CVS Caremark Corporation against certain of the Company's officers and members of its Board of Directors. The action, which alleged a single claim for breach of fiduciary duty relating to the Company's alleged failure to properly implement internal regulatory controls to comply with the Controlled Substances Act and the Combat Methamphetamine Epidemic Act, was originally filed in June 2012. In addition, an amended complaint was filed in November 2012 and a Supplemental Complaint was filed in April 2013. In October 2013, the court granted the Company's motion to dismiss and entered judgment dismissing the action, without prejudice. Following dismissal of the action, the same purported shareholder sent a letter to the Company's Board of Directors demanding that the Board investigate her allegations and pursue legal action against certain directors and officers of the Company. A committee of the Board of Directors is conducting a review and intends to respond to the letter as appropriate.
11. In November 2012, the Company received a subpoena from the OIG requesting information concerning automatic refill programs used by pharmacies to refill prescriptions for customers. The Company has been cooperating and providing documents and other information in response to this request for information.

The Company is also a party to other legal proceedings, inquiries and audits arising in the normal course of its business, none of which is expected to be material to the Company. 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 "Business — Government Regulation", 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.

II. Environmental Matters

Item 103 of SEC Regulation S-K requires disclosure of certain environmental legal proceedings if management reasonably believes that the proceedings involve potential monetary sanctions of \$100,000 or more. On January 8, 2014, a Settlement Agreement was signed with the State of New Jersey to resolve claims of alleged noncompliance with hazardous and medical waste regulations in connection with certain of the Company's facilities in New Jersey. As part of this settlement, the Company has agreed to pay \$132,000 in civil penalties to resolve these claims.

Item 4. Mine Safety Disclosures

Not applicable.

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 11, 2014. 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:

Lisa G. Bisaccia, age 57, Senior Vice President and Chief Human Resources Officer of CVS Caremark Corporation since January 2010; Vice President, Human Resources of CVS Pharmacy, Inc. from September 2004 through December 2009.

Eva C. Boratto, age 47, Senior Vice President and Controller and Chief Accounting Officer of CVS Caremark Corporation since July 2013; Senior Vice President of PBM Finance from July 2010 through June 2013; Vice President, U.S. Market Finance Leader of Merck & Co., Inc. ("Merck") from June 2009 through June 2010; Vice President of Investor Relations of Merck from April 2008 through May 2009.

Troyen A. Brennan, M.D., age 59, 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.

David M. Denton, age 48, Executive Vice President and Chief Financial Officer of CVS Caremark Corporation since January 2010; Senior Vice President and Controller/Chief Accounting Officer of CVS Caremark Corporation from March 2008 until December 2009; Senior Vice President, Financial Administration of CVS Caremark Corporation and CVS Pharmacy, Inc. from April 2007 to March 2008.

Helena B. Foulkes, age 49, Executive Vice President of CVS Caremark Corporation and President of CVS/pharmacy since January 2014; Executive Vice President and Chief Health Care Strategy and Marketing Officer of CVS Caremark Corporation from March 2011 through December 2013; Executive Vice President and Chief Marketing Officer of CVS Caremark Corporation from January 2009 through February 2011; 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.

Stephen J. Gold, age 54, Senior Vice President and Chief Information Officer for CVS Caremark Corporation since July 2012; Senior Vice President and Chief Information Officer of Avaya, Inc. from May 2010 through June 2012; Executive Vice President, Chief Information Officer and Chief Technology Officer of GSI Commerce, Inc. from February 2005 through April 2010.

J. David Joyner, age 49, Executive Vice President of CVS Caremark Corporation since March 2011 and Executive Vice President of Sales and Account Services, CVS Caremark Pharmacy Services since March 2004.

Per G.H. Lofberg, age 66, Executive Vice President of CVS Caremark Corporation; Executive Vice President of CVS Caremark Corporation and President of CVS Caremark Pharmacy Services from January 2010 through August 2012; President and Chief Executive Officer of Generation Health, Inc., a pharmacogenomics company, from November 2008 through December 2009.

Larry J. Merlo, age 58, President and Chief Executive Officer of CVS Caremark Corporation since March 2011; President and Chief Operating Officer of CVS Caremark Corporation from May 2010 through March 2011; President of CVS/pharmacy from January 2007 through August 2011; Executive Vice President of CVS Caremark Corporation from January 2007 through May 2010; also a director of CVS Caremark Corporation since May 2010.

Thomas M. Moriarty, age 50, Executive Vice President and General Counsel of CVS Caremark Corporation since October 2012; General Counsel of Celgene Corporation, a global biopharmaceutical company, from May 2012 through September 2012; General Counsel and Corporate Secretary of Medco Health Solutions, Inc. ("Medco"), a pharmacy benefit management company, from March 2008 through April 2012; also President of Global Pharmaceutical Strategies of Medco from March 2011 through April 2012; Senior Vice President, Pharmaceutical Strategies and Solutions of Medco from September 2007 through March 2011.

Jonathan C. Roberts, age 58, Executive Vice President of CVS Caremark Corporation and President of CVS Caremark Pharmacy Services since September 2012; Executive Vice President of CVS Caremark Corporation and Chief Operating

Officer of CVS Caremark Pharmacy Services from October 2010 through August 2011; Executive Vice President, Rx Purchasing, Pricing and Network Relations of CVS Caremark Corporation from January 2009 through October 2010; 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.

Andrew J. Sussman, M.D., age 48, Senior Vice President and Associate Chief Medical Officer of CVS Caremark Corporation since March 2011 and President of MinuteClinic, L.L.C., the Company's retail-based health clinic subsidiary, since September 2009; Executive Vice President and Chief Operating Officer of the University of Massachusetts Memorial Medical Center, the major teaching affiliate of UMass Medical School, from May 2004 through August 2009.

PART II

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

Our common stock is 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.

| | | <u>First Quarter</u> | <u>Second Quarter</u> | <u>Third Quarter</u> | <u>Fourth Quarter</u> | <u>Year</u> |
|------|---------------------------------|----------------------|-----------------------|----------------------|-----------------------|-------------|
| 2013 | High | \$ 56.07 | \$ 60.70 | \$ 62.36 | \$ 71.99 | \$ 71.99 |
| | Low | \$ 49.00 | \$ 53.94 | \$ 56.68 | \$ 56.32 | \$ 49.00 |
| | Cash dividends per common share | \$ 0.22500 | \$ 0.22500 | \$ 0.22500 | \$ 0.22500 | \$ 0.90000 |
| 2012 | High | \$ 45.88 | \$ 46.93 | \$ 48.69 | \$ 49.80 | \$ 49.80 |
| | Low | \$ 41.01 | \$ 43.08 | \$ 43.65 | \$ 44.33 | \$ 41.01 |
| | Cash dividends per common share | \$ 0.16250 | \$ 0.16250 | \$ 0.16250 | \$ 0.16250 | \$ 0.65000 |

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 4, 2014, there were 22,602 registered shareholders according to the records maintained by our transfer agent.

On December 17, 2013, the Company's Board of Directors authorized a new share repurchase program for up to \$6.0 billion of outstanding common stock (the "2013 Repurchase Program"). On September 19, 2012, the Company's Board of Directors authorized a share repurchase program for up to \$6.0 billion of outstanding common stock (the "2012 Repurchase Program", and together with the 2013 Repurchase Program, "the Repurchase Programs") The Repurchase Programs, which were effective immediately, permit the Company to effect repurchases from time to time through a combination of open market repurchases, privately negotiated transactions, accelerated share repurchase transactions, and/or other derivative transactions. The Repurchase Programs may be modified or terminated by the Board of Directors at any time.

Pursuant to the authorization under the 2012 Repurchase Program, effective October 1, 2013, we entered into a \$1.7 billion fixed dollar accelerated share repurchase ("ASR") agreement with Barclays Bank PLC ("Barclays"). Upon payment of the \$1.7 billion purchase price on October 1, 2013, we received a number of shares of our common stock equal to 50% of the \$1.7 billion notional amount of the ASR agreement or approximately 14.9 million shares at a price of \$56.88 per share. The Company received approximately 11.7 million shares of common stock on December 30, 2013 at an average price of \$63.83 per share, representing the remaining 50% of the \$1.7 billion notional amount of the ASR agreement and thereby concluding the agreement. The total of 26.6 million shares of common stock delivered to the Company by Barclays over the term of the October 2013 ASR agreement were placed into treasury stock.

During the year ended December 31, 2013, the Company repurchased an aggregate of 66.2 million shares of common stock for approximately \$4.0 billion under the 2012 Repurchase Program. As of December 31, 2013, there remained an aggregate of approximately \$6.7 billion available for future repurchases under the Repurchase Programs.

| <u>Fiscal Period</u> | <u>Total Number of Shares Purchased</u> | <u>Average Price Paid per Share</u> | <u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u> | <u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</u> |
|--|---|-------------------------------------|---|---|
| October 1, 2013 through October 31, 2013 | 14,866,352 | \$ 56.88 | 14,866,352 | \$ 692,873,727 |
| November 1, 2013 through November 30, 2013 | — | \$ — | — | \$ 692,873,727 |
| December 1, 2013 through December 31, 2013 | 11,768,973 | \$ 63.83 | 11,768,973 | \$ 6,692,873,727 |
| | <u>26,635,325</u> | | <u>26,635,325</u> | |

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, 2013 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, which are incorporated elsewhere herein.

| In millions, except per share amounts | 2013 | 2012 ^(a) | 2011 | 2010 | 2009 |
|---|-----------------|---------------------|-----------------|-----------------|-----------------|
| Statement of operations data: | | | | | |
| Net revenues | \$ 126,761 | \$ 123,120 | \$ 107,080 | \$ 95,766 | \$ 98,144 |
| Gross profit | 23,783 | 22,488 | 20,562 | 20,215 | 20,348 |
| Operating expenses | 15,746 | 15,278 | 14,231 | 14,082 | 13,933 |
| Operating profit | 8,037 | 7,210 | 6,331 | 6,133 | 6,415 |
| Interest expense, net | 509 | 557 | 584 | 536 | 525 |
| Loss on early extinguishment of debt | — | 348 | — | — | — |
| Income tax provision ⁽¹⁾ | 2,928 | 2,436 | 2,258 | 2,178 | 2,196 |
| Income from continuing operations | 4,600 | 3,869 | 3,489 | 3,419 | 3,694 |
| Income (loss) from discontinued operations, net of tax ⁽²⁾ | (8) | (7) | (31) | 2 | (4) |
| Net income | 4,592 | 3,862 | 3,458 | 3,421 | 3,690 |
| Net loss attributable to noncontrolling interest ⁽³⁾ | — | 2 | 4 | 3 | — |
| Net income attributable to CVS Caremark | <u>\$ 4,592</u> | <u>\$ 3,864</u> | <u>\$ 3,462</u> | <u>\$ 3,424</u> | <u>\$ 3,690</u> |
| Per common share data: | | | | | |
| Basic earnings per common share: | | | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 3.78 | \$ 3.05 | \$ 2.61 | \$ 2.50 | \$ 2.58 |
| Loss from discontinued operations attributable to CVS Caremark | \$ (0.01) | \$ (0.01) | \$ (0.02) | \$ — | \$ — |
| Net income attributable to CVS Caremark | \$ 3.77 | \$ 3.04 | \$ 2.59 | \$ 2.50 | \$ 2.57 |
| Diluted earnings per common share: | | | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 3.75 | \$ 3.02 | \$ 2.59 | \$ 2.49 | \$ 2.55 |
| Loss from discontinued operations attributable to CVS Caremark | \$ (0.01) | \$ (0.01) | \$ (0.02) | \$ — | \$ — |
| Net income attributable to CVS Caremark | \$ 3.74 | \$ 3.02 | \$ 2.57 | \$ 2.49 | \$ 2.55 |
| Cash dividends per common share | \$ 0.900 | \$ 0.650 | \$ 0.500 | \$ 0.350 | \$ 0.305 |
| Balance sheet and other data: | | | | | |
| Total assets | \$ 71,526 | \$ 66,221 | \$ 64,852 | \$ 62,457 | \$ 61,918 |
| Long-term debt | \$ 12,841 | \$ 9,133 | \$ 9,208 | \$ 8,652 | \$ 8,756 |
| Total shareholders' equity | \$ 37,938 | \$ 37,653 | \$ 38,013 | \$ 37,661 | \$ 35,732 |
| Number of stores (at end of year) | 7,702 | 7,508 | 7,388 | 7,248 | 7,095 |

See Note 1 - Significant Accounting Policies (Revenue Recognition - Retail Pharmacy Segment) to the consolidated financial statements.

- (1) Income tax provision includes the effect of the following: (i) in 2010, the recognition of \$47 million of previously unrecognized tax benefits, including interest, relating to the expiration of various statutes of limitation and settlements with tax authorities, and (ii) in 2009, the recognition of \$167 million of previously unrecognized tax benefits, including interest, relating to the expiration of various statutes of limitation and settlements with tax authorities.
- (2) As discussed in Note 3 to the consolidated financial statements, the results of the TheraCom business are presented as discontinued operations and have been excluded from continuing operations for all periods presented.

In connection with certain business dispositions completed between 1991 and 1997, the Company retained guarantees on store lease obligations for a number of former subsidiaries, including Linens 'n Things which filed for bankruptcy in 2008. The Company's income (loss) from discontinued operations includes lease-related costs which the Company believes it will likely be required to satisfy pursuant to its Linens 'n Things lease guarantees.

Below is a summary of the results of discontinued operations:

| <i>In millions</i> | Year Ended December 31, | | | | |
|--|-------------------------|--------|---------|-------|--------|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| Income from operations of TheraCom | \$ — | \$ — | \$ 18 | \$ 28 | \$ 13 |
| Gain on disposal of TheraCom | — | — | 53 | — | — |
| Loss on disposal of Linens 'n Things | (12) | (12) | (7) | (24) | (19) |
| Income tax benefit (provision) | 4 | 5 | (95) | (2) | 2 |
| Income (loss) from discontinued operations, net of tax | \$ (8) | \$ (7) | \$ (31) | \$ 2 | \$ (4) |

- (3) Represents the minority shareholders' portion of the net loss from our then-majority owned subsidiary, Generation Health, Inc., acquired in the fourth quarter of 2009. In June 2012, the Company acquired the remaining 40% interest in Generation Health, Inc. from minority shareholders and employee option holders.
- (4) Effective January 1, 2012, the Company changed its methods of accounting for prescription drug inventories in the Retail Pharmacy Segment. Additional details of the accounting change are discussed in Note 2 to the consolidated financial statements.

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

We refer you to "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 of our Annual Report to Stockholders for the year ended December 31, 2013, which section is incorporated by reference herein.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

As of December 31, 2013, 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 Income," "Consolidated Statements of Comprehensive Income," "Consolidated Balance Sheets," "Consolidated Statements of Shareholders' Equity," "Consolidated Statements of Cash Flows," "Notes to Consolidated Financial Statements," and "Report of Independent Registered Public Accounting Firm" of our Annual Report to Stockholders for the fiscal year ended December 31, 2013, 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, 2013, have concluded that as of such date the Company's disclosure controls and procedures were adequate and effective at a reasonable assurance level 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" and "Report of Independent Registered Public Accounting Firm" of our Annual Report to Stockholders for the fiscal year ended December 31, 2013, 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, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

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

PART III

Item 10. Directors, Executive Officers and Corporate Governance

We refer you to our Proxy Statement for the 2014 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 2014 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 2014 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, 2013.

| | Number of securities to be issued upon exercise of outstanding options, warrants and rights ⁽¹⁾ | 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) ⁽¹⁾ |
|--|--|---|--|
| Equity compensation plans approved by stockholders | 34,738 | \$ 41.40 | 37,557 |
| Equity compensation plans not approved by stockholders | — | — | — |
| Total | 34,738 | \$ 41.40 | 37,557 |

(1) Shares in thousands.

Item 13. Certain Relationships and Related Transactions and Director Independence

We refer you to our Proxy Statement for the 2014 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 2014 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.

PART IV

Item 15. Exhibits and Financial Statement Schedules

A. Documents filed as part of this report:

1. Financial Statements:

The following financial statements are incorporated by reference from our Annual Report to Stockholders for the fiscal year ended December 31, 2013, as provided in Item 8 hereof:

| | |
|---|----|
| Consolidated Statements of Income for the Years Ended December 31, 2013, 2012 and 2011 | 26 |
| Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2013, 2012 and 2011 | 27 |
| Consolidated Balance Sheets as of December 31, 2013 and 2012 | 28 |
| Consolidated Statements of Cash Flows for the Years Ended December 31, 2013, 2012 and 2011 | 29 |
| Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2013, 2012, and 2011 | 30 |
| Notes to Consolidated Financial Statements | 31 |
| Report of Independent Registered Public Accounting Firm | 60 |

2. Financial Statement Schedules

All financial statement schedules are omitted because they are not applicable, not required under the instructions, or the information is included in the consolidated 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 |
|---------|---|
| 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 dated 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 12, 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 13, 2007; Commission File No. 001-01011). |
| 2.5* | Amendment to Waiver Agreement, dated as of March 8, 2007, between Registrant and Caremark Rx, Inc. (incorporated by reference to Exhibit 99.2 to the Registrants' Current Report on Form 8-K dated March 8, 2007; Commission File No. 001-01011). |
| 2.6* | 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 13, 2008; Commission File No. 001-01011). |
| 3.1* | Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of Registrant'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).
- 3.1D* 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 May 13, 2010; Commission File No. 001-01011).
- 3.1E* Certificate of Amendment to the Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report On Form 8-K dated May 10, 2012; 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 9, 2014; 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).
- 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) 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* Four Year Credit Agreement dated as of May 12, 2011 by and among the Registrant, the lenders party thereto, Barclays Capital and JP Morgan Chase Bank, N.A., as Co-Syndication Agents, Bank of America, N.A. and Wells Fargo Bank, N.A., as Co-Documentation Agents, and the Bank of New York Mellon, as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2011; Commission File No. 001-01011).
- 10.8* Amendment No. 1, dated as of November 22, 2011, to the Credit Agreement dated as of May 12, 2011 by and among the Registrant, the Lenders party thereto, the Co-Syndication Agents and Co-Documentation Agents named therein, and The Bank of New York Mellon, as Administrative Agent (incorporated by reference to Exhibit 10.45 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011; Commission File No. 001-01011).

- 10.9* Five Year Credit Agreement dated as of February 17, 2012, by and among the Registrant, the lenders party thereto, Barclays Capital and JPMorgan Chase Bank, N.A., as Co-Syndication Agents, Bank of America, N.A. and Wells Fargo Bank, N.A., as Co-Documentation Agents, and The Bank of New York Mellon, as Administrative Agent (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2012 (Commission File No. 001-01011)).
- 10.10* Credit Agreement dated as of May 23, 2013, by and among the Registrant, the lenders party thereto, Barclays Bank PLC and JPMorgan Chase Bank, N.A., as Co-Syndication Agents, Bank of America, N.A. and Wells Fargo Bank, N.A., as Co-Documentation Agents, and The Bank of New York Mellon, as Administrative Agent. (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2013 (Commission File No. 001-01011)).
- 10.11* Amendment No. 2, dated as of May 23, 2013, to the Credit Agreement dated as of May 12, 2011, by and among the Registrant, the lenders party thereto, Barclays Capital and JPMorgan Chase Bank, N.A., as Co-Syndication Agents, Bank of America, N.A. and Wells Fargo Bank, N.A., as Co-Documentation Agents, and The Bank of America, N.A. and Wells Fargo Bank, N.A., as Co-Documentation Agents, and The Bank of Bank of New York Mellon, as Administrative Agent, as previously amended by Amendment No. 1, dated as of November 22, 2011 (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2013 (Commission File No. 001-01011)).
- 10.12* Supplemental Retirement Plan for Select Senior Management of CVS Caremark Corporation I as amended and restated in December 2008 (incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009; Commission File No. 001-01011).
- 10.13* CVS Caremark 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* 1997 Incentive Compensation Plan as amended through December 2008 (incorporated by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009; Commission File No. 001-01011).
- 10.15* 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).
- 10.16* CVS Caremark Deferred Stock Compensation Plan, as amended and restated (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009; Commission File No. 001-01011).
- 10.17 CVS Caremark Deferred Compensation Plan, as amended and restated.
- 10.18* 2010 Incentive Compensation Plan, as amended through January 15, 2013 (incorporated by reference to Exhibit 10.30 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012; Commission file No. 001-01011).
- 10.19* 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).
- 10.20 The Registrant's 2013 Management Incentive Plan.
- 10.21 The Registrant's 2013 Long-Term Incentive Plan.
- 10.22 The Registrant's Partnership Equity Program amended as of August 2013.
- 10.23 The Registrant's Severance Plan for Non-Store Employees amended as of April 2013.
- 10.24 The Registrant's Performance-Based Restricted Stock Unit Plan amended as of April 2013.

10.25

Form of Enterprise Non-Competition, Non-Disclosure and Developments Agreement between the Registrant and certain of the Registrant's executive officers.

- 10.26* Universal 409A Definition Document dated December 31, 2008 (incorporated by reference to Exhibit 10.7 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009; Commission File No. 001-01011).
- 10.27 Form of Non-Qualified Stock Option Agreement between the Registrant and selected employees of the Registrant.
- 10.28 Form of Restricted Stock Unit Agreement - Annual Grant - between the Registrant and selected employees of the Registrant.
- 10.29 Form of Performance-Based Restricted Stock Unit Agreement between the Registrant and selected employees of the Registrant.
- 10.30 Form of Partnership Equity Program Participant Purchased RSUs, Company Matching RSUs and Company Matching Options Agreement (Pre-Tax).
- 10.31 Form of Partnership Equity Program Participant Purchased RSUs, Company Matching RSUs and Company Matching Options Agreement (Post-Tax).
- 10.32* Amended and Restated Employment Agreement dated as of December 22, 2008 between the Registrant and the Registrant's President and Chief Executive Officer (incorporated by reference to Exhibit 10.38 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008; Commission File No. 001-01011).
- 10.33* Amendment dated December 21, 2012 to the Amended and Restated Employment Agreement dated as of December 22, 2008 between the Registrant and the Registrant's President and Chief Executive Officer (incorporated by reference to Exhibit 10.31 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012; Commission File No. 001-01011).
- 10.34 Form of Non-Qualified Stock Option Agreement between the Registrant and the Registrant's President and Chief Executive Officer.
- 10.35 Form of Restricted Stock Unit Agreement between the Registrant and the Registrant's President and Chief Executive Officer.
- 10.36* Change in Control Agreement dated December 22, 2008 between the Registrant and the Registrant's Executive Vice President and Chief Financial Officer (incorporated by reference to Exhibit 10.39 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010; Commission File No. 001-01011).
- 10.37* Amendment dated as of December 31, 2012 to the Change in Control Agreement dated December 22, 2008 between the Registrant and the Registrant's Executive Vice President and Chief Financial Officer (incorporated by reference to Exhibit 10.32 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012; Commission File No. 001-01011).
- 10.38* Change in Control Agreement dated December 22, 2008 between the Registrant and the Registrant's Executive Vice President and President of CVS Caremark Pharmacy Services (incorporated by reference to Exhibit 10.33 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012; Commission File No. 001-01011).
- 10.39* Amendment dated as of December 31, 2012 to the Change in Control Agreement dated December 22, 2008 between the Registrant and the Registrant's Executive Vice President and President of CVS Caremark Pharmacy Services; incorporated by reference to Exhibit 10.34 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (Commission File No. 001-01011).
- 10.40* Letter Agreement dated August 5, 2011 between the Registrant and the Registrant's former Executive Vice President and President - CVS/pharmacy (incorporated by reference to Exhibit 10.41 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011; Commission File No. 001-01011).

- 10.41* Change in Control Agreement dated September 1, 2011 between the Registrant and the Registrant's former Executive Vice President and President - CVS/pharmacy (incorporated by reference to Exhibit 10.42 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011; Commission File No. 001-01011).
- 10.42 Separation Agreement between the Registrant and the Registrant's former Executive Vice President and President - CVS/pharmacy dated December 10, 2013.
- 10.43 Change in Control Agreement dated December 1, 2008 between the Registrant and the Registrant's Former Executive Vice President and Chief Medical Officer.
- 13 Portions of the 2013 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 Consent of Ernst & Young LLP.
- 31.1 Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 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.
- 101 The following materials from the CVS Caremark Corporation Annual Report on Form 10-K for the year ended December 31, 2013 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Income, (ii) the Consolidated Balance Sheets, (iii) the Consolidated Statements of Cash Flows and (iv) related notes.

SIGNATURES

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

CVS CAREMARK CORPORATION

Date: February 10, 2014

By: /s/ DAVID M. DENTON
David M. Denton
Executive Vice President and Chief Financial Officer

37
-

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.

| <u>Signature</u> | <u>Title(s)</u> | <u>Date</u> |
|--|---|-------------------|
| <u>/s/ C. DAVID BROWN II</u> C. David Brown II | Director | February 10, 2014 |
| <u>/s/ EVA C. BORATTO</u> Eva C. Boratto | Senior Vice President — Finance and Controller (Principal Accounting Officer) | February 10, 2014 |
| <u>/s/ DAVID M. DENTON</u> David M. Denton | Executive Vice President and Chief Financial Officer (Principal Financial Officer) | February 10, 2014 |
| <u>/s/ NANCY-ANN M. DEPARLE</u> Nancy-Ann M. DeParle | Director | February 10, 2014 |
| <u>/s/ DAVID W. DORMAN</u> David W. Dorman | Chairman of the Board and Director | February 10, 2014 |
| <u>/s/ ANNE M. FINUCANE</u> Anne M. Finucane | Director | February 10, 2014 |
| <u>/s/ LARRY J. MERLO</u> Larry J. Merlo | President and Chief Executive Officer (Principal Executive Officer) and Director | February 10, 2014 |
| <u>/s/ JEAN-PIERRE MILLON</u> Jean-Pierre Millon | Director | February 10, 2014 |
| <u>/s/ RICHARD J. SWIFT</u> Richard J. Swift | Director | February 10, 2014 |
| <u>/s/ WILLIAM C. WELDON</u> William C. Weldon | Director | February 10, 2014 |
| <u>/s/ TONY L. WHITE</u> Tony L. White | Director | February 10, 2014 |

CVS CAREMARK CORPORATION

Deferred Compensation Plan

as amended and restated as of December 31, 2008

**CVS CAREMARK CORPORATION
DEFERRED COMPENSATION PLAN**

Table of Contents

Page

| | |
|--|----|
| ARTICLE I – INTRODUCTION | 1 |
| 1.01 NAME OF PLAN | 1 |
| 1.02 PURPOSE OF PLAN | 1 |
| 1.03 “TOP HAT” PENSION BENEFIT PLAN | 1 |
| 1.04 FUNDING | 1 |
| 1.05 EFFECTIVE DATE | 1 |
| 1.06 ADMINISTRATION | 1 |
| 1.07 NUMBER AND GENDER | 2 |
| 1.08 HEADINGS | 2 |
| ARTICLE II – DEFINITIONS | 3 |
| ARTICLE III – ELIGIBILITY AND PARTICIPATION | 8 |
| 3.01 ELIGIBILITY | 8 |
| 3.02 COMMENCEMENT OF PARTICIPATION | 8 |
| 3.03 TERMINATION OF PARTICIPATION | 8 |
| ARTICLE IV – DEFERRALS & COMPANY CONTRIBUTIONS | 10 |
| 4.01 DEFERRAL AMOUNTS | 10 |
| 4.02 FILING REQUIREMENTS OF DEFERRED COMPENSATION ELECTIONS | 10 |
| 4.03 MODIFICATION OR REVOCATION OF ELECTION BY PARTICIPANT. | 11 |
| 4.04 COMPANY CONTRIBUTIONS AND OTHER DEFERRALS | 13 |
| 4.05 DEFERRAL AND CONTRIBUTION TIMING | 14 |
| ARTICLE V – ACCOUNTS | 16 |
| 5.01 ESTABLISHMENT OF BOOKKEEPING ACCOUNTS | 16 |
| 5.02 SUBACCOUNTS | 16 |
| 5.03 HYPOTHETICAL NATURE OF ACCOUNTS | 16 |
| 5.04 VESTING | 16 |
| 5.05 DEFERRAL CREDITING OPTIONS | 17 |
| 5.06 HYPOTHETICAL GAINS OR LOSSES | 18 |
| ARTICLE VI – DISTRIBUTION OF ACCOUNT | 19 |
| 6.01 NORMAL DISTRIBUTIONS | 19 |
| 6.02 FORM OF PAYMENT | 20 |
| 6.03 DISABILITY DISTRIBUTIONS | 21 |
| 6.04 DISTRIBUTIONS IN THE EVENT OF DEATH | 21 |
| 6.05 DISTRIBUTIONS UPON TERMINATION OF EMPLOYMENT OTHER THAN RETIREMENT, DEATH OR DISABILITY | 22 |
| 6.06 CHANGE OF DISTRIBUTION ELECTION | 22 |

| | | | |
|------|--|----|----|
| 6.07 | ACCOUNT VALUATION UPON A DISTRIBUTION | 24 | |
| 6.08 | DESIGNATION OF BENEFICIARY | 24 | |
| 6.09 | UNCLAIMED BENEFITS | 25 | |
| 6.10 | HARDSHIP WITHDRAWALS | 25 | |
| 6.11 | CHANGE IN CONTROL | 25 | |
| 6.12 | DISTRIBUTION OF GRANDFATHERED DEFERRAL ACCOUNT AND THE GRANDFATHERED COMPANY ACCOUNT | | 26 |
| | ARTICLE VII – ADMINISTRATION | 27 | |
| 7.01 | PLAN COMMITTEE | 27 | |
| 7.02 | GENERAL POWERS OF ADMINISTRATION | 27 | |
| 7.03 | COSTS OF ADMINISTRATION | 27 | |
| 7.04 | INDEMNIFICATION OF PLAN COMMITTEE | 28 | |
| 7.05 | COMPLIANCE | 28 | |
| | ARTICLE VIII – CLAIMS PROCEDURE | 29 | |
| 8.01 | CLAIMS | 29 | |
| 8.02 | CLAIM DECISION | 29 | |
| 8.03 | REQUEST FOR REVIEW | 29 | |
| 8.04 | REVIEW OF DECISION | 30 | |
| | ARTICLE IX – MISCELLANEOUS | 31 | |
| 9.01 | NOT CONTRACT OF EMPLOYMENT | 31 | |
| 9.02 | NON-ASSIGNABILITY OF BENEFITS | 31 | |
| 9.03 | WITHHOLDING | 31 | |
| 9.04 | AMENDMENT AND TERMINATION | 31 | |
| 9.05 | COMPLIANCE WITH SECURITIES AND OTHER LAWS | 32 | |
| 9.06 | NO TRUST CREATED | 32 | |
| 9.07 | UNSECURED GENERAL CREDITOR STATUS OF EMPLOYEE | 32 | |
| 9.08 | PAYMENT TO MINORS AND INCOMPETENTS | 33 | |
| 9.09 | ACCELERATION OF OR DELAY IN PAYMENTS. | 33 | |
| 9.10 | SEVERABILITY | 33 | |
| 9.11 | GOVERNING LAWS | 34 | |
| 9.12 | BINDING EFFECT | 34 | |
| | APPENDIX A | 35 | |

DARTICLE I – INTRODUCTION

1.01 Name of Plan

CVS Caremark Corporation (the “Corporation”) hereby adopts the CVS Caremark Deferred Compensation Plan (the “Plan”) as amended and restated as of December 31, 2008.

1.02 Purpose of Plan

The purpose of the Plan is to provide certain eligible employees of the Corporation or an Affiliate authorized to participate in the Plan the opportunity to defer elements of their compensation which might not otherwise be deferrable under other plans maintained by the Corporation or an Affiliate and to receive the benefit of additions to their deferral comparable to those obtainable under the 401(k) and Employee Stock Ownership Plan of CVS Caremark Corporation and Affiliated Companies (“Future Fund”) in the absence of certain restrictions and limitations in the Internal Revenue Code.

1.03 “Top Hat” Pension Benefit Plan

The Plan is an “employee pension benefit plan” within the meaning of ERISA. However, the Plan is unfunded and maintained for a select group of management or highly compensated employees and, therefore, it is intended that the Plan will be exempt from Parts 2, 3 and 4 of Title I of ERISA. The Plan is not intended to qualify under Code Section 401(a).

1.04 Funding

The Plan is unfunded. All benefits will be paid from the general assets of the Corporation. Participants in the Plan shall have the status of general unsecured creditors of the Corporation.

1.05 Effective Date

The Plan is effective as of January 1, 1997, and as amended and restated in its entirety effective as of December 31, 2008, to comply with the provisions of Section 409A of the Internal Revenue Code and regulations promulgated thereunder and to reflect certain design and administrative changes desired by the Corporation.

1.06 Administration

The Plan shall be administered by the Plan Committee, as defined in Article VII.

1.07 Number and Gender

Wherever appropriate herein, words used in the singular shall be considered to include the plural and words used in the plural shall be considered to include the singular. The masculine gender, where appearing in the Plan, shall be deemed to include the feminine gender. The feminine gender, where appearing in the Plan, shall be deemed to include the masculine gender.

1.08 Headings

The headings of Articles and Sections herein are included solely for convenience, and if there is any conflict between such headings and the text of the Plan, the text shall control.

ARTICLE II – DEFINITIONS

For purposes of the Plan, the following words and phrases shall have the meanings set forth below, unless their context clearly requires a different meaning:

- 2.01** *Account* means the Company Account, Deferral Account, Grandfathered Company Account, and the Grandfathered Deferral Account maintained by the Corporation on behalf of each Participant pursuant to this Plan.
- 2.02** *Affiliate* means any entity, that together with the Corporation, would be treated as a single employer under Section 414(b) or (c) of the Code.
- 2.03** *Annual Cash Incentive* means the amount awarded to a Participant in cash for a Plan Year under a regular (annual or quarterly) incentive plan (other than an exceptional performance award program or a one-time incentive plan or program) maintained by the Corporation or an Affiliate, and any other amount otherwise included in Annual Cash Incentive for purposes of the Plan under rules as are adopted by the Committee.
- 2.04** *Annual Cash Incentive Deferral* means the amount of a Participant's Annual Cash Incentive which a Participant elects to have withheld on a pretax basis from his Annual Cash Incentive and credited to his Deferral Account pursuant to this Plan.
- 2.05** *Base Salary* means the base rate of cash compensation paid by the Corporation or an Affiliate to or for the benefit of a Participant for services rendered or labor performed while a Participant, including base pay a Participant could have received in cash in lieu of:
- (a) deferrals pursuant to this Plan; and
 - (b) any pre-tax contribution made on the Participant's behalf to any qualified plan maintained by the Corporation or an Affiliate pursuant to a cash or deferred arrangement maintained by the Corporation or an Affiliate (as defined under Section 401(k) of the Code) or under any cafeteria plan (as defined under Section 125 of the Code) or under a qualified transportation fringe (as defined under Section 132(f) of the Code).

Base Salary shall exclude any overtime, premium pay, shift differentials, bonuses, commissions or any other form of supplemental cash compensation, except to the extent otherwise deemed "Base Salary" for purposes of the Plan under rules as are adopted by the Committee.

- 2.06** *Base Salary Deferral* means the amount of a Participant's Base Salary which the Participant elects to have withheld on a pretax basis from his Base Salary and credited to his Deferral Account pursuant to this Plan.
- 2.07** *Beneficiary* means the person or persons designated by the Participant in accordance with the provisions of Section 6.08 to receive the amounts, if any, payable under the Plan upon the death of the Participant.
- 2.08** *Board* means the Board of Directors of the Corporation.
- 2.09** *Change in Control* means "Change in Control" as such term is defined in the Universal 409A Definition Document.
- 2.10** *Code* means the Internal Revenue Code of 1986, as amended.
- 2.11** *Commissions* mean the amount of a Participant's sales commissions or other commissions payable under a sales commissions or other commissions plan maintained by the Corporation or an Affiliate. (Sales commissions for purposes of the Plan shall mean sales commissions (as defined in Treas. Reg. Section 1.409A -2(a)(12)(i) and any subsequent guidance) and such sales commissions are considered to be earned in the taxable year of the Participant in which the sale occurs.)
- 2.12** *Commissions Deferral* means the amount of a Participant's Commissions which a Participant elects to have withheld on a pre-tax basis from his Commissions and credited to his Deferral Account pursuant to this Plan.
- 2.13** *Committee* means the Management Planning and Development Committee of the Board.
- 2.14** *Company Account* means the bookkeeping account (or subaccount(s) thereof) maintained for each Participant to record the amounts of Company Contributions that are either (i) credited on his behalf under Section 4.04 on or after January 1, 2005 or (ii) were credited on his behalf under Section 4.04

prior to January 1, 2005, but become vested on or after January 1, 2005, as adjusted pursuant to Section 5.06.

- 2.15** *Company Contribution* means the amount, as determined by the Company on an annual basis based on the provisions of this Plan, which is credited on the Participant's behalf by the Company to his Company Account pursuant to the provisions of Section 4.04(a) of the Plan.
- 2.16** *Corporation* means CVS Caremark Corporation. References in the Plan to CVS Caremark Corporation shall be deemed to include successors to CVS Caremark Corporation.
- 2.17** *CVS Caremark Retention Payment* means the amount granted to an Eligible Executive, as defined in and provided for under the provisions of the employment term sheet agreement entered into between the Corporation or an Affiliate and said eligible executive, as a former employee of Caremark Rx, Inc., in connection with the merger involving Caremark, Rx, Inc. and the Corporation.
- 2.18** *Deferrals* mean the amount of deferrals credited to a Participant pursuant to Section 4.01.
- 2.19** *Deferral Account* means the bookkeeping account (or subaccount(s) thereof) maintained for each Participant to record (i) the amount of Base Salary, CVS Caremark Retention Payment and/or Annual Cash Incentive or Commissions the Participant defers pursuant to Section 4.01 or (ii) the amount of LTIP deferrals the Participant elects to defer pursuant to Section 4.04(b), on or after January 1, 2005, as adjusted pursuant to Section 5.06.
- 2.20** *Deferred Compensation Election* means the written election including any amendments, attachments and appendices thereto as prescribed by the Plan Committee, regardless of how it may be titled, under which the Participant agrees to defer a portion of his Base Salary and/or Annual Cash Incentive or Commissions under the Plan (or any other cash remuneration payable to a Participant that he may elect to defer under the provisions of this Plan, including but not limited to LTIP cash awards). This election is made by the Participant and constitutes the agreement entered into between the Corporation and a Participant for participation in the Plan. The Participants elect the terms of their deferral pursuant to the provisions of this Plan and the administrative procedures established by the Plan Committee.

- 2.21 **Effective Date** means January 1, 1997.
- 2.22 **Elective Deferrals** means Elective Deferrals as defined in Section 3.02 of Future Fund.
- 2.23 **Eligible Executive** means an Executive who is eligible to participate in the Plan as provided in Section 3.01(a).
- 2.24 **Employee** means any common-law employee of the Corporation or an Affiliate which has been authorized by the Committee to participate in the Plan.
- 2.25 **ERISA** means the Employee Retirement Income Security Act of 1974, as amended.
- 2.26 **Executive** means an Employee whose Base Salary (determined on the basis of a maximum 40 - hour work week) equals or exceeds \$150,000 (as adjusted from time to time by the Committee).
- 2.27 **Future Fund** means the 401(k) Plan and the Employee Stock Ownership Plan of CVS Caremark Corporation and Affiliated Companies.
- 2.28 **Grandfathered Company Account** means the bookkeeping account (or subaccount(s)) maintained for each Participant to record the amount of Company Contributions credited on a Participant 's behalf under Section 4.04 prior to January 1, 2005, which were vested as of December 31, 2004, adjusted as provided in Section 5.06.
- 2.29 **Grandfathered Deferral Account** means the bookkeeping account (or subaccount(s)) maintained for each Participant to record (i) the amount of Base Salary and/or Annual Cash Incentive or Commissions deferred in accordance with Section 4.01 or (ii) the amount of LTIP deferrals deferred in accordance with Section 4.04, prior to January 1, 2005, adjusted pursuant to Section 5.06.
- 2.30 **Lost Matching Contributions** means the amounts credited on a Participant 's behalf to his Company Account pursuant to the provisions of Section 4.04(a).
- 2.31 **Participant** means each Eligible Executive participating in the Plan pursuant to Article III who is credited with an amount under Article IV.

- 2.32 **Plan** means the CVS Caremark Deferred Compensation Plan, as amended from time to time.
- 2.33 **Plan Committee** means the administrative committee appointed pursuant to Section 7.01 to administer the Plan.
- 2.34 **Plan Year** means each calendar year ending on December 31.
- 2.35 **Qualified Future Fund Matching Contribution** means the total of all matching contributions made (or that would have been made) by the Corporation or an Affiliate with respect to a Plan Year for the benefit of a Participant under and in accordance with the terms of the Future Fund.
- 2.36 **Retirement** means Termination of Employment with the Corporation and all Affiliates on or after (i) age 55 and the completion of ten or more Years of Service or, if earlier, (ii) age 60 and the completion of five or more Years of Service.
- 2.37 **Specified Employee** means “Specified Employee” as such term is defined in the Universal 409A Definition Document.
- 2.38 **Specific Future Year** means a calendar year in the future voluntarily elected by a Participant to begin distribution of Accounts (or subaccount(s) thereof) pursuant to this Plan.
- 2.39 **Termination of Employment** means “termination of employment” as such term is defined in the Universal 409A Definition Document.
- 2.40 **Valuation Date** means each business day on which the New York Stock Exchange is open for business, or such other day as the Plan Committee may determine.
- 2.41 **Years of Service** means Vesting Service as defined in the Future Fund.

ARTICLE III – ELIGIBILITY AND PARTICIPATION

3.01 Eligibility

- (a) An Employee who is an Eligible Executive on October 1st of a calendar year (or such other date in the calendar year as designated by the Plan Committee) shall be an Eligible Executive with respect to the Plan Year following such calendar year and thereby eligible to participate in this Plan and execute a Deferred Compensation Election authorizing Deferrals under the Plan with respect to a particular Plan Year. The Committee or the Plan Committee, may, in its sole discretion, designate other key employees of the Corporation or an Affiliate which has been authorized by the Committee to participate in the Plan who are members of a select group of management or highly compensated employees as eligible to participate in the Plan.
- (b) Notwithstanding any Plan provision to the contrary, Employees must also be subject to the income tax laws of the United States in order to be eligible for participation in the Plan.
- (c) Subject to the provisions of Section 3.03 below and Section 4.01, an Eligible Executive shall remain eligible to continue participation in the Plan for each Plan Year following his initial year of participation in the Plan.

3.02 Commencement of Participation

An Eligible Executive shall become a Participant effective as of the date the Plan Committee grants eligibility and that Eligible Executive's first Deferred Compensation Election becomes effective.

As a condition for participation in the Plan, a Participant may also be required by the Plan Committee to provide such other information as the Plan Committee may deem necessary to properly administer the Plan.

3.03 Termination of Participation

- (a) Participation shall cease when all benefits to which a Participant is entitled to hereunder are distributed to him.
- (b) Subject to the provisions of Section 4.03, a Participant shall only be eligible to have Deferrals credited on his behalf in accordance with Article IV for as long as he remains an Eligible Executive.

- (c) If a former Participant who has incurred a Termination of Employment with the Corporation and all Affiliates and whose participation in the Plan ceased under Section 3.03(a) is reemployed as an Eligible Executive, the former Participant may again become a Participant in accordance with the provisions of Section 3.01.

ARTICLE IV – DEFERRALS & COMPANY CONTRIBUTIONS

4.01 *Deferral Amounts*

- (a) Subject to the following provisions of this Article IV, an Eligible Executive may defer for any Plan Year, (i) up to 50% of Base Salary otherwise earned and payable in that Plan Year, and/or (ii) up to 100% of Annual Cash Incentive otherwise earned in that Plan Year and payable in that Plan Year or in the first calendar quarter of the following Plan Year or (iii) up to 100% of Commissions otherwise earned in that Plan Year and payable in that Plan Year or in the first calendar quarter of the following Plan Year. The Plan Committee may, as it deems appropriate, establish maximum or minimum limits on the amounts which may be deferred for a Plan Year and/or the times of such Deferred Compensation Elections. An Eligible Executive shall be given advance notice of any such limits.
- (b) Deferrals shall be calculated with respect to the gross cash compensation payable to the Participant prior to any deductions or withholdings, but shall be reduced by the Plan Committee as necessary so that Deferrals do not exceed 100% of the cash compensation of the Participant remaining after deduction of all required income and employment taxes, 401(k) and other employee benefit deductions, and other deductions required by law. Changes to payroll withholdings that affect the amount of compensation being deferred to the Plan shall be allowed only to the extent permissible under Code Section 409A.

4.02 *Filing Requirements of Deferred Compensation Elections*

Subject to the following provisions of this Section, prior to the close of an annual enrollment period established by the Plan Committee in any Plan Year, an Eligible Executive described in Section 3.01 may elect, subject to Section 4.01 above, to defer a portion of his Base Salary that is otherwise earned and payable in the next Plan Year and/or all or a portion of his Annual Cash Incentive or Commissions otherwise earned in the next Plan Year and payable in that Plan Year or in the first calendar quarter of the subsequent Plan Year by filing a Deferred Compensation Election with the Plan Committee. If an Executive becomes an Eligible Executive after October 1 (or such later date as prescribed by the Plan Committee) in any calendar year, he may not make a Deferred Compensation Election for Base Salary, Annual Cash Incentive or Commissions earned in the next Plan Year.

A Participant shall submit a Deferred Compensation Election in the manner specified by the Plan Committee and a Deferred Compensation Election that is not timely filed shall be considered void and have no effect. If a Participant does not file a Deferred Compensation Election applicable to his

Base Salary, Annual Cash Incentive or Commissions earned in a Plan Year on or before the close of the applicable annual enrollment period (or such later date prescribed by the Plan Committee), the Participant shall be deemed to have elected not to make a Deferred Compensation Election for such Plan Year. The Plan Committee shall establish procedures that govern deferral elections under the Plan, including the ability to make separate elections for Base Salary, Annual Cash Incentive or Commissions, and any other cash remuneration payable to the Participant that the Committee or Plan Committee permits a Participant to defer under this Plan.

Subject to the provisions of this Article, an Eligible Executive must file a new Deferred Compensation Election for each Plan Year that the Eligible Executive is eligible to participate in the Plan.

4.03 *Modification or Revocation of Election by Participant*

- (a) A Participant's Deferred Compensation Election for a Plan Year shall become irrevocable as of the close of business on the date established by the Plan Committee, but not later than the last day of the calendar year preceding the Plan Year in which such Base Salary, Annual Cash Incentive or Commissions applicable to that election is earned. Such Deferred Compensation Election shall become effective as of the first day of the Plan Year in which such Base Salary and/or Annual Cash Incentive or Commissions is earned.

Notwithstanding the foregoing, the Plan Committee may cancel a Participant's Deferred Compensation Elections for the balance of a Plan Year if the Participant submits evidence of an unforeseeable emergency (as defined in the Universal 409A Definition Document) to the Plan Committee. Any Base Salary, Annual Cash Incentive, Commissions or other cash remuneration which would have been deferred pursuant to that cancelled Deferred Compensation Election shall be paid to the Eligible Executive as if he had not made that election.

A Participant may revoke or change a Deferred Compensation Election anytime prior to the date such election becomes irrevocable. Any such change or revocation shall be made in a form and manner determined by the Plan Committee. Under no circumstances may a Participant's Deferred Compensation Election be made, modified or revoked retroactively.

- (b) If a Participant's Deferred Compensation Election applicable to his Base Salary and/or Annual Cash Incentive or Commissions is cancelled for a Plan Year, he will not be permitted to elect to make Deferrals again until the next Plan Year.
- (c) If a Participant ceases to be an Eligible Executive after the date a Deferred Compensation Election becomes effective but continues to be employed by the Corporation or an Affiliate, he shall continue to be a Participant and his Deferred Compensation Election currently in effect shall remain in force, but such Participant shall not be eligible to make any further Deferred Compensation Elections until such time as he shall once again become an Eligible Executive.

(d) Notwithstanding anything in this Plan to the contrary, if Eligible Executive:

(i) receives a withdrawal of deferred cash contributions on account of hardship from any plan which is maintained by the Corporation or an Affiliate and which meets the requirements of Section 401(k) of the Internal Revenue Code (or any successor thereto); and

(ii) is precluded from making contributions to such 401(k) plan for at least 6 months after receipt of the hardship withdrawal,

the Eligible Executive's Deferred Compensation Election with respect to Base Salary, Annual Cash Incentive or Commissions in effect at that time shall be cancelled. Any Base Salary, Annual Cash Incentive or Commissions payment which would have been deferred pursuant to that Deferred Compensation Election but for the application of this Section 4.03(b) shall be paid to the Eligible Executive as if he had not made that election.

4.04 Company Contributions and Other Deferrals

(a) Company Contributions - Restoration of Lost Matching Contribution. The amount of Lost Matching Contributions credited under the Plan on a Participant's behalf each calendar year shall be equal to (i) minus (ii) where:

(i) is the total Qualified Future Fund Matching Contribution that would have been allocated on the Participant's behalf under Future Fund, without giving effect to

any reductions or limitations required by Sections 401(a)(17), 401(k), 402(g) and/or 415 of the Code, for the Plan Year based on the aggregate of the Participant's Elective Deferrals to Future Fund, his deferrals to any other qualified defined contribution plan maintained by the Corporation or an Affiliate, and his Deferral under Section 4.01 for the Plan Year, disregarding, in all cases, any deferrals made with respect to Base Salary, Annual Cash Incentives and Commissions otherwise payable prior to the first payroll period commencing in the month following date the Participant's completion of one Year of Service; and

- (ii) if the Participant is eligible to contribute to Future Fund during the Plan Year, the actual matching contributions made on the Participant's behalf to Future Fund or any other qualified defined contribution plan maintained by the Corporation or any Affiliate for that Plan Year. However, if the Participant is not eligible to contribute to Future Fund during the Plan Year but is eligible to contribute to the CareSave 401(k) Retirement Savings Plan for Employees of Caremark Rx, Inc. during that Plan Year, the amount under this clause (ii) shall equal the maximum amount of matching contributions the Participant would have received under the provisions of Future Fund for that Plan Year had he been eligible to contribute to Future Fund during that Plan Year, based on his Base Salary and/or Annual Cash Incentive or Commissions otherwise earned and payable in that Plan Year, and his contributions to the CareSave 401(k) Retirement Savings Plan for Employees of Caremark Rx, Inc. for that Plan Year had been made to Future Fund.

(b) LTIP Deferrals.

At the sole discretion of the Plan Committee, all or a portion of a Participant's cash award under a Long-Term Incentive Plan program maintained by the Corporation or an Affiliate may be deferred under this Plan. Such election shall be made in accordance with the procedures established by the Plan Committee. The deferral election applicable to a LTIP cash award shall be made prior to the close of the calendar year preceding the first day of the performance period applicable to that award. Notwithstanding the foregoing, such election shall become irrevocable as of the close of business of the last day of the calendar year preceding the first day of the performance period applicable to that award. However,

if such award meets the definition of performance -based compensation (as defined under Treas. Reg. Section 1.409A-1(e) and any subsequent guidance), the Plan Committee may permit such election to be made in accordance with the provisions under Treas. Reg. Section 1.409A-2(a)(8) and subsequent guidance.

(c) Cash Retention Award Deferrals.

At the sole discretion of the Plan Committee and subject to the procedures established by the Plan Committee, an Eligible Executive may elect to defer all or a portion of a cash retention award which may be otherwise paid under a cash retention program maintained by the Corporation or an Affiliate. The deferral election applicable to such cash retention award shall be made in accordance with the provisions of Treasury Regulations Section 1.409A -2(a)(5).

4.05 Deferral and Contribution Timing

Base Salary Deferrals will be credited to the Account of each Participant as of the date of the pay check from which the deferral was withheld. A Participant whose employment terminates during a pay period will cease deferral withholding effective as of the first day of the following payroll period.

Annual Cash Incentive Deferrals and Commission Deferrals will be credited to the Account of each Participant as of the day of which such Annual Cash Incentive or Commissions, whichever is applicable, otherwise would have been paid to the Participant in cash.

Company Contributions for the Restoration of Lost Matching Contribution pursuant to Section 4.04(a) above will generally be credited to the Participant 's Company Account at the same time the said Lost Matching Contribution would otherwise have been credited to the Participant 's account under Future Fund.

LTIP deferrals shall be credited to the Account of the Participant at the time designated by the Plan Committee.

Cash Retention Awards Deferrals will be credited to the Account of each Participant as of the day of which such Cash Retention Award otherwise would have been paid to the Participant in cash.

ARTICLE V – ACCOUNTS

5.01 *Establishment of Bookkeeping Accounts*

Separate bookkeeping accounts shall be maintained for each Participant. Said accounts (or subaccount(s) thereof) shall be credited with the deferrals and contributions made by or on behalf of the Participant pursuant to this Plan and credited (or charged, as the case may be) with the hypothetical investment results determined pursuant to this Article of the Plan.

5.02 *Subaccounts*

Within each Participant's bookkeeping account, separate subaccount(s) shall be maintained to the extent necessary for the administration of the Plan. Generally, subaccount(s) will be set up for each year, for each Deferred Compensation Election the Participant makes, and the Company contribution credited each year on behalf of a Participant.

5.03 *Hypothetical Nature of Accounts*

The accounts established under this Article shall be hypothetical in nature and shall be maintained for bookkeeping purposes only so that hypothetical gains or losses on the deferrals or contributions made to the Plan can be credited (or charged, as the case may be).

Neither the Plan nor any of the accounts, or subaccount(s), established hereunder shall hold any actual funds or assets. The right of any person to receive one or more payments under the Plan shall be an unsecured claim against the general assets of the Corporation. Any liability of the Corporation to any Participant, former Participant, or Beneficiary with respect to a right to payment shall be based solely upon contractual obligations created by the Plan. The Corporation, an Affiliate, the Board, the Committee, or any other person shall not be deemed to be a trustee of any amounts to be paid under the Plan. Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship, between the Corporation or an Affiliate and a Participant or any other person.

5.04 *Vesting*

Deferral Account. Participants shall be 100% vested in their Deferral Account and Grandfathered Deferral Account at all times. The Participants shall be 100% vested in the LTIP deferrals credited on his behalf pursuant to Section 4.04(b) and any Cash Retention Award deferrals credited on his behalf pursuant to Section 4.04(c).

Company Account. Participants shall be 100% vested in the portion of their Company Account and Grandfathered Company Account attributable to Company contributions credited on his behalf prior to January 1, 2001. A Participant shall vest in the portion of his Company Account and Grandfathered Company Account attributable to Lost Matching Contributions credited on his behalf on and after January 1, 2001 at the same rate at which such contributions would have vested under the Future Fund had they been contributed thereunder.

5.05 *Deferral Crediting Options*

Deferral Crediting Options are similar to investment choices in a qualified defined contribution plan, except that they are hypothetical in nature and no funds are actually held in the Plan. Deferral Crediting Options determine the hypothetical gain or loss to be reflected in the Participant Accounts.

The Deferral Crediting Options offered to Participants are determined by the Plan Committee at its sole discretion. The Plan Committee specifically retains the right to change the Deferral Crediting Options at any time, in its sole discretion.

In the event the Plan Committee designates more than one Deferral Crediting Options, each Participant shall file a Deferral Crediting Option election with the Plan Committee, which shall be used to measure the investment performance of his Accounts, within such time period and on such form as the Plan Committee may prescribe. The designation of a Deferral Crediting Option shall not require the Corporation to invest or earmark their general assets in any manner. If a Participant fails to make a Deferral Crediting Option, his Accounts shall be deemed invested in a Deferral Crediting Option as determined by the Plan Committee.

A Participant may change his election of Deferral Crediting Options used to measure the future investment performance of his future deferrals and company contributions within such time periods and in such manner prescribed by the Plan Committee. The election shall be effective as soon as administratively practicable after the date on which the notice is timely filed.

A Participant may change his election of a Deferral Crediting Options used to measure the future investment performance of his existing Account balance within such time periods and in such manner prescribed by the Plan Committee. The election shall be effective as soon as administratively practicable after the date on which the notice is timely filed.

Any amounts added to or subtracted from a Participant 's Account on any given Valuation Date will be converted to hypothetical share equivalents ("Hypothetical Shares") based on the daily closing price on said date ("Share Price") for any given Deferral Crediting Option.

5.06 *Hypothetical Gains or Losses*

Any hypothetical dividends, capital gains and any other income or share activity will be reflected in the Deferral Crediting Options. The timing of these will be the same as for the funds on which each Deferral Crediting Option is based.

The gain or loss on Participant Accounts will be calculated each Valuation Date. The Share Price shall determine each Deferral Crediting Option 's hypothetical value, based on the number of shares within the Account for any given Deferral Crediting Option. Account balances that are given to Participants on a given day will be based on the closing price of the previous Valuation Date.

ARTICLE VI – DISTRIBUTION OF ACCOUNT

6.01 Normal Distributions

(a) Subject to the limitations set forth in this Article VI, each time a Participant makes a Deferred Compensation Election with respect to a Plan Year beginning on or after January 1, 2005, the Participant shall designate on that applicable Deferred Compensation Election that the distribution of such deferrals, as adjusted pursuant to Article V, shall commence, pursuant to Section 6.02, on or after the occurrence of the later of (i) or (ii):

(i) the Participant's Retirement; or

(ii) a Specific Future Year not later than the Plan Year in which the Participant attains age 71.

A Participant may choose different options with respect to each Deferred Compensation Election.

In the event a Participant elects to have such deferrals commence as of a Specific Future Year pursuant to clause (ii) above, subject to rules established by the Plan Committee, the deferral period must be at least five (5) Plan Years.

A Participant may not change the election made pursuant to the provisions of this Section 6.01, except as otherwise provided in Section 6.06 below.

- (b) Notwithstanding the foregoing, any Company Contributions, made with respect to a Plan Year beginning on or after January 1, 2005, adjusted as provided in Article V, shall be distributed pursuant to the Participant's distribution election made with respect to his Base Salary Deferrals for that Plan Year. In the event a Participant has not made a Base Salary Deferral in that Plan Year, such distribution shall be made pursuant to his distribution election made with respect to Annual Cash Incentive or Commissions Deferral for that Plan Year, if any; otherwise, such distribution shall be made at Retirement.
- (c) The distribution of the portion of a Participant's Deferral or Company Account (or subaccount(s)) that is deferred to Retirement under paragraph (a)(i) of this Section, adjusted as provided in Article V, shall commence on the first business day in January following his

Retirement, pursuant to the provisions of Section 6.02, provided, however, that with respect to a Participant who is a Specified Employee as of the date of his Retirement, payment of any portion of his Deferral or Company Account (or any subaccount(s) thereof) will be delayed until the first day of the seventh month following the date such Retirement occurs.

The distribution of the portion of a Participant's Deferral or Company Account (or subaccount(s)) that is deferred to a Specific Future Year under paragraph (a)(ii) of this Section, adjusted as provided in Article V, shall commence on the first business day in January of that specific year pursuant to the provisions of Section 6.02.

- (d) A Participant shall not change his normal distribution election under this Section 6.01, except as otherwise provided in Section 6.06 below.

6.02 Form of Payment

- (a) Subject to the limitations set forth in the Article VI, Normal Distributions will be made in annual (or quarterly, if the election was made prior to October 1, 2008) installments, as elected by the Participant, for up to, and including, fifteen (15) years (10 years for an election made after October 1, 2008). The initial installment of an annual or quarterly payment stream will begin as of the first business day in January following the Participant's date of Retirement or of the Specific Future Year in accordance with the provisions of set forth in Section 6.01. Subsequent annual or quarterly payments will be as of the first business day of each subsequent calendar year of the installment period. Notwithstanding the foregoing, effective as of October 1, 2008, a Participant may not elect either quarterly installments or installments in excess of 10 years.

Each installment will be equal to a fraction of the Account balance (or subaccount(s) thereof) as of the date the installment is paid. The numerator of the fraction being "1" and the denominator being the number of payments remaining in the payment schedule.

Notwithstanding the foregoing provisions of this paragraph (a), if a Participant dies before receiving payment of the entire balance of his Deferral and Company Accounts under the provisions of this Section 6.02(a), the remaining value of such Accounts shall be payable to his Beneficiary in accordance with the provisions of Section 6.04.

- (b) Normal Distributions made pursuant to Section 6.01 will occur when and how a Participant elects to receive payment at the time of his Deferred Compensation Election. A Participant may choose different forms of payment with respect to each Deferred Compensation Election. Any Company Contributions made with respect to a Plan Year beginning on or after January 1, 2005, adjusted pursuant to Article V, shall be distributed pursuant to the Participant's form of payment election made with respect to his Base Salary Deferral for that year. If the Participant has not made a Base Salary Deferral in that year, the portion of his Company Account attributable to such Company contributions will be distributed in accordance with his form of payment election with respect to his Annual Cash Incentive or Commissions Deferrals for that year, if any; otherwise payment will be made in a lump sum payment. In the absence of an election of the form of payment by a Participant on a Deferred Compensation Election, the portion of the Participant's Account deferred pursuant to that Deferred Compensation Election, adjusted pursuant to the provisions of Article V, shall be paid in a single lump sum.
- (c) A Participant shall not change his form of payment election, except as otherwise provided in Section 6.06 below.

6.03 Disability Distributions

Notwithstanding the foregoing, if a Participant, prior to his Termination of Employment, becomes Disabled (as defined under Treas. Regs. Section 1.409A-3(i)(4) and any subsequent guidance thereto), such Participant will receive the balance of his Deferral Account and Company Account paid out in five (5) annual installments with the first payment to be made in the month following the date the Participant is determined to be Disabled by the Plan Committee. Subsequent annual payments will be paid as of the first business day of each subsequent year of the installment period.

6.04 Distributions in the Event of Death

Notwithstanding the foregoing, in the event of a Participant's death, the Participant's Beneficiary will receive the remaining balance of the Participant's Deferral Account and Company Account paid in two (2) annual installments with the first payment to be made by the end of the month following the month in which the Participant's date of death occurs. The second annual payment will be paid as of the first business day in January of the subsequent year.

6.05 Distributions Upon Termination of Employment Other Than Retirement, Death or Disability

Notwithstanding the foregoing, in the event a Participant incurs a Termination of Employment from the Corporation and all Affiliates for any reason other than death or Retirement prior to becoming Disabled (as defined in Section 6.03), said Participant will receive his entire Deferral Account and Company Account balance in a single lump sum payment. Such payment shall be made as of the month following the month in which the Participant's Termination of Employment occurs; provided, however, that with respect to a Participant who is a Specified Employee as of the date of his Termination of Employment for reasons other than death, payment of any portion of his Deferral or Company Account (or any subaccount (s) thereof) pursuant to the provisions of this Section 6.05 will be delayed until the first day of the seventh month following the date such Termination of Employment occurs.

6.06 Change of Distribution Election

(a) In accordance with such procedures as the Plan Committee may prescribe, a Participant may elect to change his Specific Future Year election under Section 6.01(ii) (or an Interim Distribution date election applicable to a portion of his Deferral Account or Company Account made pursuant to the provisions of the Plan as in effect prior to December 31, 2008) to a later Specific Future Year (or, if applicable, a later Interim Distribution date) by duly completing, executing and filing with the Plan Committee a new Specific Future Year election (or Interim Distribution date election) applicable to such deferrals, subject to the following limitations:

(i) such election must be made at least 12 months prior to the Specific Future Year (or Interim Distribution date) then in effect with respect to that portion of his Deferral or Company Account (or subaccount(s) thereof), and such election will not become effective until at least 12 months after the date on which the election is made; and

(ii) the new Specific Future Year (or Interim Distribution date) shall be a calendar year that is not less than five (5) years from the Specific Future Year (or Interim Distribution date) then in effect.

Notwithstanding the foregoing, a Participant may elect to delay a Specific Future Year to the later of Retirement or a new Specific Future Year that is at least five years from the Specific

Future Year then in effect, provided the election is made in accordance with the foregoing provisions of this Section 6.06(a). A Participant may elect to delay a Specific Future Year (or Interim Distribution date) pursuant to this Section 6.06(a) more than once, provided that all such elections comply with the provisions of this Section 6.06(a).

- (b) In accordance with such procedures as the Plan Committee may prescribe, a Participant may elect to delay the payment of a portion of his Deferral or Company Account (or any subaccount(s) thereof) scheduled to be paid at his Retirement to his Retirement plus 5 calendar years by duly completing, executing and filing with the Plan Committee a new Retirement election applicable to such deferrals; provided, however such election shall not become effective until at least 12 months after the date on which the election is made.

- (c) In accordance with such procedures as the Plan Committee may prescribe, a Participant may elect to change the form of payment election under Section 6.02 applicable to his Normal Distribution under Section 6.01(i) or (ii) by duly completing, executing and filing with the Plan Committee a new form of payment election applicable to such deferrals, subject to the following limitations:
 - (i) such election must be made at least 12 months prior to the Specific Future Year then in effect with respect to that portion of his Deferral or Company Account (or subaccount(s) thereof), and such election will not become effective until at least 12 months after the date on which the election is made; and

 - (ii) the Normal Distribution of that portion of his Deferral or Company Account (or subaccount(s) thereof) shall be deferred for five years from the date such amount would otherwise have been paid absent this election.

- (d) It is the Corporation's intent that the provisions of Sections 6.06(a), (b) and (c) comply with the subsequent election provisions in Code Section 409A(a)(4)(C), related regulations and other applicable guidance, and this Section 6.06 shall be interpreted accordingly. The Plan Committee may impose additional restrictions or conditions on a Participant's ability to make an election pursuant to this Section 6.06(a). For avoidance of doubt, a Participant may not elect to alter the distribution of any portion of his Deferral or Company Accounts

(or any subaccount(s) thereof) from Retirement to a Specific Future Year or, except as provided in paragraph (a) above, from a Specific Future Year to Retirement.

- (e) *Transition Rules.* Notwithstanding anything in the Plan to the contrary, the Plan Committee may, in its discretion and subject to such terms and conditions as it may from time to time prescribe, allow Participants to change the time of payment or portion of payment of all or a portion of their Deferral or Company Accounts prior to January 1, 2009 in accordance with applicable transition relief provided with respect to Code Section 409A, dated regulations and other applicable guidance.

6.07 Account Valuation Upon a Distribution

Before a distribution pursuant to this Article, the balance of a Participant's Account shall be determined as of the Valuation Date on or immediately preceding the date such payment is processed based on the Share Price in effect for that Valuation Date.

6.08 Designation of Beneficiary

Each Participant shall have the right to designate a beneficiary to receive payment of their Account in the event of their death. A beneficiary designation shall be made by executing and filing the beneficiary designation form prescribed by the Plan Committee. Any such designation may be changed at any time by execution of a new designation in accordance with this Section.

If no such designation is on file with the Plan Committee at the time of the death of the Participant, or such designation is not effective for any reason as determined by the Plan Committee, then the beneficiary to receive such benefit shall be the Participant's surviving spouse, if any; otherwise, Plan Committee shall designate a Beneficiary or Beneficiaries from among the following in the order named (1) Participant's surviving lineal descendants, per stirpes, in equal parts, (2) the Participant's surviving parents, in equal parts, (3) the Participant's estate.

6.09 Unclaimed Benefits

If the Plan Committee is unable to locate a Participant or Beneficiary to whom a benefit is payable, such benefit may be forfeited to the Corporation upon the Plan Committee's determination. Notwithstanding the foregoing, if subsequent to any such forfeiture, the Participant or Beneficiary to whom such benefit is payable makes a valid claim for such benefit, such forfeited benefit shall be restored to the Plan and paid by the Corporation, with interim interest credited as if the Account were maintained in the plan.

6.10 *Hardship Withdrawals*

A Participant may apply in writing to the Plan Committee for, and the Plan Committee may grant, a hardship withdrawal of all or any part of a Participant's Deferral or Company Account if the Plan Committee, in its sole discretion, determines that the Participant has incurred an Unforeseeable Emergency, as defined in the Universal 409A Definition Document.

The Plan Committee shall determine whether an event qualifies as a hardship within this Section, in its sole and absolute discretion. Such request shall be made in a time and manner determined by the Plan Committee. The payment made from a Participant's Deferral or Company Account (or any subaccount(s) thereof) pursuant to the provisions of this Section 6.10 shall not be in excess of the amount necessary to meet such financial hardship of the Participant, including amounts necessary to pay any federal, state or local income taxes with respect to the payment. Payment shall be made in the month following the date the Plan Committee determines that the Participant has incurred an unforeseeable severe financial hardship and grants the right to a withdrawal pursuant to this Section 6.10.

6.11 *Change in Control*

Notwithstanding the foregoing provisions of this Article VI, upon the occurrence of a Change of Control a Participant who has a valid change in control election(s) in effect, shall automatically receive the balance of his Deferral Account and Company Account related to that election, in cash, in a single lump sum payment. Such lump sum payment shall be made in the month following the month in which the Change of Control occurs. If such Participant dies after such Change of Control event occurs, but before receiving such payment, it shall be made to his Beneficiary.

6.12 *Distribution of Grandfathered Deferral Account and the Grandfathered Company Account*

Notwithstanding the foregoing provisions of this Article VI, the distribution from a Participant's Grandfathered Deferral Account and Grandfathered Company Account (or subaccount(s)) shall be

made pursuant to the provisions of the Plan as set forth on October 3, 2004, without regard to any amendments after October 3, 2004 which would constitute a material modification for Code Section 409A, as modified in Appendix A attached hereto.

ARTICLE VII – ADMINISTRATION

7.01 *Plan Committee*

The Plan shall be administered by the committee appointed by the Board of Directors pursuant to the provisions of Future Fund. The Plan Committee shall be responsible for the general operation and administration of the Plan and for carrying out the provisions thereof. The Plan Committee may delegate to others certain aspects of the management and operations of the Plan including the employment of advisors and the delegation of ministerial duties to qualified individuals, provided that such delegation is in writing. The Plan Committee shall be a “named fiduciary” as that term is defined in Section 402(a)(2) of ERISA.

7.02 *General Powers of Administration*

The Plan Committee shall have the exclusive responsibility and complete discretionary authority to control the operation, management and administration of the Plan, with all powers necessary to enable it properly to carry out such responsibilities, including, but not limited to, the power to interpret the Plan and any related documents, to establish procedures for making any elections called for under the Plan, to make factual determinations regarding any and all matters arising hereunder, including, but not limited to, the right to determine eligibility for benefits, the right to construe the terms of the Plan, the right to remedy possible ambiguities, inequities, inconsistencies or omissions, and the right to resolve all interpretive, equitable or other questions arising under the Plan. The decisions of the Plan Committee or such other party as is authorized under the terms of any grantor trust on all matters shall be final, binding and conclusive on all persons to the extent permitted by law. The Plan Committee shall have all powers necessary or appropriate to enable it to carry out its administrative duties. Not in limitation, but in application of the foregoing, the Plan Committee shall have the duty and power to interpret the Plan and determine all questions that may raise hereunder as to the status and rights of Employees, Participants, Beneficiaries, and any other person. The Plan Committee may exercise the powers hereby granted in its sole and absolute discretion. No member of the Plan Committee shall be personally liable for any actions taken by the Plan Committee unless the member’s action involves gross negligence or willful misconduct.

7.03 *Costs of Administration*

The costs of administering the Plan shall be borne by the Corporation unless and until the Participant receives written notice of the imposition of such administrative costs; with such costs to begin with the next Plan Year and none may be assessed retroactively for prior Plan Years. Such costs shall be charged against the Participant’s Account and shall be uniform or proportional for all Plan

Participants. Such costs shall not exceed the standard rates for similarly designed nonqualified plans under administration by high quality third party administrators at the time such costs are initially imposed and thereafter.

7.04 Indemnification of Plan Committee

The Corporation shall indemnify the members of the Plan Committee or its delegates against any and all claims, losses, damages, expenses, including attorney's fees, incurred by them, and any liability, including any amounts paid in settlement with their approval, arising from their action or failure to act, except when the same is judicially determined to be attributable to their gross negligence or willful misconduct.

7.05 Compliance

With respect to the accounts subject to Code Section 409A, the Plan is intended to comply with the requirements of Code Section 409A and the provisions hereof shall be interpreted in a manner that satisfies the requirements of Code Section 409A and the regulations thereunder, and the Plan shall be operated accordingly. If any provision of the Plan would otherwise frustrate or conflict with this intent, the provision will be interpreted and deemed amended so as to avoid this conflict .

ARTICLE VIII – CLAIMS PROCEDURE

8.01 Claims

A person who believes that they are being denied a benefit to which they are entitled to under the Plan (hereinafter referred to as a “Claimant”) may file a written request for such benefit with the Plan Committee, setting forth their claim. The request must be addressed to the Plan Committee at the Corporation’s then principal place of business.

8.02 Claim Decision

Upon receipt of a claim, the Plan Committee shall advise the Claimant that a reply will be forthcoming within ninety (90) days and shall, in fact, deliver such reply within such period. If the Plan Committee determines that additional time is needed to review the claim, the Plan Committee will provide the Claimant with a notice of the extension before the end of the initial ninety (90)-day period. The notice of extension will explain the special circumstances that require the extension and the date by which the Plan Committee expects to make a decision.

If the claim is denied in whole or in part, the Plan Committee shall adopt a written opinion using language calculated to be understood by the Claimant, setting forth all of the following:

- (a) The specific reason or reasons for such denial;
- (b) The specific reference to pertinent provisions of the Plan on which such denial is based;
- (c) A description of any additional material or information necessary for the Claimant to perfect their claim and an explanation why such material or such information is necessary;
- (d) Appropriate information as to the steps to be taken if the Claimant wishes to submit the claim for review; and
- (e) The time limits for requesting a review under this Section.

8.03 Request for Review

Within sixty (60) days after the receipt by the Claimant of the written opinion described above, the Claimant may request in writing that the determination of the Plan Committee be reviewed. Such request must be addressed to the Secretary of the Committee, at its then principal place of business. The Claimant or their duly authorized representative may, but need not, review the pertinent documents and submit issues and comments in writing for consideration by the Corporation. If the Claimant does not request a review of the Plan Committee’s determination within such sixty (60)-day period, he shall be barred and stopped from challenging the Plan Committee’s determination.

8.04 Review of Decision

Within sixty (60) days after the Secretary's receipt of a request for review, the Committee as designated by the Corporation to hear such appeals (Appeals Committee) will review the Plan Committee's determination. After considering all materials presented by the Claimant, the Secretary will render a written opinion, written in a manner calculated to be understood by the Claimant, setting forth the specific reasons for the decision and containing specific references to the pertinent provisions of this Plan on which the decision is based. If special circumstances require that the sixty (60) -day time period be extended, the Secretary will so notify the Claimant and will render the decision as soon as possible, but no later than one hundred twenty (120) days after receipt of the request for review.

ARTICLE IX – MISCELLANEOUS

9.01 *Not Contract of Employment*

The adoption and maintenance of the Plan shall not be deemed to be a contract between the Corporation or an Affiliate and any person and shall not be consideration for the employment of any person. Nothing herein contained shall be deemed to give any person the right to be retained in the employ of the Corporation or an Affiliate or to restrict the right of the Corporation or an Affiliate to discharge any person at any time nor shall the Plan be deemed to give the Corporation or an Affiliate the right to require any person to remain in the employ of the Corporation or an Affiliate or to restrict any person's right to terminate their employment at any time.

9.02 *Non-Assignability of Benefits*

No Participant, Beneficiary or distributees of benefits under the Plan shall have any power or right to transfer, assign, anticipate, hypothecate or otherwise encumber any part or all of the amounts payable hereunder, which are expressly declared to be unassignable and nontransferable. Any such attempted assignment or transfer shall be void. No amount payable hereunder shall, prior to actual payment thereof, be subject to seizure by any creditor of any such Participant, Beneficiary or other distributees for the payment of any debt judgment or other obligation, by a proceeding at law or in equity, nor transferable by operation of law in the event of the bankruptcy, insolvency or death of such Participant, Beneficiary or other distributees hereunder.

9.03 *Withholding*

All deferrals and payments provided for hereunder shall be subject to applicable withholding and other deductions as shall be required of the Corporation under any applicable local, state or federal law.

9.04 *Amendment and Termination*

The Committee may from time to time, in its discretion, amend, in whole or in part, any or all of the provisions of the Plan; provided, however, that no amendment may be made that would impair the rights of a Participant with respect to amounts already allocated to their Account. To the extent consistent with the rules relating to plan terminations and liquidations in Treas. Reg. Section 1.409A-3(j)(4)(ix) or otherwise consistent with Code Section 409A, the Committee may terminate the Plan and any related Deferred Compensation Agreement at any time and in that event the Committee may provide that, without the prior written consent of Participants, the Participants' Deferral Account and Company Account shall be distributed in a cash lump sum upon termination

of the Plan. Unless so distributed in accordance with the preceding sentence, in the event of a Plan termination, the Committee shall continue to maintain the Deferral Account and Company Account until distributed pursuant to the terms of the Plan and Participants shall remain 100% vested in all amounts credited to their Deferral and Company Accounts. In the event of a Plan termination, the distribution of a Participant's Grandfathered Deferral Account and Grandfathered Company Account shall be made pursuant to the provisions of the Plan as set forth on October 3, 2004, without regard to any amendments after October 3, 2004 which would constitute a material modification for Code Section 409A, as modified in Appendix A attached hereto.

9.05 *Compliance with Securities and Other Laws*

Notwithstanding any Plan provision to the contrary, the Committee may at any time impose such restrictions on the Plan and participation therein, including limiting the amount of any deferral or the timing thereof, as the Committee may deem advisable from time to time in order to comply or preserve compliance with any applicable laws, including any applicable state and federal securities laws and exemptions from registration available thereunder.

9.06 *No Trust Created*

Nothing contained in this Plan and no action taken pursuant to its provisions by the Corporation or any person, shall create, nor be construed to create, a trust of any kind or a fiduciary relationship between the Corporation or an Affiliate and the Participant, Beneficiary, or any other person.

9.07 *Unsecured General Creditor Status of Employee*

The payments to the Participant, Beneficiary or any other distributees hereunder shall be made from assets which shall continue, for all purposes, to be a part of the general, unrestricted assets of the Corporation. No person shall have or acquire any interest in any such assets by virtue of the provisions of this Plan. The Corporation's obligation hereunder shall be an unfunded and unsecured promise to pay money in the future. To the extent that the Participant, Beneficiary or other distributees acquires a right to receive payments from the Corporation under the provisions hereof, such right shall be no greater than the right of any unsecured general creditor of the Corporation. No such person shall have nor require any legal or equitable right, interest or claim in or to any property or assets of the Corporation.

In the event that, in its discretion, the Corporation purchases an insurance policy, or policies, insuring the life of the Employee, or any other property, to allow the Corporation to recover the cost of

providing the benefits, in whole, or in part, hereunder, neither the Participant, Beneficiary or other distributee shall have or acquire any rights whatsoever therein or in the proceeds therefrom. The Corporation shall be the sole owner and beneficiary of any such policy or policies and, as such, shall possess and, may exercise all incidents of ownership therein. No such policy, policies or other property shall be held in any trust for a Participant, Beneficiary or other distributee or held as collateral security for any obligation of the Corporation hereunder. An Employee's participation in the underwriting or other steps necessary to acquire such policy or policies may be required by the Corporation and, if required, shall not be a suggestion of any beneficial interest in such policy or policies to a Participant.

9.08 *Payment to Minors and Incompetents*

If any Participant, spouse, or Beneficiary entitled to receive any benefits hereunder is a minor or is deemed by the Plan Committee or is adjudicated to be legally incapable of giving a valid receipt and discharge for such benefits, the benefits will be paid to such person or institution as the Plan Committee may designate or to the duly appointed guardian of such person. Such payment shall, to the extent made, be deemed a complete discharge of any such payment under the Plan.

9.09 *Acceleration of or Delay in Payments*

The Plan Committee, in its sole and absolute discretion, may elect to accelerate the time or form of payment of a benefit owed to the Participant hereunder, provided such acceleration is permitted under Treas. Reg. Section 1.409A -3(j)(4) and any subsequent guidance. The Plan Committee may also, in its sole and absolute discretion, delay the time for payment of a benefit owed to the Participant hereunder, to the extent permitted under Treas. Reg. Section 1.409A -2(b)(7) and any subsequent guidance.

9.10 *Severability*

If any provision of this Plan shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining provisions hereof; instead, each provision shall be fully severable and the Plan shall be construed and enforced as if said illegal or invalid provision had never been included herein.

9.11 *Governing Laws*

All provisions of the Plan shall be construed in accordance with the laws of Rhode Island, except to the extent preempted by federal law.

9.12 Binding Effect

This Plan shall be binding on each Participant and their heirs and legal representatives and on the Corporation and its successors and assigns.

APPENDIX A**PROVISIONS APPLICABLE TO A PARTICIPANT'S
GRANDFATHERED DEFERRAL ACCOUNT AND
GRANDFATHERED COMPANY ACCOUNT**

This Appendix A constitutes an integral part of the Plan and is applicable with respect to the Grandfathered Deferral Account and the Grandfathered Company Account of those individuals who were Participants in the Plan on December 31, 2004. The Grandfathered Deferral Account and Grandfathered Company Account are subject to all the terms and conditions of the Plan as set forth on October 3, 2004, without regard to any Plan amendments after October 3, 2004 which would constitute a material modification for Code Section 409A, as modified below. Section references in this Appendix A correspond to appropriate Sections of the Plan as set forth on October 3, 2004.

ARTICLE 1 – DEFINITIONS

Section 2.15 - **Company Account** means the Participant's Grandfathered Company Account as set forth in Section 2.28.

Section 2.19 - **Deferral Account** means the Participant's Grandfathered Deferral Account as set forth in Section 2.29 of the foregoing provisions of the Plan.

For purposes of a Participant's Grandfathered Deferral Account and Grandfathered Company Account, the term Change in Control shall have the meaning set forth in the 1997 Incentive Compensation Plan as in effect on October 3, 2004.

ARTICLE IV – DEFERRALS AND COMPANY CONTRIBUTIONS

The provisions of Section 4.03 shall continue to apply to a Participant's Grandfathered Deferral Account, Grandfathered Company Account and amounts transferred from the Melville Deferred Compensation Plan that were vested on or earlier than December 31, 2004.

ARTICLE V – MAINTENANCE OF ACCOUNTS

The provisions of Section V as set forth in the foregoing provisions of the Plan as amended and restated effective as of December 31, 2008 shall be applicable to a Participant’s Grandfathered Deferral Account and Grandfathered Company Account on and after January 1, 2009.

ARTICLE VI – PAYMENT OF BENEFIT

For purposes of this Article VI - Payment of Benefit, the term “termination of employment” or any other similar language means with respect to a Participant the complete cessation of providing service to the Corporation and any Affiliate as an employee.

6.02 Form of Payment

Effective on or after October 1, 2008, a Participant shall not elect installments in excess of ten years or quarterly installments.

6.03 Disability Distributions

A Participant shall be entitled to distribution under this Section if such Participant become “Disabled” as such term is defined under Section 6.03 in the foregoing provisions of this Plan.

6.06 Change of Distribution Election

On and after January 1, 2009, a change in a Specific Future Year distribution date or an Interim distribution date shall be effective only if the new Specific Future Year distribution date or an Interim distribution date is not less than 5 years later than the date in effect prior to the change election.



2013 Management Incentive Plan

I. Objectives and Summary

CVS Caremark Corporation's Management Incentive Plan (the "MIP") is designed to reward incentive-eligible employees ("Eligible Participants") of CVS Caremark Corporation and its subsidiaries (together, "the Company") for their role in driving performance and to encourage Eligible Participants' continued employment with the Company. Funding for the payment of incentive awards will be based on actual results measured against pre-established financial goals. The amount of each incentive award will be based on the performance of the Company and the performance of the individual Eligible Participant.

The Management Planning and Development Committee (the "Committee") of the Board of Directors (the "Board") may delegate to officers of CVS Caremark the authority to perform administrative functions of the MIP as the Committee may determine and may appoint officers and others to assist it in administering the MIP.

II. Plan Year

The MIP is a calendar year plan, which runs from January 1 to December 31, 2013 ("Plan Year"). All dates in this document occur during the Plan Year unless otherwise stated.

III. Eligibility

A. Eligibility for Participation

The Chief Executive Officer of CVS Caremark Corporation ("CEO") will determine those employees who are eligible for participation in the MIP, provided that the Committee shall determine the eligibility of employees who are or may be subject to Section 162(m) of the Internal Revenue Code (collectively, "Section 162(m) Eligible Participants", whom will also be included in the term "Eligible Participants" unless otherwise noted). In general, Eligible Participants include all exempt employees who are not covered by any other incentive plans and who are employed on or before November 1 of the Plan Year; provided, however, that an employee who becomes a Section 162(m) Eligible Participant after January 1 of the Plan Year shall be eligible for an award only to the extent that such award does not violate the requirements of Section 162(m).

The CEO (or, as to Section 162(m) Eligible Participants, the Committee) may, for any reason and in his or her (or its) sole discretion, at any time prior to the end of the Plan Year, determine an employee's eligibility for participation in the Plan. Eligible Participants are subject to the terms and conditions relating to incentive awards set forth in the MIP.

B. Section 162(m) Eligible Participants

Section 162(m) Eligible Participants shall be subject to the limitations required to comply with the provisions of Section 162(m). Subject to the requirements of Section 162(m), the Committee shall retain sole discretion to determine a Section 162(m) Eligible Participant's eligibility for an award, the target award, and the amount of the actual award. In no event shall a Section 162(m) Eligible Participant's award exceed the amount permitted by Section 162(m).

C. Newly-Eligible Employees

The award, if any, to an Eligible Participant who became an Eligible Participant after the beginning of the Plan Year may be prorated based on the date of eligibility.

D. Transfers

An employee who becomes an Eligible Participant on or before November 1 of the Plan Year as a result of a transfer may be eligible for a prorated MIP award. If a change in assignment results in an employee becoming an Eligible Participant for part of the Plan Year and other incentives during other parts of the Plan Year, the employee may be eligible to receive a prorated award for the amount of time in each incentive eligible position, subject to the terms of each applicable incentive plan. A change in assignment from one MIP-eligible position to another MIP-eligible position

during the Plan Year does not result in a prorata award but rather an award funded on the base salary of the Eligible Participant on December 31 of the Plan Year and the individual award opportunity as of that date.

E. Demotions

If a previously Eligible Participant is demoted to a non-incentive eligible position due to his or her violation of CVS Caremark policy or his or her performance, or if he or she voluntarily transfers to a non-incentive eligible position during the Plan Year, and is in the non-incentive eligible position on the last day of the Plan Year, he or she will not be eligible to earn an incentive award for the Plan Year under the MIP.

F. Terminations

Unless otherwise stated in Section VII of the MIP, if an Eligible Participant's employment terminates prior to the final determination of incentive awards for the Plan Year, he or she will not be eligible to receive an incentive award under the MIP. The final determination of incentive awards generally occurs in February of the year following the Plan Year.

G. Rehires

Employees who are rehired as Eligible Participants on or before November 1 of the Plan Year may be eligible for a prorated incentive award. For purposes of proration, credit will only be given for time worked during the Plan Year in incentive-eligible positions.

IV. Target Measurements and Total Pool

A. Consolidated Company Funding

MIP funding is based on consolidated Company performance, measured by Operating Profit, Retail Customer Service and Pharmacy Benefit Management ("PBM") Customer Satisfaction, as defined below. Achievement of the Company's consolidated operating profit target will determine 80% of the total funding (the "Total Pool"); achievement of the Retail Customer Service target, as measured by 'myCustomer Experience' scores, will determine 10% of the Total Pool; and achievement of PBM Customer Satisfaction targets will determine the remaining 10% of the Total Pool.

1. Operating Profit

Operating Profit is determined by reference to EBIT and may be adjusted by the permitted financial adjustments as approved by the Committee prior to the end of the first fiscal quarter of the Plan Year (the "Permitted Financial Adjustments").

If Operating Profit is below the minimum threshold of 96.9% (see Exhibit A), no formulaic funding will be made available for incentive awards, regardless of Retail Customer Service and PBM Customer Satisfaction performance, and there shall be no requirement that incentive awards be paid under the MIP.

2. PBM Customer Satisfaction

Achievement of the PBM Customer Satisfaction component of incentive funding will be determined by the aggregate actual performance against target (see Exhibit A) of the weighted composite of the following surveys:

- Client Relationship and Loyalty Survey (weight = 50%)
- Mail Service Pharmacy and Customer Care Survey (weight = 25%)
- Specialty Pharmacy Satisfaction Survey (weight = 25%)

PBM Customer Satisfaction funding is subject to adjustment based on Operating Profit.

3. Retail Customer Service

The Retail Customer Service component of the incentive funding will be determined using the myCustomer Experience actual performance against the target (see Exhibit A). The myCustomer Experience score is derived based on RX Score and Front Store score and assigned weightings.

Retail Customer Service funding is subject to adjustment based on Operating Profit.

COMPANY PERFORMANCE - TARGET MEASUREMENTS

| Measurement | Percent Weight | Measurement Tool | Achievement Measured Against | Modifier |
|-------------------------------|-----------------------|--|---------------------------------------|--|
| Consolidated Operating Profit | 80% | Earnings Before Interest and Taxes ("EBIT") | 2013 EBIT Goal | CEO & Committee Discretion ⁽¹⁾ Permitted Financial Adjustments |
| PBM Customer Satisfaction | 10% | Client Relationship and Loyalty, Customer Care, Mail Service and Specialty Surveys | 2013 PBM Customer Satisfaction Target | Operating Profit Funding |
| Retail Customer Service | 10% | myCustomer Service Scorecard | 2013 myCustomer Experience Target | Operating Profit Funding |

⁽¹⁾Subject to restrictions applicable to Section 162(m) Eligible Participants

B. Total Pool Funding

After the achievement of at least threshold for Operating Profit has been confirmed, performance of Retail Customer Service and PBM Customer Satisfaction compared to target for the Plan Year will be calculated. The Total Pool for all business units will be fully based (100%) on consolidated Company performance.

The CEO may adjust the funding of the Total Pool at his or her discretion based on (a) input from the PBM and Retail Presidents and Finance regarding their assessment of the overall performance of the Company; and (b) the CEO's (or, in the case of Section 162(m) Eligible Participants, the Committee's) assessment of the achievement of Plan Year performance goals by the Company.

C. Individual Performance

The Total Pool will be available for award to Eligible Participants under the MIP, taking into account the individual contribution of each Eligible Participant. The amount, if any, of the incentive award for an Eligible Participant shall be determined in the sole discretion of the Company. The amount, if any, of the incentive award for a Section 162(m) Eligible Participant shall be determined in the sole discretion of the Committee.

V. Earnings and Payout

A. Timing

Incentive awards will be paid to Eligible Participants as soon as administratively feasible following the date the Total Pool is determined and approved and the amount of incentive payments is ascertained, but in any case on or before March 15 of the year immediately following the Plan Year. Incentive payments under the MIP may be subject to garnishments and other state or federal requirements.

B. Calculations

Calculations for full and partial awards will be based on each Eligible Participant's annual base salary and individual target opportunity as of the last day of the Plan Year.

For purposes of proration, the 15th of the month will be used to determine if the month is included or excluded from the incentive calculation, as follows:

1. If an Eligible Participant is hired or returns to work from an authorized leave of absence on or before the 15th of the month, the month will be included in the incentive calculations.
2. If an Eligible Participant is hired or returns to work from an authorized leave of absence after the 15th of the month, then such month will be excluded from the incentive calculations.

3. If an Eligible Participant's employment is terminated on or before the 15th of the month and the employee is eligible for a prorated award under the Plan, then the month will be excluded from incentive calculations.
4. If an Eligible Participant's employment is terminated after the 15th of the month and the employee is eligible for a prorated award under the Plan, then the month will be included in the incentive calculations.

Examples:

- a. An employee is hired as an Eligible Participant on September 14th. Because the Eligible Participant is actively employed prior to the 15th of September, the month of September will be included in his/her prorated incentive award and the Eligible Participant will receive a prorated incentive award covering a total of four months. The award will be calculated using the Eligible Participant's individual award opportunity target and base salary as of December 31st.
- b. An Eligible Participant begins a personal leave of absence on June 3rd and returns to active status on July 22nd. Assuming the Eligible Participant was incentive eligible for the entire year, the months of June and July will be excluded from the Eligible Participant's incentive award and the Eligible Participant will receive a prorated incentive award covering a total of 10 months. The award will be calculated using the Eligible Participant's individual award opportunity target and base salary as of December 31st.

C. Award Opportunity

Individual target awards will be determined by position and may vary based on the Eligible Participant's level in the organization.

D. Obligation to Pay Out Total Pool

Eligible Participants, as a group, have a right to receive an amount at least equal to the Total Pool, but no individual Eligible Participant shall be entitled to receive an award or any specific amount of the Total Pool. In no event will the aggregate of the total awards paid from the MIP be less than the amount of the Total Pool.

VI. Corrections to Incentive Awards

Any corrections to incentive award calculations must be submitted through the Human Resources Business Partner to Compensation by April 15 of the year following the Plan Year.

VII. Eligible Participant Status

A. Performance

The Company has full discretion in determining the amount, if any, of a MIP award to an Eligible Participant, and the Participant's individual performance throughout the Plan Year will be considered by the Company in the final determination of the Eligible Participant's incentive award.

B. Leaves of Absence

An Eligible Participant on a Company-approved leave of absence at any time during the Plan Year who remains employed in an eligible position as of the last day of the Plan Year will earn a prorated incentive award based on the number of months actively worked (including time compensated as vacation, myTime or Paid Time Off ("PTO")) during the Plan Year, provided he or she meets all other eligibility criteria for an incentive award. For purposes of proration, the 15th of the month will be used to determine if the month is included or excluded from the incentive calculation, as set forth above in Section V.B..

C. Reduction in Force, Retirement and Death

1. Reduction in Force

If an Eligible Participant is separated from employment by the Company on or before the last day of the Plan Year due to a reduction in force, he or she may be eligible to receive a prorated incentive award based on the number of months worked during the Plan Year, provided the Eligible Participant meets all other eligibility criteria for an incentive award. For purposes of proration, the 15th of the month will be used to determine if the month is included or excluded from the incentive calculation, as set forth above.

2. Retirement

If an Eligible Participant is at least age 55 and has a minimum of 10 years of service with CVS Caremark or a predecessor company/subsidiary **or** is at least age 60 and has a minimum of 5 years of service with CVS Caremark or a predecessor company/subsidiary **and** the Eligible Participant retires before the end of the Plan Year, he/she may be eligible to receive a prorated incentive award based on the number of months worked during the Plan Year, provided he/she meets all other eligibility criteria for an incentive award. Eligible Participants who do not meet the minimum retirement requirements under this section at the time of retirement and who retire before the end of the Plan Year will not be eligible for an incentive award.

3. Death

In case of the death of an Eligible Participant, a prorated incentive award may be paid to the Eligible Participant's spouse, if living; otherwise, in equal shares to surviving children of the Eligible Participant. If there are no surviving children, the benefit shall be paid to the Eligible Participant's estate. The incentive award will be prorated based on the number of months the Eligible Participant worked during the Plan Year and shall be paid as soon as administratively practicable following the death of the Eligible Participant but no later than March 15 of the year following the Plan Year.

VIII. Miscellaneous

A. No Promise of Continued Employment

The MIP does not create an express or implied contract of employment between CVS Caremark and an Eligible Participant. Both CVS Caremark and the Eligible Participant retain the right to terminate the employment relationship at will, at any time and for any reason.

B. Rights are Non-Assignable

Neither the Eligible Participant, nor any beneficiary, nor any other person shall have any right to assign, in whole or in part, the right to receive payments under the MIP. Payments are non-assignable and non-transferable, whether voluntarily or involuntarily.

C. Compliance with Applicable Law

An Eligible Participant must comply with all applicable state and federal law and CVS Caremark policies to be eligible to receive an incentive award under the MIP.

CVS Caremark will comply with all applicable laws concerning incentive awards; the MIP and its administration are not intended to conflict with any applicable state or federal law.

D. Change in Control

In the event of a change in control of CVS Caremark, as defined in the 2010 Incentive Compensation Plan ("ICP"), the MIP shall remain in full force and effect. Any amendments, modifications, termination or dissolution of the MIP by the acquiring entity may only occur prospectively and will not affect incentive earnings or eligibility before the date of the change in control or such date as it may be modified or dissolved by the acquiring entity.

Provisions regarding the payment of annual incentive awards that are set forth in change in control agreements with Eligible Employees shall supersede those appearing in the MIP.

E. Withholding

All required deductions will be withheld from the incentive awards prior to distribution. This includes all applicable federal, state, or local taxes, as well as any eligible 401(k) deductions and deferred compensation contributions as defined by the applicable plans. Incentive awards that are deferred will be taxed according to applicable federal and state tax law. Each Eligible Participant shall be solely responsible for any tax consequences of his or her award hereunder.

F. MIP Amendment/Modification/Termination

CVS Caremark retains the right to amend, modify, or terminate the MIP at any time on or before the last day of the Plan Year for any reason, with or without notice to Eligible Participants, provided that no changes shall be made with respect to a Section 162(m) Eligible Participant that would not comply with the requirements of Section 162(m).

G. MIP Interpretation

All inquiries with respect to the MIP and any requests for interpretation of any provision in the MIP must be submitted to the appropriate Human Resources Business Partner in writing. Failure to submit a request for resolution of a dispute or question in writing within 30 days of distribution of the incentive award may result in a waiver of the Eligible Participant's rights to dispute the MIP provision or amount of the incentive award.

Capitalized terms not otherwise defined herein shall have the meaning assigned to such defined term(s) in the ICP. In the event of any conflict between the ICP and the MIP, the terms of the ICP shall govern.

H. Recoupment of Incentive Awards

Each incentive award under the MIP shall be subject to the terms of the Company's Recoupment Policy as it exists from time to time, which may require the Eligible Employee to immediately repay to the Company the value of any pre-tax economic benefit that he or she may derive from the MIP.

I. Section 409A of the Internal Revenue Code

The Company intends that the MIP not violate any applicable provision of, or result in any additional tax or penalty under, Section 409A of the Code, as amended, and the regulations and guidance thereunder (collectively, "Section 409A"), and that to the extent any provisions of the Plan do not comply with Section 409A the Company will make such changes as it deems reasonable in order to comply with Section 409A. Payments hereunder are intended to qualify as short-term deferral payments under Section 409A. In all events, the provisions of CVS Caremark Corporation's Universal [409A] Definitions Document are hereby incorporated by reference, and notwithstanding the any other provision of the Plan or any Award to the contrary, to the extent required to avoid a violation of the applicable rules under Section 409A by reason of Section 409A(a)(2)(B)(i) of the Code (requiring certain delays for "specified employees"), payment of any amounts subject to Section 409A shall be delayed until the first business day of the seventh (7th) month following the date of termination of employment. For purposes of any provision of the Plan providing for the payment of any amounts or benefits in connection with a termination of employment, references to an Eligible Person's "termination of employment" (and corollary terms) shall be construed to refer to the Eligible Person's "separation from service" with the Company as determined under Section 409A.

Exhibit A

2013 Company MIP Funding Grid

| Consolidated Operating Profit (EBIT)⁽¹⁾ (80%) | |
|---|-----------------|
| Results | % Payout |
| 102.5% | 200% |
| 102.2% | 180% |
| 101.9% | 160% |
| 101.6% | 140% |
| 101.2% | 120% |
| 99% -101% | 100% |
| 98.8% | 90% |
| 98.4% | 80% |
| 98.1% | 70% |
| 97.8% | 60% |
| 97.5% | 50% |
| 97.2% | 40% |
| 96.9% | 30% |
| < 96.9% | 0% |

| Retail Customer Service - myCustomer Experience (10%) | |
|--|-----------------|
| Results | % Payout |
| 100.0% | 100% |
| 99.0% | 95% |
| 98.0% | 90% |
| 97.0% | 85% |
| 96.0% | 80% |
| 95.0% | 75% |
| 94.0% | 70% |
| 93.0% | 65% |
| 92.0% | 60% |
| 91.0% | 55% |
| 90.0% | 50% |
| 89.0% | 25% |
| <89.0% | 0% |

| PBM Customer Satisfaction (10%) | |
|--|-----------------|
| Results | % Payout |
| 100.0% | 100% |
| 99.0% | 95% |
| 98.0% | 90% |
| 97.0% | 85% |
| 96.0% | 80% |
| 95.0% | 75% |
| 94.0% | 70% |
| 93.0% | 65% |
| 92.0% | 60% |
| 91.0% | 55% |
| 90.0% | 50% |
| 89.0% | 25% |
| <89.0% | 0% |

¹¹ Linear interpolation to determine payout for results that are outside of the 100% performance range

2013 Management Incentive Plan 7 Confidential & Proprietary



LONG-TERM INCENTIVE PLAN

Purpose

The purpose of the CVS Caremark Long-Term Incentive Plan (the "Plan") is to motivate select executives to focus on the long-term financial goals of CVS Caremark Corporation (the "Company") that enhance shareholder value, while simultaneously promoting executive retention and maintaining competitive levels of compensation.

Administration

The Plan shall be administered by the Management Planning and Development Committee (the "Committee") of the Board of Directors (the "Board") of the Company under the provisions of the 2010 Incentive Compensation Plan, as amended (the "2010 ICP"), where applicable. The Committee shall have full and final authority, in each case subject to and consistent with the provisions of the Plan, to determine Eligible Persons, grant awards under the Plan (each, an "Award"), and determine the amount, terms and conditions and all other matters relating to Awards. In addition, the Committee shall have full and final authority, in each case subject to and consistent with the provisions of the Plan, to construe and interpret rules and regulations for the administration of the Plan, correct defects, supply omissions or reconcile inconsistencies therein, and to make all other decisions and determinations as the Committee may deem necessary or advisable for the administration of the Plan.

Capitalized terms not otherwise defined herein shall have the meaning assigned to such term(s) in the 2010 ICP.

Eligibility

Executives employed by the Company or its subsidiaries who are selected by the Committee or its designate shall be eligible to receive an Award under the Plan (an "Eligible Person").

The Committee may grant Awards under the Plan that are intended to qualify as performance-based compensation within the meaning of the rules under Section 162(m) of the Code ("the Section 162(m) Rules") and Awards that are not intended to qualify as performance-based compensation under the Section 162(m) Rules. In each case, the terms of each Award shall be established pursuant to such procedures and methods as may be approved by the Committee or its designate.

If (a) the Award recipient is a member of the Company's Business Planning Committee at the time the Award is granted and (b) the Award recipient is expected to be a "covered employee" within the meaning of the Section 162(m) Rules for the calendar year in which the Award is settled, any Award granted under the Plan to the Award recipient shall qualify as performance-based compensation under the Section 162(m) Rules, and the initial grant and the terms of such Award, as established and approved by the Committee, shall comply with the Section 162(m) Rules.

Awards

The Committee shall determine the Eligible Persons to whom Awards shall be granted and the terms and conditions relating to the Awards, including but not limited to the target amount of each Eligible Person's Award, the range of each Eligible Person's Award that may be earned based on the Company's performance, the performance period relating to such Awards, the performance criteria that will be used to determine if and to what extent such Awards may be earned by Eligible Persons participating in the Plan and any other provisions as the Committee deems appropriate; *provided, however*, that performance criteria with respect to Awards intended to qualify as Section 162(m) performance-based compensation shall be consistent with the 2010 ICP, and such determination shall be made within the following time frames:

(i) At the beginning of any performance period and, if the Awards are intended to qualify as Section 162(m) performance-based compensation, not later than the earlier of 90 days after the start of the performance period and expiration of 25% of the performance period, or

(ii) If the Awards are not intended to qualify as Section 162(m) performance-based compensation, then with respect to any new employee, not later than the last day of the calendar year in which the employee commences his or her employment.

(b) A “performance period” shall be defined by the Committee at the time the performance cycle for the Award is established but shall generally begin on a January 1st of a calendar year and end on a December 31st of a succeeding calendar year (the “Performance Period”).

(i) The Committee may establish, in its sole discretion, one or more periodic performance measurement periods within a Performance Period (an “Interim Performance Period”).

(ii) Any Interim Performance Period(s) commencement and end date(s), corresponding performance criteria and other relevant factors will be established to allow the Company to deduct to the full extent possible under Section 162(m) of the Code any compensation paid as a performance award against such pre-determined goals.

(c) An Award is considered “earned” when the Committee certifies the Company’s financial performance for the relevant performance period (an “Earned Award”) which, with respect to Awards intended to qualify as Section 162(m) performance-based compensation, shall be consistent with the Section 162(m) Rules.

(d) **Settlement of Earned Awards.** At the end of a Performance Period, the Committee shall determine, in its sole discretion, the portion of the Earned Award that shall be distributed to each Eligible Person in cash and in shares of CVS Caremark common stock (the “Shares”) based on the level of achievement of the relevant performance criteria.

Any Shares to be issued in connection with an Earned Award shall be issued pursuant to the 2010 ICP. The portion of the Earned Award payable in Shares shall be determined by dividing such portion of the Earned Award by the closing price of CVS Caremark stock (“FMV”) on the date the Award is approved by the Committee, which shall be rounded down to the nearest whole share.

Subject to an Eligible Person’s prior election to defer any or all of the Earned Award pursuant to Section 5, the cash and Shares payable in respect of an Earned Award will be paid to the Eligible Person as soon as practicable after the Earned Award is approved by the Committee and in no event later than March 15 following the completion of the relevant performance period. The Share portion of the Earned Award will be settled through the issuance to each Eligible Person of a certificate for Shares or such other method of transfer of Shares as may be made in accordance with prevailing Company practice.

5. Deferral Elections

In accordance with the rules promulgated by the Committee, an Eligible Person may elect to defer any or all of such Earned Award.

6. Termination of Employment

(a) In the event an Eligible Person ceases to be employed by the Company and any subsidiary of the Company prior to the completion of a Performance Period due to an Eligible Person’s voluntary termination of employment, or the termination of an Eligible Person by the Company for Cause, any Award granted but not yet earned for a Performance Period shall be forfeited. For this purpose, “Cause” shall be deemed to occur if the Eligible Person (A) willfully and materially breaches any of his or her obligations to the Company with respect to confidentiality, cooperation with regard to litigation, non-disparagement and non-solicitation; (B) is convicted of a felony involving moral turpitude; or (C) engages in conduct that constitutes willful gross neglect or willful gross misconduct in carrying out Eligible Person’s duties to the Company, resulting, in either case, in material harm to the financial condition or reputation of the Company

(b) In the event an Eligible Person ceases to be employed by the Company and any subsidiary of the Company prior to the completion of a Performance Period by reason of death, any Award not yet earned in accordance with Section 4 shall be prorated pursuant to Paragraph 6(f) below.

(c) In the event an Eligible Person ceases to be actively employed by the Company and any subsidiary of the Company prior to the completion of a Performance Period due to an Eligible Person becoming totally and permanently disabled

(as defined in the Company's Long-Term Disability Plan, or, if not defined in such plan, as defined by the Social Security Administration) while actively employed by Company or a subsidiary of the Company, an Award granted but not yet earned for a Performance Period shall be prorated pursuant to Paragraph 6(f) below.

(d) In the event an Eligible Person ceases to be employed by the Company and any subsidiary of the Company, due to a Termination by the Company without Cause (as defined above in Paragraph 6(a)) or a "Constructive Termination without Cause" (defined below), any Award granted but not yet earned for a Performance Period shall be prorated pursuant to Paragraph 6(f) below. "Constructive Termination without Cause" shall mean a termination of the Eligible Person's employment at his or her initiative as provided under the definition of either "Constructive Termination without Cause" or "Termination by Executive for Good Reason" set forth in the most recent Employment Agreement, as amended, Change in Control Agreement, or other comparable agreement, between the Company and the Eligible Person. If there is no such Agreement between the Company and the Eligible Person, then Constructive Termination without Cause shall have the same meaning for the Eligible Person as is defined for a similarly-situated Eligible Person in his or her Employment or Change in Control Agreement.

(e) In the event an Eligible Person's employment with the Company and any subsidiary of the Company terminates by reason of a "Qualified Retirement," an Award granted but not yet earned for a Performance Period shall be prorated pursuant to Paragraph 6(f) below. A "Qualified Retirement" shall mean termination of employment after attainment of age fifty-five (55) with at least ten (10) years of continuous service, or attainment of age sixty (60) with at least five (5) years of continuous service, provided that: (i) if Participant elects to terminate his or her employment voluntarily, Participant has provided the Company with at least twelve (12) months advance notice of his or her retirement date or such other term of advance notice as is determined by the Chief Human Resources Officer of the Company; or (ii) if the Company elects to terminate Participant's employment, then such termination is without cause. Notwithstanding the forgoing, in the event an Eligible Person is a party to an Employment Agreement with the Company, a Qualified Retirement shall be deemed to occur under this Section if the Eligible Person's termination of employment qualifies as a Normal Retirement or an Approved Early Retirement under such Employment Agreement.

(f) Pro Rating

(i) Subject to Paragraph 6(f)(ii), in the case of Paragraphs 6(b) and 6(c), the Award payable will be determined based on the Eligible Person's target award and, in the case of Paragraphs 6(d) and 6(e), the Award payable will be determined based on the Company's *actual performance* during the applicable Performance Period. The amount of the Award will be calculated by multiplying the Award amount (based on target or actual performance, as the case may be) by the following fraction: (A) the numerator shall be the number of whole months elapsed since the beginning of the Performance Period and (B) the denominator shall be the total number of months in the Performance Period. For purposes of this calculation, the number of months in the numerator in sub-section (A) shall include any partial month in which an Eligible Person has worked. Any payment to an Eligible Person under Paragraphs 6(b) and 6(c) shall be made within two and a half months of such death or disability, as the case may be, and any payment made under Paragraphs 6(d) and 6(e) will be made following completion of the performance period at the same time payment is made to other Eligible Persons in accordance with Paragraph 4(d).

(ii) Notwithstanding the foregoing and subject to compliance with Section 409A of the Code, the Committee may provide, in its sole discretion, that the amount payable following terminations described in Paragraphs 6(b) and 6(c) with respect to Awards subject to the Section 162(m) Rules will be determined based on the Company's *actual performance* during the applicable Performance Period and payable on the earlier of (i) the time payment is made to other Eligible Persons in accordance with Paragraph 4(d) and (ii) the Company's first taxable year when payment would not reasonably be anticipated to result in a loss of a tax deduction under the Section 162(m) Rules.

7. Tax Withholding

The Company will withhold from an Eligible Person's Earned Award, subject to an Eligible Person's election to defer all or a portion of the Earned Award, all required federal, state and local payroll taxes, including Medicare taxes. If an Eligible Person's Social Security wages have not reached the Social Security maximum taxable wage base at the time the Earned Award is paid or Shares are delivered, Social Security taxes will also be withheld from the Award.

If an Eligible Person elects to defer an Earned Award, the Company may require the Eligible Person to remit to the Company in advance of the actual deferral of such Earned Award, the required FICA withholding taxes, including Social Security and Medicare taxes, in order to ensure compliance with the Sarbanes-Oxley Act of 2002.

8. Change in Control of the Company

Upon the occurrence of a change in control of the Company, as defined in Section 10(c) of the 2010 ICP (a "Change in Control"), the performance criteria for any outstanding Performance Period shall be deemed to have been fully satisfied at target and all outstanding Awards under the Plan shall become immediately non-forfeitable Earned Awards. Each Eligible Person shall receive the Target Award for each outstanding Performance Period to be paid as soon as administratively possible within two and a half months of the Change in Control, subject to all applicable Plan provisions and federal regulations governing payment of such Award(s), including but not limited to the Eligible Person's deferral elections, and Sections 162(m), 4999 and 409A of the Code.

9. Recoupment of Awards

Except as may be specifically provided in the Award, each Award under the Plan shall be subject to the terms of the Company's Recoupment Policy as it exists from time to time, which may require the Eligible Person to immediately repay to the Company the value of any pre-tax economic benefit that he or she may derive from the Plan.

10. Miscellaneous

(a) *Not a Contract of Employment.* The adoption and maintenance of the Plan shall not be deemed to be a contract of between the Company and an Eligible Person and shall not be consideration for the employment of an Eligible Person. Nothing contained herein shall be deemed to give an Eligible Person the right to be retained in the employ of the Company or to restrict the right of the Company to discharge an Eligible Person at any time nor shall the Plan be deemed to give the Company the right to require an Eligible Person to remain in the employ of the Company or to restrict an Eligible Person's right to terminate their employment at any time.

(b) *Non-Assignability of Benefits.* No Eligible Person, Beneficiary or distributees of benefits under the Plan shall have any power or right to transfer, assign, anticipate, hypothecate or otherwise encumber any part or all of the amounts payable hereunder, which are expressly declared to be unassignable and nontransferable. Any such attempted assignment or transfer shall be void. No amount payable hereunder shall, prior to actual payment hereof, be subject to seizure by any creditor or any such Eligible Person, Beneficiary or other distributees for the payment of any debt judgment or other obligation, by a proceeding at law or in equity, nor transferable by operation of law in the event of the bankruptcy, insolvency or death of such Eligible Person, Beneficiary or other distributees hereunder.

(c) *Amendment and Termination.* The Board may amend, alter, suspend, discontinue or terminate the Plan or the Committee's authority to grant Awards under the Plan without the consent of Eligible Persons, except that without the consent of an affected Eligible Person, no such Board action may materially and adversely affect the rights of such Eligible Person under any previously granted and outstanding Awards. The Committee may waive any conditions or rights under, or amend, alter, suspend, discontinue or terminate any Award(s) previously granted, except as otherwise provided in the Plan, provided that, without the consent of an affected Eligible Person, no such Committee action may materially and adversely affect the rights of such Eligible Person under such Award(s).

(d) *Compliance with Legal and Other Requirements.* Notwithstanding any Plan provision to the contrary, the Committee may at any time impose such restrictions on the Plan and participation therein as the Committee may deem advisable from time to time in order to comply with or preserve compliance with any applicable laws, including any applicable federal and state securities laws and exemptions from registrations thereunder.

Further, to the extent it would not violate an applicable provision of Section 409A of the Code the Company may, to the extent deemed necessary or advisable by the Committee, postpone the issuance or delivery of CVS Caremark stock or payment of other benefits under any Earned Award until completion of such registration or qualification of such stock or other required action under any federal or state law, rule or regulation, listing or other required action with respect to any stock exchange or automated quotation system upon which such stock are listed or quoted, or compliance with any other obligation of the Company, as the Committee may consider appropriate, and may require any Eligible Person to make such representations, furnish such information and comply with or be subject to such other conditions as it may consider appropriate in connection with the issuance or delivery of stock or payment of other benefits in compliance with applicable laws, rules, and regulations, listing requirements, or other obligations.

(e) *Section 409A.* The Company intends that the Plan not violate any applicable provision of, or result in any additional tax or penalty under, Section 409A of the Code, as amended, and the regulations and guidance thereunder (collectively, "Section 409A"), and that to the extent any provisions of the Plan do not comply with Section 409A the Company will make such changes as it deems reasonable in order to comply with Section 409A. In all events, the provisions of CVS Caremark Corporation's Universal 409A Definitions Document are hereby incorporated by reference, and notwithstanding the any other provision of the Plan or any Award to the contrary, to the extent required to avoid a violation of the applicable rules under Section 409A by reason of Section 409A(a)(2)(B)(i) of the Code (requiring certain delays for "specified employees"), payment of any amounts subject to Section 409A shall be delayed until the first business day of the seventh (7th) month following the date of termination of employment. For purposes of any provision of the Plan providing for the payment of any amounts or benefits in connection with a termination of employment, references to an Eligible Person's "termination of employment" (and corollary terms) shall be construed to refer to the Eligible Person's "separation from service" with the Company as determined under Section 409A.

(f) *Adjustments.* In the event that any dividend or other distribution (whether in the form of cash, stock, or other property), re-capitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, share exchange, liquidation, dissolution or other similar corporate transaction or event affects the stock such that an adjustment is appropriate under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust the number and kind of Shares of stock subject to or deliverable in respect of outstanding Awards.

(g) *Limitation on Rights Conferred by Awards Granted under Plan.* Neither the Plan nor any action taken under the Plan shall be construed as conferring on an Eligible Person any of the rights of a shareholder of CVS Caremark until the Eligible Person is duly issued or transferred Shares in accordance with the terms of an Earned Award.

(h) *Unfunded Status of Awards; Creation of Trusts.* The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to an Eligible Person or obligation to deliver stock pursuant to an Award, nothing contained in any Award shall give any such Eligible Person any rights that are greater than those of a general creditor of CVS Caremark, provided that the Committee may authorize the creation of trusts and deposit therein cash, stock, other awards or other property, or make other arrangements to meet CVS Caremark's obligations under the Plan. Such trusts or other arrangements shall be consistent with the "unfunded" status of the Plan unless the Committee otherwise determines with the consent of each affected Eligible Person.

11. Governing Law

The validity, construction and effect of the Plan, and any rules and regulations under the Plan shall be determined in accordance with Delaware law, without giving effect to principles of conflicts of laws and applicable federal law.



Partnership Equity Program

Partnership Equity Program

Table of Contents

| | Page |
|-------|--|
| I. | Purpose and Status of the PEP. 1 |
| II. | Eligibility 1 |
| III. | Definitions 1 |
| IV. | Administration 2 |
| V. | Award 3 |
| VI. | Participation 3 |
| VII. | Form of Participation 3 |
| VIII. | Company Matching Investments 4 |
| IX. | Restrictions on Disposition of Participant Purchased Shares . . . 4 |
| X. | Dividends 4 |
| XI. | Vesting and Settlement 5 |
| XII. | Option to Purchase Common Stock 5 |
| XIII. | Termination of Employment 6 |
| XIV. | General Provisions 8 |
| XV. | Recoupment Policy 10 |

I. Purpose and Status of the PEP. The Partnership Equity Program (the “PEP”) has been adopted by the Management Planning & Development Committee (“Committee”) of the Board of Directors of CVS Caremark Corporation (the “Company”), as a subplan implemented under the Company’s 2010 Incentive Compensation Plan (the “2010 ICP”). The purpose of the PEP is to promote a partnership between the participating executive and the Company through a mutual commitment based on ownership of a proprietary interest in the Company. This is accomplished through an investment by the participating executive in the Company’s common stock and an award by the Company of restricted stock units and stock options. All shares of Stock (as hereinafter defined) issued or delivered in settlement of Participant Purchased RSUs (as hereinafter defined) and Company Matching RSUs (as hereinafter defined) under the PEP or issued upon exercise of Company Matching Options (as hereinafter defined) granted under the PEP shall be shares of Stock reserved and available under the 2010 ICP. All of the terms and conditions of the 2010 ICP are hereby incorporated by reference. Capitalized terms used in the PEP but not defined herein shall have the same meanings as defined in the 2010 ICP Plan. If any provision of the PEP is inconsistent with a provision of the 2010 ICP, the provision of the 2010 ICP shall govern.

II. Eligibility. The Committee shall determine and approve, in its sole discretion, the executives eligible to participate in the PEP.

III. Definitions.

A. “Award” means any Participant’s investment, Company Matching RSUs, and Company Matching Options granted to a Participant under the PEP.

B. “Beneficiary” has the same meaning as the definition in the 2010 ICP.

C. “Board” means the Company’s Board of Directors.

D. “Change in Control” means Change in Control as defined in the 2010 ICP.

E. “Code” means the Internal Revenue Code of 1986, as amended from time to time, including regulations thereunder and successor provisions and regulations thereto.

F. “Company Matching Option” means a right granted to a Participant under Section VIII of the PEP and 6(b) of the 2010 ICP to purchase Stock at a specified price during a specified time period.

G. “Company Matching RSU” refers to a RSU granted by the Company pursuant to which the Participant has a right to receive, at the time of settlement specified in the PEP, the value of one share of Stock.

H. “Eligible Participant” means an employee of the Company or of any subsidiary who is selected to have an opportunity to participate in the PEP.

I. “Fair Market Value” or “**FMV**” means the fair market value of the Stock as determined by the Committee or under procedures established by the Committee. Unless otherwise determined by the Committee, the Fair Market Value shall be the closing price of a share of Stock, as quoted on the composite transactions table on the New York Stock Exchange, on the date on which the determination of Fair Market Value is being made.

J. “Grant Date” means the date an Award is granted, as approved by the Committee.

K. “Grant Price” means the Fair Market Value of a share of Stock of the Company on the Grant Date, as approved by the Committee.

L. “Participant” means an Eligible Participant who has been granted an Award that remains outstanding under the PEP.

M. “Participant Purchased RSUs” means the number of RSUs credited to a designated account representing a Participant’s pre-tax investment in the PEP.

N. “Participant Purchased Shares” means number of shares of Stock credited to a designated account representing a Participant’s post-tax investment in the PEP.

O. “Post-Tax Investment Date” means the date on which the Participant purchases Stock in the PEP on a post-tax basis.

P. “RSU” means a restricted stock unit granted under Sections VII and VIII of the PEP and Section 6(d) of the 2010 ICP in each case that represents a right to receive the value of a share of Stock upon the terms and conditions set forth in the PEP, the 2010 ICP and the applicable Award agreement.

Q. “Stock” means the Company’s common stock, \$0.01 par value, and such other securities as may be substituted for Stock pursuant to Section 11 (c) of the 2010 ICP.

IV. Administration.

(A) Authority of the Committee. The PEP shall be administered by the Committee. The Committee shall have full and final authority, in each case subject to and consistent with the provisions of the PEP, to select Eligible Participants, grant Awards, determine the type, number and other terms and conditions of, and all other matters relating to, Awards, prescribe Award agreements (which need not be identical for each Participant) and rules and regulations for the administration of the PEP, construe and interpret the PEP and Award agreements and correct defects, supply omissions or reconcile inconsistencies therein, and to make all other decisions and determinations as the Committee may deem necessary or advisable for the administration of the PEP. The Committee, in its sole discretion, may waive the forfeiture provisions applicable to any Participant Purchased RSUs or Company Matching RSUs, provided that those RSUs shall be settled at the same time that they would otherwise have been settled if they had vested in due course under the terms of the PEP and the applicable Award.

(B) Manner of Exercise of Committee Authority. The express grant of any specific power to the Committee, and the taking of any action by the Committee, shall not be construed as limiting any power or authority of the Committee. To the extent permitted by applicable law, the Committee may delegate to officers or managers of the Company or any subsidiary, or committees thereof, the authority, subject to such terms as the Committee shall determine, to perform such functions, including administrative functions, as the Committee may determine. The Committee may appoint agents to assist it in administering the PEP.

(C) Limitation of Liability. The Committee and each member thereof shall be entitled to, in good faith, rely or act upon any report or other information furnished to him or her by any Participant officer, other officer or employee of the Corporation or a subsidiary, the Company’s independent auditors, consultants or any other agents assisting in the administration of the PEP. Members of the Committee and any officer or employee of the Company or a subsidiary acting at the direction or on behalf of the Committee shall not be personally liable for any action or determination taken or made in good faith with respect to the PEP, and shall, to the extent permitted by law, be fully indemnified and protected by the Company with respect to any such action or determination.

V. Award. Upon approval by the Committee, an Eligible Participant shall be notified that he or she has been selected to receive an Award, contingent upon the Eligible Participant’s decision to invest in the PEP by completion of a PEP participant election form (an “Election Form”). The Award will stipulate the Grant Date and the amount the Eligible Participant may invest in the PEP.

VI. Participation. On or before the Grant Date, the Eligible Participant shall be provided an Election Form to indicate (A) the dollar amount to be invested; and (B) the form of participation by the Eligible Participant. In order to become a Participant in the PEP, the Eligible Participant must return the executed Election Form to the Company within the time period designated on such form.

VII. Form of Participation. At the determination of the Committee, an Eligible Participant may invest in the PEP in one or in a combination of the following:

(A) Participant Purchased RSUs. On a pre-tax basis by electing to use cash payable to the Participant by the Company to invest in Participant Purchased RSUs, with such investment to occur on the Grant Date (Participant shall pay all applicable FICA taxes on the total dollar value of such pre-tax investment). The Company shall establish and maintain for each Participant an account on its stock administration system for purposes of tracking and administering the Participant Purchased RSUs.

Upon receipt by the Company from the Participant of a commitment to invest an amount in the PEP on a pre-tax basis as set forth on an Election Form, as of the Grant Date the Company will credit to the Participant’s account an amount of Participant Purchased RSUs, as follows:

(i) The initial number of Participant Purchased RSUs shall be equal to the Participant’s elected investment amount divided by the Fair Market Value of the Stock as of the Grant Date, rounded up to the next whole number of shares.

(ii) Each Participant Purchased RSU represents a right to receive, at the time of settlement specified in the PEP, the value of one share of Stock.

(iii) Participant Purchased RSUs are non-transferable.

(B) Participant Purchased Shares. On an after-tax basis by designating Stock as follows:

(i) Designation by the Participant of Stock that the Participant owns as Participant Purchased Shares, with such designation as provided on the completed Election Form. The number of shares of Stock designated by the Participant as Participant Purchased Shares shall have a total Fair Market Value as of the Grant Date at least equal to the amount of the approved investment amount set forth in the Award.

(ii) Purchase of Stock by the Participant to be designated as Participant Purchased Shares, with such purchase and investment in the PEP to occur within thirty (30) days of the Grant Date.

The number of shares of Stock purchased by the Participant shall have a total Fair Market Value as of the purchase date at least equal to the investment amount set forth in the applicable Election Form (or, if applicable, at least equal to the difference between the Fair Market Value of the shares of Stock designated by the Participant under Section VII (B) (i) and the investment amount).

b. The Participant is responsible for the payment of any brokerage fees associated with the purchase of Stock for this purpose.

Under no circumstance may a Participant designate as Participant Purchased Shares any shares not actually owned by the Participant, including shares that are held in any other deferred compensation program sponsored by the Company or any prior employer of the Participant or any shares of Stock that are held in a qualified defined contribution plan as defined by the Code.

In all cases, the Participant shall maintain an account administered by a brokerage firm to hold the Participant Purchased Shares. The Participant is required to demonstrate, on a semi-annual basis and in the form required by the Company, that he or she has maintained ownership of such designated Participant Purchased Shares throughout the required ownership period.

VIII. Company Matching Investments. The Company shall establish and maintain for each Participant an account on its stock administration system for purposes of tracking and administering the Company Matching RSUs and Company Matching Options. As of the Grant Date, the Company shall make a matching Award to the Participant as described below.

(A) Company Matching RSUs. The Company Matching RSUs are non-transferable, shall be equal in number to the total Participant Purchased RSUs or to the Participant's investment amount divided by the Fair Market Value as of the Grant Date, and shall be credited to the Participant's account as of the Grant Date.

(B) Company Matching Option. The Company Matching Option is non-transferable and shall comprise an option to purchase a number of shares of Stock equal to ten (10) times the number of Company Matching RSUs and shall be credited to the Participant's account as of the Grant Date.

IX. Restrictions on Disposition of Participant Purchased Shares. Participant Purchased Shares are not subject to restriction on transfer, withdrawal, or other dispositions, except that if the Participant transfers, withdraws, sells or otherwise disposes of Participant Purchased Shares prior to the earlier of the fifth (5th) anniversary of the Grant Date or the date of the settlement of the Company Matching RSUs relating to Participant Purchased Shares, the Participant will immediately forfeit the number of Company Matching RSUs (including additional Company Matching RSUs acquired as a result of dividend reinvestment, as described below) and all or a portion of the Company Matching Options, in each case granted in respect of the Purchased Shares disposed of, determined as follows: such Participant shall forfeit the Company Matching Option to purchase ten (10) shares for each Participant Purchased Share so disposed of, except that only the portion of the Company Matching Option that is not yet exercisable shall be forfeited.

X. Dividends. To the extent that dividends are declared on Stock as of a record date on which Participant Purchased RSUs or Company Matching RSUs remain outstanding and prior to the Settlement Date (as defined below), the Company shall credit as of the dividend payment date, a number of additional Participant Purchased RSUs or Company Matching RSUs to the Participant's account, which shall be determined by multiplying (i) the amount of

cash actually paid by the Company as a dividend per share of Stock by (ii) the number of Participant Purchased RSUs and Company Matching RSUs credited to the Participant's account as of the record date and dividing the product by (iii) the FMV per share of Stock on the dividend or dividend equivalent payment date; provided, however, that such additional Participant Purchased RSUs and Company Matching RSUs shall be subject to the same terms and conditions (including vesting) as the underlying award. As necessary to reflect dividend equivalents, a Participant's RSUs account will include fractional Stock units calculated to not less than three decimal places.

XI. Vesting and Settlement of Participant Purchased RSUs and Company Matching RSUs. Except as provided under Section XIII, Company Matching RSUs not previously forfeited shall vest on the fifth anniversary of the Grant Date. Participant Purchased RSUs and Company Matching RSUs shall settle on the fifth anniversary of the Grant Date.

(A) Pursuant to the rules promulgated by the Committee, the Participant may make a prior election to defer settlement of Participant Purchased RSUs and Company Matching RSUs.

(B) Absent a valid prior election by the Participant to defer settlement of the Stock subject to the Participant Purchased RSUs and Company Matching RSUs, the settlement and delivery of the Stock shall occur as promptly as practicable, but in any case within fifteen (15) days, following the fifth anniversary of the Grant Date (the "Settlement Date"). On the Settlement Date, the Company shall deliver to the Participant one share of Stock for each Participant Purchased RSU and Company Matching RSU; provided, however, that at the Settlement Date the number of shares of Stock to be delivered by the Company to the Participant shall be reduced by the smallest number of shares of Stock having a FMV at least equal to the dollar amount of Federal, state or local tax withholding required to be withheld by the Company with respect to such Participant Purchased RSUs and Company Matching RSUs on such date. In lieu of having the number of shares of Stock underlying the Participant Purchased RSUs and Company Matching RSU reduced, the Participant may elect to pay the Company for any amounts required to be withheld by the Company in connection with the settlement of the Participant Purchased RSUs and Company Matching RSUs pursuant to the Agreement. Such election may be made electronically at any time prior to the Settlement Date.

If the settlement includes any fractional share of Stock the Company may instead pay cash in lieu of delivery of a fractional share, on such basis as the Committee may determine. Upon settlement, all obligations of the Company in respect of Participant Purchased RSUs and Company Matching RSUs will be terminated, and the shares of Stock so distributed will no longer be subject to any risk of forfeiture or restriction under the PEP.

The settlement of Participant Purchased RSUs and Company Matching RSUs shall be subject to the settlement timing provisions of Section XIV(C)(ix) of the PEP.

XII. Options to Purchase Common Stock.

(A) **Grant of Option.** A Participant shall be granted a Company Matching Option in accordance with VIII (B) of the PEP.

(B) **Exercise Price.** The exercise price per share of Stock under a Company Matching Option shall be the FMV on the Grant Date, unless otherwise determined by the Committee, provided that in no event will the exercise price be less than the FMV of a share of Stock on the Grant Date.

(C) **Vesting and Method of Exercise.** Unless otherwise determined by the Committee, Company Matching Options will vest as to one-third of the underlying shares of Stock on each of the third, fourth and fifth anniversaries of the Grant Date; provided, however, that the exercisability of said Company Matching Option may be accelerated in accordance with the provisions of the PEP. To the extent vested, a Company Matching Option may be exercised in whole or in part, from time to time, all subject to the limitations on exercise set forth in this Section XII. An exercise shall be accomplished in accordance with Section 6(b) of the 2010 ICP. At the time of exercise, the exercise price of the number of shares as to which the Company Matching Option is being exercised shall be tendered to the Company. The exercise price of such Company Matching Option shall be paid in cash or by check or by surrender to the Company of shares of Stock (valued at their FMV as of the date of exercise) already owned by the Participant, other than shares acquired from the Company by exercise of an option during the preceding six months, or by a combination of cash, check, and surrender of such shares.

(D) **Expiration.** The Company Matching Option, to the extent it has not been exercised or previously terminated due to forfeiture, shall expire on the tenth (10th) anniversary of the Grant Date.

XIII. Termination of Employment. Except as provided below in this Section XIII, if, for any reason, a Participant's employment with the Company and any subsidiary of the Company terminates prior to the fifth anniversary of the

Grant Date, all Company Matching RSUs and all Company Matching Options not yet exercised shall be immediately forfeited as of Participant's employment termination date. For purposes of this section, "Cause" shall have the same meaning as defined in the Company's standard change in control agreement. Participant's transfer of employment from the Company to a subsidiary, from a subsidiary to the Company or from one subsidiary to another subsidiary shall not be considered a termination of employment.

(A) Termination of Participant's Employment without Cause.

(i) In the event that a Participant's employment with the Company and its subsidiaries terminates and the Participant receives severance pay, the Participant's Award shall be treated as follows:

(a) Participant Purchased Shares shall no longer be subject to any transfer or sale restrictions;

(b) any Participant Purchased RSUs not vested at the time of Participant's employment termination date but scheduled to vest during the severance period specified in the agreement providing for severance pay shall vest and settle in accordance with the regular schedule set forth in the applicable Award;

(c) any Company Matching RSUs and Company Matching Options not vested at the time of Participant's employment termination date but scheduled to vest during the severance period specified in the agreement providing for severance pay shall vest and settle in accordance with the regular schedule set forth in the applicable Award; and

(d) any Company Matching RSUs and Company Matching Options not scheduled to vest during the specified severance period shall be forfeited as of the Participant's employment termination date. To the extent vested, Company Matching Options shall be exercisable at any time during the severance period and on or before the ninetieth (90th) day following the last day of the severance period, as long as no government regulations or rules are violated by such continued vesting or exercise period; provided, however, that no Company Matching Option will be exercisable beyond its original term.

(ii) The Committee shall have the authority, in its sole discretion, to make any interpretations, determinations, and/or take any administrative actions with respect to whether any post-termination payments to the Participant shall be deemed severance pay, the duration of any severance period, and/or whether a termination was without Cause.

(B) Retirement of Participant. "Qualified Retirement" shall mean termination of employment after attainment of age fifty-five (55)

with at least ten (10) years of continuous service, or attainment of age sixty (60) with at least five (5) years of continuous service, provided that: (i) if the Participant elects to terminate his or her employment voluntarily, the Participant has provided the Company with at least twelve (12) months advance notice of his or her retirement date or such other term of advance notice as is determined by the Chief Human Resources Officer of the Company; or (ii) if the Company elects to terminate the Participant's employment, then such termination is without cause. As of the Participant's retirement date, any Participant Purchased Shares shall no longer be subject to any transfer or sale restrictions, and any Participant Purchased RSUs shall vest in full. The Participant may exercise his or her vested Company Matching Option during the two-year period following the retirement date; any portion of the Company Matching Option which is not vested as of the retirement date shall be forfeited by the Participant as of the retirement date. Any Company Matching RSU that is not vested as of the retirement date shall be forfeited by the Participant. In the event the Participant's termination of employment qualifies as a Qualified Retirement and the Participant also enters into a severance agreement with the Company, the terms of Section XIII(A) shall apply with respect to the vesting and settlement of Participant Purchased RSUs, Company Matching RSUs and Company Matching Options.

(C) Disability of Participant. In the event a Participant ceases to be employed by the Company, or any subsidiary of the Company, by reason of total and permanent disability (as defined in the Company's Long-Term Disability Plan, or, if not defined in such plan, as defined by the Social Security Administration), any Participant Purchased Shares or Participant Purchased RSUs shall be vested and no longer subject to any transfer or sale restrictions. In addition, any Company Matching RSUs shall be vested and be settled and any Company Matching Option shall vest and be exercisable, in each case on a pro rata basis in accordance with the Award in effect for the Participant. Notwithstanding

the foregoing, a Participant shall be deemed to have ceased employment due to a qualifying disability under this Section XIII (C) only if at the time of such cessation of employment the Participant is disabled within the meaning of Section 409A of the Code pursuant to the regulations thereunder.

(D)Death of Participant. In the event of a Participant's death while employed by the Company or one of its subsidiaries, any Participant Purchased Shares or Participant Purchased RSUs shall be vested and no longer subject to any transfer or sale restrictions. In addition, all Company Matching RSUs shall vest and be settled and Company Matching Options shall become immediately vested in full. The Company Matching Option may be exercised up to one (1) year following the Participant's death, or prior to the Company Matching Option expiration date, whichever occurs first, by the Participant's executor, administrator, personal representative or any person or persons who acquired the Company Matching Option directly from the Participant by bequest or inheritance. At the end of said one-year time period, all rights with respect to any Company Matching Option that is unexercised shall terminate and the unexercised Company Matching Option shall be cancelled.

(E)Change In Control. In the event of a Termination Without Cause or a Constructive Termination Without Cause, in each case within the two-year period following a Change in Control, any Participant Purchased Shares or Participant Purchased RSUs shall be vested and no longer subject to any transfer or sale restrictions. In addition, all of the Participant's outstanding Company Matching RSUs shall vest and be settled and Company Matching Options that are not then vested will become immediately vested and exercisable. All other terms and conditions governing such Company Matching RSUs, Participant Purchased RSUs and Company Matching Options will be subject to the provisions of the Company's 2010 ICP.

(F)Coordination of Provisions. Notwithstanding anything to the contrary above, to the extent that the circumstances of the termination of a Participant's employment are within the description of more than one of the subparagraphs above in this Section XIII, each portion of a Participant's Company Matching RSU or Company Matching Option under any Award shall be entitled to the more favorable treatment explicitly applicable to such portion of the Participant's Company Matching RSU or Company Matching Option under the provisions of this Section XIII. For example, if a Participant qualifies as Qualified Retiree at the time of the Participant's termination of employment but the Participant receives severance in connection with the Participant's termination as described in Section XIII (A), the Participant's unvested Matching Company Option shall continue to vest during the applicable severance period and any portion of the Company Matching Option that vests during the severance period shall be exercisable on or before the ninetieth (90th) day following the last day of the severance period, while any portion of the Participant's Matching Company Option that vests as of the Retirement Date may be exercised during the two-year period following the Retirement Date. Similarly, by way of example, if a Participant experiences a termination of employment due to disability following a Change in Control, the treatment described in Section XIII (E) shall apply to the Participant's Awards to the extent that such treatment is more favorable to the Participant than the treatment applicable under Section XIII (C).

(G)In any case, the settlement of Participant Purchased RSUs and Company Matching RSUs shall be subject to the settlement timing provisions of Section XIV(C)(ix) of the PEP.

XIV. General Provisions.

(A) Stock Dividends and Stock Splits. If the Company declares and pays a dividend or distribution in the form of Stock payable on Stock, or if there is a stock split of the Stock, and the record date is prior to the Settlement Date of Participant Purchased and/or Company Matching RSUs, the Company shall credit, as of the dividend payment date, distribution, or split, a number of additional Participant Purchased RSUs and Company Matching RSUs, as the case may be, to the Participant's account equal to the number of shares of Stock paid as a dividend or distribution per share of Stock or distributed as a result of the split per share of Stock multiplied by the number of Participant Purchased RSUs and Company Matching RSUs, as the case may be, credited to the Participant's account at the record date.

(B) Treatment of Additional Participant Purchased RSUs and Company Matching RSUs Resulting from Dividends or Splits. Additional Participant Purchased RSUs or Company Matching RSUs will be subject to the same terms, including the risk of forfeiture in the case of Company Matching RSUs, as the Participant Purchased RSUs

or Company Matching RSUs in respect of which they were credited. No such additional Company Matching RSUs will be credited to the Participant's account in respect of Company Matching RSUs forfeited on or before the record date for the dividend, distribution, or split.

(C) Other Terms. The following terms and provisions will be applicable to Participant Purchased Shares or RSUs, Company Matching RSUs and Company Matching Options, as applicable.

- (i)**Adjustments.** Participant Purchased Shares or RSUs, Company Matching RSUs, and Company Matching Options, and the terms and conditions relating thereto, shall be subject to adjustment in accordance with applicable sections of the 2010 ICP.
- (ii)**Nontransferability.** Participant Purchased Shares or RSUs, Company Matching RSUs, Company Matching Options, and all rights relating thereto, shall not be transferable or assignable by a Participant, other than by will or the laws of descent and distribution (or pursuant to a beneficiary designation if and to the extent authorized by the Committee), and shall not be pledged, hypothecated, or otherwise encumbered in any way or subject to execution, attachment, or similar process, and any such attempt to transfer such rights shall be considered null and void by the Company.
- (iii)**Certain Other Terms.** Additional terms applicable to Awards under the PEP are set forth in the 2010 ICP.
- (iv)**No Partnership Rights or Rights to Participate.** A Participant's participation in the PEP, investment in Participant Purchased Shares or RSUs, and grant of an Award under the PEP confers no rights as a partner of a partnership. No Participant has or will have any claim to participate in the PEP, except as selected by the Committee, and the Company will have no obligation to continue the PEP.
- (v)**Changes to the PEP.** The Committee may amend, alter, suspend, discontinue or terminate the PEP without the consent of any Participant; provided, however, that, without the consent of an affected Participant, no such action shall materially and adversely affect the rights of such Participant with respect to an outstanding Award.
- (vi)**Limitation on Repurchase Obligation.** All repurchases of Stock permitted to occur in the ordinary course pursuant to the terms established under the PEP are intended to qualify for the exemption from Section 16(b) of the Exchange Act pursuant to Rule 16b-3(e) promulgated under the Exchange Act and, accordingly, such repurchases are authorized to occur with respect to all Awards under the PEP unless and until the repurchase rights and obligations relating to an Award are explicitly revoked by the Committee.
- (vii)**Agreements and Other Documents.** The Committee shall specify agreements or other documents to evidence rights and obligations under the PEP. A form of agreement that may be used to evidence rights and obligations relating to Participant Purchased Shares and/or RSUs, Company Matching RSUs and Company Matching Options shall be provided to each Participant.
- (viii)**Governing Law.** The validity, construction, and effect of the PEP, any rules and regulations and any award agreements or related documents hereunder shall be determined in accordance with the Delaware General Corporation Law, without giving effect to principles of conflicts of laws and applicable federal law.
- (ix) **Section 409A Compliance.** The Participant Purchased RSUs and Company Matching RSUs under the PEP are intended to qualify as nonqualified deferred compensation awards which comply with the provisions of Section 409A and the regulations thereunder. The vesting dates shall be the dates fixed under the terms of the PEP as of the Grant Date, subject to acceleration only upon the following permissible events under Section 409A of the Code as specified under the PEP or as otherwise provided by the Committee in its sole discretion: the Participant's death, the Participant's qualifying disability (under Section XIII (C)) or a Change in Control (within the meaning of the 2010 ICP, which includes a definition of change in control that complies with Section 409A of the Code). Any portion of a Participant Purchased RSU and Company Matching RSU that has become vested in accordance with the terms of the PEP shall be settled as provided under the PEP on a date selected by the Company occurring prior to the 15th day of the third calendar month following the applicable vesting date. In the event that a Participant experiences a termination of employment and is granted severance and

is therefore permitted to continue to vest in one or more installments of a Participant Purchased RSU or Company Matching RSU Award pursuant to Section XIII (A), such installments shall continue to be subject to settlement only after the vesting date originally applicable to such installments and during the settlement period set forth above in this Section XIV (C). In the event that the Committee exercises its sole discretion to waive the forfeiture provisions applicable to any Participant Purchased RSUs or Company Matching RSUs, those RSUs shall be settled at the same time that they would otherwise have been settled if they had vested in due course under the terms of the PEP and the applicable Award. Notwithstanding the foregoing or any other provision of the PEP or any Award to the contrary, to the extent necessary to comply with the requirements of Section 409A of the Code, any settlement amounts to which a Participant may become entitled under the PEP, which are subject to Section 409A of the Code (and not otherwise exempt from its application), that are payable within six months following the date of termination will be withheld until the first business day of the seventh (7th) month following the date of termination. To the extent any provisions of the PEP or any RSU does not comply with Section 409A of the Code, the Company and any affected Participant will make such changes with respect to such RSU as are mutually acceptable in order to comply with Section 409A of the Code.

XV. Recoupment Policy. Except as may be specifically provided in the Award agreement, each Award under the PEP shall be subject to the terms of the Company's Recoupment Policy as it exists from time to time, which may require the Participant to immediately repay to the Company the value of any pre-tax economic benefit that he or she may derive from the Award. By accepting an Award under the PEP, Participant acknowledges that the Company's Recoupment Policy has been made available for the Participant's reference.

**CVS CAREMARK SEVERANCE PLAN
FOR NON-STORE EMPLOYEES
(Amended as of April 1, 2013)**

**CVS CAREMARK CORPORATION SEVERANCE PLAN
FOR NON-STORE EMPLOYEES
(Amended as of April 1, 2013)**

WHEREAS, CVS Caremark Corporation (the "Company") has established the CVS Caremark Severance Plan for Non-Store Employees (the "Plan") to provide financial assistance to employees in non-store positions who are involuntarily terminated and are eligible within the terms and conditions of the Plan;

WHEREAS, it is intended that the Plan constitute an employee welfare benefit plan within the scope of Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), that the Plan constitute a separation pay plan within the scope of Department of Labor ("DOL") Regulation Section 2510.3-2(b), and that all payments made under the Plan be deductible by the Company under Section 162(a) of the Internal Revenue Code of 1986, as amended (the "Code");

WHEREAS, the benefits provided under the Plan are intended to constitute separation pay within the meaning of Treasury Regulation Section 1.409A-1(b)(9)(iii);

WHEREAS, this document is the official plan document; and

WHEREAS, the Company wishes to make certain amendments to the Plan, effective as of April 1, 2013 (the "Effective Date");

NOW, THEREFORE, as of the Effective Date, the Company does hereby amend the Plan to provide as follows:

**ARTICLE 1
DEFINITIONS**

For purposes of the Plan, the following terms, when used with an initial capital letter, shall have the meaning set forth below unless a different meaning is plainly required by the context.

1.1 "Affiliate" shall mean (a) any corporation which is required to be aggregated with the Company under Code Section 414(b), (c), (m), or (o) and (b) any other entity in which the Company has an ownership interest and which the Company designates as an Affiliate for purposes of the Plan.

1.2 "Cause" shall refer to a termination of an Eligible Employee's employment because of the Eligible Employee's (a) poor performance; (b) acts of unethical business activity, including but not limited to fraud, misappropriation, embezzlement, dishonesty, harassment, discrimination in violation of Employer policies, or willful or negligent destruction of property of an Employer or an Affiliate; (c) misconduct that is reasonably likely to cause material damage (monetary or otherwise) to the Employer, an Affiliate, or any personnel thereof; (d) conviction of or a plea of guilty or nolo contendere to any felony, whether or not any right to appeal has been or may be exercised; (e) negligence of duty; (f) insubordination; or (g) a violation of the Employer's policy, procedure, or practice.

1.3 "Code" shall mean the Internal Revenue Code of 1986, as amended.

1.4 “Eligible Employee” shall mean an individual who is employed by the Employer on a regular basis in a non -store position, has been employed by the Employer in any position for a minimum of twelve (12) months prior to the individual’s separation of employment, and is designated as eligible for severance benefits, as determined in the sole discretion of the Employer, due to a separation from service. For purposes of the Plan, individuals in the following categories will not be considered Eligible Employees:

(a) individuals who are covered by a collective bargaining agreement, provided welfare benefits were the subject of good faith bargaining, unless the terms of the collective bargaining agreement provide for participation in the Plan;

(b) individuals who are seasonal employees, leased employees, independent contractors, temporary employees, or consultants;

(c) individuals who work for the Employer or an Affiliate in a store location of the Company or an Affiliate, or whose compensation is paid through or according to a store payroll, including but not limited to: pharmacists, store managers, assistant store managers, crew, and pharmacy staff (for purposes of the Plan, distribution warehouse employees, field employees (e.g., district managers, regional managers, human resources), and employees employed by CVS ProCare, Inc., working at Company headquarters shall be treated as working in a non -store location and therefore not subject to the exclusion from eligibility provided in this Subsection (c));

(d) individuals employed by MinuteClinic, L.L.C. or by any practitioner-owned entity managed by MinuteClinic, L.L.C.;

(e) the President and CEO of CVS Caremark Corporation;

(f) individuals employed in Puerto Rico; and

(g) individuals employed outside the United States of America.

The decision of who is an Eligible Employee for purposes of the Plan shall be made by the Employer in its sole discretion, and any individual who is excluded from being considered an Eligible Employee by the Employer shall be excluded from the definition of Eligible Employee regardless of the individual’s reclassification by a government agency, including a reclassification by the Internal Revenue Service for tax withholding purposes.

1.5 “Employer” shall mean CVS Pharmacy, Inc. and Caremark Rx, L.L.C. and any current or future Affiliate thereof.

1.6 “ERISA” shall mean the Employee Retirement Income Security Act of 1974, as amended.

1.7 “Exempt Employee” shall mean an Eligible Employee who is paid on a salaried basis for payroll purposes and classified in the sole discretion of the Employer under its normal classification procedures as an exempt employee under the Fair Labor Standards Act.

1.8 “Involuntary Termination” shall mean an Eligible Employee’s termination of employment with the Employer due to the unilateral action of the Employer, including but not limited to a termination as a result of the elimination of an Eligible Employee’s position due to a reorganization or changes in responsibilities, a reduction in force, or a closing of the business unit in which the Eligible Employee works;

provided, however, that such Involuntary Termination constitutes a separation from service under Treasury Regulation Section 1.409A-1(h). Notwithstanding the foregoing, an Eligible Employee will not have an Involuntary Termination if the Eligible Employee: (a) is terminated for Cause, as determined by the Employer its sole discretion; (b) voluntarily terminates employment or resigns prior to an Involuntary Termination; (c) takes a leave of absence; (d) is administratively terminated for failure to return from a leave of absence upon expiration of his or her leave; (e) terminates employment due to his or her death; (f) transfers to an Affiliate; (g) transfers to a new employer in connection with the sale of an Employer facility; or (h) fails to accept an offer for a job with the Employer that is comparable to the job that he or she is performing for the Employer at the time of the offer. For purposes of Subsection (h) of this Section 1.8, whether a job is considered “comparable” shall be determined in the sole discretion of the Employer, taking into account whether the new job is located 50 or fewer miles from the Eligible Employee ’s job at the time of the offer, whether the compensation offered is materially less than the Eligible Employee ’s compensation at the time of the offer, and whether the new job will result in a substantial change of duties from the Eligible Employee ’s job at the time of the offer. The determination of whether an Eligible Employee ’s termination of employment is an Involuntary Termination shall be made in the sole discretion of the Employer.

1.9 “Non-exempt Employee” shall mean an Eligible Employee who is paid on an hourly basis for time worked and classified in the sole discretion of the Employer under its normal classification procedures as a non -exempt employee under the Fair Labor Standards Act.

1.10 “Plan Administrator” shall mean the Vice President of Human Resources of CVS Pharmacy, Inc., or such other person designated to act as the Plan Administrator.

1.11 “Rehire Date” shall mean the date an Eligible Employee accepts reemployment with any Employer.

1.12 “RxAmerica Legacy Employee” shall mean an Eligible Employee who (a) was employed by RxAmerica, L.L.C. on the date of the acquisition of Longs Drugs Stores Corporation by CVS Caremark Corporation, and (b) since the acquisition has been continuously employed by RxAmerica, L.L.C. through the date of his or her Involuntary Termination under the Plan.

1.13 “Severance Pay” shall mean the pay an Eligible Employee is eligible to receive under Subsection (b) of Section 2.1 of the Plan upon his or her Involuntary Termination.

1.14 “Severance Period” shall mean the period of time during which an Eligible Employee is eligible to receive Severance Pay; provided, for RxAmerica Legacy Employees, the Severance Period shall be the period of time on which the calculation of Severance Pay is based under Paragraphs (1) through (6) of Subsection (b) of Section 2.1 of the Plan.

1.15 “Weekly Rate” shall mean, (a) with respect to an Eligible Employee paid on a salaried basis, an Eligible Employee ’s annual base salary (as determined by the Employer), as of the date of the Eligible Employee ’s Involuntary Termination, expressed on a weekly basis (as determined in the sole discretion of the Employer), and (b) with respect to an Eligible Employee paid on an hourly basis, the hourly wage rate of the Eligible Employee as of the date of the Eligible Employee ’s Involuntary Termination multiplied by the Eligible Employee’s regularly scheduled number of hours of service per week (as determined by the Employer), not in excess of 40 hours. Weekly Rate shall exclude any overtime, incentive, and bonus payments, unless otherwise required by law.

1.16 “Year of Service” shall mean each full year of service performed by the Eligible Employee for an Employer as reflected in the records of the Employer and as determined based on the Employer’s policies and procedures for determining periods of service, and the applicable law.

ARTICLE 2
SEVERANCE PAY AND ELIGIBLE EMPLOYEE BENEFITS

2.1 (a) Eligibility. Upon his or her Involuntary Termination, an Eligible Employee may, in the discretion of the Plan Administrator, be eligible for Severance Pay and benefits provided under Subsections (b), (c), and (d) of this Section 2.1, provided the conditions of Section 2.2 are satisfied. The determination of whether Severance Pay is payable under the Plan, and the amount of such pay, shall be made in the sole discretion of the Plan Administrator.

(b) Severance Pay. The Severance Pay payable to an Eligible Employee in the event of Involuntary Termination shall be determined by the Plan Administrator in its sole discretion, using the following guidelines for the applicable Eligible Employee classification:

(i) For Eligible Employees who are Non-exempt Employees:

(A) the Eligible Employee’s Weekly Rate multiplied by two (2), plus

(B) an amount equal to the Eligible Employee’s Weekly Rate multiplied by the number of Years of Service completed by the Eligible Employee multiplied by two (2),

provided Severance Pay for Non-exempt employees should not exceed the Eligible Employee’s Weekly Rate multiplied by thirteen (13);

(ii) For Eligible Exempt Employees in grades 24-28, H-K, and 107-109:

(A) the Eligible Employee’s Weekly Rate multiplied by four (4), plus,

(B) an amount equal to the Eligible Employee’s Weekly Rate multiplied by the number of Years of Service completed by the Eligible Employee multiplied by two (2),

provided Severance Pay for Exempt Employees should not exceed the Eligible Employee’s Weekly Rate multiplied by twenty (20);

(iii) For Eligible Exempt Employees in grades 29-33, L, M, 110, and 111, the greater of (A) the Eligible Employee’s Weekly Rate multiplied by thirteen (13) or, (B) the amount determined under the formula set forth in Paragraph (ii) of this Subsection (b), provided Severance Pay should not exceed the Eligible Employee’s Weekly Rate multiplied by twenty (20);

(iv) For Eligible Exempt Employees in grades 34-36, N, and 112, the Eligible Employee’s Weekly Rate multiplied by twenty-six (26);

- (v) For Eligible Exempt Employees in grades 36A -Z, the Eligible Employee's Weekly Rate multiplied by fifty-two (52); and
- (vi) For Eligible Exempt Employees in grades 38A -Z and 39 A-Z, the Eligible Employee's Weekly Rate multiplied by fifty-two (52).

Notwithstanding the above guidelines, in the event of an Involuntary Termination of an Eligible Employee who is an RxAmerica Legacy Employee, Severance Pay shall be determined by the Plan Administrator in its sole discretion, using the following guidelines for the applicable Rx America Legacy Employee classification:

- (1) For Rx America Legacy Employees who are Non-exempt Employees, the greater of (A) the RxAmerica Legacy Employee's Weekly Rate multiplied by the number of Years of Service, or (B) the RxAmerica Legacy Employee's Weekly Rate multiplied by eight (8);
- (2) For RxAmerica Legacy Employees who are Exempt Employees, the greater of (A) the RxAmerica Legacy Employee's Weekly Rate multiplied by the number of Years of Service, or (B) the RxAmerica Legacy Employee's Weekly Rate multiplied by twelve (12);
- (3) For RxAmerica Legacy Employees who are classified by the Employer (in its sole discretion) as a Manager or in an equivalent position, the greater of (A) the RxAmerica Legacy Employee's Weekly Rate multiplied by the number of Years of Service, or (B) the RxAmerica Legacy Employee's Weekly Rate multiplied by twenty-six (26);
- (4) For RxAmerica Legacy Employees who are classified by the Employer (in its sole discretion) as a Director or in an equivalent position, the greater of (A) the Eligible Legacy Employee's Weekly Rate multiplied by the number of Years of Service, or (B) the RxAmerica Legacy Employee's Weekly Rate multiplied by thirty-nine (39);
- (5) For RxAmerica Legacy Employees who are classified by the Employer (in its sole discretion) as a Vice President or Group Vice President or in an equivalent position, the greater of (A) the RxAmerica Legacy Employee's Weekly Rate multiplied by the number of Years of Service, or (B) the RxAmerica Legacy Employee's Weekly Rate multiplied by fifty-two (52); and
- (6) For RxAmerica Legacy Employees who are classified by the Employer (in its sole discretion) in a position that is higher than Vice President or Group Vice President, such other amount determined in the sole discretion of the Plan Administrator.

Notwithstanding the above guidelines, the Plan Administrator may increase or decrease the amount of Severance Pay with respect to any Eligible Employee for reasons it deems appropriate in its sole discretion (including, but not limited to, an increase to provide consideration for Eligible Employees who have outstanding employment agreements with an Employer or a decrease to take into account any debts owed to an Employer).

(c) COBRA Assistance. In the event an Eligible Employee who has an Involuntary Termination (i) is eligible to elect continuation coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 as amended ("COBRA") in accordance with the terms of the medical and prescription drug plan and/or dental plan of the Employer and (ii) properly and timely elects such continuation coverage, the Employer may pay for a portion of the cost of COBRA coverage equivalent to the contribution which the Employer makes on behalf of similarly situated active employees under such plan for the appropriate tier of coverage selected and in place immediately prior to the date of the Eligible Employee 's Involuntary Termination (e.g., employee-only, family coverage), for a period determined in the sole discretion of the Plan Administrator, which generally shall be the Severance Period. Any COBRA assistance provided under this Subsection (c) shall be paid by the Employer directly to the insurance carrier, if applicable. The portion of the COBRA premium not covered by the COBRA assistance specified in this Subsection (c) must be paid by the Eligible Employee directly to the insurance carrier or service provider that administers COBRA, as applicable, based on the standard rules under the respective plan for payment of COBRA premiums. This Subsection (c) does not provide COBRA assistance in the event the Eligible Employee fails to properly and timely elect COBRA continuation coverage, regardless of whether his or her covered dependents elect COBRA continuation coverage. Notwithstanding the foregoing, for an Eligible Employee who is an RxAmerica Legacy Employee eligible to elect COBRA continuation coverage in accordance with the terms of the medical and prescription drug plan and/or dental plan, the Employer may, in the sole discretion of the Plan Administrator, pay for COBRA assistance, generally in the form of a single lump sum payment equal to the weekly COBRA premium (102 percent of the applicable premium, as defined in Code Section 4980B(f)(4)) for the Severance Period, based on the tier of coverage in which the RxAmerica Legacy Employee is enrolled as of the date of his or her Involuntary Termination.

(d) Outplacement Services. Upon an Involuntary Termination, the outplacement services provided to an Eligible Employee shall be provided in the sole discretion of the Plan Administrator based on the guidelines contained in this Subsection (d).

(i) If an Eligible Employee so desires, he or she may be eligible for outplacement services for assistance in obtaining new employment, provided through a vendor selected by the Employer, with the Employer directly providing payment to such vendor. The provision of outplacement services is contingent upon the Eligible Employee 's cooperation with the outplacement service vendor, upon the active efforts of the Eligible Employee to locate a new position, and upon the Eligible Employee initiating outplacement services during the Severance Period.

(ii) Subject to the requirements of Paragraph (i) of this Subsection (d), outplacement services shall be offered for a period of time determined in the sole discretion of the Plan Administrator, based on guidelines that include:

(A) a virtual or group training session for Eligible Non-exempt Employees and Exempt Employees in grades 24-28, H-K, and 107-109;

(B) three (3) months of outplacement services for Eligible Exempt Employees in grades 29-36, L-N, and 110-112; and

(C) six (6) months of outplacement services for Eligible Exempt Employees in grades 36A-Z, 38A-Z, and 39 A-Z;

provided, in no event shall such services extend beyond twelve (12) months following the Involuntary Termination of the Eligible Employee.

(e) Form and Timing of Payment. In the event an Eligible Employee is awarded Severance Pay under the terms of Subsection (a) of this Section 2.1, such Severance Pay shall be paid following an Eligible Employee's Involuntary Termination (except as provided in Section 2.3, below), as follows: No Severance Pay shall commence (with respect to salary continuation payments) or be paid (with respect to a lump sum) (i) prior to the expiration of the later of a period that is identified in a separate agreement with the Eligible Employee during which he or she may consider the execution of the Release of Claims form (the "Consideration Period") or a period ending at least seven (7) days following the execution of the Release of Claims form (the "Revocation Period"), or (ii) later than sixty (60) days following the date of Eligible Employee's Involuntary Termination. Severance Pay that is paid in the form of salary continuation shall commence as soon as feasible following expiration of the later of the Consideration Period or the Revocation Period, which generally shall be the first regularly scheduled payroll date following the expiration of the Consideration Period or the Revocation Period, as the case may be, and shall thereafter be paid in substantially equal installments in accordance with the Employer's regular payroll practice, except as provided in Section 2.3 of the Plan; provided, with respect to RxAmerica Legacy Employees, Severance Pay shall be paid in a single lump sum. Further, in the Plan Administrator's sole discretion, Severance Pay may be paid to any Eligible Employees in a single lump sum, in which event Severance Pay shall be paid within the period that satisfies the 409A requirements for short-term deferrals under Section 409A of the Code.

(f) Withholding. Any payment of Severance Pay to an Eligible Employee shall be subject to normal withholding for state and federal income taxes and Social Security taxes.

(g) Death. Upon the death of the Eligible Employee who had an Involuntary Termination and who has not received all Severance Pay payable under the Plan, the Severance Pay otherwise payable under Section 2.1(b) of the Plan shall be paid in the form of a lump sum to the Eligible Employee's estate or beneficiary as soon as practicable, but in no event later than 60 days following death. Any other severance benefits provided under this Section 2.1 (COBRA assistance and outplacement services) shall cease upon the Eligible Employee's death.

2.2 Conditions on Payment of Severance Pay and Benefits. Payment of the Severance Pay and benefits provided in Section 2.1 of the Plan shall be subject to and conditioned upon the following:

(a) to the extent an Eligible Employee receives notice of a date selected by the Employer (in its sole discretion) on which the Eligible Employee's Involuntary Termination shall occur (a "Designated Termination Date"), the Eligible Employee must continue to work in a satisfactory manner until his or her Designated Termination Date;

(b) the Eligible Employee must cooperate in transitioning all of the Eligible Employee's work in consultation with the Eligible Employee's supervisor or other designated employee;

(c) the Eligible Employee must execute and deliver a Release of Claims form (in the form specified by the Employer from time to time which may include restrictive covenants and, if applicable, a waiver as described in Subsection (d) of this Section 2.2) within the time period specified under the terms of the applicable severance offer. Further, in no event will Severance Pay be paid

with respect to an Eligible Employee in the event the Release of Claim form is revoked during the Revocation Period (described in Section 2.1(e) of the Plan); and

(d) the Eligible Employee must waive the right to receive any other severance payment relating to salary continuation or salary replacement the Eligible Employee may otherwise be eligible to receive upon termination of employment under any employment agreement, severance plan, practice, policy or program of the Employer or an Affiliate.

2.3 Maximum Severance Pay. Notwithstanding any other provisions to the contrary, benefits paid hereunder shall not (a) exceed two times the lesser of (i) the Eligible Employee's Compensation (as defined in this Section 2.3) during the calendar year immediately preceding the Eligible Employee's Involuntary Termination or (ii) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Code for the calendar year in which the Eligible Employee's Involuntary Termination occurs and (b) shall be paid in full within twenty-four (24) months after the date the Eligible Employee's Involuntary Termination occurs. In the event that any Severance Pay payable to an Eligible Employee would exceed the twenty-four (24) month period provided in the foregoing sentence if the Severance Pay continued to be paid in accordance with the Employer's regular payroll practice, any Severance Pay that would otherwise exceed the twenty-four (24) month time period will be paid to the Eligible Employee in a lump sum on the last regular payroll date within the twenty-four (24) month period. For purposes of this Section 2.3, "Compensation" shall mean the Eligible Employee's total annualized compensation, based upon the annual rate of pay for services provided to the Employer for the calendar year preceding the calendar year in which the Eligible Employee's Involuntary Termination occurs, adjusted for any increase in such preceding calendar year that was expected to continue indefinitely if the Eligible Employee had not had an Involuntary Termination.

2.4 Cessation of Severance Pay Upon Reemployment. If an Eligible Employee who had an Involuntary Termination and who is receiving Severance Pay thereafter accepts reemployment with any Employer during the Severance Period, such Employee's Severance Pay shall cease on the Rehire Date and any remaining Severance Pay shall be forfeited.

2.5 Impact of Debt on Severance Pay. In the event an Eligible Employee is indebted to the Company or Employer (determined in the sole discretion of the Company or Employer, as applicable), the Plan Administrator reserves the right to reduce, offset, withhold, and/or forfeit the Severance Pay otherwise payable under the Plan.

2.6 Employee Benefits. As of the date of an Eligible Employee's Involuntary Termination, the Eligible Employee's active participation in any benefit plan, program, or policy sponsored or subsidized by the Employer shall cease, unless otherwise continued pursuant to the terms of such plan, program or policy.

2.7 Awards. Any award or grant made to the Eligible Employee under any stock option, stock purchase, or stock appreciation rights plan of the Company or Employer shall be administered and interpreted in accordance with the terms of the applicable plan documents.

2.8 Paid Time Off. Any pay for accrued paid time off shall be determined under the terms of the Employer's applicable policies.

2.9 Benefits Not Vested. No one under any circumstance is automatically entitled to Severance Pay and benefits described in Section 2.1 of the Plan. Notwithstanding anything in the Plan to the contrary,

the Plan Administrator reserves the right, at its sole discretion, to increase, decrease, or eliminate Severance Pay and benefits under the Plan.

2.10 Bonuses. Whether any bonuses are payable to an Eligible Employee shall be determined based on the terms of any applicable bonus program, plan, or policy.

ARTICLE 3 ADMINISTRATION OF THE PLAN

3.1 Control and Administration. The Plan Administrator shall administer the Plan. The Plan Administrator shall have the sole and final discretionary authority to construe the terms of the Plan and all facts surrounding claims for benefits under the Plan and shall determine all questions arising in the administration, interpretation and application of the Plan, including, but not limited to, those concerning eligibility for benefits. Accordingly, benefits under the Plan shall be paid only if the Plan Administrator decides in its discretion that an applicant is entitled to benefits. All determinations of the Plan Administrator shall be conclusive and binding on all parties. The Plan Administrator shall be the named fiduciary of the Plan for purposes of ERISA.

3.2 Claim Procedures.

(a) Procedure for Granting or Denying Claims. An Eligible Employee, or his or her duly authorized representative, may file a claim for payment of benefits under the Plan. Such a claim must be made in writing and be delivered to the Plan Administrator, in person or by mail, postage paid. Within 90 days after receipt of such claim, the Plan Administrator shall notify the claimant of the granting or denying, in whole or in part, of such claim, unless special circumstances require an extension of time for processing the claim. In no event may the extension exceed 90 days from the end of the initial 90-day period. If such extension is necessary, the claimant will be given a written notice to this effect prior to the expiration of the initial 90-day period. The Plan Administrator shall have full discretion to deny or grant a claim in whole or in part.

(b) Requirement for Notice of Claim Denial. The Plan Administrator shall provide to every claimant who is denied a claim for benefits a written or electronic notice setting forth in a manner calculated to be understood by the claimant:

(i) The specific reason or reasons for the denial;

(ii) Specific reference to pertinent Plan provisions on which the denial is based;

(iii) A description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material is necessary; and

(iv) An explanation of the Plan's claim review procedures and the time limits applicable to such procedures, including a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse determination on review.

(c) Right to Appeal and Request Hearing on Claim Denial. Within 60 days after receipt by the claimant of written or electronic notification of the denial (in whole or in part) of his or her claim, the claimant or his or her duly authorized representative (including, but not limited to, his or

her counsel) may make a written application to the Plan Administrator, in person or by certified mail, postage prepaid, to be afforded a full and fair review of such denial. The claimant or his or her duly authorized representative may submit written comments, documents, records, and other information relating to the claim for benefits. Moreover, the claimant or his or her duly authorized representative shall be provided, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits. The request for a review may include a request for a hearing; provided only the claimant and the Plan Administrator may be present at any hearing granted by the Plan Administrator.

(d) Disposition of Disputed Claims. Upon receipt of a request for review, the Plan Administrator shall make a decision on the claim. The review shall take into account all comments, documents, records, and other information submitted by the claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The decision on review shall be made not later than 60 days after the Plan Administrator's receipt of a request for a review, unless special circumstances require an extension of time for processing, in which case a decision shall be rendered not later than 120 days after receipt of the request for review. If an extension is necessary, the claimant shall be given written notice of the extension prior to the expiration of the initial 60 -day period.

The Plan Administrator shall provide the claimant with written or electronic notification of the Plan's determination on review. In the case of an adverse determination, the notification shall set forth, in a manner calculated to be understood by the claimant, the specific reason or reasons for the decision as well as specific references to the Plan provisions on which the decision was based. The decision shall also include a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits. Moreover, the decision shall contain a statement of the claimant's right to bring an action under Section 502(a) of ERISA.

3.3 Bar to Legal Action. No legal action may be commenced or maintained against the Plan prior to the claimant's exhaustion of the claims procedures set forth in Section 3.2 of the Plan. In addition, no legal action may be commenced against the Plan more than ninety (90) days after the Plan Administrator's decision on review pursuant to Section 3.2(d) of the Plan.

3.4 Named Fiduciary. The Plan Administrator of the Plan shall be the Named Fiduciary of the Plan for purposes of ERISA Section 402(a)(1).

ARTICLE 4 MISCELLANEOUS

4.1 Amendment or Termination. The Plan may be amended, terminated, withdrawn or suspended at any time in writing by the Management Planning and Development Committee of the Company or any individual designated by such Committee to take such actions.

4.2 Choice of Law. The validity, interpretation, construction and performance of the obligations created under the Plan shall be governed by ERISA, and to the extent not preempted by federal law, the laws of the State of Rhode Island without regard to its conflicts of law principles.

4.3 Validity. The invalidity or unenforceability of any provision of the Plan shall not affect the validity or enforceability of any other provision of the Plan, which shall remain in full force and effect.

4.4 Plan Exclusive Source of Rights. The Plan contains all of the terms and conditions with respect to the benefits provided hereunder, and no Eligible Employee or former Eligible Employee may rely on any other communication or representation, whether oral or written, of the Employer or any of its subsidiaries, or any officer or Eligible Employee thereof, as creating any right or obligation not expressly provided by the Plan.

4.5 Nonassignability. No benefit which shall be payable under the Plan to any Eligible Employee shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, or charge (except as required by law), and any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, or charge a benefit shall be null and void. No benefit shall in any manner be liable for, or subject to, the debts, contracts, liabilities, engagements, or torts of any Eligible Employee. No benefit shall be subject to legal attachment or legal process for, or against, the Eligible Employee and the same shall not be recognized under the Plan. Notwithstanding the preceding sentence, the Employer retains the discretion, in accordance with federal and/or state laws, to reduce the amount of benefits payable under the Plan to any Eligible Employee to recover any amounts that the Eligible Employee owes to the Employer.

4.6 No Employment Rights. The Plan shall not give any Eligible Employee any right or claim except to the extent that the right is specifically provided under the terms of the Plan. The establishment of the Plan shall not be construed (a) to give any Eligible Employee a right to continue in the employ of the Employer or (b) to interfere with the right of the Employer to terminate the employment of any Eligible Employee at any time.

4.7 Headings. Article and section headings are for convenience only and the language of the Plan itself will be controlling.

4.8 Gender and Numbers. Masculine pronouns include the feminine as well as the neuter genders, and the singular shall include the plural, unless indicated otherwise by the context.

4.9 Code Section 409A. The benefits provided under the terms of the Plan are intended to fall within the short-term deferral exception, the separation pay exception or another exception to the application of Section 409A of the Code and the applicable guidance issued thereunder. In furtherance of this intent, the Plan shall be interpreted, operated and administered in a manner consistent with this intention. To the extent the benefits provided under the Plan become subject to Code Section 409A and applicable guidance issued thereunder, the Plan shall be construed, and benefits paid hereunder, as necessary to comply with Section 409A of the Code and such guidance. Further, to the extent that an Eligible Employee becomes entitled to receive Severance Pay under the terms of the Plan, and, at the time of the Eligible Employee's Involuntary Termination, he or she is a "specified employee" within the meaning of Treasury Regulation Section 1.409A-1(i), any portion of Severance Pay payable to such Eligible Employee that is subject to Code Section 409A and applicable guidance thereunder shall be delayed until the date that is the earlier of (i) the Eligible Employee's death or (ii) six months following the date of the Eligible Employee's Involuntary Termination, at which time the payments that were delayed for such six month period shall be paid in a lump sum on the date of the next occurring regular payroll date of the Employer, and any remaining payments shall be paid according to the original schedule provided herein. In addition, each payment of a salary continuation stream of installment payments hereunder shall be a separate payment for purposes of Section 409A of the Code.

4.10 Funding. The Plan is not funded, and Severance Pay and benefits under the Plan are paid from the general assets of the Employer.

4.11 Plan Year. The Plan's records shall be maintained on the basis of the calendar year.

IN WITNESS WHEREOF, the Management Planning and Development Committee of the Company has amended the Plan as of the Effective Date pursuant to the execution hereof on its behalf by a duly authorized officer on _____.

CVS CAREMARK CORPORATION

By: _____

Title: Senior Vice President and Chief Human Resources Officer, CVS Pharmacy, Inc.



CVS Caremark Corporation
Performance-Based Restricted Stock Unit Plan

I. Objectives and Summary

The objective of the CVS Caremark Corporation (the "Company") Performance-Based Restricted Stock Unit Plan ("PBRS Plan") is to reward eligible participants for their role in achieving the Company's Earnings before Interest and Taxes ("EBIT") target and to encourage continued employment with the Company and its subsidiaries. PBRS Awards are generally delivered as restricted stock units ("RSUs") and are based on actual EBIT results measured against a pre-established target.

II. Administration

The PBRS Plan shall be administered by the Management Planning and Development Committee (the "Committee") of the Board of Directors, or its designee, under the provisions of the 2010 Incentive Compensation Plan, as amended (the "2010 ICP"). The Committee shall have full and final authority, in each case, subject to and consistent with the provisions of the 2010 ICP and the PBRS Plan, to construe and interpret rules and regulations for the administration of the PBRS Plan, correct defects, supply omissions or reconcile inconsistencies therein, and to make all other decisions and determinations as the Committee may deem necessary or advisable for the administration of the PBRS Plan. Capitalized terms not otherwise defined herein shall have the meaning assigned to such terms in the 2010 ICP. In the event of a conflict between the 2010 ICP and the PBRS Plan, the provisions of the 2010 ICP shall control.

III. PBRS Plan Year

The "PBRS Plan Year" commences on January 1 and ends on December 31 of each year, unless otherwise approved by the Committee. All dates in this document occur during the PBRS Plan Year unless otherwise stated.

IV. Eligibility

A. Eligible Employees

The Chief Executive Officer (the "CEO") or the CEO's designee determines those employees of the Company and its subsidiaries who are eligible to participate in the PBRS Plan ("Eligible Employees"). In general, Eligible Employees are those employees who are (i) officers of CVS Pharmacy, Inc. who are Vice Presidents or above, and (ii) senior officers of other subsidiaries who have been designated as Eligible Employees by the CEO or his or her designee. Generally, Business Planning Committee ("BPC") members are not eligible to participate, unless otherwise named as an Eligible Employee by the Committee.

B. Newly-Hired Eligible Employees

A newly-hired employee satisfying the requirements set forth on Paragraph IV(A) is an Eligible Employee and may receive a PBRS Award for the PBRS Plan Year in which he or she is hired provided he or she is hired on or before November 1 and remains in an Eligible Employee position through December 31 of the PBRS Plan Year.

C. Status Changes

(i) **Promotions**. An employee who is promoted on or before November 1 of the PBRS Plan Year to a position satisfying the requirements set forth on Paragraph IV(A) is an Eligible Employee and may receive a PBRS Award for the year in which the promotion occurs. The salary upon which the

Eligible Employee's PBRS Award will be based shall be the base salary as of December 31 of the PBRS Plan Year.

(ii) **Demotions:** An Eligible Employee who is demoted on or after November 1 of the PBRS Plan Year to a position not satisfying the requirements set forth on Paragraph IV(A) will remain an Eligible Employee and may receive a PBRS Award provided such demotion is not the result of voluntarily transfer to a lower level position, is not related to unsatisfactory performance, and is not as a result of a violation of a Company policy or Code of Ethics.

(iii) **Terminations:** PBRS Awards unvested as of a Participant's termination of employment shall be governed by the terms and conditions of the applicable agreement for each PBRS Award and the PBRS Plan in effect at the time of grant of each award.

D. Participants

Unless the Committee is required to make such determinations under applicable law or the 2010 ICP, the CEO shall determine which Eligible Employees will receive an award under the PBRS Plan (a "PBRS Award"). All such determinations, whether by the CEO or the Committee, shall be made no later than March 15 of the calendar year following the PBRS Plan Year. Each Eligible Employee who receives a PBRS Award is a "Participant" and the date a PBRS Award is granted is the "PBRS Award Date." No Eligible Employee has any right to receive a PBRS Award, regardless of whether such Eligible Employee is employed on the last day of the PBRS Plan Year, and the determination of whether an Eligible Employee will be a Participant shall be made in the sole discretion of the CEO or the Committee, as the case may be.

V. Plan Performance Measure

Unless otherwise approved by the Committee, EBIT is the performance metric for the PBRS Plan. Each year, the Company will establish an EBIT Target which is approved by the Committee prior to March 31 of the Plan Year.

A. Actual EBIT compared to Target EBIT must meet a minimum threshold as specified in Exhibit A prior to the grant of any PBRS Award.

(i) Actual EBIT may be adjusted by the permitted financial adjustments as approved by the Committee prior to the end of the first fiscal quarter of the applicable PBRS Plan Year.

(ii) The Committee has the sole discretion to approve a change in the minimum threshold that must be achieved in order for any PBRS Awards to be granted under the PBRS Plan.

(iii) The Committee, in its sole discretion, may adjust the relationship between the EBIT Results and the % Funding Payout as shown in the Payout Chart on Exhibit A and determine to pay more or less than the calculation of actual EBIT against target EBIT would produce.

B. Unless otherwise determined by the Committee, in its sole discretion, the maximum PBRS Award that may be payable to any Participant under the PBRS Plan is 50% of base salary.

VI. Plan Payout

A. Target PBRS Award

The target PBRS Award for each Participant is 25% of the base salary in effect as of the last day of the PBRS Plan Year.

B. PBRS Award Determination and Vesting

The actual amount of a PBRS Award is determined based on the achievement of the Company's EBIT against target, as shown on Exhibit A ("Award Payout Percentage").

The PBRS Award is equal to the Award Payout Percentage multiplied by the Participant's base salary as of the last day of the PBRS Plan Year, generally payable in RSUs. The number of RSUs that the Participant will receive is equal to the PBRS Award divided by the closing price of Company common stock on the PBRS Award Date.

C. Vesting

The RSUs issued in respect of any PBRS Award will vest in accordance with and subject to the terms and conditions of the 2010 ICP and the applicable agreement for each PBRS Award.

D. Termination of Employment During the PBRS Plan Year.

(i) **Death or Disability.** If an Eligible Employee dies or commences a long-term disability (as defined in the Company's LTD plan or by the Social Security Administrator), the Eligible Employee may receive a PBRS Award for the year in which the death or commencement of long-term disability occurs at the same time PBRS Awards are made to other Participants. Such PBRS Award will be pro-rated for the number of full months (a partial month will be counted as a full month) during which the Eligible Employee was an active employee based on a full calendar year and will (unless otherwise determined by the CEO or the Committee) be paid in cash based on the Eligible Employee's base salary in effect at the time of death or commencement of long-term disability. PBRS Awards with respect to deceased Eligible Employees shall be paid to the Eligible Employee's Beneficiary.

(ii) **Other Terminations.** In the sole discretion of the CEO or the Committee (as the case may be), an Eligible Employee who terminates employment with the Company and its subsidiaries prior to the last day of the PBRS Plan Year or prior to the Plan payout date for any reason other than death or long-term disability may receive a PBRS Award. Such PBRS Award may be payable in cash at the same time PBRS Awards are made to other Participants and may be pro-rated for the number of full months (a partial month will be counted as a full month) during which the Eligible Employee was an active employee based on a full calendar year.

VII. Plan Administration

A. Employment Rights

The PBRS Plan does not create any express or implied contract of employment between the Company and an Eligible Employee. Both the Company and an Eligible Employee (whether or not a Participant) retain the right to terminate the employment relationship at any time and for any reason.

B. Rights are Non-Assignable

Neither a Participant nor any beneficiary nor any other person shall have any right to assign the right to receive payments hereunder, in whole or in part, which payments are non-assignable and non-transferable, whether voluntarily or involuntarily.

C. Change in Control

In the event of a Change in Control, the PBRS Plan shall remain in full force and effect. Any modifications to or dissolution of the PBRS Plan by the acquiring entity may only occur prospectively and will not affect entitlements, awards or eligibility before the date of the Change in Control.

D. Plan Amendment/Modification/Termination

The Company retains the right to amend, modify, or terminate the PBRS Plan for any reason and at any time on or before December 31 of the PBRS Plan Year, with or without notice to Eligible Employees. No representative of the Company or its subsidiaries has the authority to modify the terms of this PBRS Plan without written consent of the Chief Human Resources Officer or his or her designee.

E. Withholding

The Company may provide for the withholding from any benefits payable under the PBRS Plan all federal, state, city or other taxes as shall be required pursuant to any law or governmental regulation or ruling.

F. Section 409A of the Code

The Company intends that the PBRS Plan 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 the regulations and guidance thereunder (collectively, "Section 409A") and that to the extent any provisions of the PBRS Plan do not comply with Section 409A the Company will make such changes as it deems reasonable in order to comply with Section 409A. In all events, the provisions of CVS Caremark Corporation's Universal

409A Definitions Document are hereby incorporated by reference and, notwithstanding any other provision of the Plan or any Award to the contrary, to the extent required to avoid a violation of the applicable rules under Section 409A by reason of Section 409A(a)(2)(B)(i) of the Code, payment of any amounts subject to Section 409A shall be delayed until the first regular scheduled payroll date of the Company occurring after the expiration of the six (6) month period immediately following the date of termination of employment. For purposes of any provision of the PBRS Plan providing for the payment of any amounts or benefits in connection with a termination of employment, references to an Eligible Employee's "termination of employment" (and corollary terms) shall be construed to refer to the Eligible Employee's "separation from service" with the Company as determined under Section 409A.

G. Request for Plan Interpretation

Any dispute or request for interpretation of any provision in the PBRS Plan must be submitted to the appropriate Human Resources Business Partner by the Eligible Employee or his or her manager in writing.

H. Compliance with Applicable Regulations

In order to be eligible to receive a PBRS Award under the PBRS Plan, a Participant must comply with all applicable state and federal regulations and Company policies.

I. Governing Law

The validity, construction and effect of the PBRS Plan, and any rules and regulations under the Plan shall be determined in accordance with Delaware law, without giving effect to principles of conflicts of laws and applicable federal law.

J. Recoupment

Except as may be specifically provided in the PBRS Award, each PBRS Award under the PBRS Plan shall be subject to the terms of the Company's Recoupment Policy as it exists from time to time, which may require the Participant to immediately repay to the Company the value of any pre-tax economic benefit that he or she may derive under the PBRS Plan.

EXHIBIT A
PERFORMANCE-BASED RESTRICTED STOCK PAYOUT CHART

| (EBIT) | | PBRs Award Payout Percentage |
|------------------|--------------------|------------------------------------|
| % of EBIT Target | % of Target Payout | % of Base Salary |
| 102.5% | 200% | 50% |
| 102.2% | 180% | 45% |
| 101.9% | 160% | 40% |
| 101.6% | 140% | 35% |
| 101.2% | 120% | 30% |
| 101.0% | 100% | 25% |
| 100.0% | 100% | 25% |
| 99.0% | 100% | 25% |
| 98.8% | 90% | 22.5% |
| 98.4% | 80% | 20.0% |
| 98.1% | 70% | 17.5% |
| 97.8% | 60% | 15.0% |
| 97.5% | 50% | 12.5% |
| 97.2% | 40% | 10.0% |
| 96.9% | 30% | 7.5% |
| < 96.9% | 0% | 0.00% |

CVS Caremark Corporation

2012 Enterprise Non-Competition, Non-Disclosure and Developments Agreement

I, _____, hereby enter into this 2012 Enterprise Non -Competition, Non-Disclosure and Developments Agreement (“Agreement”) with CVS Pharmacy, Inc. (“CVS”), which shall be effective as of the date I sign this Agreement (the “Effective Date”). In consideration of the mutual promises in this Agreement, the parties agree as follows:

1. Consideration for Agreement . I acknowledge that in connection with my duties and responsibilities at CVS Caremark Corporation or one of its subsidiaries or affiliates, including but not limited to CVS (collectively, the “Corporation”), the Corporation has provided me with certain Confidential Information and/or access to the Corporation’s customers and clients and the opportunity to develop and maintain relationships and goodwill with them. In consideration of my promises in this Agreement, CVS promises to continue to provide me with certain Confidential Information and/or the opportunity to develop and maintain relationships with the Corporation’s customers and clients. In addition, as a condition of, and in consideration of the Restricted Stock Units (“RSUs”) the Corporation granted me on April 2, 2012, I hereby agree with CVS to comply with the terms of this Agreement.

2. Non-Competition . During my employment by the Corporation and during the Non -Competition Period following the termination of my employment for any reason, I agree that I will not, directly or indirectly, engage in Competition or provide Consulting or Audit Services within the Restricted Area.

a. Competition . Engaging in “Competition” shall mean providing services to a Competitor of the Corporation (whether as an employee, independent contractor, consultant, principal, agent, partner, officer, director, investor, or shareholder, except as a shareholder of less than one percent of a publicly traded company) that: (i) are the same or similar in function or purpose to the services I provided to the Corporation during the last two years of my employment by the Corporation, and/or (ii) will likely result in the disclosure of Confidential Information to a Competitor or the use of Confidential Information on behalf of a Competitor. I agree that if an authorized representative of the Corporation, during my employment or the Non -Competition Period, requests that I identify the company or business to which I will be or am providing services, or with which I will be or am employed, and/or requests that I provide information about the services that I am or will be providing to such entity, I shall provide the Corporation with a written statement detailing the identity of the entity and the nature of the services that I am or will be providing to such entity with sufficient detail to allow the Corporation to independently assess whether I am or will be engaging in Competition during the Non -Competition Period. Such statement shall be delivered to the Corporation’s Chief Human

Resources Officer or her authorized delegate via personal delivery or overnight delivery within five days of my receipt of such request.

b. Competitor. A “Competitor” for purposes of this Agreement shall mean any person, corporation or other entity that competes with one or more of the business units of the Corporation. As of the Effective Date, it is understood that the Corporation’s business units include: (i) pharmacy benefits management (“PBM”), including the administration of pharmacy benefits for businesses, government agencies and health plans; mail order pharmacy; specialty pharmacy; and Medicare Part D services; (ii) retail, which includes the sale of prescription drugs, over -the-counter medications, beauty products and cosmetics, photo finishing, seasonal merchandise, greeting cards, convenience foods and other product lines that are sold by the Corporation’s retail division; and (iii) retail health care (“MinuteClinic”). It is understood and agreed that PBM Competitors include, but are not limited to, Medco Health Solutions, Inc., Express Scripts, Inc., SXC Health Solutions Corp., and Catalyst, Inc., as well as health plans that provide PBM services that compete with the Corporation’s PBM business. It is also understood and agreed that retail Competitors include, chain drug store companies such as Walgreen Co. and Rite Aid Corporation; mass merchants such as Wal-Mart Stores, Inc. and Target Corp.; food/drug combinations such as The Kroger Co. and Supervalu Inc.; and other retailers, including dollar stores, that sell one or more product lines that are sold by the Corporation. It is understood and agreed that MinuteClinic Competitors shall include, but are not limited to, Walgreen ’s Take Care Clinics, RediClinic, The Little Clinic, and Target Clinic. A person or entity shall not be considered a PBM Competitor unless it provides products or services that are offered by or compete with the products or services offered by CVS Caremark ’s PBM business A person or entity shall not be considered a retail Competitor if such entity derives annual gross revenues from its business in an amount that is less than 5% of the Corporation’s gross revenues from its retail business during its most recently completed fiscal year.

I acknowledge and agree that as of the Effective Date, I have had business dealings and/or have been provided with certain Confidential Information regarding the Corporation ’s three business units, and as such acknowledge and agree to this enterprise-wide definition of non-competition that will prevent me from providing services to the Corporation ’s PBM, retail and MinuteClinic Competitors during the relevant time period. If, for the two years prior to the end of my employment with the Corporation, I continue to have business dealings and/or be provided with certain Confidential Information regarding the Corporation’s three business units, then engaging in Competition shall continue to include providing services to PBM, retail and MinuteClinic Competitors. However, for example, as per Section 2(a) above, if I had business dealings and/or received Confidential Information regarding only one of the three business units during the last two years of my employment with the Corporation, then engaging in Competition shall be limited to providing services to a Competitor of that business unit. By way of further example, and as per Section 2(a) above, if I worked as an executive in the Corporation’s retail division and oversaw the management of dozens of stores during the two years prior to my termination, engaging in Competition would not include working as the store manager or a staff pharmacist for a retail Competitor, where working in such a position would not likely result in the use or disclosure of Confidential Information.

c. **Consulting or Audit Services.** "Consulting or Audit Services" shall mean any activity that involves providing audit review or other consulting or advisory services with respect to any relationship between the Corporation and any third party, including but not limited to PBM clients, and that is likely to result in the use or disclosure of Confidential Information. For purposes of this Agreement, providing Consulting or Audit Services shall expressly include, but is not limited to, providing such services for Aon Hewitt, Towers Watson and/or Mercer, in connection with their PBM consulting businesses.

d. **Non-Competition Period.** The "Non-Competition Period" shall be the period of eighteen (18) months following the termination of my employment with the Corporation for any reason, provided that the Corporation may, in its sole discretion, reduce the length of the Non-Competition Period pursuant to a separation agreement or a written modification to this Agreement signed by me and an authorized representative of the Corporation.

e. **Restricted Area.** "Restricted Area" refers to those states within the United States in which the Corporation conducts its business, as well as the District of Columbia and Puerto Rico.

3. **Non-Solicitation.**

a. During the Non-Solicitation Period, which shall be 18 months following the termination of my employment with the Corporation for any reason, I will not, unless a duly authorized officer of the Corporation gives me written authorization to do so, interfere with the Corporation's business relationships with a Covered Customer by soliciting or communicating (regardless of who initiates the communication) with a Covered Customer to induce or encourage the Covered Customer to (i) stop doing business or reduce its business with the Corporation, or (ii) buy a product or service that competes with a product or service offered by the Corporation's PBM business. A "Covered Customer" is a customer (person or entity) of the Corporation's PBM business with which I had business-related contact or dealings, or about and/or from which I received Confidential Information, during the two years prior to my termination with the Corporation. A Covered Customer does not include a customer that has fully and finally decided to cease doing any business with the Corporation independent of any conduct or communications by me or breach of this Agreement, and that has, in fact, ceased doing any business with the Corporation. Nothing in this Paragraph 3(a) shall prevent me from working as a staff pharmacist or in another retail position wherein I would be providing or selling prescriptions or other products directly to consumers.

b. I also agree that during the Non-Solicitation Period, I will not interfere with the Corporation's relationship with its Business Partners by soliciting or communicating (regardless of who initiates the communication) with a Business Partner to induce or encourage the Business Partner to stop doing business or reduce its business with the Corporation, unless a duly authorized officer of the Corporation gives me written authorization to do so.

c. I further agree that during the Non-Solicitation Period, I will not work on a Corporation account on behalf of a Business Partner or serve as the representative of a Business

Partner for the Corporation. "Business Partner" means a supplier, manufacturer, broker, hospital, hospital system, and/or pharmaceutical company (person or entity) with whom the Corporation has a business relationship and with which I had business - related contact or dealings, or about which I received Confidential Information, in the two years prior to the termination of my employment with the Corporation. A Business Partner does not include a supplier, manufacturer, broker, hospital, hospital system, and/or pharmaceutical company that has fully and finally decided to terminate its business relationship with the Corporation independent of any conduct or communications by me or breach of this Agreement, and which has, in fact, ceased doing any business with the Corporation.

d. I finally agree that during the Non-Solicitation Period, I will not interfere with the Corporation's relationship with any employee of the Corporation by: (i) soliciting or communicating with the employee to induce or encourage him or her to leave the Corporation's employ (regardless of who first initiates the communication); (ii) helping another person or entity evaluate such employee as an employment candidate; or (iii) otherwise helping any person or entity hire an employee away from the Corporation unless a duly authorized officer of the Corporation gives me written authorization to do so. Where required by law, the foregoing restriction will only apply to employees with whom I had material contact or about whom I received Confidential Information within the two years prior to the termination of my employment with the Corporation.

4. Non-Disclosure of Confidential Information .

a. Subject to Section 7 below, I will not at any time, whether during or after the termination of my employment, reveal to any person or entity any of the Corporation's Confidential Information, except as may be appropriately required in the ordinary course of performing my duties as an employee of the Corporation. The Corporation's Confidential Information includes but is not limited to the following non-public information: trade secrets; computer code generated or developed by the Corporation; software or programs and related documentation; strategic compilations and analysis; strategic processes; business or financial methods, practices and plans; non -public costs and prices; operating margins; marketing, merchandising and selling techniques and information; customer lists; details of customer agreements; pricing arrangements with drug manufacturers, including but not limited to any discounts and/or rebates; pharmacy reimbursement rates; expansion strategies; real estate strategies; operating strategies; sources of supply; employee compensation and benefit plans, patient records; and confidential information of third parties which is given to the Corporation pursuant to an obligation or agreement to keep such information confidential (collectively, "Confidential Information"). I shall keep secret all such matters entrusted to me, and I shall not use or attempt to use any Confidential Information on behalf of any person or entity other than the Corporation, or in any manner which may injure or cause loss or may be calculated to injure or cause loss, whether directly or indirectly, to the Corporation. For employees residing in Connecticut, these restrictions on use or disclosure of Confidential Information will only apply for three (3) years after the end of my employment where information that does not qualify as a trade secret is concerned; however, the restrictions will continue apply to trade secret information for as long as the information at issue remains qualified as a trade secret.

b. Further, I agree that, during my employment, I shall not make, use, or permit to be used, any notes, memoranda, reports, lists, records, drawings, sketches, specifications, software programs, data, documentation or other materials of any nature relating to any matter within the scope of the business of the Corporation or concerning any of its dealings or affairs other than for the benefit of Corporation. I further agree that I shall not, after the termination of my employment, use or permit to be used any such notes, memoranda, reports, lists, records, drawings, sketches, specifications, software programs, data, documentation or other materials. All of the foregoing shall be and remain the sole and exclusive property of the Corporation and, immediately upon the termination of my employment, I shall deliver all of the foregoing, and all copies thereof, to the Corporation at its main office.

5. Ownership and Return of the Corporation 's Property. I agree that on or before my final date of employment with the Corporation I shall return to the Corporation all property of the Corporation in my possession, custody or control, including but not limited to the originals and copies of any information provided to or acquired by me in connection with the performance of my duties for the Corporation, such as files, correspondence, communications, memoranda, e -mails, slides, records, and all other documents, no matter how produced or reproduced, all computer equipment, communication devices (including but not limited to any mobile phone, BlackBerry or other portable digital assistant or device), computer programs and/or files, and all office keys and access cards. It is hereby acknowledged that all of said items are the sole and exclusive property of the Corporation.

6. Rights to Inventions, Works.

a. Inventions Retained and Licensed. I have attached hereto, as Exhibit A, a list describing all inventions, original works of authorship, developments, improvements, and trade secrets which were made by me prior to my employment with the Corporation (collectively referred to as "Prior Inventions"), which belong to me, which relate to the Corporation's proposed business, products or research and development, and which are not assigned to the Corporation hereunder; or, if no such list is attached, I represent that there are no such Prior Inventions. I agree that I will not incorporate, or permit to be incorporated, any Prior Invention owned by me or in which I have an interest into a Corporation product, process or machine without the Corporation's prior written consent. Notwithstanding the foregoing sentence, if, in the course of my employment with the Corporation, I incorporate into a Corporation product, process or machine a Prior Invention owned by me or in which I have an interest, the Corporation is hereby granted and shall have a nonexclusive, royalty -free, irrevocable, perpetual, worldwide license to make, have made, modify, use and sell such Prior Invention as part of or in connection with such product, process or machine.

b. Assignment of Inventions. I agree that I will promptly make full written disclosure to the Corporation, will hold in trust for the sole right and benefit of the Corporation, and hereby assign to the Corporation, or its designee, all my right, title, and interest in and to any and all inventions, original works of authorship, developments, concepts, improvements, designs, discoveries, ideas, trademarks or trade secrets, whether or not patentable or registrable under

copyright or similar laws, which I may solely or jointly conceive or develop or reduce to practice, or cause to be conceived or developed or reduced to practice, while in the course of my employment for the corporation during the period of time I am in the employ of the Corporation (collectively referred to as "Inventions"). I further acknowledge that all original works of authorship which are made by me (solely or jointly with others) within the scope of and during the period of my employment with the Corporation and which are protectable by copyright are "works made for hire," as that term is defined in the United States Copyright Act and as such are the sole property of the Corporation. I understand and agree that the decision whether or not to commercialize or market any Invention developed by me solely or jointly with others is within the Corporation's sole discretion and for the Corporation's sole benefit and that no royalty will be due to me as a result of the Corporation's efforts to commercialize or market any such Invention.

c. **Maintenance of Records.** I agree to keep and maintain adequate and current written records of all Inventions made by me (solely or jointly with others) during the term of my employment with the Corporation. The records will be in the form of notes, sketches, drawings, and any other format that may be specified by the Corporation. The records will be available to and remain the sole property of the Corporation at all times.

d. **Patent and Copyright Registrations .** I agree to assist the Corporation, or its designee, at the Corporation's expense, in every proper way to secure the Corporation's rights in the Inventions and any copyrights, patents, mask work rights or other intellectual property rights relating thereto in any and all countries, including, but not limited to, the disclosure to the Corporation of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, assignments and all other instruments which the Corporation shall deem necessary in order to apply for and obtain such rights and in order to assign and convey to the Corporation, its successors, assigns, and nominees the sole and exclusive rights, title and interest in and to such Inventions, and any copyrights, patents, mask work rights or other intellectual property rights relating thereto. I further agree that my obligation to execute or cause to be executed, when it is in my power to do so, any such instrument or papers shall continue after my employment ends for any reason and/or after the termination of this Agreement. If the Corporation is unable because of my mental or physical incapacity or for any other reason to secure my signature to apply for or to pursue any application for any United States or foreign patents or copyright registrations covering Inventions or original works of authorship assigned to the Corporation as above, then I hereby irrevocably designate and appoint the Corporation and its duly authorized officers and agents as my agent and attorney in fact, to act for and in my behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of letters patent or copyright registrations thereon with the same legal force and effect as if executed by me.

e. **Exception to Assignments.** I understand that if I am an employee in Illinois, Kansas, North Carolina, Utah or Minnesota, I should refer to Exhibit B (incorporated herein for all purposes) for important limitations on the scope of the provisions of this Agreement concerning assignment of Inventions. I will advise the Corporation promptly in writing of any inventions that I believe meet the criteria in Exhibit B and that are not otherwise disclosed on Exhibit A.

7. Cooperation.

a. In the event that I receive a subpoena, deposition notice, interview request, or other process or order to produce Confidential Information or any other property of the Corporation, I shall promptly: (a) notify the Corporation of the item, document, or information sought by such subpoena, deposition notice, interview request, or other process or order; (b) furnish the Corporation with a copy of said subpoena, deposition notice, interview request, or other process or order; and (c) provide reasonable cooperation with respect to any procedure that the Corporation may initiate to protect Confidential Information or other interests. If the Corporation objects to the subpoena, deposition notice, interview request, process, or order, I shall cooperate to ensure that there shall be no disclosure until the court or other applicable entity has ruled upon the objection, and then only in accordance with the ruling so made. If no such objection is made despite a reasonable opportunity to do so, I shall be entitled to comply with the subpoena, deposition, notice, interview request, or other process or order provided that I have fulfilled the above obligations.

b. I agree to cooperate fully with the Corporation, its affiliates, and their legal counsel in connection with any action, proceeding, or dispute arising out of matters with which I was directly or indirectly involved while serving as an employee of the Corporation, its predecessors, subsidiaries or affiliates. This cooperation shall include, but shall not be limited to, meeting with, and providing information to, the Corporation and its legal counsel, maintaining the confidentiality of any past or future privileged communications with the Corporation's legal counsel (outside and in-house), and making myself available to testify truthfully by affidavit, in depositions, or in any other forum on behalf of the Corporation. The Corporation agrees to reimburse me for any reasonable and necessary out-of-pocket costs associated with my cooperation.

8. Injunctive Relief. I agree that any breach of this Agreement by me will cause irreparable damage to the Corporation and that, in the event of such breach, the Corporation shall have, in addition to any and all remedies of law, the right to an injunction, specific performance or other equitable relief to prevent the violation of my obligations hereunder, and without providing a bond to the extent permitted by the applicable rules of civil procedure.

9. Eligibility for Severance Pay. In the event that the Corporation terminates my employment without Cause (as defined below), the Corporation will offer me a separation agreement in a form provided by the Corporation that will include periodic severance payments in an amount equal to my salary in effect immediately prior to my separation, as well as the opportunity to continue participating in the Corporation's medical, prescription and dental insurance plans (collectively, the "health benefits") on the same terms available during my employment, for the duration of the Non-Competition Period. The separation agreement will also include a general release of claims and other standard provisions. The Corporation reserves the right, in its sole discretion, to reduce the duration of the Non-Competition Period and the

duration of the corresponding periodic severance payments and continuation of health benefits. For purposes of this Agreement, Cause shall mean that the Corporation, in its sole discretion, has determined that I have: (a) violated the terms of this Agreement; (b) willfully violated the CVS Caremark Code of Conduct or any of the Corporation's other policies; (c) engaged in dishonest or fraudulent conduct; or (d) willfully engaged in conduct that is detrimental to the Corporation's reputation. I understand that if I resign my employment with the Corporation, or if I am terminated with Cause, I am not eligible for severance pay, but my obligations under this Agreement are still in full force and effect, including the post -employment restrictions I am agreeing to in Paragraphs 2 and 3 herein. I further understand that nothing in this Agreement shall diminish any right to severance pay that I may have under another written agreement or arrangement with the Corporation. Further, I understand and agree that my entitlement to any severance payments pursuant to this Agreement shall be offset, i.e., decreased, by any severance payment for which I may be eligible pursuant to any other agreement or arrangement with the Corporation.

10. No Right of Continued Employment . I understand that this Agreement does not create an obligation on the Corporation or any other person or entity to continue my employment.

11. No Conflicting Agreements. I represent that the performance of my job duties with the Corporation and my compliance with all of the terms of this Agreement does not and will not breach any agreement to keep in confidence proprietary information acquired by me in confidence or in trust prior to my employment by the Corporation.

12. Entire Agreement/No Reliance/No Modifications. This Agreement and any compensation, benefit or equity plan or agreement referred to herein set forth the entire agreement between the parties hereto and fully supersede any and all prior and/or supplemental understandings, whether written or oral, between the parties concerning the subject matter of this Agreement. Notwithstanding the foregoing, if I am a party to the CVS Caremark Corporation Change in Control Agreement (the "CIC Agreement"), then I understand that in the event of a Change in Control, as that term is defined in the CIC, Paragraph 2 of this Agreement shall be null and void. I agree and acknowledge that I have not relied on any representations, promises or agreements of any kind in connection with my decision to accept the terms of this Agreement, except for the representations, promises and agreements herein. Any modification to this Agreement must be made in writing and signed by me and the Corporation 's Chief Human Resources Officer or her authorized representative.

13. No Waiver. Any waiver by the Corporation of a breach of any provision of this Agreement, or of any other similar agreement with any other current or former employee of the Corporation, shall not operate or be construed as a waiver of any subsequent breach of such provision or any other provision hereof.

14. Severability. The parties hereby agree that each provision herein shall be treated as a separate and independent clause, and the unenforceability of any one clause shall in no way impair the enforceability of any of the other clauses herein. Moreover, if one or more of the provisions of this Agreement are for any reason held to be excessively broad as to scope, activity, duration, subject or otherwise so as to be unenforceable at law, the parties consent to such provision or provisions being modified or limited by the appropriate judicial body (where allowed by applicable law), so as to be enforceable to the maximum extent compatible with the applicable law.

15. Survival of Employee's Obligations. My obligations under this Agreement shall survive the termination of my employment regardless of the manner of such termination and shall be binding upon my heirs, personal representatives, executors, administrators and legal representatives.

16. Corporation's Right to Assign Agreement. I acknowledge and agree that the Corporation has the right to assign this Agreement to its successors and assigns without the need for further agreement or consent by me, and all covenants and agreements hereunder shall inure to the benefit of and be enforceable by said successors or assigns.

17. Non-Assignment. I shall not assign my rights and obligations under this Agreement, in whole or in part, whether by operation of law or otherwise, without the prior written consent of the Corporation, and any such assignment contrary to the terms hereof shall be null and void and of no force or effect.

18. Governing Law; Venue; Headings. This Agreement shall be governed by and construed in accordance with the laws of the state where I reside at the time this Agreement is provided to me. The exclusive venue for any legal action arising from this Agreement will be the federal and state courts within Rhode Island. I stipulate and consent to Rhode Island courts' personal jurisdiction over me, and waive my right to object to a Rhode Island court's jurisdiction. 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.

19. Tolling. In the event I violate one of the time-limited restrictions in this Agreement, I agree that the time period for such violated restriction shall be extended by one day for each day I have violated the restriction, up to a maximum extension equal to the length of the original period of the restricted covenant. The foregoing provision shall not apply to residents of Wisconsin.

IN WITNESS WHEREOF, the undersigned has executed this Agreement as a sealed instrument as of the date set forth below.

Signature

Lisa Bisaccia

Chief Human Resources Officer
CVS Pharmacy, Inc.

Date: _____, 2012

EXHIBIT A

List of Prior Inventions – See Section 6(a)

EXHIBIT B

Notice Regarding Invention Assignment

1. For an employee residing in **Illinois, Kansas, or North Carolina**, you are hereby advised:

Notice. No provision in this Agreement requires you to assign any of your rights to an invention for which no equipment, supplies, facility, or trade secret information of the Corporation was used and which was developed entirely on your own time, unless (a) the invention relates (i) to the business of the Corporation or (ii) to the Corporation's actual or demonstrably anticipated research or development, or (b) the invention results from any work performed by you for the Corporation. Illinois 765ILCS1060/1-3, "Employees Patent Act"; Kansas Statutes Section 44-130; North Carolina General Statutes Article 10A, Chapter 66, Commerce and Business, Section 66-57.1.

2. For an employee residing in **Utah**, you are hereby advised:

Notice. No provision in this Agreement requires you to assign any of your rights to an invention which was created entirely on your own time, and which is not (a) conceived, developed, reduced to practice, or created by you (i) within the scope of your employment with the Corporation, (ii) on the Corporation's time, or (iii) with the aid, assistance, or use of any of the Corporation's property, equipment, facilities, supplies, resources, or patents, trade secrets, know-how, technology, confidential information, ideas, copy rights, trademarks and service marks and any and all rights, applications and registrations relating to them, (b) the results of any work, services, or duties performed by you for the Corporation, (c) related to the industry or trade of the Corporation, or (d) related to the current or demonstrably anticipated business, research, or development of the Corporation. Utah Code Sections 34-39-1 through 34-39-3, "Employee Inventions Act."

3. For an employee residing in **Minnesota**, you are hereby advised:

Notice. No provision in this Agreement requires you to assign any of your rights to an invention for which no equipment, supplies, facility, or trade secret information of the Corporation was used, and which was developed entirely on your own time, and (a) which does not relate (i) directly to the business of the Corporation, or (ii) to the Corporation's actual or demonstrably anticipated research or development, or (b) which does not result from any work performed by you for the Corporation. Minnesota Statutes 13A Section 181.78.



**CVS CAREMARK CORPORATION
BUSINESS PLANNING COMMITTEE
NONQUALIFIED STOCK OPTION AGREEMENT
ANNUAL GRANT**

GRANT DATE: APRIL 1, 2013

1. **GRANT OF AWARD.** Pursuant to the provisions of the 2010 Incentive Compensation Plan, as amended (the "ICP") of CVS Caremark Corporation (the "Company"), on the date set forth above (the "Grant Date"), the Company has granted and hereby evidences the Grant to the person named below (the "Participant"), subject to the terms and conditions set forth or incorporated in this Nonqualified Stock Option Agreement ("Agreement"), the right, and option, to purchase from the Company the aggregate number of shares of Common Stock (\$.01 par value) of the Company ("Shares") set forth below, at the purchase price indicated below (the "Option"), such Option to be exercised as hereinafter provided. The ICP is hereby made a part hereof and Participant agrees to be bound by all the provisions of the ICP. Capitalized terms not otherwise defined herein shall have the meaning assigned to such term(s) in the ICP. The Option is a nonqualified option as defined in the ICP.

Participant:
Employee ID:
Shares:
Option Price: **\$54.53**

2. **TERM OF OPTION.** The term of this Option shall be for a period of seven (7) years from the Grant Date, subject to the earlier termination of the Option, as set forth in the ICP and in this Agreement. No portion of the Option shall be exercisable after the term of the Option.

3. **EXERCISE OF OPTION.**

(a) The Option, subject to the provisions of the ICP, shall be exercised by submitting a request to exercise to the Company's stock option administrator, in accordance with the Company's current exercise policies and procedures, specifying the number of Shares to be purchased, which number may not be less than one hundred (100) Shares (unless the number of Shares purchased is the total balance which is then exercisable). Unless the Company, in its discretion, establishes "cashless exercise" procedures and permits Participant entitled to exercise the Option to utilize such "cashless exercise" procedures. Participant so exercising all or part of this Option shall, at the time of exercise, tender to the Company cash or cash equivalent for the aggregate option price of the Shares Participant has elected to purchase or certificates for Shares of Common Stock of the Company owned by Participant for at least six (6) months with a fair market value at least equal to the aggregate option price of the Shares Participant has elected to purchase, or a combination of the foregoing.

(b) Prior to its expiration or termination and except as otherwise provided herein, the Option will become vested in accordance with the vesting schedule set forth below and any vested Option will be exercisable by Participant so long as Participant has maintained continuous employment with the Company or a subsidiary of the Company from the Grant Date through the exercise date:

- (i) 25% of the Option shall vest on the 1st anniversary of the Grant Date.
- (ii) 25% of the Option shall vest on the 2nd anniversary of the Grant Date.
- (iii) 25% of the Option shall vest on the 3rd anniversary of the Grant Date.
- (iv) 25% of the Option shall vest on the 4th anniversary of the Grant Date.

4. **TAXES.** If, upon the exercise of an Option, there shall be payable by the Company any amount for tax withholding, the Company shall have the right to require Participant to pay the amount of such taxes immediately, upon notification from the Company, before a certificate for the Shares purchased is delivered to Participant pursuant to such Option. Furthermore, the Company may elect to deduct such taxes from any other amounts then payable to Participant in cash or in Shares or from any other amounts payable any time thereafter to Participant.

5. **TRANSFERABILITY.** This Option may be transferred to and may thereafter be exercised by one or more members of Participant's immediate family, by a trust established by Participant for the benefit of one or more members of Participant's immediate family, or by a partnership of Company of which the only owners are members of Participant's immediate family (the "Transferee(s)"); provided, that no portion of the Option may be transferred until such time as it becomes vested and exercisable pursuant to Section 3(b) hereof, and further provided that no more than fifty percent (50%) of the exercisable Option may be transferred by Participant. An "immediate family member" shall mean Participant's spouse, parents, children, grandchildren and the spouses of such parents, children and grandchildren. Transferee will be subject to all terms and conditions applicable to Option prior to its transfer. Transferee may not again transfer said Option. In order to transfer this Option, Participant must notify the Company in the form of a "Notice of Transfer of Nonqualified Stock Option" (which form may be obtained from the Company's Legal Department) of such transfer and include the name, address and social security number of Transferee, as well as the relationship of Transferee to Participant.

6. **FORFEITURE OF OPTION UPON TERMINATION OF EMPLOYMENT.** Unless otherwise provided for in the ICP or in this Agreement, the Option (whether vested or unvested), to the extent not yet exercised, shall be forfeited immediately upon Participant's termination of employment with the Company or any of its subsidiaries.

7. **TERMINATION OF PARTICIPANT'S EMPLOYMENT WITHOUT CAUSE.** In the event that Participant's employment is terminated without cause by the Company or one of its subsidiaries and Participant receives severance pay following Participant's employment pursuant to a written agreement, vesting of the Option shall continue through the end of the severance period set forth in the agreement providing for such severance pay. To the extent vested, the Option shall be exercisable at any time during the severance period and on or before the ninetieth (90th) day following the last day of the severance period, as long as no government regulations or rules are violated by such continued vesting or exercise period; *provided, however*, that in no event will the Option be exercisable beyond its original term.

8. **RETIREMENT OF PARTICIPANT.** In the event Participant's employment with the Company and any subsidiary of the Company terminates by reason of a "Qualified Retirement", Participant (a) shall continue to vest in the Option, to the extent unvested as of the retirement date, for a period of three (3) years following Participant's retirement date and (b) may exercise the Option, to the extent vested, at any time within the period of three (3) years following Participant's retirement date, but not beyond the original term of the Option, in both cases as long as no government regulations or rules are violated by such continued vesting or exercise period. To the extent unvested or unexercised at the end of the three (3) year period following Participant's retirement date, the Option shall be forfeited. In the event Participant's termination of employment qualifies as a Qualified Retirement and Participant also enters into a severance agreement with the Company, the terms of this Section 7 shall apply with respect to the vesting and exercise of the Option as of the Participant's employment termination date. "Qualified Retirement" shall mean termination of employment after attainment of age fifty-five (55) with at least ten (10) years of continuous service, or attainment of age sixty (60) with at least five (5) years of continuous service, provided that: (i) if Participant elects to terminate his or her employment voluntarily, Participant has provided the Company with at least twelve (12) months advance notice of his or her retirement date or such other term of advance notice as is determined by the Chief Human Resources Officer of the Company; or (ii) if the Company elects to terminate Participant's employment, then such termination is without cause.

9. **DISABILITY OF PARTICIPANT.** In the event Participant's employment with the Company and any subsidiary of the Company terminates by reason of total and permanent disability (as defined in the Company's Long-Term Disability Plan, or, if not defined in such Plan, as defined by the Social Security Administration), the Option shall vest as follows: the Option shall vest with respect to a total number of Shares as of the employment termination date (which is the last day that Participant is employed by the Company and any subsidiary of the Company) equal to (i) the number of Shares subject to the Option on the Grant Date *multiplied* by the following fraction: (A) the numerator shall be the whole number of months elapsed as of the employment termination date since the Grant Date and (B) the denominator shall be forty-eight (48), *minus* (ii) the number of Shares with respect to which the Option vested prior to the employment termination date (whether or not the Option was previously exercised). For purposes of this calculation, the number of months in the numerator in sub-section (A) above shall include any partial month in which Participant has worked. For example, if the time elapsed between the Grant Date

and the employment termination date is eight months and five days, the numerator in sub-section (A) above shall be nine. The Option may be exercised to the extent vested at any time within one (1) year of Participant's employment termination date but not beyond the original term of the Option. The Vesting Date shall be the Participant's employment termination date.

10. DEATH OF PARTICIPANT. In the event of Participant's death while Participant is employed with the Company and any subsidiary of the Company, the Option shall immediately vest in full, and the Option shall remain exercisable for a period of one (1) year after Participant's death, or prior to the Option expiration date, whichever occurs first, by Participant's executor, administrator, personal representative or any person or persons who acquired the Option directly from Participant by bequest or inheritance. At the end of said one (1)-year time period, all rights with respect to any Option that is unexercised shall terminate and the Option shall be cancelled.

11. TRANSFER OF EMPLOYMENT. Transfer of employment of Participant from the Company to a subsidiary of the Company, transfer among or between subsidiaries, or transfer from a subsidiary to the Company shall not be treated as termination of employment.

12. ACCEPTANCE OF AWARD. The Option may not be exercised unless and until the Company has received acceptance by Participant of the terms and conditions set forth herein. Acceptance may be submitted either electronically, if available, or in writing.

13. NOTICE. Any notice required to be given hereunder to the Company shall be addressed to the Company, attention Senior Vice President, Chief Human Resources Officer, One CVS Drive, Woonsocket, RI 02895, and any notice required to be given hereunder to Participant shall be addressed to Participant at his or her address as shown on the records of the Company, subject to the right of either party hereafter to designate in writing to the other some other address.

14. RECOUPMENT OF OPTION AWARD. The Option subject to this Agreement under the ICP shall be subject to the terms of the Company's Recoupment Policy as it exists from time to time, which may require the Participant to immediately repay to the Company the value of any pre-tax economic benefit that he or she may derive from the Award. By accepting this Award, Participant acknowledges that a copy of the Company's Recoupment Policy has been made available for the Participant's reference.

15. COMMITTEE AUTHORITY. The Committee shall have the authority, in its sole discretion, to make any interpretations, determinations, and/or take any administrative actions with respect to the ICP and this Agreement, including whether any post-termination payments to Participant shall be deemed severance pay, the duration of any severance period, and/or whether a termination was without cause.

16. GOVERNING LAW. This Nonqualified Stock Option Agreement and the Option evidenced hereby shall be governed by the laws of Delaware, without giving effect to principles of conflict of laws.

BY: _____
Lisa Bisaccia
Senior Vice President, Chief Human Resources Officer
CVS Caremark Corporation

Accepted By: _____
Participant

Date



**CVS CAREMARK CORPORATION
BUSINESS PLANNING COMMITTEE
RESTRICTED STOCK UNIT AGREEMENT – ANNUAL GRANT
GRANT DATE: APRIL 1, 2013**

1. Pursuant and subject to the provisions of the 2010 Incentive Compensation Plan, as amended (the "ICP") of CVS Caremark Corporation (the "Company"), on the date set forth above (the "Grant Date"), the Company has awarded and hereby evidences the Restricted Stock Unit ("RSU") Award to the person named below (the "Participant"), subject to the terms and conditions set forth and incorporated in this Restricted Stock Unit agreement (the "Agreement"). The ICP is hereby made a part hereof and Participant agrees to be bound by all the provisions of the ICP. Capitalized terms not otherwise defined herein shall have the meaning assigned to such term(s) in the ICP. On the Grant Date specified above, the Fair Market Value (the "FMV"), which is the Closing Price of the Company's common stock on the Grant Date, of each RSU equals **\$54.53**.

Participant:
Employee ID:
RSUs (#):

2. Each RSU represents a right to a future payment of one share ("Share") of Common Stock (\$0.01 par value) of the Company, subject to required tax withholding.
3. (a) To the extent dividends are paid on Shares while the RSUs remain outstanding and prior to the Settlement Date (as defined below), subject to Section 5(b), Participant shall be entitled to receive a cash payment in an amount equivalent to the cash dividends with respect to the number of Shares covered by the RSUs; provided, however, that no dividends shall be payable with respect to any RSUs forfeited on or prior to the dividend record date.

(b) Participant hereby agrees that the Company may withhold from the dividend equivalent amounts referred to in Paragraph 3(a) above amounts sufficient to satisfy the applicable tax withholding in respect of such dividend equivalent payments.
4. Subject to the terms and conditions of the ICP and this Agreement and subject to Participant's continued employment, Participant shall be entitled to receive (and the Company shall deliver to Participant) the Shares within sixty (60) days following the Vesting Date(s) set forth herein, unless delivery of the Shares has been deferred in accordance with Section 5 below (the date of such delivery of the Shares being hereafter referred to as the "Settlement Date"). Each "Vesting Date," except as otherwise provided in Section 7, shall be in accordance with the schedule set forth below:

(a) 50% of the Shares underlying the RSU shall vest on the third anniversary of the Grant Date;
(b) 50% of the Shares underlying the RSU shall vest on the fifth anniversary of the Grant Date.

5. (a) In accordance with rules promulgated by the Management Planning and Development Committee of the Board of Directors (the "Committee"), Participant, to the extent eligible under the CVS Caremark Deferred Stock Compensation Plan, may elect to defer delivery of Shares in settlement of RSUs covered by this Agreement. Any such deferred delivery date elected by Participant shall become the Settlement Date for purposes of this Agreement.

(b) Notwithstanding Section 3(a), to the extent dividends are paid on such deferred Shares following the Vesting Date and prior to the Settlement Date, Participant shall be entitled to receive a number of additional deferred Shares equal to: (x) the amount of dividend per Share as declared by the Company's Board of Directors on the Company's common stock multiplied by (y) the number of deferred Shares held by Participant on the record date of such dividend, divided by (z) the FMV of a Share on such dividend payment date. The Company may decrease the number of additional deferred Shares calculated as provided herein by the number of Shares sufficient to satisfy the applicable tax withholding in respect of such dividend equivalent payments.

6. Except as may be elected by Participant, on the Settlement Date the number of Shares to be delivered by the Company to Participant shall be reduced by the smallest number of Shares having a FMV at least equal to the dollar amount of Federal, state and local tax withholding required to be withheld by the Company with respect to such RSUs on such date. In lieu of having the number of Shares underlying the RSU reduced, Participant may elect to pay the Company for any amounts required to be withheld by the Company in connection with the vesting of the RSUs or delivery of the Shares pursuant to the Agreement. Such election may be made electronically at any time prior to the Settlement Date of the RSUs.

7. (a) Except as provided in Paragraphs 7 (b) – (g) below, if, for any reason, Participant's employment with the Company and any subsidiary of the Company terminates, all RSUs not then vested in accordance with Section 4 above shall be immediately forfeited.

(b) In the event Participant's employment with the Company and any subsidiary of the Company terminates by reason of death, RSUs not then vested in accordance with Section 4 will become immediately vested and the Vesting Date shall be the date of death.

(c) (i) In the event Participant's employment with the Company and any subsidiary of the Company terminates prior to the third anniversary of the Grant Date by reason of a "Qualified Retirement", RSUs shall vest on a pro rata basis as follows: the total number of RSUs vesting as of the retirement date, which is the last day that the Participant is employed by the Company or any subsidiary of the Company shall be equal to the number of RSUs granted on the Grant Date multiplied by the following fraction: (A) the numerator shall be the whole number of months elapsed as of the retirement date since the Grant Date and (B) the denominator shall be thirty-six (36). For purposes of this calculation, the number of months in the numerator in sub-section (A) above shall include any partial month in which Participant has worked. For example, if the time elapsed between the Grant Date and the retirement date is eight months and five days, the numerator in sub-section (A) above shall be nine. The Vesting Date shall be Participant's retirement date.

(ii) In the event Participant's employment with the Company and any subsidiary of the Company terminates after the third anniversary, but prior to the fifth anniversary, of the Grant Date by reason of a "Qualified Retirement", the remaining unvested RSUs shall vest on a pro rata basis as follows: 50% of the RSUs granted on the Grant Date multiplied by the following fraction: (C) the numerator shall be the whole number of months elapsed as of the retirement date since the Grant Date and (D) the denominator shall be sixty (60). For purposes of this calculation, the number of months in the numerator in sub-section (A) above shall include any partial month in which Participant has worked. For example, if the time elapsed between the Grant Date and the retirement date is fifty-four months and five days, the numerator in sub-section (C) above shall be fifty-five. The Vesting Date shall be Participant's retirement date.

“Qualified Retirement” shall mean termination of employment after attainment of age fifty-five (55) with at least ten (10) years of continuous service or attainment of age sixty (60) with at least five (5) years of continuous service, provided that: (i) if Participant elects to terminate his or her employment voluntarily, Participant has provided the Company with at least twelve (12) months advance notice of his or her retirement date or such other term of advance notice as is determined by the Chief Human Resources Officer of the Company; or (ii) if the Company elects to terminate Participant’s employment, then such termination is without cause. In the event Participant’s termination of employment qualifies as a Qualified Retirement and Participant also enters into a severance agreement with the Company, the terms of Section 7(e) shall apply with respect to the vesting and settlement of RSUs that are unvested as of Participant’s employment termination date.

(d) (i) In the event Participant’s employment with the Company and any subsidiary of the Company terminates prior to the third anniversary of the Grant Date by reason of total and permanent disability (as defined in the Company’s Long-Term Disability Plan, or, if not defined in such Plan, as defined by the Social Security Administration), the RSUs shall vest on a pro rata basis as follows: the total number of RSUs vested as of the termination date, which is the last date that the Participant is employed by the Company or any subsidiary of the Company, shall be equal to the number of RSUs granted on the Grant Date multiplied by the following fraction: (A) the numerator shall be the whole number of months elapsed as of Participant’s termination date since the Grant Date and (B) the denominator shall be thirty-six (36). For purposes of this calculation, the number of months in the numerator in sub-section (A) above shall include any partial month in which Participant has worked. For example, if the time elapsed between the Grant Date and the termination date is eight months and five days, the numerator in sub-section (A) above shall be nine. The Vesting Date shall be the effective date of the Participant’s termination of employment.

(ii) In the event the Participant’s employment with the Company and any subsidiary of the Company terminates after the third anniversary, but prior to the fifth anniversary, of the Grant Date, by reason of total and permanent disability (as defined in the Company’s Long-Term Disability Plan, or, if not defined in such Plan, as defined by the Social Security Administration), the remaining unvested RSUs shall vest on a pro rata basis according to the following formula: 50% of the RSUs granted on the Grant Date multiplied by the following fraction: (C) the numerator shall be the whole number of months elapsed as of the termination date since the Grant Date as of Participant’s termination date and (D) the denominator shall be sixty (60). For purposes of this calculation, the number of months in the numerator in sub-section (C) above shall include any partial month in which Participant has worked. For example, if the time elapsed between the Grant Date and the termination date is fifty-four months and five days, the numerator in sub-section (C) above shall be fifty-five. The Vesting Date shall be the effective date of the Participant’s termination of employment.

(e) In the event Participant’s employment with the Company and any subsidiary of the Company terminates and Participant receives severance pay pursuant to a written agreement, RSUs not vested at the time of Participant’s employment termination date but scheduled to vest during the severance period specified in the agreement providing for severance pay shall vest and settle in accordance with the schedule set forth in Section 4 of this Agreement. Participant will be responsible for any applicable withholding taxes that may become due as of Participant’s employment termination date. All RSUs not scheduled to vest during the specified severance period shall be forfeited as of the employment termination date.

(f) Notwithstanding the above, (i) the provisions of Section 10 of the ICP shall apply in the event of a Change in Control (as defined in such Section 10) and (ii) the provisions of Section 7(c)(iv) of the ICP shall apply.

(g) For purposes of this Section 7, transfer of Participant’s employment from the Company to a subsidiary of the Company, transfer among or between subsidiaries, or transfer from a subsidiary to the Company shall not be treated as termination of employment.

8. An RSU does not represent an equity interest in the Company and carries no voting rights. Participant shall have no rights of a shareholder with respect to the RSUs until the Shares have been delivered to Participant.

9. Neither the execution and delivery hereof nor the granting of the award evidenced hereby shall constitute or be evidence of any agreement or understanding, express or implied, on the part of the Company or its subsidiaries to employ Participant for any specific period.
10. Any notice required to be given hereunder to the Company shall be addressed to: CVS Caremark Corporation, Senior Vice President, Chief Human Resources Officer, One CVS Drive, Woonsocket, RI 02895. Any notice required to be given hereunder to Participant shall be addressed to such Participant at the address shown on the records of the Company, subject to the right of either party hereafter to designate, in writing, to the other, some other address.
11. All decisions and interpretations made by the Board of Directors or the Committee with regard to any question arising hereunder or under the ICP shall be binding and conclusive on all persons. In the event of any inconsistency between the terms hereof and the provisions of the ICP, the ICP shall govern.
12. The award of RSUs pursuant to this Agreement is expressly subject to and contingent upon the requirement that the Participant shall have fully executed and delivered to the Company the CVS Caremark Corporation 2013 Restrictive Covenant Agreement provided by the Company; provided that the Company in its sole discretion may waive such requirement if Participant is currently a party to another agreement with the Company setting forth restrictive covenants, such as non-competition, non-disclosure, and/or non-solicitation obligations. The applicable agreement containing the restrictive covenants the Company requires in connection with this award, whether previously executed or required to be executed in connection with this award, is hereafter referred to as the "Restrictive Covenant Agreement".

If the Company intends to require Participant to execute and deliver a new Restrictive Covenant Agreement in connection with the grant hereunder, the Company shall provide such Restrictive Covenant Agreement to Participant and Participant agrees to execute and deliver such agreement by the deadline set forth by the Company, which shall be no less than ten days from the date it is provided to Participant. If Participant is currently subject to a Restrictive Covenant Agreement, Participant hereby affirms his or her agreement and intent to be bound by the restrictions in the Restrictive Covenant Agreement and to comply with all of its provisions.

Participant agrees that failure to execute and return the Restrictive Covenant Agreement, if required, shall result in the immediate and irrevocable forfeiture of the RSU Award hereunder and any right to receive dividend equivalents or Shares with respect thereto. Further, if Participant violates any provision of the applicable Restrictive Covenant Agreement, any unvested RSUs will be immediately and irrevocably forfeited, and no payment of any kind, including dividend equivalents or Shares, shall be payable with respect thereto. This Section shall not constitute the Company's exclusive remedy for Participant's violation of the Restrictive Covenant Agreement, and the Company may seek all available legal or equitable remedies in the event of Participant's violation or threatened of the Restrictive Covenant Agreement, including injunctive relief.

13. By accepting this Award, Participant acknowledges that a copy of the ICP has been made available by the Company for Participant's reference and agrees to be bound by the terms and conditions set forth in this Agreement and the ICP as in effect from time to time, including the requirement that Participant sign and return the Restrictive Covenant Agreement, as required by the Company as set forth in Section 12.
14. By accepting this Award, Participant further acknowledges that the Federal securities laws and/or Company's policies regarding trading in its securities may limit or restrict Participant's right to trade Shares, including without limitation, sales of Shares acquired in connection with RSUs. Participant agrees to comply with such

Federal securities law requirements and Company policies as such laws and policies may be amended from time to time.

15. The Company intends 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 Code Section 409A the Company will make such changes in order to comply with Code Section 409A to the extent it considers reasonable. In all events, the provisions of CVS Caremark Corporation's 409A Universal Definitions Document are hereby incorporated by reference, and 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 first business day of the seventh month immediately following the employment termination date. For purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment, references to a "termination of employment" (and corollary terms) shall be construed to refer to a "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)). Notwithstanding the foregoing, the Company makes no representations as to the tax treatment or consequences of any payment made hereunder, and Participant, by accepting this Award, acknowledges that Participant shall be solely responsible for same.
16. The Award subject to this RSU Agreement under the ICP shall be subject to the terms of the Company's Recoupment Policy as it exists from time to time, which may require the Participant to immediately repay to the Company the value of any pre-tax economic benefit that he or she may derive from the Award. By accepting this Award, Participant acknowledges that the Company's Recoupment Policy has been made available for the Participant's reference.
17. This Agreement shall be governed by the laws of Delaware, without giving effect to its choice of law provisions.
18. This Agreement shall be fully effective only upon the Participant's formal acceptance of the terms and conditions set forth above as required by the Company.

By: _____
Lisa G. Bisaccia
Senior Vice President, Chief Human Resources Officer
CVS Caremark Corporation

Accepted By: _____
Participant Signature

Date



CVS CAREMARK CORPORATION
PERFORMANCE-BASED RESTRICTED STOCK UNIT AGREEMENT
GRANT DATE: FEBRUARY 19, 2013

1. Pursuant and subject to the provisions of the 2010 Incentive Compensation Plan, as amended (the "ICP") of CVS Caremark Corporation (the "Company"), on the date set forth above (the "Grant Date"), the Company has awarded and hereby evidences the Performance-Based Restricted Stock ("PBRS") unit award (the "Award") to the person named below (the "Participant"), subject to the terms and conditions set forth and incorporated in this PBRS Agreement (the "PBRS Agreement"), the Restricted Stock Units ("RSUs") set forth below. The ICP is hereby made a part hereof and Participant agrees to be bound by all the provisions of the ICP. Capitalized terms not otherwise defined herein shall have the meaning assigned to such term(s) in the ICP. On the Grant Date specified above, the Fair Market Value (the "FMV") of a share of Stock equals \$52.66, which is the closing price on such date.

Participant
Employee Number
RSUs (#)

2. Each RSU represents a right to a future payment of one share ("Share") of Common Stock (\$0.01 par value) of the Company, subject to required tax withholding.
3. (a) To the extent dividends are paid on Shares while the RSUs remain outstanding and prior to the Settlement Date (as defined below), subject to Paragraph 5(b), Participant shall be entitled to receive a cash payment in an amount equivalent to the cash dividends with respect to the number of Shares covered by the RSUs; provided, however, that no dividends shall be payable with respect to any RSUs forfeited on or prior to the dividend record date.

(b) Participant hereby agrees that the Company may withhold from the dividend equivalent amounts referred to in Paragraph 3(a) above amounts sufficient to satisfy the applicable tax withholding in respect of such dividend equivalent payments.
4. Subject to the terms and conditions of the ICP and this PBRS Agreement, and subject to Participant's continued employment, Participant shall be entitled to receive (and the Company shall deliver to Participant) the Shares within sixty (60) days following the Vesting Date(s) set forth herein, unless delivery of the Shares has been deferred in accordance with Paragraph 5 below (the date of such delivery of the Shares being hereafter referred to as the "Settlement Date"). Each "Vesting Date," except as otherwise provided in Paragraph 7, shall be in accordance with the schedule set forth below:
 - (a) one-third of the Shares underlying the RSU on the first anniversary of the Grant Date;
 - (b) one-third of the Shares underlying the RSU on the second anniversary of the Grant Date; and
 - (c) one-third of the Shares underlying the RSU on the third anniversary of the Grant Date.
5. (a) In accordance with rules promulgated by the Management Planning and Development Committee of the Board of Directors (the "Committee"), Participant, to the extent eligible under the CVS Caremark Deferred Stock Compensation Plan, may elect to defer delivery of Shares in settlement of RSUs covered by this PBRS Agreement. Any such deferred delivery date elected by Participant shall become the Settlement Date for purposes of this PBRS Agreement.

(b) Notwithstanding Paragraph 3(a), to the extent dividends are paid on such deferred Shares following the Vesting Date and prior to the Settlement Date, Participant shall be entitled to receive a number of additional deferred Shares equal to: (x) the amount of dividend per Share as declared by the Company's Board of Directors on the Company's common stock multiplied by (y) the number of deferred Shares held by Participant on the record date of such dividend, divided by (z) the FMV of a Share on such dividend payment date. The Company may decrease the number of additional deferred Shares calculated as provided herein by the number of Shares sufficient to satisfy the applicable tax withholding in respect of such dividend equivalent payments.

6. Except as may be elected by Participant, on Settlement Date the number of Shares to be delivered by the Company to Participant shall be reduced by the smallest number of Shares having a FMV at least equal to the dollar amount of Federal, state and local tax withholding required to be withheld by the Company with respect to such RSUs on such date. In lieu of having the number of Shares underlying the RSU reduced, Participant may elect to pay the Company for any amounts required to be withheld by the Company in connection with the vesting of the RSUs or delivery of the Shares pursuant to the PBRS Agreement. Such election may be made electronically at any time prior to the Settlement Date of the RSUs.

7. (a) Except as provided in Paragraphs 7 (b) – (g) below, if, for any reason, Participant's employment with the Company and any subsidiary of the Company terminates, all RSUs not then vested in accordance with Paragraph 4 above, shall be immediately forfeited.

(b) In the event Participant's employment with the Company and any subsidiary of the Company terminates by reason of death, RSUs not then vested in accordance with Paragraph 4 will become immediately vested and Vesting Date shall be the date of death.

(c) In the event Participant's employment with the Company and any subsidiary of the Company terminates by reason of a "Qualified Retirement", RSUs not yet vested in accordance with Section 4 will become immediately vested. The Vesting Date shall be the effective date of the Participant's termination of employment. "Qualified Retirement" shall mean a Participant's termination of his or her employment after attainment of age fifty-five (55) with at least ten (10) years of continuous service, or attainment of age sixty (60) with at least five (5) years of continuous service, provided that: (i) if Participant elects to terminate his or her employment voluntarily, Participant has provided the Company with at least twelve (12) months advance notice of the date of his or her termination of employment or such other term of advance notice as is determined by the Chief Human Resources Officer of the Company; or (ii) if the Company elects to terminate Participant's employment, then such termination is without cause.

(d) In the event Participant's employment with the Company and any subsidiary of the Company terminates by reason of total and permanent disability (as defined in the Company's Long-Term Disability Plan, or, if not defined in such Plan, as defined by the Social Security Administration), the RSUs shall vest on a pro rata basis as follows: the total number of RSUs vesting as of the termination date, which is the last day that the Participant is employed by the Company or any subsidiary of the Company shall be equal to (i) the number of RSUs granted on the Grant Date multiplied by the following fraction: (A) the numerator shall be the whole number of months elapsed as of the termination date since the Grant Date and (B) the denominator shall be thirty-six (36) minus (ii) the number of RSUs that had vested prior to the termination date. For purposes of this calculation, the number of months in the numerator in sub-section (A) above shall include any partial month in which Participant has worked. For example, if the time elapsed between the Grant Date and the termination date is eight months and five days, the numerator in sub-section (A) above shall be nine. The Vesting Date shall be the effective date of the Participant's termination of employment.

(e) In the event Participant's employment with the Company and any subsidiary of the Company terminates and Participant receives severance pay, RSUs not vested at the time of termination of employment but scheduled to vest during the severance period shall continue to vest during the severance period set forth in the agreement setting forth the severance pay in accordance with the schedule set forth in Section 4 of this PBRS Agreement. All RSUs not scheduled to vest during the specified severance period shall be forfeited on the employment termination date. During any severance period, Participant is eligible to receive dividend equivalents on outstanding RSUs as described in Paragraph 3(a) above.

(f) Notwithstanding the above, (i) the provisions of Section 10 of the ICP shall apply in the event of a Change in Control (as defined in such Section 10) and (ii) the provisions of Section 7(c)(iv) of the ICP shall apply.

(g) For purposes of this Section 7, transfer of Participant's employment from the Company to a subsidiary of the Company, transfer among or between subsidiaries, or transfer from a subsidiary to the Company shall not be treated as termination of employment.

8. An RSU does not represent an equity interest in the Company and carries no voting rights. Participant shall have no rights of a shareholder with respect to the RSUs until the Shares have been delivered to Participant.
9. Neither the execution and delivery hereof nor the granting of the award evidenced hereby shall constitute or be evidence of any agreement or understanding, express or implied, on the part of the Company or its subsidiaries to employ Participant for any specific period.
10. Any notice required to be given hereunder to the Company shall be addressed to: CVS Caremark Corporation, Senior Vice President, Chief Human Resources Officer, One CVS Drive, Woonsocket, RI 02895. Any notice required to be given hereunder to Participant shall be addressed to such Participant at the address shown on the records of the Company, subject to the right of either party hereafter to designate, in writing, to the other, some other address.
11. All decisions and interpretations made by the Board of Directors or the Committee with regard to any question arising hereunder or under the ICP shall be binding and conclusive on all persons. In the event of any inconsistency between the terms hereof and the provisions of the ICP, the ICP shall govern.
12. By accepting this Award, Participant acknowledges that a copy of the ICP has been made available for the Participant's reference, and agrees to be bound by the terms and conditions set forth in this Agreement and the ICP as in effect from time to time.
13. By accepting this Award, Participant further acknowledges that the Federal securities laws and/or Company's policies regarding trading in its securities may limit or restrict Participant's right to buy or sell Shares, including without limitation, sales of Shares acquired in connection with RSUs. Participant agrees to comply with such Federal securities law requirements and Company policies as such laws and policies may be amended from time to time.
14. The company intends 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 the regulations and guidance thereunder (collectively, "Section 409A") and that to the extent any provisions of this PBRS Agreement do not comply with Section 409A the Company will make such changes as it deems reasonable in order to comply with Section 409A. In all events, the provisions of CVS Caremark Corporation's 409A Universal Definitions Document are hereby incorporated by reference and, notwithstanding any other provision of the Plan or this PBRS Agreement to the contrary, to the extent required to avoid a violation of the applicable rules under Section 409A by reason of Section 409A(a)(2)(B)(i) of the Code, payment of any amounts subject to Section 409A shall be delayed until the first regular scheduled payroll date of the Company occurring after the expiration of the six (6) month period immediately following the date of termination of employment. For purposes of any provision of this PBRS Agreement providing for the payment of any amounts or benefits upon or following a termination of employment, references to the "termination of employment" (and corollary terms) shall be construed to refer to "separation from service" as determined under Section 409A.
15. The Award subject to this PBRS Agreement under the Plan and ICP shall be subject to the terms of the Company's Recoupment Policy as it exists from time to time, which may require the Participant to immediately repay to the Company the value of any pre-tax economic benefit that he or she may derive from the Award. By accepting this Award, Participant acknowledges that the Company's Recoupment Policy has been made available for Participant's reference.
16. This Agreement shall be governed by the laws of Delaware, without giving effect to its choice of law provisions.

By: s/ Lisa G. Bisaccia
Senior Vice President, Chief Human Resources Officer
CVS Caremark Corporation

2013 PBRS Agreement



**PARTNERSHIP EQUITY PROGRAM
Participant Purchased RSUs, Company Matching RSUs
and Company Matching Option Agreement**

AGREEMENT, by and between CVS Caremark Corporation, a Delaware corporation (the "Company"), and _____ ("Participant"), effective on _____, herein after known as the "Grant Date" (this "Agreement").

WHEREAS, Participant has been selected as an employee eligible to invest under the Company's Partnership Equity Program (the "PEP") and has elected in the Participant's Election Form to invest \$ _____ in the PEP, subject to the terms and conditions set forth in the PEP and in this Agreement;

WHEREAS, the Company desires to provide Participant with written evidence acknowledging Participant's investment under the PEP through Purchased RSUs and the corresponding grant of Company Matching RSUs and a Company Matching Option under the PEP.

WHEREAS, the provisions of the PEP and the Company's 2010 Incentive Compensation Plan (the "ICP") are hereby incorporated by reference and shall have the same force and effect as though fully set forth herein; Participant hereby acknowledges receipt of a copy of the PEP and the ICP at the time of receipt of this Agreement and agrees to be bound by such provisions (as presently in effect or hereafter amended); if any provision of this Agreement is inconsistent with a provision of the PEP or the ICP, the terms of the PEP and/or the ICP, or any successor thereto, shall control; capitalized terms used in this Agreement but not defined herein shall have the same meanings as in the PEP or the ICP, as the case may be; and on the Grant Date specified above, the Fair Market Value (the "FMV") of a share of CVS Caremark Common Stock ("Stock") equals \$ _____, which is the closing price on such date.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the parties hereto agree as follows:

I. PARTICIPANT PURCHASED RSUs AND COMPANY MATCHING RSUs

(A) **Participant Purchased RSUs.** The Company has received from Participant a completed Election Form authorizing the Company to apply designated future compensation of \$ _____ to the purchase of Participant Purchased RSUs on the Grant Date under the PEP, and the Company has accordingly credited Participant's Account under the PEP with the Participant Purchased RSUs. The Participant Purchased RSUs (including any Participant Purchased RSUs credited to Participant pursuant to Section I(C)(ii)) shall be fully vested at all times.

(B) **Crediting of Company Matching RSUs.** As of the Grant Date, the Company hereby awards the Participant, subject to the terms and conditions set forth and incorporated in this Agreement and the PEP, _____ Company Matching RSUs.

(C) **Additional Transactions in Participant Accounts.**

(i) Each Participant Purchased RSU and Company Matching RSU represents a right to a future payment of one share of Stock, subject to applicable tax withholding.

(ii) To the extent that dividends are declared and paid on shares of Stock while the Participant Purchased RSUs and Company Matching RSUs remain outstanding and prior to a Settlement Date (as defined below), the Company shall credit to Participant's Purchased RSU account and Company Matching RSU account (as applicable) an additional number of Participant Purchased RSUs and Company Matching RSUs calculated by multiplying (a) the amount of dividend per share of Stock paid by the Company's Board of Directors by (b) the number of Participant Purchased RSUs and Company Matching RSUs held by Participant on the record date of such dividend, and dividing the product by (c) the FMV of a share of Stock on such dividend payment date.

- (iii) Provided, however, that if such dividend is paid prior to the Vesting Date of Participant Purchased RSUs and/or the Company Matching RSUs, as set forth in Section I (D) below, Participant shall not be entitled to any payment in respect of such dividend unless Participant is still employed by the Company on such dividend payment date.
- (iv) Participant hereby agrees that, prior to the Settlement Date, the Company may withhold from the dividend equivalent amounts described in Section I(C)(ii) amounts sufficient to satisfy the applicable tax withholding in respect of such dividend equivalent payments, as applicable.

(D) Vesting of Company Matching RSUs. Subject to the terms and conditions of the PEP and this Agreement, and to Participant's continued employment through such date, the Company Matching RSUs, and the dividend equivalent amounts attributed to same, shall vest on the fifth (5th) anniversary of the Grant Date.

(E) Settlement.

- (i) A "Settlement Date" shall mean the date shares of Stock are delivered to Participant pursuant to this Agreement.
- (ii) Within fifteen (15) days following the earliest of the fifth (5th) anniversary of the Grant Date, Participant's death, termination of employment due to Participant's total and permanent disability (as defined in the Company's Long-Term Disability Plan, or, if not defined in such plan, as defined by the Social Security Administration), or a Change in Control, Participant shall be entitled to receive and the Company shall deliver to Participant the total number of shares of Stock (giving effect to Sections I(C)(ii) and I (C)(iv)) underlying the Company Matching RSUs vested as of such date. Notwithstanding the foregoing, no shares of Stock shall be delivered upon termination of employment unless such termination of employment is considered a "separation from service" (within the meaning given of Treasury Regulation § 1.409A-1(h) or successor guidance thereto).
- (iii) Subject to the rules promulgated by the Committee, the terms of the CVS Caremark Deferred Stock Compensation Plan and Section 409A, Participant may elect to defer settlement of Participant Purchased or Company Matching RSUs covered by this Agreement.

II. COMPANY MATCHING OPTION

(A) Grant of Option. The Company hereby awards and evidences the grant to Participant, subject to the terms and conditions incorporated in this Agreement, the right, and option, to purchase from the Company _____ shares of Stock, with an exercise price per share of Stock equal to the FMV of a share of Stock on the Grant Date, such Company Matching Option to be exercised as hereinafter provided. The Company Matching Option is a nonqualified option as defined in the ICP.

(B) Term of Company Matching Option. The term of this Company Matching Option shall be for a period of ten (10) years from the Grant Date, subject to the earlier termination of the Company Matching Option, as set forth in the ICP and in this Agreement.

(C) Vesting and Exercise of Company Matching Option

- (i) Prior to its expiration or termination, and except as otherwise provided herein, the Company Matching Option shall vest and may be exercised by Participant, provided Participant has maintained continuous employment with the Company or a subsidiary of the Company from the Grant Date until the applicable vesting date, within the following time limitations:
 - a. On or after three (3) years from the Grant Date, the Company Matching Option shall be vested and may be exercised as to one-third (1/3) of the shares of Stock subject to the Company Matching Option;
 - b. On or after four (4) years from the Grant Date, the Company Matching Option shall be vested and may be exercised as to an aggregate of two-thirds (2/3) of the shares of Stock subject to the Company Matching Option; and
 - c. On or after five (5) years from the Grant Date, the Company Matching Option shall be vested and may be exercised as to all of the shares of Stock subject to the Company Matching Option.
- (ii) The Company Matching Option, subject to the provisions of the ICP, shall be exercised by submitting a request to exercise to the Company's stock option administrator, in accordance with the Company's current exercise policies and procedures, specifying the number of shares of Stock to be purchased, which number may not be less than one hundred (100) shares of Stock (unless the number of shares

of Stock purchased is the total balance which is then exercisable). Unless the Company, in its discretion, establishes "cashless exercise" procedures and permits Participant entitled to exercise the Company Matching Option to utilize such "cashless exercise" procedures, Participant so exercising all or part of this Company Matching Option shall, at the time of exercise, tender to the Company cash or cash equivalent for the aggregate exercise price of the shares of Stock Participant has elected to purchase or certificates for shares of Stock of the Company already owned by Participant for at least six (6) months with an aggregate FMV at least equal to the aggregate exercise price of the shares of Stock Participant has elected to purchase, or a combination of the foregoing.

(D) Company Matching Option Expiration. The Company Matching Option shall be exercisable only as provided above and shall expire at the close of business on the the tenth (10th) anniversary of its Grant Date or such earlier expiration date as described in Section III below.

III. TERMINATION OF EMPLOYMENT AND CHANGE IN CONTROL

(A) Except as provided in Sections III(B)-(G) below, if, for any reason, Participant's employment with the Company and any subsidiary of the Company terminates, all Company Matching RSUs and the Company Matching Option to the extent not then vested in accordance with Sections I(D) and II(C)(ii) above shall be immediately forfeited.

(B) In the event Participant's employment with the Company and any subsidiary of the Company terminates by reason of death, Company Matching RSUs and the Company Matching Option will vest in full as of the date of death and the Company Matching Option shall be exercisable by the Participant's executor, administrator, personal representative or any person or persons who acquired the Company Matching Option directly from the Participant by bequest or inheritance during the twelve (12) month period following the date of death, as long as no government regulations or rules are violated by such accelerated vesting or exercise period; provided, however, that no Company Matching Option will be exercisable beyond its original term.

(C) In the event Participant's employment with the Company and any subsidiary of the Company terminates by reason of total and permanent disability (as defined in the Company's Long-Term Disability Plan, or, if not defined in such plan, as defined by the Social Security Administration), the Company Matching RSUs and the Company Matching Option shall vest on a pro rata basis as follows:

- (i) the Company Matching RSUs shall be vested as of Participant's employment termination date (which is the last day that the Participant is employed by the Company or any subsidiary of the Company) shall be equal to the number of Company Matching RSUs multiplied by the following fraction: (A) the numerator shall be the whole number of months elapsed since the Grant Date and (B) the denominator shall be sixty (60). For purposes of this calculation, the number of months in the numerator in sub-section (A) above shall include any partial month in which Participant has worked. For example, if the time elapsed between the Grant Date and the Separation Date is eight months and five days, the numerator in sub-section (A) above shall be nine.
- (ii) the Company Matching Option shall be vested as of Participant's employment termination date with respect to the number of shares of Stock subject to the Company Matching Option, multiplied by the following fraction: (A) the numerator shall be the whole number of months elapsed since the Grant Date and (B) the denominator shall be sixty (60). For purposes of this calculation, the number of months in the numerator in sub-section (A) above shall include any partial month in which Participant has worked. For example, if the time elapsed between the Grant Date and the Separation Date is eight months and five days, the numerator in sub-section (A) above shall be nine.
- (iii) the vested portion of the Company Matching Option shall be exercisable during the twelve (12) month period following Participant's employment termination date, as long as no government regulations or rules are violated by such accelerated vesting or exercise period; provided, however, that the Company Matching Option shall not be exercisable beyond its original term.

(D) Termination of Employment without Cause. In the event that Participant's employment with the Company and any subsidiary of the Company terminates and Participant receives severance pay pursuant to a written agreement with the Company, Participant's Company Matching RSUs and the Company Matching Option to the extent not vested at the time of the Participant's employment termination date but scheduled to vest during the severance period specified in the agreement providing for severance pay shall continue to vest and settle in accordance with the schedule set forth in Section I(D) and Section II(C)(i), respectively, of this Agreement. Participant will be responsible for any applicable withholding taxes that may become due as of Participant's employment termination date. All Company Matching RSUs and the Company Matching Option to the extent not scheduled to vest during the specified severance period shall be forfeited as of the Participant's employment termination date. To the extent vested, the Company

Matching Option shall be exercisable on or before the ninetieth (90th) day following the last day of the severance period, as long as no government regulations or rules are violated by such continued vesting or exercise period; provided, however, that the Company Matching Option shall not be exercisable beyond its original term.

(E) **Retirement.** “**Qualified Retirement**” shall mean termination of employment after attainment of age fifty-five (55) with at least ten (10) years of continuous service, or attainment of age sixty (60) with at least five (5) years of continuous service, provided that: (i) if Participant elects to terminate his or her employment voluntarily, Participant has provided the Company with at least twelve (12) months advance notice of his or her retirement date or such other term of advance notice as is determined by the Chief Human Resources Officer of the Company; or (ii) if the Company elects to terminate Participant’s employment, then such termination is without cause.

- (i) In the event Participant’s termination of employment qualifies as a Qualified Retirement, Participant may exercise the Company Matching Option to the extent vested as of Participant’s retirement date at any time within two (2) years after Participant’s retirement date, but not beyond the original term of the Company Matching Option. To the extent unvested as of the retirement date, the Company Matching Option shall be forfeited. The Committee shall have the authority in its sole discretion to make any interpretations, determinations, and/or take any administrative actions with respect to whether Participant has experienced a Qualified Retirement.
- (ii) Company Matching RSUs that are unvested as of the Participant’s retirement date are forfeited as of the retirement date.
- (iii) In the event Participant’s termination of employment qualifies as a Qualified Retirement and Participant also enters into a severance agreement with the Company, the terms of Section III(D) shall apply with respect to the vesting and settlement of the Company Matching RSUs and the Company Matching Option.

(F) The provisions of Section 10 of the ICP, or any successor thereto, shall apply in the event of a Change in Control.

(G) For purposes of this Section III, transfer of employment by Participant from the Company to a subsidiary of the Company, transfer among or between subsidiaries, transfer from a subsidiary to the Company or any other continuation of employment with the Company or a subsidiary after termination by a related entity shall not be treated as termination of employment.

IV. NON-COMPETITION. The grant of RSUs pursuant to this Agreement is expressly subject to and contingent upon the requirement that the Participant shall have fully executed and delivered to the Company the CVS Caremark Corporation Restrictive Covenant Agreement provided by the Company: provided that the Company in its sole discretion may waive such requirement if Participant is currently a party to another agreement with the Company setting forth restrictive covenants, such as non-competition, non-disclosure, and/or non-solicitation obligations. The applicable agreement containing the restrictive covenants the Company requires in connection with this Award, whether previously executed or required to be executed in connection with this Award, is hereafter referred to as the “Restrictive Covenant Agreement”.

If the Company intends to require Participant to execute and deliver a new Restrictive Covenant Agreement in connection with the Award hereunder, the Company shall provide such Restrictive Covenant Agreement to Participant and Participant agrees to execute and deliver such agreement by the deadline set forth by the Company, which shall be no less than ten days from the date it is provided to Participant. If Participant is currently subject to a Restrictive Covenant Agreement, Participant hereby affirms his or her agreement and intent to be bound by the restrictions in the Restrictive Covenant Agreement and to comply with all of its provisions.

Participant agrees that failure to execute and return the Restrictive Covenant Agreement, if required, shall result in the immediate and irrevocable forfeiture of the RSU Award hereunder and any right to receive dividend equivalents or Shares with respect thereto. Further, if Participant violates any provision of the applicable Restrictive Covenant Agreement, any unvested RSUs will be immediately and irrevocably forfeited, and no payment of any kind, including dividend equivalents or Shares, shall be payable with respect thereto. This Section shall not constitute the Company’s exclusive remedy for Participant’s violation of the Restrictive Covenant Agreement, and the Company may seek all available legal or equitable remedies in the event of Participant’s violation or threatened violation of the Restrictive Covenant Agreement, including injunctive relief.

V. MISCELLANEOUS.

(A) **Withholding Tax.** Participant may be subject to withholding taxes as a result of the exercise of the Company Matching Option or settlement of Participant Purchased RSUs or Company Matching RSUs. Except as may

otherwise be elected by Participant, the number of shares of Stock to be delivered by the Company to Participant shall be reduced by the smallest number of shares of Stock having a FMV at least equal to the dollar amount of federal, state or local tax withholding required to be withheld by the Company with respect to such exercise or settlement. Any shares of Stock so withheld or tendered will be valued as of the date they are withheld or tendered. In lieu of having the number of shares of Stock underlying the applicable award reduced, Participant may elect to pay to the Company in cash, promptly when the amount of such obligations become determinable, all applicable federal, state, local and foreign withholding taxes that result from each such exercise or settlement. Such election may be made electronically or in writing at any time prior to the exercise date or Settlement Date, as applicable.

(B) Recoupment. This Award under the ICP shall be subject to the terms of the Company's Recoupment Policy as it exists from time to time, which may require Participant to immediately repay to the Company the value of any pre-tax economic benefit that he or she may derive from the Award. By accepting this Award, Participant acknowledges that the Company's Recoupment Policy has been made available for Participant's reference.

(C) Certain Terms and Conditions of the PEP. Participant acknowledges and agrees that the terms and conditions of the PEP preclude all transfers of Participant Purchased RSUs, all Company Matching RSUs, and the Company Matching Option, except in limited circumstances in the event of Participant's death, impose a risk of forfeiture on Company Matching RSUs and the Company Matching Option, relieve the Company of certain obligations unless and until laws and regulations have been complied with, provide for adjustments to Participant Purchased RSUs, Company Matching RSUs, and the Company Matching Option upon the occurrence of certain events, and specify the state law which shall govern this Agreement, without giving effect to principles of conflict of laws.

(D) Binding Agreement. This Agreement shall be binding upon the heirs, executors, administrators, and successors of the parties. In particular, Participant's heirs, executors, administrators, and successors shall be subject to the terms and conditions of the PEP, ICP and this Agreement, and the Company may require any such person to execute an agreement or other documents acknowledging and agreeing to such terms and conditions as a condition precedent to any transfer of rights hereunder or shares of Stock issuable under the PEP, including upon exercise of the Company Matching Option, into the name of any such person.

(E) Integration Clause; Amendments to Agreement. This Agreement, together with the PEP and the ICP, constitutes the entire Agreement between the parties with respect to the PEP, and supersedes any prior agreements or documents with respect thereto. This Agreement may be amended, but no amendment or other change which may impose any additional obligation upon the Company or materially impair the rights of Participant under the PEP shall be valid unless contained in a writing signed by the party to be bound thereby.

(F) Employment. Neither the execution and delivery hereof nor the granting of the Company Matching RSUs or the Company Matching Option evidenced hereby shall constitute or be evidence of any agreement or understanding, expressed or implied, on the part of the Company or its subsidiaries to employ Participant for any specific period.

(G) Acceptance of Award. Acceptance may be submitted either electronically, if available, or in writing. The Company Matching Option may not be exercised unless and until the Company has received acceptance by the Participant of the terms and conditions set forth herein.

(H) Company Matching RSUs. Neither a Company Matching RSU nor a Participant Purchased RSU represents an equity interest in the Company and neither carries any voting rights. Except as otherwise specifically provided herein, Participant shall have no rights of a shareholder with respect to the RSUs until the related shares of Stock have been delivered to Participant.

(I) Section 409A. The Company intends 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 Code Section 409A the Company will make such changes in order to comply with Code Section 409A to the extent it considers reasonable. In all events, the provisions of CVS Caremark Corporation's 409A Universal Definitions Document are hereby incorporated by reference and to the extent required to avoid a violation of the applicable rules under 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 first business day of the seventh month immediately following the employment termination date. For purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment, references to the "termination of employment" (and corollary terms) shall be construed to refer to "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)). Notwithstanding the foregoing,

the Company makes no representations as to the tax treatment or consequences of any payment made hereunder, and Participant, by accepting this Award, acknowledges that Participant shall be solely responsible for same.

(J) Notices. Any notice hereunder to the Company shall be addressed to One CVS Drive, Woonsocket, RI 02895, Attention: Senior Vice President, Chief Human Resources Officer, and any notice required to be given hereunder to Participant shall be addressed to Participant at his or her address as shown on the records of the Company, subject to the right of either party to designate in writing some other address for notices.

By: s/Lisa G. Bisaccia
Senior Vice President
Chief Human Resources Officer
CVS CAREMARK CORPORATION

Accepted by: _____
Participant Signature

EMPLID

Date



PARTNERSHIP EQUITY PROGRAM
Participant Purchased Share, Company Matching RSUs
and Company Matching Option Agreement

AGREEMENT, by and between CVS Caremark Corporation, a Delaware corporation (the "Company"), and _____ ("Participant"), effective on _____, herein after known as the "Grant Date" (this "Agreement").

WHEREAS, Participant has been selected as an employee eligible to invest under the Company's Partnership Equity Program (the "PEP"), and has elected in the Participant's Election Form to invest \$ _____ in the PEP, subject to the terms and conditions set forth in the PEP and in this Agreement.

WHEREAS, the Company desires to provide Participant with written evidence acknowledging Participant's investment under the PEP through Participant Purchased Shares and the corresponding grant of Company Matching RSUs and a Company Matching Option under the PEP.

WHEREAS, the provisions of the PEP and the Company's 2010 Incentive Compensation Plan (the "ICP") are hereby incorporated by reference and shall have the same force and effect as though fully set forth herein; Participant hereby acknowledges receipt of a copy of the PEP and the ICP at the time of receipt of this Agreement and agrees to be bound by such provisions (as presently in effect or hereafter amended); if any provision of this Agreement is inconsistent with a provision of the PEP or the ICP, the terms of the PEP and/or the ICP, or any successor thereto, shall control; capitalized terms used in this Agreement but not defined herein shall have the same meanings as in the PEP, or the ICP, as the case may be; and on the Grant Date specified above, the Fair Market Value (the "FMV") of a share of CVS Caremark Common Stock ("Stock") equals \$ _____, which is the closing price on such date.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the parties hereto agree as follows:

I. PARTICIPANT PURCHASED SHARES AND COMPANY MATCHING RSUs

(A) Participant Purchased Shares.

- (i) The Company has received from Participant a completed Election Form pursuant to which the Participant elects to invest the amount of \$ _____ in Participant Purchased Shares under the PEP. Participant's Post-Tax Investment Date must occur within thirty (30) days of the Grant Date, and Participant must provide evidence to the Company of Participant's purchase and ownership of the Participant Purchased Shares with a value as of the Post-Tax Investment Date equal to the elected investment amount in accordance with the PEP within thirty (30) days of the Grant Date.
- (ii) Alternatively, Participant has demonstrated to the Company that he or she owns a sufficient number of shares of Stock in his or her own name, provided such shares of Stock are not held in a qualified 401(k) plan or in a nonqualified deferred stock compensation plan, having a FMV, on the Grant Date, at least equal to the amount elected by the Participant on the Election Form. In such event, such shares of Stock owned by Participant shall be designated as Participant Purchased Shares for purposes of this Agreement and the PEP.
- (iii) Participant must provide to the Company on a semi-annual basis until the fifth (5th) anniversary of the Grant Date a brokerage statement or other evidence satisfactory to the Company that he or she has continued to maintain the number of Participant Purchased Shares as were owned by Participant on the Grant Date and/or the Post-Tax Investment Date.
- (iv) In accordance with the PEP, if Participant disposes of Participant Purchased Shares prior to the fifth (5th) anniversary of the Grant Date, either in whole or in part, Participant will immediately forfeit a proportionate amount of the Company Matching RSUs and Company Matching Options that are invested as of the date of such disposition.

(B) **Crediting of Company Matching RSUs.** As of the Grant Date, the Company hereby awards the Participant, subject to the terms and conditions set forth and incorporated in this Agreement and the PEP, _____ Company Matching RSUs.

(C) **Additional Transactions in Participant Accounts.**

- (i) Each Company Matching RSU represents a right to a future payment of one share of Stock, subject to applicable tax withholding.
- (ii) To the extent that dividends are declared and paid on shares of Stock while the Company Matching RSUs remain outstanding and prior to a Settlement Date (as defined below), the Company shall credit to Participant's Matching RSU account (as applicable) an additional number of Company Matching RSUs calculated by multiplying (a) the amount of dividend per share of Stock paid by the Company's Board of Directors by (b) the number of Company Matching RSUs held by Participant on the record date of such dividend and dividing the product by (c) the FMV of a share of Stock on such dividend payment date.
- (iii) Provided, however, that if such dividend is paid prior to the Vesting Date of the Company Matching RSUs, as set forth in Section I (D) below, Participant shall not be entitled to any payment in respect of such dividend unless Participant is still employed by the Company on such dividend payment date.
- (iv) Participant hereby agrees that, prior to the Settlement Date, the Company may withhold from the dividend equivalent amounts described in Section I(C)(ii) amounts sufficient to satisfy the applicable tax withholding in respect of such dividend equivalent payments, as applicable.

(D) **Vesting of Company Matching RSUs.** Subject to the terms and conditions of the PEP and this Agreement, and to Participant's continued employment through such date, the Company Matching RSUs, and the dividend equivalent amounts attributed to same, shall vest on the fifth (5th) anniversary of the Grant Date.

(E) **Settlement.**

- (i) A "Settlement Date" shall mean the date shares of Stock are delivered to Participant pursuant to this Agreement.
- (ii) Within fifteen (15) days following the earliest of the fifth (5th) anniversary of the Grant Date, Participant's death, termination of employment due to Participant's total and permanent disability (as defined in the Company's Long-Term Disability Plan, or, if not defined in such plan, as defined by the Social Security Administration), or a Change in Control, Participant shall be entitled to receive and the Company shall deliver to Participant the total number of shares of Stock (giving effect to Sections I(C)(ii) and I (C)(iv)) underlying the Company Matching RSUs vested as of such date. Notwithstanding the foregoing, no shares of Stock shall be delivered upon termination of employment unless such termination of employment is considered a "separation from service" (within the meaning given of Treasury Regulation §1.409A-1(h) or successor guidance thereto).
- (iii) Subject to the rules promulgated by the Committee, the terms of the CVS Caremark Deferred Stock Compensation Plan and Section 409A, Participant may elect to defer settlement of Company Matching RSUs covered by this Agreement.

II. **COMPANY MATCHING OPTION**

(A) **Grant of Option.** The Company hereby awards and evidences the grant to Participant, subject to the terms and conditions incorporated in this Agreement, the right, and option, to purchase from the Company _____ shares of Stock, with an exercise price per share of Stock equal to the FMV of a share of Stock on the Grant Date, such Company Matching Option to be exercised as hereinafter provided. The Company Matching Option is a nonqualified option as defined in the ICP.

(B) **Term of Company Matching Option.** The term of this Company Matching Option shall be for a period of ten (10) years from the Grant Date, subject to the earlier termination of the Company Matching Option, as set forth in the ICP and in this Agreement.

(C) **Vesting and Exercise of Company Matching Option.**

- (i) Prior to its expiration or termination, and except as otherwise provided herein, the Company Matching Option shall vest and may be exercised by Participant, provided Participant has maintained continuous

employment with the Company or a subsidiary of the Company from the Grant Date until the applicable vesting date, within the following time limitations:

- a. On or after three (3) years from the Grant Date, the Company Matching Option shall be vested and may be exercised as to one-third (1/3) of the shares of Stock subject to the Company Matching Option;
 - b. On or after four (4) years from the Grant Date, the Company Matching Option shall be vested and may be exercised as to an aggregate of two-thirds (2/3) of the shares of Stock subject to the Company Matching Option; and
 - c. On or after five (5) years from the Grant Date, the Company Matching Option shall be vested and may be exercised as to all of the shares of Stock subject to the Company Matching Option.
- (ii) The Company Matching Option, subject to the provisions of the ICP, shall be exercised by submitting a request to exercise to the Company's stock option administrator, in accordance with the Company's current exercise policies and procedures, specifying the number of shares of Stock to be purchased, which number may not be less than one hundred (100) shares of Stock (unless the number of shares of Stock purchased is the total balance which is then exercisable). Unless the Company, in its discretion, establishes "cashless exercise" procedures and permits Participant entitled to exercise the Company Matching Option to utilize such "cashless exercise" procedures, Participant so exercising all or part of this Company Matching Option shall, at the time of exercise, tender to the Company cash or cash equivalent for the aggregate exercise price of the shares of Stock Participant has elected to purchase or certificates for shares of Stock of the Company already owned by Participant for at least six (6) months with an aggregate FMV at least equal to the aggregate exercise price of the shares of Stock Participant has elected to purchase, or a combination of the foregoing.

(D) Company Matching Option Expiration. The Company Matching Option shall be exercisable only as provided above and shall expire at the close of business on the tenth (10th) anniversary of its Grant Date or such earlier expiration date as described in Section III below.

III. TERMINATION OF EMPLOYMENT AND CHANGE IN CONTROL

- (A) Except as provided in Sections III(B)-(G) below, if, for any reason, Participant's employment with the Company and any subsidiary of the Company terminates, all Company Matching RSUs and the Company Matching Option to the extent not then vested in accordance with Sections I(D) and II(C)(i) above shall be immediately forfeited.

(B) In the event Participant's employment with the Company and any subsidiary of the Company terminates by reason of death, Company Matching RSUs and the Company Matching Option will vest in full as of the date of death, and the Company Matching Option shall be exercisable by the Participant's executor, administrator, personal representative or any person or persons who acquired the Company Matching Option directly from the Participant by bequest or inheritance during the twelve (12) month period following the date of death, as long as no government regulations or rules are violated by such accelerated vesting or exercise period; provided, however, that no Company Matching Option will be exercisable beyond its original term.

(C) In the event Participant's employment with the Company and any subsidiary of the Company terminates by reason of total and permanent disability (as defined in the Company's Long-Term Disability Plan, or, if not defined in such plan, as defined by the Social Security Administration), the Company Matching RSUs and the Company Matching Option shall vest on a pro rata basis as follows:

- (i) the Company Matching RSUs shall be vested as of Participant's employment termination date (which is the last day that the Participant is employed by the Company or any subsidiary of the Company) shall be equal to the number of Company Matching RSUs multiplied by the following fraction: (A) the numerator shall be the whole number of months elapsed since the Grant Date and (B) the denominator shall be sixty (60). For purposes of this calculation, the number of months in the numerator in sub-section (A) above shall include any partial month in which Participant has worked. For example, if the time elapsed between the Grant Date and the Separation Date is eight months and five days, the numerator in sub-section (A) above shall be nine.
- (ii) the Company Matching Option shall be vested as of Participant's employment termination date with respect to the number of shares of Stock subject to the Company Matching Option multiplied by the

following fraction: (A) the numerator shall be the whole number of months elapsed since the Grant Date and (B) the denominator shall be sixty (60). For purposes of this calculation, the number of months in the numerator in sub-section (A) above shall include any partial month in which Participant has worked. For example, if the time elapsed between the Grant Date and the Separation Date is eight months and five days, the numerator in sub-section (A) above shall be nine.

- (iii) the vested portion of the Company Matching Option shall be exercisable during the twelve (12) month period following Participant's employment termination date, as long as no government regulations or rules are violated by such accelerated vesting or exercise period; provided, however, that the Company Matching Option shall not be exercisable beyond its original term.

(D) Termination of Employment without Cause. In the event that Participant's employment with the Company and any subsidiary of the Company terminates and Participant receives severance pay pursuant to a written agreement with the Company, Participant's Company Matching RSUs and the Company Matching Option to the extent not vested at the time of the Participant's employment termination date but scheduled to vest during the severance period specified in the agreement providing for severance pay shall continue to vest and settle in accordance with the schedule set forth in Section I(D) and Section II(C)(i), respectively, of this Agreement. Participant will be responsible for any applicable withholding taxes that may become due as of Participant's employment termination date. All Company Matching RSUs and the Company Matching Option to the extent not scheduled to vest during the specified severance period shall be forfeited as of the Participant's employment termination date. To the extent vested, the Company Matching Option shall be exercisable on or before the ninetieth (90th) day following the last day of the severance period, as long as no government regulations or rules are violated by such continued vesting or exercise period; provided, however, that the Company Matching Option shall not be exercisable beyond its original term.

(E) Retirement. "Qualified Retirement" shall mean termination of employment after attainment of age fifty-five (55) with at least ten (10) years of continuous service, or attainment of age sixty (60) with at least five (5) years of continuous service, provided that: (i) if Participant elects to terminate his or her employment voluntarily, Participant has provided the Company with at least twelve (12) months advance notice of his or her retirement date or such other term of advance notice as is determined by the Chief Human Resources Officer of the Company; or (ii) if the Company elects to terminate Participant's employment, then such termination is without cause.

- (i) In the event Participant's termination of employment qualifies as a Qualified Retirement, Participant may exercise the Company Matching Option to the extent vested as of Participant's retirement date, at any time within two (2) years after Participant's retirement date, but not beyond the original term of the Company Matching Option. To the extent unvested as of the retirement date, the Company Matching Option shall be forfeited. The Committee shall have the authority in its sole discretion to make any interpretations, determinations, and/or take any administrative actions with respect to whether Participant has experienced a Qualified Retirement.
- (ii) Company Matching RSUs that are unvested as of the Participant's retirement date are forfeited as of the retirement date.
- (iii) In the event Participant's termination of employment qualifies as a Qualified Retirement and Participant also enters into a severance agreement with the Company, the terms of Section III(D) shall apply with respect to the vesting and settlement of the Company Matching RSUs and the Company Matching Option.

(F) The provisions of Section 10 of the ICP, or any successor thereto, shall apply in the event of a Change in Control.

(G) For purposes of this Section III, transfer of employment by Participant from the Company to a subsidiary of the Company, transfer among or between subsidiaries, transfer from a subsidiary to the Company or any other continuation of employment with the Company or a subsidiary after termination by a related entity shall not be treated as termination of employment.

IV. NON-COMPETITION. The grant of RSUs pursuant to this Agreement is expressly subject to and contingent upon the requirement that the Participant shall have fully executed and delivered to the Company the CVS Caremark Corporation Restrictive Covenant Agreement provided by the Company; provided that the Company in its sole discretion may waive such requirement if Participant is currently a party to another agreement with the Company setting forth restrictive covenants, such as non-competition, non-disclosure, and/or non-solicitation obligations. The applicable agreement containing the restrictive covenants the Company requires in connection with this Award, whether previously executed or required to be executed in connection with this Award, is hereafter referred to as the "Restrictive Covenant Agreement".

If the Company intends to require Participant to execute and deliver a new Restrictive Covenant Agreement in connection with the Award hereunder, the Company shall provide such Restrictive Covenant Agreement to Participant and Participant agrees to execute and deliver such agreement by the deadline set forth by the Company, which shall be no less than ten days from the date it is provided to Participant. If Participant is currently subject to a Restrictive Covenant Agreement, Participant hereby affirms his or her agreement and intent to be bound by the restrictions in the Restrictive Covenant Agreement and to comply with all of its provisions.

Participant agrees that failure to execute and return the Restrictive Covenant Agreement, if required, shall result in the immediate and irrevocable forfeiture of the RSU Award hereunder and any right to receive dividend equivalents or Shares with respect thereto. Further, if Participant violates any provision of the applicable Restrictive Covenant Agreement, any unvested RSUs will be immediately and irrevocably forfeited, and no payment of any kind, including dividend equivalents or Shares, shall be payable with respect thereto. This Section shall not constitute the Company's exclusive remedy for Participant's violation of the Restrictive Covenant Agreement, and the Company may seek all available legal or equitable remedies in the event of Participant's violation or threatened violation of the Restrictive Covenant Agreement, including injunctive relief.

V. MISCELLANEOUS.

(A) **Withholding Tax.** Participant may be subject to withholding taxes as a result of the exercise of the Company Matching Option or settlement of Company Matching RSUs. Except as may otherwise be elected by Participant, the number of shares of Stock to be delivered by the Company to Participant shall be reduced by the smallest number of shares of Stock having a FMV at least equal to the dollar amount of federal, state or local tax withholding required to be withheld by the Company with respect to such exercise or settlement. Any shares of Stock so withheld or tendered will be valued as of the date they are withheld or tendered. In lieu of having the number of shares of Stock underlying the applicable award reduced, Participant may elect to pay to the Company in cash, promptly when the amount of such obligations become determinable, all applicable federal, state, local and foreign withholding taxes that result from each such exercise or settlement. Such election may be made electronically or in writing at any time prior to the exercise date or Settlement Date, as applicable.

(B) **Recoupment.** This Award under the ICP shall be subject to the terms of the Company's Recoupment Policy as it exists from time to time, which may require Participant to immediately repay to the Company the value of any pre-tax economic benefit that he or she may derive from the Award. By accepting this Award, Participant acknowledges that the Company's Recoupment Policy has been made available for Participant's reference.

(C) **Certain Terms and Conditions of the PEP.** Participant acknowledges and agrees that the terms and conditions of the PEP preclude all transfers of Participant Purchased Shares, all Company Matching RSUs, and the Company Matching Option, except in limited circumstances in the event of Participant's death, impose a risk of forfeiture on Company Matching RSUs and the Company Matching Option, relieve the Company of certain obligations unless and until laws and regulations have been complied with, provide for adjustments to Participant Purchased Shares, Company Matching RSUs, and the Company Matching Option upon the occurrence of certain events, and specify the state law which shall govern this Agreement, without giving effect to principles of conflict of laws.

(D) **Binding Agreement.** This Agreement shall be binding upon the heirs, executors, administrators, and successors of the parties. In particular, Participant's heirs, executors, administrators, and successors shall be subject to the terms and conditions of the PEP, ICP, and this Agreement, and the Company may require any such person to execute an agreement or other documents acknowledging and agreeing to such terms and conditions as a condition precedent to any transfer of rights hereunder or shares of Stock issuable under the PEP, including upon exercise of the Company Matching Option, into the name of any such person.

(E) **Integration Clause; Amendments to Agreement.** This Agreement, together with the PEP and the ICP, constitutes the entire Agreement between the parties with respect to the PEP, and supersedes any prior agreements or documents with respect thereto. This Agreement may be amended, but no amendment or other change which may impose any additional obligation upon the Company or materially impair the rights of Participant under the PEP shall be valid unless contained in a writing signed by the party to be bound thereby.

(F) **Employment.** Neither the execution and delivery hereof nor the granting of the Company Matching RSUs or the Company Matching Option evidenced hereby shall constitute or be evidence of any agreement or understanding, expressed or implied, on the part of the Company or its subsidiaries to employ Participant for any specific period.

(G) **Acceptance of Award.** Acceptance may be submitted either electronically, if available, or in writing. The Company Matching Option may not be exercised unless and until the Company has received acceptance by the Participant of the terms and conditions set forth herein.

(H) **Company Matching RSUs.** Company Matching RSUs do not represent an equity interest in the Company and do not carry any voting rights. Except as otherwise specifically provided herein, Participant shall have no rights of a shareholder with respect to the RSUs until the related shares of Stock have been delivered to Participant.

(I) **Section 409A.** The Company intends 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 Code Section 409A the Company will make such changes in order to comply with Code Section 409A to the extent it considers reasonable. In all events, the provisions of CVS Caremark Corporation's 409A Universal Definitions Document are hereby incorporated by reference and to the extent required to avoid a violation of the applicable rules under 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 first business day of the seventh month immediately following the employment termination date. For purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment, references to the "termination of employment" (and corollary terms) shall be construed to refer to "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)). Notwithstanding the foregoing, the Company makes no representations as to the tax treatment or consequences of any payment made hereunder, and Participant, by accepting this Award, acknowledges that Participant shall be solely responsible for same.

(J) **Notices.** Any notice hereunder to the Company shall be addressed to One CVS Drive, Woonsocket, RI 02895, Attention: Senior Vice President, Chief Human Resources Officer, and any notice required to be given hereunder to Participant shall be addressed to Participant at his or her address as shown on the records of the Company, subject to the right of either party to designate in writing some other address for notices.

By: s/Lisa G. Bisaccia
Senior Vice President
Chief Human Resources Officer
CVS CAREMARK CORPORATION

Accepted by: _____
[NAME]

[Employee ID #]

Date



**CVS CAREMARK CORPORATION
BUSINESS PLANNING COMMITTEE
NONQUALIFIED STOCK OPTION AGREEMENT
ANNUAL GRANT**

GRANT DATE: APRIL __, 20__

1. GRANT OF OPTION. Pursuant to the provisions of the 2010 Incentive Compensation Plan, as amended (the "ICP") of CVS Caremark Corporation (the "Company"), on the date set forth above (the "Grant Date"), the Company has granted and hereby evidences the grant to the person named below (the "Participant"), subject to the terms and conditions set forth or incorporated in this Nonqualified Stock Option Agreement ("Agreement"), the right, and option, to purchase from the Company the aggregate number of shares of Common Stock (\$.01 par value) of the Company ("Shares") set forth below, at the purchase price indicated below (the "Option"), the Option to be exercised as hereinafter provided. The ICP is hereby made a part hereof and Participant agrees to be bound by all the provisions of the ICP. Capitalized terms not otherwise defined herein shall have the meaning assigned to such term(s) in the ICP. The provisions in this Agreement shall be read in concert with the Amended and Restated Employment Agreement dated as of December 22, 2008, as amended as of December 21, 2012 (the "Employment Agreement") and the ICP. In the event of any ambiguity concerning the coordination of the provisions of this Agreement and the Employment Agreement, the terms of the document which provide Participant with the most favorable treatment with respect to the Option shall govern. The Option is a nonqualified option as defined in the ICP. The Option purchase price per Share as stated below is equal to the Fair Market Value per Share as of the Grant Date.

| | |
|----------------------|--------------------|
| Participant: | Larry Merlo |
| Employee ID: | XXXXXX |
| Shares: | XXXXXX |
| Option Price: | \$XX.XX |

2. TERM OF OPTION. The term of the Option shall be for a period of seven (7) years from the Grant Date, subject to the earlier termination of the Option, as set forth in the ICP and in this Agreement. No portion of the Option shall be exercisable after the term of the Option.

3. EXERCISE OF OPTION. (a) The Option, subject to the provisions of the ICP, shall be exercised by submitting a request to exercise to the Company's stock option administrator, in accordance with the Company's current exercise policies and procedures, specifying the number of Shares to be purchased, which number may not be less than one hundred (100) Shares (unless the number of Shares purchased is the total balance which is then exercisable). Unless the Company, in its discretion, establishes "cashless exercise" procedures and permits Participant entitled to exercise the Option to utilize such "cashless exercise" procedures, Participant so exercising all or part of this Option shall, at the time of exercise, tender to the Company cash or cash equivalent for the aggregate option price of the Shares Participant has elected to purchase or certificates for Shares of Common Stock of the Company owned by Participant for at least six (6) months with a fair market value at least equal to the aggregate option price of the Shares Participant has elected to purchase, or a combination of the foregoing.

(b) Prior to its expiration or termination and except as otherwise provided herein, the Option will become vested in accordance with the vesting schedule set forth below and any vested Option will be exercisable by Participant so long as Participant has maintained continuous employment with the Company or a subsidiary of the Company from the Grant Date through the exercise date:

- (i) 25% of the Option shall vest on the 1st anniversary of the Grant Date;
- (ii) 25% of the Option shall vest on the 2nd anniversary of the Grant Date;
- (iii) 25% of the Option shall vest on the 3rd anniversary of the Grant Date;
- (iv) 25% of the Option shall vest on the 4th anniversary of the Grant Date.

4. **TAXES.** If, upon the exercise of an Option, there shall be payable by the Company any amount for tax withholding, the Company shall have the right to require Participant to pay the amount of such taxes immediately, upon notification from the Company, before a certificate for the Shares purchased is delivered to Participant pursuant to such Option. Furthermore, the Company may elect to deduct such taxes from any other amounts then payable to Participant in cash or in Shares or from any other amounts payable any time thereafter to Participant.

5. **TRANSFERABILITY.** The Option may be transferred to and may thereafter be exercised by one or more members of Participant's immediate family, by a trust established by Participant for the benefit of one or more members of Participant's immediate family, or by a partnership of Company of which the only owners are members of Participant's immediate family (the "Transferee(s)"); provided, that no portion of the Option may be transferred until such time as it becomes vested and exercisable pursuant to Section 3(b) hereof, and further provided that no more than fifty percent (50%) of the exercisable Option may be transferred by Participant. An "immediate family member" shall mean Participant's spouse, parents, children, grandchildren and the spouses of such parents, children and grandchildren. Transferee will be subject to all terms and conditions applicable to the Option prior to its transfer. Transferee may not again transfer the Option. In order to transfer the Option, Participant must notify the Company in the form of a "Notice of Transfer of Nonqualified Stock Option" (which form may be obtained from the Company's Legal Department) of such transfer and include the name, address and social security number of Transferee, as well as the relationship of Transferee to Participant.

6. **TERMINATION OF EMPLOYMENT.** Unless otherwise provided for in the ICP, this Agreement or the Employment Agreement as amended from time to time, the Option (whether vested or unvested), to the extent not yet exercised, shall be forfeited immediately upon Participant's termination of employment with the Company or any of its subsidiaries.

(a) With respect to terminations addressed in the Employment Agreement, the provisions of the Employment Agreement as amended from time to time shall apply and continue to apply, except as set forth in this Section 6, notwithstanding any termination of the Employment Agreement.

(b) **Retirement.** In the event of an "Approved Early Retirement" or "Normal Retirement" as such terms are defined in the Employment Agreement, the Option shall vest and be exercisable in accordance with Section 10(f) of the Employment Agreement as amended from time to time; provided that the Option, to the extent fully vested as of the Approved Early Retirement or Normal Retirement shall remain exercisable for the three (3) year period immediately following the Approved Early Retirement or Normal Retirement, but not beyond the original term of the Option.

(c) **Disability.** Notwithstanding any contrary provisions of any agreement (including the Employment Agreement), in the event Participant's employment with the Company and any subsidiary of the Company terminates by reason of total and permanent disability (as defined in the Company's Long-Term Disability Plan, or, if not defined in such Plan, as defined by the Social Security Administration), the Option shall vest as follows: the Option shall vest with respect to a total number of Shares as of the employment termination date (which is the last day that Participant is employed by the Company and any subsidiary of the Company), equal to (i) the number of Shares subject to the Option on the Grant Date *multiplied* by the following fraction: (A) the numerator shall be the whole number of months elapsed as of the employment termination date since the Grant Date and (B) the denominator shall be forty-eight (48), *minus* (ii) the number of Shares with respect to which the Option vested prior to the employment termination date (whether or not the Option was previously exercised). For purposes of this calculation, the number of months in the numerator in sub-section (A) above shall include any partial month in which Participant has worked. For example, if the time elapsed between the Grant Date and the employment termination date is eight months and five days, the numerator in sub-section (A) above shall be nine. The Option may be exercised to the extent vested at any time within one (1) year of Participant's employment termination date but not beyond the original term of the Option.

7. **ACCEPTANCE OF AWARD.** The Option may not be exercised unless and until the Company has received formal acceptance by Participant of the terms and conditions set forth herein as required by the Company. Acceptance may be submitted either electronically, if available, or in writing.

8. **NOTICE.** Any notice required to be given hereunder to the Company shall be addressed to the Company, attention Senior Vice President, Chief Human Resources Officer, One CVS Drive, Woonsocket, RI 02895, and any notice required to be given hereunder to Participant shall be addressed to Participant at his address as shown on the records of the Company, subject to the right of either party hereafter to designate in writing to the other some other address.

9. **RECOUPMENT OF OPTION AWARD.** The Option shall be subject to the terms of the Company's Recoupment Policy as it exists from time to time, which may require the Participant to immediately repay to the Company the value of any pre-tax economic benefit that he may derive from the grant of the Option hereunder. By accepting this Option grant, Participant acknowledges that a copy of the Company's Recoupment Policy has been made available for the Participant's reference.

10. **COMMITTEE AUTHORITY.** The Committee shall have the authority, in its sole discretion, to make any interpretations, determinations, and/or take any administrative actions with respect to the ICP and this Agreement, including whether any post-termination payments to Participant shall be deemed severance pay, the duration of any severance period, and/or whether a termination was without cause.

11. **GOVERNING LAW.** This Nonqualified Stock Option Agreement and the Option evidenced hereby shall be governed by the laws of Delaware, without giving effect to principles of conflict of laws.

BY: _____
Lisa G. Bisaccia
Senior Vice President, Chief Human Resources Officer
CVS Caremark Corporation

Accepted By: _____
Larry J. Merlo

Date

2013 Merlo Stock Option Agreement



**CVS CAREMARK CORPORATION
 BUSINESS PLANNING COMMITTEE
 RESTRICTED STOCK UNIT AGREEMENT – ANNUAL GRANT
 GRANT DATE: APRIL __, 20__**

1. Pursuant and subject to the provisions of the 2010 Incentive Compensation Plan, as amended (the "ICP") of CVS Caremark Corporation (the "Company"), on the date set forth above (the "Grant Date"), the Company has awarded and hereby evidences the Restricted Stock Unit ("RSU") Award to the person named below (the "Participant"), subject to the terms and conditions set forth and incorporated in this Restricted Stock Unit agreement (the "Agreement"). The ICP is hereby made a part hereof and Participant agrees to be bound by all the provisions of the ICP. Capitalized terms not otherwise defined herein shall have the meaning assigned to such term(s) in the ICP. Except as expressly provided below in Sections 4 and 7, upon termination of employment the treatment of RSUs granted pursuant to this Agreement shall be governed under and subject to the terms of the Amended and Restated Employment Agreement between the Company and the Participant dated December 22, 2008, as amended December 21, 2012 (the "Employment Agreement"). On the Grant Date specified above, the Fair Market Value (the "FMV"), which is the Closing Price of the Company's common stock on the Grant Date, of each RSU equals \$XX.XX.

| | |
|---------------------|--------------------|
| Participant: | Larry Merlo |
| Employee ID: | XXXXXXX |
| RSUs (#): | XXXXX |

2. Each RSU represents a right to a future payment of one share ("Share") of Common Stock (\$0.01 par value) of the Company, subject to required tax withholding.
3. (a) To the extent dividends are paid on Shares while the RSUs remain outstanding and prior to the Settlement Date (as defined below), subject to Section 5(b), Participant shall be entitled to receive a cash payment in an amount equivalent to the cash dividends with respect to the number of Shares covered by the RSUs; provided, however, that no dividends shall be payable with respect to any RSUs forfeited on or prior to the dividend record date.

(b) Participant hereby agrees that the Company may withhold from the dividend equivalent amounts referred to in Paragraph 3(a) above amounts sufficient to satisfy the applicable tax withholding in respect of such dividend equivalent payments.
4. Subject to the terms and conditions of the ICP and this Agreement and subject to Participant's continued employment, Participant shall be entitled to receive (and the Company shall deliver to Participant) the Shares within sixty (60) days following the Vesting Date(s) set forth herein (or in the Employment Agreement, as the case may be), unless delivery of the Shares has been deferred in accordance with Section 5 below (the date of such delivery of the Shares being hereafter referred to as the "Settlement Date"). Each "Vesting Date", except as otherwise provided in Section 7, shall be in accordance with the schedule set forth below:
 - (a) 50% of the Shares underlying the RSU shall vest on the third anniversary of the Grant Date ("Tranche A");
 - (b) 50% of the Shares underlying the RSU shall vest on the fifth anniversary of the Grant Date ("Tranche B");

Provided, however, that a fraction of the Shares in Tranche A and Tranche B shall vest earlier on the effective date of the Participant's Approved Early Retirement or Normal Retirement (as such terms are defined in the Employment Agreement) so long as:

- (i) Participant provides at least 12 months' advance notice to the Committee of his intent to take Approved Early Retirement or Normal Retirement,
- (ii) Participant fully cooperates with the Company in transitioning his duties during the period between the disclosure to the Committee of his intent to take Approved Early Retirement or Normal Retirement and his retirement date,
- (iii) Participant continues to be employed by the Company through the Approved Early Retirement or Normal Retirement date, and
- (iv) the Committee approves such vesting terms (such approval not to be unreasonably withheld), and, in the case of an Approved Early Retirement, approves such retirement.

If the foregoing conditions are satisfied, the number of RSUs that vest on the Approved Early Retirement or Normal Retirement date shall be calculated as follows: (A) the number of Shares from Tranche A that vest shall be the total number of Shares in Tranche A multiplied by a fraction in which the numerator is the whole number of months worked from the Grant Date through the Approved Early Retirement or Normal Retirement date and the denominator is thirty-six (36); (B) the number of Shares from Tranche B that vest shall be the total number of Shares in Tranche B multiplied by a fraction in which the numerator is the whole number of months worked from the Grant Date through the Approved Early Retirement or Normal Retirement date and the denominator is sixty (60). For purposes of this calculation, the number of months in the numerator in sub-section (A) above shall include any partial month in which Participant has worked. The Vesting Date shall be the effective date of the Participant's termination of employment as a result of Approved Early Retirement or Normal Retirement.

5. (a) In accordance with rules promulgated by the Management Planning and Development Committee of the Board of Directors (the "Committee"), Participant, to the extent eligible under the CVS Caremark Deferred Stock Compensation Plan, may elect to defer delivery of Shares in settlement of RSUs covered by this Agreement. Any such deferred delivery date elected by Participant shall become the Settlement Date for purposes of this Agreement.

(b) Notwithstanding Section 3(a), to the extent dividends are paid on such deferred Shares following the Vesting Date and prior to the Settlement Date, Participant shall be entitled to receive a number of additional deferred Shares equal to: (x) the amount of dividend per Share as declared by the Company's Board of Directors on the Company's common stock multiplied by (y) the number of deferred Shares held by Participant on the record date of such dividend, divided by (z) the FMV of a Share on such dividend payment date. The Company may decrease the number of additional deferred Shares calculated as provided herein by the number of Shares sufficient to satisfy the applicable tax withholding in respect of such dividend equivalent payments.
6. Except as may be elected by Participant, on the Settlement Date the number of Shares to be delivered by the Company to Participant shall be reduced by the smallest number of Shares having a FMV at least equal to the dollar amount of Federal, state and local tax withholding required to be withheld by the Company with respect to such RSUs on such date. In lieu of having the number of Shares underlying the RSU reduced, Participant may elect to pay the Company for any amounts required to be withheld by the Company in connection with the vesting of the RSUs or delivery of the Shares pursuant to the Agreement. Such election may be made electronically at any time prior to the Settlement Date of the RSUs.
7. (a) Except as provided in Paragraphs 7(b) – (g) below, if, for any reason other than Approved Early Retirement or Normal Retirement, Participant's employment with the Company and any subsidiary of the Company terminates, all RSUs not then vested in accordance with Section 4 above shall be treated in accordance with the Employment Agreement. In the event of a conflict between the Employment Agreement and the provisions in Sections 7(b) – (g) of this Agreement, this Agreement shall control.

(b) In the event Participant's employment with the Company and any subsidiary of the Company, terminates for Cause (as defined in the Employment Agreement) or as a result of voluntary termination (as described in Section 10(d) of the Employment Agreement), all RSUs not then vested shall be immediately forfeited.

(c) (i) In the event Participant's employment with the Company and any subsidiary of the Company terminates prior to the third anniversary of the Grant Date, by reason of total and permanent disability (as defined in the Company's Long-Term Disability Plan, or, if not defined in such Plan, as defined by the Social Security Administration), the RSUs shall vest on a pro rata basis as follows: the total number of RSUs vested as of the termination date, which is the last date that the Participant is employed by the Company or any subsidiary of the Company, shall be equal to the number of RSUs granted on the Grant Date multiplied by the following fraction: (A) the numerator shall be the whole number of months elapsed Participant's termination date and (B) the denominator shall be thirty-six (36). For purposes of this calculation, the number of months in the numerator in sub-section (A) above shall include any partial month in which Participant has worked. For example, if the time elapsed between the Grant Date and the termination date is eight months and five days, the numerator in sub-section (A) above shall be nine. The Vesting Date shall be the effective date of the Participant's termination of employment.

(ii) In the event the Participant's employment with the Company and any subsidiary of the Company terminates on or after the third anniversary, but prior to the fifth anniversary, of the Grant Date, by reason of total and permanent disability (as defined in the Company's Long-Term Disability Plan, or, if not defined in such Plan, as defined by the Social Security Administration), the remaining unvested RSUs shall vest on a pro rata basis according to the following formula: 50% of the RSUs granted on the Grant Date multiplied by the following fraction: (C) the numerator shall be the whole number of months elapsed as of the termination date since the Grant Date as of Participant's termination date and (D) the denominator shall be sixty (60). For purposes of this calculation, the number of months in the numerator in sub-section (C) above shall include any partial month in which Participant has worked. For example, if the time elapsed between the Grant Date and the termination date is fifty-four months and five days, the numerator in sub-section (C) above shall be fifty-five. The Vesting Date shall be the effective date of the Participant's termination of employment.

(d) Notwithstanding the above, (i) the provisions of Section 10 of the ICP shall apply in the event of a Change in Control (as defined in such Section 10) and (ii) the provisions of Section 7(e)(iv) of the ICP shall apply.

(e) For purposes of this Section 7, transfer of Participant's employment from the Company to a subsidiary of the Company, transfer among or between subsidiaries, or transfer from a subsidiary to the Company shall not be treated as termination of employment.

8. An RSU does not represent an equity interest in the Company and carries no voting rights. Participant shall have no rights of a shareholder with respect to the RSUs until the Shares have been delivered to Participant.
9. Neither the execution and delivery hereof nor the granting of the award evidenced hereby shall constitute or be evidence of any agreement or understanding, express or implied, on the part of the Company or its subsidiaries to employ Participant for any specific period.
10. Any notice required to be given hereunder to the Company shall be addressed to: CVS Caremark Corporation, Senior Vice President, Chief Human Resources Officer, One CVS Drive, Woonsocket, RI 02895. Any notice required to be given hereunder to Participant shall be addressed to such Participant at the address shown on the records of the Company, subject to the right of either party hereafter to designate, in writing, to the other, some other address.
11. All decisions and interpretations made by the Board of Directors or the Committee with regard to any question arising hereunder or under the ICP shall be binding and conclusive on all persons. In the event of any inconsistency between the terms hereof and the provisions of the ICP, the ICP shall govern.

12. By accepting this Award, Participant acknowledges that a copy of the ICP has been made available by the Company for Participant's reference and agrees to be bound by the terms and conditions set forth in this Agreement and the ICP as in effect from time to time.
13. By accepting this Award, Participant further acknowledges that the Federal securities laws and/or Company's policies regarding trading in its securities may limit or restrict Participant's right to trade Shares, including without limitation, sales of Shares acquired in connection with RSUs. Participant agrees to comply with such Federal securities law requirements and Company policies as such laws and policies may be amended from time to time.
14. The Company intends 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 Code Section 409A the Company will make such changes in order to comply with Code Section 409A to the extent it considers reasonable. In all events, the provisions of CVS Caremark Corporation's 409A Universal Definitions Document are hereby incorporated by reference and 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 first business day of the seventh month immediately following the employment termination date. For purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment, references to a "termination of employment" (and corollary terms) shall be construed to refer to a "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)). Notwithstanding the foregoing, the Company makes no representations as to the tax treatment or consequences of any payment made hereunder, and Participant, by accepting this Award, acknowledges that Participant shall be solely responsible for same.
15. The Award subject to this RSU Agreement under the ICP shall be subject to the terms of the Company's Recoupment Policy as it exists from time to time, which may require the Participant to immediately repay to the Company the value of any pre-tax economic benefit that he may derive from the Award. By accepting this Award Participant acknowledges that the Company's Recoupment Policy has been made available for the Participant's reference.
16. This Agreement shall be governed by the laws of Delaware, without giving effect to its choice of law provisions.
17. This Agreement shall be fully effective only upon the Participant's formal acceptance of the terms and conditions set forth above as required by the Company.

By: _____
Lisa G. Bisaccia
Senior Vice President, Chief Human Resources Officer
CVS Caremark Corporation

Accepted By: _____
Larry J. Merlo

Date

SEPARATION AGREEMENT

This Separation Agreement (“Agreement”) between Mark Cosby (“Executive”) and CVS Pharmacy, Inc. (“CVS Caremark” or the “Company”) shall be effective as of the end of the Revocation Period defined herein (the “Effective Date”).

WHEREAS, Executive and CVS Caremark desire to enter into an agreement setting forth the terms of Executive’s separation from the Company;

WHEREAS, Executive has thoroughly reviewed this Agreement, has entered into it voluntarily, and has consulted with legal counsel of Executive’s choice before signing this Agreement.

NOW THEREFORE, in consideration of the covenants below, including but not limited to the General Release of Claims, and for other good and valuable consideration as set forth in this Agreement, Executive and the Company agree as follows:

1. **SEPARATION OF EMPLOYMENT**. Executive’s last date of employment with the Company shall be December 31, 2013 (the “Separation Date”). Executive agrees that, as of the Separation Date or earlier if requested by the Company, he shall cease serving in all positions at the Company and any of its affiliates, including on any of their boards or committees, and, if requested by the Company, Executive will execute such documents to evidence such cessation of service.
2. **SEVERANCE PAY**. CVS Caremark shall pay Executive severance pay in the form of salary continuation payments at the rate in effect as of the Separation Date during the “Severance Period,” which is the 18 month period beginning immediately after the Separation Date. The final day of the Severance Period is the “Severance End Date.” Subject to Section 19, severance pay will be paid in accordance with the Company’s regular payroll practices.
3. **BENEFITS**. Effective immediately after the Separation Date, Executive may elect to continue Executive’s Medical (including prescription), Dental, and/or Vision coverage in effect as of the Separation Date pursuant to COBRA. If Executive properly and timely elects to continue health care coverage under COBRA, CVS Caremark shall subsidize such coverage, at the level in effect as of the day immediately preceding the Separation Date, by paying the health insurance provider an amount equal to the current Company contribution for active employees for coverage until the earlier of the Severance End Date or the date on which Executive first becomes eligible for health care coverage from another employer, whichever is earlier. After the Severance End Date or the date on which Executive first becomes eligible for health care coverage from another employer, whichever is earlier, Executive shall be solely responsible for any health insurance Executive elects to obtain, and, if eligible, Executive may continue coverage under Employer’s plans at the full premium rate plus a 2% administrative fee to the extent permitted under COBRA. Executive understands and agrees that CVS Caremark may modify its premium structure, the terms of its Plans, and the coverage of the Plans at any time subject only to applicable law.
4. **MANAGEMENT INCENTIVE AWARD**. Executive shall be eligible for an Incentive Award for performance year 2013 pursuant to the terms of the Management Incentive Plan (“MIP”). The amount of the award, if any, shall be determined in accordance with the terms of the MIP, and Executive acknowledges that an award is not guaranteed under the MIP.

Execution Copy

1

.

5. **STOCK OPTIONS AND RESTRICTED STOCK UNITS.** The terms and conditions of Executive's previously-granted stock options and restricted stock units shall be governed by the CVS Caremark Corporation Incentive Compensation Plan, as amended, and the applicable award agreements, in each case applying those terms and conditions applicable upon a termination without cause and/or pursuant to which an individual is receiving severance.
6. **LONG TERM INCENTIVE PLAN.** Executive's awards under the Long Term Incentive Plan (LTIP) for the performance cycles of 2011-2013, 2012-2014, and 2013-2015 shall be governed by the applicable plan documents. Executive acknowledges that the awards related to performance years 2012-2014 and 2013-2015 are subject to pro-ration based on Executive's length of employment during the plan cycle. Executive is not eligible to participate in any other LTIP cycles. For the avoidance of doubt, Executive's separation for the purpose of the LTIP shall be treated as a termination without cause.
7. **OUTPLACEMENT SERVICES.** CVS Caremark will provide Executive with executive outplacement services in the greater Boston area through an outplacement vendor selected and paid by CVS Caremark. Such services shall be available for a six month period so long as use of the services is initiated during the Severance Period.
8. **NO OTHER PAY OR BENEFITS; SUFFICIENCY OF CONSIDERATION.** Promptly following the Separation Date, CVS Caremark will pay Executive any remaining accrued but unused myTime in accordance with CVS Caremark policy. Except as specifically set forth in this Agreement, Executive shall be entitled to no other wages, salary, vacation pay, myTime, PTO, bonuses, incentive awards, commissions, benefits, or any other compensation of any kind, except as required by law. Executive acknowledges that the promises described in this Agreement are in excess of any earned wages and any other amounts due and owing to Executive, are in full satisfaction of any obligations to Executive under the Offer Letter between Executive and CVS Caremark Corporation dated August 5, 2011 (the "Offer Letter"), and are good and valuable consideration for the general release of claims and the other covenants in this Agreement.
9. **EXECUTIVE COVENANTS.**
 - a) Executive acknowledges and agrees that the 2012 Enterprise Non -Competition, Non-Disclosure and Developments Agreement executed by Executive on May 18, 2012 (the "Restrictive Covenant") is a valid agreement enforced by adequate consideration. Executive further agrees that the consideration provided by the Company in this Agreement is contingent on Executive's compliance with his obligations under the Restrictive Covenant, and Executive affirms his obligations as set forth in the Restrictive Covenant and his intent to be bound by those obligations.
 - b) Executive further certifies that, during the term of employment with the Company, Executive has complied with all applicable laws and regulations and that, as of the date Executive signs below, Executive has notified the Company of any actual or potential violations of applicable laws or regulations about which Executive has information.
 - c) Executive will not make any statements that disparage the business or reputation of the Company, and/or any officer, director or employee of the Company. Notwithstanding the foregoing, nothing in this Agreement shall prohibit Executive from (i) making truthful statements or disclosures that are required by applicable law, regulation or legal process, subject to prior notice to the

Company to the extent permitted under applicable law; (ii) requesting or receiving confidential legal advice; or (iii) cooperating, participating or filing charges with any federal, state or local government agency enforcing discrimination laws, including the US Equal Employment Opportunity Commission (“EEOC”).

- 10. COMPANY COVENANT.** The Company agrees that it will instruct Larry Merlo and the immediate successor to the President of CVS/pharmacy position (the “Named Executives”) not to make, and not to direct any other employee of the Company to make, any disparaging statements regarding the Executive. Notwithstanding the foregoing, nothing in this Agreement shall prohibit (i) any officer, director or employee of the Company from making truthful statements or disclosures that are required by applicable law, regulation or legal process, or (ii) any of the Named Executives from requesting or receiving confidential legal advice or from making confidential statements to one another, to members of the Company ’s Business Planning Committee, or to the Company ’s directors concerning the Executive.
- 11. GENERAL RELEASE OF CLAIMS.** Executive hereby releases and forever discharges CVS Caremark Corporation and each of its divisions, affiliates, subsidiaries and operating companies, and the respective officers, directors, employees, agents and affiliates of each of them (collectively, the “Released Parties”) from any and all causes of action, lawsuits, proceedings, complaints, charges, debts, contracts, judgments, damages, claims, and attorneys fees against the Released Parties, whether known or unknown, which Executive ever had, now has or which Executive or Executive ’s heirs, executors, administrators, successors or assigns may have prior to the date this Agreement is signed by Executive, due to any matter whatsoever relating to Executive’s employment, compensation, benefits, and/or termination of Executive ’s employment with CVS Caremark (collectively, the “Released Claims”). The Released Claims include, but are not limited to, any claim that any of the Released Parties violated the National Labor Relations Act, Title VII of the Civil Rights Act of 1964, Sections 1981 through 1988 of Title 42 of the United States Code, the Executive Retirement Income Security Act, the Immigration Reform and Control Act, the Americans with Disabilities Act, the Age Discrimination in Employment Act, the Family and Medical Leave Act, and/or the Occupational Safety and Health Act; any claim that any of the Released Parties violated any other federal, state or local statute, law, regulation or ordinance; any claim of unlawful discrimination of any kind; any public policy, contract, tort, or common law claim; and any claim for costs, fees, or other expenses including attorney ’s fees incurred in these matters. Notwithstanding the foregoing, this release does not include any rights that Executive cannot lawfully waive, and will not release any rights Executive has to (a) defense and indemnification from CVS Caremark or its insurers for actions taken by Executive in the course and scope of Executive ’s employment with CVS Caremark to the extent permitted by applicable law and the governing documents of CVS Caremark Corporation; (b) claims, actions, or rights arising under or to enforce the terms of this Agreement; and/or (c) vested benefits under any retirement or pension plan and/or deferred compensation plan.
- 12. NO PENDING ACTIONS; COVENANT NOT TO SUE.** Nothing in this Agreement is intended to or shall interfere with Executive’s right to challenge the Company’s compliance with the waiver requirements of the Age Discrimination in Employment Act, as amended by the Older Workers Benefit Protection Act. Moreover, nothing in this Agreement is intended to or shall interfere with Executive’s right to file a charge or participate or cooperate in an investigation or proceeding with the EEOC or any other federal, state or local agency enforcing employment discrimination laws.

Executive retains the right to participate in any such action, and retains the right to communicate with the EEOC and any other federal, state or local agency enforcing discrimination laws and such communication shall not be limited by any provision in this Agreement. Executive shall not, however, be entitled to receive any relief, recovery or monies in connection with any Released Claim brought against any of the Released Parties, regardless of who filed or initiated any such complaint, charge or proceeding.

Subject to the limitations set forth above, Executive represents that as of the date Executive signs this Agreement, Executive has not filed or initiated, or caused to be filed or initiated, any complaint, claim, action or lawsuit of any kind against any of the Released Parties in any federal, state, or local court or agency, and Executive agrees not to initiate or file, or cause to be initiated or filed, any action, lawsuit, complaint or proceeding in any federal, state, or local court or in any administrative tribunal with authority to adjudicate disputes asserting any of the Released Claims against any of the Released Parties. Executive agrees to promptly reimburse the Company for any legal fees that the Company incurs as a result of any breach of this section by Executive.

13. **TIME TO CONSIDER AGREEMENT.** Executive shall have twenty-one (21) days from the date of receipt (the "Consideration Period") to consider whether to enter into this Agreement. Any modifications to this Agreement, whether material or immaterial, will not restart the Consideration Period. Executive may revoke his acceptance of this Agreement within seven (7) calendar days of the date on which Executive signed this Agreement (the "Revocation Period.") by sending written notice by certified mail or hand stating: "I revoke my acceptance of the Separation Agreement," or words to that effect, to Ms. Bisaccia at One CVS Drive, Woonsocket, RI 02895, before the end of the Revocation Period. If the revocation notice is mailed, it must be sent by certified mail. Executive acknowledges and agrees that this Agreement shall take effect on the day following the expiration of the Revocation Period (the "Effective Date.")
14. **BREACH OF EMPLOYEE COVENANTS AND INJUNCTIVE RELIEF.** Without limiting the remedies available to CVS Caremark, Executive acknowledges that a breach by Executive of any of the covenants set forth above in the section entitled Executive Covenants will result in irreparable injury to some or all of CVS Caremark for which there is no adequate remedy at law, that monetary relief will be inadequate, and that, in the event of such a material breach or threat thereof, CVS Caremark shall be entitled to obtain, in addition to any other relief that may be available, a temporary restraining order and/or a preliminary or permanent injunction, restraining Executive from engaging in activities prohibited by the Restrictive Covenant and this Agreement, as well as such other relief as may be required specifically to enforce the Restrictive Covenant and this Agreement, without the payment of any bond. In the event that a court issues a temporary restraining order, preliminary injunction, permanent injunction, or issues any other similar order enjoining Executive from breaching the Restrictive Covenant and/or this Agreement, or awards CVS Caremark any damages due to Executive's breach of the Restrictive Covenant and/or this Agreement, Executive agrees promptly to reimburse the Company for all reasonable attorneys fees incurred by CVS Caremark in connection with obtaining such equitable relief or damages.
15. **GOVERNING LAW; VENUE; HEADINGS.** This Agreement shall be governed by and conformed in accordance with the laws of the state of Rhode Island without regard to its conflict of laws provisions. The exclusive venue for any legal action arising from this Agreement will be the federal and state courts within Rhode Island. Executive consents to the Rhode Island courts' personal

jurisdiction over him and waives his right to object to a Rhode Island court 's jurisdiction. Section headings 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.

16. **JURY TRIAL WAIVER**. Executive and CVS Caremark irrevocably and unconditionally waive the right to a trial by jury in any action or proceeding seeking to enforce, or alleging the breach of, any provision of this Agreement.
17. **COUNTERPARTS**. This Agreement may be executed in counterparts and each counterpart will be deemed an original.
18. **SEVERABILITY**. If any of the provisions of this Agreement, including but not limited to the Restrictive Covenant and Section 9 of this Agreement, are deemed unenforceable by a court of competent jurisdiction because they are overly broad, then the court shall have the ability to modify the offending provision in order to make it enforceable. Should any term or provision of this Agreement be declared illegal, invalid or unenforceable by any court of competent jurisdiction and if such provision cannot be modified to be enforceable, such provision shall immediately become null and void, leaving the remainder of this Agreement in full force and effect. The language of all parts of this Agreement shall in all cases be construed as a whole, according to its fair meaning, and not strictly for or against either of the parties.
19. **SECTION 409A AND RESPONSIBILITY FOR TAXES**. Each payment made under this Agreement, including each installment payment of a salary continuation stream hereunder, shall be deemed and treated as a separate payment for purposes of Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A"). Because Executive is a "specified employee" within the meaning of Treasury Regulation Section 1.409A -1(i), any portion of the payments under this Agreement payable to Executive that is subject to Section 409A and applicable guidance thereunder shall be delayed until the date that is the earlier of (i) Executive 's death or (ii) six months following Executive 's Separation Date, at which time the payments that were delayed for such six month period shall be paid in a lump sum on the date of the next occurring regular payroll date of the Company, and any remaining payments shall be paid according to the original schedule provided herein. In no event shall any separation payment hereunder be made unless and until Executive has experienced a separation from service, as defined under Treasury Regulation Section 1.409A -1(h). All payments set forth in this Agreement are subject to applicable withholdings and deductions. Executive acknowledges and agrees that Executive is solely responsible for all taxes on the payments and benefits described in this Agreement. While the parties intend for payments and benefits provided under the terms of this Agreement to be exempt from or compliant with Section 409A, as applicable, CVS Caremark makes no representations or guarantees with respect to the tax status of any of the payments or benefits set forth herein, including taxation pursuant to Section 409A, and Executive acknowledges that Executive is solely responsible and will hold the Company and its affiliates harmless for same.
20. **DEBTS TO THE COMPANY**. Executive acknowledges that, in the event Executive is indebted to the Company or an affiliate thereof, the severance payments provided for in the Agreement may be reduced, offset, withheld or forfeited up to the amount of the debt.

21. **ENTIRE AGREEMENT.** This Agreement, the Restrictive Covenant, and any compensation, equity or benefit plan or agreement referred to herein set forth the entire agreement between the parties hereto and fully supersede any and all prior and/or supplemental understandings, whether written or oral, between the parties concerning the subject matter of this Agreement, including without limitation the Offer Letter. Executive has not relied on any representations, promises or agreements of any kind made to Executive in connection with Executive 's decision to accept the terms of this Agreement, except for the representations, promises and agreements herein. Any modification to this Agreement must be in writing and signed by Executive and CVS Caremark Corporation 's Chief Human Resources Officer or her authorized representative.

IN WITNESS WHEREOF, the parties knowingly and voluntarily executed this Separation Agreement as of the dates set forth below.

MARK COSBY

CVS PHARMACY, INC.

/s/ Mark Cosby

BY: /s/ Lisa G. Bisaccia

Lisa G. Bisaccia

Senior Vice President, Chief Human Resources Officer

DATE: 12/8/2013

DATE: 12/10/2013



CVS CAREMARK CORPORATION

Change in Control Agreement for

Troyen Brennan

| | <u>Page</u> |
|--|-------------------------------|
| | <u>1. Definitions.</u> 2 |
| | <u>2. Term of</u> |
| <u>Agreement.</u> 6 | |
| | <u>3. Entitlement to</u> |
| <u>Severance Benefit.</u> 6 | |
| | <u>4. Confidentiality;</u> |
| <u>Cooperation with Regard to Litigation; Non-disparagement.</u> 8 | |
| | <u>5. Non-solicitation.</u> 9 |
| | <u>6. Remedies.</u> 10 |
| | <u>7. Effect of Agreement</u> |
| <u>on Other Benefits and Obligations.</u> 10 | |
| | <u>8. Not an Employment</u> |
| <u>Agreement.</u> 10 | |
| | <u>9. Resolution of</u> |
| <u>Disputes.</u> 10 | |
| | <u>10. Assignability;</u> |
| <u>Binding Nature.</u> 10 | |
| | <u>11. Representation.</u> 10 |
| <u>2. Entire Agreement.</u> 11 | |
| <u>3. Amendment or Waiver, Section 409A.</u> 11 | |
| <u>4. Severability.</u> 11 | |
| <u>5. Survivorship.</u> 11 | |
| <u>6. Beneficiaries/References.</u> 11 | |
| <u>7. Governing Law/Jurisdiction.</u> 11 | |
| <u>8. Notices.</u> 12 | |
| <u>9. Headings.</u> 12 | |
| <u>10. Counterparts.</u> 13 | |

This Change in Control Agreement ("Agreement") is made and entered into as of December 1, 2008 between CVS Pharmacy, Inc. ("CVS") and **Troyen Brennan** (the "Executive").

WHEREAS, the Board of Directors (the "Board") of CVS Caremark Corporation ("CVS Caremark" or the "Company") believes it is necessary and desirable for the Company to be able to rely upon Executive to continue serving in his or her position with the Company in the event of a pending or actual change in control of CVS Caremark;

WHEREAS, Executive is employed by a Subsidiary of CVS Caremark, and this Agreement shall not alter Executive's status as an employee at will;

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, CVS and Executive (individually a "Party" and together the "Parties") agree as follows:

1. Definitions.

a. "Base Salary" shall mean Executive's annual rate of base salary at the time of Executive's termination of employment or, if greater, as in effect immediately prior to a Change in Control.

b. "Cause" shall exist if:

- i. Executive willfully and materially breaches Sections 4 or 5 of this Agreement;
- ii. Executive is convicted of a felony involving moral turpitude; or
- iii. Executive engages in conduct that constitutes willful gross neglect or willful gross misconduct in carrying out Executive's 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 Executive not in good faith, and shall not include any act or failure to act resulting from any incapacity of Executive. A termination for Cause shall not take effect absent compliance with the provisions of this paragraph. Executive shall be given written notice by the Company of its intention to terminate Executive's employment 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 Executive in which to cure such conduct, to extent such cure is possible. If Executive fails to cure such conduct, Executive shall then be entitled to a hearing before the Committee, or an officer or officers designated by the Committee, at which Executive is entitled to appear. Such hearing shall be held within 25 days of such notice to Executive, provided Executive requests such hearing within 10 days of the written notice from the Company of the intention to terminate Executive for Cause. If, within five days following such hearing, Executive is furnished written notice by the Committee confirming that, in its judgment, grounds for Cause on the basis of the original notice exist, Executive shall thereupon be terminated for Cause. Executive's right to cure in accordance with this provision applies only in the event of a Change in Control as defined in Section 1(c) below and does not alter Executive's "at will" employment status.

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

- (i) any Person (other than (w) the Company, (x) any trustee or other fiduciary holding securities under any employee benefit plan of the Company, (y) any company owned, directly or indirectly, by the stockholders of the Company immediately after 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 immediately prior to such occurrence or (z) any surviving or resulting entity from a merger or consolidation referred to in clause (iii) below that does not constitute a Change in Control under clause (iii) below) 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 of any subsidiary owning directly or indirectly all or substantially all of the consolidated assets of the Company (a "Significant Subsidiary"), representing 30% or more of the combined voting power of the Company's or such Significant 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 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. "Committee" shall mean the Management Planning and Development Committee of the Board, or the corresponding committee of the board of directors of a successor to CVS Caremark.
- e. "Company" shall mean, collectively, CVS Caremark and any Subsidiary or affiliate of CVS Caremark.
- f. "Confidential Information" shall have the meaning set forth in Section 4 below.
- g. "Constructive Termination Without Cause" shall mean a termination 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. an assignment of any duties to Executive that is inconsistent with Executive's status as a member of the senior management of CVS Caremark;
 - ii. a decrease in Executive's annual base salary or target annual incentive award opportunity;
 - iii. any failure to secure the agreement of any successor to CVS Caremark to fully assume the Company's obligations under this Agreement; or
 - iv. a relocation of Executive's principal place of employment more than 35 miles from Executive's place of employment before such relocation.
- h. "Disability" shall mean disability as that term is defined in the Company's Long-Term Disability Plan.
- i. "Effective Date" shall have the meaning set forth in Section 2 below.
- j. "Original Term" shall have the meaning set forth in Section 2 below.
- k. "Renewal Term" shall have the meaning set forth in Section 2 below.
- l. "Severance Period" shall mean the period of 18 months following the termination of Executive's employment with the Company.
- m. "Subsidiary" shall have the meaning set forth in Section 4 below.
- n. "Term" shall have the meaning set forth in Section 2 below.
- o. "termination of employment", "employment is terminated" and other similar words shall mean with respect to Executive
 - (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 pursuant to the Company's policies if the leave does not exceed 6 consecutive months (12 months for a disability leave of absence) or, if longer, so long as the Executive retains a right to reemployment with the Company 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 of 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 Section 409A of the Code; 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.

2. Term of Agreement.

The term of this Agreement shall commence on the date of this Agreement (the "Effective Date") and end on the third anniversary of such date (the "Original Term"). The Original Term 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 or any Renewal Term, either Party notifies the other Party in writing that he/she or it is electing to terminate this Agreement at the expiration of the then current Term. "Term" shall mean the Original Term and all Renewal Terms. If a Change in Control shall have occurred during the Term, notwithstanding any other provision of this Section 2, the Term shall not expire earlier than two years after such Change in Control.

3. Entitlement to Severance Benefit.

- a. Severance Benefit. In the event Executive's employment with the Company is Terminated Without Cause, other than due to death, or Disability, or in the event there is a Constructive Termination Without Cause within two years following a Change in Control, Executive shall be entitled to receive:
- 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 1.5 times Executive's Base Salary 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 following Executive's termination of employment;
 - iii. An amount equal to the most recently established target annual cash incentive bonus amount, pro rated based on the portion of the performance year that Executive has worked as of the date of Executive's termination, and payable in a cash lump sum following Executive's termination of employment;
 - iv. An amount equal to 1.5 times the most recently established target annual incentive cash bonus amount, payable in a cash lump sum following the Executive's termination of employment;
 - v. Elimination of all restrictions on any restricted stock or restricted stock unit 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 for the remainder of the full term of such option (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 Executive's termination of employment;
 - viii. Settlement of all deferred compensation arrangements in accordance with any then applicable deferred compensation plan or election form;
 - ix. Continued participation in all medical, health and life insurance plans at the same benefit level at which Executive was participating on the date of termination of Executive's employment until the earlier of:
 1. the end of the Severance Period; or
 2. the date, or dates, Executive 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 Executive's participation in any employee benefit plan or program as provided in this clause (ix) of this Section 3.a, Executive shall receive cash payments equal on an after-tax basis to the cost to Executive of obtaining the benefits provided under the plan or program in which Executive is unable to participate for the period specified in this clause (ix) of this Section 3.a, (2) such cost shall be deemed to be the lowest reasonable cost that would be incurred by Executive in obtaining such benefit on an individual basis, and (3) payment of such amounts shall be made quarterly in advance; and

- x. other or additional benefits then due or earned in accordance with applicable plans and programs of the Company.

- b. Change in Control Best Payments Determination. In the event the Severance Benefits described in Section 3(a) are payable to Executive in connection with a Change in Control and, if paid, could subject Executive to an excise tax under Section 4999 of the Internal Revenue Code (the "Excise Tax"), then notwithstanding the provisions of Section 3(a) the Company shall reduce the Severance Benefits (the "Benefit Reduction") under Section 3(a) by the amount necessary to result in the Executive not being subject to the Excise Tax if such reduction would result in the Executive's "Net After-Tax Amount" attributable to the Severance Benefits described in Section 3(a) being greater than it would be if no Benefit Reduction was effected. For this purpose "Net After-Tax Amount" shall mean the net amount of Severance Benefits Executive is entitled to receive under this Agreement after giving effect to all Federal, state and local taxes which would be applicable to such payments, including, but not limited to, the Excise Tax. The determination of whether any such Benefit Reduction shall be effected shall be made by a nationally recognized public accounting firm selected by the Company (the "Accounting Firm") prior to the occurrence of the Change in Control and such determination shall be binding on both Executive and the Company. In the event it is determined that a Benefit Reduction is required, such reduction of items described in Section 3(a) above shall be done first by reducing cash severance determined in accordance with Section 3(a)(ii), 3(a)(iii) and 3(a)(iv); to the extent a further Benefit Reduction is necessary, then Severance Benefits will be reduced from the amounts determined in accordance with Section 3(a)(v) and 3(a)(vi), all as determined by the Accounting Firm.

- c. No Mitigation; No Offset. In the event of any termination of employment under this Section 3, Executive shall be under no obligation to seek other employment, and the amounts due Executive under this Agreement shall not be offset by any remuneration attributable to any subsequent employment that Executive may obtain.

- d. Nature of Payments. Any amounts due under this Section 3 are in the nature of severance payments considered to be reasonable by the Company and are not in the nature of a penalty.

- e. Exclusivity of Severance Benefit. Upon termination of Executive's employment during the term, Executive shall not be entitled to any severance payments or severance benefits from the Company, or any other payments by the Company pursuant to any other agreement or arrangement between Executive and the Company, other than the Severance Benefit provided in this Section 3, except as required by law.

- f. General Release of Claims. Executive agrees, as a condition of payment of the Severance Benefit provided for in this Section 3, that Executive will execute within 60 days of Executive's termination of employment a separation agreement, in a form reasonably satisfactory to the Company, that includes a general release of any and all

claims arising out of Executive's employment or termination of employment with the Company, other than claims for (i) enforcement of this Agreement, (ii) enforcement of Executive's rights under any of the Company's incentive compensation, equity and/or employee benefit plans and programs to which Executive is entitled under this Agreement, and (iii) any tort for personal injury not arising out of or related to Executive's employment or termination of employment.

- g. Subject to the provisions of Section 13(b), all payments to be made pursuant to this Section 3 upon the termination of employment of Executive shall be made or commence, as the case may be, within 75 days after the Executive's termination of employment provided, however, that if such termination of employment is after October 17 of a year, the payment or first payment, as the case may be, shall be made at the end of such 75 day period.

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

- a. During the Term 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 Executive's 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 Executive to divulge, disclose or make accessible such information. In the event that Executive is so ordered, Executive 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 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/her 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 Executive to members of his/her immediate family, his/her 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 Executive's 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 or other business entity owned or controlled directly or indirectly by CVS Caremark.

- e. Executive agrees to cooperate with the Company, during the Term and thereafter (including following Executive's termination of employment for any reason), by being 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 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 reasonable expenses actually incurred in connection with Executive's provision of testimony or assistance.
- f. Executive agrees that, during the Term and thereafter (including following Executive's termination of employment for any reason) Executive 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 or be damaging to the Company or any Subsidiary or their respective officers, directors, employees, advisors, businesses or reputations. Notwithstanding the foregoing, nothing in this Agreement shall preclude Executive from making truthful statements or disclosures that are required by applicable law, regulation or legal process.

5. Non-solicitation.

During the period beginning with the Effective Date and ending 18 months following the termination of Executive's employment with the Company, Executive, whether acting on Executive's own behalf or by, through or on behalf of any third party, shall not (a) hire any employees of the Company or any Subsidiary, or recruit or solicit any such employees or encourage them to terminate their employment with the Company or any Subsidiary; (b) accept business from any customers of the Company or any Subsidiary, or solicit or encourage any customers, joint venture partners or investors of the Company or any Subsidiary to terminate or diminish their relationship with the Company or any Subsidiary or to violate any agreement with the Company or any Subsidiary. For purposes of subsection 5(a), an employee of the Company or any Subsidiary means any person who was employed by the Company or any Subsidiary within 180 days of such hiring, recruitment, solicitation or encouragement. Executive agrees to make any employer with whom Executive becomes employed during the 18-month period following Executive's termination with the Company aware of this non-solicitation obligation upon commencing employment with such subsequent entity.

6. Remedies.

In addition to whatever other rights and remedies the Company may have at equity or in law, the Company (a) shall have the right to immediately terminate all payments and benefits due under this Agreement if Executive breaches any of the provisions contained in Sections 4 or 5 above, and (b) shall have the right to seek injunctive relief in any court of competent jurisdiction if Executive breaches or threatens to breach any of the provisions contained in Sections 4 or 5 above. Executive acknowledges that such a breach 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 Sections 4 or 5 has occurred.

7. Effect of Agreement on Other Benefits and Obligations.

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

8. Not an Employment Agreement.

This Agreement is not, and nothing herein shall be deemed to create, a contract of employment between Executive and the Company. The Company may terminate the employment of Executive at any time and for any reason, subject to the terms of any employment agreement between the Company and Executive that may then be in effect.

9. 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 Sections 4 or 5, 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 reasonable costs and expenses of any arbitration or court proceeding (including fees and disbursements of counsel) 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.

10. 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/her, rights to compensation and benefits, which may be transferred only by will or operation of law, except as provided in Section 16 below.

11. 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.

12. Entire Agreement.

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

13. Amendment; Waiver; Code Section 409A.

- (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. 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 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 any of the applicable rules under Code Section 409A by reason of Code Section 409A(a)(2)(B)(i), payment of any amounts subject to Code Section 409A shall be delayed until the relevant date of payment that will result in compliance with the rules of Code Section 409A(a)(2)(B)(i).

14. 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.

15. 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.

16. 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 Executive's incompetence, references in this Agreement to Executive shall be deemed, where appropriate, to refer to Executive's beneficiary, estate or other legal representative.

17. 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 6, 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 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.

18. 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 CVS:

CVS Pharmacy, Inc.
One CVS Drive
Woonsocket, RI 02895
Attention: Corporate Secretary

If to Executive:

Troyen Brennan

19. 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.

20. Counterparts.

This Agreement may be executed in two or more counterparts.

In WITNESS WHEREOF, the undersigned have executed this Agreement to be effective as of the date first written above.

CVS Pharmacy, Inc.

By: /s/ V. Michael Ferdinandi
V. Michael Ferdinandi
Senior Vice President
Human Resources, Corporate
Communications and Community
Relations

Troyen Brennan

/s/ Troyen Brennan

EVP and Chief Medical Officer

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

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

Overview of Our Business

CVS Caremark Corporation ("CVS Caremark", the "Company", "we", "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, mail order and specialty pharmacy division, CVS Caremark^{*} Pharmacy Services; our more than 7,600 CVS/pharmacy^{*} and Drogaria Onofre^{*} retail stores; our retail-based health clinic subsidiary, MinuteClinic^{*}; and our online retail pharmacies, CVS.com^{*} and Onofre.com.br.

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

Overview of Our Pharmacy Services Segment

Our Pharmacy Services business provides a full range of PBM services, including mail order and specialty pharmacy and infusion services, plan design and administration, formulary management, discounted drug purchase arrangements, Medicare Part D services, retail pharmacy network management services, prescription management systems, clinical services and disease management services.

Our clients are primarily employers, insurance companies, unions, government employee groups, managed care organizations and other sponsors of health benefit plans and individuals throughout the United States.

As a pharmacy benefits manager, we manage the dispensing of pharmaceuticals through our mail order pharmacies, specialty pharmacies and 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, to eligible members in the benefit plans maintained by our clients and utilize our information systems to perform, among other things, safety checks, drug interaction screenings and brand to generic substitutions.

Our specialty pharmacies support individuals that require complex and expensive drug therapies. Our specialty pharmacy business includes mail order and retail specialty pharmacies that operate under the CVS Caremark^{*} and CarePlus CVS/pharmacy^{*} names. Substantially all of our mail service specialty pharmacies have been accredited by The Joint Commission, which is an independent, not-for-profit organization that accredits and certifies health care organizations and programs in the United States.

We also provide health management programs, which include integrated disease management for 17 conditions, through our Accordant^{*} rare disease 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") subsidiary, we are a national provider of drug benefits to eligible beneficiaries under the Federal Government's Medicare Part D program. We currently provide Medicare Part D plan benefits to approximately 4.3 million beneficiaries through SilverScript.

Our Pharmacy Services Segment generates net revenues primarily by contracting with clients to provide prescription drugs to plan members. Net revenues are also generated by providing additional services to clients, including administrative services such as claims processing and formulary management, as well as health care-related services such as disease management.

The Pharmacy Services Segment operates under the CVS Caremark^{*} Pharmacy Services, Caremark^{*}, CVS Caremark^{*}, CarePlus CVS/pharmacy^{*}, RxAmerica^{*}, Accordant^{*}, SilverScript^{*} and Novologix^{*} 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.

Overview of Our Retail Pharmacy Segment

Our Retail Pharmacy Segment sells prescription drugs and a wide assortment of general merchandise, including over-the-counter drugs, beauty products and cosmetics, photo finishing, seasonal merchandise, greeting cards and convenience foods through our CVS/pharmacy[®], Longs Drugs[®] and Drogaria Onofre[®] retail stores and online through CVS.com[®] and Onofre.com.br. Our Retail Pharmacy Segment derives the majority of its revenues through the sale of prescription drugs, which are dispensed by our more than 23,500 retail pharmacists. The role of our retail pharmacists is shifting from primarily dispensing prescriptions to also providing services, including flu vaccinations as well as face-to-face patient counseling with respect to adherence to drug therapies, closing gaps in care, and more cost-effective drug therapies. Our integrated pharmacy services model enables us to enhance access to care while helping to lower overall health care costs and improve health outcomes.

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

Our proprietary loyalty card program, ExtraCare[®], has approximately 70 million active cardholders, making it one of the largest and most successful retail loyalty card programs in the country.

As of December 31, 2013, our Retail Pharmacy Segment included 7,660 retail drugstores (of which 7,603 operated a pharmacy) located in 43 states, the District of Columbia, Puerto Rico and Brazil operating primarily under the CVS/pharmacy[®], Longs Drugs[®] and Drogaria Onofre[®] names, 17 onsite pharmacies and 800 retail health care clinics operating under the MinuteClinic[®] name (of which 792 were located in CVS/pharmacy stores), and our online retail websites, CVS.com[®] and Onofre.com.br.

Overview of Our Corporate Segment

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

Results of Operations

Summary of our Consolidated Financial Results

| <i>In millions, except per common share amounts</i> | Year Ended December 31, | | |
|--|-------------------------|------------|------------|
| | 2013 | 2012 | 2011 |
| Net revenues | \$ 126,761 | \$ 123,120 | \$ 107,080 |
| Cost of revenues | 102,978 | 100,632 | 86,518 |
| Gross profit | 23,783 | 22,488 | 20,562 |
| Operating expenses | 15,746 | 15,278 | 14,231 |
| Operating profit | 8,037 | 7,210 | 6,331 |
| Interest expense, net | 509 | 557 | 584 |
| Loss on early extinguishment of debt | — | 348 | — |
| Income before income tax provision | 7,528 | 6,305 | 5,747 |
| Income tax provision | 2,928 | 2,436 | 2,258 |
| Income from continuing operations | 4,600 | 3,869 | 3,489 |
| Loss from discontinued operations, net of tax | (8) | (7) | (31) |
| Net income | 4,592 | 3,862 | 3,458 |
| Net loss attributable to noncontrolling interest | — | 2 | 4 |
| Net income attributable to CVS Caremark | \$ 4,592 | \$ 3,864 | \$ 3,462 |
| Diluted earnings per common share: | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 3.75 | \$ 3.02 | \$ 2.59 |
| Loss from discontinued operations attributable to CVS Caremark | \$ (0.01) | \$ (0.01) | \$ (0.02) |
| Net income attributable to CVS Caremark | \$ 3.74 | \$ 3.02 | \$ 2.57 |

Net revenues increased \$3.6 billion in 2013 compared to 2012, and increased \$16.0 billion in 2012 compared to 2011. As you review our performance in this area, we believe you should consider the following important information:

- During 2013, net revenues in our Pharmacy Services Segment increased 3.8% and net revenues in our Retail Pharmacy Segment increased 3.1% compared to the prior year.
- During 2012, net revenues in our Pharmacy Services Segment increased by 24.7% and net revenues in our Retail Pharmacy Segment increased 6.8% compared to the prior year.
- The increase in our generic dispensing rates in both of our operating segments continued to have an adverse effect on net revenue in 2013 as compared to 2012, as well as in 2012 as compared to 2011. In 2012, the Pharmacy Services Segment had a greater impact from net new business as compared to 2013.

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

Gross profit increased \$1.3 billion, or 5.8% in 2013, to \$23.8 billion, or 18.8% of net revenues, as compared to \$22.5 billion, or 18.3% of net revenues in 2012. Gross profit increased \$1.9 billion, or 9.4% in 2012, to \$22.5 billion, or 18.3% of net revenues, as compared to \$20.6 billion, or 19.2% of net revenues in 2011.

- During 2013, gross profit in our Pharmacy Services Segment and Retail Pharmacy Segment increased by 11.3% and 5.3%, respectively, compared to the prior year. For the year ended December 31, 2013, gross profit as a percent of net revenues in our Pharmacy Services Segment and Retail Pharmacy Segment was 5.6% and 30.6%, respectively.
- During 2012, gross profit in our Pharmacy Services Segment and Retail Pharmacy Segment increased by 16.1% and 9.3%, respectively, compared to the prior year. For the year ended December 31, 2012, gross profit as a percent of net revenues in our Pharmacy Services Segment and Retail Pharmacy Segment was 5.2% and 30.0%, respectively.
- The increased weighting toward the Pharmacy Services Segment, which has a lower gross profit than the Retail Pharmacy Segment, resulted in a decline in consolidated gross profit as a percent of net revenues in 2012 as compared to 2011. In addition, gross profit for 2013, 2012 and 2011 has been negatively impacted by the efforts of managed care

organizations, pharmacy benefit managers and governmental and other third-party payors to reduce their prescription drug costs.

- In addition, for the three years 2011 through 2013, our gross profit continued to benefit from the increased utilization of generic drugs (which normally yield a higher gross profit rate than equivalent brand name drugs) in both the Pharmacy Services and Retail Pharmacy segments. This contributed to the increase in gross profit as a percent of net revenues in 2013 as compared to 2012.

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

Operating expenses increased \$468 million, or 3.1% in the year ended December 31, 2013, as compared to the prior year. Operating expenses as a percent of net revenues remained flat at 12.4% in the year ended December 31, 2013, despite the dampening effect of generics on net revenues. The increase in operating expenses in the year ended December 31, 2013 was primarily due to incremental store operating costs associated with a higher store count as compared to the prior year, as well as strategic initiatives. The increase was partially offset by a \$72 million gain on a legal settlement recorded in the third quarter.

Operating expenses increased \$1.0 billion in the year ended December 31, 2012 as compared to the prior year. Operating expenses as a percent of net revenues improved approximately 90 basis points to 12.4% in the year ended December 31, 2012. The increase in operating expense dollars in the year ended December 31, 2012 was primarily due to incremental store operating costs associated with a higher store count as compared to the prior year, as well as the expansion of our Medicare Part D business. The improvement in operating expenses as a percent of net revenues is primarily due to expense leverage from net revenue growth and expense control initiatives.

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

Interest expense, net for the years ended December 31 consisted of the following:

| <u>In millions</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|-----------------------|-------------|-------------|-------------|
| Interest expense | \$ 517 | \$ 561 | \$ 588 |
| Interest income | (8) | (4) | (4) |
| Interest expense, net | \$ 509 | \$ 557 | \$ 584 |

Net interest expense decreased \$48 million during the year ended December 31, 2013, which resulted from lower average interest rates during 2013. During 2012, net interest expense decreased by \$27 million, to \$557 million compared to 2011, due to a reduction in our average outstanding short-term and long-term debt.

Income tax provision - Our effective income tax rate was 38.9%, 38.6% and 39.3% in 2013, 2012 and 2011, respectively. The effective income tax was higher in 2013 than in 2012 primarily due to certain permanent items in 2012. These same items were the principal factors for the lower effective income tax rate in 2012 compared to 2011.

Income from continuing operations increased \$731 million or 18.9% to \$4.6 billion in 2013. Income from continuing operations increased \$380 million or 10.9% to \$3.9 billion in 2012 as compared to \$3.5 billion in 2011. The 2013 increase in income from continuing operations was primarily related to increases in generic dispensing rates for both operating segments, increased volume across all channels in our Pharmacy Services Segment, as well as increased sales in the Retail Pharmacy Segment.

Loss from discontinued operations - In connection with certain business dispositions completed between 1991 and 1997, the Company retained guarantees on store lease obligations for a number of former subsidiaries, including Linens 'n Things, which filed for bankruptcy in 2008. The Company's loss from discontinued operations includes lease-related costs which the Company believes it will likely be required to satisfy pursuant to its Linens 'n Things lease guarantees.

We incurred a loss from discontinued operations of \$8 million in 2013, a loss from discontinued operations of \$7 million in 2012 and a loss from discontinued operations of \$31 million in 2011. The loss from discontinued operations in 2013 and 2012 was primarily due to costs related to Linens 'n Things lease guarantees. The loss from discontinued operations in 2011 was primarily due to the disposition of our TheraCom subsidiary. We recognized a \$53 million pre-tax gain and a \$37 million after-tax loss on the sale of TheraCom. The after-tax loss was caused by the income tax treatment of TheraCom's nondeductible goodwill.

See Note 3 “Discontinued Operations” to the consolidated financial statements for additional information about discontinued operations and Note 12 “Commitments and Contingencies” for additional information about our lease guarantees.

Net loss attributable to noncontrolling interest represents the minority shareholders’ portion of the net loss from our subsidiary, Generation Health, Inc., prior to June 2012. We acquired the remaining 40% interest of Generation Health, Inc. on June 29, 2012 and as a result, there was no longer a noncontrolling interest in Generation Health, Inc. for the year ended December 31, 2013. The net loss attributable to noncontrolling interest for the years ended December 31, 2012 and 2011 was \$2 million and \$4 million, respectively.

Net income attributable to CVS Caremark increased \$728 million or 18.8% to \$4.6 billion (or \$3.74 per diluted share) in 2013. This compares to \$3.9 billion (or \$3.02 per diluted share) in 2012 and \$3.5 billion (or \$2.57 per diluted share) in 2011. As discussed previously, the 2013 increase in net income attributable to CVS Caremark was primarily related to increased generic drug dispensing in both operating segments, increased volume across all channels in our Pharmacy Services Segment, and increased sales in our Retail Pharmacy Segment. The increase in net income attributable to CVS Caremark per diluted share was also driven by increased share repurchase activity in 2013 and 2012.

Segment Analysis

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

| <i>In millions</i> | Pharmacy Services Segment ⁽¹⁾⁽²⁾ | Retail Pharmacy Segment ⁽²⁾ | Corporate Segment | Intersegment Eliminations ⁽²⁾ | Consolidated Totals |
|-------------------------|---|--|-------------------|--|---------------------|
| 2013: | | | | | |
| Net revenues | \$ 76,208 | \$ 65,618 | \$ — | \$ (15,065) | \$ 126,761 |
| Gross profit | 4,237 | 20,112 | — | (566) | 23,783 |
| Operating profit (loss) | 3,086 | 6,268 | (751) | (566) | 8,037 |
| 2012: | | | | | |
| Net revenues | \$ 73,444 | \$ 63,641 | \$ — | \$ (13,965) | \$ 123,120 |
| Gross profit | 3,808 | 19,091 | — | (411) | 22,488 |
| Operating profit (loss) | 2,679 | 5,636 | (694) | (411) | 7,210 |
| 2011: | | | | | |
| Net revenues | \$ 58,874 | \$ 59,579 | \$ — | \$ (11,373) | \$ 107,080 |
| Gross profit | 3,279 | 17,469 | — | (186) | 20,562 |
| Operating profit (loss) | 2,220 | 4,913 | (616) | (186) | 6,331 |

- (1) Net revenues of the Pharmacy Services Segment include approximately \$7.9 billion, \$8.4 billion and \$7.9 billion of Retail Co-Payments for 2013, 2012 and 2011, respectively. See Note 1 to the consolidated financial statements for additional information about Retail Co-Payments.
- (2) Intersegment eliminations relate to two types of transactions: (i) Intersegment revenues that occur when Pharmacy Services Segment customers use Retail Pharmacy Segment stores to purchase covered products. When this occurs, both the Pharmacy Services and Retail Pharmacy segments record the revenue on a standalone basis, and (ii) Intersegment revenues, gross profit and operating profit that occur when Pharmacy Services Segment customers, through the Company's intersegment activities (such as the Maintenance Choice[®] program), elect to pick-up their maintenance prescriptions at Retail Pharmacy Segment stores instead of receiving them through the mail. When this occurs, both the Pharmacy Services and Retail Pharmacy segments record the revenue, gross profit and operating profit on a standalone basis. Beginning in the fourth quarter of 2011, the Maintenance Choice eliminations reflect all discounts available for the purchase of mail order prescription drugs. The following amounts are eliminated in consolidation in connection with the item (ii) intersegment activity: net revenues of \$4.3 billion, \$3.4 billion and \$2.6 billion for the years ended December 31, 2013, 2012 and 2011, respectively; gross profit and operating profit of \$566 million, \$411 million and \$186 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Pharmacy Services Segment

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

| <i>In millions</i> | Year Ended December 31, | | |
|--|-------------------------|-----------|-----------|
| | 2013 | 2012 | 2011 |
| Net revenues | \$ 76,208 | \$ 73,444 | \$ 58,874 |
| Gross profit | \$ 4,237 | \$ 3,808 | \$ 3,279 |
| Gross profit % of net revenues | 5.6% | 5.2% | 5.6% |
| Operating expenses | \$ 1,151 | \$ 1,129 | \$ 1,059 |
| Operating expenses % of net revenues | 1.5% | 1.5% | 1.8% |
| Operating profit | \$ 3,086 | \$ 2,679 | \$ 2,220 |
| Operating profit % of net revenues | 4.1% | 3.6% | 3.8% |
| Net revenues ⁽¹⁾ : | | | |
| Mail choice ⁽²⁾ | \$ 24,791 | \$ 22,843 | \$ 18,616 |
| Pharmacy network ⁽³⁾ | \$ 51,211 | \$ 50,411 | \$ 40,040 |
| Other | \$ 206 | \$ 190 | \$ 218 |
| Pharmacy claims processed ⁽¹⁾ : | | | |
| Total | 902.1 | 880.5 | 774.6 |
| Mail choice ⁽²⁾ | 83.3 | 81.7 | 70.6 |
| Pharmacy network ⁽³⁾ | 818.8 | 798.8 | 704.0 |
| Generic dispensing rate ⁽¹⁾ : | | | |
| Total | 80.8% | 78.5% | 74.1% |
| Mail choice ⁽²⁾ | 76.0% | 72.0% | 64.9% |
| Pharmacy network ⁽³⁾ | 81.3% | 79.1% | 75.0% |
| Mail choice penetration rate | 22.6% | 22.7% | 22.3% |

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

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

(3) Pharmacy network is defined as claims filled at retail pharmacies, including our retail drugstores, but excluding Maintenance Choice activity.

Medicare Part D Update - The Company participates in the Medicare Part D program by (1) providing Medicare Part D-related PBM services to our health plan and other clients that have qualified as Medicare Part D plans, and (2) offering Medicare Part D pharmacy benefits through the Company's own SilverScript PDP, which offers benefits to individual members and through employer group waiver plans ("EGWPs"). At the beginning of the 2013 Medicare Part D plan year, the Company implemented an enrollment systems conversion process and other actions to consolidate its Medicare Part D PDPs into the Company's SilverScript PDP. These consolidation efforts impacted certain enrollment and coverage determination services the Company provided to SilverScript enrollees following commencement of the 2013 plan year. Effective January 15, 2013, Centers for Medicare and Medicaid Services ("CMS") imposed intermediate sanctions on the SilverScript PDP, consisting of immediate suspension of further plan enrollment and marketing activities. On December 20, 2013, the Company announced that CMS completed its review of the corrective actions taken to address the coverage determination issues resulting from the Company's plan consolidation efforts and the sanctions were removed.

Net revenues in our Pharmacy Services Segment increased \$2.8 billion, or 3.8%, to \$76.2 billion for the year ended December 31, 2013, as compared to the prior year. The increase in net revenues was primarily due to drug cost inflation in the specialty pharmacy business. Conversely, the increase in our generic dispensing rate had a negative impact on our revenue in 2013, as it did in 2012.

Net revenues increased \$14.6 billion, or 24.7%, to \$73.4 billion for the year ended December 31, 2012, as compared to the prior year. The increase in 2012 was primarily due to new client starts on January 1, 2012, drug cost inflation and the growth of our Medicare Part D business. Additionally, the increase in our generic dispensing rate had a negative impact on our revenue in 2012 as it did in 2011.

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

- Our mail choice claims processed increased 1.9% to 83.3 million claims in the year ended December 31, 2013, compared to 81.7 million claims in the prior year. The increase in mail choice claim volume was primarily due to increased claims associated with the continuing client adoption of our Maintenance Choice offerings. During 2012, our mail choice claims processed increased 15.7% to 81.7 million claims. The increase in mail choice claim volume was primarily due to a significant number of 2012 new client starts, as well as increased claims associated with the continued adoption of our Maintenance Choice offerings.
- During 2013 and 2012, our average revenue per mail choice claim increased by 6.5% and 6.0%, compared to 2012 and 2011, respectively. This increase was primarily due to drug cost inflation particularly in our specialty business, partially offset by increases in the percentage of generic prescription drugs dispensed and changes in client pricing.
- Our mail choice generic dispensing rate was 76.0%, 72.0% and 64.9% in the years ended December 31, 2013, 2012 and 2011, respectively.
- Our pharmacy network generic dispensing rate increased to 81.3% in the year ended December 31, 2013, compared to 79.1% in the prior year. During 2012, our pharmacy network generic dispensing rate increased to 79.1% compared to our pharmacy network generic dispensing rate of 75.0% in 2011. These continued increases in both mail choice and pharmacy network generic dispensing rates were primarily due to the impact of new generic drug introductions, primarily in 2012, and our continuous efforts to encourage plan members to use generic drugs when they are available. We believe our generic dispensing rates will continue to increase in future periods, albeit, at a slower pace. This increase will be affected by, among other things, the number of new generic drug introductions and our success at encouraging plan members to utilize generic drugs when they are available and clinically appropriate.
- Our pharmacy network claims processed increased 2.5% to 818.8 million claims in the year ended December 31, 2013, compared to 798.8 million claims in the prior year. During 2012, our pharmacy network claims processed increased 13.5% to 798.8 million compared to 704.0 million pharmacy network claims processed in 2011. The increase in the pharmacy network claim volume was primarily due to higher claims activity associated with our Medicare Part D program.
- Our average revenue per pharmacy network claim processed decreased 0.9% in the year ended December 31, 2013 as compared to the prior year. This decrease was primarily due to increases in the generic dispensing rate. During 2012, our average revenue per pharmacy network claim processed increased by 11.0%, compared to 2011. This increase was primarily due to drug cost inflation partially offset by increases in the generic dispensing rate.
- The Pharmacy Services Segment recognizes revenues for its pharmacy network transactions based on individual contract terms. In accordance with ASC 605, *Revenue Recognition*, CVS Caremark Pharmacy Services' contracts are predominantly accounted for using the gross method.

Gross profit in our Pharmacy Services Segment includes net revenues less cost of revenues. Cost of revenues includes (i) the cost of pharmaceuticals dispensed, either directly through our mail service and specialty retail pharmacies or indirectly through our pharmacy network, (ii) shipping and handling costs and (iii) the operating costs of our mail service dispensing pharmacies, customer service operations and related information technology support.

Gross profit increased \$429 million, or 11.3% to \$4.2 billion in the year ended December 31, 2013, as compared to the prior year. Gross profit as a percentage of net revenues increased to 5.6% for the year ended December 31, 2013, compared to 5.2% in the prior year. The increase in gross profit dollars and gross profit as a percentage of net revenues in the year ended December 31, 2013 was primarily due to an increase in generic dispensing.

During 2012, gross profit increased \$529 million, or 16.1%, to \$3.8 billion in the year ended December 31, 2012, as compared to the prior year. Gross profit as a percentage of net revenues was 5.2% for the year ended December 31, 2012, compared to 5.6% in the prior year. The increase in gross profit dollars in the year ended December 31, 2012 was primarily due to a significant number of 2012 new client starts, an increase in generic dispensing and drug cost inflation. The decrease in gross profit as a percentage of revenue was driven primarily by client pricing compression, increased payroll and other expenses associated with our mail and specialty operations, and expanding Medicare Part D operations, which has lower margins. The increase in expenses associated with our mail operations was the result of the significant number of 2012 new client starts.

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

- Our gross profit dollars and gross profit as a percentage of net revenues continued to be impacted by our efforts to (i) retain existing clients, (ii) obtain new business and (iii) maintain or improve the rebates and/or discounts we received from manufacturers, wholesalers and retail pharmacies. In particular, competitive pressures in the PBM industry have caused us and other PBMs to continue to share a larger portion of rebates and/or discounts received from pharmaceutical manufacturers with clients. In addition, market dynamics and regulatory changes have impacted our ability to offer plan sponsors pricing that includes retail network "differential" or "spread". We expect these trends to continue. The "differential" or "spread" is any difference between the drug price charged to plan sponsors, including Medicare Part D plan sponsors, by a PBM and the price paid for the drug by the PBM to the dispensing provider. The increased use of generic drugs has positively impacted our gross profit margins but has resulted in third party payors augmenting their efforts to reduce reimbursement payments for prescriptions. This trend, which we expect to continue, reduces the benefit we realize from brand to generic product conversions.
- We review our network contracts on an individual basis to determine if the related revenues should be accounted for using the gross method or net method under the applicable accounting rules. CVS Caremark Pharmacy Services' network contracts are predominantly accounted for using the gross method, which results in higher revenues, higher cost of revenues and lower gross profit rates.
- Our gross profit as a percentage of revenues benefited from the increase in our total generic dispensing rate, which increased to 80.8% and 78.5% in 2013 and 2012, respectively, compared to our generic dispensing rate of 74.1% in 2011. These increases were primarily due to new generic drug introductions and our continued efforts to encourage plan members to use generic drugs when they are available. We expect these trends to continue, albeit at a slower pace.

Operating expenses in our Pharmacy Services Segment, which include selling, general and administrative expenses, depreciation and amortization related to selling, general and administrative activities and retail specialty pharmacy store and administrative payroll, employee benefits and occupancy costs, remained flat at 1.5% of net revenues in 2013 compared to 1.5% in 2012, and decreased from 1.8% in 2011.

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

- Operating expenses increased \$22 million or 1.9%, to \$1.2 billion, in the year ended December 31, 2013, compared to the prior year. The increase in operating expenses is primarily related to costs associated with the remediation of Medicare Part D sanctions and coverage determination issues discussed previously. The increase was partially offset by the Pharmacy Services Segment's \$11 million share of a gain on a legal settlement recorded in the third quarter of 2013.
- During 2012, the increase in operating expenses of \$70 million or 6.6%, to \$1.1 billion compared to 2011, is primarily related to increased costs associated with the expansion of our Medicare Part D business. The decrease in operating expenses as a percentage of net revenues from 1.8% to 1.5% is primarily due to expense leverage from net revenue growth and expense control initiatives.

Retail Pharmacy Segment

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

| <u>In millions</u> | Year Ended December 31, | | |
|---|-------------------------|-----------|-----------|
| | 2013 | 2012 | 2011 |
| Net revenues | \$ 65,618 | \$ 63,641 | \$ 59,579 |
| Gross profit | \$ 20,112 | \$ 19,091 | \$ 17,469 |
| Gross profit % of net revenues | 30.6 % | 30.0% | 29.3% |
| Operating expenses | \$ 13,844 | \$ 13,455 | \$ 12,556 |
| Operating expenses % of net revenues | 21.1 % | 21.1% | 21.1% |
| Operating profit | \$ 6,268 | \$ 5,636 | \$ 4,913 |
| Operating profit % of net revenues | 9.6 % | 8.9% | 8.2% |
| Retail prescriptions filled (90 Day = 1 prescription) | 734.3 | 717.4 | 657.7 |
| Retail prescriptions filled (90 Day = 3 prescriptions) ⁽¹⁾ | 890.1 | 845.8 | 763.6 |
| Net revenue increase: | | | |
| Total | 3.1 % | 6.8% | 3.9% |
| Pharmacy | 4.1 % | 7.6% | 4.3% |
| Front Store | 1.0 % | 5.1% | 3.0% |
| Total prescription volume (90 Day = 1 prescription) | 2.4 % | 9.1% | 3.4% |
| Total prescription volume (90 Day = 3 prescriptions) ⁽¹⁾ | 5.2 % | 11.0% | 5.5% |
| Same store sales increase: | | | |
| Total | 1.7 % | 5.6% | 2.3% |
| Pharmacy | 2.6 % | 6.6% | 3.0% |
| Front Store | (0.5)% | 3.4% | 0.8% |
| Prescription volume (90 Day = 1 prescription) | 1.5 % | 8.1% | 2.3% |
| Prescription volume (90 Day = 3 prescriptions) ⁽¹⁾ | 4.4 % | 10.0% | 4.3% |
| Generic dispensing rates | 81.4 % | 79.2% | 75.6% |
| Pharmacy % of net revenues | 69.5 % | 68.8% | 68.3% |
| Third party % of pharmacy revenue | 97.9 % | 97.5% | 97.8% |

(1) Includes the adjustment to convert 90-day prescriptions to the equivalent of three 30-day prescriptions. This adjustment reflects the fact that these prescriptions include approximately three times the amount of product days supplied compared to a normal prescription.

Net revenues increased approximately \$2.0 billion, or 3.1%, to \$65.6 billion for the year ended December 31, 2013, as compared to the prior year. This increase was primarily driven by a same store sales increase of 1.7% and net revenues from new and acquired stores, which accounted for approximately 130 basis points of our total net revenue percentage increase during the year. Additionally, we continued to see a positive impact on our net revenues due to the growth of our Maintenance Choice program.

Net revenues in our Retail Pharmacy Segment increased \$4.1 billion, or 6.8% to \$63.6 billion for the year ended December 31, 2012, as compared to the prior year. This increase was primarily driven by a same store sales increase of 5.6% and net revenues from new stores, which accounted for approximately 110 basis points of our total net revenue percentage increase during the year. Additionally, we continued to see a positive impact on our net revenues due to the growth of our Maintenance Choice program.

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

- Front store same store sales declined 0.5% in the year ended December 31, 2013, as compared to the prior year. 2013 had one less day as a result of 2012 being a leap year, which had a negative impact on front store same store sales of approximately 40 basis points. Front store same store sales were negatively impacted by a decrease in customer traffic, partially offset by an increase in basket size.

- Pharmacy same store sales rose 2.6% in the year ended December 31, 2013, as compared to the prior year. Pharmacy same store sales were positively impacted by increased prescription volume, partially offset by the negative impact of the increase in generic dispensing, reimbursement pressure, and the impact of 2013 having one fewer day as a result of 2012 being a leap year.
- Pharmacy revenues continue to be negatively impacted by the conversion of brand name drugs to equivalent generic drugs, which typically have a lower selling price. Pharmacy same store sales were negatively impacted by approximately 540 and 700 basis points for the years ended December 31, 2013 and 2012, respectively, due to recent generic introductions. The decrease in the impact from 2012 to 2013 was primarily due to a smaller impact from new generic drug introductions. In addition, our pharmacy growth has also been adversely affected by the lack of significant new brand name 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.
- As of December 31, 2013, we operated 7,660 retail stores compared to 7,458 retail stores as of December 31, 2012 and 7,327 retail stores as of December 31, 2011. Total net revenues from new stores (excluding acquired stores) contributed approximately 1.0%, 1.1% and 1.3% to our total net revenue percentage increase in 2013, 2012, and 2011, respectively.
- Pharmacy revenue growth continued to benefit from increased utilization by Medicare Part D beneficiaries, the ability to attract and retain managed care customers and favorable industry trends. These trends include an aging American population; many “baby boomers” are now in their fifties and sixties and are consuming a greater number of prescription drugs. In addition, the increased use of pharmaceuticals as the first line of defense for individual health care also contributed to the growing demand for pharmacy services. We believe these favorable industry trends will continue.

Gross profit in our Retail Pharmacy Segment includes net revenues less the cost of merchandise sold during the reporting period and the related purchasing costs, warehousing costs, delivery costs and actual and estimated inventory losses.

Gross profit increased \$1.0 billion, or 5.3%, to \$20.1 billion in the year ended December 31, 2013, as compared to the prior year. Gross profit as a percentage of net revenues increased to 30.6% in year ended December 31, 2013, from 30.0% in 2012. The increase in gross profit dollars in the year ended December 31, 2013, was primarily driven by increases in the generic dispensing rate, same store sales and new store sales. The increase in gross profit as a percentage of net revenues was primarily driven by increased pharmacy margins due to the positive impact of increased generic dispensing rates and increased front store margins, partially offset by continued reimbursement pressure.

Gross profit increased \$1.6 billion, or 9.3%, to \$19.1 billion for the year ended December 31, 2012, as compared to the prior year. Gross profit as a percentage of net revenues increased to 30.0% for the year ended December 31, 2012, compared to 29.3% for the prior year. The increase in gross profit dollars in the year ended December 31, 2012, was primarily driven by same store sales increases. The increase in gross profit as a percentage of revenue was primarily driven by increased pharmacy margins due to the positive impact of increased generic drugs dispensed, partially offset by continued reimbursement pressure and lower front store margins.

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

- Gross profit was positively impacted by approximately \$31 million for the year ended December 31, 2012 as a result of the change in inventory accounting methods described in Note 2 to our consolidated financial statements. The impact of this change on gross profit as a percentage of net revenues for the year ended December 31, 2012 was approximately five basis points.
- On average, our gross profit on front store revenues is generally higher than our gross profit on pharmacy revenues. Front store revenues were 30.5%, 31.2% and 31.7% of total revenues, in 2013, 2012 and 2011, respectively. Pharmacy revenues were 69.5%, 68.8% and 68.3% of total revenues, in 2013, 2012 and 2011, respectively. This shift in sales mix had a negative effect on our overall gross profit for the years ended December 31, 2013, 2012 and 2011, respectively. The negative effect was offset by increasing generic drug dispensing rates.
- Our pharmacy gross profit rates have been adversely affected by the efforts of managed care organizations, pharmacy benefit managers and governmental and other third party payors to reduce their prescription drug costs. In the event this trend continues, we may not be able to sustain our current rate of revenue growth and gross profit dollars could be adversely impacted.

- The increased use of generic drugs has positively impacted our gross profit margins but has resulted in third party payors augmenting their efforts 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 are a large component of our total pharmacy business. On average, our gross profit on third party pharmacy revenues is lower than our gross profit on cash pharmacy revenues. Third party pharmacy revenues were 97.9% of pharmacy revenues in 2013, compared to 97.5% and 97.8% of pharmacy revenues in 2012 and 2011, respectively.
- The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, "ACA") made several significant changes to Medicaid rebates and to reimbursement. One of these changes was the proposed revision of the definition of Average Manufacturer Price ("AMP") and the reimbursement formula for multi-source drugs. Changes in reporting of AMP 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. See "Government Regulation" within Part I, Item 1, Business, for additional information.

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

Operating expenses increased \$389 million, or 2.9% to \$13.8 billion, or 21.1% as a percentage of net revenues, in the year ended December 31, 2013, as compared to \$13.5 billion, or 21.1% as a percentage of net revenues, in the prior year. Operating expenses increased \$899 million, or 7.2%, to \$13.5 billion, or 21.1% as a percentage of net revenues, in the year ended December 31, 2012, as compared to \$12.6 billion, or 21.1% as a percentage of net revenues, in the prior year. Operating expenses as a percentage of net revenues remained consistent from 2011 through 2013 primarily due to disciplined cost control, despite the negative impact of generics on net revenues. The increase in operating expense dollars in 2013 and 2012 was the result of higher store operating costs associated with our increased store count. The increase was partially offset by the Retail Pharmacy Segment's \$61 million share of a gain on a legal settlement recorded in the third quarter of 2013.

Corporate Segment

Operating expenses increased \$57 million, or 8.3%, to \$751 million in the year ended December 31, 2013, as compared to the prior year. Operating expenses increased \$78 million, or 12.5%, to \$694 million in the year ended December 31, 2012. Operating expenses within the Corporate Segment include executive management, corporate relations, legal, compliance, human resources, corporate information technology and finance related costs. The increase in operating expenses in 2013 was primarily due to higher benefit costs and strategic initiatives. The increase in operating expenses in 2012 was primarily due to higher benefit costs and information technology expenses.

Liquidity and Capital Resources

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

Net cash provided by operating activities was \$5.8 billion for the year ended December 31, 2013, compared to \$6.7 billion in 2012, and \$5.9 billion in 2011. The decrease in 2013 was primarily due to increased accounts receivable due to the timing of payments from CMS in connection with our Medicare Part D operations, partially offset by improved inventory management. The increase in 2012 was primarily due to the significant increase in net income, improved receivables management, improved payables management, and the timing of payments.

Net cash used in investing activities was \$1.8 billion in 2013 and 2012. This compares to approximately \$2.4 billion in 2011. The decrease in 2012 was primarily due to the \$1.3 billion acquisition of the Medicare prescription drug business of Universal American Corp. (the "UAM Medicare Part D Business") which occurred in April 2011.

In 2013, gross capital expenditures totaled approximately \$2.0 billion, a decrease of \$46 million compared to the prior year. During 2013, approximately 45% of our total capital expenditures were for new store construction, 25% were for store,

fulfillment and support facilities expansion and improvements and 30% were for technology and other corporate initiatives. Gross capital expenditures totaled approximately \$2.0 billion during 2012, compared to approximately \$1.9 billion in 2011. The increase in gross capital expenditures during 2012 was primarily due to the increased spending on store expansion and improvements. During 2012, approximately 45% of our total capital expenditures were for new store construction, 40% were for store expansion and improvements and 15% were for technology and other corporate initiatives.

Proceeds from sale-leaseback transactions totaled \$600 million in 2013. This compares to \$529 million in 2012 and \$592 million in 2011. Under the sale-leaseback transactions, the properties are generally sold at net book value, which generally approximates fair value, and the resulting leases generally qualify and are accounted for as operating leases. The specific timing and amount of future sale-leaseback transactions will vary depending on future market conditions and other factors.

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

| | 2013 ⁽¹⁾ | 2012 ⁽²⁾ | 2011 ⁽²⁾ |
|--|---------------------|---------------------|---------------------|
| Total stores (beginning of year) | 7,508 | 7,388 | 7,248 |
| New and acquired stores ⁽¹⁾ | 213 | 150 | 162 |
| Closed stores ⁽¹⁾ | (19) | (30) | (22) |
| Total stores (end of year) | <u>7,702</u> | <u>7,508</u> | <u>7,388</u> |
| Relocated stores | 78 | 90 | 86 |

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

(2) Excludes specialty mail order facilities.

Net cash used in financing activities was approximately \$1.2 billion in 2013, compared to net cash used in financing activities of \$4.9 billion in 2012 and \$3.5 billion in 2011. Net cash used in financing activities decreased \$3.7 billion in 2013 primarily due to greater net borrowings than in the prior year. Net cash used in financing activities increased \$1.4 billion in 2012 primarily due to \$1.3 billion more repurchases of common stock than in the prior year.

Share repurchase programs — On December 17, 2013, the Company's Board of Directors authorized a new share repurchase program for up to \$6.0 billion of outstanding common stock (the "2013 Repurchase Program"). On September 19, 2012, the Company's Board of Directors authorized a share repurchase program for up to \$6.0 billion of outstanding common stock (the "2012 Repurchase Program"). Each of these share repurchase authorizations, which were effective immediately, permit the Company to effect repurchases from time to time through a combination of open market repurchases, privately negotiated transactions, accelerated share repurchase transactions, and/or other derivative transactions. The 2013 and 2012 Repurchase Programs may be modified or terminated by the Board of Directors at any time.

On August 23, 2011, our Board of Directors authorized a share repurchase program for up to \$4.0 billion of outstanding common stock (the "2011 Repurchase Program"). This share repurchase authorization, which was effective immediately, permitted us to effect repurchases from time to time through a combination of open market repurchases, privately negotiated transactions, accelerated share repurchase transactions, and/or other derivative transactions. The 2011 Repurchase Program has been completed, as described below.

Pursuant to the authorization under the 2012 Repurchase Program, effective October 1, 2013, we entered into a \$1.7 billion fixed dollar accelerated share repurchase ("ASR") agreement with Barclays Bank PLC ("Barclays"). Upon payment of the \$1.7 billion purchase price on October 1, 2013, we received a number of shares of our common stock equal to 50% of the \$1.7 billion notional amount of the ASR agreement or approximately 14.9 million shares at a price of \$56.88 per share. The Company received approximately 11.7 million shares of common stock on December 30, 2013 at an average price of \$63.83 per share, representing the remaining 50% of the \$1.7 billion notional amount of the ASR agreement and thereby concluding the agreement. The total of 26.6 million shares of common stock delivered to the Company by Barclays over the term of the October 2013 ASR agreement were placed into treasury stock.

Pursuant to the authorizations under the 2011 and 2012 Repurchase Programs, on September 19, 2012, we entered into a \$1.2 billion fixed dollar ASR agreement with Barclays. Upon payment of the \$1.2 billion purchase price on September 20, 2012, we received a number of shares of our common stock equal to 50% of the \$1.2 billion notional amount of the ASR agreement or approximately 12.6 million shares at a price of \$47.71 per share. We received approximately 13.0 million shares of common stock on November 16, 2012 at an average price of \$46.96 per share, representing the remaining 50% of the \$1.2 billion notional amount of the ASR agreement and thereby concluding the agreement, and completing the 2011 Repurchase Program.

The total of 25.6 million shares of common stock delivered to us by Barclays over the term of the September 2012 ASR agreement were placed into treasury stock.

Pursuant to the authorization under the 2011 Repurchase Program, on August 24, 2011, we entered into a \$1.0 billion fixed dollar ASR agreement with Barclays. The ASR agreement contained provisions that establish the minimum and maximum number of shares to be repurchased during its term. Pursuant to this ASR agreement, on August 25, 2011, we paid \$1.0 billion to Barclays in exchange for Barclays delivering 20.3 million shares of common stock to us. On September 16, 2011, upon establishment of the minimum number of shares to be repurchased, Barclays delivered an additional 5.4 million shares of common stock to us. At the conclusion of the transaction, Barclays delivered a final installment of 1.6 million shares of common stock on December 29, 2011. The aggregate 27.3 million shares of common stock delivered to us by Barclays under the August 2011 ASR agreement, were placed into treasury stock. This represented all the repurchases that occurred during the year ended December 31, 2011 under the 2011 Repurchase Program.

During the years ended December 31, 2013 and 2012, we repurchased an aggregate of 66.2 million and 95.0 million shares of common stock for approximately \$4.0 and \$4.3 billion, respectively, under the 2012 and 2011 Repurchase Programs. As of December 31, 2013, there remained an aggregate of approximately \$6.7 billion available for future repurchases under the 2013 and 2012 Repurchase Programs.

On June 14, 2010, our Board of Directors authorized a share repurchase program for up to \$2.0 billion of our outstanding common stock (the "2010 Repurchase Program"). During the year ended December 31, 2011, we repurchased an aggregate of 56.4 million shares of common stock for approximately \$2.0 billion, completing the 2010 Repurchase Program.

Short-term borrowings - There was no commercial paper outstanding as of December 31, 2013. In connection with our commercial paper program, we maintain a \$1.25 billion, four-year unsecured back-up credit facility, which expires on May 23, 2016, a \$1.25 billion, five-year unsecured back-up credit facility, which expires on February 17, 2017, and a \$1.0 billion, five-year unsecured back-up credit facility, which expires on May 23, 2018. The credit facilities allow for borrowings at various rates that are dependent, in part, on the Company's public debt ratings and require the Company to pay a weighted average quarterly facility fee of approximately 0.03%, regardless of usage. As of December 31, 2013, there were no borrowings outstanding under the back-up credit facilities.

Long-term borrowings - On December 2, 2013, the Company issued \$750 million of 1.2% unsecured senior notes due December 5, 2016; \$1.25 billion of 2.25% unsecured senior notes due December 5, 2018; \$1.25 billion of 4% unsecured senior notes due December 5, 2023; and \$750 million of 5.3% unsecured senior notes due December 5, 2043 (the "2013 Notes") for total proceeds of approximately \$4.0 billion, net of discounts and underwriting fees. The 2013 Notes pay interest semi-annually and may be redeemed, in whole at any time, or in part from time to time, at the Company's option at a defined redemption price plus accrued and unpaid interest to the redemption date. The net proceeds of the 2013 Notes were used to repay commercial paper outstanding at the time of issuance and to fund the acquisition of Coram LLC in January 2014. The remainder will be used for general corporate purposes.

On November 26, 2012, we issued \$1.25 billion of 2.75% unsecured senior notes due December 1, 2022 (the "2012 Notes") for total proceeds of approximately \$1.24 billion, net of discounts and underwriting fees. The 2012 Notes pay interest semi-annually and may be redeemed, in whole at any time, or in part from time to time, at our option at a defined redemption price plus accrued and unpaid interest to the redemption date. The net proceeds of the 2012 Notes were used for general corporate purposes and to repay certain corporate debt.

Also on November 26, 2012, we announced tender offers for any and all of the 6.6% Senior Notes due 2019, and up to a maximum amount of the 6.125% Senior Notes due 2016 and 5.75% Senior Notes due 2017, for up to an aggregate principal amount of \$1.0 billion. In December 2012, we increased the aggregate principal amount of the tender offers to \$1.325 billion and completed the repurchase for the maximum amount. We paid a premium of \$332 million in excess of the debt principal in connection with the tender offers, wrote off \$13 million of unamortized deferred financing costs and incurred \$3 million in fees, for a total loss on the early extinguishment of debt of \$348 million. The loss was recorded in income from continuing operations on the consolidated statement of income.

In connection with our acquisition of the UAM Medicare Part D Business in April 2011, we assumed \$110 million of long-term debt in the form of Trust Preferred Securities that mature through 2037. During the years ended December 31, 2012 and 2011, we repaid \$50 million and \$60 million, respectively, of the Trust Preferred Securities at par.

On May 12, 2011, we issued \$550 million of 4.125% unsecured senior notes due May 15, 2021 and issued \$950 million of 5.75% unsecured senior notes due May 15, 2041 (collectively, the "2011 Notes") for total proceeds of approximately \$1.5

billion, net of discounts and underwriting fees. The 2011 Notes pay interest semi-annually and may be redeemed, in whole at any time, or in part from time to time, at our option at a defined redemption price plus accrued and unpaid interest to the redemption date. The net proceeds of the 2011 Notes were used to repay commercial paper borrowings and certain other corporate debt, and were used for general corporate purposes.

In December 2011 and July 2012, we repurchased \$958 million and \$1 million of the principal amount of our Enhanced Capital Advantaged Preferred Securities ("ECAPS") at par. The fees and write-off of deferred issuance costs associated with the early extinguishment of the ECAPS were de minimis. The remaining \$41 million of outstanding ECAPS are due in 2062 and had a fixed rate of interest of 6.302% per year until June 1, 2012, at which time we began paying interest based on a floating rate (2.3% and 2.59% at December 31, 2013 and 2012, respectively). The ECAPS pay interest semi-annually and may be redeemed at any time, in whole or in part, at a defined redemption price plus accrued interest.

Our backup credit facilities, unsecured senior notes and ECAPS (see Note 6 to the Consolidated Financial Statements) contain customary restrictive financial and operating covenants.

These covenants do not include a requirement for the acceleration of our debt maturities in the event of a downgrade in our credit rating. We do not believe the restrictions contained in these covenants materially affect our financial or operating flexibility.

As of December 31, 2013 and 2012, we had no outstanding derivative financial instruments.

Debt Ratings - As of December 31, 2013, our long-term debt was rated "Baa1" by Moody's with a stable outlook and "BBB+" by Standard & Poor's with a stable outlook, and our commercial paper program was rated "P-2" by Moody's and "A-2" by Standard & Poor's. In assessing our credit strength, we believe that both Moody's and Standard & Poor's considered, among other things, our capital structure and financial policies as well as our consolidated balance sheet, our historical acquisition activity and other financial information. Although we currently believe our long-term debt ratings will remain investment grade, we cannot guarantee the future actions of Moody's and/or Standard & Poor's. Our debt ratings have a direct impact on our future borrowing costs, access to capital markets and new store operating lease costs.

Quarterly Dividend Increase - In December 2013, our Board of Directors authorized a 22% increase in our quarterly common stock dividend to \$0.275 per share. This increase equates to an annual dividend rate of \$1.10 per share. In December 2012, our Board of directors authorized a 38% increase in our quarterly common stock dividend to \$0.225 per share. This increase equated to an annual dividend rate of \$0.90 per share. In December 2011, our Board of Directors authorized a 30% increase in our quarterly common stock dividend to \$0.1625 per share. This increase equated to an annual dividend rate of \$0.65 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 generally qualify and are accounted for as operating leases. We do not have any retained or contingent interests in the stores, and we do not provide any guarantees, other than a guarantee of the lease payments, in connection with the transactions. In accordance with generally accepted accounting principles, our operating leases are not reflected on our consolidated balance sheets.

Between 1991 and 1997, we 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 agreed to indemnify 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, 2013, we guaranteed approximately 73 such store leases (excluding the lease guarantees related to Linens 'n Things), with the maximum remaining lease term extending through 2026. 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.

Below is a summary of our significant contractual obligations as of December 31, 2013:

| <i>In millions</i> | Payments Due by Period | | | | |
|---|------------------------|-----------------|-----------------|-----------------|------------------|
| | Total | 2014 | 2015 to 2016 | 2017 to 2018 | Thereafter |
| Operating leases | \$ 27,090 | \$ 2,175 | \$ 4,184 | \$ 3,817 | \$ 16,914 |
| Lease obligations from discontinued operations | 71 | 18 | 32 | 14 | 7 |
| Capital lease obligations | 789 | 46 | 93 | 94 | 556 |
| Long-term debt | 13,012 | 551 | 1,749 | 2,574 | 8,138 |
| Interest payments on long-term debt ⁽¹⁾ | 7,821 | 596 | 1,111 | 915 | 5,199 |
| Other long-term liabilities reflected in our consolidated balance sheet | 514 | 54 | 158 | 81 | 221 |
| | <u>\$ 49,297</u> | <u>\$ 3,440</u> | <u>\$ 7,327</u> | <u>\$ 7,495</u> | <u>\$ 31,035</u> |

(1) Interest payments on long-term debt are calculated on outstanding balances and interest rates in effect on December 31, 2013.

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. We have discussed the development and selection of our critical accounting policies with the Audit Committee of our Board of Directors and the Audit Committee has reviewed our disclosures relating to them.

Revenue Recognition

Pharmacy Services Segment

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

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

- Revenues generated from prescription drugs sold by mail service dispensing pharmacies are recognized when the prescription is delivered. At the time of delivery, the Pharmacy Services Segment has performed substantially all of its obligations under its client contracts and does not experience a significant level of returns or reshipments.
- Revenues generated from prescription drugs sold by third party pharmacies in the Pharmacy Services Segment's retail pharmacy network and associated administrative fees are recognized at the Pharmacy Services Segment's point-of-sale, which is when the claim is adjudicated by the Pharmacy Services Segment's online claims processing system.

We determine whether we are the principal or agent for our retail pharmacy network transactions on a contract by contract basis. In the majority of our contracts, we have determined we are the principal due to us: (i) being the primary obligor in the

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

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

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

In addition to these premiums, our net revenues include co-payments, coverage gap benefits, deductibles and co-insurance (collectively, the "Member Co-Payments") related to PDP members' actual prescription claims. In certain cases, CMS subsidizes a portion of these Member Co-Payments and we are paid an estimated prospective Member Co-Payment subsidy, each month. The prospective Member Co-Payment subsidy amounts received from CMS are also included in our net revenues. We assume no risk for these amounts, which represented 7.0%, 7.7% and 3.1% of consolidated net revenues in 2013, 2012 and 2011, respectively. If the prospective Member Co-Payment subsidies received differ from the amounts based on actual prescription claims, the difference is recorded in either accounts receivable or accrued expenses. We account for fully insured CMS obligations and Member Co-Payments (including the amounts subsidized by CMS) using the gross method consistent with our revenue recognition policies for Mail Co-Payments and Retail Co-Payments. We have recorded estimates of various assets and liabilities arising from our participation in the Medicare Part D program based on information in our claims management and enrollment systems. Significant estimates arising from our participation in the Medicare Part D program include: (i) estimates of low-income cost subsidy and reinsurance amounts ultimately payable to or receivable from CMS based on a detailed claims reconciliation, (ii) an estimate of amounts payable to CMS under a risk-sharing feature of the Medicare Part D program design, referred to as the risk corridor and (iii) estimates for claims that have been reported and are in the process of being paid or contested and for our estimate of claims that have been incurred but have not yet been reported. Actual amounts of Medicare Part D-related assets and liabilities could differ significantly from amounts recorded. Historically, the effect of these adjustments has not been material to our results of operations or financial position.

Retail Pharmacy Segment

Our Retail Pharmacy Segment recognizes revenue from the sale of merchandise (other than prescription drugs) at the time the merchandise is purchased by the retail customer. Prior to the fourth quarter of 2013, revenue from the sale of prescription drugs was recognized at the time the prescription was filled as opposed to upon delivery as required under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification 605, *Revenue Recognition*. For substantially all prescriptions, the fill date and the delivery date occur in the same reporting period. The effect on both revenue and income of recording prescription drug sales upon fill as opposed to delivery is immaterial. During the fourth quarter of 2013, the Company began

recognizing revenue from the sale of prescription drugs when the prescription is picked up by the customer. See Note 1 to our consolidated financial statements for the impact of this change.

Customer returns are not material. Revenue generated from the performance of services in our health care clinics is recognized at the time the services are performed. Sales taxes are not included in revenue.

Vendor Allowances and Purchase Discounts

Pharmacy Services Segment

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

Retail Pharmacy Segment

Vendor allowances received by the Retail Pharmacy Segment reduce the carrying cost of inventory and are recognized in cost of revenues when the related inventory is sold, unless they are specifically identified as a reimbursement of incremental costs for promotional programs and/or other services provided. Amounts that are directly linked to advertising commitments are recognized as a reduction of advertising expense (included in operating expenses) when the related advertising commitment is satisfied. Any such allowances received in excess of the actual cost incurred also reduce the carrying cost of inventory. The total value of any upfront payments received from vendors that are linked to purchase commitments is initially deferred. The deferred amounts are then amortized to reduce cost of revenues over the life of the contract based upon purchase volume. The total value of any upfront payments received from vendors that are not linked to purchase commitments is also initially deferred. The deferred amounts are then amortized to reduce cost of revenues on a straight-line basis over the life of the related contract.

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

Inventory

Effective January 1, 2012, the Company changed its methods of accounting for prescription drug inventories in the Retail Pharmacy Segment. Prior to 2012, the Company valued prescription drug inventories at the lower of cost or market on a first-in, first-out ("FIFO") basis in retail pharmacies using the retail inventory method and in distribution centers using the FIFO cost method. Effective January 1, 2012, all prescription drug inventories in the Retail Pharmacy Segment have been valued at the lower of cost or market using the weighted average cost method. These changes affected approximately 51% of consolidated inventories as of January 1, 2012.

These changes were made primarily to bring all of the pharmacy operations of the Company to a common inventory valuation methodology and to provide the Company with better information to manage its retail pharmacy operations. The Company believes the weighted average cost method is preferable to the retail inventory method and the FIFO cost method because it results in greater precision in the determination of cost of revenues and inventories by specific drug product and results in a consistent inventory valuation method for all of the Company's prescription drug inventories as the Pharmacy Services Segment's mail service and specialty pharmacies were already on the weighted average cost method. Most of these mail service and specialty pharmacies in the Pharmacy Services Segment were acquired in the Company's 2007 acquisition of Caremark Rx, Inc.

The Company recorded the cumulative effect of these changes in accounting principle as of January 1, 2012. The Company determined that retrospective application for periods prior to 2012 is impracticable, as the period-specific information

necessary to value prescription drug inventories in the Retail Pharmacy Segment under the weighted average cost method is unavailable. The Company implemented a new pharmacy cost accounting system to value prescription drug inventory as of January 1, 2012 and calculated the cumulative impact. The effect of these changes in accounting principle as of January 1, 2012 was a decrease in inventories of \$146 million, an increase in current deferred income tax assets of \$57 million and a decrease in retained earnings of \$89 million.

The weighted average cost method continues to be used to determine cost of sales and inventory in our mail service and specialty pharmacies in our Pharmacy Services Segment. Front store inventory in our Retail Pharmacy Segment is stated at the lower of cost or market on a FIFO basis using the retail method of accounting to determine cost of sales and inventory, and the cost method of accounting on a FIFO basis to determine front store inventory in our distribution centers. Under the retail method, inventory is stated at cost, which is determined by applying a cost-to-retail ratio to the ending retail value of our inventory. Since the retail value of our inventory is adjusted on a regular basis to reflect current market conditions, our carrying value should approximate the lower of cost or market. In addition, we reduce the value of our ending inventory for estimated inventory losses that have occurred during the interim period between physical inventory counts. Physical inventory counts are taken on a regular basis in each store and a continuous cycle count process is the primary procedure used to validate the inventory balances on hand in each distribution center and mail facility to ensure that the amounts reflected in the accompanying consolidated financial statements are properly stated. The accounting for inventory contains uncertainty since we must use judgment to estimate the inventory losses that have occurred during the interim period between physical inventory counts. When estimating these losses, we consider a number of factors, which include, but are not limited to, historical physical inventory results on a location-by-location basis and current physical inventory loss trends.

Our total reserve for estimated inventory losses covered by this critical accounting policy was \$240 million as of December 31, 2013. 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 \$24 million as of December 31, 2013.

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

Goodwill and Intangible Assets

Identifiable intangible assets consist primarily of trademarks, client contracts and relationships, favorable leases and covenants not to compete. These intangible assets arise primarily from the determination of their respective fair market values at the date of acquisition.

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

We evaluate the recoverability of certain long-lived assets, including intangible assets with finite lives, but excluding goodwill and intangible assets with indefinite lives which are tested for impairment using separate tests, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. We group and evaluate these long-lived assets for impairment at the lowest level at which individual cash flows can be identified. When evaluating these long-lived assets for potential impairment, we first compare the carrying amount of the asset group to the asset group's estimated future cash flows (undiscounted and without interest charges). If the estimated future cash flows are less than the carrying amount of the asset group, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the asset group to the asset group's estimated future cash flows (discounted and with interest charges). If required, an impairment loss is recorded for the portion of the asset group's carrying value that exceeds the asset group's estimated future cash flows (discounted and with interest charges). Our long-lived asset impairment loss calculation contains uncertainty since we must use judgment to estimate each asset group's future sales, profitability and cash flows. When preparing these estimates, we consider historical results and current operating trends and our consolidated sales, profitability and cash flow results and forecasts.

These estimates can be affected by a number of factors including, but not limited to, general economic and regulatory conditions, efforts of third party organizations to reduce their prescription drug costs and/or increased member co-payments, the continued efforts of competitors to gain market share and consumer spending patterns.

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

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

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

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

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

The carrying value of goodwill and other intangible assets covered by this critical accounting policy was \$26.5 billion and \$9.5 billion as of December 31, 2013, respectively. We did not record any impairment losses related to goodwill or other intangible assets during 2013, 2012 or 2011. During the third quarter of 2013, we performed our required annual impairment tests of goodwill and indefinitely-lived trademarks. The results of the impairment tests concluded that there was no impairment of goodwill or trademarks. The goodwill impairment test resulted in the fair value of our Pharmacy Services and Retail Pharmacy reporting units exceeding their carrying values by a significant margin. The carrying value of goodwill as of December 31, 2013, in our Pharmacy Services and Retail Pharmacy reporting units was \$19.6 billion and \$6.9 billion, respectively.

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

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

Closed Store Lease Liability

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

The initial calculation and subsequent evaluations of our closed store lease liability contain uncertainty since we must use judgment to estimate the timing and duration of future vacancy periods, the amount and timing of future lump sum settlement payments and the amount and timing of potential future sublease income. When estimating these potential termination costs and their related timing, we consider a number of factors, which include, but are not limited to, historical settlement experience,

the owner of the property, the location and condition of the property, the terms of the underlying lease, the specific marketplace demand and general economic conditions.

Our total closed store lease liability covered by this critical accounting policy was \$310 million as of December 31, 2013. This amount is net of \$178 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 \$18 million as of December 31, 2013.

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 our self-insurance liability to determine if it 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 \$612 million as of December 31, 2013. 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 \$61 million as of December 31, 2013.

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

New Accounting Pronouncements

In July 2012, the FASB issued Accounting Standards Update ("ASU") 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment* ("ASU 2012-02"). ASU 2012-02 allows entities to use a qualitative approach to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount and recognize an impairment loss, if any, to the extent the carrying value exceeds its fair value. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of ASU 2012-02 did not have a material effect on the Company's consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* ("ASU 2013-02"). ASU 2013-02 adds new disclosure requirements for items reclassified out of accumulated other comprehensive income. The additional disclosures include: (1) changes in accumulated other comprehensive income balances by component and (2) significant items reclassified out of accumulated other comprehensive income. The changes in accumulated other comprehensive income balance by component will be disaggregated to separately present reclassification adjustments and current-period other comprehensive income. Significant items reclassified out of accumulated other comprehensive income by component are required to be presented either on the face of the statement of income or as

separate disclosure in the notes to the financial statements. These additional disclosures may be presented before-tax or net-of-tax as long as the income tax benefit or expense attributed to each component of other comprehensive income and reclassification adjustments is presented in the financial statement or in the notes to the financial statements. ASU 2013-02 is effective for interim and annual periods beginning after December 15, 2012 and should be applied prospectively. The adoption of ASU 2013-02 did not have a material effect on the Company's consolidated financial statements. The expanded disclosures are included in Note 1 to the Consolidated Financial Statements.

Recently Proposed Accounting Standard Update

In May 2013, the FASB issued a revised proposed accounting standard update on lease accounting that will require entities to recognize assets and liabilities arising from lease contracts on the balance sheet. The proposed accounting standard update states that lessees and lessors should apply a "right-of-use model" in accounting for all leases. Under the proposed model, lessees would recognize an asset for the right to use the leased asset, and a liability for the obligation to make rental payments over the lease term. The lease term is defined as the noncancelable term that takes into account renewal options and termination options if there is a significant economic incentive for an entity to exercise or not exercise the option. The accounting by a lessor would reflect its retained exposure to the risks or benefits of the underlying leased asset. A lessor would recognize an asset representing its right to receive lease payments based on the expected term of the lease. The Company cannot presently determine the potential impact the proposed standard would have on its results of operations. While the Company believes that the proposed standard, as currently drafted, will likely have a material impact on its financial position, it will not have a material impact on its liquidity; however, until the proposed standard is finalized, such evaluation cannot be completed.

Cautionary Statement Concerning Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 (the "Reform Act") provides a safe harbor for forward-looking statements made by or on behalf of CVS Caremark Corporation. The Company and its representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in the Company's filings with the SEC 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 corporate strategy; revenue growth; earnings or earnings per common share growth; adjusted earnings or adjusted earnings per common share growth; free cash flow; debt ratings; inventory levels; inventory turn and loss rates; store development; relocations and new market entries; retail pharmacy business, sales trends and operations; PBM business, sales trends and operations; the Company's ability to attract or retain customers and clients; Medicare Part D competitive bidding, enrollment and operations; new product development; and the impact of industry developments, 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:

- *Risks relating to the health of the economy in general and in the markets we serve, which could impact consumer purchasing power, preferences and/or spending patterns, drug utilization trends, the financial health of our PBM clients or other payors doing business with the Company and our ability to secure necessary financing, suitable store locations and sale-leaseback transactions on acceptable terms.*
- *Efforts to reduce reimbursement levels and alter health care financing practices, including pressure to reduce reimbursement levels for generic drugs.*
- *The possibility of PBM client loss and/or the failure to win new PBM business, including as a result of failure to win renewal of expiring contracts, contract termination rights that may permit clients to terminate a contract prior to expiration and early or periodic renegotiation of pricing by clients prior to expiration of a contract.*
- *The possibility of loss of Medicare Part D business and/or failure to obtain new Medicare Part D business, whether as a result of the annual Medicare Part D competitive bidding process or otherwise.*

- *Risks related to the frequency and rate of the introduction of generic drugs and brand name prescription products.*
- *Risks of declining gross margins in the PBM industry attributable to increased competitive pressures, increased client demand for lower prices, enhanced service offerings and/or higher service levels and market dynamics and regulatory changes that impact our ability to offer plan sponsors pricing that includes the use of retail "differential" or "spread."*
- *Regulatory changes, business changes and compliance requirements and restrictions that may be imposed by Centers for Medicare and Medicaid Services ("CMS"), Office of Inspector General or other government agencies relating to CVS Caremark's participation in Medicare, Medicaid and other federal and state government-funded programs, including sanctions and remedial actions that may be imposed by CMS on its Medicare Part D business.*
- *Risks and uncertainties related to the timing and scope of reimbursement from Medicare, Medicaid and other government-funded programs, including the impact of sequestration, the impact of other federal budget, debt and deficit negotiations and legislation that could delay or reduce reimbursement from such programs and the impact of any closure, suspension or other changes affecting federal or state government funding or operations.*
- *Possible changes in industry pricing benchmarks used to establish pricing in many of our PBM client contracts, pharmaceutical purchasing arrangements, retail network contracts, specialty payor agreements and other third party payor contracts.*
- *An extremely competitive business environment, including the uncertain impact of increased consolidation in the PBM industry, uncertainty concerning the ability of our retail pharmacy business to secure and maintain contractual relationships with PBMs and other payors on acceptable terms, uncertainty concerning the ability of our PBM business to secure and maintain competitive access, pricing and other contract terms from retail network pharmacies in an environment where some PBM clients are willing to consider adopting narrow or more restricted retail pharmacy networks.*
- *The Company's ability to fully integrate and to realize the planned benefits associated with the acquisition of Coram LLC in accordance with the expected timing.*
- *Risks relating to our ability to secure timely and sufficient access to the products we sell from our domestic and/or international suppliers.*
- *Reform of the U.S. health care system, including ongoing implementation of the Patient Protection and Affordable Care Act, continuing legislative efforts, regulatory changes and judicial interpretations impacting our health care system and the possibility of shifting political and legislative priorities related to reform of the health care system in the future.*
- *Risks relating to our failure to properly maintain our information technology systems, our information security systems and our infrastructure to support our business and to protect the privacy and security of sensitive customer and business information.*
- *Risks related to compliance with a broad and complex regulatory framework, including compliance with new and existing federal, state and local laws and regulations relating to health care, accounting standards, corporate securities, tax, environmental and other laws and regulations affecting our business.*
- *Risks related to litigation, government investigations and other legal proceedings as they relate to our business, the pharmacy services, retail pharmacy or retail clinic industries or to the health care industry generally.*
- *Other risks and uncertainties detailed from time to time in our filings with the SEC.*

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 a material adverse effect on the Company's business, financial condition and results of operations. For these reasons, you are cautioned not to place undue reliance on the Company's forward-looking statements.

Management's Report on Internal Control Over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting. Our Company's internal control over financial reporting includes those policies and procedures that pertain to the Company's ability to record, process, summarize and report a system of internal accounting controls and procedures to provide reasonable assurance, at an appropriate cost/benefit relationship, that the unauthorized acquisition, use or disposition of assets are prevented or timely detected and that transactions are authorized, recorded and reported properly to permit the preparation of financial statements in accordance with generally accepted accounting principles (GAAP) and receipt and expenditures are duly authorized. In order to ensure the Company's internal control over financial reporting is effective, management regularly assesses such controls and did so most recently for its financial reporting as of December 31, 2013.

We conducted an assessment of the effectiveness of our internal controls over financial reporting based on the criteria set forth in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework). This evaluation included review of the documentation, evaluation of the design effectiveness and testing of the operating effectiveness of controls. Our system of internal control over financial reporting is enhanced by periodic reviews by our internal auditors, written policies and procedures and a written Code of Conduct adopted by our Company's Board of Directors, applicable to all employees of our Company. In addition, we have an internal Disclosure Committee, comprised of management from each functional area within the Company, which performs a separate review of our disclosure controls and procedures. There are inherent limitations in the effectiveness of any system of internal controls over financial reporting.

Based on our assessment, we conclude our Company's internal control over financial reporting is effective and provides reasonable assurance that assets are safeguarded and that the financial records are reliable for preparing financial statements as of December 31, 2013.

Ernst & Young LLP, independent registered public accounting firm, is appointed by the Board of Directors and ratified by our Company's shareholders. They were engaged to render an opinion regarding the fair presentation of our consolidated financial statements as well as conducting an audit of internal control over financial reporting. Their accompanying reports are based upon an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States).

February 10, 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of CVS Caremark Corporation

We have audited CVS Caremark Corporation's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). CVS Caremark Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on CVS Caremark Corporation's internal control over financial reporting based on our audit.

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

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

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

In our opinion, CVS Caremark Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of CVS Caremark Corporation as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2013 of CVS Caremark Corporation and our report dated February 10, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 10, 2014

Consolidated Statements of Income

| | Year Ended December 31, | | |
|--|--------------------------------|-------------|-------------|
| | 2013 | 2012 | 2011 |
| <u>In millions, except per share amounts</u> | | | |
| Net revenues | \$ 126,761 | \$ 123,120 | \$ 107,080 |
| Cost of revenues | 102,978 | 100,632 | 86,518 |
| Gross profit | 23,783 | 22,488 | 20,562 |
| Operating expenses | 15,746 | 15,278 | 14,231 |
| Operating profit | 8,037 | 7,210 | 6,331 |
| Interest expense, net | 509 | 557 | 584 |
| Loss on early extinguishment of debt | — | 348 | — |
| Income before income tax provision | 7,528 | 6,305 | 5,747 |
| Income tax provision | 2,928 | 2,436 | 2,258 |
| Income from continuing operations | 4,600 | 3,869 | 3,489 |
| Loss from discontinued operations, net of tax | (8) | (7) | (31) |
| Net income | 4,592 | 3,862 | 3,458 |
| Net loss attributable to noncontrolling interest | — | 2 | 4 |
| Net income attributable to CVS Caremark | \$ 4,592 | \$ 3,864 | \$ 3,462 |
| Basic earnings per common share: | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 3.78 | \$ 3.05 | \$ 2.61 |
| Loss from discontinued operations attributable to CVS Caremark | \$ (0.01) | \$ (0.01) | \$ (0.02) |
| Net income attributable to CVS Caremark | \$ 3.77 | \$ 3.04 | \$ 2.59 |
| Weighted average common shares outstanding | 1,217 | 1,271 | 1,338 |
| Diluted earnings per common share: | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 3.75 | \$ 3.02 | \$ 2.59 |
| Loss from discontinued operations attributable to CVS Caremark | \$ (0.01) | \$ (0.01) | \$ (0.02) |
| Net income attributable to CVS Caremark | \$ 3.74 | \$ 3.02 | \$ 2.57 |
| Weighted average common shares outstanding | 1,226 | 1,280 | 1,347 |
| Dividends declared per common share | \$ 0.90 | \$ 0.65 | \$ 0.50 |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

| <u>In millions</u> | Year Ended December 31, | | |
|--|--------------------------------|-------------|-------------|
| | 2013 | 2012 | 2011 |
| Net income | \$ 4,592 | \$ 3,862 | \$ 3,458 |
| Other comprehensive income (loss): | | | |
| Foreign currency translation adjustments, net of tax | (30) | — | — |
| Net cash flow hedges, net of income tax | 3 | 3 | (9) |
| Pension and other postretirement benefits, net of income tax | 59 | (12) | (20) |
| Total other comprehensive income (loss) | 32 | (9) | (29) |
| Comprehensive income | 4,624 | 3,853 | 3,429 |
| Comprehensive loss attributable to noncontrolling interest | — | 2 | 4 |
| Comprehensive income attributable to CVS Caremark | \$ 4,624 | \$ 3,855 | \$ 3,433 |

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

| <u>In millions, except per share amounts</u> | December 31, | |
|--|---------------------|-------------|
| | 2013 | 2012 |
| Assets: | | |
| Cash and cash equivalents | \$ 4,089 | \$ 1,375 |
| Short-term investments | 88 | 5 |
| Accounts receivable, net | 8,729 | 6,479 |
| Inventories | 11,045 | 11,032 |
| Deferred income taxes | 902 | 693 |
| Other current assets | 472 | 577 |
| Total current assets | 25,325 | 20,161 |
| Property and equipment, net | 8,615 | 8,632 |
| Goodwill | 26,542 | 26,395 |
| Intangible assets, net | 9,529 | 9,753 |
| Other assets | 1,515 | 1,280 |
| Total assets | \$ 71,526 | \$ 66,221 |
| Liabilities: | | |
| Accounts payable | \$ 5,548 | \$ 5,070 |
| Claims and discounts payable | 4,548 | 3,974 |
| Accrued expenses | 4,768 | 4,411 |
| Short-term debt | — | 690 |
| Current portion of long-term debt | 561 | 5 |
| Total current liabilities | 15,425 | 14,150 |
| Long-term debt | 12,841 | 9,133 |
| Deferred income taxes | 3,901 | 3,784 |
| Other long-term liabilities | 1,421 | 1,501 |
| Commitments and contingencies (Note 12) | — | — |
| Shareholders' equity: | | |
| Preferred stock, par value \$0.01: 0.1 shares authorized: none issued or outstanding | — | — |
| Common stock, par value \$0.01: 3,200 shares authorized; 1,680 shares issued and 1,180 shares outstanding at December 31, 2013 and 1,667 shares issued and 1,231 shares outstanding at December 31, 2012 | 17 | 17 |
| Treasury stock, at cost: 500 shares at December 31, 2013 and 435 shares at December 31, 2012 | (20,169) | (16,270) |
| Shares held in trust: 1 share at December 31, 2013 and 2012 | (31) | (31) |
| Capital surplus | 29,777 | 29,120 |
| Retained earnings | 28,493 | 24,998 |
| Accumulated other comprehensive loss | (149) | (181) |
| Total shareholders' equity | 37,938 | 37,653 |
| Total liabilities and shareholders' equity | \$ 71,526 | \$ 66,221 |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

| <u>In millions</u> | December 31, | | |
|--|--------------|------------|-----------|
| | 2013 | 2012 | 2011 |
| Cash flows from operating activities: | | | |
| Cash receipts from customers | \$ 114,993 | \$ 113,205 | \$ 97,688 |
| Cash paid for inventory and prescriptions dispensed by retail network pharmacies | (91,178) | (90,032) | (75,148) |
| Cash paid to other suppliers and employees | (14,295) | (13,643) | (13,635) |
| Interest received | 8 | 4 | 4 |
| Interest paid | (534) | (581) | (647) |
| Income taxes paid | (3,211) | (2,282) | (2,406) |
| Net cash provided by operating activities | 5,783 | 6,671 | 5,856 |
| Cash flows from investing activities: | | | |
| Purchases of property and equipment | (1,984) | (2,030) | (1,872) |
| Proceeds from sale-leaseback transactions | 600 | 529 | 592 |
| Proceeds from sale of property and equipment and other assets | 54 | 23 | 4 |
| Acquisitions (net of cash acquired) and other investments | (415) | (378) | (1,441) |
| Purchase of available-for-sale investments | (226) | — | (3) |
| Maturity of available-for-sale investments | 136 | — | 60 |
| Proceeds from sale of subsidiary | — | 7 | 250 |
| Net cash used in investing activities | (1,835) | (1,849) | (2,410) |
| Cash flows from financing activities: | | | |
| Increase (decrease) in short-term debt | (690) | (60) | 450 |
| Proceeds from issuance of long-term debt | 3,964 | 1,239 | 1,463 |
| Repayments of long-term debt | — | (1,718) | (2,122) |
| Purchase of noncontrolling interest in subsidiary | — | (26) | — |
| Dividends paid | (1,097) | (829) | (674) |
| Derivative settlements | — | — | (19) |
| Proceeds from exercise of stock options | 500 | 836 | 431 |
| Excess tax benefits from stock-based compensation | 62 | 28 | 21 |
| Repurchase of common stock | (3,976) | (4,330) | (3,001) |
| Other | — | — | (9) |
| Net cash used in financing activities | (1,237) | (4,860) | (3,460) |
| Effect of exchange rate changes on cash and cash equivalents | 3 | — | — |
| Net increase (decrease) in cash and cash equivalents | 2,714 | (38) | (14) |
| Cash and cash equivalents at the beginning of the year | 1,375 | 1,413 | 1,427 |
| Cash and cash equivalents at the end of the year | \$ 4,089 | \$ 1,375 | \$ 1,413 |
| Reconciliation of net income to net cash provided by operating activities: | | | |
| Net income | \$ 4,592 | \$ 3,862 | \$ 3,458 |
| Adjustments required to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 1,870 | 1,753 | 1,568 |
| Stock-based compensation | 141 | 132 | 135 |
| Loss on early extinguishment of debt | — | 348 | — |
| Gain on sale of subsidiary | — | — | (53) |
| Deferred income taxes and other noncash items | (86) | (111) | 144 |
| Change in operating assets and liabilities, net of effects from acquisitions: | | | |
| Accounts receivable, net | (2,210) | (387) | (748) |
| Inventories | 12 | (853) | 586 |
| Other current assets | 105 | 3 | (420) |
| Other assets | (135) | (99) | (49) |
| Accounts payable and claims and discounts payable | 1,024 | 1,147 | 1,128 |

| | | | |
|---|-----------------|-----------------|-----------------|
| Accrued expenses | 471 | 766 | 105 |
| Other long-term liabilities | (1) | 110 | 2 |
| Net cash provided by operating activities | <u>\$ 5,783</u> | <u>\$ 6,671</u> | <u>\$ 5,856</u> |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

| <u>In millions</u> | Shares | | | Dollars | | |
|--|-------------------------|--------------|--------------|-------------------------|-------------------------|-------------------------|
| | Year Ended December 31, | | | Year Ended December 31, | | |
| | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 |
| Common stock: | | | | | | |
| Beginning of year | 1,667 | 1,640 | 1,624 | \$ 17 | \$ 16 | \$ 16 |
| Stock options exercised and issuance of stock awards | 13 | 27 | 16 | — | 1 | — |
| End of year | <u>1,680</u> | <u>1,667</u> | <u>1,640</u> | <u>\$ 17</u> | <u>\$ 17</u> | <u>\$ 16</u> |
| Treasury stock: | | | | | | |
| Beginning of year | (435) | (340) | (259) | \$ (16,270) | \$ (11,953) | \$ (9,030) |
| Purchase of treasury shares | (66) | (95) | (84) | (3,976) | (4,330) | (3,001) |
| Employee stock purchase plan issuances | 1 | 1 | 3 | 77 | 47 | 78 |
| Transfer of shares from shares held in trust | — | (1) | — | — | (34) | — |
| End of year | <u>(500)</u> | <u>(435)</u> | <u>(340)</u> | <u>\$ (20,169)</u> | <u>\$ (16,270)</u> | <u>\$ (11,953)</u> |
| Shares held in trust: | | | | | | |
| Beginning of year | (1) | (2) | (2) | \$ (31) | \$ (56) | \$ (56) |
| Transfer of shares to treasury stock | — | 1 | — | — | 25 | — |
| End of year | <u>(1)</u> | <u>(1)</u> | <u>(2)</u> | <u>\$ (31)</u> | <u>\$ (31)</u> | <u>\$ (56)</u> |
| Capital surplus: | | | | | | |
| Beginning of year | | | | \$ 29,120 | \$ 28,126 | \$ 27,610 |
| Stock option activity and stock awards | | | | 588 | 955 | 495 |
| Tax benefit on stock options and stock awards | | | | 69 | 28 | 21 |
| Transfer of shares held in trust to treasury stock | | | | — | 9 | — |
| Purchase of noncontrolling interest in subsidiary | | | | — | 2 | — |
| End of year | | | | <u>\$ 29,777</u> | <u>\$ 29,120</u> | <u>\$ 28,126</u> |
| Retained earnings: | | | | | | |
| Beginning of year | | | | \$ 24,998 | \$ 22,052 | \$ 19,303 |
| Adjustment to opening balance ⁽¹⁾ | | | | — | — | (39) |
| Beginning of year, as adjusted | | | | 24,998 | 22,052 | 19,264 |
| Changes in inventory accounting principles (Note 2) | | | | — | (89) | — |
| Net income attributable to CVS Caremark | | | | 4,592 | 3,864 | 3,462 |
| Common stock dividends | | | | (1,097) | (829) | (674) |
| End of year | | | | <u>\$ 28,493</u> | <u>\$ 24,998</u> | <u>\$ 22,052</u> |
| Accumulated other comprehensive loss: | | | | | | |
| Beginning of year | | | | \$ (181) | \$ (172) | \$ (143) |
| Foreign currency translation adjustments, net of income tax | | | | (30) | — | — |
| Net cash flow hedges, net of income tax | | | | 3 | 3 | (9) |
| Pension and other postretirement benefits, net of income tax | | | | 59 | (12) | (20) |
| End of year | | | | <u>\$ (149)</u> | <u>\$ (181)</u> | <u>\$ (172)</u> |
| Total shareholders' equity | | | | <u><u>\$ 37,938</u></u> | <u><u>\$ 37,653</u></u> | <u><u>\$ 38,013</u></u> |

(1) See Note 1 - Significant Accounting Policies (Revenue Recognition - Retail Pharmacy Segment).

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

I Significant Accounting Policies

Description of business - CVS Caremark Corporation and its subsidiaries (the "Company") is the largest integrated pharmacy health care provider in the United States based upon revenues and prescriptions filled. The Company currently has three reportable business segments, Pharmacy Services, Retail Pharmacy and Corporate, which are described below.

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

As a pharmacy benefits manager, the PSS manages the dispensing of pharmaceuticals through the Company's mail order pharmacies and national network of nearly 68,000 retail pharmacies, consisting of approximately 41,000 chain pharmacies and 27,000 independent pharmacies, to eligible members in the benefits plans maintained by the Company's clients and utilizes its information systems to perform, among other things, safety checks, drug interaction screenings and brand to generic substitutions.

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

The PSS also provides health management programs, which include integrated disease management for 17 conditions, through the Company's Accordant[®] rare disease management offering.

In addition, through the Company's SilverScript Insurance Company ("SilverScript") subsidiary, the PSS is a national provider of drug benefits to eligible beneficiaries under the Federal Government's Medicare Part D program.

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

The pharmacy services business operates under the CVS Caremark[®] Pharmacy Services, Caremark[®], CVS Caremark[®], CarePlus CVS/pharmacy[®], RxAmerica[®], Accordant[®], SilverScript[®] and Novologix[®] names. As of December 31, 2013, the PSS 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.

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

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

As of December 31, 2013, the retail pharmacy business included 7,660 retail drugstores (of which 7,603 operated a pharmacy) located in 43 states, the District of Columbia, Puerto Rico and Brazil operating primarily under the CVS/pharmacy and Drogeria Onofre[®] names, the online retail websites, CVS.com and Onofre.com.br, and 800 retail health care clinics operating under the MinuteClinic[®] name (of which 792 were located in CVS/pharmacy stores).

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

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

Notes to Consolidated Financial Statements (continued)

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

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

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

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

Short-term investments - The Company's short-term investments consist of certificate of deposits with initial maturities of greater than three months when purchased. These investments, which were classified as available-for-sale within Level 1 of the fair value hierarchy, were carried at fair value, which approximated historical cost at December 31, 2013 and 2012.

Fair value of financial instruments - As of December 31, 2013, the Company's financial instruments include cash and cash equivalents, short-term investments, 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 total long-term debt was \$13.4 billion and \$14.2 billion, respectively, as of December 31, 2013. The fair value of the Company's long-term debt was estimated based on quoted rates currently offered in active markets for the Company's debt, which is considered Level 1 of the fair value hierarchy. The Company had outstanding letters of credit, which guaranteed foreign trade purchases, with a fair value of \$3.6 million as of December 31, 2013. There were no outstanding derivative financial instruments as of December 31, 2013 and 2012.

Foreign currency translation and transactions - For local currency functional locations, assets and liabilities are translated at end-of-period rates while revenues and expenses are translated at average rates in effect during the period. Equity is translated at historical rates and the resulting cumulative translation adjustments are included as a component of accumulated other comprehensive income/(loss).

For U.S. dollar functional currency locations, foreign currency assets and liabilities are remeasured into U.S. dollars at end-of-period exchange rates, except for non-monetary balance sheet accounts, which are remeasured at historical exchange rates. Revenue and expense are remeasured at average exchange rates in effect during each period, except for those expenses related to the nonmonetary balance sheet amounts, which are remeasured at historical exchange rates. Gains or losses from foreign currency remeasurement are included in income.

Gains and losses arising from foreign currency transactions and the effects of remeasurements were not material for all period presented.

Accounts receivable - Accounts receivable are stated net of an allowance for doubtful accounts. The accounts receivable balance primarily includes amounts due from third party providers (e.g., pharmacy benefit managers, insurance companies and governmental agencies), clients and members, as well as vendors and manufacturers. Charges to bad debt are based on both historical write-offs and specifically identified receivables.

Notes to Consolidated Financial Statements (continued)

The activity in the allowance for doubtful accounts receivable for the years ended December 31 is as follows:

| <u><i>In millions</i></u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|---------------------------------------|---------------|---------------|---------------|
| Beginning balance | \$ 243 | \$ 189 | \$ 182 |
| Additions charged to bad debt expense | 195 | 149 | 129 |
| Write-offs charged to allowance | (182) | (95) | (122) |
| Ending balance | <u>\$ 256</u> | <u>\$ 243</u> | <u>\$ 189</u> |

Inventories - Prior to 2012, inventories were stated at the lower of cost or market on a first-in, first-out basis using the retail inventory method in the retail pharmacy stores, the weighted average cost method in the mail service and specialty pharmacies, and the cost method on a first-in, first-out basis in the distribution centers. Effective January 1, 2012, the Company changed its methods of accounting for prescription drug inventories in the RPS to the weighted average cost method. See Note 2 for additional information regarding the accounting change. Physical inventory counts are taken on a regular basis in each store and a continuous cycle count process is the primary procedure used to validate the inventory balances on hand in each distribution center and mail facility to ensure that the amounts reflected in the accompanying consolidated financial statements are properly stated. During the interim period between physical inventory counts, the Company accrues for anticipated physical inventory losses on a location-by-location basis based on historical results and current trends.

Property and equipment - Property, equipment and improvements to leased premises are depreciated using the straight-line method over the estimated useful lives of the assets, or when applicable, the term of the lease, whichever is shorter. Estimated useful lives generally range from 10 to 40 years for buildings, building improvements and leasehold improvements and 3 to 10 years for fixtures, equipment and internally developed software. Repair and maintenance costs are charged directly to expense as incurred. Major renewals or replacements that substantially extend the useful life of an asset are capitalized and depreciated. Application development stage costs for significant internally developed software projects are capitalized and depreciated.

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

| <u><i>In millions</i></u> | <u>2013</u> | <u>2012</u> |
|---|-----------------|-----------------|
| Land | \$ 1,460 | \$ 1,429 |
| Building and improvements | 2,694 | 2,614 |
| Fixtures and equipment | 8,419 | 7,928 |
| Leasehold improvements | 3,320 | 3,105 |
| Software | 1,515 | 1,230 |
| | <u>17,408</u> | <u>16,306</u> |
| Accumulated depreciation and amortization | (8,793) | (7,674) |
| Property and equipment, net | <u>\$ 8,615</u> | <u>\$ 8,632</u> |

The gross amount of property and equipment under capital leases was \$260 million and \$219 million as of December 31, 2013 and 2012, respectively. Accumulated amortization of property and equipment under capital lease was \$74 million and \$64 million as of December 31, 2013 and 2012, respectively. Amortization of property and equipment under capital lease is included within depreciation expense. Depreciation expense totaled \$1.4 billion, \$1.3 billion and \$1.1 billion in 2013, 2012 and 2011, respectively.

Goodwill and other indefinitely-lived assets - Goodwill and other indefinitely-lived assets are not amortized, but are subject to impairment reviews annually, or more frequently if necessary. See Note 4 for additional information on goodwill and other indefinitely-lived assets.

Intangible assets - Purchased customer contracts and relationships are amortized on a straight-line basis over their estimated useful lives between 10 and 20 years. Purchased customer lists are amortized on a straight-line basis over their estimated useful lives of up to 10 years. Purchased leases are amortized on a straight-line basis over the remaining life of the lease. See Note 4 for additional information about intangible assets.

Impairment of long-lived assets - The Company groups and evaluates fixed and finite-lived intangible assets for impairment at the lowest level at which individual cash flows can be identified, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If indicators of impairment are present, the Company first compares the carrying amount of the asset group to the estimated future cash flows associated with the asset group (undiscounted and without

Notes to Consolidated Financial Statements (continued)

interest charges). If the estimated future cash flows used in this analysis are less than the carrying amount of the asset group, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the asset group to the asset group's estimated future cash flows (discounted and with interest charges). If required, an impairment loss is recorded for the portion of the asset group's carrying value that exceeds the asset group's estimated future cash flows (discounted and with interest charges).

Redeemable noncontrolling interest — Through June 29, 2012, the Company had an approximately 60% ownership interest in Generation Health, Inc. ("Generation Health") and consolidated Generation Health in its consolidated financial statements. The nonemployee noncontrolling shareholders of Generation Health held put rights for the remaining interest in Generation Health that if exercised would require the Company to purchase the remaining interest in Generation Health in 2015 for a minimum of \$26 million and a maximum of \$159 million, depending on certain financial metrics of Generation Health in 2014. Since the noncontrolling shareholders of Generation Health had a redemption feature as a result of the put rights, the Company had classified the redeemable noncontrolling interest in Generation Health in the mezzanine section of the consolidated balance sheet outside of shareholders' equity. On June 29, 2012, the Company acquired the remaining 40% interest in Generation Health from minority shareholders and employee option holders for \$26 million and \$5 million, respectively, for a total of \$31 million.

The following is a reconciliation of the changes in the redeemable noncontrolling interest for the years ended December 31, 2012 and 2011:

| <u><i>In millions</i></u> | 2012 | 2011 |
|--|-------|-------|
| Beginning balance | \$ 30 | \$ 34 |
| Net loss attributable to noncontrolling interest | (2) | (4) |
| Purchase of noncontrolling interest | (26) | — |
| Reclassification to capital surplus in connection with purchase of noncontrolling interest | (2) | — |
| Ending balance | \$ — | \$ 30 |

Revenue Recognition

Pharmacy Services Segment - The PSS sells prescription drugs directly through its mail service dispensing pharmacies and indirectly through its retail pharmacy network. The PSS recognizes revenue from prescription drugs sold by its mail service dispensing pharmacies and under retail pharmacy network contracts where it is the principal using the gross method at the contract prices negotiated with its clients. Net revenues include: (i) the portion of the price the client pays directly to the PSS, net of any volume-related or other discounts paid back to the client (see "Drug Discounts" below), (ii) the price paid to the PSS by client plan members for mail order prescriptions ("Mail Co-Payments") and the price paid to retail network pharmacies by client plan members for retail prescriptions ("Retail Co-Payments"), and (iii) administrative fees for retail pharmacy network contracts where the PSS is not the principal as discussed below. Sales taxes are not included in revenue.

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

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

The PSS determines whether it is the principal or agent for its retail pharmacy network transactions on a contract by contract basis. In the majority of its contracts, the PSS has determined it is the principal due to it: (i) being the primary obligor in the arrangement, (ii) having latitude in establishing the price, changing the product or performing part of the service, (iii) having discretion in supplier selection, (iv) having involvement in the determination of product or service specifications, and (v) having credit risk. The PSS's obligations under its client contracts for which revenues are reported using the gross method are separate and distinct from its obligations to the third party pharmacies included in its retail pharmacy network contracts.

Notes to Consolidated Financial Statements (continued)

Pursuant to these contracts, the PSS is contractually required to pay the third party pharmacies in its retail pharmacy network for products sold, regardless of whether the PSS is paid by its clients. The PSS's responsibilities under its client contracts typically include validating eligibility and coverage levels, communicating the prescription price and the co-payments due to the third party retail pharmacy, identifying possible adverse drug interactions for the pharmacist to address with the prescriber prior to dispensing, suggesting generic alternatives where clinically 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 applicable indicators of gross revenue reporting are present. For contracts under which the PSS acts as an agent, revenue is recognized using the net method.

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

Medicare Part D - The PSS, through its SilverScript Insurance Company subsidiary, participates in the Federal Government's Medicare Part D program as a Prescription Drug Plan ("PDP"). 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 direct premium paid by CMS and a beneficiary premium, which is the responsibility of the PDP member, but is subsidized by CMS in the case of low-income members. 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, net revenues include co-payments, coverage gap benefits, deductibles and co-insurance (collectively, the "Member Co-Payments") related to PDP members' actual prescription claims. In certain cases, CMS subsidizes a portion of these Member Co-Payments and pays the PSS an estimated prospective Member Co-Payment subsidy amount each month. The prospective Member Co-Payment subsidy amounts received from CMS are also included in net revenues. The Company assumes no risk for these amounts. 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).

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. Prior to the fourth quarter of 2013, revenue from the sale of prescription drugs was recognized at the time the prescription was filled as opposed to upon delivery as required under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification 605, *Revenue Recognition*. For substantially all prescriptions, the fill date and the delivery date occur in the same reporting period. The effect on both revenue and income of recording prescription drug sales upon fill as opposed to delivery is immaterial. During the fourth quarter of 2013, the Company began recognizing revenue from the sale of prescription drugs when the prescription is picked up by the customer. This immaterial error correction is reflected in all annual and quarterly financial statements presented. For the year ended December 31, 2012, the correction reduced net revenues and net income attributable to CVS Caremark by \$13 million and \$13 million. For the year ended December 31, 2011, the correction reduced net revenues by \$20 million and increased net income attributable to CVS Caremark by \$1 million. Diluted earnings per share from net income attributable to CVS Caremark was reduced by \$0.01 for the year ended December 31, 2012. There was no impact on diluted earnings per share from net income attributable to CVS Caremark in any other annual or interim period impacted by the immaterial error correction. The adjustment increased total assets and total liabilities by \$309 million and \$360 million as of December 31, 2012 and decreased retained earnings by \$38 million and \$39 million as of December 31, 2011 and 2010, respectively.

Customer returns are not material. Revenue generated from the performance of services in the RPS's health care clinics is recognized at the time the services are performed. Sales taxes are not included in revenue.

See Note 13 for additional information about the revenues of the Company's business segments.

Notes to Consolidated Financial Statements (continued)

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

Retail Pharmacy Segment - The RPS' cost of revenues includes: the cost of merchandise sold during the reporting period and the related purchasing costs, warehousing and delivery costs (including depreciation and amortization) and actual and estimated inventory losses.

See Note 13 for additional information about the cost of revenues of the Company's business segments.

Vendor allowances and purchase discounts

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

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

Retail Pharmacy Segment - Vendor allowances received by the RPS reduce the carrying cost of inventory and are recognized in cost of revenues when the related inventory is sold, unless they are specifically identified as a reimbursement of incremental costs for promotional programs and/or other services provided. Amounts that are directly linked to advertising commitments are recognized as a reduction of advertising expense (included in operating expenses) when the related advertising commitment is satisfied. Any such allowances received in excess of the actual cost incurred also reduce the carrying cost of inventory. The total value of any upfront payments received from vendors that are linked to purchase commitments is initially deferred. The deferred amounts are then amortized to reduce cost of revenues over the life of the contract based upon purchase volume. The total value of any upfront payments received from vendors that are not linked to purchase commitments is also initially deferred. The deferred amounts are then amortized to reduce cost of revenues on a straight-line basis over the life of the related contract. The total amortization of these upfront payments was not material to the accompanying consolidated financial statements.

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

Facility opening and closing costs - New facility opening costs, other than capital expenditures, are charged directly to expense when incurred. When the Company closes a facility, the present value of estimated unrecoverable costs, including the remaining lease obligation less estimated sublease income and the book value of abandoned property and equipment, are charged to expense. The long-term portion of the lease obligations associated with facility closings was \$246 million and \$288 million in 2013 and 2012, respectively.

Notes to Consolidated Financial Statements (continued)

Advertising costs - Advertising costs are expensed when the related advertising takes place. Advertising costs, net of vendor funding (included in operating expenses), were \$177 million, \$221 million and \$211 million in 2013, 2012 and 2011, respectively.

Interest expense, net - Interest expense, net of capitalized interest, was \$517 million, \$561 million and \$588 million, and interest income was \$8 million, \$4 million and \$4 million in 2013, 2012 and 2011, respectively. Capitalized interest totaled \$25 million, \$29 million and \$37 million in 2013, 2012 and 2011, respectively.

Shares held in trust - The Company maintains grantor trusts, which held approximately 1 million shares of its common stock at December 31, 2013 and 2012, 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.

Accumulated other comprehensive loss - Accumulated other comprehensive loss consists of changes in the net actuarial gains and losses associated with pension and other postretirement benefit plans, unrealized losses on derivatives from cash flow hedges executed in previous years associated with the issuance of long-term debt, and foreign currency translation adjustments. The amount included in accumulated other comprehensive loss related to the Company's pension and postretirement plans was \$172 million pre-tax (\$106 million after-tax) as of December 31, 2013 and \$268 million pre-tax (\$165 million after-tax) as of December 31, 2012. The net impact on cash flow hedges totaled \$22 million pre-tax (\$13 million after-tax) and \$26 million pre-tax (\$16 million after-tax) as of December 31, 2013 and 2012, respectively. Cumulative foreign currency translation adjustments at December 31, 2013 were \$30 million.

Changes in accumulated other comprehensive income (loss) by component are shown below:

| <i>In millions</i> | Year Ended December 31, 2013 ⁽¹⁾ | | | |
|---|---|--|---------------------|----------|
| | Losses on Cash Flow Hedges | Pension and Other Postretirement Benefits | Foreign Currency | Total |
| Balance, December 31, 2012 | \$ (16) | \$ (165) | \$ — | \$ (181) |
| Other comprehensive income (loss) before reclassifications | — | — | (30) | (30) |
| Amounts reclassified from accumulated other comprehensive income ⁽²⁾ | 3 | 59 | — | 62 |
| Net other comprehensive income (loss) | 3 | 59 | (30) | 32 |
| Balance, December 31, 2013 | \$ (13) | \$ (106) | \$ (30) | \$ (149) |

(1) All amounts are net of tax.

(2) The amounts reclassified from accumulated other comprehensive income for cash flow hedges are recorded within interest expense, net on the consolidated statement of income. The amounts reclassified from accumulated other comprehensive income for pension and other postretirement benefits are included in operating expenses on the consolidated statement of income.

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

Related party transactions - The Company has an equity method investment in SureScripts, LLC ("SureScripts"), which operates a clinical health information network. The Pharmacy Services and Retail Pharmacy segments utilize this clinical health information network in providing services to its client plan members and retail customers. The Company expensed fees of approximately \$48 million, \$32 million and \$28 million in the years ended December 31, 2013, 2012 and 2011, respectively, for the use of this network.

The Company's investment in and equity in earnings in SureScripts for all periods presented is immaterial.

Income taxes - The Company provides for income taxes currently payable, as well as for those deferred because of timing differences between reported income and expenses for financial statement purposes versus income tax return purposes. Income tax credits are recorded as a reduction of income taxes. Deferred income 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 return purposes. Deferred income 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

Notes to Consolidated Financial Statements (continued)

recoverable or settled. The effect of a change in income tax rates is recognized as income or expense in the period of the change.

Earnings per common share - Basic earnings per common share is computed by dividing: (i) net earnings by (ii) the weighted average number of common shares outstanding during the year (the "Basic Shares"). Diluted earnings per common share is computed by dividing: (i) net earnings by (ii) Basic Shares plus the additional shares that would be issued assuming that all dilutive stock awards are exercised. Options to purchase 6.2 million, 5.9 million and 30.5 million shares of common stock were outstanding as of December 31, 2013, 2012 and 2011, respectively, but were not included in the calculation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

New Accounting Pronouncements

In July 2012, the FASB issued Accounting Standards Update ("ASU") 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment* ("ASU 2012-02"). ASU 2012-02 allows entities to use a qualitative approach to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount and recognize an impairment loss, if any, to the extent the carrying value exceeds its fair value. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of ASU 2012-02 did not have a material effect on the Company's consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* ("ASU 2013-02"). ASU 2013-02 adds new disclosure requirements for items reclassified out of accumulated other comprehensive income. The additional disclosures include: (1) changes in accumulated other comprehensive income balances by component and (2) significant items reclassified out of accumulated other comprehensive income. The changes in accumulated other comprehensive income balance by component will be disaggregated to separately present reclassification adjustments and current-period other comprehensive income. Significant items reclassified out of accumulated other comprehensive income by component are required to be presented either on the face of the statement of income or as separate disclosure in the notes to the financial statements. These additional disclosures may be presented before-tax or net-of-tax as long as the income tax benefit or expense attributed to each component of other comprehensive income and reclassification adjustments is presented in the financial statement or in the notes to the financial statements. ASU 2013-02 is effective for interim and annual periods beginning after December 15, 2012 and should be applied prospectively. The adoption of ASU 2013-02 did not have a material effect on the Company's consolidated financial statements. The expanded disclosures have been included in Note 1 to these consolidated financial statements.

2 Changes in Accounting Principle

Effective January 1, 2012, the Company changed its methods of accounting for prescription drug inventories in the RPS. Prior to 2012, the Company valued prescription drug inventories at the lower of cost or market on a first-in, first-out ("FIFO") basis in retail pharmacies using the retail inventory method and in distribution centers using the FIFO cost method. Effective January 1, 2012, all prescription drug inventories in the RPS have been valued at the lower of cost or market using the weighted average cost method. These changes affected approximately 51% of consolidated inventories as of January 1, 2012.

These changes were made primarily to bring all of the pharmacy operations of the Company to a common inventory valuation methodology and to provide the Company with better information to manage its retail pharmacy operations. The Company believes the weighted average cost method is preferable to the retail inventory method and the FIFO cost method because it results in greater precision in the determination of cost of revenues and inventories by specific drug product and results in a consistent inventory valuation method for all of the Company's prescription drug inventories as the PSS's mail service and specialty pharmacies were already on the weighted average cost method. Most of these mail service and specialty pharmacies in the PSS were acquired in the Company's 2007 acquisition of Caremark Rx, Inc.

The Company recorded the cumulative effect of these changes in accounting principle as of January 1, 2012. The Company determined that retrospective application for periods prior to 2012 is impracticable, as the period-specific information necessary to value prescription drug inventories in the Retail Pharmacy Segment under the weighted average cost method is unavailable. The Company implemented a new pharmacy cost accounting system to value prescription drug inventory as of January 1, 2012 and calculated the cumulative impact. The effect of these changes in accounting principle as of January 1, 2012

Notes to Consolidated Financial Statements (continued)

was a decrease in inventories of \$146 million, an increase in current deferred income tax assets of \$57 million and a decrease in retained earnings of \$89 million.

Had the Company not made these changes in accounting principle, for the year ended December 31, 2012, income from continuing operations and net income attributable to CVS Caremark would have been approximately \$19 million lower. For the year ended December 31, 2012, basic and diluted earnings per common share for income from continuing operations attributable to CVS Caremark and net income attributable to CVS Caremark would have been reduced by \$0.01.

3 Discontinued Operations

On November 1, 2011, the Company sold its TheraCom, L.L.C. ("TheraCom") subsidiary to AmerisourceBergen Corporation for \$250 million, plus a working capital adjustment of \$7 million which the Company received in March 2012. TheraCom is a provider of commercialization support services to the biotech and pharmaceutical industries. The TheraCom business had historically been part of the Company's PSS. The results of the TheraCom business are presented as discontinued operations and have been excluded from both continuing operations and segment results for all periods presented.

In connection with certain business dispositions completed between 1991 and 1997, the Company retained guarantees on store lease obligations for a number of former subsidiaries, including Linens 'n Things which filed for bankruptcy in 2008. The Company's income (loss) from discontinued operations includes lease-related costs which the Company believes it will likely be required to satisfy pursuant to its Linens 'n Things lease guarantees.

Below is a summary of the results of discontinued operations for the years ended December 31:

| <u><i>In millions</i></u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|---|---------------|---------------|----------------|
| Net revenues of TheraCom | \$ — | \$ — | \$ 650 |
| Income from operations of TheraCom | \$ — | \$ — | \$ 18 |
| Gain on disposal of TheraCom | — | — | 53 |
| Loss on disposal of Linens 'n Things | (12) | (12) | (7) |
| Income tax benefit (provision) | 4 | 5 | (95) |
| Loss from discontinued operations, net of tax | <u>\$ (8)</u> | <u>\$ (7)</u> | <u>\$ (31)</u> |

4 Goodwill and Other Intangibles

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

When evaluating goodwill for potential impairment, the Company first compares the fair value of its two reporting units, the PSS and RPS, to their respective carrying amounts. The Company estimates the fair value of its reporting units using a combination of a future discounted cash flow valuation model and a comparable market transaction model. 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 2013, the Company performed its required annual goodwill impairment tests. The Company concluded there were no goodwill impairments as of the testing date. The carrying amount of goodwill was \$26.5 billion and \$26.4 billion as of December 31, 2013 and 2012, respectively (see Note 13 for a breakdown of goodwill by segment). During the year ended December 31, 2013, goodwill increased \$12 million in PSS and \$135 million in RPS for a total increase of \$147 million. The increase in PSS was primarily due to an immaterial acquisition. The \$135 million net increase in RPS was due to an immaterial acquisition which increased goodwill by \$160 million, which was partially offset by a decrease of \$25 million related to foreign currency translation adjustments.

Indefinitely-lived intangible assets are tested for impairment by comparing the estimated fair value of the asset to its carrying value. The Company estimates the fair value of its indefinitely-lived trademark using the relief from royalty method under the income approach. If the carrying value of the asset exceeds its estimated fair value, an impairment loss is recognized and the asset is written down to its estimated fair value. During the third quarter of 2013, the Company performed its annual

Notes to Consolidated Financial Statements (continued)

impairment test of the indefinitely-lived trademark and concluded there was no impairment as of the testing date. The carrying amount of its indefinitely-lived trademark was \$6.4 billion as of December 31, 2013 and 2012.

The Company amortizes intangible assets with finite lives over the estimated useful lives of the respective assets, which have a weighted average useful life of 13.0 years. The weighted average useful lives of the Company's customer contracts and relationships and covenants not to compete are 12.5 years. The weighted average lives of the Company's favorable leases and other intangible assets are 17.1 years. Amortization expense for intangible assets totaled \$494 million, \$486 million and \$452 million in 2013, 2012 and 2011, respectively. The anticipated annual amortization expense for these intangible assets for the next five years is \$457 million in 2014, \$427 million in 2015, \$398 million in 2016, \$375 million in 2017 and \$357 million in 2018.

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

| <i>In millions</i> | 2013 | | | 2012 | | |
|---|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Trademark (indefinitely-lived) | \$ 6,398 | \$ — | \$ 6,398 | \$ 6,398 | \$ — | \$ 6,398 |
| Customer contracts and relationships and covenants not to compete | 5,840 | (3,083) | 2,757 | 5,745 | (2,812) | 2,933 |
| Favorable leases and other | 800 | (426) | 374 | 802 | (380) | 422 |
| | <u>\$ 13,038</u> | <u>\$ (3,509)</u> | <u>\$ 9,529</u> | <u>\$ 12,945</u> | <u>\$ (3,192)</u> | <u>\$ 9,753</u> |

5 Share Repurchase Programs

On December 17, 2013, the Company's Board of Directors authorized a new share repurchase program for up to \$6.0 billion of outstanding common stock (the "2013 Repurchase Program"). On September 19, 2012, the Company's Board of Directors authorized a share repurchase program for up to \$6.0 billion of outstanding common stock (the "2012 Repurchase Program"). On August 23, 2011, the Company's Board of Directors authorized a share repurchase program for up to \$4.0 billion of outstanding common stock (the "2011 Repurchase Program"). On June 14, 2010, our Board of Directors authorized a share repurchase program for up to \$2.0 billion of outstanding common stock (the "2010 Repurchase Program"). The share repurchase authorizations, each of which was effective immediately, permitted the Company to effect repurchases from time to time through a combination of open market repurchases, privately negotiated transactions, accelerated share repurchase transactions, and/or other derivative transactions. The 2013 and 2012 Repurchase Programs may be modified or terminated by the Board of Directors at any time. The 2011 and 2010 Repurchase Programs have been completed, as described below.

Pursuant to the authorization under the 2012 Repurchase Program, effective October 1, 2013, the Company entered into a \$1.7 billion fixed dollar accelerated share repurchase ("ASR") agreement with Barclays Bank PLC ("Barclays"). Upon payment of the \$1.7 billion purchase price on October 1, 2013, the Company received a number of shares of its common stock equal to 50% of the \$1.7 billion notional amount of the ASR agreement or approximately 14.9 million shares at a price of \$56.88 per share. The Company received approximately 11.7 million shares of common stock on December 30, 2013 at an average price of \$63.83 per share, representing the remaining 50% of the \$1.7 billion notional amount of the ASR agreement and thereby concluding the agreement. The total of 26.6 million shares of common stock delivered to the Company by Barclays over the term of the October 2013 ASR agreement were placed into treasury stock.

Pursuant to the authorizations under the 2011 and 2012 Repurchase Programs, on September 19, 2012, the Company entered into a \$1.2 billion fixed dollar ASR agreement with Barclays. Upon payment of the \$1.2 billion purchase price on September 20, 2012, the Company received a number of shares of its common stock equal to 50% of the \$1.2 billion notional amount of the ASR agreement or approximately 12.6 million shares at a price of \$47.71 per share. The Company received approximately 13.0 million shares of common stock on November 16, 2012 at an average price of \$46.96 per share, representing the remaining 50% of the \$1.2 billion notional amount of the ASR agreement and thereby concluding the agreement. The total of 25.6 million shares of common stock delivered to the Company by Barclays over the term of the September 2012 ASR agreement were placed into treasury stock.

Pursuant to the authorization under the 2011 Repurchase Program, on August 24, 2011, the Company entered into a \$1.0 billion fixed dollar ASR agreement with Barclays. The ASR agreement contained provisions that establish the minimum and maximum number of shares to be repurchased during its term. Pursuant to the ASR agreement, on August 25, 2011, the

Notes to Consolidated Financial Statements (continued)

Company paid \$1.0 billion to Barclays in exchange for Barclays delivering 20.3 million shares of common stock to the Company. On September 16, 2011, upon establishment of the minimum number of shares to be repurchased, Barclays delivered an additional 5.4 million shares of common stock to the Company. At the conclusion of the transaction on December 28, 2011, Barclays delivered a final installment of 1.6 million shares of common stock on December 29, 2011. The aggregate 27.3 million shares of common stock delivered to the Company by Barclays, were placed into treasury stock. This represented all the repurchases that occurred during the year ended December 31, 2011 under the 2011 Repurchase Program.

Each of the ASR transactions described above were accounted for as an initial treasury stock transaction and a forward contract. The forward contract was classified as an equity instrument. The initial repurchase of the shares and delivery of the remainder of the shares to conclude each ASR, resulted in an immediate reduction of the outstanding shares used to calculate the weighted average common shares outstanding for basic and diluted net income per share.

During the year ended December 31, 2013, the Company repurchased an aggregate of 66.2 million shares of common stock for approximately \$4.0 billion under the 2012 Repurchase Program, which includes shares received from the October 2013 ASR agreement described above. As of December 31, 2013, there remained an aggregate of approximately \$6.7 billion available for future repurchases under the 2013 and 2012 Repurchase Programs.

During the year ended December 31, 2012, the Company repurchased an aggregate of 95.0 million shares of common stock for approximately \$4.3 billion under the 2012 and 2011 Repurchase Programs, which includes shares received from the September 2012 ASR agreement described above. As of December 31, 2012, the 2011 Repurchase Program was complete.

During the year ended December 31, 2011, the Company repurchased an aggregate of 56.4 million shares of common stock for approximately \$2.0 billion, completing the 2010 Repurchase Program.

Notes to Consolidated Financial Statements (continued)

6 Borrowing and Credit Agreements

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

| <u>In millions</u> | 2013 | 2012 |
|---|------------------|-----------------|
| Commercial paper | \$ — | \$ 690 |
| 4.875% senior notes due 2014 | 550 | 550 |
| 3.25% senior notes due 2015 | 550 | 550 |
| 1.2% senior notes due 2016 | 750 | — |
| 6.125% senior notes due 2016 | 421 | 421 |
| 5.75% senior notes due 2017 | 1,310 | 1,310 |
| 2.25% senior notes due 2018 | 1,250 | — |
| 6.6% senior notes due 2019 | 394 | 394 |
| 4.75% senior notes due 2020 | 450 | 450 |
| 4.125% senior notes due 2021 | 550 | 550 |
| 2.75% senior notes due 2022 | 1,250 | 1,250 |
| 4.0% senior notes due 2023 | 1,250 | — |
| 6.25% senior notes due 2027 | 1,000 | 1,000 |
| 6.125% senior notes due 2039 | 1,500 | 1,500 |
| 5.75% senior notes due 2041 | 950 | 950 |
| 5.3% senior notes due 2043 | 750 | — |
| Enhanced Capital Advantage Preferred Securities due 2062 ⁽¹⁾ | 41 | 41 |
| Deferred acquisition payables due 2015-2017 ⁽²⁾ | 42 | — |
| Mortgage notes payable | 4 | 1 |
| Capital lease obligations | 390 | 171 |
| | <u>13,402</u> | <u>9,828</u> |
| Less: | | |
| Short-term debt (commercial paper) | — | (690) |
| Current portion of long-term debt | (561) | (5) |
| | <u>\$ 12,841</u> | <u>\$ 9,133</u> |

(1) The Enhanced Capital Advantage Preferred Securities ("ECAPS") had a stated rate of interest of 6.302% through June 1, 2012, at which time the rate converted to a variable rate which was 2.3% and 2.6% at December 31, 2013 and 2012.

(2) Deferred acquisition payables are denominated in Brazilian real and bear interest at the Brazilian interbank deposit certificate rate which was 9.77% at December 31, 2013.

The Company had no commercial paper outstanding as of December 31, 2013. In connection with its commercial paper program, the Company maintains a \$1.25 billion, four-year unsecured back-up credit facility, which expires on May 23, 2016, a \$1.25 billion, five-year unsecured back-up credit facility, which expires on February 17, 2017, and a \$1.0 billion, five-year unsecured back-up credit facility, which expires on May 23, 2018. The credit facilities allow for borrowings at various rates that are dependent, in part, on the Company's public debt ratings and require the Company to pay a weighted average quarterly facility fee of approximately 0.03%, regardless of usage. As of December 31, 2013, there were no borrowings outstanding under the back-up credit facilities. The weighted average interest rate for short-term debt was 0.27% as of December 31, 2013 and 0.35% as of December 31, 2012.

On December 2, 2013, the Company issued \$750 million of 1.2% unsecured senior notes due December 5, 2016; \$1.25 billion of 2.25% unsecured senior notes due December 5, 2018; \$1.25 billion of 4.0% unsecured senior notes due December 5, 2023; and \$750 million of 5.3% unsecured senior notes due December 5, 2043 (the "2013 Notes") for total proceeds of approximately \$4.0 billion, net of discounts and underwriting fees. The 2013 Notes pay interest semi-annually and may be redeemed, in whole at any time, or in part from time to time, at the Company's option at a defined redemption price plus accrued and unpaid interest to the redemption date. The net proceeds of the 2013 Notes were used to repay commercial paper outstanding at the time of issuance and to fund the acquisition of Coram LLC in January 2014 (See Note 15). The remainder will be used for general corporate purposes.

Notes to Consolidated Financial Statements (continued)

On November 26, 2012, the Company issued \$1.25 billion of 2.75% unsecured senior notes due December 1, 2022 (the "2012 Notes") for total proceeds of approximately \$1.24 billion, net of discounts and underwriting fees. The 2012 Notes pay interest semi-annually and may be redeemed, in whole at any time, or in part from time to time, at the Company's option at a defined redemption price plus accrued and unpaid interest to the redemption date. The net proceeds of the 2012 Notes were used for general corporate purposes and to repay certain corporate debt.

On November 26, 2012, the Company announced tender offers for any and all of the 6.6% Senior Notes due 2019, and up to a maximum amount of the 6.125% Senior Notes due 2016 and 5.75% Senior Notes due 2017, for up to an aggregate principal amount of \$1.0 billion. In December 2012, the Company increased the aggregate principal amount of the tender offers to \$1.325 billion and completed the repurchase for the maximum amount. The Company paid a premium of \$332 million in excess of the debt principal in connection with the tender offers, wrote off \$13 million of unamortized deferred financing costs and incurred \$3 million in fees, for a total loss on the early extinguishment of debt of \$348 million. The loss was recorded in income from continuing operations on the consolidated statement of income.

In connection with the Company's acquisition of the UAM Medicare Part D Business in April 2011, the Company assumed \$110 million of long-term debt in the form of Trust Preferred Securities that mature through 2037. During the years ended December 31, 2012 and 2011, the Company repaid \$50 million and \$60 million, respectively, of the Trust Preferred Securities at par.

On May 12, 2011, the Company issued \$550 million of 4.125% unsecured senior notes due May 15, 2021 and issued \$950 million of 5.75% unsecured senior notes due May 15, 2041 (collectively, the "2011 Notes") for total proceeds of approximately \$1.5 billion, net of discounts and underwriting fees. The 2011 Notes pay interest semi-annually and may be redeemed, in whole at any time, or in part from time to time, at the Company's option at a defined redemption price plus accrued and unpaid interest to the redemption date. The net proceeds of the 2011 Notes were used to repay commercial paper borrowings and certain other corporate debt, and were used for general corporate purposes.

In December 2011 and July 2012, the Company repurchased \$958 million and \$1 million of the principal amount of its ECAPS at par. The fees and write-off of deferred issuance costs associated with the early extinguishment of the ECAPS were de minimis. The remaining \$41 million of outstanding ECAPS at December 31, 2013 are due in 2062. The ECAPS pay interest semi-annually and may be redeemed at any time, in whole or in part at a defined redemption price plus accrued interest.

The credit facilities, back-up credit facilities, unsecured senior notes and ECAPS contain customary restrictive financial and operating covenants. The covenants do not materially affect the Company's financial or operating flexibility.

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2013 are \$561 million in 2014, \$576 million in 2015, \$1.2 billion in 2016, \$1.3 billion in 2017 and \$1.3 billion in 2018.

7 Leases

The Company leases most of its retail and mail order locations, ten of its distribution centers and certain corporate offices under non-cancelable operating leases, typically with initial terms of 15 to 25 years and with options that permit renewals for additional periods. The Company also leases certain equipment and other assets under noncancelable operating leases, typically with initial terms of 3 to 10 years. Minimum rent is expensed on a straight-line basis over the term of the lease. In addition to minimum rental payments, certain leases require additional payments based on sales volume, as well as reimbursement for real estate taxes, common area maintenance and insurance, which are expensed when incurred.

The following table is a summary of the Company's net rental expense for operating leases for the years ended December 31:

| <i>In millions</i> | 2013 | 2012 | 2011 |
|---------------------------|-----------------|-----------------|-----------------|
| Minimum rentals | \$ 2,210 | \$ 2,165 | \$ 2,087 |
| Contingent rentals | 41 | 48 | 49 |
| | <u>2,251</u> | <u>2,213</u> | <u>2,136</u> |
| Less: sublease income | (21) | (20) | (19) |
| | <u>\$ 2,230</u> | <u>\$ 2,193</u> | <u>\$ 2,117</u> |

Notes to Consolidated Financial Statements (continued)

The following table is a summary of the future minimum lease payments under capital and operating leases as of December 31, 2013:

| <u><i>In millions</i></u> | Capital Leases | Operating Leases⁽¹⁾ |
|--|---------------------------|---|
| 2014 | \$ 46 | \$ 2,175 |
| 2015 | 46 | 2,129 |
| 2016 | 47 | 2,055 |
| 2017 | 47 | 1,964 |
| 2018 | 47 | 1,853 |
| Thereafter | 556 | 16,914 |
| Total future lease payments | 789 | \$ 27,090 |
| Less: imputed interest | (399) | |
| Present value of capital lease obligations | <u>\$ 390</u> | |

(1) Future operating lease payments have not been reduced by minimum sublease rentals of \$224 million due in the future under noncancelable subleases.

The Company finances a portion of its store development program through sale-leaseback transactions. The properties are generally sold at net book value, which generally approximates fair value, and the resulting leases generally qualify and are accounted for as operating leases. The operating leases that resulted from these transactions are included in the above table. The Company does not have any retained or contingent interests in the stores and does not provide any guarantees, other than a guarantee of lease payments, in connection with the sale-leaseback transactions. Proceeds from sale-leaseback transactions totaled \$600 million in 2013, \$529 million in 2012 and \$592 million in 2011.

8 Medicare 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.

SilverScript is a licensed domestic insurance company under the applicable laws and regulations. Pursuant to these laws and regulations, SilverScript 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, reinsurance amounts, and coverage gap discount amounts ultimately payable to or receivable from CMS based on a detailed claims reconciliation that will occur in the following year; (ii) an estimate of amounts receivable from or payable to CMS under a risk-sharing feature of the Medicare Part D program design, referred to as the risk corridor and (iii) estimates for claims that have been reported and are in the process of being paid or contested and for our estimate of claims that have been incurred but have not yet been reported.

As of December 31, 2013 and 2012, amounts due from CMS included in accounts receivable were \$2.4 billion and \$0.7 billion, respectively.

9 Pension Plans and Other Postretirement Benefits

Defined Contribution Plans

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

Notes to Consolidated Financial Statements (continued)

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 fund under one of the defined contribution plans. The Company also maintains a nonqualified, unfunded Deferred Compensation Plan for certain key employees. This plan provides participants the opportunity to defer portions of their eligible compensation and receive matching contributions equivalent to what they could have received under the CVS Caremark 401(k) Plan absent certain restrictions and limitations under the Internal Revenue Code. The Company's contributions under the above defined contribution plans were \$235 million, \$199 million and \$187 million in 2013, 2012 and 2011, respectively.

Other Postretirement Benefits

The Company provides postretirement health care and life insurance benefits to certain retirees who meet eligibility requirements. The Company's funding policy is generally to pay covered expenses as they are incurred. For retiree medical plan accounting, the Company reviews external data and its own historical trends for health care costs to determine the health care cost trend rates. As of December 31, 2013 and 2012, the Company's other postretirement benefits have an accumulated postretirement benefit obligation of \$27 million and \$16 million, respectively. Net periodic benefit costs related to these other postretirement benefits were approximately \$11 million in 2013 and \$1 million in 2012 and 2011. The net periodic benefit costs for 2013 include a settlement loss of \$8 million.

Pursuant to various labor agreements, the Company also contributes to multiemployer health and welfare plans that cover certain union-represented employees. The plans provide postretirement health care and life insurance benefits to certain employees who meet eligibility requirements. Total Company contributions to multiemployer health and welfare plans were \$55 million, \$50 million and \$47 million in 2013, 2012 and 2011, respectively.

Pension Plans

During the year ended December 31, 2013, the Company sponsored ten defined benefit pension plans. Four of the plans are tax-qualified plans that are funded based on actuarial calculations and applicable federal laws and regulations. The other six plans are unfunded nonqualified supplemental retirement plans. Most of the plans were frozen in prior periods. During the years ended December 31, 2012 and 2011, the Company had a total of nine defined benefit pension plans.

As of December 31, 2013, the Company's pension plans had a projected benefit obligation of \$694 million and plan assets of \$568 million. As of December 31, 2012, the Company's pension plans had a projected benefit obligation of \$758 million and plan assets of \$527 million. Actual return on plan assets was \$49 million and \$62 million in 2013 and 2012, respectively. Net periodic pension costs related to these pension plans were \$19 million, \$31 million and \$49 million in 2013, 2012 and 2011, respectively. The net periodic pension costs for 2012 include a curtailment loss of \$2 million. The net periodic pension costs for 2011 include a settlement loss of \$25 million due to the impact of lump sum payouts.

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 4.75% in 2013 and 4.0% in 2012. The expected long-term rate of return on plan assets is determined by using the plan's target allocation and historical returns for each asset class on a plan by plan basis. The expected long-term rate of return for all plans was 7.25% in 2013, 2012 and 2011.

Historically, the Company used an investment strategy which emphasized equities in order to produce higher expected returns, and in the long run, lower expected expense and cash contribution requirements. The qualified pension plan asset allocation targets were 50% equity and 50% fixed income for 2012 and 2011. Beginning in 2013, the Company changed its investment strategy to be liability management driven. The qualified pension plan asset allocation targets in 2013 were revised to hold more fixed income investments based on the change in the investment strategy. Investment allocations for the four qualified defined benefit plans range from 60% to 85% in fixed income and 15% to 40% in equities as of December 31, 2013.

As of December 31, 2013, the Company's qualified defined benefit pension plan assets consisted of 23% equity, 76% fixed income and 1% money market securities of which 17% were classified as Level 1 and 83% as Level 2 in the fair value hierarchy. The Company's qualified defined benefit pension plan assets as of December 31, 2012 consisted of 50% equity, 48% fixed income and 2% money market securities of which 84% were classified as Level 1 and 16% as Level 2 in the fair value hierarchy.

The Company contributed \$33 million, \$36 million and \$92 million to the pension plans during 2013, 2012 and 2011, respectively. The Company plans to make approximately \$41 million in contributions to the pension plans during 2014.

Notes to Consolidated Financial Statements (continued)

The Company also contributes to a number of multiemployer pension plans under the terms of collective-bargaining agreements that cover its union-represented employees. The risks of participating in these multiemployer plans are different from single-employer pension plans in the following aspects: (i) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (ii) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers, and (iii) if the Company chooses to stop participating in some of its multiemployer plans, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

None of the multiemployer pension plans in which the Company participates are individually significant to the Company. Total Company contributions to multiemployer pension plans were \$13 million, \$12 million and \$11 million in 2013, 2012 and 2011, respectively.

10 Stock Incentive Plans

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

Compensation expense related to stock options, which includes the 2007 Employee Stock Purchase Plan (the "2007 ESPP") totaled \$100 million, \$102 million and \$112 million for 2013, 2012 and 2011, respectively. The recognized tax benefit was \$32 million, \$33 million and \$38 million for 2013, 2012 and 2011, respectively. Compensation expense related to restricted stock awards totaled \$41 million, \$30 million and \$21 million for 2013, 2012 and 2011, respectively.

The 2007 ESPP provides for the purchase of up to 15 million shares of common stock. In March 2013, the Board of Directors approved an amendment to the 2007 ESPP to provide an additional 15 million shares of common stock for issuance. 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. During 2013, approximately 2 million shares of common stock were purchased under the provisions of the 2007 ESPP at an average price of \$41.44 per share. As of December 31, 2013, approximately 17 million shares of common stock were available for issuance under the 2007 ESPP.

The fair value of stock-based compensation associated with the 2007 ESPP is estimated on the date of grant (the first day of the six month offering period) using the Black-Scholes Option Pricing Model.

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

| | 2013 | 2012 | 2011 |
|---|----------|---------|---------|
| Dividend yield ⁽¹⁾ | 0.86% | 0.73% | 0.69% |
| Expected volatility ⁽²⁾ | 16.94% | 22.88% | 20.42% |
| Risk-free interest rate ⁽³⁾ | 0.10% | 0.10% | 0.15% |
| Expected life (in years) ⁽⁴⁾ | 0.5 | 0.5 | 0.5 |
| Weighted-average grant date fair value | \$ 10.08 | \$ 9.22 | \$ 7.21 |

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

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

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

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

In May 2010, the Company's Board of Directors adopted and the shareholders approved the 2010 Incentive Compensation Plan (the "2010 ICP"). The terms of the 2010 ICP 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. Payment of such annual incentive and long-term performance awards will be in cash, stock, other awards or other property, at the discretion of the Management Planning and Development Committee of the Company's Board of Directors. The 2010 ICP allows for a maximum of 74 million shares to be reserved and available for grants. The 2010 ICP is the only compensation plan under which the Company grants stock options, restricted stock and other stock-based awards to its employees, with the exception of the Company's 2007 ESPP. In November 2012, the Company's Board of Director's approved an amendment to the 2010 ICP to

Notes to Consolidated Financial Statements (continued)

eliminate the share recycling provision of the 2010 ICP. As of December 31, 2013, there were approximately 38 million shares available for future grants under the 2010 ICP.

The Company's restricted awards are considered non-vested share awards and require no payment from the employee. Compensation cost is recorded based on the market price on the grant date and is recognized on a straight-line basis over the requisite service period. The Company granted 1,715,000, 1,811,000 and 1,121,000 restricted stock units with a weighted average fair value of \$54.30, \$44.80 and \$34.84 in 2013, 2012 and 2011, respectively. As of December 31, 2013, there was \$89 million of total unrecognized compensation cost related to the restricted stock units that are expected to vest. These costs are expected to be recognized over a weighted-average period of 2.1 years. The total fair value of restricted shares vested during 2013, 2012 and 2011 was \$41 million, \$81 million and \$33 million, respectively.

The following table is a summary of the restricted stock unit and restricted share award activity for the year ended December 31, 2013.

| <u>Units in thousands</u> | <u>Units</u> | <u>Weighted Average Grant Date Fair Value</u> |
|--------------------------------|--------------|---|
| Nonvested at beginning of year | 2,350 | \$ 33.32 |
| Granted | 1,715 | 54.30 |
| Vested | (802) | 54.58 |
| Forfeited | (242) | 46.17 |
| Nonvested at end of year | <u>3,021</u> | <u>\$ 38.56</u> |

All grants under the 2010 ICP are awarded at fair market value on the date of grant. The fair value of stock options is estimated using the Black-Scholes Option Pricing Model and stock-based compensation is recognized on a straight-line basis over the requisite service period. Options granted through 2010 generally become exercisable over a three-year period from the grant date. Beginning in 2011, options granted generally become exercisable over a four-year period from the grant date. Options generally expire seven years after the grant date.

Excess tax benefits of \$62 million, \$28 million and \$21 million were included in financing activities in the accompanying consolidated statements of cash flow during 2013, 2012 and 2011, respectively. Cash received from stock options exercised, which includes the 2007 ESPP, totaled \$500 million, \$836 million and \$431 million during 2013, 2012 and 2011, respectively. The total intrinsic value of options exercised was \$282 million, \$321 million and \$161 million in 2013, 2012 and 2011, respectively. The total fair value of options vested during 2013, 2012 and 2011 was \$329 million, \$386 million and \$452 million, 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:

| | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|---|-------------|-------------|-------------|
| Dividend yield ⁽¹⁾ | 1.65% | 1.44% | 1.43% |
| Expected volatility ⁽²⁾ | 30.96% | 32.49% | 32.62% |
| Risk-free interest rate ⁽³⁾ | 0.73% | 0.84% | 1.81% |
| Expected life (in years) ⁽⁴⁾ | 4.7 | 4.7 | 4.7 |
| Weighted-average grant date fair value | \$ 12.50 | \$ 11.12 | \$ 9.19 |

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

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

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

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

As of December 31, 2013, unrecognized compensation expense related to unvested options totaled \$170 million, which the Company expects to be recognized over a weighted-average period of 2.1 years. After considering anticipated forfeitures, the Company expects approximately 19 million of the unvested options to vest over the requisite service period.

Notes to Consolidated Financial Statements (continued)

The following table is a summary of the Company's stock option activity for the year ended December 31, 2013:

| <i>Shares in thousands</i> | Shares | Weighted Average Exercise Price | Weighted Average Contractual Term | Aggregate Intrinsic Value |
|--|----------|---------------------------------|-----------------------------------|---------------------------|
| Outstanding at December 31, 2012 | 40,929 | \$ 36.57 | 4.34 | \$ 482,249,000 |
| Granted | 8,556 | \$ 54.60 | — | — |
| Exercised | (12,568) | \$ 35.04 | — | — |
| Forfeited | (1,619) | \$ 41.87 | — | — |
| Expired | (560) | \$ 31.18 | — | — |
| Outstanding at December 31, 2013 | 34,738 | \$ 41.40 | 4.39 | \$ 1,047,976,191 |
| Exercisable at December 31, 2013 | 14,573 | \$ 35.21 | 2.95 | \$ 529,832,395 |
| Vested and expected to vest at December 31, 2013 | 33,601 | \$ 41.17 | 4.34 | \$ 1,021,486,782 |

11 Income Taxes

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

| <i>In millions</i> | 2013 | 2012 | 2011 |
|--------------------|----------|----------|----------|
| Current: | | | |
| Federal | \$ 2,623 | \$ 2,226 | \$ 1,807 |
| State | 437 | 410 | 338 |
| | 3,060 | 2,636 | 2,145 |
| Deferred: | | | |
| Federal | (115) | (182) | 101 |
| State | (17) | (18) | 12 |
| | (132) | (200) | 113 |
| Total | \$ 2,928 | \$ 2,436 | \$ 2,258 |

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

| | 2013 | 2012 | 2011 |
|--|-------|-------|-------|
| Statutory income tax rate | 35.0% | 35.0% | 35.0% |
| State income taxes, net of federal tax benefit | 4.0 | 3.9 | 3.9 |
| Other | (0.1) | (0.3) | 0.4 |
| Effective income tax rate | 38.9% | 38.6% | 39.3% |

Notes to Consolidated Financial Statements (continued)

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

| <i>In millions</i> | 2013 | 2012 |
|---------------------------------|-------------------|-------------------|
| Deferred tax assets: | | |
| Lease and rents | \$ 344 | \$ 336 |
| Inventories | — | 141 |
| Employee benefits | 213 | 202 |
| Allowance for doubtful accounts | 79 | 137 |
| Retirement benefits | 172 | 115 |
| Net operating losses | 10 | 5 |
| Depreciation | 192 | — |
| Other | 598 | 430 |
| Valuation allowance | (3) | — |
| Total deferred tax assets | <u>1,605</u> | <u>1,366</u> |
| Deferred tax liabilities: | | |
| Inventories | (69) | — |
| Depreciation and amortization | (4,512) | (4,457) |
| Total deferred tax liabilities | <u>(4,581)</u> | <u>(4,457)</u> |
| Net deferred tax liabilities | <u>\$ (2,976)</u> | <u>\$ (3,091)</u> |

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

| <i>In millions</i> | 2013 | 2012 |
|---|-------------------|-------------------|
| Deferred tax assets—current | \$ 902 | \$ 693 |
| Deferred tax assets—noncurrent (included in other assets) | 23 | — |
| Deferred tax liabilities—noncurrent | (3,901) | (3,784) |
| Net deferred tax liabilities | <u>\$ (2,976)</u> | <u>\$ (3,091)</u> |

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

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

| <i>In millions</i> | 2013 | 2012 | 2011 |
|--|---------------|--------------|--------------|
| Beginning balance | \$ 80 | \$ 38 | \$ 35 |
| Additions based on tax positions related to the current year | 19 | 15 | 3 |
| Additions based on tax positions related to prior years | 37 | 42 | 13 |
| Reductions for tax positions of prior years | (1) | (2) | — |
| Expiration of statutes of limitation | (17) | (12) | (7) |
| Settlements | (1) | (1) | (6) |
| Ending balance | <u>\$ 117</u> | <u>\$ 80</u> | <u>\$ 38</u> |

The Company and most of its subsidiaries are subject to U.S. federal income tax as well as income tax of numerous state and local jurisdictions. The Internal Revenue Service ("IRS") is currently examining the Company's 2012 and 2013 consolidated U.S. federal income tax returns under its Compliance Assurance Process ("CAP") program. The CAP program is a voluntary program under which participating taxpayers work collaboratively with the IRS to identify and resolve potential tax issues through open, cooperative and transparent interaction prior to the filing of their federal income tax return.

The Company and its subsidiaries are also currently under income tax examinations by a number of state and local tax authorities. As of December 31, 2013, 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.

Notes to Consolidated Financial Statements (continued)

Substantially all material state and local income tax matters have been concluded for fiscal years through 2008. The Company and its subsidiaries anticipate that a number of state and local income tax examinations will be concluded and statutes of limitation for open years will expire over the next twelve months, which may result in the utilization or reduction of the Company's reserve for uncertain tax positions of up to approximately \$13 million.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties in income tax expense. During the years ended December 31, 2013, 2012 and 2011, the Company recognized interest of approximately \$4 million, \$4 million and \$2 million, respectively. The Company had approximately \$10 million accrued for interest and penalties as of December 31, 2013 and 2012.

There are no material uncertain tax positions as of December 31, 2013 the ultimate deductibility of which 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 a period earlier than expected.

The total amount of unrecognized tax benefits that, if recognized, would affect the effective income tax rate is approximately \$95 million, after considering the federal benefit of state income taxes.

12 Commitments and Contingencies

Lease Guarantees

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 agreed to indemnify 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, 2013, the Company guaranteed approximately 73 such store leases (excluding the lease guarantees related to Linens 'n Things, which are discussed in Note 3), with the maximum remaining lease term extending through 2026. 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.

Legal Matters

The Company is a party to legal proceedings, investigations and claims in the ordinary course of its business, including the matters described below. The Company records accruals for outstanding legal matters when it believes it is probable that a loss will be incurred and the amount can be reasonably estimated. The Company evaluates, on a quarterly basis, developments in legal matters that could affect the amount of any accrual and developments that would make a loss contingency both probable and reasonably estimable. If a loss contingency is not both probable and estimable, the Company does not establish an accrued liability. None of the Company's accruals for outstanding legal matters are material individually or in the aggregate to the Company's financial position.

The Company's contingencies are subject to significant uncertainties, including, among other factors: (i) the procedural status of pending matters; (ii) whether class action status is sought and certified; (iii) whether asserted claims or allegations will survive dispositive motion practice; (iv) the extent of potential damages, fines or penalties, which are often unspecified or indeterminate; (v) the impact of discovery on the legal process; (vi) whether novel or unsettled legal theories are at issue; (vii) the settlement posture of the parties, and/or (viii) in the case of certain government agency investigations, whether a sealed *qui tam* lawsuit ("whistleblower" action) has been filed and whether the government agency makes a decision to intervene in the lawsuit following investigation.

Except as otherwise noted, the Company cannot predict with certainty the timing or outcome of the legal matters described below, and is unable to reasonably estimate a possible loss or range of possible loss in excess of amounts already accrued for these matters.

- Caremark (the term "Caremark" being used herein to generally refer to any one or more pharmacy benefit management subsidiaries of the Company, as applicable) was a defendant in a *qui tam* lawsuit initially filed by a

Notes to Consolidated Financial Statements (continued)

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 sought monetary damages and alleged that Caremark's processing of Medicaid and certain other government claims on behalf of its clients (which allegedly resulted in underpayments from our clients to the applicable government agencies) on one of Caremark's adjudication platforms violated 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. Thereafter, in 2008, the Company prevailed on several motions for partial summary judgment and, following an appellate ruling from the Fifth Circuit Court of Appeals in 2011 which affirmed in part and reversed in part these prior rulings, the claims asserted in the case against Caremark were substantially narrowed. In December 2013, this case was dismissed following a settlement between the Company and the plaintiffs.

In a related matter, in December 2007, the Company received a document subpoena from the Office of Inspector General ("OIG") within the U.S. Department of Health and Human Services ("HHS"), requesting information relating to the processing of Medicaid and other government agency claims on a different adjudication platform of Caremark. The Company has provided documents and other information in response to this request for information. The Company has been conducting discussions with the United States Department of Justice ("DOJ") and the OIG regarding a possible settlement of this matter.

- 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. Following the close of class discovery, the trial court entered an Order on August 15, 2012 that granted the plaintiffs' motion to certify a class pursuant to Alabama Rule of civil Procedures 23(b)(3) but denied their request that the class also be certified pursuant to Rule 23(b)(1). In addition, the August 15, 2012 Order appointed class representatives and class counsel. The defendants' appeal and plaintiffs' cross-appeal are pending before the Alabama Supreme Court. The proceedings in the trial court are stayed by statute pending a decision on the appeal and cross-appeal by the Alabama Supreme Court.
- Various lawsuits have been filed alleging that Caremark has violated applicable antitrust laws in establishing and maintaining retail pharmacy networks for client health plans. In August 2003, Bellevue Drug Co., Robert Schreiber, Inc. d/b/a Burns Pharmacy and Rehn-Huerbinger Drug Co. d/b/a Parkway Drugs #4, together with Pharmacy Freedom Fund and the National Community Pharmacists Association filed a putative class action against Caremark in Pennsylvania federal court, seeking treble damages and injunctive relief. This case was initially sent to arbitration based on the contract terms between the pharmacies and Caremark. In October 2003, two independent pharmacies, North Jackson Pharmacy, Inc. and C&C, Inc. d/b/a Big C Discount Drugs, Inc., filed a putative class action complaint in Alabama federal court against Caremark and two PBM competitors, seeking treble damages and injunctive relief. The North Jackson Pharmacy case against two of the Caremark entities named as defendants was transferred to Illinois federal court, and the case against a separate Caremark entity was sent to arbitration based on contract terms between the pharmacies and Caremark. The Bellevue arbitration was then stayed by the parties pending developments in the North Jackson Pharmacy court case.

In August 2006, the Bellevue case and the North Jackson Pharmacy case were both transferred to Pennsylvania federal court by the Judicial Panel on Multidistrict Litigation for coordinated and consolidated proceedings with other cases before the panel, including cases against other PBMs. Caremark appealed the decision which vacated an order compelling arbitration and staying the proceedings in the Bellevue case and, following the appeal, the Court of Appeals reinstated the order compelling arbitration of the Bellevue case. Following remand, plaintiffs in the Bellevue case sought dismissal of their complaint to permit an immediate appeal of the reinstated order compelling arbitration and pursued an appeal to the Third Circuit Court of Appeals. In November 2012, the Third Circuit Court reversed the district court ruling and directed the parties to proceed in federal court. Motions for class certification in the coordinated cases within the multidistrict litigation, including the North Jackson Pharmacy case, remain pending, and the court has permitted certain additional class discovery and briefing. The consolidated action is now known as the In Re Pharmacy Benefit Managers Antitrust Litigation.

Notes to Consolidated Financial Statements (continued)

- In November 2009, a securities class action lawsuit was filed in the United States District Court for the District of Rhode Island purportedly on behalf of purchasers of CVS Caremark Corporation stock between May 5, 2009 and November 4, 2009. Plaintiffs subsequently amended the lawsuit to allege a class period beginning October 30, 2008. The lawsuit names the Company and certain officers as defendants and includes allegations of securities fraud relating to public disclosures made by the Company concerning the PBM business and allegations of insider trading. In addition, a shareholder derivative lawsuit was filed in December 2009 in the same court against the directors and certain officers of the Company. This lawsuit, which was stayed pending developments in the related securities class action, includes allegations of, among other things, securities fraud, insider trading and breach of fiduciary duties and further alleges that the Company was damaged by the purchase of stock at allegedly inflated prices under its share repurchase program. In January 2011, both lawsuits were transferred to the United States District Court for the District of New Hampshire. In June 2012, the court granted the Company's motion to dismiss the securities class action. The plaintiffs subsequently appealed the court's ruling on the motion to dismiss. In May 2013, the First Circuit Court of Appeals vacated the prior ruling and remanded the case to the district court for further proceedings. In December 2013, the district court denied the Company's renewed motion to dismiss the lawsuit. The derivative lawsuit will remain stayed until the Company answers the securities class action complaint.
- In March 2010, the Company learned that various State Attorneys General offices and certain other government agencies were conducting a multi-state investigation of certain of the Company's business practices similar to those being investigated at that time by the U.S. Federal Trade Commission ("FTC"). Twenty-eight states, the District of Columbia and the County of Los Angeles are known to be participating in this investigation. The prior FTC investigation, which commenced in August 2009, was officially concluded in May 2012 when the consent order entered into between the FTC and the Company became final. The Company has cooperated in the multi-state investigation.
- In March 2010, the Company received a subpoena from the OIG requesting information about programs under which the Company has offered customers remuneration conditioned upon the transfer of prescriptions for drugs or medications to the Company's pharmacies in the form of gift cards, cash, non-prescription merchandise or discounts or coupons for non-prescription merchandise. The subpoena relates to an investigation of possible false or otherwise improper claims for payment under the Medicare and Medicaid programs. The Company has provided documents and other information in response to this request for information.
- The Company received a subpoena from the U.S. Securities and Exchange Commission ("SEC") in February 2011 and subsequently received additional subpoenas and other requests for information. The SEC's requests related to, among other things, public disclosures made by the Company during 2009, transactions in the Company's securities by certain officers and employees of the Company during 2009 and the purchase accounting for the Longs Drug Stores acquisition. The Company has provided the documents and other information requested by the SEC and has been cooperating with the SEC in this investigation. The Company has reached an agreement in principle with the staff of the Boston Regional Office of the SEC to settle certain allegations that, during the third and fourth quarters of 2009, the Company violated certain provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934, including certain anti-fraud provisions of those statutes. The agreement in principle will be entered into by the Company on a "no admit or deny" basis, and the Company will not be restating its financial statements for any reporting period. The Company has agreed to pay a \$20 million civil penalty when the settlement is finalized, and this amount has been fully reserved in the Company's financial statements. The Company will continue to cooperate with the SEC to document the settlement terms, and the settlement remains subject to approval by the Commission and federal court as required.
- In January 2012, the United States District Court for the Eastern District of Pennsylvania unsealed a first amended *qui tam* complaint filed in August 2011 by an individual relator, who is described in the complaint as having once been employed by a firm providing pharmacy prescription benefit audit and recovery services. The complaint seeks monetary damages and alleges that Caremark's processing of Medicare claims on behalf of one of its clients violated the federal false claims act. The United States, acting through the U.S. Attorney's Office in Philadelphia, Pennsylvania, declined to intervene in the lawsuit. Caremark filed a motion to dismiss the amended complaint and the DOJ filed a Statement of Interest with regard to Caremark's motion to dismiss. In December 2012, the court denied Caremark's motion to dismiss the amended complaint.
- In January 2012, the Company received a subpoena from the OIG requesting information about its Health Savings Pass program, a prescription drug discount program for uninsured or underinsured individuals, in connection with an investigation of possible false or otherwise improper claims for payment involving HHS programs. In February 2012, the Company also received a civil investigative demand from the Office of the Attorney General of the State of Texas

Notes to Consolidated Financial Statements (continued)

requesting a copy of information produced under this OIG subpoena and other information related to prescription drug claims submitted by the Company's pharmacies to Texas Medicaid for reimbursement. The Company is providing documents and other information in response to these requests for information.

- A purported shareholder derivative action was filed on behalf of nominal defendant CVS Caremark Corporation against certain of the Company's officers and members of its Board of Directors. The action, which alleged a single claim for breach of fiduciary duty relating to the Company's alleged failure to properly implement internal regulatory controls to comply with the Controlled Substances Act and the Combat Methamphetamine Epidemic Act, was originally filed in June 2012. In addition, an amended complaint was filed in November 2012 and a Supplemental Complaint was filed in April 2013. In October 2013, the court granted the Company's motion to dismiss and entered judgment dismissing the action, without prejudice. Following dismissal of the action, the same purported shareholder sent a letter to the Company's Board of Directors demanding that the Board investigate her allegations and pursue legal action against certain directors and officers of the Company. A committee of the Board of Directors is conducting a review and intends to respond to the letter as appropriate.
- In November 2012, the Company received a subpoena from the OIG requesting information concerning automatic refill programs used by pharmacies to refill prescriptions for customers. The Company has been cooperating and providing documents and other information in response to this request for information.

The Company is also a party to other legal proceedings, inquiries and audits 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 its business, financial condition and results of operations will not be materially adversely affected, or that the Company will not be required to materially change its 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 the Company's business, the pharmacy services, retail pharmacy or retail clinic industries or to the health care industry generally; (iii) pending or future federal or state governmental investigations of the Company's 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 the Company; (v) adverse developments in any pending *qui tam* lawsuit against the Company, whether sealed or unsealed, or in any future *qui tam* lawsuit that may be filed against the Company; or (vi) adverse developments in other pending or future legal proceedings against the Company or affecting the pharmacy services, retail pharmacy or retail clinic industry or the health care industry generally.

13 Segment Reporting

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

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

Notes to Consolidated Financial Statements (continued)

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

| <i>In millions</i> | Pharmacy Services Segment⁽¹⁾⁽²⁾ | Retail Pharmacy Segment⁽¹⁾ | Corporate Segment | Intersegment Eliminations⁽²⁾ | Consolidated Totals |
|-------------------------------------|---|--|--------------------------|--|----------------------------|
| 2013: | | | | | |
| Net revenues | \$ 76,208 | \$ 65,618 | \$ — | \$ (15,065) | \$ 126,761 |
| Gross profit | 4,237 | 20,112 | — | (566) | 23,783 |
| Operating profit | 3,086 | 6,268 | (751) | (566) | 8,037 |
| Depreciation and amortization | 560 | 1,217 | 93 | — | 1,870 |
| Total assets | 38,343 | 30,191 | 4,420 | (1,428) | 71,526 |
| Goodwill | 19,658 | 6,884 | — | — | 26,542 |
| Additions to property and equipment | 313 | 1,610 | 61 | — | 1,984 |
| 2012: | | | | | |
| Net revenues | \$ 73,444 | \$ 63,641 | \$ — | \$ (13,965) | \$ 123,120 |
| Gross profit | 3,808 | 19,091 | — | (411) | 22,488 |
| Operating profit | 2,679 | 5,636 | (694) | (411) | 7,210 |
| Depreciation and amortization | 517 | 1,153 | 83 | — | 1,753 |
| Total assets | 36,057 | 29,492 | 1,408 | (736) | 66,221 |
| Goodwill | 19,646 | 6,749 | — | — | 26,395 |
| Additions to property and equipment | 422 | 1,555 | 53 | — | 2,030 |
| 2011: | | | | | |
| Net revenues | \$ 58,874 | \$ 59,579 | \$ — | \$ (11,373) | \$ 107,080 |
| Gross profit | 3,279 | 17,469 | — | (186) | 20,562 |
| Operating profit | 2,220 | 4,913 | (616) | (186) | 6,331 |
| Depreciation and amortization | 433 | 1,060 | 75 | — | 1,568 |
| Total assets | 35,704 | 28,632 | 1,121 | (605) | 64,852 |
| Goodwill | 19,657 | 6,801 | — | — | 26,458 |
| Additions to property and equipment | 461 | 1,353 | 58 | — | 1,872 |

(1) Net revenues of the Pharmacy Services Segment include approximately \$7.9 billion, \$8.4 billion and \$7.9 billion of Retail co-payments for the years ended December 31, 2013, 2012 and 2011, respectively.

(2) Intersegment eliminations relate to two types of transactions: (i) Intersegment revenues that occur when Pharmacy Services Segment clients use Retail Pharmacy Segment stores to purchase covered products. When this occurs, both the Pharmacy Services and Retail Pharmacy segments record the revenue on a standalone basis and (ii) Intersegment revenues, gross profit and operating profit that occur when Pharmacy Services Segment clients, through the Company's intersegment activities (such as the Maintenance Choice program), elect to pick up their maintenance prescriptions at Retail Pharmacy Segment stores instead of receiving them through the mail. When this occurs, both the Pharmacy Services and Retail Pharmacy segments record the revenue, gross profit and operating profit on a standalone basis. Beginning in the fourth quarter of 2011, the Maintenance Choice eliminations reflect all discounts available for the purchase of mail order prescription drugs. The following amounts are eliminated in consolidation in connection with the item (ii) intersegment activity: net revenues of \$4.3 billion, \$3.4 billion and \$2.6 billion for the years ended December 31, 2013, 2012 and 2011, respectively; gross profit and operating profit of \$566 million, \$411 million and \$186 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Notes to Consolidated Financial Statements (continued)

14 Earnings Per Common Share

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

| <i><u>In millions, except per share amounts</u></i> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|---|-----------------|-----------------|-----------------|
| Numerator for earnings per common share calculation: | | | |
| Income from continuing operations | \$ 4,600 | \$ 3,869 | \$ 3,489 |
| Net loss attributable to noncontrolling interest | — | 2 | 4 |
| Income from continuing operations attributable to CVS Caremark, basic | 4,600 | 3,871 | 3,493 |
| Loss from discontinued operations, net of tax | (8) | (7) | (31) |
| Net income attributable to CVS Caremark, basic and diluted | <u>\$ 4,592</u> | <u>\$ 3,864</u> | <u>\$ 3,462</u> |
| Denominator for earnings per common share calculation: | | | |
| Weighted average common shares, basic | 1,217 | 1,271 | 1,338 |
| Stock options | 8 | 8 | 8 |
| Restricted stock units | 1 | 1 | 1 |
| Weighted average common shares, diluted | <u>1,226</u> | <u>1,280</u> | <u>1,347</u> |
| Basic earnings per common share: | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 3.78 | \$ 3.05 | \$ 2.61 |
| Loss from discontinued operations attributable to CVS Caremark | \$ (0.01) | \$ (0.01) | \$ (0.02) |
| Net income attributable to CVS Caremark | \$ 3.77 | \$ 3.04 | \$ 2.59 |
| Diluted earnings per common share: | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 3.75 | \$ 3.02 | \$ 2.59 |
| Loss from discontinued operations attributable to CVS Caremark | \$ (0.01) | \$ (0.01) | \$ (0.02) |
| Net income attributable to CVS Caremark | \$ 3.74 | \$ 3.02 | \$ 2.57 |

15 Subsequent Event

On January 16, 2014, the Company acquired Coram LLC ("Coram"), the specialty infusion services and enteral nutrition business unit of Apria Healthcare Group Inc. for approximately \$2.1 billion. Coram is one of the nation's largest providers of comprehensive infusion services, caring for approximately 165,000 patients annually. Coram has approximately 4,600 employees, including approximately 600 nurses and 250 dietitians, operating primarily through 85 branch locations and six centers of excellence for patient intake. Coram's results of operations will be included in the Company's Pharmacy Services Segment beginning January 16, 2014.

Notes to Consolidated Financial Statements (continued)

16 Quarterly Financial Information (Unaudited)

| <i>In millions, except per share amounts</i> | <u>First Quarter</u> | <u>Second Quarter</u> | <u>Third Quarter</u> | <u>Fourth Quarter</u> | <u>Year</u> |
|--|--------------------------|---------------------------|--------------------------|---------------------------|-------------|
| 2013: | | | | | |
| Net revenues | \$ 30,751 | \$ 31,248 | \$ 31,932 | \$ 32,830 | \$ 126,761 |
| Gross profit | 5,577 | 5,841 | 6,027 | 6,338 | 23,783 |
| Operating profit | 1,694 | 1,972 | 2,154 | 2,217 | 8,037 |
| Income from continuing operations | 954 | 1,125 | 1,255 | 1,266 | 4,600 |
| Loss from discontinued operations, net of tax | — | (1) | (6) | (1) | (8) |
| Net income | 954 | 1,124 | 1,249 | 1,265 | 4,592 |
| Net loss attributable to noncontrolling interest | — | — | — | — | — |
| Net income attributable to CVS Caremark | \$ 954 | \$ 1,124 | \$ 1,249 | \$ 1,265 | \$ 4,592 |
| Basic earnings per common share: | | | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 0.77 | \$ 0.92 | \$ 1.03 | \$ 1.06 | \$ 3.78 |
| Loss from discontinued operations attributable to CVS Caremark | \$ — | \$ — | \$ — | \$ — | \$ (0.01) |
| Net income attributable to CVS Caremark | \$ 0.77 | \$ 0.92 | \$ 1.03 | \$ 1.06 | \$ 3.77 |
| Diluted Earnings per common share: | | | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 0.77 | \$ 0.91 | \$ 1.02 | \$ 1.05 | \$ 3.75 |
| Loss from discontinued operations attributable to CVS Caremark | \$ — | \$ — | \$ — | \$ — | \$ (0.01) |
| Net income attributable to CVS Caremark | \$ 0.77 | \$ 0.91 | \$ 1.02 | \$ 1.05 | \$ 3.74 |
| Dividends per common share | \$ 0.2250 | \$ 0.2250 | \$ 0.2250 | \$ 0.2250 | \$ 0.9000 |
| Stock price: (New York Stock Exchange) | | | | | |
| High | \$ 56.07 | \$ 60.70 | \$ 62.36 | \$ 71.99 | \$ 71.99 |
| Low | \$ 49.00 | \$ 53.94 | \$ 56.68 | \$ 56.32 | \$ 49.00 |

Notes to Consolidated Financial Statements (continued)

| <i>In millions, except per share amounts</i> | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Year |
|---|--------------------------|---------------------------|--------------------------|---------------------------|-------------|
| 2012: | | | | | |
| Net revenues | \$ 30,792 | \$ 30,694 | \$ 30,237 | \$ 31,397 | \$ 123,120 |
| Gross profit | 5,106 | 5,443 | 5,645 | 6,294 | 22,488 |
| Operating profit | 1,397 | 1,702 | 1,812 | 2,299 | 7,210 |
| Income from continuing operations | 772 | 962 | 1,010 | 1,125 | 3,869 |
| Income (loss) from discontinued operations, net of tax | (1) | (1) | (5) | — | (7) |
| Net income | 771 | 961 | 1,005 | 1,125 | 3,862 |
| Net loss attributable to noncontrolling interest | 1 | 1 | — | — | 2 |
| Net income attributable to CVS Caremark | \$ 772 | \$ 962 | \$ 1,005 | \$ 1,125 | \$ 3,864 |
| Basic earnings per common share: | | | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 0.60 | \$ 0.75 | \$ 0.80 | \$ 0.91 | \$ 3.05 |
| Income (loss) from discontinued operations attributable to CVS Caremark | \$ — | \$ — | \$ — | \$ — | \$ (0.01) |
| Net income attributable to CVS Caremark | \$ 0.59 | \$ 0.75 | \$ 0.79 | \$ 0.91 | \$ 3.04 |
| Diluted Earnings per common share: | | | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 0.59 | \$ 0.75 | \$ 0.79 | \$ 0.90 | \$ 3.02 |
| Income (loss) from discontinued operations attributable to CVS Caremark | \$ — | \$ — | \$ — | \$ — | \$ (0.01) |
| Net income attributable to CVS Caremark | \$ 0.59 | \$ 0.75 | \$ 0.79 | \$ 0.90 | \$ 3.02 |
| Dividends per common share | \$ 0.1625 | \$ 0.1625 | \$ 0.1625 | \$ 0.1625 | \$ 0.650 |
| Stock price: (New York Stock Exchange) | | | | | |
| High | \$ 45.88 | \$ 46.93 | \$ 48.69 | \$ 49.80 | \$ 49.80 |
| Low | \$ 41.01 | \$ 43.08 | \$ 43.65 | \$ 44.33 | \$ 41.01 |

See Note 1 - Significant Accounting Policies (Revenue Recognition - Retail Pharmacy Segment).

Five-Year Financial Summary

In millions, except per share amounts

| | 2013 | 2012 ⁽¹⁾ | 2011 | 2010 | 2009 |
|---|------------|---------------------|------------|-----------|-----------|
| Statement of operations data: | | | | | |
| Net revenues | \$ 126,761 | \$ 123,120 | \$ 107,080 | \$ 95,766 | \$ 98,144 |
| Gross profit | 23,783 | 22,488 | 20,562 | 20,215 | 20,348 |
| Operating expenses | 15,746 | 15,278 | 14,231 | 14,082 | 13,933 |
| Operating profit | 8,037 | 7,210 | 6,331 | 6,133 | 6,415 |
| Interest expense, net | 509 | 557 | 584 | 536 | 525 |
| Loss on early extinguishment of debt | — | 348 | — | — | — |
| Income tax provision ⁽¹⁾ | 2,928 | 2,436 | 2,258 | 2,178 | 2,196 |
| Income from continuing operations | 4,600 | 3,869 | 3,489 | 3,419 | 3,694 |
| Income (loss) from discontinued operations, net of tax benefit ⁽²⁾ | (8) | (7) | (31) | 2 | (4) |
| Net income | 4,592 | 3,862 | 3,458 | 3,421 | 3,690 |
| Net loss attributable to noncontrolling interest ⁽³⁾ | — | 2 | 4 | 3 | — |
| Net income attributable to CVS Caremark | \$ 4,592 | \$ 3,864 | \$ 3,462 | \$ 3,424 | \$ 3,690 |
| Per common share data: | | | | | |
| Basic earnings per common share: | | | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 3.78 | \$ 3.05 | \$ 2.61 | \$ 2.50 | \$ 2.58 |
| Loss from discontinued operations attributable to CVS Caremark | \$ (0.01) | \$ (0.01) | \$ (0.02) | \$ — | \$ — |
| Net income attributable to CVS Caremark | \$ 3.77 | \$ 3.04 | \$ 2.59 | \$ 2.50 | \$ 2.57 |
| Diluted earnings per common share: | | | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 3.75 | \$ 3.02 | \$ 2.59 | \$ 2.49 | \$ 2.55 |
| Loss from discontinued operations attributable to CVS Caremark | \$ (0.01) | \$ (0.01) | \$ (0.02) | \$ — | \$ — |
| Net income attributable to CVS Caremark | \$ 3.74 | \$ 3.02 | \$ 2.57 | \$ 2.49 | \$ 2.55 |
| Cash dividends per common share | \$ 0.900 | \$ 0.650 | \$ 0.500 | \$ 0.350 | \$ 0.305 |
| Balance sheet and other data: | | | | | |
| Total assets | \$ 71,526 | \$ 66,221 | \$ 64,852 | \$ 62,457 | \$ 61,919 |
| Long-term debt | \$ 12,841 | \$ 9,133 | \$ 9,208 | \$ 8,652 | \$ 8,755 |
| Total shareholders' equity | \$ 37,938 | \$ 37,653 | \$ 38,014 | \$ 37,662 | \$ 35,732 |
| Number of stores (at end of year) | 7,702 | 7,508 | 7,388 | 7,248 | 7,095 |

See Note 1 to the consolidated financial statements - Significant Accounting Policies (Revenue Recognition - Retail Pharmacy Segment) to the consolidated financial statements.

- (1) Income tax provision includes the effect of the following: (i) in 2010, the recognition of \$47 million of previously unrecognized tax benefits, including interest, relating to the expiration of various statutes of limitation and settlements with tax authorities and (ii) in 2009, the recognition of \$167 million of previously unrecognized tax benefits, including interest, relating to the expiration of various statutes of limitation and settlements with tax authorities.
- (2) As discussed in Note 3 to the consolidated financial statements, the results of the TheraCom business are presented as discontinued operations and have been excluded from continuing operations for all periods presented.

In connection with certain business dispositions completed between 1991 and 1997, the Company retained guarantees on store lease obligations for a number of former subsidiaries, including Linens 'n Things which filed for bankruptcy in 2008. The Company's income (loss) from discontinued operations includes lease-related costs which the Company believes it will likely be required to satisfy pursuant to its Linens 'n Things lease guarantees.

Below is a summary of the results of discontinued operations:

| <u><i>In millions</i></u> | Year Ended December 31, | | | | |
|--|-------------------------|--------|---------|-------|--------|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| Income from operations of TheraCom | \$ — | \$ — | \$ 18 | \$ 28 | \$ 13 |
| Gain on disposal of TheraCom | — | — | 53 | — | — |
| Loss on disposal of Linens 'n Things | (12) | (12) | (7) | (24) | (19) |
| Income tax benefit (provision) | 4 | 5 | (95) | (2) | 2 |
| Income (loss) from discontinued operations, net of tax | \$ (8) | \$ (7) | \$ (31) | \$ 2 | \$ (4) |

(3) Represents the minority shareholders' portion of the net loss from our majority owned subsidiary, Generation Health, Inc., acquired in the fourth quarter of 2009. In June 2012, the Company acquired the remaining 40% interest in Generation Health, Inc. from minority shareholders and employee option holders for \$26 million and \$5 million, respectively, for a total of \$31 million.

(4) Effective January 1, 2012, the Company changed its methods of accounting for prescription drug inventories in the Retail Pharmacy Segment. Additional details of the accounting change are discussed in Note 2 to the consolidated financial statements.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of CVS Caremark Corporation

We have audited the accompanying consolidated balance sheets of CVS Caremark Corporation as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. 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, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company has elected changes in its methods of accounting for prescription drug inventories in the Retail Pharmacy Segment effective January 1, 2012.

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, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated February 10, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 10, 2014

SUBSIDIARIES OF THE REGISTRANT

As of December 31, 2013, CVS Caremark Corporation had the following significant subsidiaries:

Caremark, L.L.C. (a California limited liability company)
CaremarkPCS Health, L.L.C. (a Delaware limited liability company)
Caremark PhC, L.L.C. (a Delaware limited liability company)
Caremark Rx, L.L.C. (a Delaware limited liability company)⁽²⁾
CVS Albany, L.L.C. (a New York limited liability company)
CVS Caremark Part D Services, L.L.C. (a Delaware limited liability company)
CVS Pharmacy, Inc. (a Rhode Island corporation)⁽¹⁾
Drogaria Onofre Ltda. (a Brazil limited liability company)
Garfield Beach CVS, L.L.C. (a California limited liability company)
Holiday CVS, L.L.C. (a Florida limited liability company)
Longs Drug Stores California, L.L.C. (a California limited liability company)
MemberHealth LLC (a Delaware limited liability company)
Pennsylvania CVS Pharmacy, L.L.C. (a Pennsylvania limited liability company)
RxAmerica, LLC (a Delaware limited liability company)
SilverScript Insurance Company (a Tennessee corporation)

- (1) 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.
- (2) CVS Pharmacy, Inc. is the immediate or indirect parent of approximately 45 entities that operate drugstores, all of which drugstores are in the United States and its territories.

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-3 No. 333-165672) of CVS Caremark Corporation, and
- (2) Registration Statements (Form S-8 Nos. 333-49407, 333-34927, 333-28043, 333-91253, 333-63664, 333-139470, 333- 141481 and 333-167746) of CVS Caremark Corporation;

of our reports dated February 10, 2014, with respect to the consolidated financial statements of CVS Caremark Corporation and the effectiveness of internal control over financial reporting of CVS Caremark Corporation, incorporated by reference in this Annual Report (Form 10-K) of CVS Caremark Corporation for the year ended December 31, 2013, and to the reference to our firm under the heading "Selected Financial Data", included therein.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 10, 2014

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Larry J. Merlo, 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 10, 2014

By: _____ /s/ LARRY J. MERLO

Larry J. Merlo
President and
Chief Executive Officer

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, David M. Denton, Executive Vice President and Chief Financial 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 10, 2014

By: _____ /s/ DAVID M. DENTON

David M. Denton
Executive Vice President and Chief Financial 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, 2013 (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, Larry J. Merlo, 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 10, 2014

/s/ LARRY J. MERLO

Larry J. Merlo
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, 2013 (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 M. Denton, Executive Vice President and Chief Financial 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 10, 2014

/s/ DAVID M. DENTON

David M. Denton
Executive Vice President and Chief Financial Officer

| Significant Accounting Policies (Details 5) (USD \$) In Millions, except Per Share data, unless otherwise specified | 3 Months Ended | | | | | | | | 12 Months Ended | | | | | |
|--|----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|---------------|---------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | Dec. 31, 2013 | Sep. 30, 2013 | Jun. 30, 2013 | Mar. 31, 2013 | Dec. 31, 2012 | Sep. 30, 2012 | Jun. 30, 2012 | Mar. 31, 2012 | Dec. 31, 2013 | Dec. 31, 2012 | Dec. 31, 2011 | Dec. 31, 2012 Restatement Adjustment | Dec. 31, 2011 Restatement Adjustment | Dec. 31, 2010 Restatement Adjustment |
| <u>Net revenues</u> | \$ 32,830 | \$ 31,932 | \$ 31,248 | \$ 30,751 | \$ 31,397 | \$ 30,237 | \$ 30,694 | \$ 30,792 | \$ 126,761 | \$ 123,120 | \$ 107,080 | \$ (13) | \$ (20) | |
| <u>Comprehensive income attributable to CVS Caremark</u> | | | | | | | | | 4,624 | 3,855 | 3,433 | (13) | 1 | |
| <u>Earnings Per Share, Diluted</u> | \$ 1.05 | \$ 1.02 | \$ 0.91 | \$ 0.77 | \$ 0.90 | \$ 0.79 | \$ 0.75 | \$ 0.59 | \$ 3.74 | \$ 3.02 | \$ 2.57 | \$ (0.01) | | |
| <u>Earnings per share, basic and diluted</u> | | | | | | | | | | | | | \$ 0 | |
| <u>Total assets</u> | 71,526 | | | | 66,221 | | | | 71,526 | 66,221 | 64,852 | 309 | | |
| <u>Liabilities</u> | | | | | | | | | | | | 360 | | |
| <u>Retained earnings</u> | 28,493 | | | | 24,998 | | | | 28,493 | 24,998 | | | (38) | (39) |
| <u>Vendor allowances and purchase discounts</u> | | | | | | | | | | | | | | |
| <u>Number of days from end of each completed quarter within which rebates are calculated and billed to manufacturers</u> | | | | | | | | | 30 days | | | | | |
| <u>Facility, opening and closing costs</u> | | | | | | | | | | | | | | |
| <u>Long-term portion of lease obligations associated with facility closings</u> | 246 | | | | 288 | | | | 246 | 288 | | | | |
| <u>Advertising costs</u> | | | | | | | | | | | | | | |
| <u>Advertising costs, net of vendor funding</u> | | | | | | | | | 177 | 221 | 211 | | | |
| <u>Interest expense, net</u> | | | | | | | | | | | | | | |
| <u>Interest expense, net of capitalized interest</u> | | | | | | | | | 517 | 561 | 588 | | | |
| <u>Interest income</u> | | | | | | | | | 8 | 4 | 4 | | | |
| <u>Capitalized interest</u> | | | | | | | | | 25 | 29 | 37 | | | |
| <u>Shares held in trust</u> | | | | | | | | | | | | | | |
| <u>Shares held in trust, shares</u> | 1 | | | | 1 | | | | 1 | 1 | | | | |
| <u>Accumulated other comprehensive loss</u> | | | | | | | | | | | | | | |
| <u>Amount included in accumulated other comprehensive loss related to pension and postretirement plans, pre-tax</u> | (172) | | | | (268) | | | | (172) | (268) | | | | |
| <u>Amount included in accumulated other comprehensive loss related to pension and postretirement plans, after-tax</u> | (106) | | | | (165) | | | | (106) | (165) | | | | |
| <u>Net impact on cash flow hedges, pre-tax</u> | 22 | | | | 26 | | | | 22 | 26 | | | | |
| <u>Net impact on cash flow hedges, after-tax</u> | 13 | | | | 16 | | | | 13 | 16 | | | | |
| <u>Accumulated Other Comprehensive Income (Loss), Foreign Currency Translation Adjustment, Net of Tax</u> | \$ (30) | | | | | | | | \$ (30) | | | | | |
| <u>Share-based Compensation [Abstract]</u> | | | | | | | | | | | | | | |
| <u>Requisite service period of the stock award (in years)</u> | | | | | | | | | | | | | | |
| <u>Earnings per common share</u> | | | | | | | | | | | | | | |
| <u>Common stock outstanding but not included in the calculation of diluted earnings per share (in shares)</u> | | | | | | | | | 6.2 | 5.9 | 30.5 | | | |

Segment Reporting (Details)
(USD \$)

3 Months Ended

Dec. 31, 2013 Sep. 30, 2013 Jun. 30, 2013 Mar. 31, 2013 Dec. 31, 2012 Sep. 30, 2012 Jun. 30, 2012 Mar. 31, 2012

Segment Reporting [Abstract]

Number of segments

Segment reporting information

| | | | | | | | | |
|-------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <u>Net revenues</u> | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| | 32,830,000,000 | 31,932,000,000 | 31,248,000,000 | 30,751,000,000 | 31,397,000,000 | 30,237,000,000 | 30,694,000,000 | 30,792,000,000 |
| <u>Gross profit</u> | 6,338,000,000 | 6,027,000,000 | 5,841,000,000 | 5,577,000,000 | 6,294,000,000 | 5,645,000,000 | 5,443,000,000 | 5,106,000,000 |
| <u>Operating profit</u> | 2,217,000,000 | 2,154,000,000 | 1,972,000,000 | 1,694,000,000 | 2,299,000,000 | 1,812,000,000 | 1,702,000,000 | 1,397,000,000 |

Depreciation and amortization

| | | | | | | | | |
|---------------------|----------------|--|--|--|----------------|--|--|--|
| <u>Total assets</u> | 71,526,000,000 | | | | 66,221,000,000 | | | |
|---------------------|----------------|--|--|--|----------------|--|--|--|

| | | | | | | | | |
|-----------------|----------------|--|--|--|----------------|--|--|--|
| <u>Goodwill</u> | 26,542,000,000 | | | | 26,395,000,000 | | | |
|-----------------|----------------|--|--|--|----------------|--|--|--|

Additions to property and equipment

Pharmacy Services Segment

Segment reporting information

Net revenues

Gross profit

Operating profit

Depreciation and amortization

| | | | | | | | | |
|---------------------|----------------|--|--|--|----------------|--|--|--|
| <u>Total assets</u> | 38,343,000,000 | | | | 36,057,000,000 | | | |
|---------------------|----------------|--|--|--|----------------|--|--|--|

| | | | | | | | | |
|-----------------|----------------|--|--|--|----------------|--|--|--|
| <u>Goodwill</u> | 19,658,000,000 | | | | 19,646,000,000 | | | |
|-----------------|----------------|--|--|--|----------------|--|--|--|

Additions to property and equipment

Net revenues, retail co-payments

Retail Pharmacy Segment

Segment reporting information

Net revenues

Gross profit

Operating profit

Depreciation and amortization

| | | | | | | | | |
|---------------------|----------------|--|--|--|----------------|--|--|--|
| <u>Total assets</u> | 30,191,000,000 | | | | 29,492,000,000 | | | |
|---------------------|----------------|--|--|--|----------------|--|--|--|

| | | | | | | | | |
|-----------------|---------------|--|--|--|---------------|--|--|--|
| <u>Goodwill</u> | 6,884,000,000 | | | | 6,749,000,000 | | | |
|-----------------|---------------|--|--|--|---------------|--|--|--|

Additions to property and equipment

Corporate Segment [Member]

Segment reporting information

Net revenues

Gross profit

Operating profit

Depreciation and amortization

| | | | | | | | | |
|---------------------|---------------|--|--|--|---------------|--|--|--|
| <u>Total assets</u> | 4,420,000,000 | | | | 1,408,000,000 | | | |
|---------------------|---------------|--|--|--|---------------|--|--|--|

| | | | | | | | | |
|-----------------|---|--|--|--|---|--|--|--|
| <u>Goodwill</u> | 0 | | | | 0 | | | |
|-----------------|---|--|--|--|---|--|--|--|

Additions to property and equipment

Intersegment Eliminations
[Member]

Segment reporting information

Net revenues

Gross profit

Operating profit

Depreciation and amortization

| | | |
|--|-----------------|---------------|
| <u>Total assets</u> | (1,428,000,000) | (736,000,000) |
| <u>Goodwill</u> | 0 | 0 |
| <u>Additions to property and equipment</u> | | |
| <u>Number of type of transactions related to intersegment eliminations</u> | | |
| <u>Intersegment activity, net revenues</u> | | |
| <u>Intersegment activity, gross profit and operating profit</u> | | |

- [1] Net revenues of the Pharmacy Services Segment include approximately \$7.9 billion, \$8.4 billion and \$7.9 billion of Retail co -payments for the years ended December 31, 2013, 2012 and 2011, respectively.
- [2] Intersegment eliminations relate to two types of transactions: (i) Intersegment revenues that occur when Pharmacy Services Segment clients use Retail Pharmacy Segment stores instead of receiving Pharmacy Services and Retail Pharmacy segments record the revenue on a standalone basis and (ii) Intersegment revenues, gross profit and operating profit that occur from intersegment activities (such as the Maintenance Choice program), elect to pick up their maintenance prescriptions at Retail Pharmacy Segment stores instead of receiving Pharmacy Services and Retail Pharmacy segments record the revenue, gross profit and operating profit on a standalone basis. Beginning in the fourth quarter of 2011, the Maintenance Choice program was expanded to include the purchase of mail order prescription drugs. The following amounts are eliminated in consolidation in connection with the item (ii) intersegment activity: net revenues of \$186 million, \$411 million and \$566 million for the years ended December 31, 2013, 2012 and 2011, respectively; gross profit and operating profit of \$566 million, \$411 million and \$186 million for the years ended December 31, 2013, 2012 and 2011, respectively.

| Pension Plans and Other Postretirement Benefits (Details) (USD \$) In Millions, unless otherwise specified | 12 Months Ended | | |
|--|-----------------|-----------------------|-----------------------|
| | Dec. 31, 2013 | Dec. 31, 2012 Plan | Dec. 31, 2011 Plan |
| Defined benefit plan | | | |
| <u>Employer's contributions under defined contribution plans</u> | \$ 235 | \$ 199 | \$ 187 |
| <u>Number of defined benefit plans</u> | | 9 | 9 |
| Other Postretirement Benefits | | | |
| Defined benefit plan | | | |
| <u>Benefit obligation</u> | 27 | 16 | |
| <u>Net periodic benefit cost</u> | 11 | 1 | 1 |
| <u>Settlements losses included in net periodic costs</u> | (8) | | |
| <u>Total Company contributions to multiemployer pension plans</u> | 55 | 50 | 47 |
| Pension Plans | | | |
| Defined benefit plan | | | |
| <u>Benefit obligation</u> | 694 | 758 | |
| <u>Net periodic benefit cost</u> | 19 | 31 | 49 |
| <u>Settlements losses included in net periodic costs</u> | | | (25) |
| <u>Number of defined benefit plans</u> | 10 | | |
| <u>Fair value of plan assets</u> | 568 | 527 | |
| <u>Actual return on plan assets</u> | 49 | 62 | |
| <u>Curtailed losses included in net periodic costs</u> | | 2 | |
| <u>Discount rate (as a percent)</u> | 4.75% | 4.00% | |
| <u>Expected long-term rate of return on plan assets (as a percent)</u> | 7.25% | 7.25% | 7.25% |
| <u>Equity securities target allocation (as a percent)</u> | | 50.00% | 50.00% |
| <u>Employer's contributions under defined benefit plans</u> | 33 | 36 | 92 |
| <u>Estimated future employer contributions in next fiscal year</u> | 41 | | |
| Pension Plans Level 1 | | | |
| Defined benefit plan | | | |
| <u>Equity securities (as a percent)</u> | 17.00% | 84.00% | |
| Pension Plans Level 2 | | | |
| Defined benefit plan | | | |
| <u>Equity securities (as a percent)</u> | 83.00% | 16.00% | |
| Pension Plans Fixed Income Securities [Member] | | | |
| Defined benefit plan | | | |
| <u>Equity securities (as a percent)</u> | 76.00% | 48.00% | |
| Pension Plans Fixed Income Securities [Member] Minimum | | | |
| Defined benefit plan | | | |
| <u>Equity securities (as a percent)</u> | 60.00% | | |
| Pension Plans Fixed Income Securities [Member] Maximum | | | |
| Defined benefit plan | | | |
| <u>Equity securities (as a percent)</u> | 85.00% | | |
| Pension Plans Equity Securities [Member] | | | |
| Defined benefit plan | | | |

| | | | |
|---|--------|--------|-------|
| <u>Equity securities (as a percent)</u> | 23.00% | 50.00% | |
| Pension Plans Equity Securities [Member] Minimum | | | |
| <u>Defined benefit plan</u> | | | |
| <u>Equity securities (as a percent)</u> | 15.00% | | |
| Pension Plans Equity Securities [Member] Maximum | | | |
| <u>Defined benefit plan</u> | | | |
| <u>Equity securities (as a percent)</u> | 40.00% | | |
| Pension Plans Money Market Funds [Member] | | | |
| <u>Defined benefit plan</u> | | | |
| <u>Equity securities (as a percent)</u> | 1.00% | 2.00% | |
| Tax-qualified funded pension plans | | | |
| <u>Defined benefit plan</u> | | | |
| <u>Number of defined benefit plans</u> | 4 | | |
| Unfunded nonqualified supplemental retirement plans | | | |
| <u>Defined benefit plan</u> | | | |
| <u>Number of defined benefit plans</u> | 6 | | |
| Multiemployer Plans, Pension [Member] | | | |
| <u>Defined benefit plan</u> | | | |
| <u>Total Company contributions to multiemployer pension plans</u> | \$ 13 | \$ 12 | \$ 11 |

| Earnings Per Common Share (Details) (USD \$) In Millions, except Per Share data, unless otherwise specified | 3 Months Ended | | | | | | | | 12 Months Ended | | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | Dec. 31, 2013 | Sep. 30, 2013 | Jun. 30, 2013 | Mar. 31, 2013 | Dec. 31, 2012 | Sep. 30, 2012 | Jun. 30, 2012 | Mar. 31, 2012 | Dec. 31, 2013 | Dec. 31, 2012 | Dec. 31, 2011 |
| <u>Numerator for earnings per common share calculation:</u> | | | | | | | | | | | |
| <u>Income from continuing operations</u> | \$ 1,266 | \$ 1,255 | \$ 1,125 | \$ 954 | \$ 1,125 | \$ 1,010 | \$ 962 | \$ 772 | \$ 4,600 | \$ 3,869 | \$ 3,489 |
| <u>Net loss attributable to noncontrolling interest</u> | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 0 | 2 | 4 |
| <u>Income from continuing operations attributable to CVS Caremark, basic</u> | | | | | | | | | 4,600 | 3,871 | 3,493 |
| <u>Loss from discontinued operations, net of tax</u> | (1) | (6) | (1) | 0 | 0 | (5) | (1) | (1) | (8) | (7) | (31) |
| <u>Net income attributable to CVS Caremark</u> | \$ 1,265 | \$ 1,249 | \$ 1,124 | \$ 954 | \$ 1,125 | \$ 1,005 | \$ 962 | \$ 772 | \$ 4,592 | \$ 3,864 | \$ 3,462 |
| <u>Denominator for earnings per common share calculation:</u> | | | | | | | | | | | |
| <u>Weighted average common shares, basic</u> | | | | | | | | | 1,217 | 1,271 | 1,338 |
| <u>Stock options (in shares)</u> | | | | | | | | | 8 | 8 | 8 |
| <u>Restricted stock units (in shares)</u> | | | | | | | | | 1 | 1 | 1 |
| <u>Weighted average common shares, diluted</u> | | | | | | | | | 1,226 | 1,280 | 1,347 |
| <u>Basic earnings per common share:</u> | | | | | | | | | | | |
| <u>Income from continuing operations attributable to CVS Caremark (in dollars per share)</u> | \$ 1.06 | \$ 1.03 | \$ 0.92 | \$ 0.77 | \$ 0.91 | \$ 0.80 | \$ 0.75 | \$ 0.60 | \$ 3.78 | \$ 3.05 | \$ 2.61 |
| <u>Loss from discontinued operations attributable to CVS Caremark (in dollars per share)</u> | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ (0.01) | \$ (0.01) | \$ (0.02) |
| <u>Net income attributable to CVS Caremark (in dollars per share)</u> | \$ 1.06 | \$ 1.03 | \$ 0.92 | \$ 0.77 | \$ 0.91 | \$ 0.79 | \$ 0.75 | \$ 0.59 | \$ 3.77 | \$ 3.04 | \$ 2.59 |
| <u>Diluted earnings per common share:</u> | | | | | | | | | | | |
| <u>Income from continuing operations attributable to CVS Caremark (in dollars per share)</u> | \$ 1.05 | \$ 1.02 | \$ 0.91 | \$ 0.77 | \$ 0.90 | \$ 0.79 | \$ 0.75 | \$ 0.59 | \$ 3.75 | \$ 3.02 | \$ 2.59 |
| <u>Loss from discontinued operations attributable to CVS Caremark (in dollars per share)</u> | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ (0.01) | \$ (0.01) | \$ (0.02) |
| <u>Net income attributable to CVS Caremark (in dollars per share)</u> | \$ 1.05 | \$ 1.02 | \$ 0.91 | \$ 0.77 | \$ 0.90 | \$ 0.79 | \$ 0.75 | \$ 0.59 | \$ 3.74 | \$ 3.02 | \$ 2.57 |

Leases (Details) (USD \$)
In Millions, unless otherwise specified

12 Months Ended
Dec. 31, 2013 Dec. 31, 2012 Dec. 31, 2011

Net rental expense for operating leases

| | | | |
|-----------------------------------|----------|----------|----------|
| <u>Minimum rentals</u> | \$ 2,210 | \$ 2,165 | \$ 2,087 |
| <u>Contingent rentals</u> | 41 | 48 | 49 |
| <u>Gross lease rental expense</u> | 2,251 | 2,213 | 2,136 |
| <u>Less: sublease income</u> | (21) | (20) | (19) |
| <u>Net lease rental expense</u> | 2,230 | 2,193 | 2,117 |

Future minimum lease payments under operating leases

| | | |
|------------------------------------|--------|-----|
| <u>2014</u> | 2,175 | [1] |
| <u>2015</u> | 2,129 | [1] |
| <u>2016</u> | 2,055 | [1] |
| <u>2017</u> | 1,964 | [1] |
| <u>2018</u> | 1,853 | [1] |
| <u>Thereafter</u> | 16,914 | [1] |
| <u>Total future lease payments</u> | 27,090 | [1] |

Minimum sublease rentals due in future under non-cancelable subleases

| | |
|--|-----|
| | 224 |
|--|-----|

Future minimum lease payments under capital leases

| | |
|---|-------|
| <u>2014</u> | 46 |
| <u>2015</u> | 46 |
| <u>2016</u> | 47 |
| <u>2017</u> | 47 |
| <u>2018</u> | 47 |
| <u>Thereafter</u> | 556 |
| <u>Total future lease payments</u> | 789 |
| <u>Less: imputed interest</u> | (399) |
| <u>Present value of capital lease obligations</u> | 390 |

| | | | |
|--|--------|--------|--------|
| <u>Proceeds from sale-leaseback transactions</u> | \$ 600 | \$ 529 | \$ 592 |
|--|--------|--------|--------|

Retail and mail order locations, distribution centers and corporate offices

Operating leased assets

| | |
|--|----|
| <u>Number of distribution centers leased</u> | 10 |
|--|----|

Retail and mail order locations, distribution centers and corporate offices |
Minimum

Operating leased assets

| | |
|---|----------|
| <u>Non-cancelable operating leases, initial term (in years)</u> | 15 years |
|---|----------|

Retail and mail order locations, distribution centers and corporate offices |
Maximum

Operating leased assets

| | |
|---|----------|
| <u>Non-cancelable operating leases, initial term (in years)</u> | 25 years |
|---|----------|

Equipment and other assets | Minimum

Operating leased assets

| | |
|---|---------|
| <u>Non-cancelable operating leases, initial term (in years)</u> | 3 years |
|---|---------|

Equipment and other assets | Maximum

Operating leased assets

Non-cancelable operating leases, initial term (in years)

10 years

[1] Future operating lease payments have not been reduced by minimum sublease rentals of \$224 million due in the future under noncancelable subleases.

**Earnings Per Common Share
(Tables)**

**12 Months Ended
Dec. 31, 2013**

Earnings Per Share [Abstract]

**Reconciliation of basic and diluted earnings per
common share**

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

| <i><u>In millions, except per share amounts</u></i> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|---|-----------------|-----------------|-----------------|
| Numerator for earnings per common share calculation: | | | |
| Income from continuing operations | \$ 4,600 | \$ 3,869 | \$ 3,489 |
| Net loss attributable to noncontrolling interest | — | 2 | 4 |
| Income from continuing operations attributable to CVS Caremark, basic | 4,600 | 3,871 | 3,493 |
| Loss from discontinued operations, net of tax | (8) | (7) | (31) |
| Net income attributable to CVS Caremark, basic and diluted | <u>\$ 4,592</u> | <u>\$ 3,864</u> | <u>\$ 3,462</u> |
| Denominator for earnings per common share calculation: | | | |
| Weighted average common shares, basic | 1,217 | 1,271 | 1,338 |
| Stock options | 8 | 8 | 8 |
| Restricted stock units | 1 | 1 | 1 |
| Weighted average common shares, diluted | <u>1,226</u> | <u>1,280</u> | <u>1,347</u> |
| Basic earnings per common share: | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 3.78 | \$ 3.05 | \$ 2.61 |
| Loss from discontinued operations attributable to CVS Caremark | \$ (0.01) | \$ (0.01) | \$ (0.02) |
| Net income attributable to CVS Caremark | \$ 3.77 | \$ 3.04 | \$ 2.59 |
| Diluted earnings per common share: | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 3.75 | \$ 3.02 | \$ 2.59 |
| Loss from discontinued operations attributable to CVS Caremark | \$ (0.01) | \$ (0.01) | \$ (0.02) |
| Net income attributable to CVS Caremark | \$ 3.74 | \$ 3.02 | \$ 2.57 |

| | | | | | | | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|-------|-------|----------|----------|----|----|----|
| <u>NYSE Stock Price (in dollars per share)</u> | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| | 56.32 | 56.68 | 53.94 | 49.00 | 44.33 | 43.65 | 43.08 | 41.01 | \$ 49.00 | \$ 41.01 | | | |

Significant Accounting
Policies (Tables)

12 Months Ended
Dec. 31, 2013

Accounting Policies [Abstract]

Activity in allowance for doubtful trade accounts receivable The activity in the allowance for doubtful accounts receivable for the years ended December 31 is as follows:

| <i>In millions</i> | 2013 | 2012 | 2011 |
|---------------------------------------|--------|--------|--------|
| Beginning balance | \$ 243 | \$ 189 | \$ 182 |
| Additions charged to bad debt expense | 195 | 149 | 129 |
| Write-offs charged to allowance | (182) | (95) | (122) |
| Ending balance | \$ 256 | \$ 243 | \$ 189 |

Components of property and equipment

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

| <i>In millions</i> | 2013 | 2012 |
|---|----------|----------|
| Land | \$ 1,460 | \$ 1,429 |
| Building and improvements | 2,694 | 2,614 |
| Fixtures and equipment | 8,419 | 7,928 |
| Leasehold improvements | 3,320 | 3,105 |
| Software | 1,515 | 1,230 |
| | 17,408 | 16,306 |
| Accumulated depreciation and amortization | (8,793) | (7,674) |
| Property and equipment, net | \$ 8,615 | \$ 8,632 |

Reconciliation of the changes in the redeemable noncontrolling interest

The following is a reconciliation of the changes in the redeemable noncontrolling interest for the years ended December 31, 2012 and 2011:

| <i>In millions</i> | 2012 | 2011 |
|--|-------|-------|
| Beginning balance | \$ 30 | \$ 34 |
| Net loss attributable to noncontrolling interest | (2) | (4) |
| Purchase of noncontrolling interest | (26) | — |
| Reclassification to capital surplus in connection with purchase of noncontrolling interest | (2) | — |
| Ending balance | \$ — | \$ 30 |

Schedule of Accumulated Other Comprehensive Income (Loss) by Component

Changes in accumulated other comprehensive income (loss) by component are shown below:

| <i>In millions</i> | Year Ended December 31, 2013 ⁽¹⁾ | | | |
|---|---|---|------------------|----------|
| | Losses on Cash Flow Hedges | Pension and Other Postretirement Benefits | Foreign Currency | Total |
| Balance, December 31, 2012 | \$ (16) | \$ (165) | \$ — | \$ (181) |
| Other comprehensive income (loss) before reclassifications | — | — | (30) | (30) |
| Amounts reclassified from accumulated other comprehensive income ⁽²⁾ | 3 | 59 | — | 62 |
| Net other comprehensive income (loss) | 3 | 59 | (30) | 32 |
| Balance, December 31, 2013 | \$ (13) | \$ (106) | \$ (30) | \$ (149) |

(1) All amounts are net of tax.

(2) The amounts reclassified from accumulated other comprehensive income for cash flow hedges are recorded within interest expense, net on the consolidated statement of income. The amounts reclassified from accumulated other comprehensive income for pension and other postretirement benefits are included in operating expenses on the consolidated statement of income.

| | | | |
|---|-----|-----|-----|
| <u>Cash received from stock options exercised</u> | 500 | 836 | 431 |
| <u>Total intrinsic value of options exercised</u> | 282 | 321 | 161 |
| <u>Fair value of options vested</u> | | | |

| Discontinued Operations (Details) (USD \$) In Millions, unless otherwise specified | 3 Months Ended | | | | 12 Months Ended | | | 1 Months Ended | 12 Months Ended | | | | | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---|---|---|---|---|---|
| | Dec. 31, 2013 | Sep. 30, 2013 | Jun. 30, 2013 | Mar. 31, 2013 | Dec. 31, 2012 | Sep. 30, 2012 | Jun. 30, 2012 | Mar. 31, 2012 | Nov. 30, 2011 TheraCom LLC [Member] | Dec. 31, 2013 TheraCom LLC [Member] | Dec. 31, 2012 TheraCom LLC [Member] | Dec. 31, 2011 TheraCom LLC [Member] | Mar. 31, 2012 TheraCom LLC [Member] | Dec. 31, 2011 Linen Thin [Mem] |
| <u>Proceeds from sale of subsidiary</u> | | | | | | | | | \$ 0 | \$ 7 | \$ 250 | | | |
| <u>Working capital adjustment</u> | | | | | | | | | | | | | 7 | |
| <u>Net revenues</u> | | | | | | | | | | 0 | 0 | 650 | | |
| <u>Income from operations</u> | | | | | | | | | | 0 | 0 | 18 | | |
| <u>Gain (Loss) on disposal</u> | | | | | | | | | | 0 | 0 | 53 | | (12) |
| <u>Income tax benefit (provision)</u> | | | | | | | | | 4 | 5 | (95) | | | |
| <u>Loss from discontinued operations, net of tax</u> | \$ (1) | \$ (6) | \$ (1) | \$ 0 | \$ 0 | \$ (5) | \$ (1) | \$ (1) | \$ (8) | \$ (7) | \$ (31) | | | |

**Significant Accounting
Policies (Details 3)**

**12 Months Ended
Dec. 31, 2013**

Intangible assets

Estimated useful life (in years) 13 years

Purchased customer lists

Intangible assets

Estimated useful life (in years) 10 years

Minimum | Purchased customer contracts and relationships

Intangible assets

Estimated useful life (in years) 10 years

Maximum | Purchased customer contracts and relationships

Intangible assets

Estimated useful life (in years) 20 years

**Income Taxes (Details) (USD
\$)**

**In Millions, unless otherwise
specified**

12 Months Ended

**Dec. 31, Dec. 31, Dec. 31,
2013 2012 2011**

Income tax provision

| | | | |
|--|----------|----------|----------|
| <u>Federal</u> | \$ 2,623 | \$ 2,226 | \$ 1,807 |
| <u>State</u> | 437 | 410 | 338 |
| <u>Total current income tax provision</u> | 3,060 | 2,636 | 2,145 |
| <u>Federal</u> | (115) | (182) | 101 |
| <u>State</u> | (17) | (18) | 12 |
| <u>Total deferred income tax provision</u> | (132) | (200) | 113 |
| <u>Total</u> | 2,928 | 2,436 | 2,258 |

Reconciliation of the statutory income tax rate to the Company's effective income tax rate

| | | | |
|---|---------|---------|--------|
| <u>Statutory income tax rate</u> | 35.00% | 35.00% | 35.00% |
| <u>State income taxes, net of federal tax benefit</u> | 4.00% | 3.90% | 3.90% |
| <u>Other</u> | (0.10%) | (0.30%) | 0.40% |
| <u>Effective income tax rate</u> | 38.90% | 38.60% | 39.30% |

Deferred tax assets:

| | | | |
|--|-------|-------|--|
| <u>Lease and rents</u> | 344 | 336 | |
| <u>Inventories</u> | 0 | 141 | |
| <u>Employee benefits</u> | 213 | 202 | |
| <u>Allowance for doubtful accounts</u> | 79 | 137 | |
| <u>Retirement benefits</u> | 172 | 115 | |
| <u>Net operating losses</u> | 10 | 5 | |
| <u>Depreciation</u> | 192 | 0 | |
| <u>Other</u> | 598 | 430 | |
| <u>Valuation allowance</u> | (3) | 0 | |
| <u>Total deferred tax assets</u> | 1,605 | 1,366 | |

Deferred tax liabilities:

| | | | |
|---------------------------------------|---------|---------|--|
| <u>Inventories</u> | (69) | 0 | |
| <u>Depreciation and amortization</u> | (4,512) | (4,457) | |
| <u>Total deferred tax liabilities</u> | (4,581) | (4,457) | |
| <u>Net deferred tax liabilities</u> | (2,976) | (3,091) | |

Net deferred tax assets (liabilities) presented on the consolidated balance sheets

| | | | |
|---|---------|---------|--|
| <u>Deferred tax assets—current</u> | 902 | 693 | |
| <u>Deferred tax assets—noncurrent valuation allowance</u> | 23 | 0 | |
| <u>Deferred tax liabilities—noncurrent</u> | (3,901) | (3,784) | |
| <u>Net deferred tax liabilities</u> | (2,976) | (3,091) | |

Reconciliation of the beginning and ending amount of unrecognized tax benefits

| | | | |
|---|-----|-----|----|
| <u>Beginning balance</u> | 80 | 38 | 35 |
| <u>Additions based on tax positions related to the current year</u> | 19 | 15 | 3 |
| <u>Additions based on tax positions related to prior years</u> | 37 | 42 | 13 |
| <u>Reductions for tax positions of prior years</u> | (1) | (2) | 0 |

| | | | |
|--|-------|------|-----|
| <u>Expiration of statutes of limitation</u> | (17) | (12) | (7) |
| <u>Settlements</u> | (1) | (1) | (6) |
| <u>Ending balance</u> | 117 | 80 | 38 |
| <u>Utilization or reduction of the company's reserve for uncertain tax positions over the next twelve months</u> | 13 | | |
| <u>Interest recognized related to unrecognized tax benefits</u> | 4 | 4 | 2 |
| <u>Accrued interest and penalties related to unrecognized tax benefits</u> | 10 | 10 | |
| <u>Unrecognized tax benefits that would impact effective tax rate</u> | \$ 95 | | |

**Medicare Part D Medicare
Part D (Details) (USD \$)
In Millions, unless otherwise
specified**

Dec. 31, 2013 Dec. 31, 2012

Accounts, Notes, Loans and Financing Receivable [Line Items]

Accounts receivable, net \$ 8,729 \$ 6,479

Centers for Medicare and Medicaid Services [Member]

Accounts, Notes, Loans and Financing Receivable [Line Items]

Accounts receivable, net \$ 2,400 \$ 700

**Changes in Accounting
Principle**

**12 Months Ended
Dec. 31, 2013**

**Accounting Changes and Error
Corrections [Abstract]**

Changes in Accounting Principle

Changes in Accounting Principle

Effective January 1, 2012, the Company changed its methods of accounting for prescription drug inventories in the RPS. Prior to 2012, the Company valued prescription drug inventories at the lower of cost or market on a first-in, first-out ("FIFO") basis in retail pharmacies using the retail inventory method and in distribution centers using the FIFO cost method. Effective January 1, 2012, all prescription drug inventories in the RPS have been valued at the lower of cost or market using the weighted average cost method. These changes affected approximately 51% of consolidated inventories as of January 1, 2012.

These changes were made primarily to bring all of the pharmacy operations of the Company to a common inventory valuation methodology and to provide the Company with better information to manage its retail pharmacy operations. The Company believes the weighted average cost method is preferable to the retail inventory method and the FIFO cost method because it results in greater precision in the determination of cost of revenues and inventories by specific drug product and results in a consistent inventory valuation method for all of the Company's prescription drug inventories as the PSS's mail service and specialty pharmacies were already on the weighted average cost method. Most of these mail service and specialty pharmacies in the PSS were acquired in the Company's 2007 acquisition of Caremark Rx, Inc.

The Company recorded the cumulative effect of these changes in accounting principle as of January 1, 2012. The Company determined that retrospective application for periods prior to 2012 is impracticable, as the period-specific information necessary to value prescription drug inventories in the Retail Pharmacy Segment under the weighted average cost method is unavailable. The Company implemented a new pharmacy cost accounting system to value prescription drug inventory as of January 1, 2012 and calculated the cumulative impact. The effect of these changes in accounting principle as of January 1, 2012 was a decrease in inventories of \$146 million, an increase in current deferred income tax assets of \$57 million and a decrease in retained earnings of \$89 million.

Had the Company not made these changes in accounting principle, for the year ended December 31, 2012, income from continuing operations and net income attributable to CVS Caremark would have been approximately \$19 million lower. For the year ended December 31, 2012, basic and diluted earnings per common share for income from continuing operations attributable to CVS Caremark and net income attributable to CVS Caremark would have been reduced by \$0.01.

| Goodwill and Other Intangibles (Details) (USD \$) | Dec. 31, 2013 unit | 12 Months Ended | |
|---|-----------------------|-------------------|-------------------|
| | | Dec. 31, 2012 | Dec. 31, 2011 |
| <u>Intangible assets</u> | | | |
| <u>Number of reporting units</u> | 2 | | |
| <u>Goodwill</u> | \$ 26,542,000,000 | \$ 26,395,000,000 | \$ 26,458,000,000 |
| <u>Goodwill, period increase (decrease)</u> | 147,000,000 | | |
| <u>Finite-lived intangible assets weighted average useful life (in years)</u> | 13 years | | |
| <u>Amortization expense related to finite-lived intangible assets</u> | 494,000,000 | 486,000,000 | 452,000,000 |
| <u>Anticipated annual amortization expenses</u> | | | |
| <u>Anticipated annual amortization expenses, 2014</u> | 457,000,000 | | |
| <u>Anticipated annual amortization expenses, 2015</u> | 427,000,000 | | |
| <u>Anticipated annual amortization expenses, 2016</u> | 398,000,000 | | |
| <u>Anticipated annual amortization expenses, 2017</u> | 375,000,000 | | |
| <u>Anticipated annual amortization expenses, 2018</u> | 357,000,000 | | |
| <u>Intangible assets, gross carrying amount</u> | 13,038,000,000 | 12,945,000,000 | |
| <u>Finite-lived intangible asset, accumulated amortization</u> | (3,509,000,000) | (3,192,000,000) | |
| <u>Intangible assets, net carrying amount</u> | 9,529,000,000 | 9,753,000,000 | |
| Customer contracts and relationships and covenants not to compete | | | |
| <u>Intangible assets</u> | | | |
| <u>Finite-lived intangible assets weighted average useful life (in years)</u> | 12 years 6 months | | |
| <u>Anticipated annual amortization expenses</u> | | | |
| <u>Intangible assets, gross carrying amount</u> | 5,840,000,000 | 5,745,000,000 | |
| <u>Finite-lived intangible asset, accumulated amortization</u> | (3,083,000,000) | (2,812,000,000) | |
| <u>Intangible assets, net carrying amount</u> | 2,757,000,000 | 2,933,000,000 | |
| Favorable leases and other | | | |
| <u>Intangible assets</u> | | | |
| <u>Finite-lived intangible assets weighted average useful life (in years)</u> | 17 years 1 month | | |
| <u>Anticipated annual amortization expenses</u> | | | |
| <u>Intangible assets, gross carrying amount</u> | 800,000,000 | 802,000,000 | |
| <u>Finite-lived intangible asset, accumulated amortization</u> | (426,000,000) | (380,000,000) | |
| <u>Intangible assets, net carrying amount</u> | 374,000,000 | 422,000,000 | |
| Trademarks (indefinitely-lived) | | | |
| <u>Intangible assets</u> | | | |
| <u>Indefinite-lived intangible assets</u> | 6,400,000,000 | 6,400,000,000 | |
| <u>Anticipated annual amortization expenses</u> | | | |
| <u>Intangible assets, gross carrying amount</u> | 6,398,000,000 | 6,398,000,000 | |
| <u>Finite-lived intangible asset, accumulated amortization</u> | 0 | 0 | |
| <u>Intangible assets, net carrying amount</u> | 6,398,000,000 | 6,398,000,000 | |
| Acquisition in 2007 [Member] | | | |
| <u>Intangible assets</u> | | | |
| <u>Goodwill, period increase (decrease)</u> | 160,000,000 | | |
| Pharmacy Services Segment | | | |
| <u>Intangible assets</u> | | | |
| <u>Goodwill</u> | 19,658,000,000 | 19,646,000,000 | 19,657,000,000 |

| | | | |
|---|-----------------|---------------|---------------|
| <u>Goodwill, period increase (decrease)</u> | 12,000,000 | | |
| Retail Pharmacy Segment | | | |
| <u>Intangible assets</u> | | | |
| <u>Goodwill</u> | 6,884,000,000 | 6,749,000,000 | 6,801,000,000 |
| <u>Goodwill, period increase (decrease)</u> | 135,000,000 | | |
| Corporate Segment [Member] | | | |
| <u>Intangible assets</u> | | | |
| <u>Goodwill</u> | 0 | 0 | 0 |
| <u>Goodwill, period increase (decrease)</u> | \$ (25,000,000) | | |

Leases (Tables)

12 Months Ended

Dec. 31, 2013

Leases [Abstract]

Summary of net rental expense for operating leases

The following table is a summary of the Company's net rental expense for operating leases for the years ended December 31:

| <i>In millions</i> | 2013 | 2012 | 2011 |
|-----------------------|-----------------|-----------------|-----------------|
| Minimum rentals | \$ 2,210 | \$ 2,165 | \$ 2,087 |
| Contingent rentals | 41 | 48 | 49 |
| | 2,251 | 2,213 | 2,136 |
| Less: sublease income | (21) | (20) | (19) |
| | <u>\$ 2,230</u> | <u>\$ 2,193</u> | <u>\$ 2,117</u> |

Summary of future minimum lease payments under capital and operating leases

The following table is a summary of the future minimum lease payments under capital and operating leases as of December 31, 2013:

| <i>In millions</i> | Capital Leases | Operating Leases ⁽¹⁾ |
|--|----------------|---------------------------------|
| 2014 | \$ 46 | \$ 2,175 |
| 2015 | 46 | 2,129 |
| 2016 | 47 | 2,055 |
| 2017 | 47 | 1,964 |
| 2018 | 47 | 1,853 |
| Thereafter | 556 | 16,914 |
| Total future lease payments | 789 | <u>\$ 27,090</u> |
| Less: imputed interest | (399) | |
| Present value of capital lease obligations | <u>\$ 390</u> | |

(1) Future operating lease payments have not been reduced by minimum sublease rentals of \$224 million due in the future under noncancelable subleases.

**Borrowing and Credit
Agreements (Tables)**

**12 Months Ended
Dec. 31, 2013**

Debt Disclosure [Abstract]

**Summary of the Company's
borrowings**

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

| <i><u>In millions</u></i> | <u>2013</u> | <u>2012</u> |
|---|------------------|-----------------|
| Commercial paper | \$ — | \$ 690 |
| 4.875% senior notes due 2014 | 550 | 550 |
| 3.25% senior notes due 2015 | 550 | 550 |
| 1.2% senior notes due 2016 | 750 | — |
| 6.125% senior notes due 2016 | 421 | 421 |
| 5.75% senior notes due 2017 | 1,310 | 1,310 |
| 2.25% senior notes due 2018 | 1,250 | — |
| 6.6% senior notes due 2019 | 394 | 394 |
| 4.75% senior notes due 2020 | 450 | 450 |
| 4.125% senior notes due 2021 | 550 | 550 |
| 2.75% senior notes due 2022 | 1,250 | 1,250 |
| 4.0% senior notes due 2023 | 1,250 | — |
| 6.25% senior notes due 2027 | 1,000 | 1,000 |
| 6.125% senior notes due 2039 | 1,500 | 1,500 |
| 5.75% senior notes due 2041 | 950 | 950 |
| 5.3% senior notes due 2043 | 750 | — |
| Enhanced Capital Advantage Preferred Securities due 2062 ⁽¹⁾ | 41 | 41 |
| Deferred acquisition payables due 2015-2017 ⁽²⁾ | 42 | — |
| Mortgage notes payable | 4 | 1 |
| Capital lease obligations | 390 | 171 |
| | <u>13,402</u> | <u>9,828</u> |
| Less: | | |
| Short-term debt (commercial paper) | — | (690) |
| Current portion of long-term debt | (561) | (5) |
| | <u>\$ 12,841</u> | <u>\$ 9,133</u> |

- (1) The Enhanced Capital Advantage Preferred Securities ("ECAPS") had a stated rate of interest of 6.302% through June 1, 2012, at which time the rate converted to a variable rate which was 2.3% and 2.6% at December 31, 2013 and 2012.
- (2) Deferred acquisition payables are denominated in Brazilian real and bear interest at the Brazilian interbank deposit certificate rate which was 9.77% at December 31, 2013.

Subsequent Event (Details) **0 Months Ended**
(Coram LLC [Member],
Subsequent Event [Member], **Jan. 16, 2014**
USD \$) **Branch**
In Billions, unless otherwise **Patient**
specified

Subsequent Event [Line Items]

Acquisition price \$ 2.1
Number of patients 165,000
Number of branch locations acquired 85
Employee [Member]

Subsequent Event [Line Items]

Number of employees 4,600
Nurses [Member]

Subsequent Event [Line Items]

Number of employees 600
Dietitians [Member]

Subsequent Event [Line Items]

Number of employees 250

**Stock Incentive Plans
(Tables)**

**12 Months Ended
Dec. 31, 2013**

Stock Incentive Plans

Summary of the assumptions used to value the ESPP awards

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

| | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|--|-------------|-------------|-------------|
| Dividend yield ⁽¹⁾ | 0.86% | 0.73% | 0.69% |
| Expected volatility ⁽²⁾ | 16.94% | 22.88% | 20.42% |
| Risk-free interest rate ⁽³⁾ | 0.10% | 0.10% | 0.15% |
| Expected life (<i>in years</i>) ⁽⁴⁾ | 0.5 | 0.5 | 0.5 |
| Weighted-average grant date fair value | \$ 10.08 | \$ 9.22 | \$ 7.21 |

- (1) The dividend yield is calculated based on semi-annual dividends paid and the fair market value of the Company's stock at the grant date.
- (2) The expected volatility is based on the historical volatility of the Company's daily stock market prices over the previous six month period.
- (3) The risk-free interest rate is based on the Treasury constant maturity interest rate whose term is consistent with the expected term of ESPP options (i.e., 6 months).
- (4) The expected life is based on the semi-annual purchase period.

Summary of the restricted stock unit and restricted share award activity

The following table is a summary of the restricted stock unit and restricted share award activity for the year ended December 31, 2013.

| <u>Units in thousands</u> | <u>Units</u> | <u>Weighted Average Grant Date Fair Value</u> |
|--------------------------------|--------------|---|
| Nonvested at beginning of year | 2,350 | \$ 33.32 |
| Granted | 1,715 | 54.30 |
| Vested | (802) | 54.58 |
| Forfeited | (242) | 46.17 |
| Nonvested at end of year | <u>3,021</u> | <u>\$ 38.56</u> |

Black-Scholes option pricing model, assumptions

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:

| | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|--|-------------|-------------|-------------|
| Dividend yield ⁽¹⁾ | 1.65% | 1.44% | 1.43% |
| Expected volatility ⁽²⁾ | 30.96% | 32.49% | 32.62% |
| Risk-free interest rate ⁽³⁾ | 0.73% | 0.84% | 1.81% |
| Expected life (<i>in years</i>) ⁽⁴⁾ | 4.7 | 4.7 | 4.7 |
| Weighted-average grant date fair value | \$ 12.50 | \$ 11.12 | \$ 9.19 |

- (1) The dividend yield is based on annual dividends paid and the fair market value of the Company's stock at the grant date.
- (2) The expected volatility is estimated using the Company's historical volatility over a period equal to the expected life of each option grant after adjustments for infrequent events such as stock splits.
- (3) The risk-free interest rate is selected based on yields from U.S. Treasury zero-coupon issues with a remaining term equal to the expected term of the options being valued.
- (4) The expected life represents the number of years the options are expected to be outstanding from grant date based on historical option holder exercise experience.

Summary of the Company's stock option activity

The following table is a summary of the Company's stock option activity for the year ended December 31, 2013:

| <u>Shares in thousands</u> | <u>Shares</u> | <u>Weighted Average Exercise Price</u> | <u>Weighted Average Remaining Contractual Term</u> | <u>Aggregate Intrinsic Value</u> |
|----------------------------------|---------------|--|--|----------------------------------|
| Outstanding at December 31, 2012 | 40,929 | \$ 36.57 | 4.34 | \$ 482,249,000 |

| | | | | | |
|--|---------------|-----------|--------------|-------------|-------------------------|
| Granted | 8,556 | \$ | 54.60 | — | — |
| Exercised | (12,568) | \$ | 35.04 | — | — |
| Forfeited | (1,619) | \$ | 41.87 | — | — |
| Expired | (560) | \$ | 31.18 | — | — |
| Outstanding at December 31, 2013 | <u>34,738</u> | <u>\$</u> | <u>41.40</u> | <u>4.39</u> | <u>\$ 1,047,976,191</u> |
| Exercisable at December 31, 2013 | 14,573 | \$ | 35.21 | 2.95 | \$ 529,832,395 |
| Vested and expected to vest at December 31, 2013 | 33,601 | \$ | 41.17 | 4.34 | \$ 1,021,486,782 |

Income Taxes (Tables)

12 Months Ended

Dec. 31, 2013

Income Tax Disclosure [Abstract]

Schedule of income tax provision for continuing operations

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

| <i>In millions</i> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|--------------------|-----------------|-----------------|-----------------|
| Current: | | | |
| Federal | \$ 2,623 | \$ 2,226 | \$ 1,807 |
| State | 437 | 410 | 338 |
| | <u>3,060</u> | <u>2,636</u> | <u>2,145</u> |
| Deferred: | | | |
| Federal | (115) | (182) | 101 |
| State | (17) | (18) | 12 |
| | <u>(132)</u> | <u>(200)</u> | <u>113</u> |
| Total | <u>\$ 2,928</u> | <u>\$ 2,436</u> | <u>\$ 2,258</u> |

Reconciliation of the statutory income tax rate to the Company's effective income tax rate for continuing operations

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

| | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|--|--------------|--------------|--------------|
| Statutory income tax rate | 35.0% | 35.0% | 35.0% |
| State income taxes, net of federal tax benefit | 4.0 | 3.9 | 3.9 |
| Other | (0.1) | (0.3) | 0.4 |
| Effective income tax rate | <u>38.9%</u> | <u>38.6%</u> | <u>39.3%</u> |

Summary of the significant components of the Company's deferred tax assets and liabilities

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

| <i>In millions</i> | <u>2013</u> | <u>2012</u> |
|---------------------------------|-------------------|-------------------|
| Deferred tax assets: | | |
| Lease and rents | \$ 344 | \$ 336 |
| Inventories | — | 141 |
| Employee benefits | 213 | 202 |
| Allowance for doubtful accounts | 79 | 137 |
| Retirement benefits | 172 | 115 |
| Net operating losses | 10 | 5 |
| Depreciation | 192 | — |
| Other | 598 | 430 |
| Valuation allowance | (3) | — |
| Total deferred tax assets | <u>1,605</u> | <u>1,366</u> |
| Deferred tax liabilities: | | |
| Inventories | (69) | — |
| Depreciation and amortization | (4,512) | (4,457) |
| Total deferred tax liabilities | <u>(4,581)</u> | <u>(4,457)</u> |
| Net deferred tax liabilities | <u>\$ (2,976)</u> | <u>\$ (3,091)</u> |

Schedule of net deferred tax assets (liabilities)

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

| <i>In millions</i> | <u>2013</u> | <u>2012</u> |
|---|-------------|-------------|
| Deferred tax assets—current | \$ 902 | \$ 693 |
| Deferred tax assets—noncurrent (included in other | | |

| | | |
|-------------------------------------|-------------------|-------------------|
| assets) | 23 | — |
| Deferred tax liabilities—noncurrent | <u>(3,901)</u> | <u>(3,784)</u> |
| Net deferred tax liabilities | <u>\$ (2,976)</u> | <u>\$ (3,091)</u> |

Reconciliation of the beginning and ending amount of unrecognized tax benefits

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

| <i><u>In millions</u></i> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|--|---------------|--------------|--------------|
| Beginning balance | \$ 80 | \$ 38 | \$ 35 |
| Additions based on tax positions related to the current year | 19 | 15 | 3 |
| Additions based on tax positions related to prior years | 37 | 42 | 13 |
| Reductions for tax positions of prior years | (1) | (2) | — |
| Expiration of statutes of limitation | (17) | (12) | (7) |
| Settlements | (1) | (1) | (6) |
| Ending balance | <u>\$ 117</u> | <u>\$ 80</u> | <u>\$ 38</u> |

Significant Accounting
Policies

12 Months Ended
Dec. 31, 2013

Accounting Policies [Abstract]

Significant Accounting Policies

Significant Accounting Policies

Description of business - CVS Caremark Corporation and its subsidiaries (the "Company") is the largest integrated pharmacy health care provider in the United States based upon revenues and prescriptions filled. The Company currently has three reportable business segments, Pharmacy Services, Retail Pharmacy and Corporate, which are described below.

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

As a pharmacy benefits manager, the PSS manages the dispensing of pharmaceuticals through the Company's mail order pharmacies and national network of nearly 68,000 retail pharmacies, consisting of approximately 41,000 chain pharmacies and 27,000 independent pharmacies, to eligible members in the benefits plans maintained by the Company's clients and utilizes its information systems to perform, among other things, safety checks, drug interaction screenings and brand to generic substitutions.

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

The PSS also provides health management programs, which include integrated disease management for 17 conditions, through the Company's Accordant[®] rare disease management offering.

In addition, through the Company's SilverScript Insurance Company ("SilverScript") subsidiary, the PSS is a national provider of drug benefits to eligible beneficiaries under the Federal Government's Medicare Part D program.

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

The pharmacy services business operates under the CVS Caremark[®] Pharmacy Services, Caremark[®], CVS Caremark[®], CarePlus CVS/pharmacy[®], RxAmerica[®], Accordant[®], SilverScript[®] and Novologix[®] names. As of December 31, 2013, the PSS 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.

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

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

As of December 31, 2013, the retail pharmacy business included 7,660 retail drugstores (of which 7,603 operated a pharmacy) located in 43 states, the District of Columbia, Puerto Rico and Brazil operating primarily under the CVS/pharmacy and Drogaria Onofre[®] names, the online retail websites, CVS.com and Onofre.com.br, and 800 retail health care clinics operating under the MinuteClinic[®] name (of which 792 were located in CVS/pharmacy stores).

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

and finance departments.

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

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

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

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

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

Short-term investments - The Company's short-term investments consist of certificate of deposits with initial maturities of greater than three months when purchased. These investments, which were classified as available-for-sale within Level 1 of the fair value hierarchy, were carried at fair value, which approximated historical cost at December 31, 2013 and 2012.

Fair value of financial instruments - As of December 31, 2013, the Company's financial instruments include cash and cash equivalents, short-term investments, 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 total long-term debt was \$13.4 billion and \$14.2 billion, respectively, as of December 31, 2013. The fair value of the Company's long-term debt was estimated based on quoted rates currently offered in active markets for the Company's debt, which is considered Level 1 of the fair value hierarchy. The Company had outstanding letters of credit, which guaranteed foreign trade purchases, with a fair value of \$3.6 million as of December 31, 2013. There were no outstanding derivative financial instruments as of December 31, 2013 and 2012.

Foreign currency translation and transactions - For local currency functional locations, assets and liabilities are translated at end-of-period rates while revenues and expenses are translated at average rates in effect during the period. Equity is translated at historical rates and the resulting cumulative translation adjustments are included as a component of accumulated other comprehensive income/(loss).

For U.S. dollar functional currency locations, foreign currency assets and liabilities are remeasured into U.S. dollars at end-of-period exchange rates, except for non-monetary balance sheet accounts, which are remeasured at historical exchange rates. Revenue and expense are remeasured at average exchange rates in effect during each period, except for those expenses related to the nonmonetary balance sheet amounts, which are remeasured at historical exchange rates. Gains or losses from foreign currency remeasurement are included in income.

Gains and losses arising from foreign currency transactions and the effects of remeasurements were not material for all period presented.

Accounts receivable - Accounts receivable are stated net of an allowance for doubtful accounts. The accounts receivable balance primarily includes amounts due from third party providers (e.g., pharmacy

benefit managers, insurance companies and governmental agencies), clients and members, as well as vendors and manufacturers. Charges to bad debt are based on both historical write-offs and specifically identified receivables.

The activity in the allowance for doubtful accounts receivable for the years ended December 31 is as follows:

| <u><i>In millions</i></u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|---------------------------------------|---------------|---------------|---------------|
| Beginning balance | \$ 243 | \$ 189 | \$ 182 |
| Additions charged to bad debt expense | 195 | 149 | 129 |
| Write-offs charged to allowance | (182) | (95) | (122) |
| Ending balance | <u>\$ 256</u> | <u>\$ 243</u> | <u>\$ 189</u> |

Inventories - Prior to 2012, inventories were stated at the lower of cost or market on a first-in, first-out basis using the retail inventory method in the retail pharmacy stores, the weighted average cost method in the mail service and specialty pharmacies, and the cost method on a first-in, first-out basis in the distribution centers. Effective January 1, 2012, the Company changed its methods of accounting for prescription drug inventories in the RPS to the weighted average cost method. See Note 2 for additional information regarding the accounting change. Physical inventory counts are taken on a regular basis in each store and a continuous cycle count process is the primary procedure used to validate the inventory balances on hand in each distribution center and mail facility to ensure that the amounts reflected in the accompanying consolidated financial statements are properly stated. During the interim period between physical inventory counts, the Company accrues for anticipated physical inventory losses on a location-by-location basis based on historical results and current trends.

Property and equipment - Property, equipment and improvements to leased premises are depreciated using the straight-line method over the estimated useful lives of the assets, or when applicable, the term of the lease, whichever is shorter. Estimated useful lives generally range from 10 to 40 years for buildings, building improvements and leasehold improvements and 3 to 10 years for fixtures, equipment and internally developed software. Repair and maintenance costs are charged directly to expense as incurred. Major renewals or replacements that substantially extend the useful life of an asset are capitalized and depreciated. Application development stage costs for significant internally developed software projects are capitalized and depreciated.

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

| <u><i>In millions</i></u> | <u>2013</u> | <u>2012</u> |
|---|-----------------|-----------------|
| Land | \$ 1,460 | \$ 1,429 |
| Building and improvements | 2,694 | 2,614 |
| Fixtures and equipment | 8,419 | 7,928 |
| Leasehold improvements | 3,320 | 3,105 |
| Software | 1,515 | 1,230 |
| | <u>17,408</u> | <u>16,306</u> |
| Accumulated depreciation and amortization | (8,793) | (7,674) |
| Property and equipment, net | <u>\$ 8,615</u> | <u>\$ 8,632</u> |

The gross amount of property and equipment under capital leases was \$260 million and \$219 million as of December 31, 2013 and 2012, respectively. Accumulated amortization of property and equipment under capital lease was \$74 million and \$64 million as of December 31, 2013 and 2012, respectively. Amortization of property and equipment under capital lease is included within depreciation expense. Depreciation expense totaled \$1.4 billion, \$1.3 billion and \$1.1 billion in 2013, 2012 and 2011, respectively.

Goodwill and other indefinitely-lived assets - Goodwill and other indefinitely-lived assets are not amortized, but are subject to impairment reviews annually, or more frequently if necessary. See Note 4 for additional information on goodwill and other indefinitely-lived assets.

Intangible assets - Purchased customer contracts and relationships are amortized on a straight-line basis over their estimated useful lives between 10 and 20 years. Purchased customer lists are amortized on a

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

Impairment of long-lived assets - The Company groups and evaluates fixed and finite-lived intangible assets for impairment at the lowest level at which individual cash flows can be identified, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If indicators of impairment are present, the Company first compares the carrying amount of the asset group to the estimated future cash flows associated with the asset group (undiscounted and without interest charges). If the estimated future cash flows used in this analysis are less than the carrying amount of the asset group, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the asset group to the asset group's estimated future cash flows (discounted and with interest charges). If required, an impairment loss is recorded for the portion of the asset group's carrying value that exceeds the asset group's estimated future cash flows (discounted and with interest charges).

Redeemable noncontrolling interest — Through June 29, 2012, the Company had an approximately 60% ownership interest in Generation Health, Inc. ("Generation Health") and consolidated Generation Health in its consolidated financial statements. The nonemployee noncontrolling shareholders of Generation Health held put rights for the remaining interest in Generation Health that if exercised would require the Company to purchase the remaining interest in Generation Health in 2015 for a minimum of \$26 million and a maximum of \$159 million, depending on certain financial metrics of Generation Health in 2014. Since the noncontrolling shareholders of Generation Health had a redemption feature as a result of the put rights, the Company had classified the redeemable noncontrolling interest in Generation Health in the mezzanine section of the consolidated balance sheet outside of shareholders' equity. On June 29, 2012, the Company acquired the remaining 40% interest in Generation Health from minority shareholders and employee option holders for \$26 million and \$5 million, respectively, for a total of \$31 million.

The following is a reconciliation of the changes in the redeemable noncontrolling interest for the years ended December 31, 2012 and 2011:

| <u><i>In millions</i></u> | <u>2012</u> | <u>2011</u> |
|--|-------------|--------------|
| Beginning balance | \$ 30 | \$ 34 |
| Net loss attributable to noncontrolling interest | (2) | (4) |
| Purchase of noncontrolling interest | (26) | — |
| Reclassification to capital surplus in connection with purchase of noncontrolling interest | (2) | — |
| Ending balance | <u>\$ —</u> | <u>\$ 30</u> |

Revenue Recognition

Pharmacy Services Segment - The PSS sells prescription drugs directly through its mail service dispensing pharmacies and indirectly through its retail pharmacy network. The PSS recognizes revenue from prescription drugs sold by its mail service dispensing pharmacies and under retail pharmacy network contracts where it is the principal using the gross method at the contract prices negotiated with its clients. Net revenues include: (i) the portion of the price the client pays directly to the PSS, net of any volume-related or other discounts paid back to the client (see "Drug Discounts" below), (ii) the price paid to the PSS by client plan members for mail order prescriptions ("Mail Co-Payments") and the price paid to retail network pharmacies by client plan members for retail prescriptions ("Retail Co-Payments"), and (iii) administrative fees for retail pharmacy network contracts where the PSS is not the principal as discussed below. Sales taxes are not included in revenue.

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

- Revenues generated from prescription drugs sold by mail service dispensing pharmacies are recognized when the prescription is delivered. At the time of delivery, the PSS has performed substantially all of its obligations under its client contracts and does not experience a significant level of returns or reshipments.

- Revenues generated from prescription drugs sold by third party pharmacies in the PSS's retail pharmacy network and associated administrative fees are recognized at the PSS's point-of-sale, which is when the claim is adjudicated by the PSS's online claims processing system.

The PSS determines whether it is the principal or agent for its retail pharmacy network transactions on a contract by contract basis. In the majority of its contracts, the PSS has determined it is the principal due to it: (i) being the primary obligor in the arrangement, (ii) having latitude in establishing the price, changing the product or performing part of the service, (iii) having discretion in supplier selection, (iv) having involvement in the determination of product or service specifications, and (v) having credit risk. The PSS's obligations under its client contracts for which revenues are reported using the gross method are separate and distinct from its obligations to the third party pharmacies included in its retail pharmacy network contracts. Pursuant to these contracts, the PSS is contractually required to pay the third party pharmacies in its retail pharmacy network for products sold, regardless of whether the PSS is paid by its clients. The PSS's responsibilities under its client contracts typically include validating eligibility and coverage levels, communicating the prescription price and the co-payments due to the third party retail pharmacy, identifying possible adverse drug interactions for the pharmacist to address with the prescriber prior to dispensing, suggesting generic alternatives where clinically 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 applicable indicators of gross revenue reporting are present. For contracts under which the PSS acts as an agent, revenue is recognized using the net method.

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

Medicare Part D - The PSS, through its SilverScript Insurance Company subsidiary, participates in the Federal Government's Medicare Part D program as a Prescription Drug Plan ("PDP"). 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 direct premium paid by CMS and a beneficiary premium, which is the responsibility of the PDP member, but is subsidized by CMS in the case of low-income members. 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, net revenues include co-payments, coverage gap benefits, deductibles and co-insurance (collectively, the "Member Co-Payments") related to PDP members' actual prescription claims. In certain cases, CMS subsidizes a portion of these Member Co-Payments and pays the PSS an estimated prospective Member Co-Payment subsidy amount each month. The prospective Member Co-Payment subsidy amounts received from CMS are also included in net revenues. The Company assumes no risk for these amounts. 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).

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. Prior to the fourth quarter of 2013, revenue from the sale of prescription drugs was recognized at the time the prescription was filled as opposed to upon delivery as required under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification 605, *Revenue Recognition*. For substantially all prescriptions, the fill date and the delivery date occur in the same reporting period. The effect on both revenue and income of recording prescription drug sales upon fill as opposed to delivery is immaterial. During the fourth quarter of 2013, the Company began recognizing revenue from the sale of prescription drugs when the prescription is picked up by the customer. This immaterial error correction is reflected in all annual and quarterly financial statements presented. For the year ended December 31, 2012, the correction reduced net revenues and net income attributable to CVS Caremark by \$13 million and \$13 million. For the year ended December 31, 2011, the correction reduced net revenues by \$20 million and increased net income attributable to CVS Caremark by \$1 million. Diluted earnings per share from net income attributable to CVS Caremark was reduced by \$0.01 for the year ended December 31, 2012. There was no impact on diluted earnings per share from net income attributable to CVS Caremark in any other annual or interim period impacted by the immaterial error correction. The adjustment increased total assets and total liabilities by \$309 million and \$360 million as of December 31, 2012 and decreased retained earnings by \$38 million and \$39 million as of December 31, 2011.

and 2010, respectively.

Customer returns are not material. Revenue generated from the performance of services in the RPS's health care clinics is recognized at the time the services are performed. Sales taxes are not included in revenue.

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

Retail Pharmacy Segment - The RPS' cost of revenues includes: the cost of merchandise sold during the reporting period and the related purchasing costs, warehousing and delivery costs (including depreciation and amortization) and actual and estimated inventory losses.

See Note 13 for additional information about the cost of revenues of the Company's business segments.

Vendor allowances and purchase discounts

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

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

Retail Pharmacy Segment - Vendor allowances received by the RPS reduce the carrying cost of inventory and are recognized in cost of revenues when the related inventory is sold, unless they are specifically identified as a reimbursement of incremental costs for promotional programs and/or other services provided. Amounts that are directly linked to advertising commitments are recognized as a reduction of advertising expense (included in operating expenses) when the related advertising commitment is satisfied. Any such allowances received in excess of the actual cost incurred also reduce the carrying cost of inventory. The total value of any upfront payments received from vendors that are linked to purchase commitments is initially deferred. The deferred amounts are then amortized to reduce cost of revenues over the life of the contract based upon purchase volume. The total value of any upfront payments received from vendors that are not linked to purchase commitments is also initially deferred. The deferred amounts are then amortized to reduce cost of revenues on a straight-line basis over the life of the related contract. The total amortization of these upfront payments was not material to the accompanying consolidated financial statements.

Insurance - The Company is self-insured for certain losses related to general liability, workers' compensation and auto liability. The Company obtains third party insurance coverage to limit exposure

from these claims. The Company is also self-insured for certain losses related to health and medical liabilities. The Company's self-insurance accruals, which include reported claims and claims incurred but not reported, are calculated using standard insurance industry actuarial assumptions and the Company's historical claims experience.

Facility opening and closing costs - New facility opening costs, other than capital expenditures, are charged directly to expense when incurred. When the Company closes a facility, the present value of estimated unrecoverable costs, including the remaining lease obligation less estimated sublease income and the book value of abandoned property and equipment, are charged to expense. The long-term portion of the lease obligations associated with facility closings was \$246 million and \$288 million in 2013 and 2012, respectively.

Advertising costs - Advertising costs are expensed when the related advertising takes place. Advertising costs, net of vendor funding (included in operating expenses), were \$177 million, \$221 million and \$211 million in 2013, 2012 and 2011, respectively.

Interest expense, net - Interest expense, net of capitalized interest, was \$517 million, \$561 million and \$588 million, and interest income was \$8 million, \$4 million and \$4 million in 2013, 2012 and 2011, respectively. Capitalized interest totaled \$25 million, \$29 million and \$37 million in 2013, 2012 and 2011, respectively.

Shares held in trust - The Company maintains grantor trusts, which held approximately 1 million shares of its common stock at December 31, 2013 and 2012, 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.

Accumulated other comprehensive loss - Accumulated other comprehensive loss consists of changes in the net actuarial gains and losses associated with pension and other postretirement benefit plans, unrealized losses on derivatives from cash flow hedges executed in previous years associated with the issuance of long-term debt, and foreign currency translation adjustments. The amount included in accumulated other comprehensive loss related to the Company's pension and postretirement plans was \$172 million pre-tax (\$106 million after-tax) as of December 31, 2013 and \$268 million pre-tax (\$165 million after-tax) as of December 31, 2012. The net impact on cash flow hedges totaled \$22 million pre-tax (\$13 million after-tax) and \$26 million pre-tax (\$16 million after-tax) as of December 31, 2013 and 2012, respectively. Cumulative foreign currency translation adjustments at December 31, 2013 were \$30 million.

Changes in accumulated other comprehensive income (loss) by component are shown below:

| <i>In millions</i> | Year Ended December 31, 2013 ⁽¹⁾ | | | |
|---|---|---|------------------|----------|
| | Losses on Cash Flow Hedges | Pension and Other Postretirement Benefits | Foreign Currency | Total |
| Balance, December 31, 2012 | \$ (16) | \$ (165) | \$ — | \$ (181) |
| Other comprehensive income (loss) before reclassifications | — | — | (30) | (30) |
| Amounts reclassified from accumulated other comprehensive income ⁽²⁾ | 3 | 59 | — | 62 |
| Net other comprehensive income (loss) | 3 | 59 | (30) | 32 |
| Balance, December 31, 2013 | \$ (13) | \$ (106) | \$ (30) | \$ (149) |

(1) All amounts are net of tax.

(2) The amounts reclassified from accumulated other comprehensive income for cash flow hedges are recorded within interest expense, net on the consolidated statement of income. The amounts reclassified from accumulated other comprehensive income for pension and other postretirement benefits are included in operating expenses on the consolidated statement of income.

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

Related party transactions - The Company has an equity method investment in SureScripts, LLC ("SureScripts"), which operates a clinical health information network. The Pharmacy Services and Retail Pharmacy segments utilize this clinical health information network in providing services to its client plan

members and retail customers. The Company expensed fees of approximately \$48 million, \$32 million and \$28 million in the years ended December 31, 2013, 2012 and 2011, respectively, for the use of this network.

The Company's investment in and equity in earnings in SureScripts for all periods presented is immaterial.

Income taxes - The Company provides for income taxes currently payable, as well as for those deferred because of timing differences between reported income and expenses for financial statement purposes versus income tax return purposes. Income tax credits are recorded as a reduction of income taxes. Deferred income 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 return purposes. Deferred income 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 income tax rates is recognized as income or expense in the period of the change.

Earnings per common share - Basic earnings per common share is computed by dividing: (i) net earnings by (ii) the weighted average number of common shares outstanding during the year (the "Basic Shares"). Diluted earnings per common share is computed by dividing: (i) net earnings by (ii) Basic Shares plus the additional shares that would be issued assuming that all dilutive stock awards are exercised. Options to purchase 6.2 million, 5.9 million and 30.5 million shares of common stock were outstanding as of December 31, 2013, 2012 and 2011, respectively, but were not included in the calculation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

New Accounting Pronouncements

In July 2012, the FASB issued Accounting Standards Update ("ASU") 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment* ("ASU 2012-02"). ASU 2012-02 allows entities to use a qualitative approach to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount and recognize an impairment loss, if any, to the extent the carrying value exceeds its fair value. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of ASU 2012-02 did not have a material effect on the Company's consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* ("ASU 2013-02"). ASU 2013-02 adds new disclosure requirements for items reclassified out of accumulated other comprehensive income. The additional disclosures include: (1) changes in accumulated other comprehensive income balances by component and (2) significant items reclassified out of accumulated other comprehensive income. The changes in accumulated other comprehensive income balance by component will be disaggregated to separately present reclassification adjustments and current-period other comprehensive income. Significant items reclassified out of accumulated other comprehensive income by component are required to be presented either on the face of the statement of income or as separate disclosure in the notes to the financial statements. These additional disclosures may be presented before-tax or net-of-tax as long as the income tax benefit or expense attributed to each component of other comprehensive income and reclassification adjustments is presented in the financial statement or in the notes to the financial statements. ASU 2013-02 is effective for interim and annual periods beginning after December 15, 2012 and should be applied prospectively. The adoption of ASU 2013-02 did not have a material effect on the Company's consolidated financial statements. The expanded disclosures have been included in Note 1 to these consolidated financial statements.

Segment Reporting (Tables)

12 Months Ended

Dec. 31, 2013

Segment Reporting [Abstract]

Reconciliation of the Company's business segments to the consolidated financial statements

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

| <i>In millions</i> | Pharmacy Services Segment ⁽¹⁾⁽²⁾ | Retail Pharmacy Segment ⁽²⁾ | Corporate Segment | Intersegment Eliminations ⁽²⁾ | Consolidated Totals |
|-------------------------------------|---|--|-------------------|--|---------------------|
| 2013: | | | | | |
| Net revenues | \$ 76,208 | \$ 65,618 | \$ — | \$ (15,065) | \$ 126,761 |
| Gross profit | 4,237 | 20,112 | — | (566) | 23,783 |
| Operating profit | 3,086 | 6,268 | (751) | (566) | 8,037 |
| Depreciation and amortization | 560 | 1,217 | 93 | — | 1,870 |
| Total assets | 38,343 | 30,191 | 4,420 | (1,428) | 71,526 |
| Goodwill | 19,658 | 6,884 | — | — | 26,542 |
| Additions to property and equipment | 313 | 1,610 | 61 | — | 1,984 |
| 2012: | | | | | |
| Net revenues | \$ 73,444 | \$ 63,641 | \$ — | \$ (13,965) | \$ 123,120 |
| Gross profit | 3,808 | 19,091 | — | (411) | 22,488 |
| Operating profit | 2,679 | 5,636 | (694) | (411) | 7,210 |
| Depreciation and amortization | 517 | 1,153 | 83 | — | 1,753 |
| Total assets | 36,057 | 29,492 | 1,408 | (736) | 66,221 |
| Goodwill | 19,646 | 6,749 | — | — | 26,395 |
| Additions to property and equipment | 422 | 1,555 | 53 | — | 2,030 |
| 2011: | | | | | |
| Net revenues | \$ 58,874 | \$ 59,579 | \$ — | \$ (11,373) | \$ 107,080 |
| Gross profit | 3,279 | 17,469 | — | (186) | 20,562 |
| Operating profit | 2,220 | 4,913 | (616) | (186) | 6,331 |
| Depreciation and amortization | 433 | 1,060 | 75 | — | 1,568 |
| Total assets | 35,704 | 28,632 | 1,121 | (605) | 64,852 |
| Goodwill | 19,657 | 6,801 | — | — | 26,458 |
| Additions to property and equipment | 461 | 1,353 | 58 | — | 1,872 |

- (1) Net revenues of the Pharmacy Services Segment include approximately \$7.9 billion, \$8.4 billion and \$7.9 billion of Retail co-payments for the years ended December 31, 2013, 2012 and 2011, respectively.
- (2) Intersegment eliminations relate to two types of transactions: (i) Intersegment revenues that occur when Pharmacy Services Segment clients use Retail Pharmacy Segment stores to purchase covered products. When this occurs, both the Pharmacy Services and Retail Pharmacy segments record the revenue on a standalone basis and (ii) Intersegment revenues, gross profit and operating profit that occur when Pharmacy Services Segment clients, through the Company's intersegment activities (such as the Maintenance Choice program), elect to pick up their maintenance prescriptions at Retail Pharmacy Segment stores instead of receiving them through the mail. When this occurs, both the Pharmacy Services and Retail Pharmacy segments record the revenue, gross profit and operating profit on a standalone basis. Beginning in the fourth quarter of 2011, the Maintenance Choice eliminations reflect all discounts available for the purchase of mail order prescription drugs. The following amounts are eliminated in consolidation in connection with the item (ii) intersegment activity: net revenues of \$4.3 billion, \$3.4 billion and \$2.6 billion for the years ended December 31, 2013, 2012 and 2011, respectively; gross profit and operating profit of \$566 million, \$411 million and \$186 million for the years ended December 31, 2013, 2012 and 2011, respectively.

**Significant Accounting
Policies (Details 6) (USD \$)
In Millions, unless otherwise
specified**

12 Months Ended

**Dec. 31, 2013 Dec. 31, 2012 Dec. 31,
2011**

Accounting Policies [Abstract]

Related Party Transaction, Expenses from Transactions with Related Party \$ 48 \$ 32 \$ 28

Accumulated Other Comprehensive Income (Loss) [Line Items]

| | | | | |
|---|-------|---------|-------|------|
| <u>Balance Beginning</u> | (181) | [1] | | |
| <u>Other comprehensive income (loss) before reclassifications</u> | (30) | [1] | | |
| <u>Amounts reclassified from accumulated other comprehensive income</u> | 62 | [1],[2] | | |
| <u>Net other comprehensive income (loss)</u> | 32 | [1] | (9) | (29) |
| <u>Balance Ending</u> | (149) | [1] | (181) | [1] |

Losses on Cash Flow Hedges

Accumulated Other Comprehensive Income (Loss) [Line Items]

| | | | | |
|---|------|---------|--|--|
| <u>Balance Beginning</u> | (16) | [1] | | |
| <u>Other comprehensive income (loss) before reclassifications</u> | 0 | [1] | | |
| <u>Amounts reclassified from accumulated other comprehensive income</u> | 3 | [1],[2] | | |
| <u>Net other comprehensive income (loss)</u> | 3 | [1] | | |
| <u>Balance Ending</u> | (13) | [1] | | |

Pension and Other Postretirement Benefits

Accumulated Other Comprehensive Income (Loss) [Line Items]

| | | | | |
|---|-------|---------|--|--|
| <u>Balance Beginning</u> | (165) | [1] | | |
| <u>Other comprehensive income (loss) before reclassifications</u> | 0 | [1] | | |
| <u>Amounts reclassified from accumulated other comprehensive income</u> | 59 | [1],[2] | | |
| <u>Net other comprehensive income (loss)</u> | 59 | [1] | | |
| <u>Balance Ending</u> | (106) | [1] | | |

Foreign Currency

Accumulated Other Comprehensive Income (Loss) [Line Items]

| | | | | |
|---|---------|---------|--|--|
| <u>Balance Beginning</u> | 0 | [1] | | |
| <u>Other comprehensive income (loss) before reclassifications</u> | (30) | [1] | | |
| <u>Amounts reclassified from accumulated other comprehensive income</u> | 0 | [1],[2] | | |
| <u>Net other comprehensive income (loss)</u> | (30) | [1] | | |
| <u>Balance Ending</u> | \$ (30) | [1] | | |

[1] All amounts are net of tax.

[2] The amounts reclassified from accumulated other comprehensive income for cash flow hedges are recorded within interest expense, net on the consolidated statement of income. The amounts reclassified from accumulated other comprehensive income for pension and other postretirement benefits are included in operating expenses on the consolidated statement of income.

| Commitments and Contingencies (Details) (USD \$) | 1 Months Ended | | 12 Months Ended |
|--|----------------------|-----------------------|-----------------------|
| | May 31, 2005 item | Oct. 31, 2003 item | Dec. 31, 2013 item |
| <u>Loss contingencies</u> | | | |
| <u>Number of store leases guaranteed</u> | | | 73 |
| <u>Number of adjudication platforms under investigation</u> | 1 | | |
| <u>Number of pharmacies filing putative action</u> | | 2 | |
| <u>Number of competitors against whom putative actions are filed</u> | | 2 | |
| <u>Number of Caremark entities named as defendants</u> | | 2 | |
| <u>Number of states participating in multi-state investigation</u> | | | 28 |
| Lauriello Lawsuit | | | |
| <u>Loss contingencies</u> | | | |
| <u>Lauriello lawsuit, amount sought in compensatory damages</u> | | \$ 3,200,000,000 | |
| SEC Investigation [Domain] | | | |
| <u>Loss contingencies</u> | | | |
| <u>Civil Penalty under SEC</u> | | | \$ 20,000,000 |

**Consolidated Statements of
Income (USD \$)
In Millions, except Per Share
data, unless otherwise
specified**

12 Months Ended

| | Dec. 31, 2013 | Dec. 31, 2012 | Dec. 31, 2011 |
|--|--------------------------|--------------------------|--------------------------|
| <u>Income Statement [Abstract]</u> | | | |
| <u>Net revenues</u> | \$ 126,761 | \$ 123,120 | \$ 107,080 |
| <u>Cost of revenues</u> | 102,978 | 100,632 | 86,518 |
| <u>Gross profit</u> | 23,783 | 22,488 | 20,562 |
| <u>Operating expenses</u> | 15,746 | 15,278 | 14,231 |
| <u>Operating profit</u> | 8,037 | 7,210 | 6,331 |
| <u>Interest expense, net</u> | 509 | 557 | 584 |
| <u>Loss on early extinguishment of debt</u> | 0 | 348 | 0 |
| <u>Income before income tax provision</u> | 7,528 | 6,305 | 5,747 |
| <u>Income tax provision</u> | 2,928 | 2,436 | 2,258 |
| <u>Income from continuing operations</u> | 4,600 | 3,869 | 3,489 |
| <u>Loss from discontinued operations, net of tax</u> | (8) | (7) | (31) |
| <u>Net income</u> | 4,592 | 3,862 | 3,458 |
| <u>Net loss attributable to noncontrolling interest</u> | 0 | 2 | 4 |
| <u>Net income attributable to CVS Caremark</u> | \$ 4,592 | \$ 3,864 | \$ 3,462 |
| <u>Basic earnings per common share:</u> | | | |
| <u>Income from continuing operations attributable to CVS Caremark (in dollars per share)</u> | \$ 3.78 | \$ 3.05 | \$ 2.61 |
| <u>Loss from discontinued operations attributable to CVS Caremark (in dollars per share)</u> | \$ (0.01) | \$ (0.01) | \$ (0.02) |
| <u>Net income attributable to CVS Caremark (in dollars per share)</u> | \$ 3.77 | \$ 3.04 | \$ 2.59 |
| <u>Weighted average common shares outstanding (in shares)</u> | 1,217 | 1,271 | 1,338 |
| <u>Diluted earnings per common share:</u> | | | |
| <u>Income from continuing operations attributable to CVS Caremark (in dollars per share)</u> | \$ 3.75 | \$ 3.02 | \$ 2.59 |
| <u>Loss from discontinued operations attributable to CVS Caremark (in dollars per share)</u> | \$ (0.01) | \$ (0.01) | \$ (0.02) |
| <u>Net income attributable to CVS Caremark (in dollars per share)</u> | \$ 3.74 | \$ 3.02 | \$ 2.57 |
| <u>Weighted average common shares outstanding (in shares)</u> | 1,226 | 1,280 | 1,347 |
| <u>Dividends declared per common share</u> | \$ 0.9 | \$ 0.65 | \$ 0.50 |

2018

\$
1,300,000,000

[1] The Enhanced Capital Advantage Preferred Securities ("ECAPS") had a stated rate of interest of 6.302% through June 1, 2012, at which time the rate converted

**Consolidated Statements of
Cash Flows (USD \$)
In Millions, unless otherwise
specified**

12 Months Ended

**Dec. 31,
2013 Dec. 31,
2012 Dec. 31,
2011**

Cash flows from operating activities:

| | | | |
|---|------------|------------|-----------|
| <u>Cash receipts from customers</u> | \$ 114,993 | \$ 113,205 | \$ 97,688 |
| <u>Cash paid for inventory and prescriptions dispensed by retail network pharmacies</u> | (91,178) | (90,032) | (75,148) |
| <u>Cash paid to other suppliers and employees</u> | (14,295) | (13,643) | (13,635) |
| <u>Interest received</u> | 8 | 4 | 4 |
| <u>Interest paid</u> | (534) | (581) | (647) |
| <u>Income taxes paid</u> | (3,211) | (2,282) | (2,406) |
| <u>Net cash provided by operating activities</u> | 5,783 | 6,671 | 5,856 |

Cash flows from investing activities:

| | | | |
|--|---------|---------|---------|
| <u>Purchases of property and equipment</u> | (1,984) | (2,030) | (1,872) |
| <u>Proceeds from sale-leaseback transactions</u> | 600 | 529 | 592 |
| <u>Proceeds from sale of property and equipment and other assets</u> | 54 | 23 | 4 |
| <u>Acquisitions (net of cash acquired) and other investments</u> | (415) | (378) | (1,441) |
| <u>Purchase of available-for-sale investments</u> | (226) | 0 | (3) |
| <u>Maturity of available-for-sale investments</u> | 136 | 0 | 60 |
| <u>Proceeds from sale of subsidiary</u> | 0 | 7 | 250 |
| <u>Net cash used in investing activities</u> | (1,835) | (1,849) | (2,410) |

Cash flows from financing activities:

| | | | |
|---|---------|---------|---------|
| <u>Increase (decrease) in short-term debt</u> | (690) | (60) | 450 |
| <u>Proceeds from issuance of long-term debt</u> | 3,964 | 1,239 | 1,463 |
| <u>Repayments of long-term debt</u> | 0 | (1,718) | (2,122) |
| <u>Purchase of noncontrolling interest in subsidiary</u> | 0 | (26) | 0 |
| <u>Dividends paid</u> | (1,097) | (829) | (674) |
| <u>Derivative settlements</u> | 0 | 0 | (19) |
| <u>Proceeds from exercise of stock options</u> | 500 | 836 | 431 |
| <u>Excess tax benefits from stock-based compensation</u> | 62 | 28 | 21 |
| <u>Repurchase of common stock</u> | (3,976) | (4,330) | (3,001) |
| <u>Other</u> | 0 | 0 | (9) |
| <u>Net cash used in financing activities</u> | (1,237) | (4,860) | (3,460) |
| <u>Effect of exchange rate changes on cash and cash equivalents</u> | 3 | 0 | 0 |
| <u>Net increase (decrease) in cash and cash equivalents</u> | 2,714 | (38) | (14) |
| <u>Cash and cash equivalents at the beginning of the year</u> | 1,375 | 1,413 | 1,427 |
| <u>Cash and cash equivalents at the end of the year</u> | 4,089 | 1,375 | 1,413 |

Reconciliation of net income to net cash provided by operating activities:

| | | | |
|-------------------|-------|-------|-------|
| <u>Net income</u> | 4,592 | 3,862 | 3,458 |
|-------------------|-------|-------|-------|

Adjustments required to reconcile net income to net cash provided by operating activities:

| | | | |
|---|-------|-------|-------|
| <u>Depreciation and amortization</u> | 1,870 | 1,753 | 1,568 |
| <u>Stock-based compensation</u> | 141 | 132 | 135 |
| <u>Loss on early extinguishment of debt</u> | 0 | 348 | 0 |
| <u>Gain on sale of subsidiary</u> | 0 | 0 | (53) |

| | | | |
|---|----------|----------|----------|
| <u>Deferred income taxes and other noncash items</u> | (86) | (111) | 144 |
| <u>Change in operating assets and liabilities, net of effects from acquisitions:</u> | | | |
| <u>Accounts receivable, net</u> | (2,210) | (387) | (748) |
| <u>Inventories</u> | 12 | (853) | 586 |
| <u>Other current assets</u> | 105 | 3 | (420) |
| <u>Other assets</u> | (135) | (99) | (49) |
| <u>Accounts payable and claims and discounts payable</u> | 1,024 | 1,147 | 1,128 |
| <u>Accrued expenses</u> | 471 | 766 | 105 |
| <u>Other long-term liabilities</u> | (1) | 110 | 2 |
| <u>Net cash provided by operating activities</u> | \$ 5,783 | \$ 6,671 | \$ 5,856 |

**Significant Accounting
Policies (Details)**

**12 Months Ended
Dec. 31, 2013
segment**

Segment reporting information

Number of reportable segments 3

Pharmacy Services Segment

Segment reporting information

Number of pharmacies 68,000

Number of Chain Pharmacies 41,000

Number of Independent Pharmacies 27,000

Number of conditions for integrated disease management 17

Number of states pharmacies operated 22

Pharmacy Services Segment | Specialty stores

Segment reporting information

Number of pharmacies 25

Pharmacy Services Segment | Specialty mail order

Segment reporting information

Number of pharmacies 11

Pharmacy Services Segment | Mail service

Segment reporting information

Number of pharmacies 4

Retail Pharmacy Segment

Segment reporting information

Number of states pharmacies operated 43

Number of drugstores 7,660

Retail Pharmacy Segment | MinuteClinic within CVS Pharmacy Stores

Segment reporting information

Number of drugstores 792

Retail Pharmacy Segment | MinuteClinic

Segment reporting information

Number of drugstores 800

Retail Pharmacy Segment | CVS/pharmacy

Segment reporting information

Number of drugstores 7,603

Subsequent Event

12 Months Ended

Dec. 31, 2013

Subsequent Events [Abstract]

Subsequent Event

15 Subsequent Event

On January 16, 2014, the Company acquired Coram LLC ("Coram"), the specialty infusion services and enteral nutrition business unit of Apria Healthcare Group Inc. for approximately \$2.1 billion. Coram is one of the nation's largest providers of comprehensive infusion services, caring for approximately 165,000 patients annually. Coram has approximately 4,600 employees, including approximately 600 nurses and 250 dietitians, operating primarily through 85 branch locations and six centers of excellence for patient intake. Coram's results of operations will be included in the Company's Pharmacy Services Segment beginning January 16, 2014.

**Significant Accounting
Policies (Details 2) (USD \$)**

12 Months Ended

Dec. 31, 2013 Dec. 31, 2012 Dec. 31, 2011

Fair Value of Financial Instruments

| | | | |
|--|----------------|--|--|
| <u>Carrying amount of long-term debt</u> | \$ | | |
| | 13,400,000,000 | | |
| <u>Estimated fair value of long-term debt</u> | 14,200,000,000 | | |
| <u>Fair value of outstanding letters of credit</u> | 3,600,000 | | |

Activity in the allowance for doubtful trade accounts receivable

| | | | |
|--|---------------|--------------|---------------|
| <u>Beginning balance</u> | 243,000,000 | 189,000,000 | 182,000,000 |
| <u>Additions charged to bad debt expense</u> | 195,000,000 | 149,000,000 | 129,000,000 |
| <u>Write-offs charged to allowance</u> | (182,000,000) | (95,000,000) | (122,000,000) |
| <u>Ending balance</u> | 256,000,000 | 243,000,000 | 189,000,000 |

Components of property and equipment

| | | | |
|--|-----------------|-----------------|---------------|
| <u>Property and equipment, gross</u> | 17,408,000,000 | 16,306,000,000 | |
| <u>Accumulated depreciation and amortization</u> | (8,793,000,000) | (7,674,000,000) | |
| <u>Property and equipment, net</u> | 8,615,000,000 | 8,632,000,000 | |
| <u>Property and equipment under capital leases</u> | 260,000,000 | 219,000,000 | |
| <u>Capital Leases, Lessee Balance Sheet, Assets by Major Class, Accumulated Depreciation</u> | 74,000,000 | 64,000,000 | |
| <u>Depreciation expense</u> | 1,400,000,000 | 1,300,000,000 | 1,100,000,000 |
| Leasehold improvements | | | |

Components of property and equipment

| | | | |
|--------------------------------------|---------------|---------------|--|
| <u>Property and equipment, gross</u> | 3,320,000,000 | 3,105,000,000 | |
| Land | | | |

Components of property and equipment

| | | | |
|--------------------------------------|---------------|---------------|--|
| <u>Property and equipment, gross</u> | 1,460,000,000 | 1,429,000,000 | |
| Fixtures and equipment | | | |

Components of property and equipment

| | | | |
|--------------------------------------|---------------|---------------|--|
| <u>Property and equipment, gross</u> | 8,419,000,000 | 7,928,000,000 | |
| Software | | | |

Components of property and equipment

| | | | |
|--------------------------------------|---------------|---------------|--|
| <u>Property and equipment, gross</u> | 1,515,000,000 | 1,230,000,000 | |
| Building and building improvements | | | |

Components of property and equipment

| | | | |
|--------------------------------------|------------------|------------------|--|
| <u>Property and equipment, gross</u> | \$ 2,694,000,000 | \$ 2,614,000,000 | |
|--------------------------------------|------------------|------------------|--|

Minimum | Building

Components of property and equipment

| | |
|--|----------|
| <u>Estimated useful life, minimum (in years)</u> | 10 years |
|--|----------|

Minimum | Fixtures, equipment and internally developed software

Components of property and equipment

| | |
|--|---------|
| <u>Estimated useful life, minimum (in years)</u> | 3 years |
|--|---------|

Maximum | Building

Components of property and equipment

| | |
|--|----------|
| <u>Estimated useful life, minimum (in years)</u> | 40 years |
|--|----------|

Maximum | Fixtures, equipment and internally developed software

Components of property and equipment

Estimated useful life, minimum (in years)

10 years

**Significant Accounting
Policies (Policies)**

**12 Months Ended
Dec. 31, 2013**

Accounting Policies [Abstract]

Principles of consolidation

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

Use of estimates

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates

Fair value hierarchy

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

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

Cash and cash equivalents

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

Short-term investments

Short-term investments - The Company's short-term investments consist of certificate of deposits with initial maturities of greater than three months when purchased. These investments, which were classified as available-for-sale within Level 1 of the fair value hierarchy, were carried at fair value, which approximated historical cost at December 31, 2013 and 2012.

Fair value of financial instruments

Fair value of financial instruments - As of December 31, 2013, the Company's financial instruments include cash and cash equivalents, short-term investments, 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 total long-term debt was \$13.4 billion and \$14.2 billion, respectively, as of December 31, 2013. The fair value of the Company's long-term debt was estimated based on quoted rates currently offered in active markets for the Company's debt, which is considered Level 1 of the fair value hierarchy. The Company had outstanding letters of credit, which guaranteed foreign trade purchases, with a fair value of \$3.6 million as of December 31, 2013. There were no outstanding derivative financial instruments as of December 31, 2013 and 2012.

Foreign currency translation and transactions

Foreign currency translation and transactions - For local currency functional locations, assets and liabilities are translated at end-of-period rates while revenues and expenses are translated at average rates in effect during the period. Equity is translated at historical rates and the resulting cumulative translation adjustments are included as a component of accumulated other comprehensive income/(loss).

For U.S. dollar functional currency locations, foreign currency assets and liabilities are remeasured into U.S. dollars at end-of-period exchange rates, except for non-monetary balance sheet accounts, which are remeasured at historical exchange rates. Revenue and expense are remeasured at average exchange rates in effect during each period, except for those expenses related to the nonmonetary balance sheet amounts, which are remeasured at historical exchange rates. Gains or losses from foreign currency remeasurement are included in income.

Gains and losses arising from foreign currency transactions and the effects of remeasurements were not material for all period presented.

Accounts receivable

Accounts receivable - Accounts receivable are stated net of an allowance for doubtful accounts. The accounts receivable balance primarily includes amounts due from third party providers (e.g., pharmacy benefit managers, insurance companies and governmental agencies), clients and members, as well as vendors and manufacturers. Charges to bad debt are based on both historical write-offs and specifically

identified receivables.

Inventories

Inventories - Prior to 2012, inventories were stated at the lower of cost or market on a first-in, first-out basis using the retail inventory method in the retail pharmacy stores, the weighted average cost method in the mail service and specialty pharmacies, and the cost method on a first-in, first-out basis in the distribution centers. Effective January 1, 2012, the Company changed its methods of accounting for prescription drug inventories in the RPS to the weighted average cost method. See Note 2 for additional information regarding the accounting change. Physical inventory counts are taken on a regular basis in each store and a continuous cycle count process is the primary procedure used to validate the inventory balances on hand in each distribution center and mail facility to ensure that the amounts reflected in the accompanying consolidated financial statements are properly stated. During the interim period between physical inventory counts, the Company accrues for anticipated physical inventory losses on a location-by-location basis based on historical results and current trends.

Property and equipment

Property and equipment - Property, equipment and improvements to leased premises are depreciated using the straight-line method over the estimated useful lives of the assets, or when applicable, the term of the lease, whichever is shorter. Estimated useful lives generally range from 10 to 40 years for buildings, building improvements and leasehold improvements and 3 to 10 years for fixtures, equipment and internally developed software. Repair and maintenance costs are charged directly to expense as incurred. Major renewals or replacements that substantially extend the useful life of an asset are capitalized and depreciated. Application development stage costs for significant internally developed software projects are capitalized and depreciated.

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

| <u><i>In millions</i></u> | <u>2013</u> | <u>2012</u> |
|---|-----------------|-----------------|
| Land | \$ 1,460 | \$ 1,429 |
| Building and improvements | 2,694 | 2,614 |
| Fixtures and equipment | 8,419 | 7,928 |
| Leasehold improvements | 3,320 | 3,105 |
| Software | 1,515 | 1,230 |
| | <u>17,408</u> | <u>16,306</u> |
| Accumulated depreciation and amortization | <u>(8,793)</u> | <u>(7,674)</u> |
| Property and equipment, net | <u>\$ 8,615</u> | <u>\$ 8,632</u> |

The gross amount of property and equipment under capital leases was \$260 million and \$219 million as of December 31, 2013 and 2012, respectively. Accumulated amortization of property and equipment under capital lease was \$74 million and \$64 million as of December 31, 2013 and 2012, respectively. Amortization of property and equipment under capital lease is included within depreciation expense. Depreciation expense totaled \$1.4 billion, \$1.3 billion and \$1.1 billion in 2013, 2012 and 2011, respectively.

Goodwill and other indefinitely-lived assets

Goodwill and other indefinitely-lived assets - Goodwill and other indefinitely-lived assets are not amortized, but are subject to impairment reviews annually, or more frequently if necessary. See Note 4 for additional information on goodwill and other indefinitely-lived assets.

Intangible assets

Intangible assets - Purchased customer contracts and relationships are amortized on a straight-line basis over their estimated useful lives between 10 and 20 years. Purchased customer lists are amortized on a straight-line basis over their estimated useful lives of up to 10 years. Purchased leases are amortized on a straight-line basis over the remaining life of the lease. See Note 4 for additional information about intangible assets.

Impairment of long-lived assets

Impairment of long-lived assets - The Company groups and evaluates fixed and finite-lived intangible assets for impairment at the lowest level at which individual cash flows can be identified, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If indicators of impairment are present, the Company first compares the carrying amount of the asset group to the estimated future cash flows associated with the asset group (undiscounted and without interest charges). If the estimated future cash flows used in this analysis are less than the carrying amount of the asset group, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the asset group to the asset group's estimated future cash flows (discounted and with interest charges). If required, an impairment loss is recorded for the portion of the asset group's carrying value that exceeds the asset group's estimated future cash flows (discounted and with interest charges).

Redeemable noncontrolling interest

Redeemable noncontrolling interest — Through June 29, 2012, the Company had an approximately 60% ownership interest in Generation Health, Inc. ("Generation Health") and consolidated Generation Health in its consolidated financial statements. The nonemployee noncontrolling shareholders of Generation Health held put rights for the remaining interest in Generation Health that if exercised would require the Company to purchase the remaining interest in Generation Health in 2015 for a minimum of \$26 million and a maximum

of \$159 million, depending on certain financial metrics of Generation Health in 2014. Since the noncontrolling shareholders of Generation Health had a redemption feature as a result of the put rights, the Company had classified the redeemable noncontrolling interest in Generation Health in the mezzanine section of the consolidated balance sheet outside of shareholders' equity. On June 29, 2012, the Company acquired the remaining 40% interest in Generation Health from minority shareholders and employee option holders for \$26 million and \$5 million, respectively, for a total of \$31 million.

Revenue recognition

Revenue Recognition

Pharmacy Services Segment - The PSS sells prescription drugs directly through its mail service dispensing pharmacies and indirectly through its retail pharmacy network. The PSS recognizes revenue from prescription drugs sold by its mail service dispensing pharmacies and under retail pharmacy network contracts where it is the principal using the gross method at the contract prices negotiated with its clients. Net revenues include: (i) the portion of the price the client pays directly to the PSS, net of any volume-related or other discounts paid back to the client (see "Drug Discounts" below), (ii) the price paid to the PSS by client plan members for mail order prescriptions ("Mail Co-Payments") and the price paid to retail network pharmacies by client plan members for retail prescriptions ("Retail Co-Payments"), and (iii) administrative fees for retail pharmacy network contracts where the PSS is not the principal as discussed below. Sales taxes are not included in revenue.

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

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

The PSS determines whether it is the principal or agent for its retail pharmacy network transactions on a contract by contract basis. In the majority of its contracts, the PSS has determined it is the principal due to it: (i) being the primary obligor in the arrangement, (ii) having latitude in establishing the price, changing the product or performing part of the service, (iii) having discretion in supplier selection, (iv) having involvement in the determination of product or service specifications, and (v) having credit risk. The PSS's obligations under its client contracts for which revenues are reported using the gross method are separate and distinct from its obligations to the third party pharmacies included in its retail pharmacy network contracts. Pursuant to these contracts, the PSS is contractually required to pay the third party pharmacies in its retail pharmacy network for products sold, regardless of whether the PSS is paid by its clients. The PSS's responsibilities under its client contracts typically include validating eligibility and coverage levels, communicating the prescription price and the co-payments due to the third party retail pharmacy, identifying possible adverse drug interactions for the pharmacist to address with the prescriber prior to dispensing, suggesting generic alternatives where clinically 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 applicable indicators of gross revenue reporting are present. For contracts under which the PSS acts as an agent, revenue is recognized using the net method.

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

Medicare Part D - The PSS, through its SilverScript Insurance Company subsidiary, participates in the Federal Government's Medicare Part D program as a Prescription Drug Plan ("PDP"). 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 direct premium paid by CMS and a beneficiary premium, which is the responsibility of the PDP member, but is subsidized by CMS in the case of low-income members. 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, net revenues include co-payments, coverage gap benefits, deductibles and co-insurance (collectively, the "Member Co-Payments") related to PDP members' actual prescription claims. In certain cases, CMS subsidizes a portion of these Member Co-Payments and pays the PSS an estimated prospective Member Co-Payment subsidy amount each month. The prospective Member Co-Payment subsidy amounts received from CMS are also included in net revenues. The Company assumes no risk for these amounts. 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).

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. Prior to the fourth quarter of 2013, revenue from the sale of prescription drugs was recognized at the time the prescription was filled as opposed to upon delivery as required under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification 605, *Revenue Recognition*. For substantially all prescriptions, the fill date and the delivery date occur in the same reporting period. The effect on both revenue and income of recording prescription drug sales upon fill as opposed to delivery is immaterial. During the fourth quarter of 2013, the Company began recognizing revenue from the sale of prescription drugs when the prescription is picked up by the customer. This immaterial error correction is reflected in all annual and quarterly financial statements presented. For the year ended December 31, 2012, the correction reduced net revenues and net income attributable to CVS Caremark by \$13 million and \$13 million. For the year ended December 31, 2011, the correction reduced net revenues by \$20 million and increased net income attributable to CVS Caremark by \$1 million. Diluted earnings per share from net income attributable to CVS Caremark was reduced by \$0.01 for the year ended December 31, 2012. There was no impact on diluted earnings per share from net income attributable to CVS Caremark in any other annual or interim period impacted by the immaterial error correction. The adjustment increased total assets and total liabilities by \$309 million and \$360 million as of December 31, 2012 and decreased retained earnings by \$38 million and \$39 million as of December 31, 2011 and 2010, respectively.

Customer returns are not material. Revenue generated from the performance of services in the RPS's health care clinics is recognized at the time the services are performed. Sales taxes are not included in revenue.

See Note 13 for additional information about the revenues of the Company's business segments.

Cost of revenues

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

Retail Pharmacy Segment - The RPS' cost of revenues includes: the cost of merchandise sold during the reporting period and the related purchasing costs, warehousing and delivery costs (including depreciation and amortization) and actual and estimated inventory losses.

See Note 13 for additional information about the cost of revenues of the Company's business segments.

Vendor allowances and purchase discounts

Vendor allowances and purchase discounts

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

Pharmacy Services Segment - The PSS receives purchase discounts on products purchased. The PSS' contractual arrangements with vendors, including manufacturers, wholesalers and retail pharmacies, normally provide for the PSS to receive purchase discounts from established list prices in one, or a combination, of the following forms: (i) a direct discount at the time of purchase, (ii) a discount for the prompt payment of invoices, or (iii) when products are purchased indirectly from a manufacturer (e.g., through a wholesaler or retail pharmacy), a discount (or rebate) paid subsequent to dispensing. These rebates are recognized when prescriptions are dispensed and are generally calculated and billed to

manufacturers within 30 days of the end of each completed quarter. Historically, the effect of adjustments resulting from the reconciliation of rebates recognized to the amounts billed and collected has not been material to the PSS' results of operations. The PSS accounts for the effect of any such differences as a change in accounting estimate in the period the reconciliation is completed. The PSS also receives additional discounts under its wholesaler contracts if it exceeds contractually defined annual purchase volumes. In addition, the PSS receives fees from pharmaceutical manufacturers for administrative services. Purchase discounts and administrative service fees are recorded as a reduction of "Cost of revenues".

Retail Pharmacy Segment - Vendor allowances received by the RPS reduce the carrying cost of inventory and are recognized in cost of revenues when the related inventory is sold, unless they are specifically identified as a reimbursement of incremental costs for promotional programs and/or other services provided. Amounts that are directly linked to advertising commitments are recognized as a reduction of advertising expense (included in operating expenses) when the related advertising commitment is satisfied. Any such allowances received in excess of the actual cost incurred also reduce the carrying cost of inventory. The total value of any upfront payments received from vendors that are linked to purchase commitments is initially deferred. The deferred amounts are then amortized to reduce cost of revenues over the life of the contract based upon purchase volume. The total value of any upfront payments received from vendors that are not linked to purchase commitments is also initially deferred. The deferred amounts are then amortized to reduce cost of revenues on a straight-line basis over the life of the related contract. The total amortization of these upfront payments was not material to the accompanying consolidated financial statements.

Insurance

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

Facility opening and closing costs

Facility opening and closing costs - New facility opening costs, other than capital expenditures, are charged directly to expense when incurred. When the Company closes a facility, the present value of estimated unrecoverable costs, including the remaining lease obligation less estimated sublease income and the book value of abandoned property and equipment, are charged to expense. The long-term portion of the lease obligations associated with facility closings was \$246 million and \$288 million in 2013 and 2012, respectively.

Advertising costs

Advertising costs - Advertising costs are expensed when the related advertising takes place. Advertising costs, net of vendor funding (included in operating expenses), were \$177 million, \$221 million and \$211 million in 2013, 2012 and 2011, respectively.

Interest expense, net

Interest expense, net - Interest expense, net of capitalized interest, was \$517 million, \$561 million and \$588 million, and interest income was \$8 million, \$4 million and \$4 million in 2013, 2012 and 2011, respectively. Capitalized interest totaled \$25 million, \$29 million and \$37 million in 2013, 2012 and 2011, respectively.

Shares held in trust

Shares held in trust - The Company maintains grantor trusts, which held approximately 1 million shares of its common stock at December 31, 2013 and 2012, 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.

Accumulated other comprehensive loss

Accumulated other comprehensive loss - Accumulated other comprehensive loss consists of changes in the net actuarial gains and losses associated with pension and other postretirement benefit plans, unrealized losses on derivatives from cash flow hedges executed in previous years associated with the issuance of long-term debt, and foreign currency translation adjustments. The amount included in accumulated other comprehensive loss related to the Company's pension and postretirement plans was \$172 million pre-tax (\$106 million after-tax) as of December 31, 2013 and \$268 million pre-tax (\$165 million after-tax) as of December 31, 2012. The net impact on cash flow hedges totaled \$22 million pre-tax (\$13 million after-tax) and \$26 million pre-tax (\$16 million after-tax) as of December 31, 2013 and 2012, respectively. Cumulative foreign currency translation adjustments at December 31, 2013 were \$30 million.

Stock-based compensation

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

Income taxes

Income taxes - The Company provides for income taxes currently payable, as well as for those deferred because of timing differences between reported income and expenses for financial statement purposes versus income tax return purposes. Income tax credits are recorded as a reduction of income taxes. Deferred income 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 return purposes. Deferred income 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 income tax rates is recognized as

income or expense in the period of the change.

Earnings per common share

Earnings per common share - Basic earnings per common share is computed by dividing: (i) net earnings by (ii) the weighted average number of common shares outstanding during the year (the "Basic Shares"). Diluted earnings per common share is computed by dividing: (i) net earnings by (ii) Basic Shares plus the additional shares that would be issued assuming that all dilutive stock awards are exercised. Options to purchase 6.2 million, 5.9 million and 30.5 million shares of common stock were outstanding as of December 31, 2013, 2012 and 2011, respectively, but were not included in the calculation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

New Accounting Pronouncements

New Accounting Pronouncements

In July 2012, the FASB issued Accounting Standards Update ("ASU") 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment* ("ASU 2012-02"). ASU 2012-02 allows entities to use a qualitative approach to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount and recognize an impairment loss, if any, to the extent the carrying value exceeds its fair value. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of ASU 2012-02 did not have a material effect on the Company's consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* ("ASU 2013-02"). ASU 2013-02 adds new disclosure requirements for items reclassified out of accumulated other comprehensive income. The additional disclosures include: (1) changes in accumulated other comprehensive income balances by component and (2) significant items reclassified out of accumulated other comprehensive income. The changes in accumulated other comprehensive income balance by component will be disaggregated to separately present reclassification adjustments and current-period other comprehensive income. Significant items reclassified out of accumulated other comprehensive income by component are required to be presented either on the face of the statement of income or as separate disclosure in the notes to the financial statements. These additional disclosures may be presented before-tax or net-of-tax as long as the income tax benefit or expense attributed to each component of other comprehensive income and reclassification adjustments is presented in the financial statement or in the notes to the financial statements. ASU 2013-02 is effective for interim and annual periods beginning after December 15, 2012 and should be applied prospectively. The adoption of ASU 2013-02 did not have a material effect on the Company's consolidated financial statements. The expanded disclosures have been included in Note 1 to these consolidated financial statements.

| Consolidated Statements of Shareholders' Equity (USD \$) In Millions, except Share data, unless otherwise specified | Total | Common stock: | Treasury stock: | Shares held in trust: | Capital surplus: | Retained earnings: | Accumulated other comprehensive loss: |
|--|---------------|----------------------|------------------------|------------------------------|-------------------------|---------------------------|--|
| <u>Balance Beginning at Dec. 31, 2010 (Beginning of year)</u> | | | | | | \$ 19,303 | |
| <u>Balance Beginning (Beginning of year, as adjusted)</u> | | | | | | 19,264 | |
| <u>Balance Beginning at Dec. 31, 2010</u> | 16 | | (9,030) | (56) | 27,610 | | (143) |
| <u>Balance Beginning (in shares) at Dec. 31, 2010</u> | 1,624,000,000 | | 259,000,000 | 2,000,000 | | | |
| <u>Increase (Decrease) in Stockholders' Equity</u> | | | | | | | |
| <u>Adjustment to opening balance (Adjustment)</u> | [1] | | | | | 0 | |
| <u>Changes in inventory accounting principles (Note 2) (Changes in inventory accounting principles (Note 2))</u> | | | | | | 0 | |
| <u>Stock options exercised and issuance of stock awards (in shares)</u> | | 16,000,000 | | | | | |
| <u>Stock options exercised and issuance of stock awards</u> | 0 | | | | | | |
| <u>Purchase of treasury shares (in shares)</u> | | | (84,000,000) | | | | |
| <u>Purchase of treasury shares</u> | | | (3,001) | | | | |
| <u>Employee stock purchase plan issuances (in shares)</u> | | | 3,000,000 | | | | |
| <u>Employee stock purchase plan issuances</u> | | | 78 | | | | |
| <u>Transfer of shares from shares held in trust (in shares)</u> | | | 0 | | | | |
| <u>Transfer of shares from shares held in trust</u> | | | 0 | | | | |
| <u>Transfer of shares held in trust to treasury stock (in shares)</u> | | | | 0 | | | |
| <u>Transfer of shares held in trust to treasury stock</u> | | | | 0 | 0 | | |
| <u>Stock option activity and stock awards</u> | | | | | 495 | | |
| <u>Tax benefit on stock options and stock awards</u> | | | | | 21 | | |
| <u>Purchase of noncontrolling interest in subsidiary</u> | | | | | 0 | | |
| <u>Net income attributable to CVS Caremark</u> | 3,462 | | | | | 3,462 | |

| | | | | | | | |
|--|--------|---------------|--------------|-----------|--------|--------|-------|
| <u>Common stock dividends</u> | | | | | | (674) | |
| <u>Foreign currency translation adjustments, net of tax</u> | 0 | | | | | | 0 |
| <u>Net cash flow hedges, net of income tax</u> | (9) | | | | | | (9) |
| <u>Pension liability adjustment, net of income tax</u> | 20 | | | | | | (20) |
| <u>Balance Ending at Dec. 31, 2011 (Beginning of year)</u> | | | | | | 22,052 | |
| <u>Balance Ending (Beginning of year, as adjusted)</u> | | | | | | 22,052 | |
| <u>Balance Ending at Dec. 31, 2011</u> | 38,013 | 16 | (11,953) | (56) | 28,126 | 22,052 | (172) |
| <u>Balance Ending (in shares) at Dec. 31, 2011</u> | | 1,640,000,000 | 340,000,000 | 2,000,000 | | | |
| <u>Increase (Decrease) in Stockholders' Equity</u> | | | | | | | |
| <u>Adjustment to opening balance (Adjustment)</u> | [1] | | | | | 0 | |
| <u>Changes in inventory accounting principles (Note 2) (Changes in inventory accounting principles (Note 2))</u> | | | | | | (89) | |
| <u>Stock options exercised and issuance of stock awards (in shares)</u> | | 27,000,000 | | | | | |
| <u>Stock options exercised and issuance of stock awards</u> | | 1 | | | | | |
| <u>Purchase of treasury shares (in shares)</u> | | | (95,000,000) | | | | |
| <u>Purchase of treasury shares</u> | | | (4,330) | | | | |
| <u>Employee stock purchase plan issuances (in shares)</u> | | | 1,000,000 | | | | |
| <u>Employee stock purchase plan issuances</u> | | | 47 | | | | |
| <u>Transfer of shares from shares held in trust (in shares)</u> | | | (1,000,000) | | | | |
| <u>Transfer of shares from shares held in trust</u> | | | (34) | | | | |
| <u>Transfer of shares held in trust to treasury stock (in shares)</u> | | | | 1,000,000 | | | |
| <u>Transfer of shares held in trust to treasury stock</u> | | | | 25 | 9 | | |
| <u>Stock option activity and stock awards</u> | | | | | 955 | | |
| <u>Tax benefit on stock options and stock awards</u> | | | | | 28 | | |
| <u>Purchase of noncontrolling interest in subsidiary</u> | | | | | 2 | | |
| <u>Net income attributable to CVS Caremark</u> | 3,864 | | | | | 3,864 | |

| | | | | | | | |
|--|--------|---------------|--------------|-----------|--------|--------|-------|
| <u>Common stock dividends</u> | | | | | | (829) | |
| <u>Foreign currency translation adjustments, net of tax</u> | 0 | | | | | | 0 |
| <u>Net cash flow hedges, net of income tax</u> | 3 | | | | | | 3 |
| <u>Pension liability adjustment, net of income tax</u> | 12 | | | | | | (12) |
| <u>Balance Ending at Dec. 31, 2012 (Beginning of year)</u> | | | | | | 24,998 | |
| <u>Balance Ending (Beginning of year, as adjusted)</u> | | | | | | 24,998 | |
| <u>Balance Ending at Dec. 31, 2012</u> | 37,653 | 17 | (16,270) | (31) | 29,120 | 24,998 | (181) |
| <u>Balance Ending (in shares) at Dec. 31, 2012</u> | | 1,667,000,000 | 435,000,000 | 1,000,000 | | | |
| <u>Balance Beginning at Sep. 30, 2012</u> | | | | | | | |
| <u>Increase (Decrease) in Stockholders' Equity</u> | | | | | | | |
| <u>Adjustment to opening balance (Adjustment)</u> | [1] | | | | | 0 | |
| <u>Net income attributable to CVS Caremark</u> | 1,125 | | | | | | |
| <u>Balance Ending at Dec. 31, 2012 (Beginning of year)</u> | | | | | | 24,998 | |
| <u>Balance Ending (Beginning of year, as adjusted)</u> | | | | | | 24,998 | |
| <u>Balance Ending at Dec. 31, 2012</u> | 37,653 | 17 | (16,270) | (31) | 29,120 | 24,998 | (181) |
| <u>Balance Beginning (in shares) at Dec. 31, 2012</u> | | 1,667,000,000 | 435,000,000 | 1,000,000 | | | |
| <u>Increase (Decrease) in Stockholders' Equity</u> | | | | | | | |
| <u>Changes in inventory accounting principles (Note 2) (Changes in inventory accounting principles (Note 2))</u> | | | | | | 0 | |
| <u>Stock options exercised and issuance of stock awards (in shares)</u> | | 13,000,000 | | | | | |
| <u>Stock options exercised and issuance of stock awards</u> | | 0 | | | | | |
| <u>Purchase of treasury shares (in shares)</u> | | | (66,000,000) | | | | |
| <u>Purchase of treasury shares</u> | | | (3,976) | | | | |
| <u>Employee stock purchase plan issuances (in shares)</u> | | | 1,000,000 | | | | |
| <u>Employee stock purchase plan issuances</u> | | | 77 | | | | |
| <u>Transfer of shares from shares held in trust (in shares)</u> | | | 0 | | | | |

| | | | | | | |
|---|-----------|---------------|-------------|-----------|-----------|-----------|
| <u>Transfer of shares from shares held in trust</u> | | 0 | | | | |
| <u>Transfer of shares held in trust to treasury stock (in shares)</u> | | | 0 | | | |
| <u>Transfer of shares held in trust to treasury stock</u> | | | 0 | 0 | | |
| <u>Stock option activity and stock awards</u> | | | | 588 | | |
| <u>Tax benefit on stock options and stock awards</u> | | | | 69 | | |
| <u>Purchase of noncontrolling interest in subsidiary</u> | | | | 0 | | |
| <u>Net income attributable to CVS Caremark</u> | 4,592 | | | | 4,592 | |
| <u>Common stock dividends</u> | | | | | (1,097) | |
| <u>Foreign currency translation adjustments, net of tax</u> | (30) | | | | | (30) |
| <u>Net cash flow hedges, net of income tax</u> | 3 | | | | | 3 |
| <u>Pension liability adjustment, net of income tax</u> | (59) | | | | | 59 |
| <u>Balance Ending at Dec. 31, 2013</u> | \$ 37,938 | \$ 17 | \$ (20,169) | \$ (31) | \$ 29,777 | \$ 28,493 |
| | | | | | | \$ (149) |
| <u>Balance Ending (in shares) at Dec. 31, 2013</u> | | 1,680,000,000 | 500,000,000 | 1,000,000 | | |

[1] ee Note 1 - Significant Accounting Policies (Revenue Recognition - Retail Pharmacy Segment).

**Consolidated Statements of
Comprehensive Income (USD
\$)**

12 Months Ended

**In Millions, unless otherwise
specified**

Dec. 31, 2013 Dec. 31, 2012 Dec. 31, 2011

Statement of Comprehensive Income [Abstract]

| | | | |
|---|----------|----------|----------|
| <u>Net income</u> | \$ 4,592 | \$ 3,862 | \$ 3,458 |
| <u>Other comprehensive income (loss):</u> | | | |
| <u>Foreign currency translation adjustments, net of tax</u> | (30) | 0 | 0 |
| <u>Net cash flow hedges, net of income tax</u> | 3 | 3 | (9) |
| <u>Pension and other postretirement benefits, net of income tax</u> | 59 | (12) | (20) |
| <u>Net other comprehensive income (loss)</u> | 32 | [1] (9) | (29) |
| <u>Comprehensive income</u> | 4,624 | 3,853 | 3,429 |
| <u>Comprehensive loss attributable to noncontrolling interest</u> | 0 | 2 | 4 |
| <u>Comprehensive income attributable to CVS Caremark</u> | \$ 4,624 | \$ 3,855 | \$ 3,433 |

[1] All amounts are net of tax.

Stock Incentive Plans

12 Months Ended

Dec. 31, 2013

Stock Incentive Plans

Stock Incentive Plans

Stock Incentive Plans

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

Compensation expense related to stock options, which includes the 2007 Employee Stock Purchase Plan (the "2007 ESPP") totaled \$100 million, \$102 million and \$112 million for 2013, 2012 and 2011, respectively. The recognized tax benefit was \$32 million, \$33 million and \$38 million for 2013, 2012 and 2011, respectively. Compensation expense related to restricted stock awards totaled \$41 million, \$30 million and \$21 million for 2013, 2012 and 2011, respectively.

The 2007 ESPP provides for the purchase of up to 15 million shares of common stock. In March 2013, the Board of Directors approved an amendment to the 2007 ESPP to provide an additional 15 million shares of common stock for issuance. 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. During 2013, approximately 2 million shares of common stock were purchased under the provisions of the 2007 ESPP at an average price of \$41.44 per share. As of December 31, 2013, approximately 17 million shares of common stock were available for issuance under the 2007 ESPP.

The fair value of stock-based compensation associated with the 2007 ESPP is estimated on the date of grant (the first day of the six month offering period) using the Black-Scholes Option Pricing Model.

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

| | 2013 | 2012 | 2011 |
|--|----------|---------|---------|
| Dividend yield ⁽¹⁾ | 0.86% | 0.73% | 0.69% |
| Expected volatility ⁽²⁾ | 16.94% | 22.88% | 20.42% |
| Risk-free interest rate ⁽³⁾ | 0.10% | 0.10% | 0.15% |
| Expected life (<i>in years</i>) ⁽⁴⁾ | 0.5 | 0.5 | 0.5 |
| Weighted-average grant date fair value | \$ 10.08 | \$ 9.22 | \$ 7.21 |

- (1) The dividend yield is calculated based on semi-annual dividends paid and the fair market value of the Company's stock at the grant date.
- (2) The expected volatility is based on the historical volatility of the Company's daily stock market prices over the previous six month period.
- (3) The risk-free interest rate is based on the Treasury constant maturity interest rate whose term is consistent with the expected term of ESPP options (i.e., 6 months).
- (4) The expected life is based on the semi-annual purchase period.

In May 2010, the Company's Board of Directors adopted and the shareholders approved the 2010 Incentive Compensation Plan (the "2010 ICP"). The terms of the 2010 ICP 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. Payment of such annual incentive and long-term performance awards will be in cash, stock, other awards or other property, at the discretion of the Management Planning and Development Committee of the Company's Board of Directors. The 2010 ICP allows for a maximum of 74 million shares to be reserved and available for grants. The 2010 ICP is the only compensation plan under which the Company grants stock options, restricted stock and other stock-based awards to its employees, with the exception of the Company's 2007 ESPP. In November 2012, the Company's Board of Director's approved an amendment to the 2010 ICP to eliminate the share recycling provision of the 2010 ICP. As of December 31, 2013, there were approximately 38 million shares available for future grants under the 2010 ICP.

The Company's restricted awards are considered non-vested share awards and require no payment from the employee. Compensation cost is recorded based on the market price on the grant date and is

recognized on a straight-line basis over the requisite service period. The Company granted 1,715,000, 1,811,000 and 1,121,000 restricted stock units with a weighted average fair value of \$54.30, \$44.80 and \$34.84 in 2013, 2012 and 2011, respectively. As of December 31, 2013, there was \$89 million of total unrecognized compensation cost related to the restricted stock units that are expected to vest. These costs are expected to be recognized over a weighted-average period of 2.1 years. The total fair value of restricted shares vested during 2013, 2012 and 2011 was \$41 million, \$81 million and \$33 million, respectively.

The following table is a summary of the restricted stock unit and restricted share award activity for the year ended December 31, 2013.

| <u>Units in thousands</u> | Units | Weighted Average Grant Date Fair Value |
|--------------------------------|--------------|--|
| Nonvested at beginning of year | 2,350 | \$ 33.32 |
| Granted | 1,715 | 54.30 |
| Vested | (802) | 54.58 |
| Forfeited | (242) | 46.17 |
| Nonvested at end of year | <u>3,021</u> | <u>\$ 38.56</u> |

All grants under the 2010 ICP are awarded at fair market value on the date of grant. The fair value of stock options is estimated using the Black-Scholes Option Pricing Model and stock-based compensation is recognized on a straight-line basis over the requisite service period. Options granted through 2010 generally become exercisable over a three-year period from the grant date. Beginning in 2011, options granted generally become exercisable over a four-year period from the grant date. Options generally expire seven years after the grant date.

Excess tax benefits of \$62 million, \$28 million and \$21 million were included in financing activities in the accompanying consolidated statements of cash flow during 2013, 2012 and 2011, respectively. Cash received from stock options exercised, which includes the 2007 ESPP, totaled \$500 million, \$836 million and \$431 million during 2013, 2012 and 2011, respectively. The total intrinsic value of options exercised was \$282 million, \$321 million and \$161 million in 2013, 2012 and 2011, respectively. The total fair value of options vested during 2013, 2012 and 2011 was \$329 million, \$386 million and \$452 million, 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:

| | 2013 | 2012 | 2011 |
|--|----------|----------|---------|
| Dividend yield ⁽¹⁾ | 1.65% | 1.44% | 1.43% |
| Expected volatility ⁽²⁾ | 30.96% | 32.49% | 32.62% |
| Risk-free interest rate ⁽³⁾ | 0.73% | 0.84% | 1.81% |
| Expected life <i>(in years)</i> ⁽⁴⁾ | 4.7 | 4.7 | 4.7 |
| Weighted-average grant date fair value | \$ 12.50 | \$ 11.12 | \$ 9.19 |

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

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

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

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

As of December 31, 2013, unrecognized compensation expense related to unvested options totaled \$170 million, which the Company expects to be recognized over a weighted-average period of 2.1 years. After considering anticipated forfeitures, the Company expects approximately 19 million of the unvested options to vest over the requisite service period.

The following table is a summary of the Company's stock option activity for the year ended December 31, 2013:

| Weighted Average | Weighted Average Remaining Contractual | Aggregate Intrinsic |
|------------------|--|---------------------|
|------------------|--|---------------------|

| <i>Shares in thousands</i> | Shares | Exercise Price | Term | Value |
|--|---------------|-----------------------|-------------|------------------|
| Outstanding at December 31, 2012 | 40,929 | \$ 36.57 | 4.34 | \$ 482,249,000 |
| Granted | 8,556 | \$ 54.60 | — | — |
| Exercised | (12,568) | \$ 35.04 | — | — |
| Forfeited | (1,619) | \$ 41.87 | — | — |
| Expired | (560) | \$ 31.18 | — | — |
| Outstanding at December 31, 2013 | 34,738 | \$ 41.40 | 4.39 | \$ 1,047,976,191 |
| Exercisable at December 31, 2013 | 14,573 | \$ 35.21 | 2.95 | \$ 529,832,395 |
| Vested and expected to vest at December 31, 2013 | 33,601 | \$ 41.17 | 4.34 | \$ 1,021,486,782 |

**Document and Entity
Information (USD \$)**

12 Months Ended

Dec. 31, 2013

Feb. 04, 2014

Jun. 30, 2012

Document and Entity Information

| | | | |
|--|-------------------------|---------------|-------------------|
| <u>Entity Registrant Name</u> | CVS CAREMARK CORP | | |
| <u>Entity Central Index Key</u> | 0000064803 | | |
| <u>Document Type</u> | 10-K | | |
| <u>Document Period End Date</u> | Dec. 31, 2013 | | |
| <u>Amendment Flag</u> | false | | |
| <u>Current Fiscal Year End Date</u> | --12-31 | | |
| <u>Entity Well-known Seasoned Issuer</u> | Yes | | |
| <u>Entity Voluntary Filers</u> | No | | |
| <u>Entity Current Reporting Status</u> | Yes | | |
| <u>Entity Filer Category</u> | Large Accelerated Filer | | |
| <u>Entity Public Float</u> | | | \$ 69,980,197,924 |
| <u>Entity Common Stock, Shares Outstanding</u> | | 1,182,427,156 | |
| <u>Document Fiscal Year Focus</u> | 2013 | | |
| <u>Document Fiscal Period Focus</u> | FY | | |

Income Taxes

**12 Months Ended
Dec. 31, 2013**

Income Tax Disclosure

[Abstract]

Income Taxes

Income Taxes

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

| <i><u>In millions</u></i> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|---------------------------|-----------------|-----------------|-----------------|
| Current: | | | |
| Federal | \$ 2,623 | \$ 2,226 | \$ 1,807 |
| State | 437 | 410 | 338 |
| | <u>3,060</u> | <u>2,636</u> | <u>2,145</u> |
| Deferred: | | | |
| Federal | (115) | (182) | 101 |
| State | (17) | (18) | 12 |
| | <u>(132)</u> | <u>(200)</u> | <u>113</u> |
| Total | <u>\$ 2,928</u> | <u>\$ 2,436</u> | <u>\$ 2,258</u> |

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

| | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|--|--------------|--------------|--------------|
| Statutory income tax rate | 35.0% | 35.0% | 35.0% |
| State income taxes, net of federal tax benefit | 4.0 | 3.9 | 3.9 |
| Other | (0.1) | (0.3) | 0.4 |
| Effective income tax rate | <u>38.9%</u> | <u>38.6%</u> | <u>39.3%</u> |

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

| <i><u>In millions</u></i> | <u>2013</u> | <u>2012</u> |
|---------------------------------|-------------------|-------------------|
| Deferred tax assets: | | |
| Lease and rents | \$ 344 | \$ 336 |
| Inventories | — | 141 |
| Employee benefits | 213 | 202 |
| Allowance for doubtful accounts | 79 | 137 |
| Retirement benefits | 172 | 115 |
| Net operating losses | 10 | 5 |
| Depreciation | 192 | — |
| Other | 598 | 430 |
| Valuation allowance | (3) | — |
| Total deferred tax assets | <u>1,605</u> | <u>1,366</u> |
| Deferred tax liabilities: | | |
| Inventories | (69) | — |
| Depreciation and amortization | (4,512) | (4,457) |
| Total deferred tax liabilities | <u>(4,581)</u> | <u>(4,457)</u> |
| Net deferred tax liabilities | <u>\$ (2,976)</u> | <u>\$ (3,091)</u> |

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

| <u><i>In millions</i></u> | <u>2013</u> | <u>2012</u> |
|---|-------------------|-------------------|
| Deferred tax assets—current | \$ 902 | \$ 693 |
| Deferred tax assets—noncurrent (included in other assets) | 23 | — |
| Deferred tax liabilities—noncurrent | (3,901) | (3,784) |
| Net deferred tax liabilities | <u>\$ (2,976)</u> | <u>\$ (3,091)</u> |

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

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

| <u><i>In millions</i></u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|--|---------------|--------------|--------------|
| Beginning balance | \$ 80 | \$ 38 | \$ 35 |
| Additions based on tax positions related to the current year | 19 | 15 | 3 |
| Additions based on tax positions related to prior years | 37 | 42 | 13 |
| Reductions for tax positions of prior years | (1) | (2) | — |
| Expiration of statutes of limitation | (17) | (12) | (7) |
| Settlements | (1) | (1) | (6) |
| Ending balance | <u>\$ 117</u> | <u>\$ 80</u> | <u>\$ 38</u> |

The Company and most of its subsidiaries are subject to U.S. federal income tax as well as income tax of numerous state and local jurisdictions. The Internal Revenue Service (“IRS”) is currently examining the Company’s 2012 and 2013 consolidated U.S. federal income tax returns under its Compliance Assurance Process (“CAP”) program. The CAP program is a voluntary program under which participating taxpayers work collaboratively with the IRS to identify and resolve potential tax issues through open, cooperative and transparent interaction prior to the filing of their federal income tax return.

The Company and its subsidiaries are also currently under income tax examinations by a number of state and local tax authorities. As of December 31, 2013, 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.

Substantially all material state and local income tax matters have been concluded for fiscal years through 2008. The Company and its subsidiaries anticipate that a number of state and local income tax examinations will be concluded and statutes of limitation for open years will expire over the next twelve months, which may result in the utilization or reduction of the Company’s reserve for uncertain tax positions of up to approximately \$13 million.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties in income tax expense. During the years ended December 31, 2013, 2012 and 2011, the Company recognized interest of approximately \$4 million, \$4 million and \$2 million, respectively. The Company had approximately \$10 million accrued for interest and penalties as of December 31, 2013 and 2012.

There are no material uncertain tax positions as of December 31, 2013 the ultimate deductibility of which 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 a period earlier than expected.

The total amount of unrecognized tax benefits that, if recognized, would affect the effective income tax rate is approximately \$95 million, after considering the federal benefit of state income taxes.

Consolidated Balance Sheets
(USD \$)
In Millions, unless otherwise
specified

| | Dec. 31, | Dec. 31, |
|---|-----------------|-----------------|
| | 2013 | 2012 |
| <u>Assets:</u> | | |
| <u>Cash and cash equivalents</u> | \$ 4,089 | \$ 1,375 |
| <u>Short-term investments</u> | 88 | 5 |
| <u>Accounts receivable, net</u> | 8,729 | 6,479 |
| <u>Inventories</u> | 11,045 | 11,032 |
| <u>Deferred income taxes</u> | 902 | 693 |
| <u>Other current assets</u> | 472 | 577 |
| <u>Total current assets</u> | 25,325 | 20,161 |
| <u>Property and equipment, net</u> | 8,615 | 8,632 |
| <u>Goodwill</u> | 26,542 | 26,395 |
| <u>Intangible assets, net</u> | 9,529 | 9,753 |
| <u>Other assets</u> | 1,515 | 1,280 |
| <u>Total assets</u> | 71,526 | 66,221 |
| <u>Liabilities:</u> | | |
| <u>Accounts payable</u> | 5,548 | 5,070 |
| <u>Claims and discounts payable</u> | 4,548 | 3,974 |
| <u>Accrued expenses</u> | 4,768 | 4,411 |
| <u>Short-term debt</u> | 0 | 690 |
| <u>Current portion of long-term debt</u> | 561 | 5 |
| <u>Total current liabilities</u> | 15,425 | 14,150 |
| <u>Long-term debt</u> | 12,841 | 9,133 |
| <u>Deferred income taxes</u> | 3,901 | 3,784 |
| <u>Other long-term liabilities</u> | 1,421 | 1,501 |
| <u>Commitments and contingencies (Note 12)</u> | 0 | 0 |
| <u>Shareholders' equity:</u> | | |
| <u>Preferred stock, par value \$0.01: 0.1 shares authorized; none issued or outstanding</u> | | |
| <u>Common stock, par value \$0.01: 3,200 shares authorized; 1,680 shares issued and 1,180 shares outstanding at December 31, 2013 and 1,667 shares issued and 1,231 shares outstanding at December 31, 2012</u> | 17 | 17 |
| <u>Treasury stock, at cost: 500 shares at December 31, 2013 and 435 shares at December 31, 2012</u> | (20,169) | (16,270) |
| <u>Shares held in trust: 1 share at December 31, 2013 and 2012</u> | (31) | (31) |
| <u>Capital surplus</u> | 29,777 | 29,120 |
| <u>Retained earnings</u> | 28,493 | 24,998 |
| <u>Accumulated other comprehensive loss</u> | (149) | [1] (181) [1] |
| <u>Total shareholders' equity</u> | 37,938 | 37,653 |
| <u>Total liabilities and shareholders' equity</u> | \$ 71,526 | \$ 66,221 |

[1] All amounts are net of tax.

Share Repurchase Programs

12 Months Ended

Dec. 31, 2013

Payments for Repurchase of Equity [Abstract]

Share Repurchase Programs

Share Repurchase Programs

On December 17, 2013, the Company's Board of Directors authorized a new share repurchase program for up to \$6.0 billion of outstanding common stock (the "2013 Repurchase Program"). On September 19, 2012, the Company's Board of Directors authorized a share repurchase program for up to \$6.0 billion of outstanding common stock (the "2012 Repurchase Program"). On August 23, 2011, the Company's Board of Directors authorized a share repurchase program for up to \$4.0 billion of outstanding common stock (the "2011 Repurchase Program"). On June 14, 2010, our Board of Directors authorized a share repurchase program for up to \$2.0 billion of outstanding common stock (the "2010 Repurchase Program"). The share repurchase authorizations, each of which was effective immediately, permitted the Company to effect repurchases from time to time through a combination of open market repurchases, privately negotiated transactions, accelerated share repurchase transactions, and/or other derivative transactions. The 2013 and 2012 Repurchase Programs may be modified or terminated by the Board of Directors at any time. The 2011 and 2010 Repurchase Programs have been completed, as described below.

Pursuant to the authorization under the 2012 Repurchase Program, effective October 1, 2013, the Company entered into a \$1.7 billion fixed dollar accelerated share repurchase ("ASR") agreement with Barclays Bank PLC ("Barclays"). Upon payment of the \$1.7 billion purchase price on October 1, 2013, the Company received a number of shares of its common stock equal to 50% of the \$1.7 billion notional amount of the ASR agreement or approximately 14.9 million shares at a price of \$56.88 per share. The Company received approximately 11.7 million shares of common stock on December 30, 2013 at an average price of \$63.83 per share, representing the remaining 50% of the \$1.7 billion notional amount of the ASR agreement and thereby concluding the agreement. The total of 26.6 million shares of common stock delivered to the Company by Barclays over the term of the October 2013 ASR agreement were placed into treasury stock.

Pursuant to the authorizations under the 2011 and 2012 Repurchase Programs, on September 19, 2012, the Company entered into a \$1.2 billion fixed dollar ASR agreement with Barclays. Upon payment of the \$1.2 billion purchase price on September 20, 2012, the Company received a number of shares of its common stock equal to 50% of the \$1.2 billion notional amount of the ASR agreement or approximately 12.6 million shares at a price of \$47.71 per share. The Company received approximately 13.0 million shares of common stock on November 16, 2012 at an average price of \$46.96 per share, representing the remaining 50% of the \$1.2 billion notional amount of the ASR agreement and thereby concluding the agreement. The total of 25.6 million shares of common stock delivered to the Company by Barclays over the term of the September 2012 ASR agreement were placed into treasury stock.

Pursuant to the authorization under the 2011 Repurchase Program, on August 24, 2011, the Company entered into a \$1.0 billion fixed dollar ASR agreement with Barclays. The ASR agreement contained provisions that establish the minimum and maximum number of shares to be repurchased during its term. Pursuant to the ASR agreement, on August 25, 2011, the Company paid \$1.0 billion to Barclays in exchange for Barclays delivering 20.3 million shares of common stock to the Company. On September 16, 2011, upon establishment of the minimum number of shares to be repurchased, Barclays delivered an additional 5.4 million shares of common stock to the Company. At the conclusion of the transaction on December 28, 2011, Barclays delivered a final installment of 1.6 million shares of common stock on December 29, 2011. The aggregate 27.3 million shares of common stock delivered to the Company by Barclays, were placed into treasury stock. This represented all the repurchases that occurred during the year ended December 31, 2011 under the 2011 Repurchase Program.

Each of the ASR transactions described above were accounted for as an initial treasury stock transaction and a forward contract. The forward contract was classified as an equity instrument. The initial repurchase of the shares and delivery of the remainder of the shares to conclude each ASR, resulted in an immediate reduction of the outstanding shares used to calculate the weighted average common shares outstanding for basic and diluted net income per share.

During the year ended December 31, 2013, the Company repurchased an aggregate of 66.2 million shares of common stock for approximately \$4.0 billion under the 2012 Repurchase Program, which includes shares received from the October 2013 ASR agreement described above. As of December 31, 2013, there remained an aggregate of approximately \$6.7 billion available for future repurchases under the 2013 and 2012 Repurchase Programs.

During the year ended December 31, 2012, the Company repurchased an aggregate of 95.0 million shares of common stock for approximately \$4.3 billion under the 2012 and 2011 Repurchase Programs, which includes shares received from the September 2012 ASR agreement described above. As of December 31, 2012, the 2011 Repurchase Program was complete.

During the year ended December 31, 2011, the Company repurchased an aggregate of 56.4 million shares of common stock for approximately \$2.0 billion, completing the 2010 Repurchase Program.

**Goodwill and Other
Intangibles**

**12 Months Ended
Dec. 31, 2013**

**Goodwill and Intangible
Assets Disclosure [Abstract]**

Goodwill and Other Intangibles

Goodwill and Other Intangibles

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

When evaluating goodwill for potential impairment, the Company first compares the fair value of its two reporting units, the PSS and RPS, to their respective carrying amounts. The Company estimates the fair value of its reporting units using a combination of a future discounted cash flow valuation model and a comparable market transaction model. 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 2013, the Company performed its required annual goodwill impairment tests. The Company concluded there were no goodwill impairments as of the testing date. The carrying amount of goodwill was \$26.5 billion and \$26.4 billion as of December 31, 2013 and 2012, respectively (see Note 13 for a breakdown of goodwill by segment). During the year ended December 31, 2013, goodwill increased \$12 million in PSS and \$135 million in RPS for a total increase of \$147 million. The increase in PSS was primarily due to an immaterial acquisition. The \$135 million net increase in RPS was due to an immaterial acquisition which increased goodwill by \$160 million, which was partially offset by a decrease of \$25 million related to foreign currency translation adjustments.

Indefinitely-lived intangible assets are tested for impairment by comparing the estimated fair value of the asset to its carrying value. The Company estimates the fair value of its indefinitely-lived trademark using the relief from royalty method under the income approach. If the carrying value of the asset exceeds its estimated fair value, an impairment loss is recognized and the asset is written down to its estimated fair value. During the third quarter of 2013, the Company performed its annual impairment test of the indefinitely-lived trademark and concluded there was no impairment as of the testing date. The carrying amount of its indefinitely-lived trademark was \$6.4 billion as of December 31, 2013 and 2012.

The Company amortizes intangible assets with finite lives over the estimated useful lives of the respective assets, which have a weighted average useful life of 13.0 years. The weighted average useful lives of the Company's customer contracts and relationships and covenants not to compete are 12.5 years. The weighted average lives of the Company's favorable leases and other intangible assets are 17.1 years. Amortization expense for intangible assets totaled \$494 million, \$486 million and \$452 million in 2013, 2012 and 2011, respectively. The anticipated annual amortization expense for these intangible assets for the next five years is \$457 million in 2014, \$427 million in 2015, \$398 million in 2016, \$375 million in 2017 and \$357 million in 2018.

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

| | 2013 | | | 2012 | | |
|---|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| <i>In millions</i> | | | | | | |
| Trademark (indefinitely-lived) | \$ 6,398 | \$ — | \$ 6,398 | \$ 6,398 | \$ — | \$ 6,398 |
| Customer contracts and relationships and covenants not to compete | 5,840 | (3,083) | 2,757 | 5,745 | (2,812) | 2,933 |
| Favorable leases and other | 800 | (426) | 374 | 802 | (380) | 422 |
| | <u>\$ 13,038</u> | <u>\$ (3,509)</u> | <u>\$ 9,529</u> | <u>\$ 12,945</u> | <u>\$ (3,192)</u> | <u>\$ 9,753</u> |

Quarterly Financial
Information (Unaudited)

12 Months Ended
Dec. 31, 2013

Quarterly Financial Information
Disclosure [Abstract]

Quarterly Financial Information (Unaudited) Quarterly Financial Information (Unaudited)

| <i>In millions, except per share amounts</i> | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Year |
|--|------------------|-------------------|------------------|-------------------|-----------|
| 2013: | | | | | |
| Net revenues | \$ 30,751 | \$31,248 | \$31,932 | \$32,830 | \$126,761 |
| Gross profit | 5,577 | 5,841 | 6,027 | 6,338 | 23,783 |
| Operating profit | 1,694 | 1,972 | 2,154 | 2,217 | 8,037 |
| Income from continuing operations | 954 | 1,125 | 1,255 | 1,266 | 4,600 |
| Loss from discontinued operations, net of tax | — | (1) | (6) | (1) | (8) |
| Net income | 954 | 1,124 | 1,249 | 1,265 | 4,592 |
| Net loss attributable to noncontrolling interest | — | — | — | — | — |
| Net income attributable to CVS Caremark | \$ 954 | \$ 1,124 | \$ 1,249 | \$ 1,265 | \$ 4,592 |
| Basic earnings per common share: | | | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 0.77 | \$ 0.92 | \$ 1.03 | \$ 1.06 | \$ 3.78 |
| Loss from discontinued operations attributable to CVS Caremark | \$ — | \$ — | \$ — | \$ — | \$ (0.01) |
| Net income attributable to CVS Caremark | \$ 0.77 | \$ 0.92 | \$ 1.03 | \$ 1.06 | \$ 3.77 |
| Diluted Earnings per common share: | | | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 0.77 | \$ 0.91 | \$ 1.02 | \$ 1.05 | \$ 3.75 |
| Loss from discontinued operations attributable to CVS Caremark | \$ — | \$ — | \$ — | \$ — | \$ (0.01) |
| Net income attributable to CVS Caremark | \$ 0.77 | \$ 0.91 | \$ 1.02 | \$ 1.05 | \$ 3.74 |
| Dividends per common share | \$ 0.2250 | \$0.2250 | \$0.2250 | \$0.2250 | \$ 0.9000 |
| Stock price: (New York Stock Exchange) | | | | | |
| High | \$ 56.07 | \$ 60.70 | \$ 62.36 | \$ 71.99 | \$ 71.99 |
| Low | \$ 49.00 | \$ 53.94 | \$ 56.68 | \$ 56.32 | \$ 49.00 |

| <i>In millions, except per share amounts</i> | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Year |
|---|------------------|-------------------|------------------|-------------------|-----------|
| 2012: | | | | | |
| Net revenues | \$30,792 | \$30,694 | \$30,237 | \$ 31,397 | \$123,120 |
| Gross profit | 5,106 | 5,443 | 5,645 | 6,294 | 22,488 |
| Operating profit | 1,397 | 1,702 | 1,812 | 2,299 | 7,210 |
| Income from continuing operations | 772 | 962 | 1,010 | 1,125 | 3,869 |
| Income (loss) from discontinued operations, net of tax | (1) | (1) | (5) | — | (7) |
| Net income | 771 | 961 | 1,005 | 1,125 | 3,862 |
| Net loss attributable to noncontrolling interest | 1 | 1 | — | — | 2 |
| Net income attributable to CVS | | | | | |

| | | | | | |
|---|----------|----------|----------|-----------|-----------|
| Caremark | \$ 772 | \$ 962 | \$ 1,005 | \$ 1,125 | \$ 3,864 |
| Basic earnings per common share: | | | | | |
| Income from continuing operations attributable to | | | | | |
| CVS Caremark | \$ 0.60 | \$ 0.75 | \$ 0.80 | \$ 0.91 | \$ 3.05 |
| Income (loss) from discontinued operations attributable to CVS Caremark | \$ — | \$ — | \$ — | \$ — | \$ (0.01) |
| Net income attributable to CVS Caremark | \$ 0.59 | \$ 0.75 | \$ 0.79 | \$ 0.91 | \$ 3.04 |
| Diluted Earnings per common share: | | | | | |
| Income from continuing operations attributable to | | | | | |
| CVS Caremark | \$ 0.59 | \$ 0.75 | \$ 0.79 | \$ 0.90 | \$ 3.02 |
| Income (loss) from discontinued operations attributable to CVS Caremark | \$ — | \$ — | \$ — | \$ — | \$ (0.01) |
| Net income attributable to CVS Caremark | \$ 0.59 | \$ 0.75 | \$ 0.79 | \$ 0.90 | \$ 3.02 |
| Dividends per common share | \$0.1625 | \$0.1625 | \$0.1625 | \$ 0.1625 | \$ 0.650 |
| Stock price: (New York Stock Exchange) | | | | | |
| High | \$ 45.88 | \$ 46.93 | \$ 48.69 | \$ 49.80 | \$ 49.80 |
| Low | \$ 41.01 | \$ 43.08 | \$ 43.65 | \$ 44.33 | \$ 41.01 |

See Note 1 - Significant Accounting Policies (Revenue Recognition - Retail Pharmacy Segment).

Commitments and Contingencies

12 Months Ended
Dec. 31, 2013

Commitments and Contingencies Disclosure [Abstract]

Commitments and Contingencies **Commitments and Contingencies**

Lease Guarantees

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 agreed to indemnify 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, 2013, the Company guaranteed approximately 73 such store leases (excluding the lease guarantees related to Linens 'n Things, which are discussed in Note 3), with the maximum remaining lease term extending through 2026. 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.

Legal Matters

The Company is a party to legal proceedings, investigations and claims in the ordinary course of its business, including the matters described below. The Company records accruals for outstanding legal matters when it believes it is probable that a loss will be incurred and the amount can be reasonably estimated. The Company evaluates, on a quarterly basis, developments in legal matters that could affect the amount of any accrual and developments that would make a loss contingency both probable and reasonably estimable. If a loss contingency is not both probable and estimable, the Company does not establish an accrued liability. None of the Company's accruals for outstanding legal matters are material individually or in the aggregate to the Company's financial position.

The Company's contingencies are subject to significant uncertainties, including, among other factors: (i) the procedural status of pending matters; (ii) whether class action status is sought and certified; (iii) whether asserted claims or allegations will survive dispositive motion practice; (iv) the extent of potential damages, fines or penalties, which are often unspecified or indeterminate; (v) the impact of discovery on the legal process; (vi) whether novel or unsettled legal theories are at issue; (vii) the settlement posture of the parties, and/or (viii) in the case of certain government agency investigations, whether a sealed *qui tam* lawsuit ("whistleblower" action) has been filed and whether the government agency makes a decision to intervene in the lawsuit following investigation.

Except as otherwise noted, the Company cannot predict with certainty the timing or outcome of the legal matters described below, and is unable to reasonably estimate a possible loss or range of possible loss in excess of amounts already accrued for these matters.

- Caremark (the term "Caremark" being used herein to generally refer to any one or more pharmacy benefit management subsidiaries of the Company, as applicable) was 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 sought monetary damages and alleged that Caremark's processing of Medicaid and certain other government claims on behalf of its clients (which allegedly resulted in underpayments from our clients to the applicable government agencies) on one of Caremark's adjudication platforms violated 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. Thereafter, in 2008, the Company prevailed on several motions for partial summary judgment and, following an appellate ruling from the Fifth Circuit Court of Appeals in 2011 which affirmed in part and reversed in part these prior rulings, the claims asserted in the case against Caremark were substantially narrowed. In December 2013, this case was dismissed following a settlement between the Company and the plaintiffs.

In a related matter, in December 2007, the Company received a document subpoena from the Office of Inspector General (“OIG”) within the U.S. Department of Health and Human Services (“HHS”), requesting information relating to the processing of Medicaid and other government agency claims on a different adjudication platform of Caremark. The Company has provided documents and other information in response to this request for information. The Company has been conducting discussions with the United States Department of Justice (“DOJ”) and the OIG regarding a possible settlement of this matter.

- 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. Following the close of class discovery, the trial court entered an Order on August 15, 2012 that granted the plaintiffs’ motion to certify a class pursuant to Alabama Rule of civil Procedures 23(b)(3) but denied their request that the class also be certified pursuant to Rule 23(b)(1). In addition, the August 15, 2012 Order appointed class representatives and class counsel. The defendants’ appeal and plaintiffs’ cross-appeal are pending before the Alabama Supreme Court. The proceedings in the trial court are stayed by statute pending a decision on the appeal and cross-appeal by the Alabama Supreme Court.
- Various lawsuits have been filed alleging that Caremark has violated applicable antitrust laws in establishing and maintaining retail pharmacy networks for client health plans. In August 2003, Bellevue Drug Co., Robert Schreiber, Inc. d/b/a Burns Pharmacy and Rehn-Huerbinger Drug Co. d/b/a Parkway Drugs #4, together with Pharmacy Freedom Fund and the National Community Pharmacists Association filed a putative class action against Caremark in Pennsylvania federal court, seeking treble damages and injunctive relief. This case was initially sent to arbitration based on the contract terms between the pharmacies and Caremark. In October 2003, two independent pharmacies, North Jackson Pharmacy, Inc. and C&C, Inc. d/b/a Big C Discount Drugs, Inc., filed a putative class action complaint in Alabama federal court against Caremark and two PBM competitors, seeking treble damages and injunctive relief. The North Jackson Pharmacy case against two of the Caremark entities named as defendants was transferred to Illinois federal court, and the case against a separate Caremark entity was sent to arbitration based on contract terms between the pharmacies and Caremark. The Bellevue arbitration was then stayed by the parties pending developments in the North Jackson Pharmacy court case.

In August 2006, the Bellevue case and the North Jackson Pharmacy case were both transferred to Pennsylvania federal court by the Judicial Panel on Multidistrict Litigation for coordinated and consolidated proceedings with other cases before the panel, including cases against other PBMs. Caremark appealed the decision which vacated an order compelling arbitration and staying the proceedings in the Bellevue case and, following the appeal, the Court of Appeals reinstated the order compelling arbitration of the Bellevue case. Following remand, plaintiffs in the Bellevue case sought dismissal of their complaint to permit an immediate appeal of the reinstated order compelling arbitration and pursued an appeal to the Third Circuit Court of Appeals. In November 2012, the Third Circuit Court reversed the district court ruling and directed the parties to proceed in federal court. Motions for class certification in the coordinated cases within the multidistrict litigation, including the North Jackson Pharmacy case, remain pending, and the court has permitted certain additional class discovery and briefing. The consolidated action is now known as the In Re Pharmacy Benefit Managers Antitrust Litigation.

- In November 2009, a securities class action lawsuit was filed in the United States District Court for the District of Rhode Island purportedly on behalf of purchasers of CVS Caremark Corporation stock between May 5, 2009 and November 4, 2009. Plaintiffs subsequently amended the lawsuit to allege a class period beginning October 30, 2008. The lawsuit names the Company and certain officers as defendants and includes allegations of securities fraud relating to public disclosures made by the Company concerning the PBM business and allegations of insider trading. In addition, a shareholder derivative lawsuit was filed in December 2009 in the same court against the directors and certain officers of the Company. This lawsuit, which was stayed pending developments in the related securities class action, includes allegations of, among other

things, securities fraud, insider trading and breach of fiduciary duties and further alleges that the Company was damaged by the purchase of stock at allegedly inflated prices under its share repurchase program. In January 2011, both lawsuits were transferred to the United States District Court for the District of New Hampshire. In June 2012, the court granted the Company's motion to dismiss the securities class action. The plaintiffs subsequently appealed the court's ruling on the motion to dismiss. In May 2013, the First Circuit Court of Appeals vacated the prior ruling and remanded the case to the district court for further proceedings. In December 2013, the district court denied the Company's renewed motion to dismiss the lawsuit. The derivative lawsuit will remain stayed until the Company answers the securities class action complaint.

- In March 2010, the Company learned that various State Attorneys General offices and certain other government agencies were conducting a multi-state investigation of certain of the Company's business practices similar to those being investigated at that time by the U.S. Federal Trade Commission ("FTC"). Twenty-eight states, the District of Columbia and the County of Los Angeles are known to be participating in this investigation. The prior FTC investigation, which commenced in August 2009, was officially concluded in May 2012 when the consent order entered into between the FTC and the Company became final. The Company has cooperated in the multi-state investigation.
- In March 2010, the Company received a subpoena from the OIG requesting information about programs under which the Company has offered customers remuneration conditioned upon the transfer of prescriptions for drugs or medications to the Company's pharmacies in the form of gift cards, cash, non-prescription merchandise or discounts or coupons for non-prescription merchandise. The subpoena relates to an investigation of possible false or otherwise improper claims for payment under the Medicare and Medicaid programs. The Company has provided documents and other information in response to this request for information.
- The Company received a subpoena from the U.S. Securities and Exchange Commission ("SEC") in February 2011 and subsequently received additional subpoenas and other requests for information. The SEC's requests related to, among other things, public disclosures made by the Company during 2009, transactions in the Company's securities by certain officers and employees of the Company during 2009 and the purchase accounting for the Longs Drug Stores acquisition. The Company has provided the documents and other information requested by the SEC and has been cooperating with the SEC in this investigation. The Company has reached an agreement in principle with the staff of the Boston Regional Office of the SEC to settle certain allegations that, during the third and fourth quarters of 2009, the Company violated certain provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934, including certain anti-fraud provisions of those statutes. The agreement in principle will be entered into by the Company on a "no admit or deny" basis, and the Company will not be restating its financial statements for any reporting period. The Company has agreed to pay a \$20 million civil penalty when the settlement is finalized, and this amount has been fully reserved in the Company's financial statements. The Company will continue to cooperate with the SEC to document the settlement terms, and the settlement remains subject to approval by the Commission and federal court as required.
- In January 2012, the United States District Court for the Eastern District of Pennsylvania unsealed a first amended *qui tam* complaint filed in August 2011 by an individual relator, who is described in the complaint as having once been employed by a firm providing pharmacy prescription benefit audit and recovery services. The complaint seeks monetary damages and alleges that Caremark's processing of Medicare claims on behalf of one of its clients violated the federal false claims act. The United States, acting through the U.S. Attorney's Office in Philadelphia, Pennsylvania, declined to intervene in the lawsuit. Caremark filed a motion to dismiss the amended complaint and the DOJ filed a Statement of Interest with regard to Caremark's motion to dismiss. In December 2012, the court denied Caremark's motion to dismiss the amended complaint.
- In January 2012, the Company received a subpoena from the OIG requesting information about its Health Savings Pass program, a prescription drug discount program for uninsured or underinsured individuals, in connection with an investigation of possible false or otherwise improper claims for payment involving HHS programs. In February 2012, the Company also received a civil investigative demand from the Office of the Attorney General of the State of Texas requesting a copy of information produced under this OIG subpoena and other information related to prescription drug claims submitted by the Company's pharmacies to Texas Medicaid for reimbursement. The Company is providing documents and other information in response to these requests for information.

- A purported shareholder derivative action was filed on behalf of nominal defendant CVS Caremark Corporation against certain of the Company's officers and members of its Board of Directors. The action, which alleged a single claim for breach of fiduciary duty relating to the Company's alleged failure to properly implement internal regulatory controls to comply with the Controlled Substances Act and the Combat Methamphetamine Epidemic Act, was originally filed in June 2012. In addition, an amended complaint was filed in November 2012 and a Supplemental Complaint was filed in April 2013. In October 2013, the court granted the Company's motion to dismiss and entered judgment dismissing the action, without prejudice. Following dismissal of the action, the same purported shareholder sent a letter to the Company's Board of Directors demanding that the Board investigate her allegations and pursue legal action against certain directors and officers of the Company. A committee of the Board of Directors is conducting a review and intends to respond to the letter as appropriate.
- In November 2012, the Company received a subpoena from the OIG requesting information concerning automatic refill programs used by pharmacies to refill prescriptions for customers. The Company has been cooperating and providing documents and other information in response to this request for information.

The Company is also a party to other legal proceedings, inquiries and audits 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 its business, financial condition and results of operations will not be materially adversely affected, or that the Company will not be required to materially change its 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 the Company's business, the pharmacy services, retail pharmacy or retail clinic industries or to the health care industry generally; (iii) pending or future federal or state governmental investigations of the Company's 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 the Company; (v) adverse developments in any pending *qui tam* lawsuit against the Company, whether sealed or unsealed, or in any future *qui tam* lawsuit that may be filed against the Company; or (vi) adverse developments in other pending or future legal proceedings against the Company or affecting the pharmacy services, retail pharmacy or retail clinic industry or the health care industry generally.

Medicare Part D

12 Months Ended

Dec. 31, 2013

Medicare Part D

Medicare Part D

Medicare 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.

SilverScript is a licensed domestic insurance company under the applicable laws and regulations. Pursuant to these laws and regulations, SilverScript 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, reinsurance amounts, and coverage gap discount amounts ultimately payable to or receivable from CMS based on a detailed claims reconciliation that will occur in the following year; (ii) an estimate of amounts receivable from or payable to CMS under a risk-sharing feature of the Medicare Part D program design, referred to as the risk corridor and (iii) estimates for claims that have been reported and are in the process of being paid or contested and for our estimate of claims that have been incurred but have not yet been reported.

As of December 31, 2013 and 2012, amounts due from CMS included in accounts receivable were \$2.4 billion and \$0.7 billion, respectively.

**Borrowing and Credit
Agreements**

**12 Months Ended
Dec. 31, 2013**

Debt Disclosure [Abstract]

**Borrowing and Credit
Agreements**

Borrowing and Credit Agreements

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

| <u><i>In millions</i></u> | <u>2013</u> | <u>2012</u> |
|---|------------------|-----------------|
| Commercial paper | \$ — | \$ 690 |
| 4.875% senior notes due 2014 | 550 | 550 |
| 3.25% senior notes due 2015 | 550 | 550 |
| 1.2% senior notes due 2016 | 750 | — |
| 6.125% senior notes due 2016 | 421 | 421 |
| 5.75% senior notes due 2017 | 1,310 | 1,310 |
| 2.25% senior notes due 2018 | 1,250 | — |
| 6.6% senior notes due 2019 | 394 | 394 |
| 4.75% senior notes due 2020 | 450 | 450 |
| 4.125% senior notes due 2021 | 550 | 550 |
| 2.75% senior notes due 2022 | 1,250 | 1,250 |
| 4.0% senior notes due 2023 | 1,250 | — |
| 6.25% senior notes due 2027 | 1,000 | 1,000 |
| 6.125% senior notes due 2039 | 1,500 | 1,500 |
| 5.75% senior notes due 2041 | 950 | 950 |
| 5.3% senior notes due 2043 | 750 | — |
| Enhanced Capital Advantage Preferred Securities due 2062 ⁽¹⁾ | 41 | 41 |
| Deferred acquisition payables due 2015-2017 ⁽²⁾ | 42 | — |
| Mortgage notes payable | 4 | 1 |
| Capital lease obligations | 390 | 171 |
| | <u>13,402</u> | <u>9,828</u> |
| Less: | | |
| Short-term debt (commercial paper) | — | (690) |
| Current portion of long-term debt | (561) | (5) |
| | <u>\$ 12,841</u> | <u>\$ 9,133</u> |

- (1) The Enhanced Capital Advantage Preferred Securities ("ECAPS") had a stated rate of interest of 6.302% through June 1, 2012, at which time the rate converted to a variable rate which was 2.3% and 2.6% at December 31, 2013 and 2012.
- (2) Deferred acquisition payables are denominated in Brazilian real and bear interest at the Brazilian interbank deposit certificate rate which was 9.77% at December 31, 2013.

The Company had no commercial paper outstanding as of December 31, 2013. In connection with its commercial paper program, the Company maintains a \$1.25 billion, four-year unsecured back-up credit facility, which expires on May 23, 2016, a \$1.25 billion, five-year unsecured back-up credit facility, which expires on February 17, 2017, and a \$1.0 billion, five-year unsecured back-up credit facility, which expires on May 23, 2018. The credit facilities allow for borrowings at various rates that are dependent, in part, on the Company's public debt ratings and require the Company to pay a weighted average quarterly facility fee of approximately 0.03%, regardless of usage. As of December 31, 2013, there were no borrowings outstanding under the back-up credit facilities. The weighted average interest rate for short-term debt was 0.27% as of December 31, 2013 and 0.35% as of December 31, 2012.

On December 2, 2013, the Company issued \$750 million of 1.2% unsecured senior notes due December 5, 2016; \$1.25 billion of 2.25% unsecured senior notes due December 5, 2018; \$1.25 billion of 4.0% unsecured senior notes due December 5, 2023; and \$750 million of 5.3% unsecured senior notes due December 5, 2043 (the "2013 Notes") for total proceeds of approximately \$4.0 billion, net of discounts and underwriting fees. The 2013 Notes pay interest semi-annually and may be redeemed, in whole at any time, or in part from time to time, at the Company's option at a defined redemption price plus accrued and unpaid interest to the redemption date. The net proceeds of the 2013 Notes were used to repay commercial paper outstanding at the time of issuance and to fund the acquisition of Coram LLC in January 2014 (See Note 15). The

remainder will be used for general corporate purposes.

On November 26, 2012, the Company issued \$1.25 billion of 2.75% unsecured senior notes due December 1, 2022 (the "2012 Notes") for total proceeds of approximately \$1.24 billion, net of discounts and underwriting fees. The 2012 Notes pay interest semi-annually and may be redeemed, in whole at any time, or in part from time to time, at the Company's option at a defined redemption price plus accrued and unpaid interest to the redemption date. The net proceeds of the 2012 Notes were used for general corporate purposes and to repay certain corporate debt.

On November 26, 2012, the Company announced tender offers for any and all of the 6.6% Senior Notes due 2019, and up to a maximum amount of the 6.125% Senior Notes due 2016 and 5.75% Senior Notes due 2017, for up to an aggregate principal amount of \$1.0 billion. In December 2012, the Company increased the aggregate principal amount of the tender offers to \$1.325 billion and completed the repurchase for the maximum amount. The Company paid a premium of \$332 million in excess of the debt principal in connection with the tender offers, wrote off \$13 million of unamortized deferred financing costs and incurred \$3 million in fees, for a total loss on the early extinguishment of debt of \$348 million. The loss was recorded in income from continuing operations on the consolidated statement of income.

In connection with the Company's acquisition of the UAM Medicare Part D Business in April 2011, the Company assumed \$110 million of long-term debt in the form of Trust Preferred Securities that mature through 2037. During the years ended December 31, 2012 and 2011, the Company repaid \$50 million and \$60 million, respectively, of the Trust Preferred Securities at par.

On May 12, 2011, the Company issued \$550 million of 4.125% unsecured senior notes due May 15, 2021 and issued \$950 million of 5.75% unsecured senior notes due May 15, 2041 (collectively, the "2011 Notes") for total proceeds of approximately \$1.5 billion, net of discounts and underwriting fees. The 2011 Notes pay interest semi-annually and may be redeemed, in whole at any time, or in part from time to time, at the Company's option at a defined redemption price plus accrued and unpaid interest to the redemption date. The net proceeds of the 2011 Notes were used to repay commercial paper borrowings and certain other corporate debt, and were used for general corporate purposes.

In December 2011 and July 2012, the Company repurchased \$958 million and \$1 million of the principal amount of its ECAPS at par. The fees and write-off of deferred issuance costs associated with the early extinguishment of the ECAPS were de minimis. The remaining \$41 million of outstanding ECAPS at December 31, 2013 are due in 2062. The ECAPS pay interest semi-annually and may be redeemed at any time, in whole or in part at a defined redemption price plus accrued interest.

The credit facilities, back-up credit facilities, unsecured senior notes and ECAPS contain customary restrictive financial and operating covenants. The covenants do not materially affect the Company's financial or operating flexibility.

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2013 are \$561 million in 2014, \$576 million in 2015, \$1.2 billion in 2016, \$1.3 billion in 2017 and \$1.3 billion in 2018.

Leases

12 Months Ended

Dec. 31, 2013

Leases [Abstract]

Leases

Leases

The Company leases most of its retail and mail order locations, ten of its distribution centers and certain corporate offices under non-cancelable operating leases, typically with initial terms of 15 to 25 years and with options that permit renewals for additional periods. The Company also leases certain equipment and other assets under noncancelable operating leases, typically with initial terms of 3 to 10 years. Minimum rent is expensed on a straight-line basis over the term of the lease. In addition to minimum rental payments, certain leases require additional payments based on sales volume, as well as reimbursement for real estate taxes, common area maintenance and insurance, which are expensed when incurred.

The following table is a summary of the Company's net rental expense for operating leases for the years ended December 31:

| <u>In millions</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|-----------------------|-----------------|-----------------|-----------------|
| Minimum rentals | \$ 2,210 | \$ 2,165 | \$ 2,087 |
| Contingent rentals | 41 | 48 | 49 |
| | <u>2,251</u> | <u>2,213</u> | <u>2,136</u> |
| Less: sublease income | (21) | (20) | (19) |
| | <u>\$ 2,230</u> | <u>\$ 2,193</u> | <u>\$ 2,117</u> |

The following table is a summary of the future minimum lease payments under capital and operating leases as of December 31, 2013:

| <u>In millions</u> | <u>Capital Leases</u> | <u>Operating Leases⁽¹⁾</u> |
|--|---------------------------|---|
| 2014 | \$ 46 | \$ 2,175 |
| 2015 | 46 | 2,129 |
| 2016 | 47 | 2,055 |
| 2017 | 47 | 1,964 |
| 2018 | 47 | 1,853 |
| Thereafter | <u>556</u> | <u>16,914</u> |
| Total future lease payments | 789 | <u>\$ 27,090</u> |
| Less: imputed interest | <u>(399)</u> | |
| Present value of capital lease obligations | <u>\$ 390</u> | |

(1) Future operating lease payments have not been reduced by minimum sublease rentals of \$224 million due in the future under noncancelable subleases.

The Company finances a portion of its store development program through sale-leaseback transactions. The properties are generally sold at net book value, which generally approximates fair value, and the resulting leases generally qualify and are accounted for as operating leases. The operating leases that resulted from these transactions are included in the above table. The Company does not have any retained or contingent interests in the stores and does not provide any guarantees, other than a guarantee of lease payments, in connection with the sale-leaseback transactions. Proceeds from sale-leaseback transactions totaled \$600 million in 2013, \$529 million in 2012 and \$592 million in 2011.

**Pension Plans and Other
Postretirement Benefits**

**12 Months Ended
Dec. 31, 2013**

Compensation and Retirement

Disclosure [Abstract]

**Pension Plans and Other
Postretirement Benefits**

Pension Plans and Other Postretirement Benefits

Defined Contribution Plans

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

At the participant's option, account balances, including the Company's matching contribution, can be moved without restriction among various investment options, including the Company's common stock fund under one of the defined contribution plans. The Company also maintains a nonqualified, unfunded Deferred Compensation Plan for certain key employees. This plan provides participants the opportunity to defer portions of their eligible compensation and receive matching contributions equivalent to what they could have received under the CVS Caremark 401(k) Plan absent certain restrictions and limitations under the Internal Revenue Code. The Company's contributions under the above defined contribution plans were \$235 million, \$199 million and \$187 million in 2013, 2012 and 2011, respectively.

Other Postretirement Benefits

The Company provides postretirement health care and life insurance benefits to certain retirees who meet eligibility requirements. The Company's funding policy is generally to pay covered expenses as they are incurred. For retiree medical plan accounting, the Company reviews external data and its own historical trends for health care costs to determine the health care cost trend rates. As of December 31, 2013 and 2012, the Company's other postretirement benefits have an accumulated postretirement benefit obligation of \$27 million and \$16 million, respectively. Net periodic benefit costs related to these other postretirement benefits were approximately \$11 million in 2013 and \$1 million in 2012 and 2011. The net periodic benefit costs for 2013 include a settlement loss of \$8 million.

Pursuant to various labor agreements, the Company also contributes to multiemployer health and welfare plans that cover certain union-represented employees. The plans provide postretirement health care and life insurance benefits to certain employees who meet eligibility requirements. Total Company contributions to multiemployer health and welfare plans were \$55 million, \$50 million and \$47 million in 2013, 2012 and 2011, respectively.

Pension Plans

During the year ended December 31, 2013, the Company sponsored ten defined benefit pension plans. Four of the plans are tax-qualified plans that are funded based on actuarial calculations and applicable federal laws and regulations. The other six plans are unfunded nonqualified supplemental retirement plans. Most of the plans were frozen in prior periods. During the years ended December 31, 2012 and 2011, the Company had a total of nine defined benefit pension plans.

As of December 31, 2013, the Company's pension plans had a projected benefit obligation of \$694 million and plan assets of \$568 million. As of December 31, 2012, the Company's pension plans had a projected benefit obligation of \$758 million and plan assets of \$527 million. Actual return on plan assets was \$49 million and \$62 million in 2013 and 2012, respectively. Net periodic pension costs related to these pension plans were \$19 million, \$31 million and \$49 million in 2013, 2012 and 2011, respectively. The net periodic pension costs for 2012 include a curtailment loss of \$2 million. The net periodic pension costs for 2011 include a settlement loss of \$25 million due to the impact of lump sum payouts.

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 4.75% in 2013 and 4.0% in 2012. The expected long-term rate of return on plan assets is determined by using the plan's target allocation and historical returns for each asset class on a plan by plan basis. The expected long-term rate of return for all plans was 7.25% in 2013, 2012 and 2011.

Historically, the Company used an investment strategy which emphasized equities in order to produce

higher expected returns, and in the long run, lower expected expense and cash contribution requirements. The qualified pension plan asset allocation targets were 50% equity and 50% fixed income for 2012 and 2011. Beginning in 2013, the Company changed its investment strategy to be liability management driven. The qualified pension plan asset allocation targets in 2013 were revised to hold more fixed income investments based on the change in the investment strategy. Investment allocations for the four qualified defined benefit plans range from 60% to 85% in fixed income and 15% to 40% in equities as of December 31, 2013.

As of December 31, 2013, the Company's qualified defined benefit pension plan assets consisted of 23% equity, 76% fixed income and 1% money market securities of which 17% were classified as Level 1 and 83% as Level 2 in the fair value hierarchy. The Company's qualified defined benefit pension plan assets as of December 31, 2012 consisted of 50% equity, 48% fixed income and 2% money market securities of which 84% were classified as Level 1 and 16% as Level 2 in the fair value hierarchy.

The Company contributed \$33 million, \$36 million and \$92 million to the pension plans during 2013, 2012 and 2011, respectively. The Company plans to make approximately \$41 million in contributions to the pension plans during 2014.

The Company also contributes to a number of multiemployer pension plans under the terms of collective-bargaining agreements that cover its union-represented employees. The risks of participating in these multiemployer plans are different from single-employer pension plans in the following aspects: (i) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (ii) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers, and (iii) if the Company chooses to stop participating in some of its multiemployer plans, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

None of the multiemployer pension plans in which the Company participates are individually significant to the Company. Total Company contributions to multiemployer pension plans were \$13 million, \$12 million and \$11 million in 2013, 2012 and 2011, respectively.

Quarterly Financial
Information (Unaudited)
(Tables)

12 Months Ended
Dec. 31, 2013

Quarterly Financial Information
Disclosure [Abstract]

Quarterly Financial Information (Unaudited)

| <i>In millions, except per share amounts</i> | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Year |
|--|------------------|-------------------|------------------|-------------------|-----------|
| 2013: | | | | | |
| Net revenues | \$ 30,751 | \$31,248 | \$31,932 | \$32,830 | \$126,761 |
| Gross profit | 5,577 | 5,841 | 6,027 | 6,338 | 23,783 |
| Operating profit | 1,694 | 1,972 | 2,154 | 2,217 | 8,037 |
| Income from continuing operations | 954 | 1,125 | 1,255 | 1,266 | 4,600 |
| Loss from discontinued operations, net of tax | — | (1) | (6) | (1) | (8) |
| Net income | 954 | 1,124 | 1,249 | 1,265 | 4,592 |
| Net loss attributable to noncontrolling interest | — | — | — | — | — |
| Net income attributable to CVS Caremark | \$ 954 | \$ 1,124 | \$ 1,249 | \$ 1,265 | \$ 4,592 |
| Basic earnings per common share: | | | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 0.77 | \$ 0.92 | \$ 1.03 | \$ 1.06 | \$ 3.78 |
| Loss from discontinued operations attributable to CVS Caremark | \$ — | \$ — | \$ — | \$ — | \$ (0.01) |
| Net income attributable to CVS Caremark | \$ 0.77 | \$ 0.92 | \$ 1.03 | \$ 1.06 | \$ 3.77 |
| Diluted Earnings per common share: | | | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 0.77 | \$ 0.91 | \$ 1.02 | \$ 1.05 | \$ 3.75 |
| Loss from discontinued operations attributable to CVS Caremark | \$ — | \$ — | \$ — | \$ — | \$ (0.01) |
| Net income attributable to CVS Caremark | \$ 0.77 | \$ 0.91 | \$ 1.02 | \$ 1.05 | \$ 3.74 |
| Dividends per common share | \$ 0.2250 | \$0.2250 | \$0.2250 | \$0.2250 | \$ 0.9000 |
| Stock price: (New York Stock Exchange) | | | | | |
| High | \$ 56.07 | \$ 60.70 | \$ 62.36 | \$ 71.99 | \$ 71.99 |
| Low | \$ 49.00 | \$ 53.94 | \$ 56.68 | \$ 56.32 | \$ 49.00 |

| <i>In millions, except per share amounts</i> | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Year |
|---|------------------|-------------------|------------------|-------------------|-----------|
| 2012: | | | | | |
| Net revenues | \$30,792 | \$30,694 | \$30,237 | \$ 31,397 | \$123,120 |
| Gross profit | 5,106 | 5,443 | 5,645 | 6,294 | 22,488 |
| Operating profit | 1,397 | 1,702 | 1,812 | 2,299 | 7,210 |
| Income from continuing operations | 772 | 962 | 1,010 | 1,125 | 3,869 |
| Income (loss) from discontinued operations, net of tax | (1) | (1) | (5) | — | (7) |
| Net income | 771 | 961 | 1,005 | 1,125 | 3,862 |
| Net loss attributable to noncontrolling interest | 1 | 1 | — | — | 2 |
| Net income attributable to CVS Caremark | \$ 772 | \$ 962 | \$ 1,005 | \$ 1,125 | \$ 3,864 |

| | | | | | |
|--|----------|----------|----------|-----------|-----------|
| Basic earnings per common share: | | | | | |
| Income from continuing operations attributable to | | | | | |
| CVS Caremark | \$ 0.60 | \$ 0.75 | \$ 0.80 | \$ 0.91 | \$ 3.05 |
| Income (loss) from discontinued operations attributable to | | | | | |
| CVS Caremark | \$ — | \$ — | \$ — | \$ — | \$ (0.01) |
| Net income attributable to CVS Caremark | \$ 0.59 | \$ 0.75 | \$ 0.79 | \$ 0.91 | \$ 3.04 |
| Diluted Earnings per common share: | | | | | |
| Income from continuing operations attributable to | | | | | |
| CVS Caremark | \$ 0.59 | \$ 0.75 | \$ 0.79 | \$ 0.90 | \$ 3.02 |
| Income (loss) from discontinued operations attributable to | | | | | |
| CVS Caremark | \$ — | \$ — | \$ — | \$ — | \$ (0.01) |
| Net income attributable to CVS Caremark | \$ 0.59 | \$ 0.75 | \$ 0.79 | \$ 0.90 | \$ 3.02 |
| Dividends per common share | \$0.1625 | \$0.1625 | \$0.1625 | \$ 0.1625 | \$ 0.650 |
| Stock price: (New York Stock Exchange) | | | | | |
| High | \$ 45.88 | \$ 46.93 | \$ 48.69 | \$ 49.80 | \$ 49.80 |
| Low | \$ 41.01 | \$ 43.08 | \$ 43.65 | \$ 44.33 | \$ 41.01 |

| Stock Incentive Plans (Details 3) (USD \$) Share data in Thousands, except Per Share data, unless otherwise specified | 12 Months Ended | | | |
|---|-------------------------|----------------------|----------------------|-----|
| | Dec. 31, 2013 | Dec. 31, 2012 | Dec. 31, 2011 | |
| <u>Summary of option activities</u> | | | | |
| <u>Options vested and expected to vest end of the period (in shares)</u> | 33,601 | | | |
| <u>Weighted Average Exercise Price</u> | | | | |
| <u>Weighted Average Exercise Price, Options vested and expected to vest (in dollars per share)</u> | \$ 41.17 | | | |
| <u>Weighted Average Remaining Contractual Term (in years)</u> | | | | |
| <u>Weighted Average Remaining Contractual Term. Options vested and expected to vest (in years)</u> | 4 years 4 months 2 days | | | |
| <u>Aggregate Intrinsic Value</u> | | | | |
| <u>Aggregate Intrinsic Value, Options vested and expected to vest Employee Stock Option [Member]</u> | \$ 1,021,486,782 | | | |
| <u>Fair value of each stock option estimated using the Black-Scholes Option Pricing Model</u> | | | | |
| <u>Dividend yield (as a percent)</u> | 1.65% | [1] 1.44% | [1] 1.43% | [1] |
| <u>Expected volatility (as a percent)</u> | 30.96% | [2] 32.49% | [2] 32.62% | [2] |
| <u>Risk-free interest rate (as a percent)</u> | 0.73% | [3] 0.84% | [3] 1.81% | [3] |
| <u>Expected life (in years)</u> | 4 years 8 months | [4] 4 years 8 months | [4] 4 years 8 months | [4] |
| <u>Weighted-average grant date fair value (in dollars per share)</u> | \$ 12.50 | \$ 11.12 | \$ 9.19 | |
| <u>Unrecognized compensation expense related to unvested options</u> | 170,000,000 | | | |
| <u>Unrecognized compensation expense related to unvested options, period of recognition (in years)</u> | 2 years 1 month 8 days | | | |
| <u>Unvested options to vest over the requisite service period</u> | 19,000,000 | | | |
| <u>Summary of option activities</u> | | | | |
| <u>Outstanding at the beginning of the period (in shares)</u> | 40,929 | | | |
| <u>Granted (in shares)</u> | 8,556 | | | |
| <u>Exercised (in shares)</u> | (12,568) | | | |
| <u>Forfeited (in shares)</u> | (1,619) | | | |
| <u>Expired (in shares)</u> | (560) | | | |
| <u>Outstanding at the end of the period (in shares)</u> | 34,738 | 40,929 | | |
| <u>Options exercisable (in shares)</u> | 14,573 | | | |
| <u>Weighted Average Exercise Price</u> | | | | |
| <u>Weighted Average Exercise Price, options outstanding at the beginning of the period (in dollars per share)</u> | \$ 36.57 | | | |
| <u>Weighted Average Exercise Price, options granted (in dollars per share)</u> | \$ 54.60 | | | |
| <u>Weighted Average Exercise Price, options exercised (in dollars per share)</u> | \$ 35.04 | | | |
| <u>Weighted Average Exercise Price, options forfeited (in dollars per share)</u> | \$ 41.87 | | | |
| <u>Weighted Average Exercise Price, options expired (in dollars per share)</u> | \$ 31.18 | | | |

| | | |
|---|---------------------------|-------------------------|
| <u>Weighted Average Exercise Price, options outstanding at the end of the period (in dollars per share)</u> | \$ 41.40 | \$ 36.57 |
| <u>Weighted Average Exercise Price, options exercisable (in dollars per share)</u> | \$ 35.21 | |
| <u>Weighted Average Remaining Contractual Term (in years)</u> | | |
| <u>Weighted Average Remaining Contractual Term, options outstanding (in years)</u> | 4 years 4 months 20 days | 4 years 4 months 2 days |
| <u>Weighted Average Remaining Contractual Term, Options, options exercisable (in years)</u> | 2 years 11 months 11 days | |
| <u>Aggregate Intrinsic Value</u> | | |
| <u>Aggregate Intrinsic Value, options outstanding</u> | 1,047,976,191 | 482,249,000 |
| <u>Aggregate Intrinsic Value, options exercisable</u> | \$ 529,832,395 | |

- [1] The dividend yield is based on annual dividends paid and the fair market value of the Company 's stock at the grant date.
- [2] The expected volatility is estimated using the Company 's historical volatility over a period equal to the expected life of each option grant after adjustments for infrequent events such as stock splits.
- [3] The risk-free interest rate is selected based on yields from U.S. Treasury zero -coupon issues with a remaining term equal to the expected term of the options being valued.
- [4] The expected life represents the number of years the options are expected to be outstanding from grant date based on historical option holder exercise experience.

Earnings Per Common Share

**12 Months Ended
Dec. 31, 2013**

Earnings Per Share [Abstract]

Earnings Per Common Share

Earnings Per Common Share

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

| <i><u>In millions, except per share amounts</u></i> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|---|-----------------|-----------------|-----------------|
| Numerator for earnings per common share calculation: | | | |
| Income from continuing operations | \$ 4,600 | \$ 3,869 | \$ 3,489 |
| Net loss attributable to noncontrolling interest | — | 2 | 4 |
| Income from continuing operations attributable to CVS Caremark, basic | 4,600 | 3,871 | 3,493 |
| Loss from discontinued operations, net of tax | (8) | (7) | (31) |
| Net income attributable to CVS Caremark, basic and diluted | <u>\$ 4,592</u> | <u>\$ 3,864</u> | <u>\$ 3,462</u> |
| Denominator for earnings per common share calculation: | | | |
| Weighted average common shares, basic | 1,217 | 1,271 | 1,338 |
| Stock options | 8 | 8 | 8 |
| Restricted stock units | 1 | 1 | 1 |
| Weighted average common shares, diluted | <u>1,226</u> | <u>1,280</u> | <u>1,347</u> |
| Basic earnings per common share: | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 3.78 | \$ 3.05 | \$ 2.61 |
| Loss from discontinued operations attributable to CVS Caremark | \$ (0.01) | \$ (0.01) | \$ (0.02) |
| Net income attributable to CVS Caremark | \$ 3.77 | \$ 3.04 | \$ 2.59 |
| Diluted earnings per common share: | | | |
| Income from continuing operations attributable to CVS Caremark | \$ 3.75 | \$ 3.02 | \$ 2.59 |
| Loss from discontinued operations attributable to CVS Caremark | \$ (0.01) | \$ (0.01) | \$ (0.02) |
| Net income attributable to CVS Caremark | \$ 3.74 | \$ 3.02 | \$ 2.57 |

**Discontinued Operations
(Tables)**

**12 Months Ended
Dec. 31, 2013**

Discontinued Operations and Disposal Groups

[Abstract]

Summary of results of discontinued operations

Below is a summary of the results of discontinued operations for the years ended December 31:

| <i><u>In millions</u></i> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|---|---------------|---------------|----------------|
| Net revenues of TheraCom | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 650</u> |
| Income from operations of TheraCom | \$ — | \$ — | \$ 18 |
| Gain on disposal of TheraCom | — | — | 53 |
| Loss on disposal of Linens 'n Things | (12) | (12) | (7) |
| Income tax benefit (provision) | <u>4</u> | <u>5</u> | <u>(95)</u> |
| Loss from discontinued operations, net of tax | <u>\$ (8)</u> | <u>\$ (7)</u> | <u>\$ (31)</u> |

| Stock Incentive Plans (Details) (USD \$) In Millions, except Per Share data, unless otherwise specified | 12 Months Ended | | | | | | 12 Months Ended | | | | |
|---|-----------------------------|-----------------------------|---|---|---|--|--|--|---|---|---|
| | Dec. 31, 2013 Minimum | Dec. 31, 2013 Maximum | Dec. 31, 2013 Employee Stock [Member] | Dec. 31, 2012 Employee Stock [Member] | Dec. 31, 2011 Employee Stock [Member] | Dec. 31, 2013 Employee Stock Purchase Plan 2007 [Member] | Mar. 31, 2013 Employee Stock Purchase Plan 2007 [Member] | Dec. 31, 2007 Employee Stock Purchase Plan 2007 [Member] | Dec. 31, 2013 Restricted Stock [Member] | Dec. 31, 2012 Restricted Stock [Member] | Dec. 31, 2011 Restricted Stock [Member] |
| Compensation | | | | | | | | | | | |
| <u>Requisite service period of the stock award (in years)</u> | 3 years | 5 years | | | | | | | | | |
| <u>Compensation expense related to share-based compensation</u> | | | \$ 100 | \$ 102 | \$ 112 | | | | \$ 41 | \$ 30 | \$ 21 |
| <u>Recognized tax benefit on compensation expense</u> | | | \$ 32 | \$ 33 | \$ 38 | | | | | | |
| <u>Maximum number of shares that can be purchased under ESPP</u> | | | | | | | 15 | 15 | | | |
| <u>Employee purchase price, percentage of fair market value of ordinary shares</u> | | | | | | 85.00% | | | | | |
| <u>Shares of common stock purchased for ESPP</u> | | | | | | 2 | | | | | |
| <u>Average price of shares of common stock purchased for ESPP (in dollars per share)</u> | | | | | | \$ 41.44 | | | | | |
| <u>Shares of common stock available for issue under ESPP</u> | | | | | | 17 | | | | | |
| Fair value of each stock option estimated using the Black-Scholes Option Pricing Model | | | | | | | | | | | |
| <u>Dividend yield (as a percent)</u> | | | 0.86% | ^[1] 0.73% | ^[1] 0.69% | | | | | | |
| <u>Expected volatility (as a percent)</u> | | | 16.94% | ^[2] 22.88% | ^[2] 20.42% | | | | | | |
| <u>Risk-free interest rate (as a percent)</u> | | | 0.10% | ^[3] 0.10% | ^[3] 0.15% | | | | | | |
| <u>Expected life (in years)</u> | | | 6 months | ^[4] 6 months | ^[4] 6 months | | | | | | |
| <u>Weighted-average grant date fair value (in dollars per share)</u> | | | \$ 10.08 | \$ 9.22 | \$ 7.21 | | | | | | |
| <u>Offering period for stock purchase plan (in months)</u> | | | | | | | | | 6 months | | |

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

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

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

[4] The expected life is based on the semi-annual purchase period.

| Changes in Accounting Principle (Details) (Change in methods of valuing prescription drug inventories, USD \$) In Millions, except Per Share data, unless otherwise specified | 1 Months Ended | 12 Months Ended | | |
|--|---------------------------|--------------------------|--------------------------|--------------------------|
| | Jan. 31, 2012 | Dec. 31, 2013 | Dec. 31, 2012 | Jan. 02, 2012 |
| Change in methods of valuing prescription drug inventories | | | | |
| <u>Effect of changes in accounting principle</u> | | | | |
| <u>Percentage of consolidated inventories affected by change in accounting principle</u> | | | | 51.00% |
| <u>Decrease in inventories</u> | \$ (146) | | | |
| <u>Increase in current deferred income tax assets</u> | 57 | | | |
| <u>Decrease in retained earnings</u> | | | | (89) |
| <u>Increase in net income</u> | | \$ 19 | | |
| <u>Decrease in basic earnings per common share</u> | | | \$ (0.01) | |

**Consolidated Balance Sheets
(Parenthetical) (USD \$)**

Dec. 31, 2013 Dec. 31, 2012

Statement of Financial Position [Abstract]

| | | |
|--|---------------|---------------|
| <u>Preferred Stock, par value (in dollars per share)</u> | \$ 0.01 | \$ 0.01 |
| <u>Preferred Stock, shares authorized</u> | 100,000 | 100,000 |
| <u>Preferred Stock, shares issued</u> | 0 | 0 |
| <u>Preferred Stock, shares outstanding</u> | 0 | 0 |
| <u>Common Stock, par value (in dollars per share)</u> | \$ 0.01 | \$ 0.01 |
| <u>Common Stock, shares authorized</u> | 3,200,000,000 | 3,200,000,000 |
| <u>Common Stock, shares issued</u> | 1,680,000,000 | 1,667,000,000 |
| <u>Common Stock, shares outstanding</u> | 1,180,000,000 | 1,231,000,000 |
| <u>Treasury Stock, shares</u> | 500,000,000 | 435,000,000 |
| <u>Shares held in trust, shares</u> | 1,000,000 | 1,000,000 |

Discontinued Operations

12 Months Ended

Dec. 31, 2013

Discontinued Operations and Disposal Groups [Abstract]

Discontinued Operations

Discontinued Operations

On November 1, 2011, the Company sold its TheraCom, L.L.C. ("TheraCom") subsidiary to AmerisourceBergen Corporation for \$250 million, plus a working capital adjustment of \$7 million which the Company received in March 2012. TheraCom is a provider of commercialization support services to the biotech and pharmaceutical industries. The TheraCom business had historically been part of the Company's PSS. The results of the TheraCom business are presented as discontinued operations and have been excluded from both continuing operations and segment results for all periods presented.

In connection with certain business dispositions completed between 1991 and 1997, the Company retained guarantees on store lease obligations for a number of former subsidiaries, including Linens 'n Things which filed for bankruptcy in 2008. The Company's income (loss) from discontinued operations includes lease-related costs which the Company believes it will likely be required to satisfy pursuant to its Linens 'n Things lease guarantees.

Below is a summary of the results of discontinued operations for the years ended December 31:

| <u><i>In millions</i></u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|---|-------------|-------------|-------------|
| Net revenues of TheraCom | \$ — | \$ — | \$ 650 |
| Income from operations of TheraCom | \$ — | \$ — | \$ 18 |
| Gain on disposal of TheraCom | — | — | 53 |
| Loss on disposal of Linens 'n Things | (12) | (12) | (7) |
| Income tax benefit (provision) | 4 | 5 | (95) |
| Loss from discontinued operations, net of tax | \$ (8) | \$ (7) | \$ (31) |

**Goodwill and Other
Intangibles (Tables)**

**12 Months Ended
Dec. 31, 2013**

Goodwill and Intangible Assets

Disclosure [Abstract]

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

| | 2013 | | | 2012 | | |
|--|--------------------------------------|-------------------------------------|------------------------------------|--------------------------------------|-------------------------------------|------------------------------------|
| | <u>Gross Carrying Amount</u> | <u>Accumulated Amortization</u> | <u>Net Carrying Amount</u> | <u>Gross Carrying Amount</u> | <u>Accumulated Amortization</u> | <u>Net Carrying Amount</u> |
| <i><u>In millions</u></i> | | | | | | |
| Trademark (indefinitely-lived) | \$ 6,398 | \$ — | \$ 6,398 | \$ 6,398 | \$ — | \$ 6,398 |
| Customer contracts and relationships and covenants not to compete | 5,840 | (3,083) | 2,757 | 5,745 | (2,812) | 2,933 |
| Favorable leases and other | 800 | (426) | 374 | 802 | (380) | 422 |
| | <u>\$ 13,038</u> | <u>\$ (3,509)</u> | <u>\$ 9,529</u> | <u>\$ 12,945</u> | <u>\$ (3,192)</u> | <u>\$ 9,753</u> |

| Significant Accounting Policies (Details 4) (USD \$) In Millions, unless otherwise specified | 3 Months Ended | | | 12 Months Ended | | | 0 Months Ended | | | 12 Months Ended | | | | | | |
|---|----------------|---------------|---------------|-----------------|---------------|---------------|----------------|---------------|---------------|-----------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | Dec. 31, 2013 | Sep. 30, 2013 | Jun. 30, 2013 | Mar. 31, 2013 | Dec. 31, 2012 | Sep. 30, 2012 | Jun. 30, 2012 | Mar. 31, 2012 | Dec. 31, 2013 | Dec. 31, 2012 | Dec. 31, 2011 | Jun. 29, 2012 | Dec. 31, 2012 | Dec. 31, 2011 | Dec. 31, 2013 | Dec. 31, 2013 |
| Redeemable Noncontrolling Interest | | | | | | | | | | | | | | | | |
| <u>Ownership interest in Generation Health, Inc. (as a percent)</u> | | | | | | | | | | | | 60.00% | | | | |
| <u>2015 purchase price for redeemable noncontrolling interest on exercise of put rights by nonemployee owners</u> | | | | | | | | | | | | | | | \$ 26 | \$ 159 |
| <u>Remaining interest acquired in Generation Health (as a percent)</u> | | | | | | | | | | | | 40.00% | | | | |
| <u>Acquisition from minority interest</u> | | | | | | | | | | | | 26 | | | | |
| <u>Acquisition from employee option holders</u> | | | | | | | | | | | | 5 | | | | |
| <u>Aggregate acquisition cost of Remaining interest in Generation Health</u> | | | | | | | | | | | | 31 | | | | |
| Reconciliation of the changes in the redeemable noncontrolling interest: | | | | | | | | | | | | | | | | |
| <u>Beginning balance</u> | | | | | | | | | | | | | 30 | 34 | | |
| <u>Net loss attributable to noncontrolling interest</u> | 0 | 0 | 0 | 0 | 0 | 0 | (1) | (1) | 0 | (2) | (4) | (2) | (4) | | | |
| <u>Purchase of noncontrolling interest</u> | | | | | | | | | | | | | (26) | 0 | | |
| <u>Reclassification to capital surplus in connection with purchase of noncontrolling interest</u> | | | | | | | | | | | | | (2) | 0 | | |
| <u>Ending balance</u> | | | | | | | | | | | | | \$ 0 | \$ 30 | | |

Segment Reporting

12 Months Ended

Dec. 31, 2013

Segment Reporting [Abstract]

Segment Reporting

Segment Reporting

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

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

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

| <i>In millions</i> | Pharmacy Services Segment ⁽¹⁾⁽²⁾ | Retail Pharmacy Segment ⁽²⁾ | Corporate Segment | Intersegment Eliminations ⁽²⁾ | Consolidated Totals |
|-------------------------------------|---|--|-------------------|--|---------------------|
| 2013: | | | | | |
| Net revenues | \$ 76,208 | \$ 65,618 | \$ — | \$ (15,065) | \$ 126,761 |
| Gross profit | 4,237 | 20,112 | — | (566) | 23,783 |
| Operating profit | 3,086 | 6,268 | (751) | (566) | 8,037 |
| Depreciation and amortization | 560 | 1,217 | 93 | — | 1,870 |
| Total assets | 38,343 | 30,191 | 4,420 | (1,428) | 71,526 |
| Goodwill | 19,658 | 6,884 | — | — | 26,542 |
| Additions to property and equipment | 313 | 1,610 | 61 | — | 1,984 |
| 2012: | | | | | |
| Net revenues | \$ 73,444 | \$ 63,641 | \$ — | \$ (13,965) | \$ 123,120 |
| Gross profit | 3,808 | 19,091 | — | (411) | 22,488 |
| Operating profit | 2,679 | 5,636 | (694) | (411) | 7,210 |
| Depreciation and amortization | 517 | 1,153 | 83 | — | 1,753 |
| Total assets | 36,057 | 29,492 | 1,408 | (736) | 66,221 |
| Goodwill | 19,646 | 6,749 | — | — | 26,395 |
| Additions to property and equipment | 422 | 1,555 | 53 | — | 2,030 |
| 2011: | | | | | |
| Net revenues | \$ 58,874 | \$ 59,579 | \$ — | \$ (11,373) | \$ 107,080 |
| Gross profit | 3,279 | 17,469 | — | (186) | 20,562 |
| Operating profit | 2,220 | 4,913 | (616) | (186) | 6,331 |
| Depreciation and amortization | 433 | 1,060 | 75 | — | 1,568 |
| Total assets | 35,704 | 28,632 | 1,121 | (605) | 64,852 |
| Goodwill | 19,657 | 6,801 | — | — | 26,458 |
| Additions to property and equipment | 461 | 1,353 | 58 | — | 1,872 |

- (1) Net revenues of the Pharmacy Services Segment include approximately \$7.9 billion, \$8.4 billion and \$7.9 billion of Retail co-payments for the years ended December 31, 2013, 2012 and 2011, respectively.
- (2) Intersegment eliminations relate to two types of transactions: (i) Intersegment revenues that occur when Pharmacy Services Segment clients use Retail Pharmacy Segment stores to purchase covered products. When this occurs, both the Pharmacy Services and Retail Pharmacy segments record the revenue on a standalone basis and (ii) Intersegment revenues, gross profit and operating profit that occur when Pharmacy Services Segment clients, through the Company's intersegment activities (such as the Maintenance Choice program), elect to pick up their maintenance prescriptions at Retail Pharmacy Segment stores instead of receiving them through the mail. When this occurs, both the Pharmacy Services and Retail Pharmacy segments record the revenue, gross profit and operating profit on a

standalone basis. Beginning in the fourth quarter of 2011, the Maintenance Choice eliminations reflect all discounts available for the purchase of mail order prescription drugs. The following amounts are eliminated in consolidation in connection with the item (ii) intersegment activity: net revenues of \$4.3 billion, \$3.4 billion and \$2.6 billion for the years ended December 31, 2013, 2012 and 2011, respectively; gross profit and operating profit of \$566 million, \$411 million and \$186 million for the years ended December 31, 2013, 2012 and 2011, respectively.