Exhibit 10-C

CVS Health's 2014 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, 2014

CVS Health

2014 Annual Report

Health is everything.

Health is everything. And CVS Health is rethinking the way health care is delivered in the United States to increase access, lower costs, and improve outcomes.

Our new name reflects this broader health care commitment as well as our understanding of the challenges faced by patients, payors, and providers. We're addressing concerns about cost and helping people on their path to better health through a suite of integrated services, health system affiliations, and the strengths of the following enterprise assets:

- CVS/pharmacy®, our retail segment with more than 7,800 retail drug stores across the United States and in Brazil;
- CVS/caremark™, a leading pharmacy benefit manager (PBM) and mail service pharmacy serving more than 2,000 clients and their 65 million plan members;
- CVS/minuteclinic™, the nation's largest walk-in medical clinic provider with nearly 1,000 clinics located in our retail drugstores; and
- CVS/specialty™, home to our specialty pharmacy management services, Accordant® care management, NovoLogix® automated claims review, Coram® infusion services, and other offerings for patients who require treatment for rare or complex conditions.

CVS Health solutions leverage the capabilities of our more than 26,000 pharmacists, nurses, nurse practitioners, and physician assistants. No matter how health care reform unfolds in the coming years, we have the breadth of assets and the expertise to play a significant and supportive role.

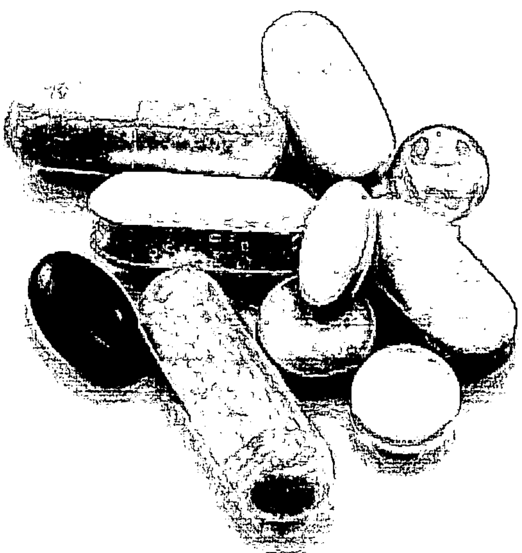
"Ever since we turned our daughter's care over to you all, our quality of life has never been better," writes a mother to her Coram team. Coram's ability to provide infusion services in the home has made all the difference for this family, allowing treatment to suit their daughter's lifestyle instead of the other way around. "The rest of our family has been liberated, too. No more days spent at the clinic waiting. No more putting her sisters on hold while she gets her care. You provide much more than medical care. You contribute immeasurably to the quality of life of your patients and all the others who populate their lives!"†

Putting care within easy reach. We are making it easier for patients to obtain their medications and the care they need. And that will help reduce the $300 billion in avoidable costs due to medication non-adherence the U.S. health care system faces each year. For example, our infusion services through Coram enable us to provide patients with more convenient, low-cost alternatives to hospital infusions, whether at the physician's office, at one of our national network of retail infusion sites, or even the patient's home. With the number of CVS/minuteclinic locations on the rise, we're also making it easier for patients with acute illnesses and certain chronic conditions to receive care. Maintenance Choice®, one of the many integrated solutions that only CVS Health offers, gives CVS/caremark plan members the option of receiving 90-day maintenance prescriptions in the way that suits them best—through our mail order pharmacies or at any of our CVS/pharmacy locations. Specialty Connect™ provides a similar in-store pickup option for CVS/specialty patients while our expert specialty pharmacists provide disease state-specific counseling.

† Throughout this section you will see stories based on actual feedback. Identifying details have been omitted to protect privacy.

Greater access by the numbers

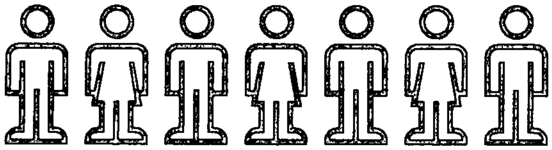
CVS Health is uniquely positioned to provide access to care that's most convenient for each patient with our unmatched breadth of assets and channel-agnostic approach. The company is a market leader in retail pharmacy, pharmacy benefits management, specialty pharmacy, and retail medical clinics—and very well-positioned in an era of consumer-directed health care.



1.7 billion

prescriptions filled or managed annually

CVS Health has captured one third of total U.S. prescription growth since 2008.



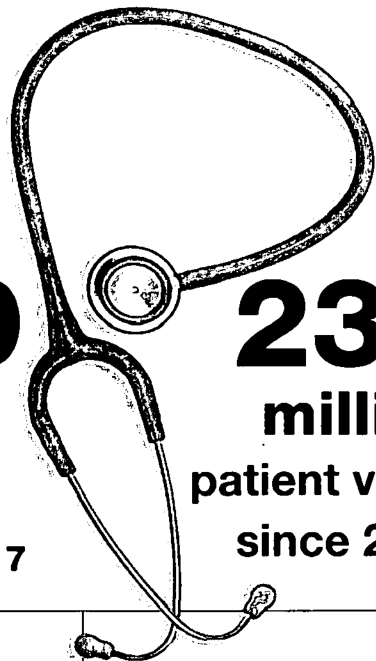
65+ million

PBM plan members

7,800+ retail drug stores

in 44 states, the District of Columbia, Puerto Rico, and Brazil

Currently in 98 of the top 100 U.S. drugstore markets.



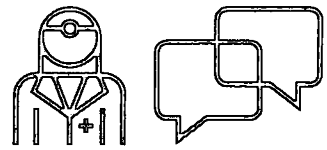
Approaching

1,000

MinuteClinic locations with a target of 1,500 locations by 2017

23+

million patient visits since 2000

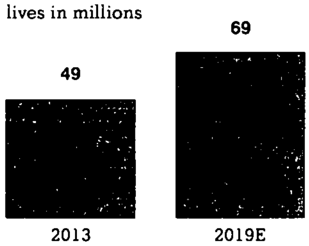


Nearly

50

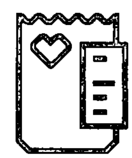
health system affiliations

Growth in Medicare lives
lives in millions



With 10,000 baby boomers turning 65 every day, the Medicare-eligible population is increasing. We are well-positioned to serve this market through our retail pharmacies, PBM, and SilverScript®, currently the No. 2 Medicare Part D prescription drug plan.

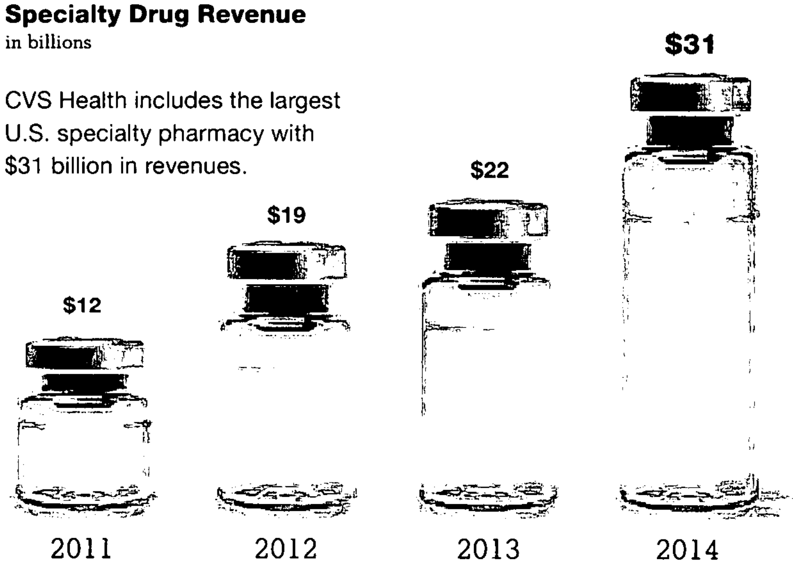
~5 million



customers per day in our retail pharmacies

Specialty Drug Revenue
in billions

CVS Health includes the largest U.S. specialty pharmacy with $31 billion in revenues.



More than

24,000

pharmacists across our enterprise

50%

of Specialty Connect patients choose CVS/pharmacy for pick up

"We have more than 3 million members and one of the largest patient-centered medical homes in the country," explains the CEO of a leading U.S. health plan. "We are very excited about finding innovative ways to help our clients and members lower their costs and improve quality. Collaboration with CVS Health has been helping us do just that. We've been focused on integrating CVS Health pharmacists and nurses into our medical home model. That will enhance coordination of care and quality. As for costs, with this relationship, we've come to see pharmacy as a key area to drive savings and help control overall health spending. We're at the beginning stages of health reform, but we're making real strides to achieve its goals with CVS Health."

Reduce costs, not care. With U.S. health care and prescription drug spending on the rise, CVS/caremark offers comprehensive solutions that help clients manage this trend without sacrificing patient care. With one large health plan client, our entire enterprise is involved and collaborating with its patient-centered medical home (PCMH) model. At CVS/pharmacy, we provide face-to-face adherence counseling and provide information directly into the patient's electronic health record at the PCMH. CVS/minuteclinic helps providers by combining high-quality care with affordable pricing across a range of services that include acute care, smoking cessation counseling, and support for chronic conditions such as diabetes. CVS/caremark provides comprehensive medication reviews for patients identified as vulnerable and offers recommendations on ways to assist them such as simplifying their medication regimen or providing multi-dose packaging. Our Specialty Care teams at CVS/specialty, which include rare disease management nurses, function as extensions of the clinical team for patients with complex conditions. CVS Health is uniquely able to support and deliver value to plans, providers, and patients who work within these models by creating innovative solutions that leverage all of our enterprise assets.

Expanding opportunities to reduce spend

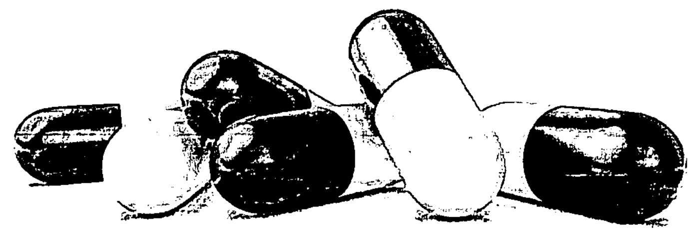
Generics help manage costs

Generic substitution remains one of the best ways to save patients and payors money. Our generic substitution rate exceeded 80% in 2014, and more opportunities are on the way.

Formed

#1 generic sourcing entity

in the U.S. through Red Oak Sourcing venture with Cardinal Health



$40+ billion in branded drug sales currently expected to come off patent from 2015 through 2017

New ways to save

CVS Health is pioneering new strategies to lower costs for health plans and their members, which include CVS/minuteclinic utilization and innovative formulary strategies. We are also participating in narrow or restricted pharmacy networks.

Reduced co-pay at CVS/minuteclinic can lower overall health care costs by

8%

for patients who use our walk-in medical clinics

Formulary management strategy expected to drive total incremental client savings of

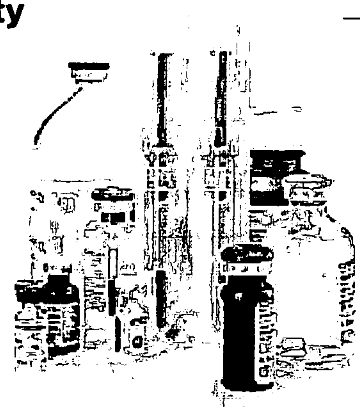
$3.5 billion

from 2012 through 2015

CVS Health lowers overall health care costs for clients and patients through sophisticated plan designs, unmatched clinical programs, and our knowledge, expertise, and purchasing scale in the United States. Programs ranging from formulary management to generic substitution to step therapies and more all work together to achieve results. The company's loyalty program also provides customers with significant savings and value.

Managing specialty cost growth trend

CVS Health is the largest player in the rapidly growing U.S. specialty market. We are using our broad capabilities to reinvent specialty, which will help reduce client spending and improve patient care.

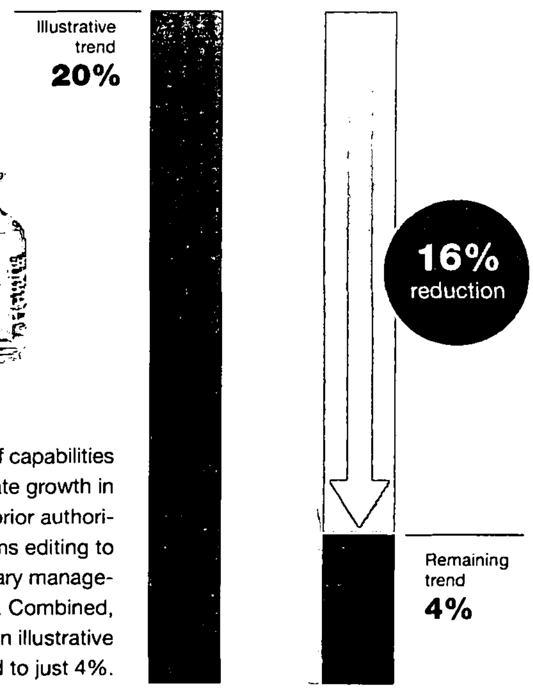


Specialty made up

38%

of total client drug spend in 2014 and is expected to grow to 50% by 2018

We have a unique suite of capabilities to help clients mitigate growth in specialty costs—from prior authorization to medical claims editing to site of care and formulary management, to name a few. Combined, they could reduce an illustrative 20% cost growth trend to just 4%.

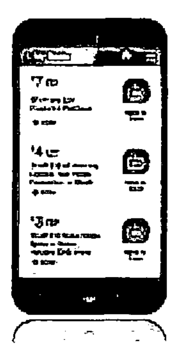


ExtraCare® drives savings

We continue to save consumers money and improve their shopping experience through the ExtraCare card. ExtraCare is the industry's longest-running and most successful loyalty program.

~70 million

active ExtraCare members



$4 billion

in potential savings delivered to our customers through personalized promotions with ExtraCare in 2014

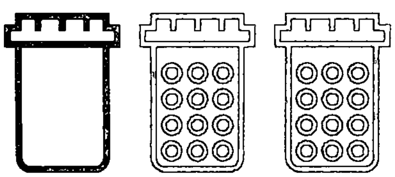
"A really good specialty pharmacy makes my job easier by staying one or two steps ahead of me and my staff," explains a prominent rheumatologist. "I think that CVS/specialty is doing a wonderful job for us." In addition to the logistical support given to her staff, this doctor values the help our specialty pharmacists and nurses provide her patients. "I've heard nothing but positive feedback about the interactions that they have had. Or a new patient will tell me that a cousin, relative, or friend used CVS/specialty and ask, 'Will you be using that for me?'"

Helping people to stay healthy. Our focus on improving outcomes can be seen across CVS Health, from our decision to stop selling tobacco products to our clinical programs, unique specialty capabilities, MinuteClinic locations, and our affiliations with nearly 50 health systems. In specialty, we provide clinical support and drive superior outcomes through our unparalleled capabilities to holistically manage the patient, not just the drug. Our innovative solutions work together to support a better patient experience. Whether the patient chooses to receive a prescription by mail or pick it up at a local CVS/pharmacy, we provide centralized clinical support from a CareTeam of pharmacists and nurses that are disease-specific experts to help patients achieve optimal outcomes. Among our other clinical programs, Pharmacy Advisor® has provided more than 10 million counseling interventions since its inception. These interventions help identify adherence gaps and counsel patients to get them back on their medications. Through our health system affiliations, we're working to share information seamlessly and electronically to improve patient care. We are also expanding our digital capabilities to create an integrated pharmacy experience so customers can manage their prescription needs from anywhere and receive them through their preferred channel.

The path to better health

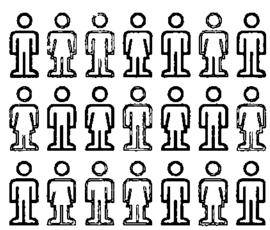
CVS Health is making staying healthy easier through unique programs that help to improve adherence such as Pharmacy Advisor, Specialty Connect, and our Patient Care Initiative. We have introduced programs that provide an earlier, easier, and more effective approach to engaging patients in behaviors that help to improve their health and saves lives. We are also making bold decisions, such as removing tobacco and promoting smoking cessation, to help people on their path to better health.

The adherence problem



1 in 3

prescriptions written are never filled



Nearly

50%

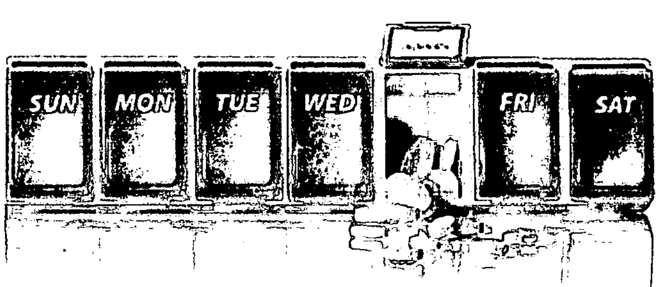
of people prescribed a chronic medication stop taking it within the first year

????

46%

of all patients do not understand prescription dosing instructions

Non-adherence costs everyone



Lack of adherence costs the U.S. health care system an estimated

$300 billion

annually

Goal:

By 2017, increase adherence by 5% to 15% through new interventions

Outreach is the solution

Face-to-face counseling by a pharmacist is

2x to 3x

more effective at increasing patient adherence than other interventions

Medication reconciliation at home can cut hospital readmissions by

50%

for at-risk patients

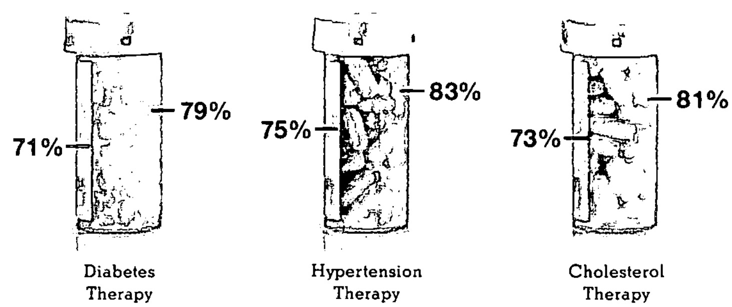
Embedded Accordant nurse care for specialty pharmacy can increase patient engagement by

13x

That can translate to an 11% reduction in total health care costs for managed conditions.

Pharmacy Advisor programs achieve industry-leading adherence at CVS/pharmacy

- CVS/pharmacy
- Top 3 retail pharmacies



The results are clear

89%

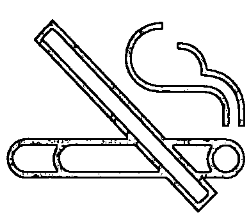
of pharmacists believe counseling their customers is as important as filling their prescriptions

88%

of pharmacists said customers who receive first-hand counseling from their pharmacist were more likely to be adherent

91%

of patients said having cost-effective alternatives to more expensive therapies improves medication adherence



1st

national pharmacy chain to remove tobacco products from shelves

Once you quit smoking, it only takes

20 minutes

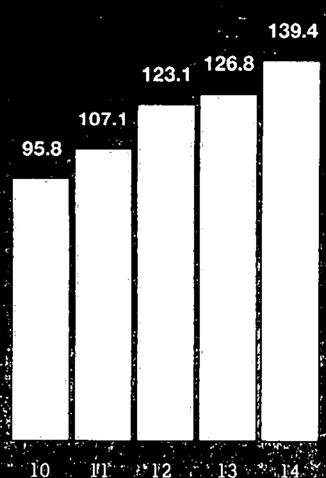
for the body to begin healing

Financial highlights

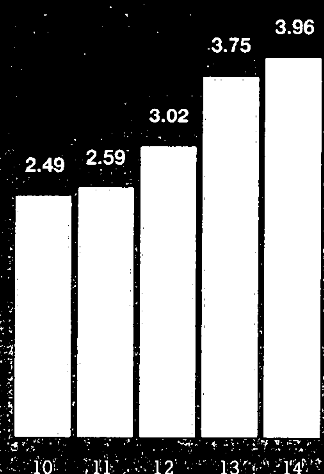
(in millions, except per share figures)	2014	2013	% change
Net revenues	$ 139,367	$ 126,761	9.9%
Operating profit	$ 8,799	$ 8,037	9.5%
Net income	$ 4,644	$ 4,592	1.1%
Diluted EPS from continuing operations	$ 3.96	$ 3.75	5.5%
Free cash flow*	$ 6,516	$ 4,399	48.1%
Stock price at year-end	$ 96.31	$ 71.57	34.6%
Market capitalization at year-end	$ 109,800	$ 84,437	30.0%

* 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).

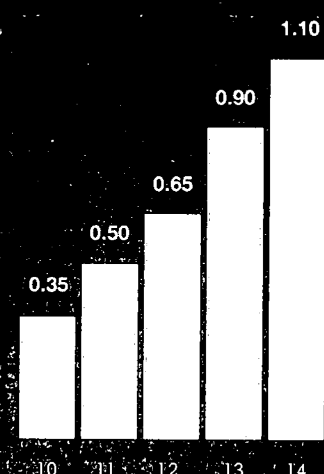
Net revenue
in billions of dollars



Diluted EPS from continuing operations
in dollars



Annual cash dividends
in dollars per common share



Dear Fellow Shareholders:

The past year has been a milestone year for our company as we continued to broaden our role as a pharmacy innovation company. The evidence can be seen everywhere—from the outstanding selling season of our pharmacy benefit manager (PBM) and formation of new health care alliances to the ongoing expansion of our retail pharmacies and the elimination of tobacco products from our stores. Importantly, we have changed our corporate name to CVS Health.

Our company is at the forefront of an evolving health care landscape, and our new name underscores our commitment to helping people on their path to better health. We are delivering breakthrough products and services to increase access to care, improve health outcomes, and lower overall health care costs.

We foresaw many of the changes occurring in health care, and we began assembling an unmatched suite of integrated assets back in 2007 that have positioned us to capitalize on the opportunities created, both now and in the future. CVS Health remains a one-of-a-kind company. Ours is the only integrated pharmacy model with a deep understanding of the diverse needs of consumers, payors, and providers, and these insights inform our innovative, channel-agnostic solutions.

We met our 2014 financial targets while creating significant shareholder value

Before expanding on these and other topics, I want to provide a brief overview of our strong financial performance in 2014. Once again, we met or exceeded all our key financial targets through our ongoing focus on the three pillars that we consider essential to maximizing shareholder value: driving productive, long-term growth; generating significant free cash flow; and optimizing capital allocation.

Net revenues for the year increased nearly 10 percent to a record $139 billion, while adjusted earnings per share from continuing operations rose to $4.49—up 13.5 percent (excluding the loss

Larry J. Merlo
President and Chief Executive Officer

on early extinguishment of debt in 2014 and the gain from a legal settlement in 2013). And we achieved this strong growth even after forgoing approximately 8 cents in earnings per share from exiting the tobacco category. We've benefited from a number of growth drivers, especially our ability to increase enterprise share of prescriptions dispensed through our many channels.

We also filled more than 80 percent of prescriptions using generic equivalents, which are more cost effective for patients and payors and are more profitable for us than branded drugs. Looking ahead, more than $40 billion of branded drugs are expected to lose patent protection and effectively be replaced by generic equivalents between 2015 and 2017. Furthermore, we completed the formation of our Red Oak Sourcing venture with Cardinal Health to create the largest generic sourcing entity in the United States. Our combined scale, along with our knowledge and expertise, should lead to even greater savings for our clients, their members, and CVS Health.

We generated $6.5 billion in free cash flow in 2014 and once again returned more than $5 billion to shareholders through dividends and share repurchases. Our board of directors increased our quarterly dividend by 22 percent last year and recently approved a 27 percent increase for 2015. That marks our 12th consecutive year of increases and keeps us solidly on track toward our dividend payout ratio target of 35 percent by 2018.

With our December 2014 announcement of a new $10 billion share repurchase program, we began 2015 with approximately $12.7 billion available to repurchase CVS Health shares when we identify favorable opportunities. More than $7 billion is expected to be returned to our shareholders through dividends and share repurchases in 2015.

CVS Health shares produced a total return of 36.6 percent in 2014. Over the same period, the S&P 500 Index and the Dow Jones Industrial Average returned 13.7 percent and 10.0 percent, respectively. We have outperformed these indices on a three-, five-, and 10-year basis as well. Our 2014 stock performance also outpaced the 25.3 percent return of the S&P 500 Health Care Index.

Our core strengths and integrated offerings drove another successful PBM selling season

Our CVS/caremark PBM offers competitive pricing, high levels of service and execution, and unmatched services that continue to resonate with payors. As a result, 2014 revenues increased by 16 percent to $88 billion in our Pharmacy Services segment. After a successful selling season, we started 2015 with $7.0 billion in gross new business spread among health plans, government payors, and employers. With a 96 percent retention rate, net new business for 2015 totaled $3.6 billion.

Clients value the strength of CVS/caremark's adherence programs, specialty services, and advanced formulary strategies. Pharmacy Advisor, Maintenance Choice, Specialty Connect, and our other integrated offerings have played an increasingly important role in our ability to win and retain business. At present, no other PBM can offer these differentiated services and capabilities.

Pharmacy Advisor, our industry-leading clinical program for plan members with chronic diseases, currently addresses diabetes, cardiovascular conditions, and eight other disease states. Now available to our Medicare and Medicaid plans as well, it is helping them improve the clinical star measures that impact their reimbursement rates.

With more than 20 million plan members enrolled in Maintenance Choice in 2015, growth in participation has exceeded 85 percent in just three years. We are also seeing growing interest in our new Specialty Connect delivery option. Similar to Maintenance Choice, it offers specialty patients the flexibility to receive their prescriptions by mail or at one of our stores.

CVS/caremark's retail network claims have risen significantly over the past six years, from about 575 million to 930 million prescriptions. Over the same period, CVS/pharmacy's share of the CVS/caremark book of business has grown from 19 percent to approximately 31 percent. We are gaining a growing share of a growing business, highlighting the success of our channel-agnostic approach and the power of our integrated business model.

PBM clients are also increasingly incorporating CVS/minuteclinic services into their plans, improving member access to health care while lowering overall costs. For example, our pilot plan to reduce or eliminate co-payments for plan members now covers 1.2 million lives. That's up from 88,000 in 2012.

We are reinventing specialty with a unique suite of assets to address rising costs

Our specialty pharmacy business continues to grow rapidly, with revenues from the specialty drugs we dispensed and managed across the enterprise totaling $31 billion in 2014. The overall specialty market is projected to reach $235 billion and 50 percent of total drug spend by 2018—compared with just 38 percent this past year—as utilization of costly new therapies increases. Hepatitis C drugs such as Sovaldi® and Harvoni™ as well as PCSK9 inhibitors, an anticipated new class of drugs for lowering cholesterol, are notable examples of high-cost therapies expected to drive the rapid growth in specialty pharmacy.

This trend imposes a substantial burden on both patients and payors as they seek ways to control costs. Our clients count on us to manage these expensive specialty medications to ensure appropriate utilization through a combination of prior authorization, formulary management, and other innovative clinical programs. That's why we've been working hard to reinvent specialty pharmacy.

FOCUS ON SHAREHOLDER VALUE

More than $7 billion is expected to be returned to our shareholders through dividends and share repurchases in 2015.

In specialty, we led the market in 2013 with formulary strategies using clinically appropriate and cost-effective solutions and we continued to lead in 2014. We also have unparalleled capabilities to manage specialty patients holistically, not just their drug costs, and our clinical support and site-of-care management helps drive superior outcomes. We've integrated our Accordant rare disease care management services to enhance care and reduce costs, rolled out Specialty Connect, and made key acquisitions such as Coram and NovoLogix to broaden our portfolio.

CVS/pharmacy posted solid results despite exit from tobacco category and continued to gain share

CVS/pharmacy continued to gain market share in both the pharmacy and the front of the store in 2014 even as consumers remained cost conscious. Our core pharmacy business has grown three times faster than that of other drug chains over the same period, and we hold a 21 percent share of the U.S. retail prescription drug market.

For the year, same-store sales rose 2.1 percent, with the pharmacy up 4.8 percent and the front of the store down 4.0 percent. Our underlying front store growth was obscured by the negative impact on revenue from exiting the tobacco category. It has now been five months since we became the first national pharmacy chain to eliminate cigarettes and other tobacco products from our shelves, a move that reflects our corporate purpose and is expected to help drive long-term growth.

As expected, exiting the tobacco category will cost us approximately $2 billion in revenues on an annualized basis—$1.5 billion from tobacco sales specifically and approximately another $500 million from the rest of those shoppers' baskets. That amounted to about 8 cents in earnings per share in 2014, and it is expected to cost an incremental 8 to 9 cents per share in 2015 for a total annual impact of approximately 17 cents per share. Yet our decision better aligns us with payors and providers as they search for ways to improve health outcomes and control costs. That should make us a more attractive partner for dispensing and other services, ultimately helping us recapture this lost revenue elsewhere across the enterprise.

Health and beauty remained key drivers of front store sales in 2014, with market shares rising to 36 and 40 percent, respectively. Our store brands continued to generate profitable sales growth, accounting for 19 percent of front store sales. Given our success, we've set a new goal of increasing store brand penetration to 25 percent of front store sales. Like generic drugs in the pharmacy, store brands provide significantly higher margins than national brands while also saving our customers money. The past year saw our successful launch of the Makeup Academy™ and radiance® PLATINUM lines as well as more than 40 items under the new Gold Emblem Abound™ healthy snack brand.

As we look to the future, we will continue to provide our customers with additional healthy options. Our goal is to make CVS/pharmacy the convenience destination for more, better, and healthier choices. In research we have conducted since the tobacco announcement, customers have made healthy food their number one choice among offerings they would like to see added. Moreover, these products are less sensitive to promotion, which aligns with our strategy to drive profitable growth.

Our adherence programs and partnerships are providing value to our PBM and non-PBM patients alike

Our channel-agnostic pharmacy care model has played a key role in enhancing member services and driving share gains. Plan members are embracing our unique offerings, and we've also endeavored to improve our value to our retail customers who are covered by other PBMs. They are benefiting from our best-in-class clinical programs to help treat chronic conditions as well as from the innovative partnerships we have forged with providers and payors.

Adherence to prescription drug regimens is critical to improving patient health and reducing costs, and CVS/pharmacy's adherence rates lead the industry. For example, our medication possession ratios for customers undergoing therapy for diabetes, high cholesterol, or high blood pressure are eight percentage points higher than those of our top three retail competitors. That translates into lower mortality rates, fewer heart attacks and strokes, better quality of life, and a reduction in overall health care costs.

Among our partnerships, we're working with hospital providers to ensure that patients have the proper outpatient medications in hand before discharge. We follow up after patients return home to answer questions and confirm medication adherence. With the rise of consumerism driven in large part by the increasing numbers of individuals in consumer-driven health plans, what we're calling the *retailization* of health care, CVS/pharmacy has also partnered with a number of health plan clients on a variety of initiatives that help them reach out to consumers directly. For example, we host in-store events to drive member acquisition and have launched a solution that enables health plan members to pay their insurance premiums at their local CVS/pharmacy. We've also introduced HeathTag®, which allows us to deliver messages from our health plan partners to patients, such as a reminder to get an A1C blood sugar screening when picking up a prescription. Importantly, these relationships position us to be anchors in their limited or preferred networks.

We continue to enter new markets and use ExtraCare to drive profitable growth

The vast majority of the U.S. population lives within a few miles of a CVS/pharmacy, and we've continued to expand our footprint in existing markets as well as by entering new markets such as Seattle. Overall, we opened or acquired 184 new stores in 2014. Factoring in closings, net units increased by 162 stores. That equates to two percent retail square footage growth for the year, in line with our annual goal.

Our September 2014 acquisition of Miami-based Navarro Discount Pharmacy® has strengthened our position in the Hispanic marketplace, the fastest growing demographic in the United States. Over the next decade, the U.S. Hispanic population is expected to increase by 25 percent to 71 million lives. Navarro has been serving Hispanic consumers for more than 50 years and now has 33 retail drugstore locations. We are leveraging its expertise to help make CVS/pharmacy stores in Hispanic neighborhoods across the country even more relevant to the customers we serve every day.

In all our locations, the ExtraCare loyalty program continues to play an indispensable role in driving profitable front store sales. The industry's longest-running loyalty program is now in its 17th year and was used in more than 80 percent of front store sales in 2014. It has allowed us to gather critical consumer insights that we use every day to enhance the CVS/pharmacy shopping experience and to invest in those customers who provide the most value.

For example, we're now leveraging the knowledge we've gained through ExtraCare to deliver personalized offers to our 70 million active cardholders. This includes 25 million e-mails a week and 90 million mail pieces annually. In 2014, cardholders redeemed a total of 38 million personalized coupons. The ongoing decline in newspaper circulation will only increase our advantage over competitors who rely more heavily on circulars to drive trips to their stores. As always, cardholders also get 2 percent back on purchases every day and received $4 billion in ExtraBucks® savings and rewards in 2014.

CVS Health's robust digital strategy empowers consumers to navigate their pharmacy experiences and manage their conditions through our online and mobile tools. This includes the ability to get next-in-line text alerts at CVS/minuteclinic and, in the future, the ability to schedule appointments. Our mobile app has received critical acclaim for ease of use, while our text message program has experienced significant growth.

CVS/minuteclinic excels at customer satisfaction while broadening its preventative and chronic care offerings

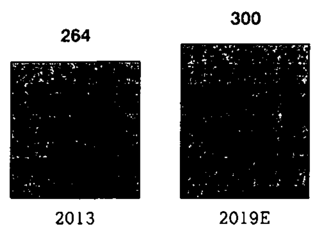
CVS/minuteclinic continued its rapid growth, ending the year with more than 970 clinics in 31 states and the District of Columbia, up from 800 clinics in the prior year. Since its inception, CVS/minuteclinic's 2,700 nurse practitioners and physician assistants have provided care for more than 23 million patient visits. We will continue to add more locations and enter new markets in 2015 and remain on track to reach 1,500 locations by the end of 2017.

Along with our rapid growth, we have continued to deliver the high levels of satisfaction and quality for which CVS/minuteclinic is known. Our net promoter score, a third-party measure of how likely it is that our services would be recommended to friends or colleagues, has grown over the past two years. Among health care organizations, our scores are unmatched. Our own research published in the October 2014 edition of *The American Journal of Managed Care* shows that CVS/minuteclinic's quality performance matches or exceeds that of other ambulatory care settings for three common health conditions.

NEWLY INSURED LIVES WILL DRIVE UTILIZATION

By 2019, the total number of insured is expected to increase by 36 million through individual exchanges and other government programs.

Growth in U.S. insured lives
lives in millions



Although CVS/minuteclinic is largely known for treating sore throats, ear infections, and other acute conditions, we are focused on expanding its scope of services. That includes adding chronic disease monitoring and treatment for conditions such as hypertension and hyperlipidemia. We have expanded our biometric monitoring, tobacco cessation, and weight loss programs. We undertake chronic care only when working with primary care doctors to complement the services they offer. Our affiliations with major health systems throughout the United States—and two-way integration of our electronic medical records—heighten our ability to provide collaborative care. We added 19 health systems in 2014, ending the year with 49 such affiliations.

Growth of government programs and exchanges presents significant opportunities across our enterprise

Government programs represent a tremendous growth opportunity for us, and we have strong positions in both the Medicare and Medicaid markets. The United States is in the midst of what we are calling a "silver tsunami," with some 10,000 baby boomers turning 65 every day. This means that more than 17 million new people will be eligible for Medicare by 2019. CVS Health serves this market through our SilverScript Medicare Part D prescription drug plan, as the PBM for our health plan Medicare clients, and through Employer Group Waiver Plans.

As a result of the Affordable Care Act, we have seen significant growth in Medicaid over the past year with states expanding eligibility. This growth will likely continue as more states evaluate their Medicaid expansion decisions. At the same time, the growth of managed Medicaid over traditional fee-for-service models has been fueled by states seeking cost savings opportunities. CVS/caremark participates in managed Medicaid through health plan clients, and our 19 percent share makes us an industry leader. Medicaid also currently accounts for 14 percent of prescriptions dispensed at CVS/pharmacy locations. Our retail footprint and capabilities give us an opportunity to gain even greater share as managed Medicaid providers narrow their retail pharmacy networks to save costs.

The next several years are expected to bring continued growth in the number of people seeking insurance through the public exchanges. Additionally, we believe some employers will explore private exchanges as a viable option to reduce health care spending for their retirees. CVS/caremark participates on the public and private exchanges on a carve-in basis with health plan clients. On the private exchanges, we also participate on a carve-out basis as a standalone PBM where we offer prescription benefits directly. We expect the growth in exchange lives to provide an incremental lift to our retail pharmacy as utilization increases.

Clearly, we are seeing tremendous opportunities for growth throughout the enterprise, and I believe that our integrated model will allow us to take full advantage of them. In closing, I want to thank our board of directors and the 217,000 colleagues who work so diligently across CVS Health. They have committed themselves to our unique model of pharmacy care and have given us a compelling advantage in today's marketplace. To my fellow shareholders, thank you for your continued confidence in our strategy.

Sincerely,

Larry J. Merlo
President and Chief Executive Officer

February 10, 2015

Prescription for a better world

In 2014, we launched our new corporate social responsibility (CSR) roadmap, *Prescription for a Better World,* which charts our CSR course for the future and is focused on three key areas. We see each of these areas not only as essential ingredients for a better world, but areas we can help support by leveraging the scale, expertise, and innovative spirit of our company.

Health in Action

Building healthier communities

Health in Action centers on improving patient outcomes and providing quality, affordable, and accessible health care to the people and communities we serve. We strive to deliver on these priorities by continuously improving our services and product offerings and by leveraging our integrated business model as well as our philanthropic support.

1.2 million U.S. children lack access to medical care due to financial hardship

62 million people lack access to primary care

More than **$90 million** in donations, volunteer hours, and other charitable efforts in 2014

More than **$1.35 million** in volunteer hours donated by our colleagues

Planet in Balance

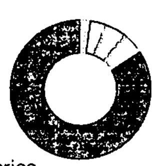
Protecting the planet

Our purpose as a company is helping people on their path to better health, which is intrinsically linked to the sustainability of our planet. We have made *Planet in Balance* a strategic priority and are working to mitigate climate change, reduce our resource use, and embed sustainability into our products and supply chain.

9%

reduction achieved in our carbon footprint from our 2010 baseline and on pace to achieve our goal of 15% by 2018

Total Carbon Footprint



- 84% Electricity
- 5% Refrigerants
- 5% Product Deliveries
- 4% Natural Gas & Other Fuels
- 2% Business Travel

In 2014, our energy-efficient pilot store in West Haven, Connecticut, received the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) platinum certification

Leader in Growth

Creating economic opportunities

Through *Leader in Growth*, we leverage the power and scale of our business to create economic opportunities and value for our employees, customers, suppliers, and investors. This pillar focuses on our priority to invest in our people, operate with integrity, and conduct business responsibly.

In 2014 we received a number of awards and recognitions, including the following:

- Named to Dow Jones Sustainability Index
- Platinum rating for Carbon Disclosure Project's S&P 500 Climate Performance Leadership Index
- Among top 40 on *Newsweek's* Green Ranking of America's Greenest Companies
- Among *DiversityInc's* Top 25 Noteworthy Companies; A Top 10 Company for Veterans and Employee Resource Groups
- Among the top tier of companies listed on the Center for Political Accountability (CPA) Zicklin Index of Corporate Political Disclosure and Accountability
- *Corporate Responsibility Magazine* named CVS Health President and CEO Larry Merlo as the 2014 Responsible CEO of the Year

2014 Financial Report

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 Health Corporation, together with its subsidiaries (collectively "CVS Health," the "Company," "we," "our" or "us"), is a pharmacy innovation company helping people on their path to better health. At the forefront of a changing health care landscape, the Company has an unmatched suite of capabilities and the expertise needed to drive innovations that will help shape the future of health.

We are currently the only integrated pharmacy health care company with the ability to impact consumers, payors, and providers with innovative, channel-agnostic solutions. We have a deep understanding of their diverse needs through our unique integrated model, and we are bringing them innovative solutions that help increase access to quality care, deliver better health outcomes, and lower overall health care costs.

Through our 7,800 retail pharmacies, more than 900 walk-in medical clinics, a leading pharmacy benefits manager (PBM) with more than 65 million plan members, and expanding specialty pharmacy services, we enable people, businesses, and communities to manage health in more effective ways. We are delivering breakthrough products and services, from advising patients on their medications at our CVS/pharmacy® locations, to introducing unique programs to help control costs for our clients at CVS/caremark™, to innovating how care is delivered to our patients with complex conditions through CVS/specialty™, or by expanding access to high-quality, low-cost care at CVS/minuteclinic™.

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

Overview of Our Pharmacy Services Segment

Our Pharmacy Services business generates revenue from a full range of PBM services, including plan design and administration, formulary management, 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.

Our clients are primarily employers, insurance companies, unions, government employee groups, health plans, Managed Medicaid plans and other sponsors of health benefit plans, and individuals throughout the United States. A portion of covered lives, primarily within the Managed Medicaid, health plan and employer markets have access to our services through public and private exchanges.

As a pharmacy benefits manager, we manage the dispensing of pharmaceuticals through our mail order pharmacies, specialty pharmacies and national network of more than 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™, CarePlus CVS/pharmacy® and Navarro Health Services® 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. In January 2014, we enhanced our offerings of specialty infusion services and began offering enteral nutrition services through Coram LLC and its subsidiaries (collectively, "Coram"), which we acquired on January 16, 2014. We completed the roll out of Specialty Connect™ in May 2014, which integrates our specialty pharmacy mail and retail capabilities, providing members with disease-state specific counseling from our experienced specialty pharmacists and the choice to bring their specialty prescriptions to any CVS/pharmacy location. Whether submitted through our mail order pharmacy or at CVS/pharmacy, all prescriptions are filled through the Company's specialty mail order pharmacies, so all revenue from this specialty prescription services program is recorded within the Pharmacy Services Segment. Members then can choose to pick up their medication at their local CVS/pharmacy or have it sent to their home through the mail.

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 4.4 million beneficiaries through SilverScript, including our individual and employer group waiver plans.

The Pharmacy Services Segment operates under the CVS/caremark™ Pharmacy Services, Caremark®, CVS/caremark™, CarePlus CVS/pharmacy®, RxAmerica®, Accordant®, SilverScript®, Coram®, CVS/specialty™, NovoLogix® and Navarro® Health Services names. As of December 31, 2014, the Pharmacy Services Segment operated 27 retail specialty pharmacy stores, 11 specialty mail order pharmacies, four mail order dispensing pharmacies, and 86 branches and six centers of excellence for infusion and enteral services located in 40 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, personal care products, convenience foods, photo finishing, seasonal merchandise and greeting cards through our CVS/pharmacy®, CVS®, Longs Drugs®, Navarro Discount Pharmacy® and Drogaria Onofre™ retail stores and online through CVS.com®, Navarro.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 nearly 24,000 retail pharmacists. The role of our retail pharmacists is shifting from primarily dispensing prescriptions to also providing services, including flu vaccinations as well as face-to-face patient counseling with respect to adherence to drug therapies, closing gaps in care, and more cost-effective drug therapies. Our integrated pharmacy services model enables us to enhance access to care while helping to lower overall health care costs and improve health outcomes.

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, 2014, our Retail Pharmacy Segment included 7,822 retail drugstores (of which 7,765 operated a pharmacy) located in 44 states, the District of Columbia, Puerto Rico and Brazil operating primarily under the CVS/pharmacy®, CVS®, Longs Drugs®, Navarro Discount Pharmacy® and Drogaria Onofre™ names, 17 onsite pharmacies primarily operating under the CarePlus CVS/pharmacy®, CarePlus® and CVS/pharmacy® names, and 971 retail health care clinics operating under the MinuteClinic® name (of which 963 were located in CVS/pharmacy stores), and our online retail websites, CVS.com®, Navarro.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

	YEAR ENDED DECEMBER 31,		
IN MILLIONS, EXCEPT PER COMMON SHARE AMOUNTS	**2014**	2013	2012
Net revenues	**$ 139,367**	$ 126,761	$ 123,120
Cost of revenues	**114,000**	102,978	100,632
Gross profit	**25,367**	23,783	22,488
Operating expenses	**16,568**	15,746	15,278
Operating profit	**8,799**	8,037	7,210
Interest expense, net	**600**	509	557
Loss on early extinguishment of debt	**521**	—	348
Income before income tax provision	**7,678**	7,528	6,305
Income tax provision	**3,033**	2,928	2,436
Income from continuing operations	**4,645**	4,600	3,869
Loss from discontinued operations, net of tax	**(1)**	(8)	(7)
Net income	**4,644**	4,592	3,862
Net loss attributable to noncontrolling interest	—	—	2
Net income attributable to CVS Health	**$ 4,644**	$ 4,592	$ 3,864
Diluted earnings per common share:			
Income from continuing operations attributable to CVS Health	**$ 3.96**	$ 3.75	$ 3.02
Loss from discontinued operations attributable to CVS Health	**$ —**	$ (0.01)	$ (0.01)
Net income attributable to CVS Health	**$ 3.96**	$ 3.74	$ 3.02

Net revenues increased $12.6 billion in 2014 compared to 2013, and increased $3.6 billion in 2013 compared to 2012. As you review our performance in this area, we believe you should consider the following important information:

- During 2014, net revenues in our Pharmacy Services Segment increased 16.1% and net revenues in our Retail Pharmacy Segment increased 3.3% compared to the prior year.
- During 2013, net revenues in our Pharmacy Services Segment increased by 3.8% and net revenues in our Retail Pharmacy Segment increased 3.1% 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 2014 as compared to 2013, as well as in 2013 as compared to 2012. In 2014, 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 $1.6 billion, or 6.7% in 2014, to $25.4 billion, as compared to $23.8 billion in 2013. Gross profit increased $1.3 billion, or 5.8% in 2013, to $23.8 billion, as compared to $22.5 billion in 2012. Gross profit as a percentage of net revenues declined to 18.2%, as compared to 18.8% in 2013 and 18.3% in 2012.

- During 2014, gross profit in our Pharmacy Services Segment and Retail Pharmacy Segment increased by 12.6% and 5.8%, respectively, compared to the prior year. For the year ended December 31, 2014, gross profit as a percent of net revenues in our Pharmacy Services Segment and Retail Pharmacy Segment was 5.4% and 31.4%, respectively.
- 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.
- 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 2014 as compared to 2013. In addition, gross profit for 2014, 2013 and 2012 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.
- 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 for 2012 through 2014, offsetting the negative impacts described above.

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

Operating expenses increased $822 million, or 5.2% in the year ended December 31, 2014, as compared to the prior year. Operating expenses as a percent of net revenues declined to 11.9% in the year ended December 31, 2013 compared to 12.4% in the prior year. The increase in operating expense dollars in the year ended December 31, 2014 was primarily due to incremental store operating costs associated with a higher store count, as well as legal costs and strategic initiatives as compared to the prior year. Additionally, the year ended December 31, 2013 included a $72 million gain on a legal settlement. The improvement in operating expenses as a percent of net revenues in 2014 is primarily due to expense leverage from net revenue growth and disciplined expense control.

Operating expenses increased $468 million 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. The increase in operating expense dollars 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.

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:

IN MILLIONS		2014		2013		2012
Interest expense	**$**	**615**	$	517	$	561
Interest income		**(15)**		(8)		(4)
Interest expense, net	**$**	**600**	$	509	$	557

Net interest expense increased $91 million during the year ended December 31, 2014, primarily due to the issuance of $4 billion of debt in December 2013 and $1.5 billion of debt in August 2014. During 2013, net interest expense decreased by $48 million, to $509 million compared to 2012, which resulted from lower average interest rates during 2013.

Loss on Early Extinguishment of Debt — During the year ended December 31, 2014, the Company completed a $2.0 billion tender offer and repurchase of certain Senior Notes. The Company paid a premium of $490 million in excess of the debt principal in connection with the repurchase of the Senior Notes, wrote off $26 million of unamortized deferred financing costs and incurred $5 million in fees, for a total loss on early extinguishment of debt of $521 million. During the year ended December 31, 2012, the Company completed a $1.3 billion tender offer and repurchase of certain Senior Notes and incurred a total loss on the early extinguishment of debt of $348 million. See Note 5 to the consolidated financial statements.

Income tax provision — Our effective income tax rate was 39.5%, 38.9% and 38.6% in 2014, 2013 and 2012, respectively. The effective income tax was higher in 2014 than in 2013 primarily due to certain permanent items in 2014. These same items were the principal factors for the increase in the effective income tax rate in 2013 compared to 2012.

Income from continuing operations increased $45 million or 1.0% to $4.6 billion in 2014. Income from continuing operations increased $731 million or 18.9% to $4.6 billion in 2013 as compared to $3.9 billion in 2012. The 2014 and 2013 increases in income from continuing operations were primarily related to increases in generic dispensing rates and increased prescription volume for both operating segments. In addition, as discussed previously, income from continuing operations included a $521 million and $348 million loss on early extinguishment of debt in 2014 and 2012, respectively, which positively impacted the growth rate in 2013 and negatively impacted the growth rate in 2014.

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 required to satisfy its Linens 'n Things lease guarantees. We incurred a loss from discontinued operations, net of tax, of $1 million, $8 million and $7 million in 2014, 2013 and 2012, respectively.

See Note 1 "Significant Accounting Policies — Discontinued Operations" to the consolidated financial statements for additional information about discontinued operations and Note 11 "Commitments and Contingencies" for additional information about our lease guarantees.

Net loss attributable to noncontrolling interest of $2 million for the year ended December 31, 2012 represents the minority shareholders' portion of the net loss of our subsidiary, Generation Health, Inc. ("Generation Health"). We acquired the remaining 40% interest of Generation Health in June 2012 and as a result, there was no longer a noncontrolling interest in Generation Health for the years ended December 31, 2014 and 2013. For the year ended December 31, 2014, the Company had immaterial noncontrolling interests in two consolidated entities.

Net income attributable to CVS Health increased $52 million or 1.1% to $4.6 billion (or $3.96 per diluted share) in 2014. This compares to $4.6 billion (or $3.74 per diluted share) in 2013 and $3.9 billion (or $3.02 per diluted share) in 2012. As discussed previously, the 2014 increase in net income attributable to CVS Health was primarily related to increased generic drug dispensing and increased prescription volume in both operating segments. The increase in net income attributable to CVS Health per diluted share was also driven by increased share repurchase activity in 2014 and 2013. The increase in net income attributable to CVS Health and per diluted share in 2014 includes a $521 million loss on early extinguishment of debt, which negatively impacted the net income growth rate in 2014.

Segment Analysis

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

IN MILLIONS	Pharmacy Services Segment [1][2]	Retail Pharmacy Segment [2]	Corporate Segment	Intersegment Eliminations [2]	Consolidated Totals
2014:					
Net revenues	**$ 88,440**	**$ 67,798**	**$ —**	**$(16,871)**	**$139,367**
Gross profit	**4,771**	**21,277**	**—**	**(681)**	**25,367**
Operating profit (loss)	**3,514**	**6,762**	**(796)**	**(681)**	**8,799**
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

(1) Net revenues of the Pharmacy Services Segment include approximately $8.1 billion, $7.9 billion and $8.4 billion of Retail Co-Payments for 2014, 2013 and 2012, 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. The following amounts are eliminated in consolidation in connection with the item (ii) intersegment activity: net revenues of $4.9 billion, $4.3 billion and $3.4 billion for the years ended December 31, 2014, 2013 and 2012, respectively; and gross profit and operating profit of $681 million, $566 million and $411 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Pharmacy Services Segment

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

IN MILLIONS	YEAR ENDED DECEMBER 31, 2014	2013	2012
Net revenues	**$ 88,440**	$ 76,208	$ 73,444
Gross profit	**$ 4,771**	$ 4,237	$ 3,808
Gross profit % of net revenues	**5.4%**	5.6%	5.2%
Operating expenses	**$ 1,257**	$ 1,151	$ 1,129
Operating expenses % of net revenues	**1.4%**	1.5%	1.5%
Operating profit	**$ 3,514**	$ 3,086	$ 2,679
Operating profit % of net revenues	**4.0%**	4.1%	3.6%
Net revenues (1):			
Mail choice (2)	**$ 31,081**	$ 24,791	$ 22,843
Pharmacy network (3)	**$ 57,122**	$ 51,211	$ 50,411
Other	**$ 237**	$ 206	$ 190
Pharmacy claims processed (1):			
Total	**932.0**	902.1	880.5
Mail choice (2)	**82.4**	83.3	81.7
Pharmacy network (3)	**849.6**	818.8	798.8
Generic dispensing rate (1) :			
Total	**82.2%**	80.5%	78.2%
Mail choice (2)	**74.6%**	72.6%	68.9%
Pharmacy network (3)	**83.0%**	81.3%	79.1%
Mail choice penetration rate	**21.4%**	22.6%	22.7%

(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.

Net revenues in our Pharmacy Services Segment increased $12.2 billion, or 16.1%, to approximately $88.4 billion for the year ended December 31, 2014, as compared to the prior year. The increase in net revenues was primarily due to growth in specialty pharmacy, including the acquisition of Coram and the impact of Specialty Connect, and increased pharmacy network volume. Conversely, the increase in our generic dispensing rate had a negative impact on our revenue in 2014, as it did in 2013.

Net revenues 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 2013 was primarily due to drug cost inflation in specialty pharmacy. Additionally, the increase in our generic dispensing rate had a negative impact on our revenue in 2013, as it did in 2012.

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 decreased 1.1% to 82.4 million claims in the year ended December 31, 2014, compared to 83.3 million claims in the prior year. The decrease in mail choice claims was driven by a decline in traditional mail volumes, which was mostly offset by growth in our Maintenance Choice program and specialty pharmacy. During 2013, our mail choice claims processed increased 1.9% to 83.3 million claims. The increase in mail choice claim volume was primarily due to specialty claim volume and increased claims associated with the continuing client adoption of our Maintenance Choice offerings.
- During 2014 and 2013, our average revenue per mail choice claim increased by 26.8% and 6.5%, compared to 2013 and 2012, respectively. This increase in 2014 was primarily due to the acquisition of Coram and drug inflation particularly in specialty pharmacy, partially offset by increases in the percentage of generic prescription drugs dispensed and changes in client pricing. This increase in 2013 was primarily due to drug inflation particularly in specialty pharmacy, partially offset by increases in the percentage of generic prescription drugs dispensed and changes in client pricing.
- Our mail choice generic dispensing rate was 74.6%, 72.6% and 68.9% in the years ended December 31, 2014, 2013 and 2012, respectively. Our pharmacy network generic dispensing rate increased to 83.0% in the year ended December 31, 2014, compared to 81.3% in the prior year. During 2013, our pharmacy network generic dispensing rate increased to 81.3% compared to our pharmacy network generic dispensing rate of 79.1% in 2012. These continued increases in 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 3.8% to 849.6 million claims in the year ended December 31, 2014, compared to 818.8 million claims in the prior year. This increase was primarily due to net new business and growth in Managed Medicaid, partially offset by a decrease in Medicare Part D claims. Medicare Part D claims were negatively impacted by the CMS sanctions that were in place during 2013. See "Regulatory and business changes relating to our participation in Medicare Part D" in Part I, Item 1A, Risk Factors within our Form 10-K for the year ended December 31, 2014 ("2014 Form 10-K"), for additional information. During 2013, our pharmacy network claims processed increased 2.5% to 818.8 million compared to 798.8 million pharmacy network claims processed in 2012. This increase was primarily due to higher claims activity associated with our Medicare Part D offering.
- Our average revenue per pharmacy network claim processed increased 7.5% in the year ended December 31, 2014 as compared to the prior year. This increase was primarily due to drug inflation and changes in the drug mix, partially offset by increases in the generic dispensing rate. During 2013, our average revenue per pharmacy network claim processed decreased by 0.9%, compared to 2012. This decrease was primarily due to increases in the generic dispensing rate.
- We completed the roll out of Specialty Connect™ in May 2014, which integrates the Company's specialty pharmacy mail and retail capabilities, providing members with the choice to bring their specialty prescriptions to any CVS/pharmacy® location. Whether submitted through our mail order pharmacy or at CVS/pharmacy, all prescriptions are filled through the Company's specialty mail order pharmacies, so all revenue from this specialty prescription services program is recorded within the Pharmacy Services Segment.

- The Pharmacy Services Segment recognizes revenues for its pharmacy network transactions based on individual contract terms. Our Pharmacy Services Segment contracts are predominantly accounted for using the gross method. See the "Revenue Recognition" description under "Critical Accounting Policies" later in this section for further information on our revenue recognition policy.

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 $534 million, or 12.6% to $4.8 billion in the year ended December 31, 2014, as compared to the prior year. Gross profit as a percentage of net revenues decreased to 5.4% for the year ended December 31, 2014, compared to 5.6% in the prior year. The increase in gross profit dollars in the year ended December 31, 2014 was primarily due to volume increases, higher generic dispensing and favorable purchasing economics, partially offset by price compression. The decrease in gross profit as a percentage of net revenues was due to price compression, partially offset by favorable generic dispensing and purchasing economics. In addition, gross profit dollars and margin for the year ended December 31, 2014, were positively impacted by $16 million related to the favorable resolution of previously proposed retroactive reimbursement rate changes in the State of California Medicaid program.

During 2013, 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 was 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.

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. Our Pharmacy Services Segment 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 82.2% and 80.5% in 2014 and 2013, respectively, compared to our generic dispensing rate of 78.2% in 2012. 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, decreased to 1.4% of net revenues in 2014 compared to 1.5% in 2013 and 2012.

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

- Operating expenses increased $106 million or 9.2%, to $1.3 billion, in the year ended December 31, 2014, compared to the prior year. The increase in operating expenses is primarily related to increased costs associated with infusion services due to the 2014 acquisition of Coram, as well as an $11 million gain from a legal settlement during the year ended December 31, 2013. The slight decrease in operating expenses as a percentage of net revenues was primarily due to expense leverage from net revenue growth.
- During 2013, the increase in operating expenses of $22 million or 1.9%, to $1.2 billion compared to 2012, is primarily related to costs associated with the remediation of Medicare Part D sanctions and coverage determination issues discussed below. Operating expenses as a percentage of net revenues remained relatively flat.

Medicare Part D — 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 SilverScript prescription drug plan ("PDP"), which offers benefits to individual members and through employer group waiver plans. 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, the 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 enrollment processing and related issues resulting from the Company's plan consolidation efforts and the sanctions were removed. SilverScript began to enroll new choosers with effective dates starting in February 2014 as they aged into Medicare. The low income subsidy ("LIS") auto-enrollment and annual reassignment exclusion was lifted on February 21, 2014 and SilverScript began receiving LIS enrollees again with effective dates May 1, 2014 and forward.

Retail Pharmacy Segment

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

	YEAR ENDED DECEMBER 31,		
IN MILLIONS	**2014**	2013	2012
Net revenues	**$ 67,798**	$ 65,618	$ 63,641
Gross profit	**$ 21,277**	$ 20,112	$ 19,091
Gross profit % of net revenues	**31.4%**	30.6%	30.0%
Operating expenses	**$ 14,515**	$ 13,844	$ 13,455
Operating expenses % of net revenues	**21.4%**	21.1%	21.1%
Operating profit	**$ 6,762**	$ 6,268	$ 5,636
Operating profit % of net revenues	**10.0%**	9.6%	8.9%
Retail prescriptions filled (90 Day = 3 prescriptions) (1)	**935.9**	890.1	845.8
Net revenue increase (decrease):			
Total	**3.3%**	3.1%	6.8%
Pharmacy	**5.1%**	4.1%	7.6%
Front Store	**(2.5)%**	1.0%	5.1%
Total prescription volume (90 Day = 3 prescriptions) (1)	**5.2%**	5.2%	11.0%
Same store sales increase (decrease):			
Total	**2.1%**	1.7%	5.6%
Pharmacy	**4.8%**	2.6%	6.6%
Front Store	**(4.0)%**	(0.5)%	3.4%
Prescription volume (90 Day = 3 prescriptions) (1)	**4.1%**	4.4%	10.0%
Generic dispensing rates	**83.1%**	81.4%	79.2%
Pharmacy % of net revenues	**70.7%**	69.5%	68.8%
Third party % of pharmacy revenue	**98.6%**	97.9%	97.5%

(1) Includes the adjustment to convert 90-day, non-specialty 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 $2.2 billion, or 3.3%, to $67.8 billion for the year ended December 31, 2014, as compared to the prior year. This increase was primarily driven by a same store sales increase of 2.1% and net revenues from new and acquired stores, which accounted for approximately 110 basis points of our total net revenue percentage increase during the year. Net revenues increased $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 stores, which accounted for approximately 130 basis points of our total net revenue percentage increase during the year. Additionally, in 2014, 2013 and 2012 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 4.0% in the year ended December 31, 2014, as compared to the prior year. The decrease is primarily due to the Company's decision to stop selling tobacco products, softer customer traffic and a less severe flu season than the prior year and extreme weather conditions across much of the United States during the first quarter of 2014. The decrease was partially offset by an increase in basket size. Front store same store sales would have been approximately 350 basis points higher for the year ended December 31, 2014 if tobacco and the estimated associated basket sales were excluded from both the years ended December 31, 2014 and 2013.

- Pharmacy same store sales rose 4.8% in the year ended December 31, 2014, as compared to the prior year. Pharmacy same store sales were positively impacted by same store script growth of 4.1%, partially offset by the impact of the increase in generic dispensing and reimbursement pressure. Pharmacy same store sales for the year ended December 31, 2014 were negatively impacted by approximately 140 basis points from the implementation of Specialty Connect. Specialty Connect transitioned all specialty prescriptions to the Pharmacy Services Segment, as they are being processed through the Company's specialty mail order pharmacies. The implementation of Specialty Connect had a greater effect on revenues than on prescription volumes due to the higher dollar value of specialty products. Pharmacy same store sales were also negatively impacted by a lower incidence of flu compared to last year's strong flu season and extreme weather conditions across much of the United States in the first quarter of 2014, which led to fewer physician visits and prescriptions written.
- 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 160 and 540 basis points for the years ended December 31, 2014 and 2013, respectively, due to recent generic introductions. The decrease in the impact from 2013 to 2014 was primarily due to a smaller impact from new generic drug introductions. In addition, our pharmacy revenue growth has also been affected by continued reimbursement pressure, the lack of significant new brand name drug introductions, as well as an increase in the number of over-the-counter remedies that were historically only available by prescription.
- As of December 31, 2014, we operated 7,822 retail stores compared to 7,660 retail stores as of December 31, 2013 and 7,458 retail stores as of December 31, 2012. Total net revenues from new stores contributed approximately 1.1%, 1.0% and 1.1% to our total net revenue percentage increase in 2014, 2013, and 2012, respectively.
- Pharmacy revenue growth continued to benefit from increased utilization by Medicare Part D beneficiaries, our ability to attract and retain managed care customers and favorable industry trends. These trends include an aging American population; many "baby boomers" are now in their fifties and sixties and are consuming a greater number of prescription drugs, as well as expanded coverage from the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, "ACA"). 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 $1.2 billion, or 5.8%, to $21.3 billion in the year ended December 31, 2014, as compared to the prior year. Gross profit as a percentage of net revenues increased to 31.4% in year ended December 31, 2014, from 30.6% in 2013. Gross profit increased $1.0 billion, or 5.3%, to $20.1 billion for the year ended December 31, 2013, as compared to the prior year. Gross profit as a percentage of net revenues increased to 30.6% for the year ended December 31, 2013, compared to 30.0% for the prior year.

The increase in gross profit dollars in the year ended December 31, 2014, was primarily driven by increases in the generic dispensing rate, same store sales and new store sales, as well as favorable purchasing economics. The increase in gross profit dollars for 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 in 2014 and 2013 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. The increase in gross profit as a percentage of net revenues in 2014 was also driven by the removal of tobacco products from our stores.

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

- Gross profit dollars and margin for the year ended December 31, 2014 were positively impacted by $53 million related to the favorable resolution of previously proposed retroactive reimbursement rate changes in the State of California's Medicaid program.
- 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 98.6% of pharmacy revenues in 2014, compared to 97.9% and 97.5% of pharmacy revenues in 2013 and 2012, respectively.
- Front store revenues as a percentage of total net revenues for the years ended December 31, 2014, 2013 and 2012 were 28.8%, 30.5% and 31.2%, respectively. The decline in front store revenues as a percentage of total net revenues in 2014 was largely due to the removal of tobacco products and the estimated associated basket sales. On average, our gross profit on front store revenues is generally higher than our gross profit on pharmacy revenues. Pharmacy revenues as a percentage of total net revenues increased approximately 120, 60 and 50 basis points in the years ended December 31, 2014, 2013 and 2012, respectively. This shift in sales to the pharmacy had a negative effect on our overall gross profit for the years ended December 31, 2014, 2013 and 2012, respectively. The negative effect was offset by increasing generic drug dispensing rates and increased store brand penetration.
- During the year ended December 31, 2014, our front store gross profit as a percentage of net revenues increased compared to the prior year. The increase is primarily related to a change in the mix of products sold, including the removal of tobacco products from our stores, and higher store brand sales.
- 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.
- 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 "Efforts to reduce reimbursement levels and alter health care financing practices" in Part I, Item 1A, Risk Factors within our 2014 Form 10-K, 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 $671 million, or 4.8% to $14.5 billion, or 21.4% as a percentage of net revenues, in the year ended December 31, 2014, as compared to $13.8 billion, or 21.1% as a percentage of net revenues, in the prior year. 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 as a percentage of net revenues remained consistent from 2012 through 2013 primarily due to disciplined cost control, despite the negative impact of generics on net revenues. Operating expenses as a percentage of net revenues increased in 2014 primarily due to reimbursement rate pressure, the implementation of Specialty Connect, which reduced net revenues, and higher legal costs. The increase in operating expense dollars in 2014 and 2013 was the result of higher store operating costs associated with our increased store count, as well as higher legal costs. The results for the years ended December 31, 2014 and 2013 include gains from legal settlements of $21 million and $61 million, respectively. Additionally, in September 2014, the Retail Pharmacy Segment made a charitable contribution of $25 million to the CVS Foundation to fund future charitable giving. The foundation is a non-profit entity that focuses on health, education and community involvement programs.

Corporate Segment

Operating expenses increased $45 million, or 6.0%, to $796 million in the year ended December 31, 2014, as compared to the prior year. Operating expenses increased $57 million, or 8.3%, to $751 million in the year ended December 31, 2013. 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 2014 and 2013 was primarily due to increased strategic initiatives, benefits costs, facilities management and information technology costs.

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.

The change in cash and cash equivalents is as follows:

	YEAR ENDED DECEMBER 31,		
IN MILLIONS	**2014**	2013	2012
Net cash provided by operating activities	**$ 8,137**	$ 5,783	$ 6,671
Net cash used in investing activities	**(4,045)**	(1,835)	(1,849)
Net cash used in financing activities	**(5,694)**	(1,237)	(4,860)
Effect of exchange rate changes on cash and cash equivalents	**(6)**	3	—
Net increase (decrease) in cash and cash equivalents	**$ (1,608)**	$ 2,714	$ (38)

Net cash provided by operating activities increased by $2.4 billion in 2014 and decreased by $0.9 billion in 2013. The increase in 2014 was primarily due to increased net income and increased accounts payable due to payables management and timing. 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.

Net cash used in investing activities increased by $2.2 billion in 2014 and remained relatively flat from 2012 to 2013. The increase in 2014 was primarily due to the $2.1 billion in cash consideration paid for the acquisition of Coram in January 2014 and an increase in capital expenditures.

In 2014, gross capital expenditures totaled approximately $2.1 billion, an increase of $152 million compared to the prior year. During 2014, approximately 42% of our total capital expenditures were for new store construction, 21% were for store, fulfillment and support facilities expansion and improvements and 37% were for technology and other corporate initiatives. Gross capital expenditures totaled approximately $2.0 billion during 2013 and 2012. 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.

Proceeds from sale-leaseback transactions totaled $515 million in 2014. This compares to $600 million in 2013 and $529 million in 2012. 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:

	2014 [2]	2013 [2]	2012 [2]
Total stores (beginning of year)	**7,702**	7,508	7,388
New and acquired stores [1]	**187**	213	150
Closed stores [1]	**(23)**	(19)	(30)
Total stores (end of year)	**7,866**	7,702	7,508
Relocated stores	**60**	78	90

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

(2) Includes retail drugstores, onsite pharmacy stores and specialty pharmacy stores.

Net cash used in financing activities increased by $4.5 billion in 2014 and decreased by $3.6 billion in 2013. The increase in 2014 was primarily due to the repayments of long-term debt and lower borrowings than in 2013. The decrease in 2013 was primarily due to greater net borrowings than in 2012.

Share repurchase programs — The following share repurchase programs were authorized by the Company's Board of Directors:

IN BILLIONS **Authorization Date**	**Amount of Authorization**
December 15, 2014 ("2014 Repurchase Program")	$ 10.0
December 17, 2013 ("2013 Repurchase Program")	$ 6.0
September 19, 2012 ("2012 Repurchase Program")	$ 6.0
August 23, 2011 ("2011 Repurchase Program")	$ 4.0

The Repurchase Programs, which were effective immediately, permit the Company to effect share repurchases from time to time through a combination of open market repurchases, privately negotiated transactions, accelerated share repurchase ("ASR") transactions, and/or other derivative transactions. The 2014 and 2013 Repurchase Programs may be modified or terminated by the Board of Directors at any time. The 2012 and 2011 Repurchase Programs have been completed, as described on the following page.

Pursuant to the authorization under the 2013 Repurchase Programs, effective January 2, 2015, we entered into a $2.0 billion fixed dollar ASR agreement with J.P. Morgan Chase Bank ("JP Morgan"). Upon payment of the $2.0 billion purchase price on January 5, 2015, we received a number of shares of our common stock equal to 80% of the $2.0 billion notional amount of the ASR agreement or approximately 16.8 million shares at a price of $94.49 per share. At the conclusion of the ASR program, the Company may receive additional shares equal to the remaining 20% of the $2.0 billion notional amount. The ultimate number of shares the Company may receive will fluctuate based on changes in the daily volume-weighted average price of the Company's stock over a period beginning on January 2, 2015 and ending on or before April 26, 2015. If the mean daily volume-weighted average price of the Company's common stock, less a discount (the "forward price"), during the ASR program falls below $94.49 per share, the Company will receive a higher number of shares from JP Morgan. If the forward price rises above $94.49 per share, the Company will either receive fewer shares from JP Morgan or, potentially have an obligation to JP Morgan which, at the Company's option, could be settled in additional cash or by issuing shares. Under the terms of the ASR agreement, the maximum number of shares that could be received or delivered is 42.0 million. The initial 16.8 million shares of common stock delivered to the Company by JP Morgan were placed into treasury stock in January 2015.

Pursuant to the authorization under the 2012 Repurchase Program, effective October 1, 2013, we entered into a $1.7 billion fixed dollar 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.

During the year ended December 31, 2014, we repurchased an aggregate of 51.4 million shares of common stock for approximately $4.0 billion under the 2013 and 2012 Repurchase Programs. 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, 2014, there remained an aggregate of approximately $12.7 billion available for future repurchases under the 2014 and 2013 Repurchase Programs, $2.0 billion of which was used for the ASR effective January 2, 2015 described previously. As of December 31, 2014, the 2012 and 2011 Repurchase Programs were complete.

Short-term borrowings — We had $685 million of commercial paper outstanding at a weighted average interest rate of 0.55% as of December 31, 2014. In connection with our commercial paper program, we maintain a $1.25 billion, five-year unsecured back-up credit facility, which expires on February 17, 2017, a $1.0 billion, five-year unsecured back-up credit facility, which expires on May 23, 2018, and a $1.25 billion, five-year unsecured back-up credit facility, which expires on July 24, 2019. 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, 2014, there were no borrowings outstanding under the back-up credit facilities.

Long-term borrowings — On August 7, 2014, the Company issued $850 million of 2.25% unsecured senior notes due August 12, 2019 and $650 million of 3.375% unsecured senior notes due August 12, 2024 (collectively, the "2014 Notes") for total proceeds of approximately $1.5 billion, net of discounts and underwriting fees. The 2014 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 2014 Notes were used for general corporate purposes and to repay certain corporate debt.

On August 7, 2014, the Company announced tender offers for any and all of the 6.25% Senior Notes due 2027, and up to a maximum amount of the 6.125% Senior Notes due 2039, the 5.75% Senior Notes due 2041 and the 5.75% Senior Notes due 2017, for up to an aggregate principal amount of $1.5 billion. On August 21, 2014, the Company increased the aggregate principal amount of the tender offers to $2.0 billion and completed the repurchase for the maximum amount on September 4, 2014. The Company paid a premium of $490 million in excess of the debt principal in connection with the tender offers, wrote off $26 million of unamortized deferred financing costs and incurred $5 million in fees, for a total loss on the early extinguishment of debt of $521 million. The loss was recorded in income from continuing operations in the condensed consolidated statement of income for the year ended December 31, 2014.

During the year ended December 31, 2014, the Company repurchased the remaining $41 million of outstanding Enhanced Capital Advantage Preferred Securities ("ECAPS") at par. The fees and write-off of deferred issuance costs associated with the early extinguishment of the ECAPS were immaterial.

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 in January 2014. The remainder was 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.

Our backup credit facilities and unsecured senior notes (see Note 5 to the Consolidated Financial Statements) contain customary restrictive financial and operating covenants.

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

As of December 31, 2014 and 2013, we had no outstanding derivative financial instruments.

Debt Ratings — As of December 31, 2014, 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 2014, our Board of Directors authorized a 27% increase in our quarterly common stock dividend to $0.35 per share effective in 2015. This increase equates to an annual dividend rate of $1.40 per share. In December 2013, our Board of Directors authorized a 22% increase in our quarterly common stock dividend to $0.275 per share. This increase equated 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.

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, 2014, we guaranteed approximately 72 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, 2014:

		PAYMENTS DUE BY PERIOD			
IN MILLIONS	Total	2015	2016 to 2017	2018 to 2019	Thereafter
Operating leases	$ 27,282	$ 2,279	$ 4,341	$ 3,868	$ 16,794
Lease obligations from discontinued operations	51	16	24	6	5
Capital lease obligations	810	47	94	96	573
Long-term debt	11,879	563	2,276	2,494	6,546
Interest payments on long-term debt [1]	5,173	484	867	689	3,133
Other long-term liabilities reflected in our consolidated balance sheet	652	48	254	100	250
	$ 45,847	$ 3,437	$ 7,856	$ 7,253	$ 27,301

(1) Interest payments on long-term debt are calculated on outstanding balances and interest rates in effect on December 31, 2014.

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 condition.

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 6.4%, 7.0% and 7.7% of consolidated net revenues in 2014, 2013 and 2012, 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, reinsurance amounts and coverage gap discount 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 front store merchandise at the time the merchandise is purchased by the retail customer and recognizes revenue from the sale of prescription drugs when the prescription is picked up by the customer. 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.

Our customer loyalty program, ExtraCare®, is comprised of two components, ExtraSavings™ and ExtraBucks® Rewards. ExtraSavings coupons redeemed by customers are recorded as a reduction of revenues when redeemed. ExtraBucks Rewards are accrued as a charge to cost of revenues when earned, net of estimated breakage. We determine breakage based on our historical redemption patterns.

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

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. The weighted average cost method is 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 first-in-first-out ("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 front store 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 $189 million as of December 31, 2014. 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 $19 million as of December 31, 2014.

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

Goodwill and Intangible Assets

Identifiable intangible assets consist primarily of trademarks, client contracts and relationships, favorable leases and covenants not to compete. These intangible assets arise primarily from the 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, forecasts and industry trends. 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 $28.1 billion and $9.8 billion as of December 31, 2014, respectively. We did not record any impairment losses related to goodwill or other intangible assets during 2014, 2013 or 2012. During the third quarter of 2014, 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, 2014, in our Pharmacy Services and Retail Pharmacy reporting units was $21.2 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 $268 million as of December 31, 2014. This amount is net of $142 million of estimated sublease income that is subject to the uncertainties discussed previously. Although we believe we have sufficient current and historical information available to us to record reasonable estimates for sublease income, it is possible that actual results could differ.

In order to help you assess the risk, if any, associated with the uncertainties discussed previously, a ten percent (10%) pre-tax change in our estimated sublease income, which we believe is a reasonably likely change, would increase or decrease our total closed store lease liability by about $14 million as of December 31, 2014.

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 $628 million as of December 31, 2014. Although we believe we have sufficient current and historical information available to us to record reasonable estimates for our self-insurance liability, it is possible that actual results could differ. In order to help you assess the risk, if any, associated with the uncertainties discussed previously, a ten percent (10%) pre-tax change in our estimate for our self-insurance liability, which we believe is a reasonably likely change, would increase or decrease our self-insurance liability by about $63 million as of December 31, 2014.

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

Income Taxes

Income taxes are accounted for using the asset and liability method. Deferred tax liabilities or assets are established for temporary differences between financial and tax reporting bases and are subsequently adjusted to reflect changes in enacted tax rates expected to be in effect when the temporary differences reverse. The deferred tax assets are reduced, if necessary, by a valuation allowance to the extent future realization of those tax benefits is uncertain.

Significant judgment is required in determining the provision for income taxes and the related taxes payable and deferred tax assets and liabilities since, in the ordinary course of business, there are transactions and calculations where the ultimate tax outcome is uncertain. Additionally, our tax returns are subject to audit by various domestic and foreign tax authorities that could result in material adjustments or differing interpretations of the tax laws. Although we believe that our estimates are reasonable and are based on the best available information at the time we prepare the provision, actual results could differ from these estimates resulting in a final tax outcome that may be materially different from that which is reflected in our consolidated financial statements.

The tax benefit from an uncertain tax position is recognized only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. Interest and/or penalties related to uncertain tax positions are recognized in income tax expense. Significant judgment is required in determining our uncertain tax positions. We have established accruals for uncertain tax positions using our best judgment and adjust these accruals, as warranted, due to changing facts and circumstances.

New Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU No. 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new guidance is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016; early adoption is not permitted. Companies have the option of using either a full retrospective or a modified retrospective approach to adopt the guidance. This update could impact the timing and amounts of revenue recognized. The Company is currently evaluating the effect that implementation of this update will have on its consolidated financial position and results of operations upon adoption and the method of transition.

Proposed Lease 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 it is reasonably certain an entity will 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

This annual report contains forward-looking statements within the meaning of the federal securities laws. In addition, 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 U.S. Securities and Exchange Commission ("SEC") and in its reports to stockholders, press releases, webcasts, conference calls, meetings and other communications. 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 Health 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 federal securities laws.

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 as described in our SEC filings, including those set forth in the Risk Factors section within the 2014 Form 10-K, and 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 the Company'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.*
- *A highly 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.*
- *The Company's ability 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.*
- *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 ACA, 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 any 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, 2014.

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 (2013 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, 2014.

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 audits conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States).

February 10, 2015

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of CVS Health Corporation

We have audited CVS Health Corporation's internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). CVS Health 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 Health 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 Health Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, 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 Health Corporation as of December 31, 2014 and 2013, 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, 2014 of CVS Health Corporation and our report dated February 10, 2015 expressed an unqualified opinion thereon.

Ernst + Young LLP

Boston, Massachusetts
February 10, 2015

Consolidated Statements of Income

IN MILLIONS, EXCEPT PER SHARE AMOUNTS	YEAR ENDED DECEMBER 31, 2014	2013	2012
Net revenues	**$ 139,367**	$ 126,761	$ 123,120
Cost of revenues	**114,000**	102,978	100,632
Gross profit	**25,367**	23,783	22,488
Operating expenses	**16,568**	15,746	15,278
Operating profit	**8,799**	8,037	7,210
Interest expense, net	**600**	509	557
Loss on early extinguishment of debt	**521**	—	348
Income before income tax provision	**7,678**	7,528	6,305
Income tax provision	**3,033**	2,928	2,436
Income from continuing operations	**4,645**	4,600	3,869
Loss from discontinued operations, net of tax	**(1)**	(8)	(7)
Net income	**4,644**	4,592	3,862
Net loss attributable to noncontrolling interest	**—**	—	2
Net income attributable to CVS Health	**$ 4,644**	$ 4,592	$ 3,864
Basic earnings per share:			
Income from continuing operations attributable to CVS Health	**$ 3.98**	$ 3.78	$ 3.05
Loss from discontinued operations attributable to CVS Health	**$ —**	$ (0.01)	$ (0.01)
Net income attributable to CVS Health	**$ 3.98**	$ 3.77	$ 3.04
Weighted average shares outstanding	**1,161**	1,217	1,271
Diluted earnings per share:			
Income from continuing operations attributable to CVS Health	**$ 3.96**	$ 3.75	$ 3.02
Loss from discontinued operations attributable to CVS Health	**$ —**	$ (0.01)	$ (0.01)
Net income attributable to CVS Health	**$ 3.96**	$ 3.74	$ 3.02
Weighted average shares outstanding	**1,169**	1,226	1,280
Dividends declared per share	**$ 1.10**	$ 0.90	$ 0.65

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

	YEAR ENDED DECEMBER 31,		
IN MILLIONS	**2014**	2013	2012
Net income	**$ 4,644**	$ 4,592	$ 3,862
Other comprehensive income (loss):			
Foreign currency translation adjustments, net of tax	**(35)**	(30)	—
Net cash flow hedges, net of tax	**4**	3	3
Pension and other postretirement benefits, net of tax	**(37)**	59	(12)
Total other comprehensive income (loss)	**(68)**	32	(9)
Comprehensive income	**4,576**	4,624	3,853
Comprehensive loss attributable to noncontrolling interest	**—**	—	2
Comprehensive income attributable to CVS Health	**$ 4,576**	$ 4,624	$ 3,855

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

IN MILLIONS, EXCEPT PER SHARE AMOUNTS	DECEMBER 31, 2014	2013
Assets:		
Cash and cash equivalents	$ 2,481	$ 4,089
Short-term investments	34	88
Accounts receivable, net	9,687	8,729
Inventories	11,930	11,045
Deferred income taxes	985	902
Other current assets	866	472
Total current assets	25,983	25,325
Property and equipment, net	8,843	8,615
Goodwill	28,142	26,542
Intangible assets, net	9,774	9,529
Other assets	1,510	1,515
Total assets	$ 74,252	$ 71,526
Liabilities:		
Accounts payable	$ 6,547	$ 5,548
Claims and discounts payable	5,404	4,548
Accrued expenses	5,816	4,768
Short-term debt	685	—
Current portion of long-term debt	575	561
Total current liabilities	19,027	15,425
Long-term debt	11,695	12,841
Deferred income taxes	4,036	3,901
Other long-term liabilities	1,531	1,421
Commitments and contingencies (Note 11)	—	—
Shareholders' equity:		
CVS Health 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; 1,691 shares issued and 1,140 shares outstanding at December 31, 2014 and 1,680 shares issued and 1,180 shares outstanding at December 31, 2013	17	17
Treasury stock, at cost: 550 shares at December 31, 2014 and 500 shares at December 31, 2013	(24,078)	(20,169)
Shares held in trust: 1 share at December 31, 2014 and 2013	(31)	(31)
Capital surplus	30,418	29,777
Retained earnings	31,849	28,493
Accumulated other comprehensive income (loss)	(217)	(149)
Total CVS Health shareholders' equity	37,958	37,938
Noncontrolling interest	5	—
Total shareholders' equity	37,963	37,938
Total liabilities and shareholders' equity	$ 74,252	$ 71,526

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

IN MILLIONS	YEAR ENDED DECEMBER 31, 2014	2013	2012
Cash flows from operating activities:			
Cash receipts from customers	**$ 132,406**	$ 114,993	$ 113,205
Cash paid for inventory and prescriptions dispensed by retail network pharmacies	**(105,362)**	(91,178)	(90,032)
Cash paid to other suppliers and employees	**(15,344)**	(14,295)	(13,643)
Interest received	**15**	8	4
Interest paid	**(647)**	(534)	(581)
Income taxes paid	**(2,931)**	(3,211)	(2,282)
Net cash provided by operating activities	**8,137**	5,783	6,671
Cash flows from investing activities:			
Purchases of property and equipment	**(2,136)**	(1,984)	(2,030)
Proceeds from sale-leaseback transactions	**515**	600	529
Proceeds from sale of property and equipment and other assets	**11**	54	23
Acquisitions (net of cash acquired) and other investments	**(2,439)**	(415)	(378)
Purchase of available-for-sale investments	**(157)**	(226)	—
Maturity of available-for-sale investments	**161**	136	—
Proceeds from sale of subsidiary	**—**	—	7
Net cash used in investing activities	**(4,045)**	(1,835)	(1,849)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	**685**	(690)	(60)
Proceeds from issuance of long-term debt	**1,483**	3,964	1,239
Repayments of long-term debt	**(3,100)**	—	(1,718)
Purchase of noncontrolling interest in subsidiary	**—**	—	(26)
Dividends paid	**(1,288)**	(1,097)	(829)
Proceeds from exercise of stock options	**421**	500	836
Excess tax benefits from stock-based compensation	**106**	62	28
Repurchase of common stock	**(4,001)**	(3,976)	(4,330)
Net cash used in financing activities	**(5,694)**	(1,237)	(4,860)
Effect of exchange rate changes on cash and cash equivalents	**(6)**	3	—
Net increase (decrease) in cash and cash equivalents	**(1,608)**	2,714	(38)
Cash and cash equivalents at the beginning of the year	**4,089**	1,375	1,413
Cash and cash equivalents at the end of the year	**$ 2,481**	$ 4,089	$ 1,375
Reconciliation of net income to net cash provided by operating activities:			
Net income	**$ 4,644**	$ 4,592	$ 3,862
Adjustments required to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**1,931**	1,870	1,753
Stock-based compensation	**165**	141	132
Loss on early extinguishment of debt	**521**	—	348
Deferred income taxes and other noncash items	**(58)**	(86)	(111)
Change in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable, net	**(737)**	(2,210)	(387)
Inventories	**(770)**	12	(853)
Other current assets	**(383)**	105	3
Other assets	**9**	(135)	(99)
Accounts payable and claims and discounts payable	**1,742**	1,024	1,147
Accrued expenses	**1,060**	471	766
Other long-term liabilities	**13**	(1)	110
Net cash provided by operating activities	**$ 8,137**	$ 5,783	$ 6,671

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

IN MILLIONS	SHARES YEAR ENDED DECEMBER 31, 2014	2013	2012	DOLLARS YEAR ENDED DECEMBER 31, 2014	2013	2012
Common stock:						
Beginning of year	**1,680**	1,667	1,640	**$ 17**	$ 17	$ 16
Stock options exercised and issuance of stock awards	**11**	13	27	**—**	—	1
End of year	**1,691**	1,680	1,667	**$ 17**	$ 17	$ 17
Treasury stock:						
Beginning of year	**(500)**	(435)	(340)	**$(20,169)**	$ (16,270)	$ (11,953)
Purchase of treasury shares	**(51)**	(66)	(95)	**(4,001)**	(3,976)	(4,330)
Employee stock purchase plan issuances	**1**	1	1	**92**	77	47
Transfer of shares from shares held in trust	**—**	—	(1)	**—**	—	(34)
End of year	**(550)**	(500)	(435)	**$(24,078)**	$ (20,169)	$ (16,270)
Shares held in trust:						
Beginning of year	**(1)**	(1)	(2)	**$ (31)**	$ (31)	$ (56)
Transfer of shares to treasury stock	**—**	—	1	**—**	—	25
End of year	**(1)**	(1)	(1)	**$ (31)**	$ (31)	$ (31)
Capital surplus:						
Beginning of year				**$ 29,777**	$ 29,120	$ 28,126
Stock option activity and stock awards				**535**	588	955
Excess tax benefit on stock options and stock awards				**106**	69	28
Transfer of shares held in trust to treasury stock				**—**	—	9
Purchase of noncontrolling interest in subsidiary				**—**	—	2
End of year				**$ 30,418**	$ 29,777	$ 29,120
Retained earnings:						
Beginning of year				**$ 28,493**	$ 24,998	$ 22,052
Changes in inventory accounting principles				**—**	—	(89)
Net income attributable to CVS Health				**4,644**	4,592	3,864
Common stock dividends				**(1,288)**	(1,097)	(829)
End of year				**$ 31,849**	$ 28,493	$ 24,998
Accumulated other comprehensive loss:						
Beginning of year				**$ (149)**	$ (181)	$ (172)
Foreign currency translation adjustments, net of tax				**(35)**	(30)	—
Net cash flow hedges, net of tax				**4**	3	3
Pension and other postretirement benefits, net of tax				**(37)**	59	(12)
End of year				**$ (217)**	$ (149)	$ (181)
Total CVS Health shareholders' equity				**$ 37,958**	$ 37,938	$ 37,653
Noncontrolling interest:						
Beginning of year				**$ —**	$ —	$ —
Business combinations				**5**	—	—
End of year				**$ 5**	$ —	$ —
Total shareholders' equity				**$ 37,963**	$ 37,938	$ 37,653

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1 | Significant Accounting Policies

Description of business — CVS Health 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 and infusion services, plan design and administration, formulary management and claims processing. The Company's clients are primarily employers, insurance companies, unions, government employee groups, health plans, Managed Medicaid plans 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 more than 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™, CarePlus CVS/pharmacy® and Navarro® Health Services names. In January 2014, the Company enhanced its offerings of specialty infusion services and began offering enteral nutrition services through Coram LLC and its subsidiaries (See Note 2, "Coram Acquisition").

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®, NovoLogix®, Coram®, CVS/specialty™ and Navarro® Health Services names. As of December 31, 2014, the PSS operated 27 retail specialty pharmacy stores, 11 specialty mail order pharmacies and four mail order dispensing pharmacies, and 86 branches and six centers of excellence for infusion and enteral services located in 40 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®, CVS®, Longs Drugs®, Navarro® Discount Pharmacy and Drogaria Onofre® retail stores and online through CVS.com®, Navarro.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, 2014, the retail pharmacy business included 7,822 retail drugstores (of which 7,765 operated a pharmacy) located in 44 states, the District of Columbia, Puerto Rico and Brazil operating primarily under the CVS/pharmacy, CVS, Longs Drugs, Navarro Discount Pharmacy and Drogaria Onofre names, the online retail websites, CVS.com, Navarro.com and Onofre.com.br, and 971 retail health care clinics operating under the MinuteClinic name (of which 963 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 and variable interest entities for which the Company is the primary beneficiary. All intercompany balances and transactions have been eliminated.

The Company continually evaluates its investments to determine if they represent variable interests in a variable interest entity ("VIE"). If the Company determines that it has a variable interest in a VIE, the Company then evaluates if it is the primary beneficiary of the VIE. The evaluation is a qualitative assessment as to whether the Company has the ability to direct the activities of a VIE that most significantly impact the entity's economic performance. The Company consolidates a VIE if it is considered to be the primary beneficiary.

Assets and liabilities of VIEs for which the Company is the primary beneficiary were not significant to the Company's consolidated financial statements. VIE creditors do not have recourse against the general credit of the Company.

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 and long-term investments — The Company's short-term investments consist of certificates of deposit with initial maturities of greater than three months when purchased that mature in less than one year from the balance sheet date. The Company's long-term investments of $51 million at December 31, 2014, which are classified as noncurrent other assets within the accompanying consolidated balance sheet, consist of certificates of deposit. 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, 2014 and 2013.

Fair value of financial instruments — As of December 31, 2014, the Company's financial instruments include cash and cash equivalents, short-term and long-term investments, accounts receivable, accounts payable, contingent consideration liability and short-term debt. Due to the 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 $12.3 billion and $13.3 billion, respectively, as of December 31, 2014. 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 $4 million as of December 31, 2014. There were no outstanding derivative financial instruments as of December 31, 2014 and 2013.

Foreign currency translation and transactions — For local currency functional currency, 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 periods 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:

IN MILLIONS	2014	2013	2012
Beginning balance	**$ 256**	$ 243	$ 189
Additions charged to bad debt expense	**185**	195	149
Write-offs charged to allowance	**(185)**	(182)	(95)
Ending balance	**$ 256**	$ 256	$ 243

Inventories — All inventories are stated at the lower of cost or market. Prescription drug inventories in the RPS and PSS are accounted for using the weighted average cost method. Front store inventories in the RPS stores are accounted for on a first-in, first-out basis using the retail inventory method. The RPS front store inventories in the distribution centers are accounted for using the cost method on a first-in, first-out basis. Physical inventory counts are taken on a regular basis in each store and a continuous cycle count process is the primary procedure used to validate the inventory balances on hand in each distribution center and mail facility to ensure that the amounts reflected in the accompanying consolidated financial statements are properly stated. During the interim period between physical inventory counts, the Company accrues for anticipated physical inventory losses on a location-by-location basis based on historical results and current trends.

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

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

IN MILLIONS	2014	2013
Land	**$ 1,506**	$ 1,460
Building and improvements	**2,828**	2,694
Fixtures and equipment	**8,958**	8,419
Leasehold improvements	**3,626**	3,320
Software	**1,868**	1,515
	18,786	17,408
Accumulated depreciation and amortization	**(9,943)**	(8,793)
Property and equipment, net	**$ 8,843**	$ 8,615

The gross amount of property and equipment under capital leases was $268 million and $260 million as of December 31, 2014 and 2013, respectively. Accumulated amortization of property and equipment under capital lease was $86 million and $74 million as of December 31, 2014 and 2013, respectively. Amortization of property and equipment under capital lease is included within depreciation expense. Depreciation expense totaled $1.4 billion in 2014 and 2013, and $1.3 billion in 2012.

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 3 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 3 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 — In June 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 year ended December 31, 2012:

IN MILLIONS		
Balance, December 31, 2011	$	30
Net loss attributable to noncontrolling interest		(2)
Purchase of noncontrolling interest		(26)
Reclassification to capital surplus in connection with purchase of noncontrolling interest		(2)
Balance, December 31, 2012	$	—

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" on the following page), (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' retail pharmacy network and associated administrative fees are recognized at the PSS' point-of-sale, which is when the claim is adjudicated by the PSS online claims processing system.

The PSS determines whether it is the principal or agent for its retail pharmacy network transactions on a contract by contract basis. In the majority of its contracts, the PSS has determined it is the principal due to it: (i) being the primary obligor in the arrangement, (ii) having latitude in establishing the price, changing the product or performing part of the service, (iii) having discretion in supplier selection, (iv) having involvement in the determination of product or service specifications, and (v) having credit risk. The PSS' obligations under its client contracts for which revenues are reported using the gross method are separate and distinct from its obligations to the third party pharmacies included in its retail pharmacy network contracts. Pursuant to these contracts, the PSS is contractually required to pay the third party pharmacies in its retail pharmacy network for products sold, regardless of whether the PSS is paid by its clients. The PSS' responsibilities under its client contracts typically include validating eligibility and coverage levels, communicating the prescription price and the co-payments due to the third party retail pharmacy, identifying possible adverse drug interactions for the pharmacist to address with the 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 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. SilverScript 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 at the time the customer takes possession of the merchandise. Customer returns are not material. Revenue generated from the performance of services in the RPS' health care clinics is recognized at the time the services are performed. Sales taxes are not included in revenue.

Loyalty Program – The Company's customer loyalty program, ExtraCare®, is comprised of two components: ExtraSavings™ and ExtraBucks® Rewards. ExtraSavings coupons redeemed by customers are recorded as a reduction of revenues when redeemed. ExtraBucks Rewards are accrued as a charge to cost of revenues when earned, net of estimated breakage. The Company determines breakage based on historical redemption patterns.

See Note 12 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 12 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 $207 million and $246 million in 2014 and 2013, respectively.

Advertising costs — Advertising costs are expensed when the related advertising takes place. Advertising costs, net of vendor funding (included in operating expenses), were $212 million, $177 million and $221 million in 2014, 2013 and 2012, respectively.

Interest expense, net — Interest expense, net of capitalized interest, was $615 million, $517 million and $561 million, and interest income was $15 million, $8 million and $4 million in 2014, 2013 and 2012, respectively. Capitalized interest totaled $19 million, $25 million and $29 million in 2014, 2013 and 2012, respectively.

Shares held in trust — The Company maintains grantor trusts, which held approximately 1 million shares of its common stock at December 31, 2014 and 2013, 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 income — Accumulated other comprehensive income (loss) consists of changes in the net actuarial gains and losses associated with pension and other postretirement benefit plans, 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 $234 million pre-tax ($143 million after-tax) as of December 31, 2014 and $172 million pre-tax ($106 million after-tax) as of December 31, 2013. The net impact on cash flow hedges totaled $16 million pre-tax ($9 million after-tax) and $22 million pre-tax ($13 million after-tax) as of December 31, 2014 and 2013, respectively. Cumulative foreign currency translation adjustments at December 31, 2014 and 2013 were $65 million and $30 million, respectively.

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

IN MILLIONS	YEAR ENDED DECEMBER 31, 2014[1] Foreign Currency	Losses on Cash Flow Hedges	Pension and Other Postretirement Benefits	Total
Balance, December 31, 2013	$ (30)	$ (13)	$ (106)	$ (149)
Other comprehensive income (loss) before reclassifications	(35)	—	—	(35)
Amounts reclassified from accumulated other comprehensive income [2]	—	4	(37)	(33)
Net other comprehensive income (loss)	(35)	4	(37)	(68)
Balance, December 31, 2014	**$ (65)**	**$ (9)**	**$ (143)**	**$ (217)**

IN MILLIONS	YEAR ENDED DECEMBER 31, 2013[1] Foreign Currency	Losses on Cash Flow Hedges	Pension and Other Postretirement Benefits	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)	(30)	3	59	32
Balance, December 31, 2013	$ (30)	$ (13)	$ (106)	$ (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.

Variable interest entity — In July 2014, the Company and Cardinal Health, Inc. ("Cardinal") established Red Oak Sourcing, LLC ("Red Oak"), a generic pharmaceutical sourcing entity in which the Company and Cardinal each own 50%. The Red Oak arrangement has an initial term of ten years. Under this arrangement, the Company and Cardinal contributed their sourcing and supply chain expertise to Red Oak and agreed to source and negotiate generic pharmaceutical supply contracts for both companies through Red Oak; however, Red Oak does not own or hold inventory on behalf of either company. No physical assets (e.g., property and equipment) were contributed to Red Oak by either company and minimal funding was provided to capitalize Red Oak.

The Company has determined that it is the primary beneficiary of this variable interest entity because it has the ability to direct the activities of Red Oak. Consequently, the Company consolidates Red Oak in its consolidated financial statements within the Retail Pharmacy Segment. Revenues associated with Red Oak expenses reimbursed by Cardinal for the year ended December 31, 2014 and amounts due to Cardinal from Red Oak at December 31, 2014 were immaterial.

Cardinal is required to pay the Company 39 quarterly payments of $25.6 million which commenced in October 2014 and, if certain milestones are achieved, it will pay additional predetermined quarterly amounts to the Company beginning in the third quarter of 2015. The payments will reduce the Company's carrying cost of inventory and will be recognized in cost of revenues when the related inventory is sold.

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 $50 million, $48 million and $32 million in the years ended December 31, 2014, 2013 and 2012, respectively, for the use of this network.

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

In September 2014, the Company made a charitable contribution of $25 million to the CVS Foundation (formerly CVS Caremark Charitable Trust, Inc.) (the "Foundation") to fund future giving. The Foundation is a non-profit entity that focuses on health, education and community involvement programs. The charitable contribution was recorded as an operating expense in the consolidated statement of income for the year ended December 31, 2014.

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.

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.

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

IN MILLIONS	2014	2013	2012
Loss on disposal	**$ (1)**	$ (12)	$ (12)
Income tax benefit	**—**	4	5
Loss from discontinued operations, net of tax	**$ (1)**	$ (8)	$ (7)

Earnings per common share — Earnings per share is computed using the two-class method. Options to purchase 2.1 million, 6.2 million and 5.9 million shares of common stock were outstanding as of December 31, 2014, 2013 and 2012, 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 pronouncement — In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU No. 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new guidance is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016; early adoption is not permitted. Companies have the option of using either a full retrospective or a modified retrospective approach to adopt the guidance. This update could impact the timing and amounts of revenue recognized. The Company is currently evaluating the effect that implementation of this update will have on its consolidated financial position and results of operations upon adoption and the method of transition.

2 | Coram Acquisition

On January 16, 2014, the Company acquired 100% of the voting interests of Coram LLC and its subsidiaries (collectively, "Coram"), the specialty infusion services and enteral nutrition business unit of Apria Healthcare Group Inc. ("Apria"), for cash consideration of approximately $2.1 billion, plus contingent consideration of approximately $0.1 billion. The purchase price was also subject to a working capital adjustment, which resulted in the Company receiving $9 million from Apria. Coram is one of the nation's largest providers of comprehensive infusion services, caring for approximately 240,000 patients annually. Coram has approximately 4,600 employees, including approximately 600 nurses and 250 dietitians, operating primarily through 84 branch locations and six centers of excellence for patient intake.

The contingent consideration is based on the Company's future realization of Coram's tax net operating loss carryforwards ("NOLs") as of the date of the acquisition. The Company will pay the seller the first $60 million in tax savings realized from the future utilization of the Coram NOLs, plus 50% of any additional future tax savings from the remaining NOLs. The fair value of the contingent consideration liability associated with the future realization of the Coram NOLs was determined using Level 3 inputs based on the present value of contingent payments expected to be made based on the Company's estimate of the amount and timing of Coram NOLs that will ultimately be realized. The change in fair value of the contingent consideration liability recognized in earnings for the year ended December 31, 2014 was immaterial.

The following is a summary of the fair values of the assets acquired and liabilities assumed:

IN MILLIONS	
Accounts receivable	$ 215
Inventory	77
Other assets	10
Property and equipment	49
Intangible assets	537
Goodwill	1,566
Current liabilities	(128)
Deferred tax liabilities, net	(97)
Other noncurrent liabilities	(91)
Noncontrolling interest	(2)
Total consideration	$ 2,136

The goodwill represents future economic benefits expected to arise from the Company's expanded presence in the specialty pharmaceuticals market, the assembled workforce acquired, and the expected synergies from combining operations with Coram. The goodwill is nondeductible for income tax purposes.

Coram's results of operations are included in the Company's PSS beginning on January 16, 2014. Pro forma information for this acquisition is not presented as Coram's results are immaterial to the Company's consolidated financial statements. During the year ended December 31, 2014, acquisition costs of $15 million were expensed as incurred within operating expenses.

3 | Goodwill and Other Intangibles

Goodwill and other indefinitely-lived assets are not amortized, but are subject to annual impairment reviews, or more frequent reviews if events or circumstances indicate 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 2014, the Company performed its required annual goodwill impairment tests. The Company concluded there were no goodwill impairments as of the testing date.

Below is a summary of the changes in the carrying amount of goodwill by segment for the years ended December 31, 2014 and 2013:

IN MILLIONS	Pharmacy Services	Retail Pharmacy	Total
Balance, December 31, 2012	$ 19,646	$ 6,749	$ 26,395
Acquisitions	13	160	173
Foreign currency translation adjustments	—	(25)	(25)
Other [1]	(1)	—	(1)
Balance, December 31, 2013	19,658	6,884	26,542
Acquisitions	1,578	38	1,616
Foreign currency translation adjustments	—	(14)	(14)
Other [1]	(2)	—	(2)
Balance, December 31, 2014	**$ 21,234**	**$ 6,908**	**$ 28,142**

(1) "Other" represents immaterial purchase accounting adjustments for acquisitions.

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 2014, 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, 2014 and 2013.

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 13.6 years. The weighted average useful lives of the Company's customer contracts and relationships and covenants not to compete are 13.2 years. The weighted average lives of the Company's favorable leases and other intangible assets are 16.3 years. Amortization expense for intangible assets totaled $518 million, $494 million and $486 million in 2014, 2013 and 2012, respectively. The anticipated annual amortization expense for these intangible assets for the next five years is as follows:

IN MILLIONS	
2015	$ 486
2016	$ 456
2017	$ 433
2018	$ 415
2019	$ 383

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

	2014			2013		
IN MILLIONS	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	**6,521**	**(3,549)**	**2,972**	5,840	(3,083)	2,757
Favorable leases and other	**880**	**(476)**	**404**	800	(426)	374
	$ 13,799	**$ (4,025)**	**$ 9,774**	$ 13,038	$ (3,509)	$ 9,529

4 | Share Repurchase Programs

The following share repurchase programs were authorized by the Company's Board of Directors:

Authorization Date IN BILLIONS	**Amount of Authorization**
December 15, 2014 ("2014 Repurchase Program")	$ 10.0
December 17, 2013 ("2013 Repurchase Program")	$ 6.0
September 19, 2012 ("2012 Repurchase Program")	$ 6.0
August 23, 2011 ("2011 Repurchase Program")	$ 4.0

The share Repurchase Programs, each of which was 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 ("ASR") transactions, and/or other derivative transactions. The 2014 and 2013 Repurchase Programs may be modified or terminated by the Board of Directors at any time. The 2012 and 2011 Repurchase Programs have been completed, as described below.

Pursuant to the authorization under the 2013 Repurchase Programs, effective January 2, 2015, the Company entered into a $2.0 billion fixed dollar ASR agreement with J.P. Morgan Chase Bank ("JP Morgan"). Upon payment of the $2.0 billion purchase price on January 5, 2015, the Company received a number of shares of its common stock equal to 80% of the $2.0 billion notional amount of the ASR agreement or approximately 16.8 million shares at a price of $94.49 per share. At the conclusion of the ASR program, the Company may receive additional shares equal to the remaining 20% of the $2.0 billion notional amount. The ultimate number of shares the Company may receive will fluctuate based on changes in the daily volume-weighted average price of the Company's stock over a period beginning on January 2, 2015 and ending on or before April 26, 2015. If the mean daily volume-weighted average price of the Company's common stock, less a discount (the "forward price"), during the ASR program falls below $94.49 per share, the Company will receive a higher number of shares from JP Morgan. If the forward price rises above $94.49 per share, the Company will either receive fewer shares from JP Morgan or, potentially have an obligation to JP Morgan which, at the Company's option, could be settled in additional cash or by issuing shares. Under the terms of the ASR agreement, the maximum number of shares that could be received or delivered is 42.0 million. The initial 16.8 million shares of common stock delivered to the Company by JP Morgan were placed into treasury stock in January 2015.

Pursuant to the authorization under the 2012 Repurchase Program, effective October 1, 2013, the Company entered into a $1.7 billion fixed dollar 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.

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 earnings per share.

During the year ended December 31, 2014, the Company repurchased an aggregate of 51.4 million shares of common stock for approximately $4.0 billion under the 2013 and 2012 Repurchase Programs. As of December 31, 2014, there remained an aggregate of approximately $12.7 billion available for future repurchases under the 2014 and 2013 Repurchase Programs, $2.0 billion of which was used for the ASR effective January 2, 2015 described previously. As of December 31, 2014, the 2012 Repurchase Program was complete.

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 above. As of December 31, 2012, the 2011 Repurchase program was complete.

5 | Borrowing and Credit Agreements

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

IN MILLIONS	2014	2013
Commercial paper	$ 685	$ —
4.875% senior notes due 2014	—	550
3.25% senior notes due 2015	550	550
6.125% senior notes due 2016	421	421
1.2% senior notes due 2016	750	750
5.75% senior notes due 2017	1,080	1,310
2.25% senior notes due 2018	1,250	1,250
6.6% senior notes due 2019	394	394
2.25% senior notes due 2019	850	—
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	1,250
3.375% senior notes due 2024	650	—
6.25% senior notes due 2027	453	1,000
6.125% senior notes due 2039	734	1,500
5.75% senior notes due 2041	493	950
5.3% senior notes due 2043	750	750
Capital lease obligations	391	390
Other	4	87
	12,955	13,402
Less:		
Short-term debt (commercial paper)	(685)	—
Current portion of long-term debt	(575)	(561)
Long-term debt	$ 11,695	$ 12,841

The Company had $685 million of commercial paper outstanding at a weighted average interest rate of 0.55% as of December 31, 2014. In connection with its commercial paper program, the Company maintains a $1.25 billion, five-year unsecured back-up credit facility, which expires on February 17, 2017, a $1.0 billion, five-year unsecured back-up credit facility, which expires on May 23, 2018, and a $1.25 billion, five-year unsecured back-up credit facility, which expires on July 24, 2019. 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, 2014, there were no borrowings outstanding under the back-up credit facilities. The weighted average interest rate for short-term debt outstanding during the year ended December 31, 2014 and 2013 was 0.36% and 0.27%, respectively.

On August 7, 2014, the Company issued $850 million of 2.25% unsecured senior notes due August 12, 2019 and $650 million of 3.375% unsecured senior notes due August 12, 2024 (collectively, the "2014 Notes") for total proceeds of approximately $1.5 billion, net of discounts and underwriting fees. The 2014 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 2014 Notes were used for general corporate purposes and to repay certain corporate debt.

On August 7, 2014, the Company announced tender offers for any and all of the 6.25% Senior Notes due 2027, and up to a maximum amount of the 6.125% Senior Notes due 2039, the 5.75% Senior Notes due 2041 and the 5.75% Senior Notes due 2017, for up to an aggregate principal amount of $1.5 billion. On August 21, 2014, the Company increased the aggregate principal amount of the tender offers to $2.0 billion and completed the repurchase for the maximum amount on September 4, 2014. The Company paid a premium of $490 million in excess of the debt principal in connection with the tender offers, wrote off $26 million of unamortized deferred financing costs and incurred $5 million in fees, for a total loss on the early extinguishment of debt of $521 million. The loss was recorded in income from continuing operations on the consolidated statement of income for the year ended December 31, 2014.

During the year ended December 31, 2014, the Company repurchased the remaining $41 million of outstanding Enhanced Capital Advantage Preferred Securities ("ECAPS") at par. The fees and write-off of deferred issuance costs associated with the early extinguishment of the ECAPS were immaterial.

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. The remainder was 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 for the year ended December 31, 2012.

The credit facilities, back-up credit facilities and unsecured senior notes 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, 2014 are $575 million in 2015, $1.2 million in 2016, $1.1 billion in 2017, $1.3 billion in 2018 and $1.3 billion in 2019.

6 | Leases

The Company leases most of its retail and mail order locations, ten of its distribution centers and certain corporate offices under noncancelable operating leases, 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:

IN MILLIONS	2014	2013	2012
Minimum rentals	**$ 2,320**	$ 2,210	$ 2,165
Contingent rentals	**36**	41	48
	2,356	2,251	2,213
Less: sublease income	**(21)**	(21)	(20)
	$ 2,335	$ 2,230	$ 2,193

The following table is a summary of the future minimum lease payments under capital and operating leases as of December 31, 2014:

IN MILLIONS	Capital Leases	Operating Leases (1)
2015	$ 47	$ 2,279
2016	47	2,220
2017	47	2,121
2018	48	2,007
2019	48	1,861
Thereafter	573	16,794
Total future lease payments	810	$ 27,282
Less: imputed interest	(419)	
Present value of capital lease obligations	$ 391	

(1) Future operating lease payments have not been reduced by minimum sublease rentals of $203 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 $515 million in 2014, $600 million in 2013 and $529 million in 2012.

7 | 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, 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, 2014 and 2013, amounts due from CMS included in accounts receivable were $1.8 billion and $2.4 billion, respectively.

8 | Pension Plans and Other Postretirement Benefits

Defined Contribution Plans

The Company sponsors voluntary 401(k) savings plans that cover 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 transferred 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 Health 401(k) Plan absent certain restrictions and limitations under the Internal Revenue Code. The Company's contributions under the above defined contribution plans were $238 million, $235 million and $199 million in 2014, 2013 and 2012, 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, 2014 and 2013, the Company's other postretirement benefits have an accumulated postretirement benefit obligation of $31 million and $27 million, respectively. Net periodic benefit costs related to these other postretirement benefits were $1 million in 2014, $11 million in 2013, and $1 million in 2012. 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 $58 million, $55 million and $50 million in 2014, 2013 and 2012, respectively.

Pension Plans

During the years ended December 31, 2014, 2013 and 2012, the Company sponsored nine 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 five plans are unfunded nonqualified supplemental retirement plans. Most of the plans were frozen in prior periods.

As of December 31, 2014, the Company's pension plans had a projected benefit obligation of $796 million and plan assets of $635 million. As of December 31, 2013, the Company's pension plans had a projected benefit obligation of $694 million and plan assets of $568 million. Actual return on plan assets was $75 million and $49 million in 2014 and 2013, respectively. Net periodic pension costs related to these pension plans were $21 million, $19 million and $31 million in 2014, 2013 and 2012, respectively. The net periodic pension costs for 2012 include a curtailment loss of $2 million.

The discount rate is determined by examining the current yields observed on the measurement date of fixed-interest, high quality investments expected to be available during the period to maturity of the related benefits on a plan by plan basis. The discount rate for the plans was 4.0% in 2014 and 4.75% in 2013. 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 the plans ranged from 5.75% to 7.25% in 2014 and was 7.25% for all plans in 2013 and 2012.

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. Beginning in 2013, the Company changed its investment strategy to be liability management driven. The qualified pension plan asset allocation targets in 2014 and 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 70% to 85% in fixed income and 15% to 30% in equities as of December 31, 2014.

As of December 31, 2014, the Company's qualified defined benefit pension plan assets consisted of 18% equity, 81% fixed income and 1% money market securities of which 14% were classified as Level 1 and 86% as Level 2 in the fair value hierarchy. The Company's qualified defined benefit pension plan assets as of December 31, 2013 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 contributed $42 million, $33 million and $36 million to the pension plans during 2014, 2013 and 2012, respectively. The Company plans to make approximately $36 million in contributions to the pension plans during 2015.

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 $14 million, $13 million and $12 million in 2014, 2013 and 2012, respectively.

9 | 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.

Compensation expense related to stock options, which includes the Employee Stock Purchase Plan (the "ESPP") totaled $103 million, $100 million and $102 million for 2014, 2013 and 2012, respectively. The recognized tax benefit was $33 million, $32 million and $33 million for 2014, 2013 and 2012, respectively. Compensation expense related to restricted stock awards totaled $62 million, $41 million and $30 million for 2014, 2013 and 2012, respectively.

The 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 ESPP to provide an additional 15 million shares of common stock for issuance. Under the 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 2014, approximately 2 million shares of common stock were purchased under the provisions of the ESPP at an average price of $54.12 per share. As of December 31, 2014, approximately 15 million shares of common stock were available for issuance under the ESPP.

The fair value of stock-based compensation associated with the 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:

	2014	2013	2012
Dividend yield (1)	**0.75%**	0.86%	0.73%
Expected volatility (2)	**14.87%**	16.94%	22.88%
Risk-free interest rate (3)	**0.08%**	0.10%	0.10%
Expected life *(in years)* (4)	**0.50**	0.50	0.50
Weighted-average grant date fair value	**$ 13.74**	$ 10.08	$ 9.22

(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.

The terms of the Company's Incentive Compensation Plan ("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 ICP allows for a maximum of 74 million shares to be reserved and available for grants. The 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 ESPP. In November 2012, the Company's Board of Directors approved an amendment to the ICP to eliminate the share recycling provision of the ICP. As of December 31, 2014, there were approximately 30 million shares available for future grants under the ICP.

The Company's restricted awards are considered nonvested share awards and require no payment from the employee. Compensation cost is recorded based on the market price of the Company's common stock on the grant date and is recognized on a straight-line basis over the requisite service period. The Company granted 2,708,000, 1,715,000 and 1,811,000 restricted stock units with a weighted average fair value of $73.60, $54.30 and $44.80 in 2014, 2013 and 2012, respectively. As of December 31, 2014, there was $190 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 2.7 years. The total fair value of restricted shares vested during 2014, 2013 and 2012 was $57 million, $41 million and $81 million, respectively.

The following table is a summary of the restricted stock unit and restricted share award activity for the year ended December 31, 2014.

UNITS IN THOUSANDS	Units	Weighted Average Grant Date Fair Value
Nonvested at beginning of year	3,021	$ 38.56
Granted	2,708	$ 73.60
Vested	(803)	$ 73.11
Forfeited	(249)	$ 57.58
Nonvested at end of year	4,677	$ 51.90

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

Excess tax benefits of $106 million, $62 million and $28 million were included in financing activities in the accompanying consolidated statements of cash flow during 2014, 2013 and 2012, respectively. Cash received from stock options exercised, which includes the ESPP, totaled $421 million, $500 million and $836 million during 2014, 2013 and 2012, respectively. The total intrinsic value of stock options exercised was $372 million, $282 million and $321 million in 2014, 2013 and 2012, respectively. The total fair value of stock options vested during 2014, 2013 and 2012 was $292 million, $329 million and $386 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:

	2014	2013	2012
Dividend yield (1)	**1.47%**	1.65%	1.44%
Expected volatility (2)	**19.92%**	30.96%	32.49%
Risk-free interest rate (3)	**1.35%**	0.73%	0.84%
Expected life *(in years)* (4)	**4.00**	4.70	4.70
Weighted-average grant date fair value	**$ 11.04**	$ 12.50	$ 11.12

(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, 2014, unrecognized compensation expense related to unvested options totaled $121 million, which the Company expects to be recognized over a weighted-average period of 1.7 years. After considering anticipated forfeitures, the Company expects approximately 16 million of the unvested stock 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, 2014:

SHARES IN THOUSANDS	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2013	34,738	$ 41.40		
Granted	4,525	$ 74.96		
Exercised	(9,563)	$ 37.30		
Forfeited	(1,202)	$ 50.15		
Expired	(332)	$ 36.93		
Outstanding at December 31, 2014	28,166	$ 47.87	4.15	$ 1,364,408,886
Exercisable at December 31, 2014	11,634	$ 37.86	2.82	$ 679,995,090
Vested at December 31, 2014 and expected to vest in the future	27,394	$ 47.51	4.11	$ 1,336,774,863

10 | Income Taxes

The income tax provision for continuing operations consisted of the following for the years ended December 31:

IN MILLIONS	2014	2013	2012
Current:			
Federal	**$ 2,581**	$ 2,623	$ 2,226
State	**495**	437	410
	3,076	3,060	2,636
Deferred:			
Federal	**(43)**	(115)	(182)
State	**—**	(17)	(18)
	(43)	(132)	(200)
Total	**$ 3,033**	$ 2,928	$ 2,436

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 years ended December 31:

	2014	2013	2012
Statutory income tax rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal tax benefit	**4.3**	4.0	3.9
Other	**0.2**	(0.1)	(0.3)
Effective income tax rate	**39.5%**	38.9%	38.6%

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

IN MILLIONS	2014	2013
Deferred tax assets:		
Lease and rents	**$ 396**	$ 344
Employee benefits	**311**	213
Allowance for doubtful accounts	**164**	172
Retirement benefits	**80**	79
Net operating losses	**74**	10
Depreciation	**—**	192
Deferred income	**261**	220
Other	**297**	378
Valuation allowance	**(5)**	(3)
Total deferred tax assets	**1,578**	1,605
Deferred tax liabilities:		
Inventories	**(18)**	(69)
Depreciation and amortization	**(4,572)**	(4,512)
Total deferred tax liabilities	**(4,590)**	(4,581)
Net deferred tax liabilities	**$ (3,012)**	$ (2,976)

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

IN MILLIONS	2014	2013
Deferred tax assets—current	**$ 985**	$ 902
Deferred tax assets—noncurrent (included in other assets)	**39**	23
Deferred tax liabilities—noncurrent	**(4,036)**	(3,901)
Net deferred tax liabilities	**$ (3,012)**	$ (2,976)

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

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

IN MILLIONS	2014	2013	2012
Beginning balance	**$ 117**	$ 80	$ 38
Additions based on tax positions related to the current year	**32**	19	15
Additions based on tax positions related to prior years	**70**	37	42
Reductions for tax positions of prior years	**(15)**	(1)	(2)
Expiration of statutes of limitation	**(15)**	(17)	(12)
Settlements	**(1)**	(1)	(1)
Ending balance	**$ 188**	$ 117	$ 80

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, 2013 and 2014 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, 2014, 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 2009. 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 $11 million. In addition, it is reasonably possible that the Company's unrecognized tax benefits could significantly change within the next twelve months due to the anticipated conclusion of various examinations with the IRS for various years. An estimate of the range of the possible change cannot be made at this time.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties in income tax expense. The Company recognized interest of approximately $6 million during the year ended December 31, 2014, and $4 million during each of the years ended December 31, 2013 and 2012. The Company had approximately $11 million and $10 million accrued for interest and penalties as of December 31, 2014 and 2013.

There are no material uncertain tax positions as of December 31, 2014 the ultimate deductibility of which is highly certain but for which there is uncertainty about the timing. If there were, any such items would impact deferred tax accounting only, 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 $170 million, after considering the federal benefit of state income taxes.

11 | 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, 2014, the Company guaranteed approximately 72 such store leases (excluding the lease guarantees related to Linens 'n Things, which are discussed in Note 1), 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.

- 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, requesting information relating to the processing of Medicaid and certain other government agency claims on behalf of its clients (which allegedly resulted in underpayments from our pharmacy benefit management clients to the applicable government agencies) on one of the Company's adjudication platforms. In September 2014, the Company settled the OIG's claims, as well as related claims by the Department of Justice and private plaintiffs, without any admission of liability. The Company is in discussions with the OIG concerning other claim processing issues.
- Caremark (the term "Caremark" being used herein to generally refer to any one or more PBM subsidiaries of the Company, as applicable) 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. On September 12, 2014, the Alabama Supreme Court affirmed the trial court's August 15, 2012 Order. The Defendants timely filed an Application for Rehearing asking the Alabama Supreme Court to clarify or modify its September 12, 2014 decision. The proceedings in the trial court remain stayed pending resolution of the rehearing application.
- 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. 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 by Richard Medoff, purportedly on behalf of purchasers of CVS Health Corporation stock between May 5, 2009 and November 4, 2009. The lawsuit names the Company and certain officers as defendants and includes allegations of securities fraud relating to public disclosures made by the Company concerning the PBM business and allegations of insider trading. In addition, a shareholder derivative lawsuit was filed by Mark Wuotila in December 2009 in the same court against the directors and certain officers of the Company. This lawsuit, which has remained 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 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.
- 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.
- 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, Anthony Spay, 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 declined to intervene in the lawsuit. The case is proceeding.
- In November 2014, the U.S. District Court in the District of Massachusetts unsealed a *qui tam* lawsuit brought against the Company by a pharmacy auditor and a CVS pharmacist. The lawsuit, which was initially filed under seal in 2011, alleges that the Company violated the federal False Claims Act, as well as the false claims acts of several states, by overcharging state and federal governments in connection with prescription drugs available through the Company's Health Savings Pass program, a membership-based program that allows enrolled customers special pricing for typical 90-day supplies of various generic prescription drugs. The federal government, which issued a January 2012 OIG subpoena concerning the Health Savings Pass program, has declined to intervene in the case. The Company is now responding to the declined *qui tam* complaint. Separately, the

Attorney General of the State of Texas has issued civil investigative demands and other requests in February 2012 and May 2014, and has continued its investigation concerning the Health Savings Pass program and claims for reimbursement from the Texas Medicaid program.

- On October 12, 2012, the Drug Enforcement Agency ("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 Company has entered into discussions with the U.S. Attorney's Office for the Middle District of Florida concerning civil penalties for violations of the Controlled Substances Act arising from the circumstances underlying the action taken against the two Sanford, Florida stores. The Company is also undergoing several audits by the DEA and is in discussions with the DEA and the U.S. Attorney's Office in several locations. Whether agreements can be reached and on what terms is uncertain.
- 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.
- In January 2014, the U.S. District Court in the Southern District of New York unsealed a *qui tam* action in which the Company is a defendant. The suit originally was filed under seal in 2011 by relator David Kester, a former employee of Novartis Pharmaceuticals Corp. ("Novartis"). The suit alleges that Novartis, the Company, and other specialty pharmacies violated the federal False Claims Act, as well as the false claims acts of several states, by using pharmacists, nurses and other staff to recommend and increase the sales and market share for certain Novartis specialty drugs in exchange for patient referrals, rebates and discounts provided by Novartis. The federal government has intervened in the case as to some allegations against Novartis but has declined to intervene as to any of the allegations against the Company. The relator has continued to litigate the declined action against the Company and other specialty pharmacies.
- In March 2014, the Company received a subpoena from the United States Attorney's Office for the District of Rhode Island, requesting documents and information concerning bona fide service fees and rebates received from certain pharmaceutical manufacturers in connection with certain drugs utilized under Part D of the Medicare Program. The Company has been cooperating with the government and collecting documents in response to the subpoena.

The Company is also a party to other legal proceedings, government investigations, 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) pending or future 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 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.

12 | 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:

IN MILLIONS	Pharmacy Services Segment (1)(2)	Retail Pharmacy Segment (2)	Corporate Segment	Intersegment Eliminations (2)	Consolidated Totals
2014:					
Net revenues	**$ 88,440**	**$ 67,798**	**$ —**	**$(16,871)**	**$139,367**
Gross profit	**4,771**	**21,277**	**—**	**(681)**	**25,367**
Operating profit	**3,514**	**6,762**	**(796)**	**(681)**	**8,799**
Depreciation and amortization	**630**	**1,205**	**96**	**—**	**1,931**
Total assets	**42,302**	**30,979**	**2,530**	**(1,559)**	**74,252**
Goodwill	**21,234**	**6,908**	**—**	**—**	**28,142**
Additions to property and equipment	**308**	**1,745**	**83**	**—**	**2,136**
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

(1) Net revenues of the Pharmacy Services Segment include approximately \$8.1 billion, \$7.9 billion and \$8.4 billion of Retail co-payments for the years ended December 31, 2014, 2013 and 2012, 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. The following amounts are eliminated in consolidation in connection with the item (ii) intersegment activity: net revenues of \$4.9 billion, \$4.3 billion and \$3.4 billion for the years ended December 31, 2014, 2013 and 2012, respectively; and gross profit and operating profit of \$681 million, \$566 million and \$411 million for the years ended December 31, 2014, 2013 and 2012, respectively.

13 | Earnings Per Share

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

IN MILLIONS, EXCEPT PER SHARE AMOUNTS	2014	2013	2012
Numerator for earnings per share calculation:			
Income from continuing operations attributable to common stockholders [1]	**$ 4,626**	$ 4,600	$ 3,871
Denominator for earnings per share calculation:			
Weighted average shares, basic	**1,161**	1,217	1,271
Effect of dilutive securities	**8**	9	9
Weighted average shares, diluted	**1,169**	1,226	1,280
Earnings per share from continuing operations:			
Basic	**$ 3.98**	$ 3.78	$ 3.05
Diluted	**$ 3.96**	$ 3.75	$ 3.02

(1) Comprised of income from continuing operations less amounts allocable to participating securities of $19 million for the year ended December 31, 2014.

14 | Quarterly Financial Information (Unaudited)

IN MILLIONS, EXCEPT PER SHARE AMOUNTS	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2014:					
Net revenues	$ 32,689	$ 34,602	$ 35,021	$ 37,055	$ 139,367
Gross profit	5,942	6,324	6,468	6,633	25,367
Operating profit	2,024	2,208	2,246	2,321	8,799
Income from continuing operations	1,129	1,246	948	1,322	4,645
Loss from discontinued operations, net of tax	—	—	—	(1)	(1)
Net income attributable to CVS Health	1,129	1,246	948	1,321	4,644
Basic earnings per share:					
Income from continuing operations attributable to CVS Health	$ 0.96	$ 1.07	$ 0.82	$ 1.15	$ 3.98
Loss from discontinued operations attributable to CVS Health	$ —	$ —	$ —	$ —	$ —
Net income attributable to CVS Health	$ 0.96	$ 1.07	$ 0.82	$ 1.15	$ 3.98
Diluted earnings per share:					
Income from continuing operations attributable to CVS Health	$ 0.95	$ 1.06	$ 0.81	$ 1.14	$ 3.96
Loss from discontinued operations attributable to CVS Health	$ —	$ —	$ —	$ —	$ —
Net income attributable to CVS Health	$ 0.95	$ 1.06	$ 0.81	$ 1.14	$ 3.96
Dividends per share	$ 0.275	$ 0.275	$ 0.275	$ 0.275	$ 1.10
Stock price: (New York Stock Exchange)					
High	$ 76.36	$ 79.43	$ 82.57	$ 98.62	$ 98.62
Low	$ 64.95	$ 72.37	$ 74.69	$ 77.40	$ 64.95

IN MILLIONS, EXCEPT PER SHARE AMOUNTS	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 attributable to CVS Health	$ 954	$ 1,124	$ 1,249	$ 1,265	$ 4,592
Basic earnings per share:					
Income from continuing operations attributable to CVS Health	$ 0.77	$ 0.92	$ 1.03	$ 1.06	$ 3.78
Loss from discontinued operations attributable to CVS Health	$ —	$ —	$ —	$ —	$ (0.01)
Net income attributable to CVS Health	$ 0.77	$ 0.92	$ 1.03	$ 1.06	$ 3.77
Diluted earnings per share:					
Income from continuing operations attributable to CVS Health	$ 0.77	$ 0.91	$ 1.02	$ 1.05	$ 3.75
Loss from discontinued operations attributable to CVS Health	$ —	$ —	$ —	$ —	$ (0.01)
Net income attributable to CVS Health	$ 0.77	$ 0.91	$ 1.02	$ 1.05	$ 3.74
Dividends per share	$ 0.225	$ 0.225	$ 0.225	$ 0.225	$ 0.90
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

Five-Year Financial Summary

IN MILLIONS, EXCEPT PER SHARE AMOUNTS	2014	2013	2012	2011	2010
Statement of operations data:					
Net revenues	**$139,367**	$ 126,761	$ 123,120	$ 107,080	$ 95,766
Gross profit	**25,367**	23,783	22,488	20,562	20,215
Operating expenses	**16,568**	15,746	15,278	14,231	14,082
Operating profit	**8,799**	8,037	7,210	6,331	6,133
Interest expense, net	**600**	509	557	584	536
Loss on early extinguishment of debt	**521**	—	348	—	—
Income tax provision (1)	**3,033**	2,928	2,436	2,258	2,178
Income from continuing operations	**4,645**	4,600	3,869	3,489	3,419
Income (loss) from discontinued operations, net of tax	**(1)**	(8)	(7)	(31)	2
Net income	**4,644**	4,592	3,862	3,458	3,421
Net loss attributable to noncontrolling interest	**—**	—	2	4	3
Net income attributable to CVS Health	**$ 4,644**	$ 4,592	$ 3,864	$ 3,462	$ 3,424
Per common share data:					
Basic earnings per common share:					
Income from continuing operations attributable to CVS Health	**$ 3.98**	$ 3.78	$ 3.05	$ 2.61	$ 2.50
Loss from discontinued operations attributable to CVS Health	**$ —**	$ (0.01)	$ (0.01)	$ (0.02)	$ —
Net income attributable to CVS Health	**$ 3.98**	$ 3.77	$ 3.04	$ 2.59	$ 2.50
Diluted earnings per common share:					
Income from continuing operations attributable to CVS Health	**$ 3.96**	$ 3.75	$ 3.02	$ 2.59	$ 2.49
Loss from discontinued operations attributable to CVS Health	**$ —**	$ (0.01)	$ (0.01)	$ (0.02)	$ —
Net income attributable to CVS Health	**$ 3.96**	$ 3.74	$ 3.02	$ 2.57	$ 2.49
Cash dividends per common share	**$ 1.10**	$ 0.90	$ 0.65	$ 0.50	$ 0.35
Balance sheet and other data:					
Total assets	**$ 74,252**	$ 71,526	$ 66,221	$ 64,852	$ 62,457
Long-term debt	**$ 11,695**	$ 12,841	$ 9,133	$ 9,208	$ 8,652
Total shareholders' equity	**$ 37,963**	$ 37,938	$ 37,653	$ 38,014	$ 37,662
Number of stores (at end of year)	**7,866**	7,702	7,508	7,388	7,248

(1) Income tax provision for the year ended December 31, 2010 includes the effect of 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.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of CVS Health Corporation

We have audited the accompanying consolidated balance sheets of CVS Health Corporation as of December 31, 2014 and 2013, 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, 2014. 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 Health Corporation at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CVS Health Corporation's internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 10, 2015 expressed an unqualified opinion thereon.

Ernst + Young LLP

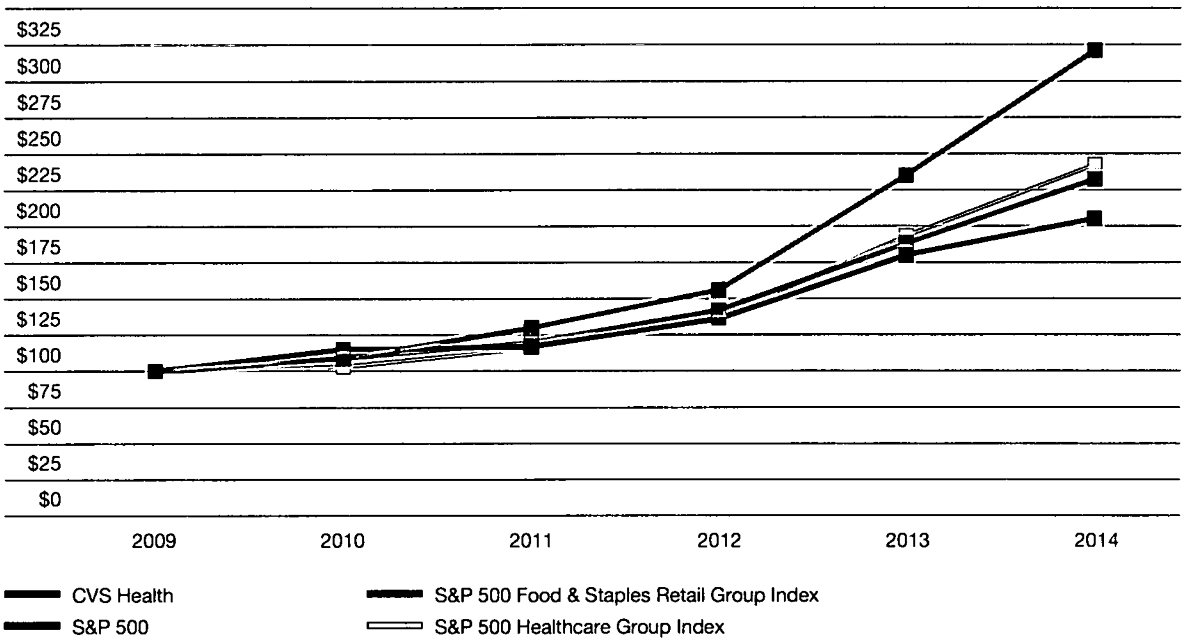
Boston, Massachusetts
February 10, 2015

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 Retailing Industry Group Index, which currently includes eight retail companies; (4) S&P 500 Healthcare Sector Group Index, which currently includes 55 health care companies.

Relative Total Returns Since 2009 — Annual

December 31, 2009 to December 31, 2014



	Year End						Annual Return Rate	Compound Annual Return Rate	Compound Annual Return Rate
	2009	2010	2011	2012	2013	2014	(1 Year)	(3 Year)	(5 Year)
CVS Health	$100	$109	$130	$156	$235	$321	36.6%	35.2%	26.2%
S&P 500 (1)	$100	$115	$117	$136	$180	$205	13.7%	20.4%	15.4%
S&P 500 Food & Staples Retail Group Index (2)	$100	$109	$120	$142	$188	$232	23.3%	24.6%	18.4%
S&P 500 Healthcare Group Index (3)	$100	$103	$116	$137	$193	$242	25.3%	27.9%	19.4%

Note: Analysis assumes reinvestment of dividends.

(1) Includes CVS Health.

(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

Lisa G. Bisaccia
Executive Vice President and Chief Human Resources 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

Stephen J. Gold
Executive Vice President and Chief Information Officer

J. David Joyner
Executive Vice President, Sales and Account Services – CVS/caremark

Per G.H. Lofberg
Executive Vice President

Thomas M. Moriarty
Executive Vice President, Chief Health Strategy Officer and General Counsel

Jonathan C. Roberts
Executive Vice President and President – CVS/caremark

Andrew J. Sussman, M.D.
Executive Vice President and Associate Chief Medical Officer; President – CVS/minuteclinic

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 Treasurer

John P. Kennedy
Senior Vice President and Chief Tax Officer

Colleen M. McIntosh
Senior Vice President and Corporate Secretary

Thomas S. Moffatt
Vice President and Assistant 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, 2014. After our 2014 annual meeting of stockholders, the Company filed with the New York Stock Exchange the CEO certification regarding its compliance with the NYSE corporate governance listing standards as required by NYSE Rule 303A.12(a).

Directors

Richard M. Bracken (3)
Former Chairman and Chief Executive Officer
HCA Holdings, Inc.

C. David Brown II (1) (2)
Chairman of the Firm
Broad and Cassel

Alecia A. DeCoudreaux
President
Mills College

Nancy-Ann M. DeParle (3)
Partner
Consonance Capital Partners, LLC

David W. Dorman (1) (2)
Chairman of the Board
CVS Health Corporation

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

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

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

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

William C. Weldon (1) (2)
Former Chairman and Chief Executive Officer
Johnson & Johnson

Tony L. White (1) (3)
Former Chairman, 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 Health Corporation
One CVS Drive, Woonsocket, RI 02895
(401) 765-1500

Annual Shareholders' Meeting
May 7, 2015
CVS Health Corporate Headquarters

Stock Market Listing
The New York Stock Exchange
Symbol: CVS

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

Wells Fargo Shareowner Services
P.O. Box 64874
St. Paul, MN 55164-0874
Toll-free: (877) CVS-PLAN (287-7526)
International: +1 (651) 450-4064
Email: stocktransfer@wellsfargo.com
Website: www.shareowneronline.com

Direct Stock Purchase/Dividend Reinvestment Program
Shareowner Services Plus Plan[SM] provides a convenient and economical way for you to purchase your first shares or additional shares of CVS Health 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) 287-7526.

Financial and Other Company Information
The Company's Annual Report on Form 10-K will be sent without charge to any shareholder upon request by contacting:

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

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

designed and produced by see see eye

CVS Health

WE ARE

A pharmacy innovation company

OUR STRATEGY

Reinventing pharmacy

OUR PURPOSE

Helping people on their path to better health

OUR VALUES

Innovation
Collaboration
Caring
Integrity
Accountability

MIX
Paper from responsible sources
FSC® C018101
www.fsc.org

The CVS Health 2014 Annual Report achieved the following results by printing on paper containing 10 percent post-consumer recycled content. FSC® is not responsible for any calculations of results from choosing this paper.

Trees Saved	Water Saved	Energy Saved	Solid Waste Not Produced	Greenhouse Gases Not Produced	Waterborne Waste Not Produced
104 fully grown	48,208 gallons	47,000,000 MM BTUs	3,227 pounds	8,889 pounds	30 pounds

CVS Health, One CVS Drive, Woonsocket, RI 02895 | 401.765.1500 | cvshealth.com

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, 2014
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 HEALTH CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware	**05-0494040**
(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	**New York Stock Exchange**
Title of each class	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 $87,242,957,318 as of June 30, 2014, 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 3, 2015, the registrant had 1,125,252,739 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, 2014 are incorporated by reference in our response to Items 7, 8 and 9 of Part II.
- Information contained in our Proxy Statement for the 2015 Annual Meeting of Stockholders is incorporated by reference in our response to Items 10 through 14 of Part III.

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PART I

Item 1. Business

Overview

CVS Health Corporation, together with its subsidiaries (collectively "CVS Health," the "Company," "we," "our" or "us"), is a pharmacy innovation company helping people on their path to better health. At the forefront of a changing health care landscape, the Company has an unmatched suite of capabilities and the expertise needed to drive innovations that will help shape the future of health.

We are currently the only integrated pharmacy health care company with the ability to impact consumers, payors, and providers with innovative, channel-agnostic solutions. We have a deep understanding of their diverse needs through our unique integrated model, and we are bringing them innovative solutions that help increase access to quality care, deliver better health outcomes, and lower overall health care costs.

Through our 7,800 retail pharmacies, more than 900 walk-in medical clinics, a leading pharmacy benefits manager with more than 65 million plan members, and expanding specialty pharmacy services, we enable people, businesses, and communities to manage health in more effective ways. We are delivering break-through products and services, from advising patients on their medications at our CVS/pharmacy® locations, to introducing unique programs to help control costs for our clients at CVS/caremark, to innovating how care is delivered to our patients with complex conditions through CVS/specialty, or by expanding access to high-quality, low-cost care at CVS/minuteclinic.

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

Pharmacy Services Segment

The Pharmacy Services Segment provides a full range of pharmacy benefit management ("PBM") services, as described more fully below, to our clients consisting primarily of employers, insurance companies, unions, government employee groups, health plans, Managed Medicaid plans, plans offered on the public and private exchanges, 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®, CarePlus CVS/pharmacy®, RxAmerica®, Accordant®, SilverScript®, Coram® CVS/specialty™, NovoLogix® and Navarro® Health Services names. As of December 31, 2014, the Pharmacy Services Segment operated 27 retail specialty pharmacy stores, 11 specialty mail order pharmacies and four mail order dispensing pharmacies, and 86 branches, including approximately 70 ambulatory infusion suites, and six centers of excellence for infusion and enteral services, located in 40 states, Puerto Rico and the District of Columbia. During the year ended December 31, 2014, our PBM filled or managed approximately 932 million prescriptions.

Pharmacy Services Business Strategy - Our business strategy centers on providing innovative pharmaceutical solutions and quality client service in order to help improve 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 offerings and administration, formulary management, 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 systems and the ability of our more than 26,000 pharmacists, nurses, 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, infusion and specialty pharmacies, retail medical clinics, call centers, proprietary websites and mobile devices), we seek to engage plan members in behaviors that help 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 help 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 that offers certain 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, plan sponsored 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 Offerings 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 help minimize the costs to the client while prioritizing the welfare and safety of the clients' members and helping improve health outcomes. We also administer these benefit plans selected by 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 helping them to design benefit plans promoting the use of the lower cost, clinically appropriate drug. We help our clients control costs by offering 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 or "formularies".

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 formularies. Our formularies provide recommended products in numerous drug classes to ensure member access to clinically appropriate alternatives under the client's pharmacy benefit plan. To help improve clinical outcomes for members and clients, we conduct ongoing, independent reviews of all drugs, including, but not limited to, those appearing on the formularies and generic equivalent products, as well as our clinical programs. Many of our clients choose to adopt our template formulary offerings as part of their plan design.

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 ("MMA") 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") and by offering Medicare Part D pharmacy benefits through SilverScript, a PDP approved by the Centers for Medicare and Medicaid Services ("CMS"). We also assist employer, union and other health plan clients that qualify for the retiree drug subsidy made available under the MMA 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, 2014, we operated four mail order 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 order specialty pharmacies described below. Our staff pharmacists review mail order 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 when required, can result in generic substitution, therapeutic interchange or other actions designed to help reduce cost and/or improve quality of treatment. These pharmacies have been awarded Mail Order 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, 2014, our specialty pharmacy operations included 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 20,500 health care organizations and programs in the United States. These pharmacies have also been awarded Specialty Pharmacy accreditation from URAC. As of December 31, 2014, the Company operated a network of 27 retail specialty pharmacy stores, which operate under the CarePlus CVS/pharmacy® and Navarro® Health Services names. 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 Coram LLC and its subsidiaries (collectively, "Coram"), which we acquired on January 16, 2014. Coram is one of the nation's largest providers of comprehensive infusion services, caring for approximately 240,000 patients annually. In May 2014, we implemented Specialty Connect™, which integrates our specialty pharmacy mail and retail capabilities, providing members with disease-state specific counseling from our experienced specialty pharmacists and the choice to bring their specialty prescriptions to a CVS/pharmacy location. Whether submitted through our mail order pharmacy or at CVS/pharmacy, all prescriptions are filled through the Company's specialty mail order pharmacies, so all revenue from this specialty prescription services program is recorded within the Pharmacy Services Segment. Members then can choose to pick up their medication at their local CVS/pharmacy or have it sent to their home through the mail.

Retail Pharmacy Network Management - We maintain a national network of more than 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, Puerto Rico, District of Columbia, Guam and the Virgin Islands. 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 help 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 order or specialty pharmacies, or through a network of retail pharmacies, described above. All prescriptions processed through our systems, whether they are filled through one of our mail order 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 help 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 ("NCQA"), 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 that helps ensure appropriate clinical use of these drugs.

Pharmacy Services Information Systems - We currently operate a small number of claim adjudication platforms to support our Pharmacy Services Segment. However, the majority of our clients have migrated to one destination platform. These information systems incorporate architecture that centralizes the data generated from filling mail order prescriptions, adjudicating retail pharmacy claims and fulfilling other services we provide to PBM clients.

Pharmacy Services Clients - Our clients are primarily employers, insurance companies, unions, government employee groups, health plans, Managed Medicaid plans and plans offered on public and private exchanges, other sponsors of health benefit plans 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 help perform safety checks, drug interaction screening and identify opportunities for 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 accounts for 10% or more of our annual consolidated revenues.

Pharmacy Services Seasonality - The majority of our Pharmacy Services Segment revenues are not seasonal in nature. However, our quarterly earnings and operating cash flows are impacted by the Medicare Part D benefit design and changes in the composition of our membership. The Medicare Part D standard benefit design results in coverage that varies with a member's cumulative annual out-of-pocket costs. The benefit design generally results in plan sponsors sharing a greater portion of the responsibility for total prescription drug costs in the early part of the year. As a result, the PDP plan pay percentage or benefit ratio generally decreases and operating profit generally increases as the year progresses.

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 formularies; (vi) the ability to market PBM products and services; (vii) the commitment to provide flexible, clinically-oriented services to clients; (viii) the quality, scope and costs of products and services offered to clients and their members, and (ix) operational excellence in delivering services. The Pharmacy Services Segment has a significant number of competitors offering PBM services (e.g., Express Scripts, OptumRx, Catamaran, Prime Therapeutics, MedImpact and Humana) including large, national PBM companies, PBMs owned by large national health plans and smaller standalone PBMs.

Retail Pharmacy Segment

As of December 31, 2014, the Retail Pharmacy Segment included 7,822 retail drugstores, of which 7,765 operated a pharmacy, our online retail pharmacy websites, CVS.com®, Navarro.com™ and Onofre.com.br™, 17 onsite pharmacy stores and our retail health care clinics. The retail drugstores are located in 44 states, the District of Columbia, Puerto Rico and Brazil operating primarily under the CVS/pharmacy®, CVS®, Longs Drugs®, Navarro Discount Pharmacy® and Drogaria Onofre™ names. We currently operate in 98 of the top 100 United States drugstore markets and hold the number one or number two market share in 88 of these markets. The Retail Pharmacy Segment sells 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 2014, we filled 756 million retail prescriptions (counting 90-day prescriptions as one prescription), or approximately 21% of the United States retail pharmacy market. In 2014, our retail drugstores became the first pharmacies in the nation to receive Community Pharmacy Accreditation from URAC.

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 recommending more cost effective drug therapies. In addition, personalization is central to our retail strategy. Our customer-driven personalization through ExtraCare®, ExtraCare Beauty Club® and MyWeeklyAd™ 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 retail 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, personal care products, convenience foods, photo finishing services, seasonal merchandise and greeting cards. 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)		
	2014	**2013**	**2012**
Prescription drugs	70.7%	69.5%	68.8%
Over-the-counter and personal care	11.0	11.0	10.9
Beauty/cosmetics	4.7	4.9	5.0
General merchandise and other	13.6	14.6	15.3
	100.0%	100.0%	100.0%

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

Pharmacy - Pharmacy revenues represented more than two-thirds of Retail Pharmacy revenues in each of 2014, 2013 and 2012. 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 Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, "ACA"), the introduction of new pharmaceutical products, and Medicare Part D. We believe our pharmacy business benefits from our investment in both people and technology, as well as our innovative partnerships with health plans, PBMs and providers. 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; as well as Specialty Connect™, our integrated specialty pharmacy offering that began in 2014 which integrates specialty mail and retail capabilities, providing members with disease-state specific counseling from our experienced specialty pharmacists and the choice to bring their specialty prescriptions to a CVS/pharmacy location or submit it through our specialty mail order pharmacies. Maintenance Choice, Pharmacy Advisor and Specialty Connect are all programs that demonstrate our ability to enhance the customer experience through our integrated enterprise products and services. Further evidencing our belief in the importance of pharmacy service is our continuing investment in technology, such as our Drug Utilization Review system that helps check for harmful interactions between prescription drugs and patient identified over-the-counter products, vitamins and herbal remedies; our proprietary pharmacy system that integrates our product delivery and clinical workflows as well as advanced patient safety functionality such as drug utilization review, Rx Connect; our prescription refill program, ReadyFill®; and our online retail businesses, CVS.com, Navarro.com and Onofre.com.br.

Front Store - Front store revenues benefited from our strategy to be the first to market with new and unique products and services, using innovative personalized 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. 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. Similar to ExtraCare is the Beauty Club, another program that rewards our loyal customers with sales prices and customized coupons. We continue to launch new and exclusive brands like Salma Hayek Nuance™, MakeUp Academy™ and NYX® to create unmatched offerings in beauty. 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 5,200 CVS/pharmacy and proprietary brand products, which accounted for approximately 19.5% of our front store revenues during 2014. These products include expanded offerings of healthy foods and vitamins. Furthermore, we are tailoring certain groups of stores, such as suburban area stores, to better meet the needs of our customers.

MinuteClinic - As of December 31, 2014, we operated 971 MinuteClinic® locations in 31 states and the District of Columbia, of which 963 were located in CVS/pharmacy stores. We opened 175 new clinics during 2014. MinuteClinics are staffed by nurse practitioners and physician assistants who utilize nationally established guidelines to diagnose and treat minor health conditions, perform health screenings, monitor chronic conditions, provide wellness services and deliver vaccinations. 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 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 49 major health systems and continues to build a platform that supports primary care.

Onsite Pharmacies - We also operate a limited number of small pharmacies located at client sites under the CarePlus®, CarePlus CVS/pharmacy®, CVS/pharmacy® or Wellness Works 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 key 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 sites. During 2014, we opened 151 new retail pharmacy stores, acquired 33 stores, relocated 60 stores and closed 22 stores. During the last five years, we opened more than 1,200 new and relocated stores, and acquired 125 stores. During 2015, we expect square footage growth of approximately 2%. We believe that continuing to grow our store base and locating stores in more accessible 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 given the changing health care landscape and to meet the increasing needs of our customers.

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. Leveraging our retail pharmacy fulfillment system, RxConnect and our proprietary WeCARE Workflow, supports our pharmacy teams by prioritizing work to meet customer expectations, facilitating prescriber outreach, and seamlessly integrating our clinical programs. This solution delivers improved efficiency and enhances the customer experience, as well as providing a framework to accommodate the evolution of pharmacy practice and the expansion of our clinical programs. Our Health Engagement Engine™ technology and proprietary clinical algorithms enable us to help 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. This includes the ability to schedule an appointment at MinuteClinic, get next-in line alerts or health reminders and appointment updates via the phone. Our integrated digital offerings help patients seamlessly manage retail, mail and specialty prescriptions dispensed by a CVS/pharmacy location and enhance front store personalization to drive value for customers. 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 significant 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 98.6% of our 2014 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 annual 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.

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. In addition, both pharmacy and front store revenues are affected by the timing and severity of the cough, cold and flu season. For additional information, we refer you to "Risks related to the seasonality of our business" in Item 1A. Risk Factors.

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 (e.g., Walgreens and Rite Aid), supermarkets, discount retailers (e.g., Wal-Mart and Target), independent pharmacies, restrictive pharmacy networks, 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 July 2014, the Company and Cardinal Health, Inc. ("Cardinal") established Red Oak Sourcing, LLC ("Red Oak"), a generic pharmaceutical sourcing entity in which the Company and Cardinal each own 50%. The Red Oak arrangement has an initial term of ten years. Under this arrangement, the Company and Cardinal contributed their sourcing and supply chain expertise to Red Oak and agreed to source and negotiate generic pharmaceutical supply contracts for both companies through Red Oak; however, Red Oak does not own or hold inventory on behalf of either company. No physical assets (e.g., property and equipment) were contributed to Red Oak by either company and minimal funding was provided to capitalize Red Oak.

Red Oak is a variable interest entity. The Company has determined that it is the primary beneficiary of this variable interest entity because it has the ability to direct the activities of Red Oak. Consequently, the Company consolidates Red Oak in its consolidated financial statements within the Retail Pharmacy Segment. Cardinal is required to pay the Company 39 quarterly payments of $25.6 million which commenced in October 2014 and, if certain milestones are achieved, it will pay additional predetermined quarterly amounts to the Company beginning in the third quarter of 2015.

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 "Management's Discussion and Analysis - Liquidity and Capital Resources" in our Annual Report to Stockholders for the year ended December 31, 2014, which section is incorporated by reference herein. The majority of our non-pharmacy revenues are paid in cash, or with debit or credit cards, while managed care and other third party insurance programs, which typically settle in less than 30 days, represented approximately 99.5% of our consolidated pharmacy revenues in 2014, including both Retail Pharmacy and Pharmacy Services. The remainder of consolidated pharmacy revenues are paid in cash, or with debit or credit cards. Our customer returns are not significant.

Colleague Development

As of December 31, 2014, we employed approximately 217,800 colleagues, which included more than 26,000 pharmacists, nurses, nurse practitioners and physician assistants. The total included approximately 80,000 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 - Much of our business is subject to federal and state laws and regulations. In addition, many of our PBM clients and our payors in the Retail Pharmacy Segment, including insurers and managed care organizations ("MCOs"), are themselves subject to extensive regulations that affect the design and implementation of prescription drug benefit plans that they sponsor. The application of these complex legal and regulatory requirements to the detailed operation of our business creates areas of uncertainty. Further, 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. 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.

Laws and Regulations Related to Each Operating Segment of Our Business

Laws Related to Reimbursement by Government Programs - We are subject to various state and federal laws concerning our submission of claims for reimbursement by Medicare, Medicaid and other government-sponsored health care programs. Potential sanctions for violating these laws include recoupment or reduction of government reimbursement amounts, civil penalties, multiples damages, and exclusion from participation in government health care programs. Such laws include the federal False Claims Act ("FCA"), various state false claims acts, the federal "Stark Law" and related state laws. In particular, the FCA prohibits intentionally submitting, conspiring to submit, or causing to be submitted, false claims, records, or statements to the federal government, or intentionally failing to return overpayments, in connection with reimbursement by federal government programs. As part of ACA, the federal Anti-Kickback Statute was amended in 2010 to provide that any claim for government reimbursement violates the FCA where it results from a violation of the Anti-Kickback Statute. Most states have enacted false claims laws analogous to the FCA, and both federal and state false claims laws permit private individuals to file *qui tam* or "whistleblower" lawsuits on behalf of the federal or state government. Further, the federal Stark Law generally prohibits physicians from referring Medicare or Medicaid beneficiaries for certain services, including outpatient prescription drugs, to any entity with which the physician, or an immediate family member of the physician, has a financial relationship. The Stark Law further prohibits the entity receiving a prohibited referral from presenting a claim for reimbursement by Medicare or Medicaid for services furnished pursuant to the prohibited referral. Various states have enacted similar laws.

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 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. 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.

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 or CVS/pharmacy plays a unique or expanded role in a PBM product offering, 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.

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 and security safeguards for such information. In addition to PII, we use and disclose de-identified data for analytical and other purposes when permitted. Additionally, there are industry standards for handling credit card data known as the Payment Card Industry Data Security Standard, which are a set of requirements designed to help ensure that entities that process, store or transmit credit card information maintain a secure environment. Certain states have recently incorporated these requirements into state laws.

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"). Criminal penalties and civil sanctions may be imposed for failing to comply with HIPAA standards. 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, amended HIPAA to impose additional restrictions on third-party funded communications using PHI and the receipt of remuneration in exchange for PHI. It also extended HIPAA privacy and security requirements and penalties directly to business associates. In addition to HIPAA, state health privacy laws apply to the extent they are more protective of individual privacy than is HIPAA.

Finally, the Health Insurance Marketplaces (formerly known as the "exchanges") are required to adhere to privacy and security standards with respect to PII, and to impose privacy and security standards that are at least as protective of PII as those the Health Insurance Marketplace has implemented for itself or non-Health Insurance Marketplace entities, which include insurers offering plans through the Health Insurance Marketplaces and their designated downstream entities, including PBMs and other business associates. These standards may differ from, and be more stringent than, HIPAA.

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, financial incentives provided by drug manufacturers to pharmacies in connection with therapeutic interchange programs and disclosures related to how personal data is used and protected.

Government Agreements and Mandates - The Company and/or its various affiliates are subject to certain consent decrees, settlement agreements, and corporate integrity agreements with various federal, state and local authorities relating to such matters as privacy practices, pseudoephedrine products, Medicare Part D prescription drug plans, expired products, environmental and safety matters, marketing and advertising practices, PBM and pharmacy operations and various other business practices. These agreements contain certain ongoing reporting, monitoring or other compliance requirements for the Company. Failure to meet the Company's obligations under these agreements could result in civil or criminal remedies, financial penalties, administrative remedies, and/or exclusion from participation in federal health care programs.

Environmental and Safety Regulation - Our business is subject to various federal, state and local laws, regulations and other requirements pertaining to protection of the environment, public health and employee safety, including, for example, regulations governing the management of hazardous substances, the cleaning up of contaminated sites, and the maintenance of safe working conditions in our stores, distribution centers and other facilities. Governmental agencies on the federal, state and local levels have, in recent years, increasingly focused on the retail and healthcare sectors' compliance with such laws and regulations, and have at times pursued enforcement activities. Any failure to comply with these regulations could result in fines or other sanctions by government authorities.

Health Reform Legislation - Passed in 2010, ACA affects virtually every aspect of health care in the country. In addition to establishing the framework for every individual to have health coverage, ACA enacted a number of significant health care reforms. Many of these reforms affect the coverage and plan designs that are provided by our health plan clients. As a result, these reforms impact a number of our services and business practices. Given that many of the regulations implementing ACA are still being finalized and that sub-regulatory guidance is still being issued, the full impact of ACA on our Company is uncertain.

Pharmacy and Professional Licensure and Regulation - We are subject to a variety of intersecting state and federal statutes and regulations that govern the wholesale distribution of drugs; operation of retail, specialty, infusion and mail order pharmacies; licensure of facilities and professionals, including pharmacists, technicians and nurses; registration of facilities with the United States Drug Enforcement Administration ("DEA") and analogous state agencies that regulate controlled substances; packaging, storing and shipping of pharmaceuticals; repackaging of drug products; labeling, medication guides and other consumer disclosures; interactions with prescribers and healthcare professionals; compounding of prescription medications; dispensing of controlled and non-controlled substances; counseling of patients; transfers of prescriptions; advertisement of prescription products and pharmacy services; security; inventory control; recordkeeping; reporting to Boards of Pharmacy, the United States Food and Drug Administration ("FDA"), the Consumer Product Safety Commission, the DEA and related state agencies; and other elements of pharmacy practice. Pharmacies are highly regulated and have contact with a wide variety of local, state and federal agencies, with various powers to investigate, audit or solicit information, including Boards of Pharmacy and Nursing, the DEA, the FDA, the United States Department of Justice, the United States Department of Health and Human Services ("HHS") and others. Many of these agencies have broad enforcement powers, conduct audits on a regular basis, can impose substantial fines and penalties, and may revoke the license, registration or program enrollment of a facility or professional.

Telemarketing and Other Outbound Contacts - Certain federal and state laws, such as the Telephone Consumer Protection Act, give the FTC, Federal Communications Commission ("FCC") and state attorneys general the ability to regulate, and bring enforcement actions relating to, telemarketing practices and certain automated outbound contacts such as phone calls, texts or emails. Under certain circumstances, these laws may provide consumers with a private right of action. Violations of these laws could result in substantial statutory penalties and other sanctions.

Laws and Regulations Related to Our Pharmacy Services Segment

In addition to the laws and regulations discussed above that may affect our business as a whole, we are subject to federal, state and local statutes and regulations governing the operation of our Pharmacy Services Segment specifically. Among these are the following:

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 could adversely impact our ability to conduct business on commercially reasonable terms in states where the legislation is in effect.

In addition, certain quasi-regulatory organizations, including the National Association of Boards of Pharmacy and the National Association of Insurance Commissioners ("NAIC") have issued model regulations or may propose future regulations concerning PBMs and/or PBM activities. Similarly, credentialing organizations such as the NCQA and 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.

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, and continues to attract a high degree of legislative and regulatory scrutiny. The applicable government rules and regulations continue to evolve. CMS has imposed restrictions and issued new requirements to protect Medicare Part D beneficiaries and has used its authority to sanction and impose civil monetary penalties on plans for non-compliance.

Network Access Legislation - Medicare Part D and 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 could negatively impact the services and economic benefits achievable through a limited pharmacy provider network.

Also, a majority of states now have some form of legislation affecting our ability (and the health plans' ability) to conduct audits of network pharmacies regarding claims submitted to us for payment. These laws could negatively impact our ability to recover overpayments in health care payments stemming from pharmacy audits. Lastly, several states have passed legislation regulating our ability to manage and establish maximum allowable costs ("MAC"). MAC methodology is a common cost management practice used to pay pharmacies for dispensing generic prescription drugs, including private and public payors. MAC prices specify the allowable reimbursement by a PBM for a particular strength and dosage of a generic drug that is available from multiple manufacturers but sold at different prices. State legislation can regulate the disclosure of MAC prices and MAC price methodologies, the kinds of drugs that a PBM can pay at a MAC price, and the rights of pharmacies to appeal a MAC price established by a PBM. These laws could negatively impact our ability to establish MAC prices for generic drugs.

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.

Federal Employee Health Benefits Program - We have a contractual arrangement with the BlueCross BlueShield Association 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. 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.

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, as a PDP, SilverScript is subject to state insurance laws limited to licensure and solvency. In addition, PBM offerings of prescription drug coverage on a capitated basis, or otherwise accepting material financial risk in providing pharmacy benefits, may be subject to laws and regulations in various states. 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.

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.

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.

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 broadly written and their application to specific business practices is often uncertain.

Formulary and Plan Design Regulation - A number of government entities regulate the administration of prescription drug benefits. HHS regulates how Medicare Part D formularies are developed and administered, including requiring the inclusion of all drugs in certain classes and categories, subject to limited exceptions. Under ACA, CMS imposes drug coverage requirements for health plans required to cover essential health benefits, including plans offered through federal or state exchanges. Additionally, the NAIC and health care accreditation agencies like the NCQA and URAC have developed model acts and standards for formulary development that are often incorporated into government requirements. Many states regulate the scope of prescription drug coverage, as well as the delivery channels to receive such prescriptions, for insurers, MCOs and Medicaid managed care plans. The increasing government regulation of formularies could significantly affect our ability to develop and administer formularies, networks and other plan design features on behalf of our insurer, MCO and other clients. Similarly, some states prohibit health plan sponsors from implementing certain restrictive design features. This regulation could limit or preclude (i) limited networks, (ii) a requirement to use particular providers, (iii) copayment differentials among providers and (iv) formulary tiering practices.

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.

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 and must act within their scope of practice.

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).

Laws and Regulations Related to Our Retail Pharmacy Segment

In addition to the laws and regulations discussed above that may affect our business as a whole, we are subject to federal, state and local statutes and regulations governing the operation of our Retail Pharmacy Segment specifically. Among these are the following:

Specific FDA Regulation - The FDA generally has authority to, among other things, regulate the manufacture, distribution, sale and labeling of many products sold through retail pharmacies, including prescription drugs, over-the-counter medications, medical devices (including mobile medical devices), cosmetics, dietary supplements and certain food items.

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.

Available Information

CVS Health 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 Health is available through the Company's Web site at *http://www.cvshealth.com*. Our financial press releases and filings with the United States Securities and Exchange Commission ("SEC") are available free of charge within the Investors section of our Web site at *http://www.cvshealth.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:

Risks of declining gross margins in the PBM and retail pharmacy.

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 resulted in our clients sharing in a larger portion of rebates and/or discounts received from pharmaceutical manufacturers. 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. In addition, changes in federal or state laws or regulations or the adoption of new laws or regulations relating to claims processing and billing, including our ability to collect transmission fees, could adversely impact our profitability.

Our Retail Pharmacy Segment has also been impacted by the margin pressures described above including client demands for lower prices, generic pricing and network reimbursement pressure. In addition, as competition increases in the markets in which we operate, a significant increase in general pricing pressures could occur, and this could require us to reevaluate our pricing structures to remain competitive. In addition, 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 outweigh an increase in our own mail order business and/or an increase in participation in our Maintenance Choice program.

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 and other external factors may enhance the ability of manufacturers to sustain or increase pricing of generic pharmaceuticals and diminish our ability to negotiate reduced acquisition costs. Any inability to offset increased costs or to modify our activities to lessen the impact could have a significant adverse effect on our results of operations.

In addition, during the past several years, the United States health care industry has been subject to an increase in governmental regulation and audits at both the federal and state levels. Efforts to control health care costs, including prescription drug costs, are continuing at the federal and state government levels. Changing political, economic and regulatory influences may significantly affect health care financing and reimbursement practices. A change in the composition of pharmacy prescription volume toward programs offering lower reimbursement rates could negatively impact our profitability.

ACA made several significant changes to Medicaid rebates and to reimbursement. One of these changes was to revise the definition of the Average Manufacturer Price, a pricing element common to most payment formulas, 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.

A highly 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, convenience stores and mass merchants, many of which are expanding into markets we serve. We also face competition from retail health clinics, as well as other mail order pharmacies and PBMs. 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, Prime Therapeutics, MedImpact and Humana), 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.

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." In addition, during the past several years, the United States health care industry has been subject to an increase in governmental regulation and enforcement activity at both the federal and state levels. 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 laws and regulations of the FTC, the FCC, and the Consumer Product Safety Commission, as well as state regulatory authorities, governing the sale, advertisement and promotion of products that we sell, such as Boards of Pharmacy. The FDA, DEA and various states regulate the distribution of pharmaceuticals and controlled substances. We are required to hold valid DEA and state-level registrations and licenses, meet various security and operating standards and comply with the Controlled Substances Act and its accompanying regulations governing the sale, marketing, packaging, holding and distribution of controlled substances. The DEA, FDA and state regulatory authorities have broad enforcement powers, including the ability to suspend our registrations and licenses, seize or recall products and impose significant criminal, civil and administrative sanctions for violations of these laws and regulations. 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 adversely affected by existing and new government legislative, regulatory action and enforcement activity, including, without limitation, any one or more of the following:

- federal and state laws and regulations concerning the submission of claims for reimbursement by Medicare, Medicaid and other government programs;
- federal and state laws and regulations governing the purchase, distribution, tracking, management, compounding, 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;

- 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;

- 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;

- federal, state and local environmental, health and safety laws and regulations applicable to our business, including the management of hazardous substances, storage and transportation of hazardous materials, and various recordkeeping disclosure and procedure requirements promulgated by the Occupational Safety and Health Administration that may apply to our operations;

- health care reform, managed care reform and plan design legislation;

- FDA regulation affecting the retail or PBM industry;

- government regulation of the development, administration, review and updating of formularies and drug lists including requirements and/or limitations around formulary tiering and patient cost sharing;

- federal and 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;

- administration of Medicare Part D, including legislative changes and/or CMS rulemaking and interpretation;

- insurance licensing and other insurance regulatory requirements applicable to offering Medicare Part D programs and services or other health care services;

- government regulation allowing the importation of prescription drugs from Canada and elsewhere into the United States; and

- direct regulation of pharmacies or PBMs by regulatory and quasi-regulatory bodies.

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.

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).

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. We rely heavily on our computer systems to manage our ordering, pricing, point-of-sale, pharmacy fulfillment, inventory replenishment, claims processing, ExtraCare customer loyalty program, finance, human resource and other processes. Throughout our operations, we receive, retain and transmit certain confidential information, including PII 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 reputational damage, 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 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. For example, on October 6, 2014, the final DEA rule moving hydrocodone combination products from schedule III to schedule II became effective.

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.

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 due to regulatory and competitive pressures. Further, as a result of ACA and changes to the retiree drug subsidy rules, 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 are implemented in a manner that impacts the profitability of our Medicare Part D business; if changes to the regulations impact our ability to retain fees from third parties including network pharmacies; 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; 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 negatively impacted.

Reform of the United States health care system.

Congressional efforts to reform the United States 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".
Although many of the structural changes enacted by ACA were implemented in 2014, 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, including plan designs that include limited networks, a requirement to use mail service pharmacies for certain medications or formulary tiering. As a result, they could indirectly impact many of our services and business practices. We cannot predict what effect, if any, all of 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.

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 Average Wholesale Price ("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 in connection with the reimbursement of drug payments. 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.

Product liability, product recall or personal injury issues could damage our reputation; failure to maintain adequate liability insurance coverage.

The products that we sell could become subject to contamination, product tampering, mislabeling, recall or other damage. In addition, errors in the dispensing and packaging of pharmaceuticals could lead to serious injury or death. Product liability or personal injury claims may be asserted against us with respect to any of the products or pharmaceuticals we sell or services we provide. Our business involves the provision of professional services including by pharmacists, nurses and nurse practitioners that exposes us to professional liability claims. Should a product or other liability issue arise, the coverage limits under our insurance programs and the indemnification amounts available to us may not be adequate to protect us against claims. We also may not be able to maintain this insurance on acceptable terms in the future. Damage to our reputation in the event of a product liability or personal injury issue or judgment against us or a product recall could have a significant adverse effect on our business, financial condition and results of operations.

Relationship with our retail customers and the demand for our products and services, including propriety brands.

The success of our 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 clients and customers, or the failure or inability to obtain or offer particular categories of products could negatively affect our relationship with our clients and customers and the demand for our products and services.

We offer our retail customers proprietary brand products that are available exclusively at our retail stores and through our online retail sites. The sale of proprietary products subjects us to unique risks including potential product liability risks and mandatory or voluntary product recalls, our ability to successfully protect our intellectual property rights and the rights of applicable third parties, and other risks generally encountered by entities that source, market and sell private-label products. Any failure to adequately address some or all of these risks could have an adverse effect on our business, results of operations and financial condition. Additionally, an increase in the sales of our proprietary brands may negatively affect our sales of products owned by our suppliers which, consequently, could adversely impact certain of our supplier relationships. Our ability to locate qualified, economically stable suppliers who satisfy our requirements, and to acquire sufficient products in a timely and effective manner, is critical to ensuring, among other things, that customer confidence is not diminished. Any failure to develop sourcing relationships with a broad and deep supplier base could adversely affect our financial performance and erode customer loyalty.

Finally, customer expectations and new technology advances from our competitors have required that our business evolve so that we are able to interface with our retail customers not only face-to-face in our stores but also online and via mobile and social media. Our customers are using computers, tablets, mobile phones and other electronic devices to shop in our stores and online, as well as to provide public reactions concerning each facet of our operation. If we fail to keep pace with dynamic customer expectations and new technology developments, our ability to compete and maintain customer loyalty could be adversely affected.

Risks related to the seasonality of our business.

Although the majority of our revenues, particularly pharmacy revenues, are generally not seasonal in nature, front store revenues tend to be higher during the December holiday season. Uncharacteristic or extreme weather conditions can adversely impact consumer shopping patterns as well. This could lead to lost sales, as well as increased snow removal and other costs, thereby negatively affecting our short-term results of operations. In addition, both pharmacy and front store revenues are affected by the timing and severity of the cough, cold and flu season, which is susceptible to large fluctuations from year to year.

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, 2014, which section is incorporated by reference herein.

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 6 "Leases" in our Annual Report to Stockholders for the year ended December 31, 2014, which section is incorporated by reference herein.

As of December 31, 2014, we owned approximately 5.0% of our 7,822 retail stores. Net selling space for our retail drugstores was approximately 76.7 million square feet as of December 31, 2014. More than one third of our store base was opened or significantly remodeled within the last five years.

We own nine distribution centers located in Alabama, California, Hawaii, New York, Rhode Island, South Carolina, Tennessee and Texas and lease 11 additional distribution facilities located in Arizona, Florida, Indiana, Michigan, New Jersey, Pennsylvania, Texas, Virginia and Brazil. The 20 distribution centers total approximately 11.2 million square feet as of December 31, 2014.

As of December 31, 2014, we owned one mail service dispensing pharmacy located in Texas and leased three additional mail order dispensing pharmacies located in Hawaii, Illinois and Pennsylvania. We leased call centers located in Missouri, Pennsylvania, Tennessee and Texas. As of December 31, 2014, we leased 17 onsite pharmacy stores and 27 specialty pharmacy stores, and operated 11 specialty mail order pharmacies. We leased 86 branches and six centers of excellence for infusion or enteral services.

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, Monroeville, Pennsylvania, 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 72 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 11 "Commitments and Contingencies" in our Annual Report to Stockholders for the year ended December 31, 2014, 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 mail order pharmacies, mail order dispensing pharmacies and branches and centers of excellence for infusion and enteral services as of December 31, 2014:

	Retail Stores	Onsite Pharmacy Stores	Specialty Pharmacy Stores	Specialty Mail Order Pharmacies	Mail Order Dispensing Pharmacies	Infusion & Enteral Services Locations	Total
United States:							
Alabama	158	—	1	—	—	1	160
Arkansas	5	—	—	—	—	1	6
Arizona	144	—	1	—	—	2	147
California	862	—	4	1	—	10	877
Colorado	—	—	1	—	—	2	3
Connecticut	151	1	—	—	—	1	153
Delaware	15	—	—	—	—	—	15
District of Columbia	59	—	1	—	—	—	60
Florida	753	—	3	1	—	9	766
Georgia	315	2	1	—	—	1	319
Hawaii	54	—	1	—	1	—	56
Idaho	—	—	—	—	—	1	1
Iowa	18	1	—	—	—	1	20
Illinois	275	1	—	1	1	2	280
Indiana	298	—	—	—	—	4	302
Kansas	39	—	—	1	—	2	42
Kentucky	66	—	—	—	—	—	66
Louisiana	113	—	—	—	—	1	114
Maine	22	—	—	—	—	1	23
Maryland	174	1	—	—	—	1	176
Massachusetts	358	—	2	1	—	2	363
Michigan	246	1	—	1	—	2	250
Minnesota	59	1	—	—	—	3	63
Mississippi	50	—	—	—	—	1	51
Missouri	87	1	1	—	—	2	91
Montana	14	—	—	—	—	—	14
Nebraska	18	—	—	—	—	1	19
Nevada	85	—	—	—	—	2	87
New Hampshire	41	—	—	—	—	—	41
New Jersey	279	2	—	1	—	1	283
New Mexico	17	—	—	—	—	1	18
New York	480	—	1	—	—	7	488
North Carolina	312	—	1	1	—	3	317
North Dakota	6	—	—	—	—	—	6
Ohio	319	2	—	—	—	4	325
Oklahoma	61	—	—	—	—	1	62
Oregon	—	—	1	—	—	1	2
Pennsylvania	406	1	1	1	1	3	413
Puerto Rico	20	—	—	1	—	—	21
Rhode Island	63	—	1	—	—	1	65
South Carolina	192	—	1	—	—	2	195
Tennessee	134	1	—	1	—	3	139
Texas	617	1	3	—	1	5	627
Utah	5	—	—	—	—	1	6
Vermont	6	—	—	—	—	—	6
Virginia	279	—	1	—	—	2	282

Washington	3	—	1	—	—	3	7
West Virginia	50	—	—	—	—	—	50
Wisconsin	47	1	—	—	—	1	49
Total United States	7,775	17	27	11	4	92	7,926
Brazil	47	—	—	—	—	—	47
Total	7,822	17	27	11	4	92	7,973

Item 3. Legal Proceedings

Legal Proceedings

We refer you to the Note 11 - "Commitments and Contingencies - Legal Matters" contained in the "Notes to the Consolidated Financial Statements" of our Annual Report to Stockholders for the year ended December 31, 2014, which section is incorporated by reference herein.

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 10, 2015. 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 58, Senior Vice President and Chief Human Resources Officer of CVS Health Corporation since January 2010; Vice President, Human Resources of CVS Pharmacy, Inc. from September 2004 through December 2009.

Eva C. Boratto, age 48, Senior Vice President - Controller and Chief Accounting Officer of CVS Health 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. from June 2009 through June 2010.

Troyen A. Brennan, M.D., age 60, Executive Vice President and Chief Medical Officer of CVS Health Corporation since November 2008; Executive Vice President and Chief Medical Officer of Aetna, Inc. from February 2006 through November 2008.

David M. Denton, age 49, Executive Vice President and Chief Financial Officer of CVS Health Corporation since January 2010; Senior Vice President and Controller/Chief Accounting Officer of CVS Health Corporation from March 2008 until December 2009; Senior Vice President, Financial Administration of CVS Health Corporation and CVS Pharmacy, Inc. from April 2007 to March 2008. Mr. Denton is also a member of the Board of Directors of Coach, Inc., a leading retailer of premium bags and luxury accessories.

Helena B. Foulkes, age 50, Executive Vice President of CVS Health Corporation and President of CVS/pharmacy since January 2014; Executive Vice President and Chief Health Care Strategy and Marketing Officer of CVS Health Corporation from March 2011 through December 2013; Executive Vice President and Chief Marketing Officer of CVS Health Corporation from January 2009 through February 2011; Senior Vice President of Health Services of CVS Health Corporation from May 2008 through January 2009, and of CVS Pharmacy, Inc. from October 2007 through January 2009. Ms. Foulkes is also a member of the Board of Directors of The Home Depot, Inc., a leading home improvement retailer.

Stephen J. Gold, age 55, Senior Vice President and Chief Information Officer of CVS Health 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 50, Executive Vice President of CVS Health Corporation since March 2011 and Executive Vice President of Sales and Account Services, CVS/caremark since March 2004.

Per G.H. Lofberg, age 67, Executive Vice President of CVS Health Corporation; Executive Vice President of CVS Health Corporation and President of CVS/caremark 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 59, President and Chief Executive Officer of CVS Health Corporation since March 2011; President and Chief Operating Officer of CVS Health Corporation from May 2010 through March 2011; President of CVS/pharmacy from January 2007 through August 2011; Executive Vice President of CVS Health Corporation from January 2007 through May 2010; also a director of CVS Health Corporation since May 2010.

Thomas M. Moriarty, age 51, Executive Vice President and General Counsel of CVS Health Corporation since October 2012 and Chief Health Strategy Officer since March 2014; 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 59, Executive Vice President of CVS Health Corporation and President of CVS/caremark since September 2012; Executive Vice President of CVS Health Corporation and Chief Operating Officer of CVS/caremark from October 2010 through August 2011; Executive Vice President, Rx Purchasing, Pricing and Network Relations of CVS Health Corporation from January 2009 through October 2010; Senior Vice President and Chief Information Officer of CVS Health Corporation from May 2008 until January 2009, and of CVS Pharmacy, Inc. from January 2006 until January 2009.

Andrew J. Sussman, M.D., age 49, Senior Vice President and Associate Chief Medical Officer of CVS Health Corporation since March 2011 and President of CVS/minuteclinic 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.

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2014	High	$ 76.36	$ 79.43	$ 82.57	$ 98.62	$ 98.62
	Low	$ 64.95	$ 72.37	$ 74.69	$ 77.40	$ 64.95
	Cash dividends per common share	$ 0.275	$ 0.275	$ 0.275	$ 0.275	$ 1.10
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	$ 0.225	$ 0.225	$ 0.225	$ 0.225	$ 0.90

CVS Health 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 3, 2015, there were 22,830 registered shareholders according to the records maintained by our transfer agent.

On December 15, 2014, the Company's Board of Directors authorized a new share repurchase program for up to $10.0 billion of outstanding common stock (the "2014 Repurchase Program"). On December 17, 2013, the Company's Board of Directors authorized a 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 2014 and 2013 Repurchase Programs, 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 2014 and 2013 Repurchase Programs may be modified or terminated by the Board of Directors at any time. The 2012 Repurchase Program is complete, as indicated below.

During the year ended December 31, 2014, the Company repurchased an aggregate of 51.4 million shares of common stock for approximately $4.0 billion under the 2013 and 2012 Repurchase Programs. As of December 31, 2014, there remained an aggregate of approximately $12.7 billion available for future repurchases under the 2014 and 2013 Repurchase Programs. As of Decemer 31, 2014, the 2012 Repurchase Program was complete.

Pursuant to the authorization under the 2013 Repurchase Programs, effective January 2, 2015, we entered into a $2.0 billion fixed dollar accelerated share repurchase ("ASR") agreement with J.P. Morgan Chase Bank ("JP Morgan"). Upon payment of the $2.0 billion purchase price on January 5, 2015, we received a number of shares of our common stock equal to 80% of the $2.0 billion notional amount of the ASR agreement or approximately 16.8 million shares at a price of $94.49 per share. At the conclusion of the ASR program, the Company may receive additional shares equal to the remaining 20% of the $2.0 billion notional amount. The ultimate number of shares the Company may receive will fluctuate based on changes in the daily volume-weighted average price of the Company's stock over a period beginning on January 2, 2015 and ending on or before April 26, 2015. If the mean daily volume-weighted average price of the Company's common stock, less a discount (the "forward price"), during the ASR program falls below $94.49 per share, the Company will receive a higher number of shares from JP Morgan. If the forward price rises above $94.49 per share, the Company will either receive fewer shares from JP Morgan or, potentially have an obligation to JP Morgan which, at the Company's option, could be settled in additional cash or by issuing shares. Under the terms of the agreement, the maximum number of shares that could be received or delivered is 42.0 million. The initial 16.8 million shares of common stock delivered to the Company by JP Morgan were placed into treasury stock in January 2015.

Fiscal Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2014 through October 31, 2014	7,325,187	$ 81.70	7,325,187	$ 3,293,630,647
November 1, 2014 through November 30, 2014	6,650,000	$ 88.37	6,650,000	$ 2,705,958,545
December 1, 2014 through December 31, 2014	153,295	$ 90.42	153,295	$ 12,692,098,316
	14,128,482		14,128,482	

Item 6. Selected Financial Data

The selected consolidated financial data of CVS Health Corporation as of and for the periods indicated in the five-year period ended December 31, 2014 have been derived from the consolidated financial statements of CVS Health 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	2014	2013	2012	2011	2010
Statement of operations data:					
Net revenues	$ 139,367	$ 126,761	$ 123,120	$ 107,080	$ 95,766
Gross profit	25,367	23,783	22,488	20,562	20,215
Operating expenses	16,568	15,746	15,278	14,231	14,082
Operating profit	8,799	8,037	7,210	6,331	6,133
Interest expense, net	600	509	557	584	536
Loss on early extinguishment of debt	521	—	348	—	—
Income tax provision[1]	3,033	2,928	2,436	2,258	2,178
Income from continuing operations	4,645	4,600	3,869	3,489	3,419
Income (loss) from discontinued operations, net of tax	(1)	(8)	(7)	(31)	2
Net income	4,644	4,592	3,862	3,458	3,421
Net loss attributable to noncontrolling interest	—	—	2	4	3
Net income attributable to CVS Health	$ 4,644	$ 4,592	$ 3,864	$ 3,462	$ 3,424
Per common share data:					
Basic earnings per common share:					
Income from continuing operations attributable to CVS Health	$ 3.98	$ 3.78	$ 3.05	$ 2.61	$ 2.50
Loss from discontinued operations attributable to CVS Health	$ —	$ (0.01)	$ (0.01)	$ (0.02)	$ —
Net income attributable to CVS Health	$ 3.98	$ 3.77	$ 3.04	$ 2.59	$ 2.50
Diluted earnings per common share:					
Income from continuing operations attributable to CVS Health	$ 3.96	$ 3.75	$ 3.02	$ 2.59	$ 2.49
Loss from discontinued operations attributable to CVS Health	$ —	$ (0.01)	$ (0.01)	$ (0.02)	$ —
Net income attributable to CVS Health	$ 3.96	$ 3.74	$ 3.02	$ 2.57	$ 2.49
Cash dividends per common share	$ 1.10	$ 0.90	$ 0.65	$ 0.50	$ 0.35
Balance sheet and other data:					
Total assets	$ 74,252	$ 71,526	$ 66,221	$ 64,852	$ 62,457
Long-term debt	$ 11,695	$ 12,841	$ 9,133	$ 9,208	$ 8,652
Total shareholders' equity	$ 37,963	$ 37,938	$ 37,653	$ 38,014	$ 37,662
Number of stores (at end of year)	7,866	7,702	7,508	7,388	7,248

(1) Income tax provision for the year ended December 31, 2010 includes the effect of 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.

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, 2014, which section is incorporated by reference herein.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

As of December 31, 2014, 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, 2014, 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 Rules 13a-15 (f) and 15d-15(f) under the Securities Exchange Act of 1934) as of December 31, 2014, 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, 2014, which are incorporated by reference herein, for management's report on the Company'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, 2014 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 2015 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 2015 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 2015 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, 2014.

	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	28,165	$ 47.87	30,237
Equity compensation plans not approved by stockholders	—	—	—
Total	28,165	$ 47.87	30,237

(1) Shares in thousands.

Item 13. Certain Relationships and Related Transactions and Director Independence

We refer you to our Proxy Statement for the 2015 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 2015 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, 2014, as provided in Item 8 hereof:

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 Registrant's 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).
3.1F*	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 September 3, 2014 (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 September 3, 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 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*	Second Amended and Restated Credit Agreement, dated as of July 24, 2014, 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 quarter ended June 30, 2014 (Commission File No. 001-01011).
10.13*	Supplemental Retirement Plan for Select Senior Management of CVS Health 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).
10.14*	CVS Health 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).
10.15*	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).
10.16*	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; Commission File No. 011-01011).
10.17*	CVS Health Deferred Stock Compensation Plan (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. 011-01011).
10.18	CVS Health Deferred Compensation Plan, as amended and restated as of December 17, 2014.
10.19*	2010 Incentive Compensation Plan, as amended through January 15, 2013 (incorporated by reference to Exhibit 10.30 to the Registrant's Annual Report on Form10-K for the fiscal year ended December 31, 2012; Commission File No. 001-01011).
10.20*	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).
10.21	The Registrant's 2014 Management Incentive Plan.
10.22	The Registrant's 2014 Executive Incentive Plan.

10.23*	The Registrant's Long-Term Incentive Plan (incorporated by reference to Exhibit 10.21 to the Registrant's Annual Report on Form10-K for the fiscal year ended December 31, 2013; Commission file No. 001-01011).
10.24	The Registrant's Partnership Equity Program amended as of December 2014.
10.25*	The Registrant's Severance Plan for Non-Store Employees amended as of April 2013 (incorporated by reference to Exhibit 10.23 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013; Commission File No. 001-01011).
10.26	The Registrant's Performance-Based Restricted Stock Unit Plan amended as of December 2014.
10.27	Form of Enterprise Non-Competition, Non-Disclosure and Developments Agreement between the Registrant and certain of the Registrant's executive officers (incorporated by reference to Exhibit 10.25 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013; Commission File No. 001-01011).
10.28*	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).
10.29	Form of Non-Qualified Stock Option Agreement between the Registrant and selected employees of the Registrant.
10.30	Form of Restricted Stock Unit Agreement - Annual Grant - between the Registrant and selected employees of the Registrant.
10.31	Form of Performance-Based Restricted Stock Unit Agreement between the Registrant and selected employees of the Registrant.
10.32	Form of Partnership Equity Program Participant Purchased RSUs, Company Matching RSUs and Company Matching Options Agreement (Pre-Tax).
10.33	Form of Partnership Equity Program Participant Purchased RSUs, Company Matching RSUs and Company Matching Options Agreement (Post-Tax).
10.34*	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).
10.35*	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).
10.36	Form of Non-Qualified Stock Option Agreement between the Registrant and the Registrant's President and Chief Executive Officer.
10.37	Form of Restricted Stock Unit Agreement between the Registrant and the Registrant's President and Chief Executive Officer.
10.38*	Amendment dated January 22, 2015 to Nonqualified Stock Option Agreements between the Registrant and the Registrant's President and Chief Executive Officer (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated January 20, 2015; Commission File No. 001-01011).
10.39*	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).
10.40*	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).

10.41*	Change in Control Agreement dated December 22, 2008 between the Registrant and the Registrant's Executive Vice President and President of CVS/caremark (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).
10.42*	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; 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).
10.43	Change in Control Agreement dated December 22, 2008 between the Registrant and the Registrant's Executive Vice President and President of CVS/pharmacy.
10.44	Amendment dated as of December 31, 2012 to the Change in Control Agreement between the Registrant and the Registrant's Executive Vice President and President of CVS/pharmacy.
10.45*	Change in Control Agreement dated December 1, 2008 between the Registrant and the Registrant's Executive Vice President and Chief Medical Officer (incorporated by reference to Exhibit 10.43 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013; Commission File No. 001-01011).
13	Portions of the 2014 Annual Report to Stockholders of CVS Health 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 Health Corporation Annual Report on Form 10-K for the year ended December 31, 2014 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 HEALTH CORPORATION

Date: February 10, 2015

By: /s/ DAVID M. DENTON

David M. Denton

Executive Vice President and Chief Financial Officer

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

Signature	Title(s)	Date
/s/ RICHARD M. BRACKEN **Richard M. Bracken**	Director	February 10, 2015
/s/ C. DAVID BROWN II **C. David Brown II**	Director	February 10, 2015
/s/ EVA C. BORATTO **Eva C. Boratto**	Senior Vice President - Controller and Chief Accounting Officer (Principal Accounting Officer)	February 10, 2015
/s/ DAVID M. DENTON **David M. Denton**	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 10, 2015
/s/ NANCY-ANN M. DEPARLE **Nancy-Ann M. DeParle**	Director	February 10, 2015
/s/ DAVID W. DORMAN **David W. Dorman**	Chairman of the Board and Director	February 10, 2015
/s/ ANNE M. FINUCANE **Anne M. Finucane**	Director	February 10, 2015
/s/ LARRY J. MERLO **Larry J. Merlo**	President and Chief Executive Officer (Principal Executive Officer) and Director	February 10, 2015
/s/ JEAN-PIERRE MILLON **Jean-Pierre Millon**	Director	February 10, 2015
/s/ RICHARD J. SWIFT **Richard J. Swift**	Director	February 10, 2015
/s/ WILLIAM C. WELDON **William C. Weldon**	Director	February 10, 2015
/s/ TONY L. WHITE **Tony L. White**	Director	February 10, 2015

CVS HEALTH CORPORATION

Deferred Compensation Plan

as amended and restated as of December 17, 2014

CVS HEALTH CORPORATION
DEFERRED COMPENSATION PLAN

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ARTICLE I – INTRODUCTION

1.01 Name of Plan

CVS Health Corporation (the "Corporation") hereby adopts the CVS Health Deferred Compensation Plan (the "Plan") as amended and restated as of December 31, 2008 and further amended as of December 17, 2014.

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 Health 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.

Effective on or after March 6, 2014, the term "Affiliate" means a subsidiary of the Corporation.

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.

Effective January 1, 2015, Operations Performance Incentives shall be excluded from the definition of Annual Cash Incentive.

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 to be 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.

Effective September 3, 2014, CVS Caremark Corporation was changed to CVS Health 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.

Effective September 3, 2014, the definition of Future Fund was changed to the "401(k) Plan and the Employee Stock Ownership Plan of CVS Health 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.

Effective September 3, 2014, Plan shall mean the CVS Health 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 1 st 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 under this Plan shall be calculated with respect to the gross cash compensation payable to the Participant prior to any deductions (e.g., 401(k) deferrals) or withholdings. However, the Deferrals shall be reduced by the Plan Committee as necessary if it is later determined, after Deferrals are made under this Plan and after additional deduction of all required income and employment taxes, 401(k) and other employee benefit deductions, and other deductions required by law, that all such total deferrals will exceed 100% of the available cash compensation of the Participant. 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 futher 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 Incentative or Commissions in effect at that time shall be cancelled. Any Base Salary, Annual Cash Incentative 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.

In addition, if the Participant is not eligible to contribute to Future Fund during the Plan Year but is eligible to contribute to another qualified defined contribution plan maintained by the Corporation or an Affiliate during that Plan Year, the amount under this clause (ii) shall equal, unless otherwise provided by the Plan Committee, 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 such other qualified defined contribution plan for that Plan Year had been made to Future Fund.

Notwithstanding the foregoing, for purposes of determining the Lost Matching Contributions to be credited under this Section 4.04(a), Years of Service with respect to a Participant employed by Red Oak Sourcing, LLC, the limited liability corporation formed pursuant to the Framework Agreement between CVS Pharmacy, Inc. and Cardinal Health 110 Inc., dated December 10, 2013, ("Cardinal"), who immediately prior to becoming employed by Red Oak Sourcing, LLC was employed by Cardinal, shall include the period of such Participant 's employment rendered with Cardinal.

(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 exisiting 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 Particpant 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 Interium 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 Decemeber 31, 2008) to a later Specific Future Year (or, if applicable, a later Interium Distribution date) by duly completing, executing and filing with the Plan Committee a new Specific Future Year election (or Interium 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 Interium 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 Interium Distribution date) shall be a calendar year that is not less than five (5) years from the Specific Future Year (or Interium Distribution date) then in effect.

Notwithstanding the forgoing, 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 Interium 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 shalll 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 absence 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 distributes 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 Deferal 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 distributes 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 ACOUNT 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 I – 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 Particpant'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 provisons 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 Particpant shall not elect installments in excess of ten years or quarterly installments.

6.03 Disability Distributions

A Particpant shall be entitled to distribution under this Section if such Particpant 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 then the date in effect prior to the change election.

CVS CAREMARK 2014 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 paid will be based on the performance of the Company and the performance of the individual Eligible Participant.

The MIP shall be administered by the Management Planning and Development Committee (the "Committee") of the Board of Directors (the "Board") under the provisions herein and of the 2010 Incentive Compensation Plan (the "ICP"), and the Committee 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, 2014 ("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 (including the Executive Incentive Plan) 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 under the MIP 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 MIP. 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. Position Change

An employee who becomes an Eligible Participant on or before November 1 of the Plan Year as a result of a position change may be eligible for a prorated MIP award. If a position change results in an 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 position change from one MIP-eligible position to another MIP-eligible postion 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, Pharmacy Benefit Management ("PBM") Client Satisfaction, and Retail Customer Service as defined below. Achievement of the Company's Operating Profit target will determine 80% of the total funding (the "Total Pool"); achievement of PBM Client Satisfaction targets will determine 10% of the Total Pool; and achievement of the Retail Customer Service target, as measured by 'myCustomer Experience' scores, will determine the remaining 10% of the Total Pool.

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

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

2. **PBM Client Satisfaction**
Achievement of the PBM Client Satisfaction component of incentive funding will be determined by the aggregate actual performance against target (see Exhibit B) of the weighted composite of the following surveys:

- Client Relationship and Loyalty Survey (weight = 50%)
- Mail Service Pharmacy and Customer Care Survey (weight = 30%)
- Specialty Pharmacy Satisfaction Survey (weight = 20%)

PBM Client 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 B). 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
Operating Profit	80%	Earnings Before Interest and Taxes ("EBIT")	2014 EBIT Goal	CEO & Committee Discretion [1] Financial Adjustments
PBM Client Satisfaction	10%	Client Relationship and Loyalty, Customer Care, Mail Service and Specialty Surveys	2014 PBM Client Satisfaction Target	Operating Profit Funding
Retail Customer Service	10%	myCustomer Service Scorecard	2014 myCustomer Experience Target	Operating Profit Funding

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

B. <u>Total Pool Funding</u>
After the achievement of at least threshold for Operating Profit has been confirmed, performance of PBM Client Satisfaction and Retail Customer Service 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 or, in the case of Section 162(m) Eligible Participants, the Committee may adjust the funding of the Total Pool at his or her or its 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) assessment of the achievement of Plan Year performance goals. In no case, however, can the CEO or the Committee increase Total Pool funding due to PBM Client Satisfaction or Retail Customer Service results.

C. <u>Individual Performance</u>
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 detemined in the sole discretion of the Company, which shall be final, binding and conclusive as to all parties having an interest therein. 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, which shall be final, binding and conclusive as to all parties having an interest therein.

D. <u>Strategic Growth Initiatives</u>

Incentive awards for certain Eligible Participants may take into account achievement of the Company's Strategic Growth Initiatives (SGIs) as a component of the MIP (see Exhibit C). The SGIs reflect activity-based and financial metrics. Progress on the achievement of each initiative is monitored on a quarterly basis using a scorecard approach. For certain Eligible Participants, SGIs may be incorporated into the MIP calculation as follows:

- Corp VPs and above (including BPC): 25% of MIP award based on SGI results
- Initiative Leaders and Members: 50% based on SGI results, and 50% on other objectives

The Chief Executive Officer will recommend portfolio payout, applying a discount for underperformance and a premium for exceeding expectations. This modifier can range from +/- 25% of funding. In the case of Section 162(m) Eligible Participants, the Committee shall determine the award payout, applying a discount for underperformance and a premium for exceeding expectations. This modifier can range from +/- 25% of the individual's award, but in no event can the award exceed the amount of the Total Pool that was established by the Committee for the Section 162(m) Eligible Participant for the Plan Year.

V. <u>Earnings and Payout</u>

A. <u>Timing</u>
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 determined for each eligible participant, 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 full 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 the full 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 full 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 full 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 full 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 Percentage of 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 92.5% of the Total Pool. To discourage unmerited litigation, any party or class asserting a challenge or claim against the Company under any provision of the MIP, including this Section V, shall bear their own costs relating to such challenge or claim, and if the challenge or claim is unsuccessful, such party or class shall reimburse the Company for all reasonable costs incurred by the Company in responding to such challenge or claim.

VI. Corrections to Incentive Awards
Any requested 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
Subject to the requirements of Section 162(m), the Company has full discretion in determining the amount, if any, of a MIP award to an Eligible Participant, including Eligible Participants whose awards may be based on SGIs, 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, at the Company's discretion, to receive a prorated incentive award based on the number of months worked during the Plan Year and incentive targets in place immediately before the separation date, 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 and incentive targets in place immediately before the termination date, 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 incentive targets in place immediately before the termination date, 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 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 targets or awards or eligibility in place immediately before the date of the change in control or such later 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 Definition 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 (7^{th}) 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.

CVS CAREMARK 2014 Executive Incentive Plan

I. Objectives and Summary

CVS Caremark Corporation's Executive Incentive Plan (the "Plan") governs annual incentive awards for certain key executive officers of CVS Caremark Corporation and its subsidiaries (together, "the Company"). The purpose of the Plan is to reward certain key executive officers of the Company for their material contributions to the Company and to motivate them to continue making such contributions in the future. The Plan is intended to provide performance -based compensation within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), and the provisions of the Plan shall be construed and interpreted to effectuate such intent.

The Management Planning and Development Committee (the "Committee") of the Board of Directors (the "Board") shall administer the Plan under the provisions herein and of the 2010 Incentive Compensation Plan (the "ICP") and shall have authority, without limitation, to determine the Participants (as defined in Section III), to determine the terms and conditions of any Award (as defined in Section III) and to interpret the Plan. Subject to the provisions of Section 162(m) of the Code, the Committee may, in its sole discretion, delegate to officers of CVS Caremark the authority to perform administrative functions of the Plan as the Committee may determine and may appoint officers and others to assist it in administering the Plan.

II. Plan Year

The Plan is a calendar year plan, which runs from January 1 to December 31 ("Plan Year").

III. Eligible Participants

Within 90 days after the start of the applicable Plan Year, the Committee shall designate the key executives of the Company who are eligible to participate in the Plan for the Plan Year (each, a "Participant") and to receive an award under the terms of the Plan (an "Award"). The Participants for the Plan Year shall be set forth in the Exhibit A to the Plan related to the Plan Year ("Exhibit A"). Except as the Committee may otherwise determine, it is intended that the Participants for any Plan Year shall include all employees who are treated as "covered employees" within the meaning of Section 162(m)(3) of the Code for that Plan Year and whose compensation for such Plan Year consequently may be subject to the limit on deductible compensation imposed by Section 162(m) of the Code. The Committee may designate a key executive as a Participant after the first 90 days of the applicable Plan Year, but only if the key executive is a new employee of the Company.

IV. Bonus Pool

A. For each Plan Year, the Company will establish a pool of funds for that Plan Year in an amount equal to 0.5% of the Company's Adjusted Net Income for the Plan year (the "Bonus Pool"). For purposes of the Plan, "Adjusted Net Income" is defined as adjusted income from continuing operations attributable to CVS Caremark as reported by the Company in its year-end earnings. Within 90 days of the start of the Plan Year, the Committee may make provision for excluding from the calculation of the Bonus Pool the effect of extraordinary events and changes in accounting methods, practices or policies.

B. Within 90 days of the start of each Plan Year, the Committee will designate a percentage of the Bonus Pool to be allocated to each Participant and a percentage to be reserved in the event the Committee wishes to allocate a percentage to a new Participant, if any, after the first 90 days of the applicable Plan Year. The allocations will be set forth in the Exhibit A for the Plan Year. The maximum allocation that may be made to any Participant for a Plan Year will be 40%, and in no event shall the allocations, in the aggregate, exceed 100% of the Bonus Pool. Regardless of the foregoing, in no event shall any Participant be entitled to receive more than his or her individual cap as set forth in Exhibit A for the Plan Year.

V. Awards

A. Following the completion of each Plan Year, the Committee shall certify in writing the amount of the Bonus Pool and the actual Award amount, if any, payable to each Participant for such Plan Year. Subject to Section V.B, the actual Award amount payable to a Participant shall equal his or her allocable percentage of the Bonus Pool as certified by the Committee.

B. The Committee in its sole and exclusive discretion may reduce (including a reduction to zero) the Award to a Participant otherwise payable under the Plan for the Plan Year at any time prior to the payment of the Award to the Participant. The exercise of such negative discretion with respect to one Participant shall not result in an increase in the amount payable to any other Participant.

VI. Payment of Awards

A. Subject to Section V, a Participant shall receive payment of an Award if he or she remains employed by the Company through the final determination of incentive awards for the Plan Year; provided, however, that no Participant shall be entitled to payment of an Award hereunder until the Committee makes the certification provided for in Section V. The final determination of incentive awards generally occurs in February of the year following the Plan Year.

B. Awards shall be paid in cash or in any other form prescribed by the Committee and shall be paid to Participants as soon as administratively feasible following the date that annual bonuses are determined and approved for Company employees generally, but in any case on or before March 15 of the year immediately following the Plan Year. Awards may be subject to garnishments and other state or federal tax withholding requirements.

C. Calculations for full and partial awards will be based on each Participant 's annual base salary and individual target opportunity as of December 31st 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 a 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 full month will be excluded from incentive calculations.

2. If a 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 full month will be included in the incentive calculations.

VII. Retirement and Death

A. If a Participant is at least age 55 and has a minimum of 10 years of service with the Company **or** is at least age 60 and has a minimum of 5 years of service with the Company **and** the Participant retires before the end of the Plan Year, he/she may be eligible to receive a prorated Award based on the number of months worked during the Plan Year, provided he/she meets all other eligibility criteria for an Award. 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 <u>not</u> be eligible for an Award.

B. In the case of the death of a Participant before the end of the Plan Year, a prorated Award may be paid to the Participant's spouse, if living; otherwise, a prorated Award may be paid in equal shares to surviving children of the Participant. If there are no surviving children, a prorated Award may be paid to the Participant 's estate. If an Award is paid, the Award will be prorated based on the number of months the Participant worked during the Plan Year.

VIII. Miscellaneous

A. No Promise of Continued Employment

The Plan does not create an express or implied contract of employment between the Company and a Participant. Both the Company and the 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 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 Plan. Payments are non-assignable and non-transferable, whether voluntarily or involuntarily.

C. Compliance with Applicable Law

A Participant must comply with all applicable state and federal law and the policies of the Company to be eligible to receive an Award under the Plan.

The Company will comply with all applicable laws concerning incentive awards; the Plan 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 the Company, as defined in the ICP, the Plan shall remain in full force and effect. Any amendments, modifications, termination or dissolution of the Plan 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 Participants shall supersede those appearing in the Plan.

E. Withholding

All required deductions will be withheld from the 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. Awards that are deferred will be taxed according to applicable federal and state tax law. Each Participant shall be solely responsible for any tax consequences of his or her Award hereunder.

F. Amendment/Modification/Termination

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

G. Interpretation

All inquiries with respect to the Plan and any requests for interpretation of any provision in the Plan must be submitted to the Committee in writing. Failure to submit a request for resolution of a dispute or question in writing within 30 days of distribution of the Award shall result in a waiver of the Participant 's rights to dispute the Plan provision or amount of the 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 Plan, the terms of the ICP shall govern.

H. Recoupment of Incentive Awards

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 a Participant to immediately repay to the Company the value of any pre-tax economic benefit that he or she may derive from the Plan.

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 Definition Document are hereby incorporated by reference. Notwithstanding any other provision of the Plan or any Award to the contrary, to the extent required to avoid a violation of Section 409A, payment of any amounts to "specified employees" shall be delayed until the first business day of the seventh (7th) month following the date of 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.

CVS Health

Partnership Equity Program

Partnership Equity Program

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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 Purchased RSUs, 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(B) 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 under Section VIII(A) of the PEP, 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 down 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 dividend 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 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 not 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 vesting 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 (10^{th}) 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) Involuntary Termination of Participant's Employment without Cause.

(i) In the event that the Company terminates 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 not be subject to any transfer or sale restrictions;

(b) any Participant Purchased RSUs not settled at the time of Participant's employment termination date shall 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 (90^{th}) 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 not be subject to any transfer or sale restrictions, and any Participant Purchased RSUs shall settle on the Participant's termination date. 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 or Company Matching Option 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 settlement of Participant Purchased RSUs and the vesting and settlement of 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 not be subject to any transfer or sale restrictions. In addition, any Company Matching RSUs shall be vested and settle in accordance with the regular schedule set forth in the applicable Award and any Company Matching Option shall vest and be exercisable during the twelve (12) month period following Participant's employment termination date, 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 not be subject to any transfer or sale restrictions. In addition, all Company Matching RSUs shall vest and settle on Participant's date of death and Company Matching Options shall become immediately vested in full. The Company Matching Option may be exercised during the twelve (12) month period following the Participant's date of 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 not be 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.

CVSHealth

CVS Health Corporation

Performance-Based Restricted Stock Unit Plan

I. Objectives and Summary

The objective of the CVS Health 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 non-prorated 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. Participants

Unless the Committee is required to make such determinations under applicable law or the 2010 ICP, the CEO or the CEOs designee shall determine which Eligible Employees will receive an award under the PBRS Plan (a "PBRS Award"). All such determinations, whether by the CEO, the CEOs designee, 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 "PBRS Award Date" shall be the last business day of February of the PBRS Plan Year, 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, the CEOs designee or the Committee, as the case may be.

D. 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) Termination of Employment During the PBRS Plan Year

a) **In General.** Except as provided in paragraphs (ii)-(iv) below, if for any reason the employment of an Eligible Employee with the Company and any subsidiary of the Company terminates during a PBRS Plan Year, the Eligible Employee will not receive a PBRS Award for that PBRS Plan Year.

b) **Retirement.** If an Eligible Employee is at least age 55 and has a minimum of 10 years of service with CVS Health or a predecessor company/subsidiary **or** is at least age 60 and has a minimum of 5 years of service with CVS Health or a predecessor company/subsidiary **and** the Eligible Employee retires prior to the last day of the PBRS Plan Year, he or she may receive a PBRS Award. Such PBRS Award may be payable in cash at the same time PBRS Awards are made to other Eligible Employees 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, provided he or she meets all other eligibility criteria for a PBRS Award.

c) **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.

d) **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 retirement, death or long-term disability, as defined above in this section, 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.

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 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. 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.

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 Health 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 business day of the seventh month 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

Consolidated Operating Profit (EBIT)[1]		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%

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

CVS Pharmacy, Inc.
Restrictive Covenant Agreement

I, ______________________________________, enter into this Restrictive Covenant Agreement ("Agreement") with CVS Pharmacy, Inc. ("CVS"), which is effective as of the date I sign the Agreement (the "Effective Date"). In consideration of the mutual promises in this Agreement, the parties agree as follows:

1. **Consideration for Agreement**. In connection with my duties and responsibilities at CVS Caremark Corporation or one of its subsidiaries or affiliates (collectively, the "Corporation"), the Corporation will provide me with 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 addition, the Corporation has awarded me restricted stock units contingent on the execution of this Agreement and compliance with its terms.

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 will not, directly or indirectly, engage in Competition or provide Consulting or Audit Services within the Restricted Area.

a. **Competition**. Engaging in "Competition" means 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, 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. If a 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 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 in violation of this Agreement. 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 calendar 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 offerings of the Corporation. As of the Effective Date, the Corporation 's business offerings include: (i) pharmacy benefits management ("PBM"), including: (a) the administration of pharmacy benefits for businesses, government agencies and health plans; (b) mail order pharmacy; (c) specialty pharmacy, including but not limited to infusion and related services; (d) 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"). 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. The Parties acknowledge that both the Corporation's products and services and the entities that compete with the Corporation 's products and services evolve and that an entity will be considered a Competitor if it provides products or services competitive with the products and services provided by the Corporation within the last two years of your employment.

Given my role in the Corporation, I 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.

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 or prospective relationship between the Corporation and any third party, including but not limited to PBM clients, suppliers or vendors and that is likely to result in the use or disclosure of Confidential Information.

d. **Non-Competition Period**. The "Non-Competition Period" shall be the period of 18 months following the termination of my employment with the Corporation for any reason.

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. To the extent I worked on international projects in Brazil and/or Ireland or other countries where the Corporation may conduct business, the Restricted Area includes those countries and prospective countries.

3. Non-Solicitation. 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:

a. 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: (i) induce or encourage the Business Partner to 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 business. "Business Partner" means: a customer (person or entity), prospective customer (person or entity), supplier, manufacturer, broker, hospital, hospital system, and/or pharmaceutical company 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 customer, supplier, manufacturer, broker, hospital, hospital system, pharmaceutical company that has fully and finally ceased doing any business with the Corporation independent of any conduct or communications by me or breach of this Agreement. 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. work on a Corporation account on behalf of a Business Partner or serve as the representative of a Business Partner for the Corporation.

c. interfere with the Corporation 's relationship with any employee or contractor of the Corporation by: (i) soliciting or communicating with the employee or contractor to induce or encourage him or her to leave the Corporation 's employ or engagement (regardless of who first initiates the communication); (ii) helping another person or entity evaluate such employee or contractor as an employment or contractor candidate; or (iii) otherwise helping any person or entity hire an employee or contractor away from 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, disclose 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; 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 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. During my employment, I shall not make, use, or permit to be used, any 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 the Corporation. I shall not, after the termination of my employment, use or permit to be used any such materials and shall return same in accordance with Section 5 below.

5. Ownership and Return of the Corporation's Property. 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. I agree that all the items described in this Section are the sole property of the Corporation.

6. Rights to Inventions, Works.

a. **Assignment of Inventions**. All inventions, original works of authorship, developments, concepts, improvements, designs, discoveries, ideas, trademarks or trade secrets, whether patentable or otherwise protectable under similar law, made, conceived or developed by me, whether alone or jointly with others, from the date of my initial employment by the Corporation and continuing until the end of any period during which I am employed by the Corporation, relating or pertaining in any way to my employment with or the business of the Corporation (collectively referred to as "Inventions") shall be promptly disclosed in writing to the Corporation. I hereby assign to the Corporation, or its designee, all of my rights, title and interest to such Inventions. 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. The decision whether 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 no royalty will be due to me as a result of the Corporation 's efforts to commercialize or market any such Invention.

b. **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 ("Prior Inventions"), which belong to me and are not assigned to the Corporation hereunder. If no such list is attached, I represent that there are no such Prior Inventions. 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.

c. **Patent and Copyright Registrations**. I will 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, 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. 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.

d. **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 testify or produce Confidential Information or any other information or 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 will 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. **Limitation on Restrictions**. Nothing in this Agreement is intended to or shall interfere with my right to file charges or participate in a proceeding with any appropriate federal, state or local government agency, including the Equal Employment Opportunity Commission or the National Labor Relations Board, or to prohibit me from communicating or cooperating with any such agency in its investigation.

9. **Eligibility for Severance Pay**. If my employment with the Corporation terminates under circumstances in which I am eligible for severance under the Corporation's Severance Plan for Non-Store Employees (the "Severance Plan"), the Corporation will offer me severance in accordance with the Severance Plan and the length of the Non-Competition Period will match the length of the severance period. I acknowledge that the Severance Plan sets forth pre-requisites I must meet in order to receive severance, including but not limited to execution of the Corporation's standard separation agreement and release of claims. In the event that the Corporation fails to comply with its obligations to offer me severance according to the Severance Plan, then Section 2 of this Agreement shall be of no further effect. I agree that if I decline the Corporation's offer of severance, I shall continue to be subject to the restrictions in Section 2.

10. **Injunctive Relief**. Any breach of this Agreement by me will cause irreparable damage to the Corporation and, 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.

11. **No Right of Continued Employment**. This Agreement does not create an obligation on the Corporation or any other person or entity to continue my employment.

12. **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.

13. **Entire Agreement/No Reliance/No Modifications**. This Agreement and any compensation, benefit or equity plan or agreement referred to herein including the CVS Caremark Corporation Change in Control Agreement ("CIC Agreement"), to the extent those other agreements apply to me, 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 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.

14. **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.

15. **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.

16. **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.

17. **Corporation's Right to Assign Agreement**. 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.

18. **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.

19. **Governing Law; Headings**. This Agreement shall be governed by and construed in accordance with the laws of the state of Rhode Island. 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. **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.

IN WITNESS WHEREOF, the undersigned has executed this Agreement as a sealed instrument as of the date set forth below.

__________________________ /s/ Lisa Bisaccia

Lisa Bisaccia
Chief Human Resources Officer
CVS Pharmacy, Inc.

____
Employee ID

Date: ______________________

EXHIBIT A

List of Prior Inventions – See Section 6

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 __, 2014

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:

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. Upon the exercise by the Transferee, all applicable employment taxes will be due from the Participant and all taxable earnings and tax withholding amounts associated with such exercise by Transferee will be included in the Participant Form W2 in the year of exercise.

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 (90^{th}) 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 8 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, 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, Compensation & Benefits, 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.

17. ACCEPTANCE. 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 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, 2014

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 **$XX.XX**.

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 on the Vesting Date(s) set forth herein, , or as soon as administratively possible thereafter, 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 RSUs shall vest on the third anniversary of the Grant Date;
(b) 50% of the RSUs 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.

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 as of the employment termination date 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. Any Shares represented by RSUs that vest under this section shall settle in accordance with the original schedule set forth in Section 4 of this Agreement.

(ii) In the event 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 a "Qualified Retirement", the remaining unvested RSUs shall vest as of the employment termination date 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 Any Shares represented by RSUs that vest under this section shall settle in accordance with the original schedule set forth in Section 4 of this Agreement.

"**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, 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 this Section 7(c) shall be applied first and then the terms of Section 7(e) shall be applied thereafter.

(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 as of the employment termination date 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. Any Shares represented by RSUs that vest under this section shall settle in accordance with the original schedule set forth in Section 4 of this Agreement.

(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 as of the employment termination date 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. . Any Shares represented by RSUs that vest under this section shall settle in accordance with the original schedule set forth in Section 4 of this Agreement.

(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 original schedule set forth in Section 4 of this Agreement. 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(e)(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 of the Company, or transfer from a subsidiary of the Company to the Company shall not be treated as a termination of employment.

(h) Participant will be responsible for any applicable withholding taxes that may become due as of Participant's employment termination date.

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, Compensation & Benefits, 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 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 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 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: ___________

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 **$XX.XX**, 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 (1/3) of the RSUs on the first anniversary of the Grant Date;
   (b) one-third (1/3) of the RSUs on the second anniversary of the Grant Date; and
   (c) one-third (1/3) of the RSUs 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.

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, 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 this Section 7(c) shall apply.

(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 in writing addressed to: CVS Caremark Corporation, Senior Vice President, Compensation & Benefits, 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 business day of the seventh month 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.

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: s/ Lisa G. Bisaccia
Senior Vice President, Chief Human Resources Officer
CVS Caremark Corporation

CVSHealth

Pre Tax

PARTNERSHIP EQUITY PROGRAM
Participant Purchased RSUs, Company Matching RSUs and Company Matching Option Agreement

AGREEMENT, by and between CVS Health 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 **$XXX,XXX** 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 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 Health Common Stock ("Stock") equals **$XX.XX**, 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 **$XXX,XXX** 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, **X,XXX** 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 approved by the Company's Board of Directors by (b) the number of Participant Purchased RSUs and Company Matching RSUs held by Participant on the dividend record date, 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 to 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 Health 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 **XX,XXX** 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)(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) Involuntary **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 Health 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 Health 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 HEALTH CORPORATION

Accepted by: ______________________
[Participant Name]

XXXXXXX______________
EMPLID

____
Date

CVSHealth

PARTNERSHIP EQUITY PROGRAM
Participant Purchased Share, Company Matching RSUs
and Company Matching Option Agreement

AGREEMENT, by and between CVS Health 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 **$XXXXX** 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 Health Common Stock ("Stock") equals **$XX.XX**, 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. <u>PARTICIPANT PURCHASED SHARES AND COMPANY MATCHING RSUs</u>

(A) <u>Participant Purchased Shares</u>.

(i) The Company has received from Participant a completed Election Form pursuant to which the Participant elects to invest the amount of **$XXXXX** 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 unvested 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, **XXXXX** 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 approved by the Company's Board of Directors by (b) the number of Company Matching RSUs held by Participant on the dividend record date 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 (5^{th}) 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 (5^{th}) 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 Health 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 **XXXXX** 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 (10^{th}) 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) **Involuntary 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 (90^{th}) 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 Health 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 Health 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 HEALTH CORPORATION

Accepted by: ______________________________
[NAME]

____
[Employee ID #]

____
Date

CVS CAREMARK CORPORATION
BUSINESS PLANNING COMMITTEE
NONQUALIFIED STOCK OPTION AGREEMENT
ANNUAL GRANT

GRANT DATE: APRIL 1, 2014

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 J. Merlo**
Employee ID:	**XXXXX**
Shares:	**335,697**
Option Price:	**$74.29**

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. Upon the exercise by the Transferee, all applicable employment taxes will be due from the Participant and all taxable earnings and tax withholding amounts associated with such exercise by Transferee will be included in the Participant Form W2 in the year of exercise.

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.

12. **ACCEPTANCE.** 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: /s/ Lisa G. Bisaccia
Lisa G. Bisaccia
Senior Vice President, Chief Human Resources Officer
CVS Caremark Corporation

Accepted By: /s/ Larry J. Merlo
Larry J. Merlo

____
Date

CVS CAREMARK CORPORATION
BUSINESS PLANNING COMMITTEE
RESTRICTED STOCK UNIT AGREEMENT – ANNUAL GRANT
GRANT DATE: APRIL 1, 2014

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 **$74.29**.

Participant:	**Larry J. Merlo**
Employee ID:	**XXXXX**
RSUs (#):	**53,843**

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 RSUs shall vest on the third anniversary of the Grant Date ("Tranche A");
   (b) 50% of the RSUs 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.

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) – (e) 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: /s/ Lisa G. Bisaccia
Lisa G. Bisaccia
Senior Vice President, Chief Human Resources Officer
CVS Caremark Corporation

Accepted By: /s/ Larry J. Merlo
Larry J. Merlo

____
Date

CVS CAREMARK CORPORATION

Change in Control Agreement for

HELENA FOULKES

Page

This Change in Control Agreement ("Agreement") is made and entered into as of December 22, 2008 between CVS Pharmacy, Inc. ("CVS") and Helena Foulkes (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 the Executive (individually a "Party" and together the "Parties) agree as follows:

1. <u>Definitions</u>.

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 of 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. The Base Salary will be determined in accordance with Section 3.a.ii. Such payment of a pro rata annual cash incentive bonus and cash in lieu of Performance-Based Restricted Stock will be 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 arrears; and

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

b. Excise Tax Gross-Up. If while a member of the Business Planning Committee of the Company Executive becomes entitled to one or more payments (with a "payment" including, without limitation, the vesting of an option or other non-cash benefit or property), whether pursuant to the terms of this Agreement or any other plan, arrangement, or agreement with the Company or any affiliated company (the "Total Payments"), which are or become subject to the tax imposed by Code Section 4999 (or any similar tax that may hereafter be imposed) (the "Excise Tax"), the Company shall pay to Executive at the time specified below an additional amount (the "Gross-up Payment") (which shall include, without limitation, reimbursement for any penalties and interest that may accrue in respect of such Excise Tax) such that the net amount retained by the Executive, after reduction for any Excise Tax (including any penalties or interest thereon) on the Total Payments and any federal, state and local income or employment tax and Excise Tax on the Gross-up Payment provided for by this Section 3.b., but before reduction for any federal, state, or local income or employment tax on the Total Payments, shall be equal to the sum of (a) the Total Payments, and (b) an amount equal to the product of any deductions disallowed for federal, state, or local income tax purposes because of the inclusion of the Gross-up Payment in Executive's adjusted gross income multiplied by the highest applicable marginal rate of federal, state, or local income taxation, respectively, for the calendar year in which the Gross-up Payment is to be made. For purposes of determining whether any of the Total Payments will be subject to the Excise Tax and the amount of such Excise Tax:

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

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

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

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

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

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, 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 payout 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 which 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.

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 or Waiver, 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 the applicable rules under all 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 his/her incompetence, references in this Agreement to Executive shall be deemed, where appropriate, to refer to his/her 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 he/she 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:

Helena Foulkes
120 Brown Street
Providence, RI 02905

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 as of the date first written above.

CVS Pharmacy, Inc.

By: /s/ V. Michael Ferdinandi

Name: V. Michael Ferdinandi

Title: Senior Vice President
Human Resources, Corporate
Communications and Community
Relations

Executive

/s/ Helena Foulkes

Helena Foulkes

Senior Vice President, Health Care Services

Amendment

to the CVS Caremark Corporation Change in Control Agreement for

Helena Foulkes

This Amendment to the CVS Caremark Corporation Change in Control Agreement for Helen Foulkes (the "Agreement") is made and entered into as of December 31, 2012 between CVS Pharmacy, Inc. (the "Company") and Helena Foulkes (the "Executive").

WHEREAS, the Management, Planning and Development Committee of the Board of Directors of CVS Caremark Corporation believes it is necessary and desirable to make certain changes to the Agreement in connection with the benefits to be provided to the Executive in the event of a pending or actual change in control of the Company; and

WHEREAS, Section 13 of the Agreement allows for the amendment of the Agreement pursuant to an agreement in writing signed by the Executive and an authorized officer of the Company;

NOW, THEREFORE, in consideration of the promises and mutual covenants contained herein and for other good and valuable consideration, the receipt of which is mutually acknowledged, the Company and the Executive agree as follows, effective as of the date of this Amendment:

1. The definition of "Constructive Termination Without Cause" in Section 1.g. of the Agreement shall be revised to read as follows:

   "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 materially inconsistent with Executive's status as a member of the senior management of CVS Caremark;

   ii. a material decrease in Executive's annual base salary or target annual incentive award opportunity;

   iii. the failure to secure the agreement of any successor to CVS Caremark to fully assume the Company's material obligations under this Agreement; or

   iv. a relocation of Executive's principal place of employment more than 35 miles from Executive's principal place of employment before such relocation.

   In all cases, no Constructive Termination Without Cause shall be deemed to have occurred unless (a) the Executive provides written notice to the Company that an event described in subsections i. through iv. has occurred, and such notice identifies such event and is provided within 30 days of the initial occurrence of such event, (b) a cure period of 45 days following the Company's receipt of such written notice expires and the Company has not cured the event within such cure period and (c) the Executive actually terminates her employment within 30 days of the expiration of the cure period.

2. Section 3.b., <u>Excise Tax Gross-Up</u>, of the Agreement shall be deleted in its entirety and replaced with the following new Section 3.b.:

Change in Control Best Payments Determination. In the event that the severance payments and benefits described in Section 3.a. of this Agreement (the "Severance Benefits") and in any other plan, arrangement or agreement with the Company or any affiliated company (together with the Severance Benefits, the "Total Benefits") 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 any other provision of the Agreement, the Company shall reduce the Severance Benefits (the "Benefit Reduction") under this Agreement 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 Total Benefits 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 Total Benefits that Executive is entitled to receive under this Agreement and any other plan, arrangement or agreement with the Company or any affiliated company 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.

3. All other terms and conditions of the Agreement shall remain unchanged and in effect.

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

CVS Pharmacy, Inc.

By: /s/ Lisa G. Bisaccia

Name: Lisa G. Bisaccia

Title: Senior Vice President and Chief Human Resource Officer

Executive

/s/: Helena B. Foulkes

Name: Helena Foulkes

Title: Exective Vice President and Chief Health Care Strategy and Marketing Officer

Exhibit 13

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 Health Corporation, together with its subsidiaries (collectively "CVS Health," the "Company," "we," "our" or "us"), is a pharmacy innovation company helping people on their path to better health. At the forefront of a changing health care landscape, the Company has an unmatched suite of capabilities and the expertise needed to drive innovations that will help shape the future of health.

We are currently the only integrated pharmacy health care company with the ability to impact consumers, payors, and providers with innovative, channel-agnostic solutions. We have a deep understanding of their diverse needs through our unique integrated model, and we are bringing them innovative solutions that help increase access to quality care, deliver better health outcomes, and lower overall health care costs.

Through our 7,800 retail pharmacies, more than 900 walk-in medical clinics, a leading pharmacy benefits manager with more than 65 million plan members, and expanding specialty pharmacy services, we enable people, businesses, and communities to manage health in more effective ways. We are delivering break-through products and services, from advising patients on their medications at our CVS/pharmacy® locations, to introducing unique programs to help control costs for our clients at CVS/caremark™, to innovating how care is delivered to our patients with complex conditions through CVS/specialty™, or by expanding access to high-quality, low-cost care at CVS/minuteclinic™.

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

Overview of Our Pharmacy Services Segment

Our Pharmacy Services business generates revenue from a full range of PBM services, including plan design and administration, formulary management, 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.

Our clients are primarily employers, insurance companies, unions, government employee groups, health plans, Managed Medicaid plans and other sponsors of health benefit plans, and individuals throughout the United States. A portion of covered lives primarily within the Managed Medicaid, health plan and employer markets have access to our services through public and private exchanges.

As a pharmacy benefits manager, we manage the dispensing of pharmaceuticals through our mail order pharmacies, specialty pharmacies and national network of more than 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™, CarePlus CVS/pharmacy® and Navarro Health Services® 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. In January 2014, we enhanced our offerings of specialty infusion services and began offering enteral nutrition services through Coram LLC and its subsidiaries (collectively, "Coram"), which we acquired on January 16, 2014. We completed the roll out of Specialty Connect™ in May 2014, which integrates our specialty pharmacy mail and retail capabilities, providing members with disease-state specific counseling from our experienced specialty pharmacists and the choice to bring their specialty prescriptions to any CVS/pharmacy location. Whether submitted through our mail order pharmacy or at CVS/pharmacy, all prescriptions are filled through the Company's specialty mail order pharmacies, so all revenue from this specialty prescription services program is recorded within the Pharmacy Services Segment. Members then can choose to pick up their medication at their local CVS/pharmacy or have it sent to their home through the mail.

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 4.4 million beneficiaries through SilverScript, including our individual and employer group waiver plans.

The Pharmacy Services Segment operates under the CVS/caremark™ Pharmacy Services, Caremark®, CVS/caremark™, CarePlus CVS/pharmacy®, RxAmerica®, Accordant®, SilverScript®, Coram®, CVS/specialty™, NovoLogix® and Navarro® Health Services names. As of December 31, 2014, the Pharmacy Services Segment operated 27 retail specialty pharmacy stores, 11 specialty mail order pharmacies, four mail order dispensing pharmacies, and 86 branches and six centers of excellence for infusion and enteral services located in 40 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, personal care products, convenience foods, photo finishing, seasonal merchandise and greeting cards through our CVS/pharmacy®, CVS®, Longs Drugs®, Navarro Discount Pharmacy® and Drogaria Onofre™ retail stores and online through CVS.com®, Navarro.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 nearly 24,000 retail pharmacists. The role of our retail pharmacists is shifting from primarily dispensing prescriptions to also providing services, including flu vaccinations as well as face-to-face patient counseling with respect to adherence to drug therapies, closing gaps in care, and more cost-effective drug therapies. Our integrated pharmacy services model enables us to enhance access to care while helping to lower overall health care costs and improve health outcomes.

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, 2014, our Retail Pharmacy Segment included 7,822 retail drugstores (of which 7,765 operated a pharmacy) located in 44 states, the District of Columbia, Puerto Rico and Brazil operating primarily under the CVS/pharmacy®, CVS®, Longs Drugs®, Navarro Discount Pharmacy® and Drogaria Onofre™ names, 17 onsite pharmacies primarily operating under the CarePlus CVS/pharmacy®, CarPlus® and CVS/pharmacy® names, and 971 retail health care clinics operating under the MinuteClinic® name (of which 963 were located in CVS/pharmacy stores), and our online retail websites, CVS.com®, Navarro.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

In millions, except per common share amounts	Year Ended December 31, 2014	2013	2012
Net revenues	$ 139,367	$ 126,761	$ 123,120
Cost of revenues	114,000	102,978	100,632
Gross profit	25,367	23,783	22,488
Operating expenses	16,568	15,746	15,278
Operating profit	8,799	8,037	7,210
Interest expense, net	600	509	557
Loss on early extinguishment of debt	521	—	348
Income before income tax provision	7,678	7,528	6,305
Income tax provision	3,033	2,928	2,436
Income from continuing operations	4,645	4,600	3,869
Loss from discontinued operations, net of tax	(1)	(8)	(7)
Net income	4,644	4,592	3,862
Net loss attributable to noncontrolling interest	—	—	2
Net income attributable to CVS Health	$ 4,644	$ 4,592	$ 3,864
Diluted earnings per common share:			
Income from continuing operations attributable to CVS Health	$ 3.96	$ 3.75	$ 3.02
Loss from discontinued operations attributable to CVS Health	$ —	$ (0.01)	$ (0.01)
Net income attributable to CVS Health	$ 3.96	$ 3.74	$ 3.02

Net revenues increased $12.6 billion in 2014 compared to 2013, and increased $3.6 billion in 2013 compared to 2012. As you review our performance in this area, we believe you should consider the following important information:

- During 2014, net revenues in our Pharmacy Services Segment increased 16.1% and net revenues in our Retail Pharmacy Segment increased 3.3% compared to the prior year.

- During 2013, net revenues in our Pharmacy Services Segment increased by 3.8% and net revenues in our Retail Pharmacy Segment increased 3.1% 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 2014 as compared to 2013, as well as in 2013 as compared to 2012. In 2014, 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 $1.6 billion, or 6.7% in 2014, to $25.4 billion, as compared to $23.8 billion in 2013. Gross profit increased $1.3 billion, or 5.8% in 2013, to $23.8 billion, as compared to $22.5 billion in 2012. Gross profit as a percentage of net revenues declined to 18.2%, as compared to 18.8% in 2013 and 18.3% in 2012.

- During 2014, gross profit in our Pharmacy Services Segment and Retail Pharmacy Segment increased by 12.6% and 5.8%, respectively, compared to the prior year. For the year ended December 31, 2014, gross profit as a percent of net revenues in our Pharmacy Services Segment and Retail Pharmacy Segment was 5.4% and 31.4%, respectively.

- 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.

- 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 2014 as compared to 2013. In addition, gross profit for 2014, 2013 and 2012 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.

- 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 for 2012 through 2014, offsetting the negative impacts described above.

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

Operating expenses increased $822 million, or 5.2% in the year ended December 31, 2014, as compared to the prior year. Operating expenses as a percent of net revenues declined to 11.9% in the year ended December 31, 2013 compared to 12.4% in the prior year. The increase in operating expense dollars in the year ended December 31, 2014 was primarily due to incremental store operating costs associated with a higher store count, as well as legal costs and strategic initiatives as compared to the prior year. Additionally, the year ended December 31, 2013 included a $72 million gain on a legal settlement. The improvement in operating expenses as a percent of net revenues in 2014 is primarily due to expense leverage from net revenue growth and disciplined expense control.

Operating expenses increased $468 million 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. The increase in operating expense dollars 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.

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:

In millions	2014	2013	2012
Interest expense	$ 615	$ 517	$ 561
Interest income	(15)	(8)	(4)
Interest expense, net	$ 600	$ 509	$ 557

Net interest expense increased $91 million during the year ended December 31, 2014, primarily due to the issuance of $4 billion of debt in December 2013 and $1.5 billion of debt in August 2014. During 2013, net interest expense decreased by $48 million, to $509 million compared to 2012, which resulted from lower average interest rates during 2013.

Loss on Early Extinguishment of Debt - During the year ended December 31, 2014, the Company completed a $2.0 billion tender offer and repurchase of certain Senior Notes. The Company paid a premium of $490 million in excess of the debt principal in connection with the repurchase of the Senior Notes, wrote off $26 million of unamortized deferred financing costs and incurred $5 million in fees, for a total loss on early extinguishment of debt of $521 million. During the year ended December 31, 2012, the Company completed a $1.3 billion tender offer and repurchase of certain Senior Notes and incurred a total loss on the early extinguishment of debt of $348 million. See Note 5 to the consolidated financial statements.

Income tax provision - Our effective income tax rate was 39.5%, 38.9% and 38.6% in 2014, 2013 and 2012, respectively. The effective income tax was higher in 2014 than in 2013 primarily due to certain permanent items in 2014. These same items were the principal factors for the increase in the effective income tax rate in 2013 compared to 2012.

Income from continuing operations increased $45 million or 1.0% to $4.6 billion in 2014. Income from continuing operations increased $731 million or 18.9% to $4.6 billion in 2013 as compared to $3.9 billion in 2012. The 2014 and 2013 increases in income from continuing operations were primarily related to increases in generic dispensing rates and increased prescription volume for both operating segments. In addition, as discussed above, income from continuing operations included a $521 million and $348 million loss on early extinguishment of debt in 2014 and 2012, respectively, which positively impacted the growth rate in 2013 and negatively impacted the growth rate in 2014.

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 required to satisfy its Linens 'n Things lease guarantees. We incurred a loss from discontinued operations, net of tax, of $1 million, $8 million and $7 million in 2014, 2013 and 2012, respectively.

See Note 1 "Significant Accounting Policies - Discontinued Operations" to the consolidated financial statements for additional information about discontinued operations and Note 11 "Commitments and Contingencies" for additional information about our lease guarantees.

Net loss attributable to noncontrolling interest of $2 million for the year ended December 31, 2012 represents the minority shareholders' portion of the net loss of our subsidiary, Generation Health, Inc. ("Generation Health"). We acquired the remaining 40% interest of Generation Health in June 2012 and as a result, there was no longer a noncontrolling interest in Generation Health for the years ended December 31, 2014 and 2013. For the year ended December 31, 2014, the Company had immaterial noncontrolling interests in two consolidated entities.

Net income attributable to CVS Health increased $52 million or 1.1% to $4.6 billion (or $3.96 per diluted share) in 2014. This compares to $4.6 billion (or $3.74 per diluted share) in 2013 and $3.9 billion (or $3.02 per diluted share) in 2012. As discussed previously, the 2014 increase in net income attributable to CVS Health was primarily related to increased generic drug dispensing and increased prescription volume in both operating segments. The increase in net income attributable to CVS Health per diluted share was also driven by increased share repurchase activity in 2014 and 2013. The increase in net income attributable to CVS Health and per diluted share in 2014 includes a $521 million loss on early extinguishment of debt, which negatively impacted the net income growth rate in 2014.

Segment Analysis

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

In millions		Pharmacy Services Segment[1][2]		Retail Pharmacy Segment[2]		Corporate Segment		Intersegment Eliminations[2]		Consolidated Totals
2014:										
Net revenues	$	88,440	$	67,798	$	—	$	(16,871)	$	139,367
Gross profit		4,771		21,277		—		(681)		25,367
Operating profit (loss)		3,514		6,762		(796)		(681)		8,799
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

(1) Net revenues of the Pharmacy Services Segment include approximately $8.1 billion, $7.9 billion and $8.4 billion of Retail Co-Payments for 2014, 2013 and 2012, 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. The following amounts are eliminated in consolidation in connection with the item (ii) intersegment activity: net revenues of $4.9 billion, $4.3 billion and $3.4 billion for the years ended December 31, 2014, 2013 and 2012, respectively; and gross profit and operating profit of $681 million, $566 million and $411 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Pharmacy Services Segment

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

In millions	Year Ended December 31, 2014	2013	2012
Net revenues	$ 88,440	$ 76,208	$ 73,444
Gross profit	$ 4,771	$ 4,237	$ 3,808
Gross profit % of net revenues	5.4%	5.6%	5.2%
Operating expenses	$ 1,257	$ 1,151	$ 1,129
Operating expenses % of net revenues	1.4%	1.5%	1.5%
Operating profit	$ 3,514	$ 3,086	$ 2,679
Operating profit % of net revenues	4.0%	4.1%	3.6%
Net revenues(1):			
Mail choice(2)	$ 31,081	$ 24,791	$ 22,843
Pharmacy network(3)	$ 57,122	$ 51,211	$ 50,411
Other	$ 237	$ 206	$ 190
Pharmacy claims processed(1):			
Total	932.0	902.1	880.5
Mail choice(2)	82.4	83.3	81.7
Pharmacy network(3)	849.6	818.8	798.8
Generic dispensing rate(1):			
Total	82.2%	80.5%	78.2%
Mail choice(2)	74.6%	72.6%	68.9%
Pharmacy network(3)	83.0%	81.3%	79.1%
Mail choice penetration rate	21.4%	22.6%	22.7%

(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.

Net revenues in our Pharmacy Services Segment increased $12.2 billion, or 16.1%, to approximately $88.4 billion for the year ended December 31, 2014, as compared to the prior year. The increase in net revenues was primarily due to growth in specialty pharmacy, including the acquisition of Coram and the impact of Specialty Connect, and increased pharmacy network volume. Conversely, the increase in our generic dispensing rate had a negative impact on our revenue in 2014, as it did in 2013.

Net revenues 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 2013 was primarily due to drug cost inflation in specialty pharmacy. Additionally, the increase in our generic dispensing rate had a negative impact on our revenue in 2013, as it did in 2012.

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 decreased 1.1% to 82.4 million claims in the year ended December 31, 2014, compared to 83.3 million claims in the prior year. The decrease in mail choice claims was driven by a decline in traditional mail volumes, which was mostly offset by growth in our Maintenance Choice program and specialty pharmacy. During 2013, our mail choice claims processed increased 1.9% to 83.3 million claims. The increase in mail choice claim volume was primarily due to specialty claim volume and increased claims associated with the continuing client adoption of our Maintenance Choice offerings.

- During 2014 and 2013, our average revenue per mail choice claim increased by 26.8% and 6.5%, compared to 2013 and 2012, respectively. This increase in 2014 was primarily due to the acquisition of Coram and drug inflation particularly in specialty pharmacy, partially offset by increases in the percentage of generic prescription drugs dispensed and changes in client pricing. This increase in 2013 was primarily due to drug inflation particularly in specialty pharmacy, partially offset by increases in the percentage of generic prescription drugs dispensed and changes in client pricing.

- Our mail choice generic dispensing rate was 74.6%, 72.6% and 68.9% in the years ended December 31, 2014, 2013 and 2012, respectively. Our pharmacy network generic dispensing rate increased to 83.0% in the year ended December 31, 2014, compared to 81.3% in the prior year. During 2013, our pharmacy network generic dispensing rate increased to 81.3% compared to our pharmacy network generic dispensing rate of 79.1% in 2012. These continued increases in 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 3.8% to 849.6 million claims in the year ended December 31, 2014, compared to 818.8 million claims in the prior year. This increase was primarily due to net new business and growth in Managed Medicaid, partially offset by a decrease in Medicare Part D claims. Medicare Part D claims were negatively impacted by the CMS sanctions that were in place during 2013. See "Regulatory and business changes relating to our participation in Medicare Part D" in Part I, Item 1A, Risk Factors within our Form 10-K for the year ended December 31, 2014 ("2014 Form 10-K"), for additional information. During 2013, our pharmacy network claims processed increased 2.5% to 818.8 million compared to 798.8 million pharmacy network claims processed in 2012. This increase was primarily due to higher claims activity associated with our Medicare Part D offering.

- Our average revenue per pharmacy network claim processed increased 7.5% in the year ended December 31, 2014 as compared to the prior year. This increase was primarily due to drug inflation and changes in the drug mix, partially offset by increases in the generic dispensing rate. During 2013, our average revenue per pharmacy network claim processed decreased by 0.9%, compared to 2012. This decrease was primarily due to increases in the generic dispensing rate.

- We completed the roll out of Specialty Connect™ in May 2014, which integrates the Company's specialty pharmacy mail and retail capabilities, providing members with the choice to bring their specialty prescriptions to any CVS/pharmacy® location. Whether submitted through our mail order pharmacy or at CVS/pharmacy, all prescriptions are filled through the Company's specialty mail order pharmacies, so all revenue from this specialty prescription services program is recorded within the Pharmacy Services Segment.

- The Pharmacy Services Segment recognizes revenues for its pharmacy network transactions based on individual contract terms. Our Pharmacy Services Segment contracts are predominantly accounted for using the gross method. See the "Revenue Recognition" description under "Critical Accounting Policies" later in this section for further information on our revenue recognition policy.

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 $534 million, or 12.6% to $4.8 billion in the year ended December 31, 2014, as compared to the prior year. Gross profit as a percentage of net revenues decreased to 5.4% for the year ended December 31, 2014, compared to 5.6% in the prior year. The increase in gross profit dollars in the year ended December 31, 2014 was primarily due to volume increases, higher generic dispensing and favorable purchasing economics, partially offset by price compression. The decrease in gross profit as a percentage of net revenues was due to price compression, partially offset by favorable generic dispensing and purchasing economics. In addition, gross profit dollars and margin for the year ended December 31, 2014, were positively impacted by $16 million related to the favorable resolution of previously proposed retroactive reimbursement rate changes in the State of California Medicaid program.

During 2013, 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 was 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.

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. Our Pharmacy Services Segment 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 82.2% and 80.5% in 2014 and 2013, respectively, compared to our generic dispensing rate of 78.2% in 2012. 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, decreased to 1.4% of net revenues in 2014 compared to 1.5% in 2013 and 2012.

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

- Operating expenses increased $106 million or 9.2%, to $1.3 billion, in the year ended December 31, 2014, compared to the prior year. The increase in operating expenses is primarily related to increased costs associated with infusion services due to the 2014 acquisition of Coram, as well as an $11 million gain from a legal settlement during the year ended December 31, 2013. The slight decrease in operating expenses as a percentage of net revenues was primarily due to expense leverage from net revenue growth.

- During 2013, the increase in operating expenses of $22 million or 1.9%, to $1.2 billion compared to 2012, is primarily related to costs associated with the remediation of Medicare Part D sanctions and coverage determination issues discussed below. Operating expenses as a percentage of net revenues remained relatively flat.

Medicare Part D - 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 SilverScript prescription drug plan ("PDP"), which offers benefits to individual members and through employer group waiver plans. 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, the 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 enrollment processing and related issues resulting from the Company's plan consolidation efforts and the sanctions were removed. SilverScript began to enroll new choosers with effective dates starting in February 2014 as they aged into Medicare. The low income subsidy ("LIS") auto-enrollment and annual reassignment exclusion was lifted on February 21, 2014 and SilverScript began receiving LIS enrollees again with effective dates May 1, 2014 and forward.

Retail Pharmacy Segment

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

	Year Ended December 31,		
In millions	2014	2013	2012
Net revenues	$ 67,798	$ 65,618	$ 63,641
Gross profit	$ 21,277	$ 20,112	$ 19,091
Gross profit % of net revenues	31.4 %	30.6 %	30.0%
Operating expenses	$ 14,515	$ 13,844	$ 13,455
Operating expenses % of net revenues	21.4 %	21.1 %	21.1%
Operating profit	$ 6,762	$ 6,268	$ 5,636
Operating profit % of net revenues	10.0 %	9.6 %	8.9%
Retail prescriptions filled (90 Day = 3 prescriptions) [(1)]	935.9	890.1	845.8
Net revenue increase (decrease):			
Total	3.3 %	3.1 %	6.8%
Pharmacy	5.1 %	4.1 %	7.6%
Front Store	(2.5)%	1.0 %	5.1%
Total prescription volume (90 Day = 3 prescriptions) [(1)]	5.2 %	5.2 %	11.0%
Same store sales increase (decrease):			
Total	2.1 %	1.7 %	5.6%
Pharmacy	4.8 %	2.6 %	6.6%
Front Store	(4.0)%	(0.5)%	3.4%
Prescription volume (90 Day = 3 prescriptions) [(1)]	4.1 %	4.4 %	10.0%
Generic dispensing rates	83.1 %	81.4 %	79.2%
Pharmacy % of net revenues	70.7 %	69.5 %	68.8%
Third party % of pharmacy revenue	98.6 %	97.9 %	97.5%

(1) Includes the adjustment to convert 90-day, non-specialty 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 $2.2 billion, or 3.3%, to $67.8 billion for the year ended December 31, 2014, as compared to the prior year. This increase was primarily driven by a same store sales increase of 2.1% and net revenues from new and acquired stores, which accounted for approximately 110 basis points of our total net revenue percentage increase during the year. Net revenues increased $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 stores, which accounted for approximately 130 basis points of our total net revenue percentage increase during the year. Additionally, in 2014, 2013 and 2012 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 4.0% in the year ended December 31, 2014, as compared to the prior year. The decrease is primarily due to the Company's decision to stop selling tobacco products, softer customer traffic and a less severe flu season than the prior year and extreme weather conditions across much of the United States during the first quarter of 2014. The decrease was partially offset by an increase in basket size. Front store same store sales would have been approximately 350 basis points higher for the year ended December 31, 2014 if tobacco and the estimated associated basket sales were excluded from both the years ended December 31, 2014 and 2013.

- Pharmacy same store sales rose 4.8% in the year ended December 31, 2014, as compared to the prior year. Pharmacy same store sales were positively impacted by same store script growth of 4.1%, partially offset by the impact of the increase in generic dispensing and reimbursement pressure. Pharmacy same store sales for the year ended December 31, 2014 were negatively impacted by approximately 140 basis points from the implementation of Specialty Connect. Specialty Connect transitioned all specialty prescriptions to the Pharmacy Services Segment, as they are being processed through the

Company's specialty mail order pharmacies. The implementation of Specialty Connect had a greater effect on revenues than on prescription volumes due to the higher dollar value of specialty products. Pharmacy same store sales were also negatively impacted by a lower incidence of flu compared to last year's strong flu season and extreme weather conditions across much of the United States in the first quarter of 2014, which led to fewer physician visits and prescriptions written.

- 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 160 and 540 basis points for the years ended December 31, 2014 and 2013, respectively, due to recent generic introductions. The decrease in the impact from 2013 to 2014 was primarily due to a smaller impact from new generic drug introductions. In addition, our pharmacy revenue growth has also been affected by continued reimbursement pressure, the lack of significant new brand name drug introductions, as well as an increase in the number of over-the-counter remedies that were historically only available by prescription.

- As of December 31, 2014, we operated 7,822 retail stores compared to 7,660 retail stores as of December 31, 2013 and 7,458 retail stores as of December 31, 2012. Total net revenues from new stores contributed approximately 1.1%, 1.0% and 1.1% to our total net revenue percentage increase in 2014, 2013, and 2012, respectively.

- Pharmacy revenue growth continued to benefit from increased utilization by Medicare Part D beneficiaries, our ability to attract and retain managed care customers and favorable industry trends. These trends include an aging American population; many "baby boomers" are now in their fifties and sixties and are consuming a greater number of prescription drugs, as well as expanded coverage from the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, "ACA"). 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 $1.2 billion, or 5.8%, to $21.3 billion in the year ended December 31, 2014, as compared to the prior year. Gross profit as a percentage of net revenues increased to 31.4% in year ended December 31, 2014, from 30.6% in 2013. Gross profit increased $1.0 billion, or 5.3%, to $20.1 billion for the year ended December 31, 2013, as compared to the prior year. Gross profit as a percentage of net revenues increased to 30.6% for the year ended December 31, 2013, compared to 30.0% for the prior year.

The increase in gross profit dollars in the year ended December 31, 2014, was primarily driven by increases in the generic dispensing rate, same store sales and new store sales, as well as favorable purchasing economics. The increase in gross profit dollars for 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 in 2014 and 2013 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. The increase in gross profit as a percentage of net revenues in 2014 was also driven by the removal of tobacco products from our stores.

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

- Gross profit dollars and margin for the year ended December 31, 2014 were positively impacted by $53 million related to the favorable resolution of previously proposed retroactive reimbursement rate changes in the State of California's Medicaid program.

- 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 98.6% of pharmacy revenues in 2014, compared to 97.9% and 97.5% of pharmacy revenues in 2013 and 2012, respectively.

- Front store revenues as a percentage of total net revenues for the years ended December 31, 2014, 2013 and 2012 were 28.8%, 30.5% and 31.2%, respectively. The decline in front store revenues as a percentage of total net revenues in 2014 was largely due to the removal of tobacco products and the estimated associated basket sales. On average, our gross profit on front store revenues is generally higher than our gross profit on pharmacy revenues. Pharmacy revenues as a percentage of total net revenues increased approximately 120, 60 and 50 basis points in the years ended December 31, 2014, 2013 and

2012, respectively. This shift in sales to the pharmacy had a negative effect on our overall gross profit for the years ended December 31, 2014, 2013 and 2012, respectively. The negative effect was offset by increasing generic drug dispensing rates and increased store brand penetration.

- During the year ended December 31, 2014, our front store gross profit as a percentage of net revenues increased compared to the prior year. The increase is primarily related to a change in the mix of products sold, including the removal of tobacco products from our stores, and higher store brand sales.

- 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.

- 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 "Efforts to reduce reimbursement levels and alter health care financing practices" in Part I, Item 1A, Risk Factors within our 2014 Form 10-K, 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 $671 million, or 4.8% to $14.5 billion, or 21.4% as a percentage of net revenues, in the year ended December 31, 2014, as compared to $13.8 billion, or 21.1% as a percentage of net revenues, in the prior year. 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 as a percentage of net revenues remained consistent from 2012 through 2013 primarily due to disciplined cost control, despite the negative impact of generics on net revenues. Operating expenses as a percentage of net revenues increased in 2014 primarily due to reimbursement rate pressure, the implementation of Specialty Connect, which reduced net revenues, and higher legal costs. The increase in operating expense dollars in 2014 and 2013 was the result of higher store operating costs associated with our increased store count, as well as higher legal costs. The results for the years ended December 31, 2014 and 2013 include gains from legal settlements of $21 million and $61 million, respectively. Additionally, in September 2014, the Retail Pharmacy Segment made a charitable contribution of $25 million to the CVS Foundation to fund future charitable giving. The foundation is a non-profit entity that focuses on health, education and community involvement programs.

Corporate Segment

Operating expenses increased $45 million, or 6.0%, to $796 million in the year ended December 31, 2014, as compared to the prior year. Operating expenses increased $57 million, or 8.3%, to $751 million in the year ended December 31, 2013. 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 2014 and 2013 was primarily due to increased strategic initiatives, benefits costs, facilities management and information technology costs.

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.

The change in cash and cash equivalents is as follows:

in millions	Year Ended December 31, 2014	2013	2012
Net cash provided by operating activities	$ 8,137	$ 5,783	$ 6,671
Net cash used in investing activities	(4,045)	(1,835)	(1,849)
Net cash used in financing activities	(5,694)	(1,237)	(4,860)
Effect of exchange rate changes on cash and cash equivalents	(6)	3	—
Net increase (decrease) in cash and cash equivalents	$ (1,608)	$ 2,714	$ (38)

Net cash provided by operating activities increased by $2.4 billion in 2014 and decreased by $0.9 billion in 2013. The increase in 2014 was primarily due to increased net income and increased accounts payable due to payables management and timing. 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.

Net cash used in investing activities increased by $2.2 billion in 2014 and remained relatively flat from 2012 to 2013. The increase in 2014 was primarily due to the $2.1 billion in cash consideration paid for the acquisition of Coram in January 2014 and an increase in capital expenditures.

In 2014, gross capital expenditures totaled approximately $2.1 billion, an increase of $152 million compared to the prior year. During 2014, approximately 42% of our total capital expenditures were for new store construction, 21% were for store, fulfillment and support facilities expansion and improvements and 37% were for technology and other corporate initiatives. Gross capital expenditures totaled approximately $2.0 billion during 2013 and 2012. 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.

Proceeds from sale-leaseback transactions totaled $515 million in 2014. This compares to $600 million in 2013 and $529 million in 2012. 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:

	2014[2]	2013[2]	2012[2]
Total stores (beginning of year)	7,702	7,508	7,388
New and acquired stores[1]	187	213	150
Closed stores[1]	(23)	(19)	(30)
Total stores (end of year)	7,866	7,702	7,508
Relocated stores	60	78	90

(1) Relocated stores are not included in new or closed store totals.
(2) Includes retail drugstores, onsite pharmacy stores and specialty pharmacy stores.

Net cash used in financing activities increased by $4.5 billion in 2014 and decreased by $3.6 billion in 2013. The increase in 2014 was primarily due to the repayments of long-term debt and lower borrowings than in 2013. The decrease in 2013 was primarily due to greater net borrowings than in 2012.

Share repurchase programs — The following share repurchase programs were authorized by the Company's Board of Directors:

Authorization Date		Amount of Authorization
In billions		
December 15, 2014 ("2014 Repurchase Program")	$	10.0
December 17, 2013 ("2013 Repurchase Program")	$	6.0
September 19, 2012 ("2012 Repurchase Program")	$	6.0
August 23, 2011 ("2011 Repurchase Program")	$	4.0

The Repurchase Programs, which were effective immediately, permit the Company to effect share repurchases from time to time through a combination of open market repurchases, privately negotiated transactions, accelerated share repurchase ("ASR") transactions, and/or other derivative transactions. The 2014 and 2013 Repurchase Programs may be modified or terminated by the Board of Directors at any time. The 2012 and 2011 Repurchase Programs have been completed, as described below.

Pursuant to the authorization under the 2013 Repurchase Programs, effective January 2, 2015, we entered into a $2.0 billion fixed dollar ASR agreement with J.P. Morgan Chase Bank ("JP Morgan"). Upon payment of the $2.0 billion purchase price on January 5, 2015, we received a number of shares of our common stock equal to 80% of the $2.0 billion notional amount of the ASR agreement or approximately 16.8 million shares at a price of $94.49 per share.At the conclusion of the ASR program, the Company may receive additional shares equal to the remaining 20% of the $2.0 billion notional amount. The ultimate number of shares the Company may receive will fluctuate based on changes in the daily volume-weighted average price of the Company's stock over a period beginning on January 2, 2015 and ending on or before April 26, 2015. If the mean daily volume-weighted average price of the Company's common stock, less a discount (the "forward price"), during the ASR program falls below $94.49 per share, the Company will receive a higher number of shares from JP Morgan. If the forward price rises above $94.49 per share, the Company will either receive fewer shares from JP Morgan or, potentially have an obligation to JP Morgan which, at the Company 's option, could be settled in additional cash or by issuing shares. Under the terms of the ASR agreement, the maximum number of shares that could be received or delivered is 42.0 million. The initial 16.8 million shares of common stock delivered to the Company by JP Morgan were placed into treasury stock in January 2015.

Pursuant to the authorization under the 2012 Repurchase Program, effective October 1, 2013, we entered into a $1.7 billion fixed dollar 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.

During the year ended December 31, 2014, we repurchased an aggregate of 51.4 million shares of common stock for approximately $4.0 billion under the 2013 and 2012 Repurchase Programs. 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, 2014, there remained an aggregate of approximately $12.7 billion available for future repurchases under the 2014 and 2013 Repurchase Programs, $2.0 billion of which was used for the ASR effective January 2, 2015 described above. As of December 31, 2014, the 2012 and 2011 Repurchase Programs were complete.

Short-term borrowings - We had $685 million of commercial paper outstanding at a weighted average interest rate of 0.55% as of December 31, 2014. In connection with our commercial paper program, we maintain a $1.25 billion, five-year unsecured back-up credit facility, which expires on February 17, 2017, a $1.0 billion, five-year unsecured back-up credit facility, which expires on May 23, 2018, and a $1.25 billion, five-year unsecured back-up credit facility, which expires on July 24, 2019. 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, 2014, there were no borrowings outstanding under the back-up credit facilities.

Long-term borrowings - On August 7, 2014, the Company issued $850 million of 2.25% unsecured senior notes due August 12, 2019 and $650 million of 3.375% unsecured senior notes due August 12, 2024 (collectively, the "2014 Notes") for total proceeds of approximately $1.5 billion, net of discounts and underwriting fees. The 2014 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 2014 Notes were used for general corporate purposes and to repay certain corporate debt.

On August 7, 2014, the Company announced tender offers for any and all of the 6.25% Senior Notes due 2027, and up to a maximum amount of the 6.125% Senior Notes due 2039, the 5.75% Senior Notes due 2041 and the 5.75% Senior Notes due 2017, for up to an aggregate principal amount of $1.5 billion. On August 21, 2014, the Company increased the aggregate principal amount of the tender offers to $2.0 billion and completed the repurchase for the maximum amount on September 4, 2014. The Company paid a premium of $490 million in excess of the debt principal in connection with the tender offers, wrote off $26 million of unamortized deferred financing costs and incurred $5 million in fees, for a total loss on the early extinguishment of debt of $521 million. The loss was recorded in income from continuing operations in the condensed consolidated statement of income for the year ended December 31, 2014.

During the year ended December 31, 2014, the Company repurchased the remaining $41 million of outstanding Enhanced Capital Advantage Preferred Securities ("ECAPS") at par. The fees and write-off of deferred issuance costs associated with the early extinguishment of the ECAPS were immaterial.

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 in January 2014. The remainder was 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.

Our backup credit facilities and unsecured senior notes (see Note 5 to the Consolidated Financial Statements) contain customary restrictive financial and operating covenants.

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

As of December 31, 2014 and 2013, we had no outstanding derivative financial instruments.

Debt Ratings - As of December 31, 2014, 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 2014, our Board of Directors authorized a 27% increase in our quarterly common stock dividend to $0.35 per share effective in 2015. This increase equates to an annual dividend rate of $1.40 per share. In December 2013, our Board of Directors authorized a 22% increase in our quarterly common stock dividend to $0.275 per share. This increase equated 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.

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, 2014, we guaranteed approximately 72 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, 2014:

	Payments Due by Period				
In millions	Total	2015	2016 to 2017	2018 to 2019	Thereafter
Operating leases	$ 27,282	$ 2,279	$ 4,341	$ 3,868	$ 16,794
Lease obligations from discontinued operations	51	16	24	6	5
Capital lease obligations	810	47	94	96	573
Long-term debt	11,879	563	2,276	2,494	6,546
Interest payments on long-term debt[1]	5,173	484	867	689	3,133
Other long-term liabilities reflected in our consolidated balance sheet	652	48	254	100	250
	$ 45,847	$ 3,437	$ 7,856	$ 7,253	$ 27,301

(1) Interest payments on long-term debt are calculated on outstanding balances and interest rates in effect on December 31, 2014.

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 condition.

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 6.4%, 7.0% and 7.7% of consolidated net revenues in 2014, 2013 and 2012, 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, reinsurance amounts and coverage gap discount 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 front store merchandise at the time the merchandise is purchased by the retail customer and recognizes revenue from the sale of prescription drugs when the prescription is picked up by the customer. 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.

Our customer loyalty program, ExtraCare®, is comprised of two components, ExtraSavings™ and ExtraBucks® Rewards. ExtraSavings coupons redeemed by customers are recorded as a reduction of revenues when redeemed. ExtraBucks Rewards are accrued as a charge to cost of revenues when earned, net of estimated breakage. We determine breakage based on our historical redemption patterns.

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

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. The weighted average cost method is 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 first-in-first-out ("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 front store 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 $189 million as of December 31, 2014. 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 $19 million as of December 31, 2014.

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, forecasts and industry trends. 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 $28.1 billion and $9.8 billion as of December 31, 2014, respectively. We did not record any impairment losses related to goodwill or other intangible assets during 2014, 2013 or 2012. During the third quarter of 2014, 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, 2014, in our Pharmacy Services and Retail Pharmacy reporting units was $21.2 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 $268 million as of December 31, 2014. This amount is net of $142 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 $14 million as of December 31, 2014.

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 $628 million as of December 31, 2014. 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 $63 million as of December 31, 2014.

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

Income Taxes

Income taxes are accounted for using the asset and liability method. Deferred tax liabilities or assets are established for temporary differences between financial and tax reporting bases and are subsequently adjusted to reflect changes in enacted tax rates expected to be in effect when the temporary differences reverse. The deferred tax assets are reduced, if necessary, by a valuation allowance to the extent future realization of those tax benefits is uncertain.

Significant judgment is required in determining the provision for income taxes and the related taxes payable and deferred tax assets and liabilities since, in the ordinary course of business, there are transactions and calculations where the ultimate tax outcome is uncertain. Additionally, our tax returns are subject to audit by various domestic and foreign tax authorities that could result in material adjustments or differing interpretations of the tax laws. Although we believe that our estimates are reasonable and are based on the best available information at the time we prepare the provision, actual results could differ from these estimates resulting in a final tax outcome that may be materially different from that which is reflected in our consolidated financial statements.

The tax benefit from an uncertain tax position is recognized only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. Interest and/or penalties related to uncertain tax positions are recognized in income tax expense. Significant judgment is required in determining our uncertain tax positions. We have established accruals for uncertain tax positions using our best judgment and adjust these accruals, as warranted, due to changing facts and circumstances.

New Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU No. 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new guidance is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016; early adoption is not permitted. Companies have the option of using either a full retrospective or a modified retrospective approach to adopt the guidance. This update could impact the timing and amounts of revenue recognized. The Company is currently evaluating the effect that implementation of this update will have on its consolidated financial position and results of operations upon adoption and the method of transition.

Proposed Lease 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 it is reasonably certain an entity will 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

This annual report contains forward-looking statements within the meaning of the federal securities laws. In addition, 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 U.S. Securities and Exchange Commission ("SEC") and in its reports to stockholders, press releases, webcasts, conference calls, meetings and other communications. 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 Health 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 federal securities laws.

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 as described in our SEC filings, including those set forth in the Risk Factors section within the 2014 Form 10-K, and 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 the Company'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.*

- *A highly 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.*

- *The Company's ability 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.*

- *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 ACA, 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 any 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, 2014.

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 (2013 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, 2014.

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 audits conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States).

February 10, 2015

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of CVS Health Corporation

We have audited CVS Health Corporation's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). CVS Health 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 Health 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 Health Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, 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 Health Corporation as of December 31, 2014 and 2013, 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, 2014 of CVS Health Corporation and our report dated February 10, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 10, 2015

Consolidated Statements of Income

In millions, except per share amounts	Year Ended December 31, 2014	2013	2012
Net revenues	$ 139,367	$ 126,761	$ 123,120
Cost of revenues	114,000	102,978	100,632
Gross profit	25,367	23,783	22,488
Operating expenses	16,568	15,746	15,278
Operating profit	8,799	8,037	7,210
Interest expense, net	600	509	557
Loss on early extinguishment of debt	521	—	348
Income before income tax provision	7,678	7,528	6,305
Income tax provision	3,033	2,928	2,436
Income from continuing operations	4,645	4,600	3,869
Loss from discontinued operations, net of tax	(1)	(8)	(7)
Net income	4,644	4,592	3,862
Net loss attributable to noncontrolling interest	—	—	2
Net income attributable to CVS Health	$ 4,644	$ 4,592	$ 3,864
Basic earnings per share:			
Income from continuing operations attributable to CVS Health	$ 3.98	$ 3.78	$ 3.05
Loss from discontinued operations attributable to CVS Health	$ —	$ (0.01)	$ (0.01)
Net income attributable to CVS Health	$ 3.98	$ 3.77	$ 3.04
Weighted average shares outstanding	1,161	1,217	1,271
Diluted earnings per share:			
Income from continuing operations attributable to CVS Health	$ 3.96	$ 3.75	$ 3.02
Loss from discontinued operations attributable to CVS Health	$ —	$ (0.01)	$ (0.01)
Net income attributable to CVS Health	$ 3.96	$ 3.74	$ 3.02
Weighted average shares outstanding	1,169	1,226	1,280
Dividends declared per share	$ 1.10	$ 0.90	$ 0.65

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

In millions	Year Ended December 31, 2014	2013	2012
Net income	$ 4,644	$ 4,592	$ 3,862
Other comprehensive income (loss):			
Foreign currency translation adjustments, net of tax	(35)	(30)	—
Net cash flow hedges, net of tax	4	3	3
Pension and other postretirement benefits, net of tax	(37)	59	(12)
Total other comprehensive income (loss)	(68)	32	(9)
Comprehensive income	4,576	4,624	3,853
Comprehensive loss attributable to noncontrolling interest	—	—	2
Comprehensive income attributable to CVS Health	$ 4,576	$ 4,624	$ 3,855

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

In millions, except per share amounts	December 31, 2014	December 31, 2013
Assets:		
Cash and cash equivalents	$ 2,481	$ 4,089
Short-term investments	34	88
Accounts receivable, net	9,687	8,729
Inventories	11,930	11,045
Deferred income taxes	985	902
Other current assets	866	472
Total current assets	25,983	25,325
Property and equipment, net	8,843	8,615
Goodwill	28,142	26,542
Intangible assets, net	9,774	9,529
Other assets	1,510	1,515
Total assets	$ 74,252	$ 71,526
Liabilities:		
Accounts payable	$ 6,547	$ 5,548
Claims and discounts payable	5,404	4,548
Accrued expenses	5,816	4,768
Short-term debt	685	—
Current portion of long-term debt	575	561
Total current liabilities	19,027	15,425
Long-term debt	11,695	12,841
Deferred income taxes	4,036	3,901
Other long-term liabilities	1,531	1,421
Commitments and contingencies (Note 11)	—	—
Shareholders' equity:		
CVS Health 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; 1,691 shares issued and 1,140 shares outstanding at December 31, 2014 and 1,680 shares issued and 1,180 shares outstanding at December 31, 2013	17	17
Treasury stock, at cost: 550 shares at December 31, 2014 and 500 shares at December 31, 2013	(24,078)	(20,169)
Shares held in trust: 1 share at December 31, 2014 and 2013	(31)	(31)
Capital surplus	30,418	29,777
Retained earnings	31,849	28,493
Accumulated other comprehensive income (loss)	(217)	(149)
Total CVS Health shareholders' equity	37,958	37,938
Noncontrolling interest	5	—
Total shareholders' equity	37,963	37,938
Total liabilities and shareholders' equity	$ 74,252	$ 71,526

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

In millions	Year Ended December 31, 2014	2013	2012
Cash flows from operating activities:			
Cash receipts from customers	$ 132,406	$ 114,993	$ 113,205
Cash paid for inventory and prescriptions dispensed by retail network pharmacies	(105,362)	(91,178)	(90,032)
Cash paid to other suppliers and employees	(15,344)	(14,295)	(13,643)
Interest received	15	8	4
Interest paid	(647)	(534)	(581)
Income taxes paid	(2,931)	(3,211)	(2,282)
Net cash provided by operating activities	8,137	5,783	6,671
Cash flows from investing activities:			
Purchases of property and equipment	(2,136)	(1,984)	(2,030)
Proceeds from sale-leaseback transactions	515	600	529
Proceeds from sale of property and equipment and other assets	11	54	23
Acquisitions (net of cash acquired) and other investments	(2,439)	(415)	(378)
Purchase of available-for-sale investments	(157)	(226)	—
Maturity of available-for-sale investments	161	136	—
Proceeds from sale of subsidiary	—	—	7
Net cash used in investing activities	(4,045)	(1,835)	(1,849)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	685	(690)	(60)
Proceeds from issuance of long-term debt	1,483	3,964	1,239
Repayments of long-term debt	(3,100)	—	(1,718)
Purchase of noncontrolling interest in subsidiary	—	—	(26)
Dividends paid	(1,288)	(1,097)	(829)
Proceeds from exercise of stock options	421	500	836
Excess tax benefits from stock-based compensation	106	62	28
Repurchase of common stock	(4,001)	(3,976)	(4,330)
Net cash used in financing activities	(5,694)	(1,237)	(4,860)
Effect of exchange rate changes on cash and cash equivalents	(6)	3	—
Net increase (decrease) in cash and cash equivalents	(1,608)	2,714	(38)
Cash and cash equivalents at the beginning of the year	4,089	1,375	1,413
Cash and cash equivalents at the end of the year	$ 2,481	$ 4,089	$ 1,375
Reconciliation of net income to net cash provided by operating activities:			
Net income	$ 4,644	$ 4,592	$ 3,862
Adjustments required to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,931	1,870	1,753
Stock-based compensation	165	141	132
Loss on early extinguishment of debt	521	—	348
Deferred income taxes and other noncash items	(58)	(86)	(111)
Change in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable, net	(737)	(2,210)	(387)
Inventories	(770)	12	(853)
Other current assets	(383)	105	3
Other assets	9	(135)	(99)
Accounts payable and claims and discounts payable	1,742	1,024	1,147
Accrued expenses	1,060	471	766
Other long-term liabilities	13	(1)	110
Net cash provided by operating activities	$ 8,137	$ 5,783	$ 6,671

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

	Shares			Dollars		
	Year Ended December 31,			Year Ended December 31,		
In millions	2014	2013	2012	2014	2013	2012
Common stock:						
Beginning of year	1,680	1,667	1,640	$ 17	$ 17	$ 16
Stock options exercised and issuance of stock awards	11	13	27	—	—	1
End of year	1,691	1,680	1,667	$ 17	$ 17	$ 17
Treasury stock:						
Beginning of year	(500)	(435)	(340)	$ (20,169)	$ (16,270)	$ (11,953)
Purchase of treasury shares	(51)	(66)	(95)	(4,001)	(3,976)	(4,330)
Employee stock purchase plan issuances	1	1	1	92	77	47
Transfer of shares from shares held in trust	—	—	(1)	—	—	(34)
End of year	(550)	(500)	(435)	$ (24,078)	$ (20,169)	$ (16,270)
Shares held in trust:						
Beginning of year	(1)	(1)	(2)	$ (31)	$ (31)	$ (56)
Transfer of shares to treasury stock	—	—	1	—	—	25
End of year	(1)	(1)	(1)	$ (31)	$ (31)	$ (31)
Capital surplus:						
Beginning of year				$ 29,777	$ 29,120	$ 28,126
Stock option activity and stock awards				535	588	955
Excess tax benefit on stock options and stock awards				106	69	28
Transfer of shares held in trust to treasury stock				—	—	9
Purchase of noncontrolling interest in subsidiary				—	—	2
End of year				$ 30,418	$ 29,777	$ 29,120
Retained earnings:						
Beginning of year				$ 28,493	$ 24,998	$ 22,052
Changes in inventory accounting principles				—	—	(89)
Net income attributable to CVS Health				4,644	4,592	3,864
Common stock dividends				(1,288)	(1,097)	(829)
End of year				$ 31,849	$ 28,493	$ 24,998
Accumulated other comprehensive loss:						
Beginning of year				$ (149)	$ (181)	$ (172)
Foreign currency translation adjustments, net of tax				(35)	(30)	—
Net cash flow hedges, net of tax				4	3	3
Pension and other postretirement benefits, net of tax				(37)	59	(12)
End of year				$ (217)	$ (149)	$ (181)
Total CVS Health shareholders' equity				$ 37,958	$ 37,938	$ 37,653
Noncontrolling interest:						
Beginning of year				$ —	$ —	$ —
Business combinations				5	—	—
End of year				$ 5	$ —	$ —
Total shareholders' equity				$ 37,963	$ 37,938	$ 37,653

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1 Significant Accounting Policies

Description of business - CVS Health 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 and infusion services, plan design and administration, formulary management and claims processing. The Company's clients are primarily employers, insurance companies, unions, government employee groups, health plans, Managed Medicaid plans 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 more than 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™, CarePlus CVS/pharmacy® and Navarro® Health Services names. In January 2014, the Company enhanced its offerings of specialty infusion services and began offering enteral nutrition services through Coram LLC and its subsidiaries (See Note 2, "Coram Acquisition").

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®, NovoLogix®, Coram®, CVS/specialty™ and Navarro® Health Services names. As of December 31, 2014, the PSS operated 27 retail specialty pharmacy stores, 11 specialty mail order pharmacies and four mail order dispensing pharmacies, and 86 branches and six centers of excellence for infusion and enteral services located in 40 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®, CVS®, Longs Drugs®, Navarro® Discount Pharmacy and Drogaria Onofre™ retail stores and online through CVS.com®, Navarro.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, 2014, the retail pharmacy business included 7,822 retail drugstores (of which 7,765 operated a pharmacy) located in 44 states, the District of Columbia, Puerto Rico and Brazil operating primarily under the CVS/pharmacy, CVS, Longs Drugs, Navarro Discount Pharmacy and Drogaria Onofre names, the online retail websites, CVS.com, Navarro.com and Onofre.com.br, and 971 retail health care clinics operating under the MinuteClinic name (of which 963 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 and variable interest entities for which the Company is the primary beneficiary. All intercompany balances and transactions have been eliminated.

The Company continually evaluates its investments to determine if they represent variable interests in a variable interest entity ("VIE"). If the Company determines that it has a variable interest in a VIE, the Company then evaluates if it is the primary beneficiary of the VIE. The evaluation is a qualitative assessment as to whether the Company has the ability to direct the activities of a VIE that most significantly impact the entity's economic performance. The Company consolidates a VIE if it is considered to be the primary beneficiary.

Assets and liabilities of VIEs for which the Company is the primary beneficiary were not significant to the Company's consolidated financial statements. VIE creditors do not have recourse against the general credit of the Company.

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 and long-term investments - The Company's short-term investments consist of certificates of deposit with initial maturities of greater than three months when purchased that mature in less than one year from the balance sheet date. The Company's long-term investments of $51 million at December 31, 2014, which are classified as noncurrent other assets within the accompanying consolidated balance sheet, consist of certificates of deposit. 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, 2014 and 2013.

Fair value of financial instruments - As of December 31, 2014, the Company's financial instruments include cash and cash equivalents, short-term and long-term investments, accounts receivable, accounts payable, contingent consideration liability and short-term debt. Due to the 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 $12.3 billion and $13.3 billion, respectively, as of December 31, 2014. 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 $4 million as of December 31, 2014. There were no outstanding derivative financial instruments as of December 31, 2014 and 2013.

Foreign currency translation and transactions - For local currency functional currency, 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 periods 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:

In millions	2014	2013	2012
Beginning balance	$ 256	$ 243	$ 189
Additions charged to bad debt expense	185	195	149
Write-offs charged to allowance	(185)	(182)	(95)
Ending balance	$ 256	$ 256	$ 243

Inventories - All inventories are stated at the lower of cost or market. Prescription drug inventories in the RPS and PSS are accounted for using the weighted average cost method. Front store inventories in the RPS stores are accounted for on a first-in, first-out basis using the retail inventory method. The RPS front store inventories in the distribution centers are accounted for using the cost method on a first-in, first-out basis. Physical inventory counts are taken on a regular basis in each store and a continuous cycle count process is the primary procedure used to validate the inventory balances on hand in each distribution center and mail facility to ensure that the amounts reflected in the accompanying consolidated financial statements are properly stated. During the interim period between physical inventory counts, the Company accrues for anticipated physical inventory losses on a location-by-location basis based on historical results and current trends.

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

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

In millions	2014	2013
Land	$ 1,506	$ 1,460
Building and improvements	2,828	2,694
Fixtures and equipment	8,958	8,419
Leasehold improvements	3,626	3,320
Software	1,868	1,515
	18,786	17,408
Accumulated depreciation and amortization	(9,943)	(8,793)
Property and equipment, net	$ 8,843	$ 8,615

The gross amount of property and equipment under capital leases was $268 million and $260 million as of December 31, 2014 and 2013, respectively. Accumulated amortization of property and equipment under capital lease was $86 million and $74 million as of December 31, 2014 and 2013, respectively. Amortization of property and equipment under capital lease is included within depreciation expense. Depreciation expense totaled $1.4 billion in 2014 and 2013, and $1.3 billion in 2012.

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 3 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 3 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 - In June 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 year ended December 31, 2012:

In millions		
Balance, December 31, 2011	$	30
Net loss attributable to noncontrolling interest		(2)
Purchase of noncontrolling interest		(26)
Reclassification to capital surplus in connection with purchase of noncontrolling interest		(2)
Balance, December 31, 2012	$	—

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' retail pharmacy network and associated administrative fees are recognized at the PSS' point-of-sale, which is when the claim is adjudicated by the PSS online claims processing system.

The PSS determines whether it is the principal or agent for its retail pharmacy network transactions on a contract by contract basis. In the majority of its contracts, the PSS has determined it is the principal due to it: (i) being the primary obligor in the arrangement, (ii) having latitude in establishing the price, changing the product or performing part of the service, (iii) having discretion in supplier selection, (iv) having involvement in the determination of product or service specifications, and (v) having credit risk. The PSS' obligations under its client contracts for which revenues are reported using the gross method are separate and distinct from its obligations to the third party pharmacies included in its retail pharmacy network contracts. Pursuant to these contracts, the PSS is contractually required to pay the third party pharmacies in its retail pharmacy network for products sold, regardless of whether the PSS is paid by its clients. The PSS' responsibilities under its client contracts typically include validating eligibility and coverage levels, communicating the prescription price and the co-payments due to the third party retail pharmacy, identifying possible adverse drug interactions for the pharmacist to address with the 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 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. SilverScript 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 at the time the customer takes possession of the merchandise. Customer returns are not material. Revenue generated from the performance of services in the RPS' health care clinics is recognized at the time the services are performed. Sales taxes are not included in revenue.

Loyalty Program - The Company's customer loyalty program, ExtraCare®, is comprised of two components, ExtraSavings™ and ExtraBucks® Rewards. ExtraSavings coupons redeemed by customers are recorded as a reduction of revenues when redeemed. ExtraBucks Rewards are accrued as a charge to cost of revenues when earned, net of estimated breakage. The Company determines breakage based on historical redemption patterns.

See Note 12 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 12 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 $207 million and $246 million in 2014 and 2013, respectively.

Advertising costs - Advertising costs are expensed when the related advertising takes place. Advertising costs, net of vendor funding (included in operating expenses), were $212 million, $177 million and $221 million in 2014, 2013 and 2012, respectively.

Interest expense, net - Interest expense, net of capitalized interest, was $615 million, $517 million and $561 million, and interest income was $15 million, $8 million and $4 million in 2014, 2013 and 2012, respectively. Capitalized interest totaled $19 million, $25 million and $29 million in 2014, 2013 and 2012, respectively.

Shares held in trust - The Company maintains grantor trusts, which held approximately 1 million shares of its common stock at December 31, 2014 and 2013, 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 income - Accumulated other comprehensive income (loss) consists of changes in the net actuarial gains and losses associated with pension and other postretirement benefit plans, 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 $234 million pre-tax ($143 million after-tax) as of December 31, 2014 and $172 million pre-tax ($106 million after-tax) as of December 31, 2013. The net impact on cash flow hedges totaled $16 million pre-tax ($9 million after-tax) and $22 million pre-tax ($13 million after-tax) as of December 31, 2014 and 2013, respectively. Cumulative foreign currency translation adjustments at December 31, 2014 and 2013 were $65 million and $30 million, respectively.

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

	Year Ended December 31, 2014[1]			
In millions	Foreign Currency	Losses on Cash Flow Hedges	Pension and Other Postretirement Benefits	Total
Balance, December 31, 2013	$ (30)	$ (13)	$ (106)	$ (149)
Other comprehensive income (loss) before reclassifications	(35)	—	—	(35)
Amounts reclassified from accumulated other comprehensive income [2]	—	4	(37)	(33)
Net other comprehensive income (loss)	(35)	4	(37)	(68)
Balance, December 31, 2014	$ (65)	$ (9)	$ (143)	$ (217)

	Year Ended December 31, 2013[1]			
	Foreign Currency	Losses on Cash Flow Hedges	Pension and Other Postretirement Benefits	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)	(30)	3	59	32
Balance, December 31, 2013	$ (30)	$ (13)	$ (106)	$ (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.

Variable Interest Entity - In July 2014, the Company and Cardinal Health, Inc. ("Cardinal") established Red Oak Sourcing, LLC ("Red Oak"), a generic pharmaceutical sourcing entity in which the Company and Cardinal each own 50%. The Red Oak arrangement has an initial term of ten years. Under this arrangement, the Company and Cardinal contributed their sourcing and supply chain expertise to Red Oak and agreed to source and negotiate generic pharmaceutical supply contracts for both companies through Red Oak; however, Red Oak does not own or hold inventory on behalf of either company. No physical assets (e.g., property and equipment) were contributed to Red Oak by either company and minimal funding was provided to capitalize Red Oak.

The Company has determined that it is the primary beneficiary of this variable interest entity because it has the ability to direct the activities of Red Oak. Consequently, the Company consolidates Red Oak in its consolidated financial statements within the Retail Pharmacy Segment. Revenues associated with Red Oak expenses reimbursed by Cardinal for the year ended December 31, 2014 and amounts due to Cardinal from Red Oak at December 31, 2014 were immaterial.

Cardinal is required to pay the Company 39 quarterly payments of $25.6 million which commenced in October 2014 and, if certain milestones are achieved, it will pay additional predetermined quarterly amounts to the Company beginning in the third quarter of 2015. The payments will reduce the Company's carrying cost of inventory and will be recognized in cost of revenues when the related inventory is sold.

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 $50 million, $48 million and $32 million in the years ended December 31, 2014, 2013 and 2012, respectively, for the use of this network.

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

In September 2014, the Company made a charitable contribution of $25 million to the CVS Foundation (formerly CVS Caremark Charitable Trust, Inc.) (the "Foundation") to fund future giving. The Foundation is a non-profit entity that focuses on health, education and community involvement programs. The charitable contribution was recorded as an operating expense in the consolidated statement of income for the year ended December 31, 2014.

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.

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.

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

In millions	2014	2013	2012
Loss on disposal	$ (1)	$ (12)	$ (12)
Income tax benefit	—	4	5
Loss from discontinued operations, net of tax	$ (1)	$ (8)	$ (7)

Earnings per common share - Earnings per share is computed using the two-class method. Options to purchase 2.1 million, 6.2 million and 5.9 million shares of common stock were outstanding as of December 31, 2014, 2013 and 2012, 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 Pronouncement - In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU No. 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new guidance is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016; early adoption is not permitted. Companies have the option of using either a full retrospective or a modified retrospective approach to adopt the guidance. This update could impact the timing and amounts of revenue recognized. The Company is currently evaluating the effect that implementation of this update will have on its consolidated financial position and results of operations upon adoption and the method of transition.

2 Coram Acquisition

On January 16, 2014, the Company acquired 100% of the voting interests of Coram LLC and its subsidiaries (collectively, "Coram"), the specialty infusion services and enteral nutrition business unit of Apria Healthcare Group Inc. ("Apria"), for cash consideration of approximately $2.1 billion, plus contingent consideration of approximately $0.1 billion. The purchase price was also subject to a working capital adjustment, which resulted in the Company receiving $9 million from Apria. Coram is one of the nation's largest providers of comprehensive infusion services, caring for approximately 240,000 patients annually. Coram has approximately 4,600 employees, including approximately 600 nurses and 250 dietitians, operating primarily through 84 branch locations and six centers of excellence for patient intake.

The contingent consideration is based on the Company's future realization of Coram's tax net operating loss carryforwards ("NOLs") as of the date of the acquisition. The Company will pay the seller the first $60 million in tax savings realized from the future utilization of the Coram NOLs, plus 50% of any additional future tax savings from the remaining NOLs. The fair value of the contingent consideration liability associated with the future realization of the Coram NOLs was determined using Level 3 inputs based on the present value of contingent payments expected to be made based on the Company's estimate of the amount and timing of Coram NOLs that will ultimately be realized. The change in fair value of the contingent consideration liability recognized in earnings for the year ended December 31, 2014 was immaterial.

The following is a summary of the fair values of the assets acquired and liabilities assumed:

In millions		
Accounts receivable	$	215
Inventory		77
Other assets		10
Property and equipment		49
Intangible assets		537
Goodwill		1,566
Current liabilities		(128)
Deferred tax liabilities, net		(97)
Other noncurrent liabilities		(91)
Noncontrolling interest		(2)
Total consideration	$	2,136

The goodwill represents future economic benefits expected to arise from the Company's expanded presence in the specialty pharmaceuticals market, the assembled workforce acquired, and the expected synergies from combining operations with Coram. The goodwill is nondeductible for income tax purposes.

Coram's results of operations are included in the Company's PSS beginning on January 16, 2014. Pro forma information for this acquisition is not presented as Coram's results are immaterial to the Company's consolidated financial statements. During the year ended December 31, 2014, acquisition costs of $15 million were expensed as incurred within operating expenses.

3 Goodwill and Other Intangibles

Goodwill and other indefinitely-lived assets are not amortized, but are subject to annual impairment reviews, or more frequent reviews if events or circumstances indicate 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 2014, the Company performed its required annual goodwill impairment tests. The Company concluded there were no goodwill impairments as of the testing date.

Below is a summary of the changes in the carrying amount of goodwill by segment for the years ended December 31, 2014 and 2013:

In millions	Pharmacy Services	Retail Pharmacy	Total
Balance, December 31, 2012	$ 19,646	$ 6,749	$ 26,395
Acquisitions	13	160	173
Foreign currency translation adjustments	—	(25)	(25)
Other [1]	(1)	—	(1)
Balance, December 31, 2013	19,658	6,884	26,542
Acquisitions	1,578	38	1,616
Foreign currency translation adjustments	—	(14)	(14)
Other [1]	(2)	—	(2)
Balance, December 31, 2014	$ 21,234	$ 6,908	$ 28,142

(1) "Other" represents immaterial purchase accounting adjustments for acquisitions.

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 2014, 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, 2014 and 2013.

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 13.6 years. The weighted average useful lives of the Company's customer contracts and relationships and covenants not to compete are 13.2 years. The weighted average lives of the Company's favorable leases and other intangible assets are 16.3 years. Amortization expense for intangible assets totaled $518 million, $494 million and $486 million in 2014, 2013 and 2012, respectively. The anticipated annual amortization expense for these intangible assets for the next five years is as follows:

In millions	
2015	$ 486
2016	$ 456
2017	$ 433
2018	$ 415
2019	$ 383

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

	2014			2013		
In millions	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	6,521	(3,549)	2,972	5,840	(3,083)	2,757
Favorable leases and other	880	(476)	404	800	(426)	374
	$ 13,799	$ (4,025)	$ 9,774	$ 13,038	$ (3,509)	$ 9,529

4 Share Repurchase Programs

The following share repurchase programs were authorized by the Company's Board of Directors:

Authorization Date	Amount of Authorization
In billions	
December 15, 2014 ("2014 Repurchase Program")	$ 10.0
December 17, 2013 ("2013 Repurchase Program")	$ 6.0
September 19, 2012 ("2012 Repurchase Program")	$ 6.0
August 23, 2011 ("2011 Repurchase Program")	$ 4.0

The share Repurchase Programs, each of which was 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 ("ASR") transactions, and/or other derivative transactions. The 2014 and 2013 Repurchase Programs may be modified or terminated by the Board of Directors at any time. The 2012 and 2011 Repurchase Programs have been completed, as described below.

Pursuant to the authorization under the 2013 Repurchase Programs, effective January 2, 2015, the Company entered into a $2.0 billion fixed dollar ASR agreement with J.P. Morgan Chase Bank ("JP Morgan"). Upon payment of the $2.0 billion purchase price on January 5, 2015, the Company received a number of shares of its common stock equal to 80% of the $2.0 billion notional amount of the ASR agreement or approximately 16.8 million shares at a price of $94.49 per share. At the conclusion of the ASR program, the Company may receive additional shares equal to the remaining 20% of the $2.0 billion notional amount. The ultimate number of shares the Company may receive will fluctuate based on changes in the daily volume-weighted average price of the Company's stock over a period beginning on January 2, 2015 and ending on or before April 26, 2015. If the mean daily volume-weighted average price of the Company's common stock, less a discount (the "forward price"), during the ASR program falls below $94.49 per share, the Company will receive a higher number of shares from JP Morgan. If the forward price rises above $94.49 per share, the Company will either receive fewer shares from JP Morgan or, potentially have an obligation to JP Morgan which, at the Company's option, could be settled in additional cash or by issuing shares. Under the terms of the ASR agreement, the maximum number of shares that could be received or delivered is 42.0 million. The initial 16.8 million shares of common stock delivered to the Company by JP Morgan were placed into treasury stock in January 2015.

Pursuant to the authorization under the 2012 Repurchase Program, effective October 1, 2013, the Company entered into a $1.7 billion fixed dollar 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.

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 earnings per share.

During the year ended December 31, 2014, the Company repurchased an aggregate of 51.4 million shares of common stock for approximately $4.0 billion under the 2013 and 2012 Repurchase Programs. As of December 31, 2014, there remained an aggregate of approximately $12.7 billion available for future repurchases under the 2014 and 2013 Repurchase Programs, $2.0 billion of which was used for the ASR effective January 2, 2015 described above. As of December 31, 2014, the 2012 Repurchase Program was complete.

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.

5 Borrowing and Credit Agreements

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

In millions	2014	2013
Commercial paper	$ 685	$ —
4.875% senior notes due 2014	—	550
3.25% senior notes due 2015	550	550
6.125% senior notes due 2016	421	421
1.2% senior notes due 2016	750	750
5.75% senior notes due 2017	1,080	1,310
2.25% senior notes due 2018	1,250	1,250
6.6% senior notes due 2019	394	394
2.25% senior notes due 2019	850	—
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	1,250
3.375% senior notes due 2024	650	—
6.25% senior notes due 2027	453	1,000
6.125% senior notes due 2039	734	1,500
5.75% senior notes due 2041	493	950
5.3% senior notes due 2043	750	750
Capital lease obligations	391	390
Other	4	87
	12,955	13,402
Less:		
Short-term debt (commercial paper)	(685)	—
Current portion of long-term debt	(575)	(561)
Long-term debt	$ 11,695	$ 12,841

The Company had $685 million of commercial paper outstanding at a weighted average interest rate of 0.55% as of December 31, 2014. In connection with its commercial paper program, the Company maintains a $1.25 billion, five-year unsecured back-up credit facility, which expires on February 17, 2017, a $1.0 billion, five-year unsecured back-up credit facility, which expires on May 23, 2018, and a $1.25 billion, five-year unsecured back-up credit facility, which expires on July 24, 2019. 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, 2014, there were no borrowings outstanding under the back-up credit facilities. The weighted average interest rate for short-term debt outstanding during the year ended December 31, 2014 and 2013 was 0.36% and 0.27%, respectively.

On August 7, 2014, the Company issued $850 million of 2.25% unsecured senior notes due August 12, 2019 and $650 million of 3.375% unsecured senior notes due August 12, 2024 (collectively, the "2014 Notes") for total proceeds of approximately $1.5 billion, net of discounts and underwriting fees. The 2014 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 2014 Notes were used for general corporate purposes and to repay certain corporate debt.

On August 7, 2014, the Company announced tender offers for any and all of the 6.25% Senior Notes due 2027, and up to a maximum amount of the 6.125% Senior Notes due 2039, the 5.75% Senior Notes due 2041 and the 5.75% Senior Notes due 2017, for up to an aggregate principal amount of $1.5 billion. On August 21, 2014, the Company increased the aggregate principal amount of the tender offers to $2.0 billion and completed the repurchase for the maximum amount on September 4, 2014. The Company paid a premium of $490 million in excess of the debt principal in connection with the tender offers, wrote off $26 million of unamortized deferred financing costs and incurred $5 million in fees, for a total loss on the early extinguishment of debt of $521 million. The loss was recorded in income from continuing operations on the consolidated statement of income for the year ended December 31, 2014.

During the year ended December 31, 2014, the Company repurchased the remaining $41 million of outstanding Enhanced Capital Advantage Preferred Securities ("ECAPS") at par. The fees and write-off of deferred issuance costs associated with the early extinguishment of the ECAPS were immaterial.

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. The remainder was 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 for the year ended December 31, 2012.

The credit facilities, back-up credit facilities and unsecured senior notes 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, 2014 are $575 million in 2015, $1.2 million in 2016, $1.1 billion in 2017, $1.3 billion in 2018 and $1.3 billion in 2019.

6 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:

In millions	2014	2013	2012
Minimum rentals	$ 2,320	$ 2,210	$ 2,165
Contingent rentals	36	41	48
	2,356	2,251	2,213
Less: sublease income	(21)	(21)	(20)
	$ 2,335	$ 2,230	$ 2,193

The following table is a summary of the future minimum lease payments under capital and operating leases as of December 31, 2014:

In millions	Capital Leases	Operating Leases[1]
2015	$ 47	$ 2,279
2016	47	2,220
2017	47	2,121
2018	48	2,007
2019	48	1,861
Thereafter	573	16,794
Total future lease payments	810	$ 27,282
Less: imputed interest	(419)	
Present value of capital lease obligations	$ 391	

(1) Future operating lease payments have not been reduced by minimum sublease rentals of $203 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 $515 million in 2014, $600 million in 2013 and $529 million in 2012.

7 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, 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, 2014 and 2013, amounts due from CMS included in accounts receivable were $1.8 billion and $2.4 billion, respectively.

8 Pension Plans and Other Postretirement Benefits

Defined Contribution Plans

The Company sponsors voluntary 401(k) savings plans that cover 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 transferred 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 Health 401(k) Plan absent certain restrictions and limitations under the Internal Revenue Code. The Company's contributions under the above defined contribution plans were $238 million, $235 million and $199 million in 2014, 2013 and 2012, 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, 2014 and 2013, the Company's other postretirement benefits have an accumulated postretirement benefit obligation of $31 million and $27 million, respectively. Net periodic benefit costs related to these other postretirement benefits were $1 million in 2014, $11 million in 2013, and $1 million in 2012. 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 $58 million, $55 million and $50 million in 2014, 2013 and 2012, respectively.

Pension Plans

During the years ended December 31, 2014, 2013 and 2012, the Company sponsored nine 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 five plans are unfunded nonqualified supplemental retirement plans. Most of the plans were frozen in prior periods.

As of December 31, 2014, the Company's pension plans had a projected benefit obligation of $796 million and plan assets of $635 million. As of December 31, 2013, the Company's pension plans had a projected benefit obligation of $694 million and plan assets of $568 million. Actual return on plan assets was $75 million and $49 million in 2014 and 2013, respectively. Net periodic pension costs related to these pension plans were $21 million, $19 million and $31 million in 2014, 2013 and 2012, respectively. The net periodic pension costs for 2012 include a curtailment loss of $2 million.

The discount rate is determined by examining the current yields observed on the measurement date of fixed-interest, high quality investments expected to be available during the period to maturity of the related benefits on a plan by plan basis. The discount rate for the plans was 4.0% in 2014 and 4.75% in 2013. 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 the plans ranged from 5.75% to 7.25% in 2014 and was 7.25% for all plans in 2013 and 2012.

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. Beginning in 2013, the Company changed its investment strategy to be liability management driven. The qualified pension plan asset allocation targets in 2014 and 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 70% to 85% in fixed income and 15% to 30% in equities as of December 31, 2014.

As of December 31, 2014, the Company's qualified defined benefit pension plan assets consisted of 18% equity, 81% fixed income and 1% money market securities of which 14% were classified as Level 1 and 86% as Level 2 in the fair value hierarchy. The Company's qualified defined benefit pension plan assets as of December 31, 2013 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 contributed $42 million, $33 million and $36 million to the pension plans during 2014, 2013 and 2012, respectively. The Company plans to make approximately $36 million in contributions to the pension plans during 2015.

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 $14 million, $13 million and $12 million in 2014, 2013 and 2012, respectively.

9 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.

Compensation expense related to stock options, which includes the Employee Stock Purchase Plan (the "ESPP") totaled $103 million, $100 million and $102 million for 2014, 2013 and 2012, respectively. The recognized tax benefit was $33 million, $32 million and $33 million for 2014, 2013 and 2012, respectively. Compensation expense related to restricted stock awards totaled $62 million, $41 million and $30 million for 2014, 2013 and 2012, respectively.

The 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 ESPP to provide an additional 15 million shares of common stock for issuance. Under the 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 2014, approximately 2 million shares of common stock were purchased under the provisions of the ESPP at an average price of $54.12 per share. As of December 31, 2014, approximately 15 million shares of common stock were available for issuance under the ESPP.

The fair value of stock-based compensation associated with the 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:

	2014	2013	2012
Dividend yield(1)	0.75%	0.86%	0.73%
Expected volatility(2)	14.87%	16.94%	22.88%
Risk-free interest rate(3)	0.08%	0.10%	0.10%
Expected life *(in years)*(4)	0.5	0.5	0.5
Weighted-average grant date fair value	$ 13.74	$ 10.08	$ 9.22

(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.

The terms of the Company's Incentive Compensation Plan ("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 ICP allows for a maximum of 74 million shares to be reserved and available for grants. The 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 ESPP. In November 2012, the Company's Board of Directors approved an amendment to the ICP to eliminate the share recycling provision of the ICP. As of December 31, 2014, there were approximately 30 million shares available for future grants under the ICP.

The Company's restricted awards are considered nonvested share awards and require no payment from the employee. Compensation cost is recorded based on the market price of the Company's common stock on the grant date and is recognized on a straight-line basis over the requisite service period. The Company granted 2,708,000, 1,715,000 and 1,811,000 restricted stock units with a weighted average fair value of $73.60, $54.30 and $44.80 in 2014, 2013 and 2012, respectively. As of December 31, 2014, there was $190 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 2.7 years. The total fair value of restricted shares vested during 2014, 2013 and 2012 was $57 million, $41 million and $81 million, respectively.

The following table is a summary of the restricted stock unit and restricted share award activity for the year ended December 31, 2014.

Units in thousands	Units	Weighted Average Grant Date Fair Value
Nonvested at beginning of year	3,021	$ 38.56
Granted	2,708	$ 73.60
Vested	(803)	$ 73.11
Forfeited	(249)	$ 57.58
Nonvested at end of year	4,677	$ 51.90

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

Excess tax benefits of $106 million, $62 million and $28 million were included in financing activities in the accompanying consolidated statements of cash flow during 2014, 2013 and 2012, respectively. Cash received from stock options exercised, which includes the ESPP, totaled $421 million, $500 million and $836 million during 2014, 2013 and 2012, respectively. The total intrinsic value of stock options exercised was $372 million, $282 million and $321 million in 2014, 2013 and 2012, respectively. The total fair value of stock options vested during 2014, 2013 and 2012 was $292 million, $329 million and $386 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:

	2014	2013	2012
Dividend yield(1)	1.47%	1.65%	1.44%
Expected volatility(2)	19.92%	30.96%	32.49%
Risk-free interest rate(3)	1.35%	0.73%	0.84%
Expected life *(in years)*(4)	4.0	4.7	4.7
Weighted-average grant date fair value	$ 11.04	$ 12.50	$ 11.12

(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, 2014, unrecognized compensation expense related to unvested options totaled $121 million, which the Company expects to be recognized over a weighted-average period of 1.7 years. After considering anticipated forfeitures, the Company expects approximately 16 million of the unvested stock 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, 2014:

Shares in thousands	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2013	34,738	$ 41.40		
Granted	4,525	$ 74.96		
Exercised	(9,563)	$ 37.30		
Forfeited	(1,202)	$ 50.15		
Expired	(332)	$ 36.93		
Outstanding at December 31, 2014	28,166	$ 47.87	4.15	$ 1,364,408,886
Exercisable at December 31, 2014	11,634	$ 37.86	2.82	$ 679,995,090
Vested at December 31, 2014 and expected to vest in the future	27,394	$ 47.51	4.11	$ 1,336,774,863

10 Income Taxes

The income tax provision for continuing operations consisted of the following for the years ended December 31:

In millions	2014	2013	2012
Current:			
Federal	$ 2,581	$ 2,623	$ 2,226
State	495	437	410
	3,076	3,060	2,636
Deferred:			
Federal	(43)	(115)	(182)
State	—	(17)	(18)
	(43)	(132)	(200)
Total	$ 3,033	$ 2,928	$ 2,436

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 years ended December 31:

	2014	2013	2012
Statutory income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	4.3	4.0	3.9
Other	0.2	(0.1)	(0.3)
Effective income tax rate	39.5%	38.9%	38.6%

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

In millions	2014	2013
Deferred tax assets:		
Lease and rents	$ 396	$ 344
Employee benefits	311	213
Allowance for doubtful accounts	164	172
Retirement benefits	80	79
Net operating losses	74	10
Depreciation	—	192
Deferred income	261	220
Other	297	378
Valuation allowance	(5)	(3)
Total deferred tax assets	1,578	1,605
Deferred tax liabilities:		
Inventories	(18)	(69)
Depreciation and amortization	(4,572)	(4,512)
Total deferred tax liabilities	(4,590)	(4,581)
Net deferred tax liabilities	$ (3,012)	$ (2,976)

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

In millions	2014	2013
Deferred tax assets—current	$ 985	$ 902
Deferred tax assets—noncurrent (included in other assets)	39	23
Deferred tax liabilities—noncurrent	(4,036)	(3,901)
Net deferred tax liabilities	$ (3,012)	$ (2,976)

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

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

In millions	2014	2013	2012
Beginning balance	$ 117	$ 80	$ 38
Additions based on tax positions related to the current year	32	19	15
Additions based on tax positions related to prior years	70	37	42
Reductions for tax positions of prior years	(15)	(1)	(2)
Expiration of statutes of limitation	(15)	(17)	(12)
Settlements	(1)	(1)	(1)
Ending balance	$ 188	$ 117	$ 80

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, 2013 and 2014 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, 2014, 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 2009. 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 $11 million. In addition, it is reasonably possible that the Company's unrecognized tax benefits could significantly change within the next twelve months due to the anticipated conclusion of various examinations with the IRS for various years. An estimate of the range of the possible change cannot be made at this time.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties in income tax expense. The Company recognized interest of approximately $6 million during the year ended December 31, 2014, and $4 million during each of the years ended December 31, 2013 and 2012. The Company had approximately $11 million and $10 million accrued for interest and penalties as of December 31, 2014 and 2013.

There are no material uncertain tax positions as of December 31, 2014 the ultimate deductibility of which is highly certain but for which there is uncertainty about the timing. If there were, any such items would impact deferred tax accounting only, 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 $170 million, after considering the federal benefit of state income taxes.

11 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, 2014, the Company guaranteed approximately 72 such store leases (excluding the lease guarantees related to Linens 'n Things, which are discussed in Note 1), 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.

- 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, requesting information relating to the processing of Medicaid and certain other government agency claims on behalf of its clients (which allegedly resulted in underpayments from our pharmacy benefit management clients to the applicable government agencies) on one of the Company's adjudication platforms. In September 2014, the Company settled the OIG's claims, as well as related claims by the Department of Justice and private plaintiffs, without any admission of liability. The Company is in discussions with the OIG concerning other claim processing issues.

- Caremark (the term "Caremark" being used herein to generally refer to any one or more PBM subsidiaries of the Company, as applicable) 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. On September 12, 2014, the Alabama Supreme Court affirmed the trial court's August 15, 2012 Order. The Defendants timely filed an Application for Rehearing asking the Alabama Supreme Court to clarify or modify its September 12, 2014 decision. The proceedings in the trial court remain stayed pending resolution of the rehearing application.

- 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. 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 by Richard Medoff, purportedly on behalf of purchasers of CVS Health Corporation stock between

May 5, 2009 and November 4, 2009. The lawsuit names the Company and certain officers as defendants and includes allegations of securities fraud relating to public disclosures made by the Company concerning the PBM business and allegations of insider trading. In addition, a shareholder derivative lawsuit was filed by Mark Wuotila in December 2009 in the same court against the directors and certain officers of the Company. This lawsuit, which has remained 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 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.

- 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.

- 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, Anthony Spay, 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 declined to intervene in the lawsuit. The case is proceeding.

- In November 2014, the U.S. District Court in the District of Massachusetts unsealed a *qui tam* lawsuit brought against the Company by a pharmacy auditor and a CVS pharmacist. The lawsuit, which was initially filed under seal in 2011, alleges that the Company violated the federal False Claims Act, as well as the false claims acts of several states, by overcharging state and federal governments in connection with prescription drugs available through the Company's Health Savings Pass program, a membership-based program that allows enrolled customers special pricing for typical 90-day supplies of various generic prescription drugs. The federal government, which issued a January 2012 OIG subpoena concerning the Health Savings Pass program, has declined to intervene in the case. The Company is now responding to the declined *qui tam* complaint. Separately, the Attorney General of the State of Texas has issued civil investigative demands and other requests in February 2012 and May 2014, and has continued its investigation concerning the Health Savings Pass program and claims for reimbursement from the Texas Medicaid program.

- On October 12, 2012, the Drug Enforcement Agency ("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 Company has entered into discussions with the U.S. Attorney's Office for the Middle District of Florida concerning civil penalties for violations of the Controlled Substances Act arising from the circumstances underlying the action taken against the two Sanford, Florida stores. The Company is also undergoing several audits by the DEA and is in discussions with the DEA and the U.S. Attorney's Office in several locations. Whether agreements can be reached and on what terms is uncertain.

- 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.

- In January 2014, the U.S. District Court in the Southern District of New York unsealed a *qui tam* action in which the Company is a defendant. The suit originally was filed under seal in 2011 by relator David Kester, a former employee of Novartis Pharmaceuticals Corp. ("Novartis"). The suit alleges that Novartis, the Company, and other specialty pharmacies violated the federal False Claims Act, as well as the false claims acts of several states, by using pharmacists, nurses and other staff to recommend and increase the sales and market share for certain Novartis specialty drugs in exchange for patient referrals, rebates and discounts provided by Novartis. The federal government has intervened in the case as to some allegations against Novartis but has declined to intervene as to any of the allegations against the Company. The relator has continued to litigate the declined action against the Company and other specialty pharmacies.

- In March 2014, the Company received a subpoena from the United States Attorney's Office for the District of Rhode Island, requesting documents and information concerning bona fide service fees and rebates received from certain pharmaceutical manufacturers in connection with certain drugs utilized under Part D of the Medicare Program. The Company has been cooperating with the government and collecting documents in response to the subpoena.

The Company is also a party to other legal proceedings, government investigations, 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) pending or future 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 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.

12 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:

In millions	Pharmacy Services Segment[1][2]	Retail Pharmacy Segment[2]	Corporate Segment	Intersegment Eliminations[2]	Consolidated Totals
2014:					
Net revenues	$ 88,440	$ 67,798	$ —	$ (16,871)	$ 139,367
Gross profit	4,771	21,277	—	(681)	25,367
Operating profit	3,514	6,762	(796)	(681)	8,799
Depreciation and amortization	630	1,205	96	—	1,931
Total assets	42,302	30,979	2,530	(1,559)	74,252
Goodwill	21,234	6,908	—	—	28,142
Additions to property and equipment	308	1,745	83	—	2,136
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

(1) Net revenues of the Pharmacy Services Segment include approximately $8.1 billion, $7.9 billion and $8.4 billion of Retail co-payments for the years ended December 31, 2014, 2013 and 2012, 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. The following amounts are eliminated in consolidation in connection with the item (ii) intersegment activity: net revenues of $4.9 billion, $4.3 billion and $3.4 billion for the years ended December 31, 2014, 2013 and 2012, respectively; and gross profit and operating profit of $681 million, $566 million and $411 million for the years ended December 31, 2014, 2013 and 2012, respectively.

13 Earnings Per Share

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

In millions, except per share amounts	2014	2013	2012
Numerator for earnings per share calculation:			
Income from continuing operations attributable to common stockholders[1]	$ 4,626	$ 4,600	$ 3,871
Denominator for earnings per share calculation:			
Weighted average shares, basic	1,161	1,217	1,271
Effect of dilutive securities	8	9	9
Weighted average shares, diluted	1,169	1,226	1,280
Earnings per share from continuing operations:			
Basic	$ 3.98	$ 3.78	$ 3.05
Diluted	$ 3.96	$ 3.75	$ 3.02

(1) Comprised of income from continuing operations less amounts allocable to participating securities of $19 million for the year ended December 31, 2014.

14 Quarterly Financial Information (Unaudited)

In millions, except per share amounts	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2014:					
Net revenues	$ 32,689	$ 34,602	$ 35,021	$ 37,055	$ 139,367
Gross profit	5,942	6,324	6,468	6,633	25,367
Operating profit	2,024	2,208	2,246	2,321	8,799
Income from continuing operations	1,129	1,246	948	1,322	4,645
Loss from discontinued operations, net of tax	—	—	—	(1)	(1)
Net income attributable to CVS Health	1,129	1,246	948	1,321	4,644
Basic earnings per share:					
Income from continuing operations attributable to CVS Health	$ 0.96	$ 1.07	$ 0.82	$ 1.15	$ 3.98
Loss from discontinued operations attributable to CVS Health	$ —	$ —	$ —	$ —	$ —
Net income attributable to CVS Health	$ 0.96	$ 1.07	$ 0.82	$ 1.15	$ 3.98
Diluted earnings per share:					
Income from continuing operations attributable to CVS Health	$ 0.95	$ 1.06	$ 0.81	$ 1.14	$ 3.96
Loss from discontinued operations attributable to CVS Health	$ —	$ —	$ —	$ —	$ —
Net income attributable to CVS Health	$ 0.95	$ 1.06	$ 0.81	$ 1.14	$ 3.96
Dividends per share	$ 0.275	$ 0.275	$ 0.275	$ 0.275	$ 1.10
Stock price: (New York Stock Exchange)					
High	$ 76.36	$ 79.43	$ 82.57	$ 98.62	$ 98.62
Low	$ 64.95	$ 72.37	$ 74.69	$ 77.40	$ 64.95

In millions, except per share amounts	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 attributable to CVS Health	954	1,124	1,249	1,265	4,592
Basic earnings per share:					
Income from continuing operations attributable to CVS Health	$ 0.77	$ 0.92	$ 1.03	$ 1.06	$ 3.78
Loss from discontinued operations attributable to CVS Health	$ —	$ —	$ —	$ —	$ (0.01)
Net income attributable to CVS Health	$ 0.77	$ 0.92	$ 1.03	$ 1.06	$ 3.77
Diluted earnings per share:					
Income from continuing operations attributable to CVS Health	$ 0.77	$ 0.91	$ 1.02	$ 1.05	$ 3.75
Loss from discontinued operations attributable to CVS Health	$ —	$ —	$ —	$ —	$ (0.01)
Net income attributable to CVS Health	$ 0.77	$ 0.91	$ 1.02	$ 1.05	$ 3.74
Dividends per share	$ 0.225	$ 0.225	$ 0.225	$ 0.225	$ 0.90
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

Five-Year Financial Summary

In millions, except per share amounts	2014	2013	2012	2011	2010
Statement of operations data:					
Net revenues	$ 139,367	$ 126,761	$ 123,120	$ 107,080	$ 95,766
Gross profit	25,367	23,783	22,488	20,562	20,215
Operating expenses	16,568	15,746	15,278	14,231	14,082
Operating profit	8,799	8,037	7,210	6,331	6,133
Interest expense, net	600	509	557	584	536
Loss on early extinguishment of debt	521	—	348	—	—
Income tax provision(1)	3,033	2,928	2,436	2,258	2,178
Income from continuing operations	4,645	4,600	3,869	3,489	3,419
Income (loss) from discontinued operations, net of tax	(1)	(8)	(7)	(31)	2
Net income	4,644	4,592	3,862	3,458	3,421
Net loss attributable to noncontrolling interest	—	—	2	4	3
Net income attributable to CVS Health	$ 4,644	$ 4,592	$ 3,864	$ 3,462	$ 3,424
Per common share data:					
Basic earnings per common share:					
Income from continuing operations attributable to CVS Health	$ 3.98	$ 3.78	$ 3.05	$ 2.61	$ 2.50
Loss from discontinued operations attributable to CVS Health	$ —	$ (0.01)	$ (0.01)	$ (0.02)	$ —
Net income attributable to CVS Health	$ 3.98	$ 3.77	$ 3.04	$ 2.59	$ 2.50
Diluted earnings per common share:					
Income from continuing operations attributable to CVS Health	$ 3.96	$ 3.75	$ 3.02	$ 2.59	$ 2.49
Loss from discontinued operations attributable to CVS Health	$ —	$ (0.01)	$ (0.01)	$ (0.02)	$ —
Net income attributable to CVS Health	$ 3.96	$ 3.74	$ 3.02	$ 2.57	$ 2.49
Cash dividends per common share	$ 1.10	$ 0.90	$ 0.65	$ 0.50	$ 0.35
Balance sheet and other data:					
Total assets	$ 74,252	$ 71,526	$ 66,221	$ 64,852	$ 62,457
Long-term debt	$ 11,695	$ 12,841	$ 9,133	$ 9,208	$ 8,652
Total shareholders' equity	$ 37,963	$ 37,938	$ 37,653	$ 38,014	$ 37,662
Number of stores (at end of year)	7,866	7,702	7,508	7,388	7,248

(1) Income tax provision for the year ended December 31, 2010 includes the effect of 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.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of CVS Health Corporation

We have audited the accompanying consolidated balance sheets of CVS Health Corporation as of December 31, 2014 and 2013, 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, 2014. 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 Health Corporation at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CVS Health Corporation's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 10, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 10, 2015

Exhibit 21

SUBSIDIARIES OF THE REGISTRANT

As of December 31, 2014, CVS Health 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)[1]
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)[2]
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.

Exhibit 23

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statements (Form S-3ASR Nos. 333-187440 and 333-200217) of CVS Health 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 Health Corporation;

of our reports dated February 10, 2015, with respect to the consolidated financial statements of CVS Health Corporation and the effectiveness of internal control over financial reporting of CVS Health Corporation, incorporated by reference in this Annual Report (Form 10-K) of CVS Health Corporation for the year ended December 31, 2014, and to the reference to our firm under the heading "Selected Financial Data," included therein.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 10, 2015

Exhibit 31.1

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Larry J. Merlo, President and Chief Executive Officer of CVS Health Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of CVS Health 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, 2015

By: /s/ LARRY J. MERLO

Larry J. Merlo
President and
Chief Executive Officer

Exhibit 31.2

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 Health Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of CVS Health 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, 2015

By: /s/ DAVID M. DENTON

David M. Denton
Executive Vice President and Chief Financial Officer

Exhibit 32.1

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 Health Corporation (the "Company") on Form 10-K for the period ended December 31, 2014 (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, 2015

/s/ LARRY J. MERLO

Larry J. Merlo
President and
Chief Executive Officer

Exhibit 32.2

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 Health Corporation (the "Company") on Form 10-K for the period ended December 31, 2014 (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, 2015

/s/ DAVID M. DENTON

David M. Denton
Executive Vice President and Chief Financial Officer