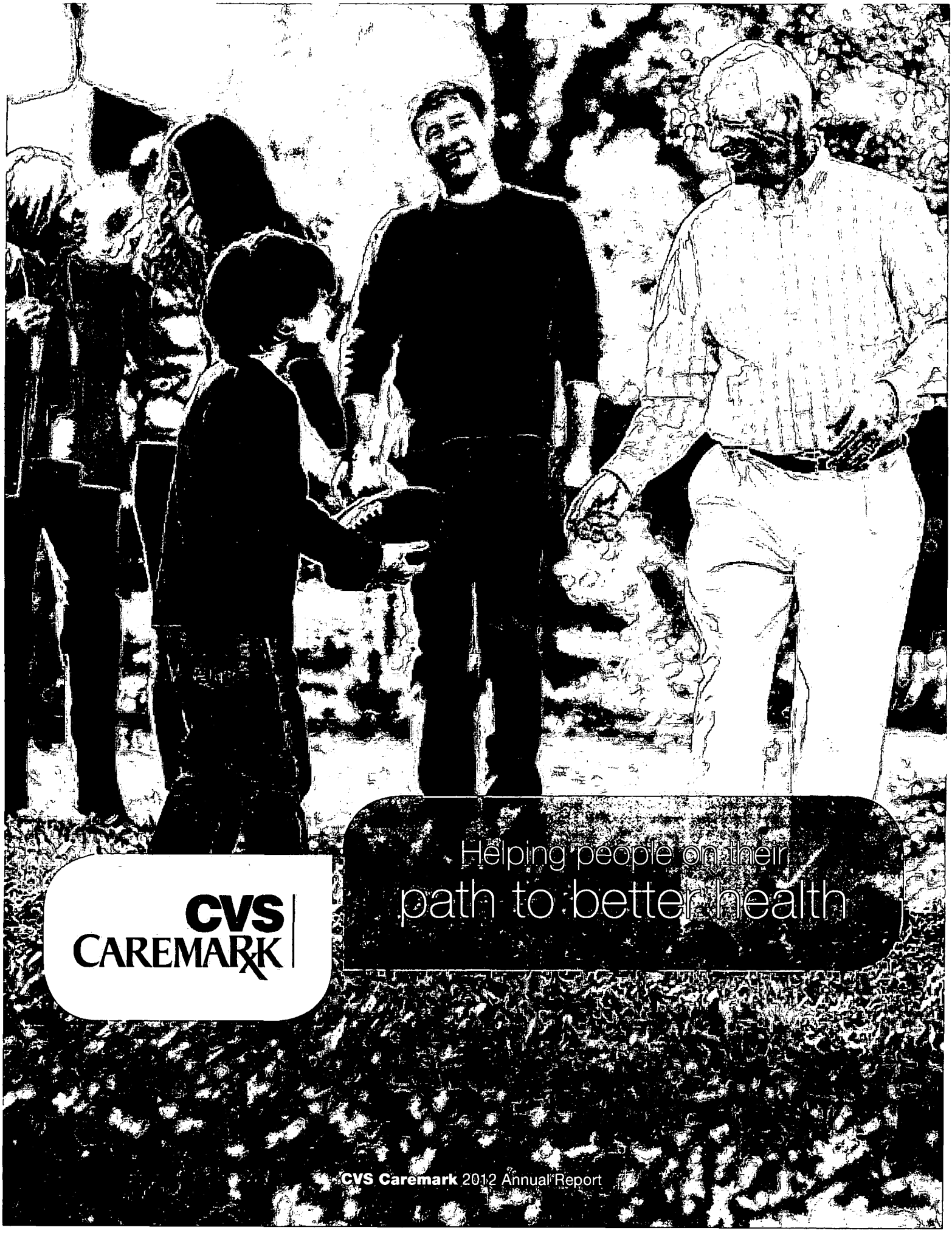
Exhibit 10-E

CVS Health's 2012 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, 2012

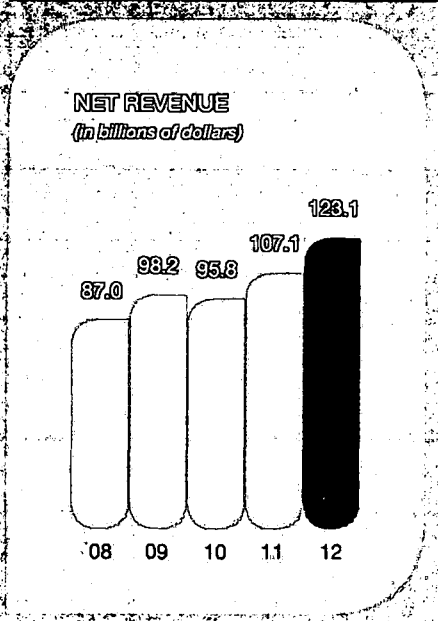

CVS
CAREMARK
Helping people on their
path to better health

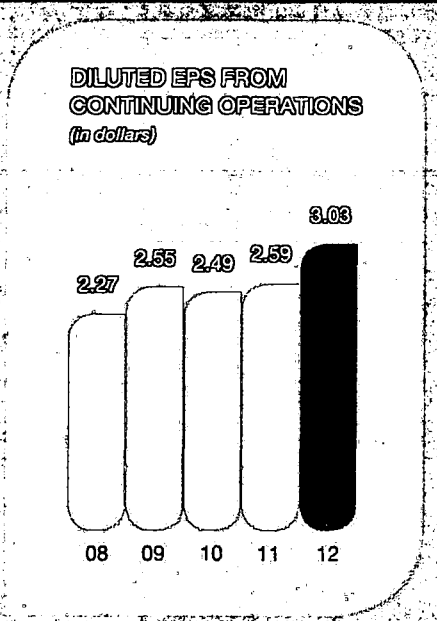
CVS CAREMARK

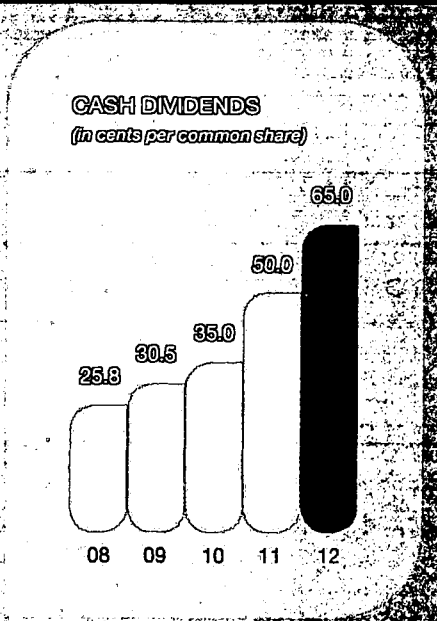
CVS Caremark is the largest pharmacy health care provider in the United States with integrated offerings across the entire spectrum of pharmacy care. Through our unique suite of assets, we are reinventing pharmacy to offer innovative solutions that help people on their path to better health. We are focused on enhancing access to care, lowering overall health care costs for plan members and payors, and improving health outcomes. CVS Caremark operates more than 7,400 CVS/pharmacy® stores; provides services to more than 60 million plan members through our CVS Caremark® pharmacy benefit management (PBM) business; and operates the nation's largest retail medical clinic system with more than 600 MinuteClinic® locations.

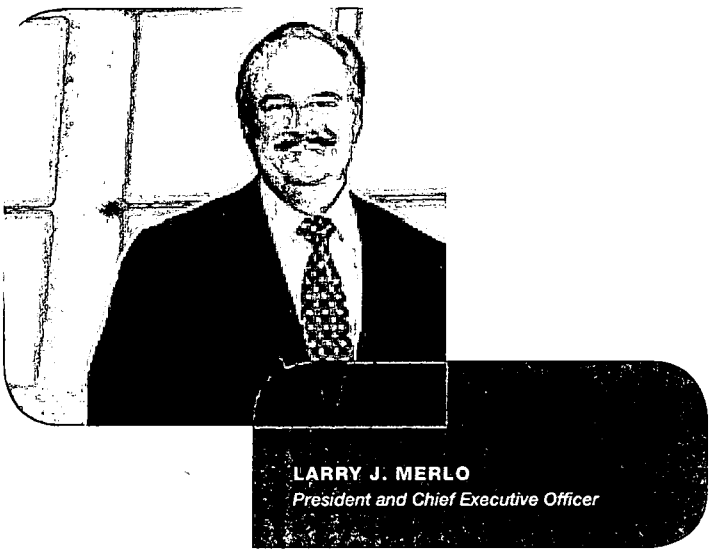
Financial Highlights

(in millions, except per share figures)	fiscal year 2012	fiscal year 2011	% change
Net revenues	$ 123,133	$ 107,100	15.0%
Operating profit	$ 7,228	$ 6,330	14.2%
Net income attributable to CVS Caremark	$ 3,877	$ 3,461	12.0%
Diluted EPS from continuing operations	$ 3.03	$ 2.59	17.1%
Stock price at year-end	$ 48.35	$ 40.78	18.6%
Market capitalization at year-end	$ 59,527	$ 52,937	12.4%









LARRY J. MERLO
President and Chief Executive Officer

"We are well-positioned to thrive in this changing environment and to achieve our purpose of helping people on their path to better health."

Dear Fellow Shareholders:

Health care delivery in the United States is going through a period of rapid change. This is being driven primarily by the ongoing implementation of the Affordable Care Act, along with an aging population, a growing shortage of primary care physicians, rising prevalence of chronic disease, and shifts in consumer and patient behavior. Some 30 million Americans are expected to gain health care coverage in the coming years as a result of the new legislation and demographic shifts. Despite health reform legislation, health care costs are projected to continue to rise at an unsustainable pace, putting the nation's long-term fiscal health at risk.

We are well-positioned to thrive in this changing environment and to achieve our purpose of helping people on their path to better health. We are a pharmacy innovation company, and with our unmatched breadth of assets we are bringing innovative solutions to the marketplace. These solutions enhance access to care, lower costs, and improve health outcomes – and they are sought after by providers, payors, and patients alike.

Our PBM is a leader in clinical and specialty pharmacy programs and has strong positions in the growing Medicare Part D and Managed Medicaid markets. Our retail presence – 7,400 stores and counting – allows us to engage directly with five million customers daily. In addition, MinuteClinic®, the nation's largest retail medical clinic system, continues to enter new markets, expand services, and increase its growing number of affiliations with leading health care systems.

Our unmatched business model enables us to offer products and services that are difficult for our standalone competitors to replicate. For example, we have developed solutions such as Pharmacy Advisor® to address gaps in care and medication non-adherence that no other pharmacy company presently offers. Our capabilities in this area are critical because patients who do not

adhere to their prescription drug regimens cost the U.S. health care system an estimated $300 billion annually in avoidable health care costs.

Before I expand on these and other topics, I want to provide a brief overview of our 2012 results. By virtually any measure, the past year was an outstanding one for CVS Caremark.

Solid growth and significant free cash flow are driving shareholder value

Net revenues increased 15 percent to a record $123 billion in 2012. Excluding the loss on early extinguishment of debt during the fourth quarter, adjusted earnings per share from continuing operations rose 22.8 percent to $3.43. We achieved solid growth in our core pharmacy services and retail businesses, and our stores captured a significant share of Express Scripts members during its impasse with Walgreens. We also controlled expenses and increased productivity across the enterprise.

Our shares performed well, returning 20.3 percent for the year. That surpassed the total returns of both the S&P 500 Index and Dow Jones Industrial Average over the same period. In fact, we outperformed these broader indices on a three- and five-year basis as well.

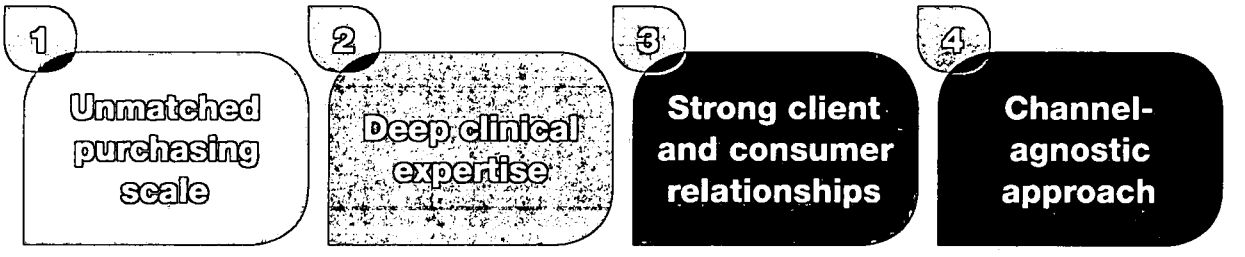
We remain focused on enhancing shareholder value by driving productive, long-term growth, generating significant cash flow, and optimizing capital deployment. In 2012, free cash flow totaled $5.2 billion and we returned more than $5.1 billion to shareholders through dividends and share repurchases. We increased our quarterly dividend by 30 percent in 2012, and we recently announced another 38 percent increase for 2013. This most recent increase allows us to meet the low end of our 25 to 30 percent dividend payout ratio target two years early and marks our 10th consecutive year of dividend increases.

With our strong balance sheet and investment grade credit rating, we also were able to take advantage of a favorable interest rate environment to refinance a portion of our long-term debt. Our enhanced debt structure will help improve earnings and further enhance our free cash flow in future years.

Our PBM won business across customer segments and is well-positioned in major growth areas

Our integrated model has been embraced by the marketplace and now represents a sustainable competitive advantage in the industry. Clients recognize that our differentiated PBM offerings such as Pharmacy Advisor and Maintenance Choice® can make a real difference in enhancing access, lowering health care costs, and improving health outcomes.

UNIQUELY POSITIONED TO DRIVE RESULTS



Our distinctive pharmacy care model is based on four core strengths that differentiate our offerings and enhance our value proposition.

"We've grown our PBM book of business by approximately 50 percent since 2010, delivering $24 billion of net new business over this period."

We've grown our PBM book of business by approximately 50 percent since 2010, delivering $24 billion of net new business over this period. In the 2013 selling season, we retained 96 percent of our book of business. We also won well over $4 billion in gross new business and approximately $400 million in net new business. It's worth noting that these gains came across customer segments, including employers, commercial health plans, Medicare Part D, and Medicaid.

Medicare has quickly emerged as a major payor for prescription drugs in the United States, and our PBM is currently a strong number three player in the Part D market with roughly 6.5 million lives. This includes the lives we serve through our SilverScript prescription drug plans, as well as other lives where we serve as the PBM for health plan clients. With baby boomers turning 65 at the rate of 10,000 people per day, along with their growing utilization of prescription medications, we see the Medicare market as an attractive growth area.

Managed Medicaid represents another critical growth segment for us, as health care reform could add up to 15 million new lives to Medicaid rolls in the coming years. We are currently the clear leader in the Managed Medicaid PBM market with an estimated 31 percent share. We have continued to win new clients and have also seen existing clients expand membership as states move from a fee-for-service model. Our success is due in part to our ability to tailor our programs and operations to support the unique needs of this segment.

Our specialty pharmacy business continues to grow rapidly, with enterprise-wide specialty revenues of more than $18 billion in 2012. The specialty market is expected to grow to approximately $120 billion in 2016, roughly double the size of the market in 2010. That means that by late 2016, it could account for roughly one-third of total pharmacy spend in the United States. This rapid increase in specialty drug costs presents challenges for our clients, so we have expanded our capabilities to manage specialty trend across the entire continuum of pharmacy and medical benefits. When implementing our programs, which include Specialty Guideline Management, exclusive pharmacy networks, and site of care management, clients can save up to 12 to 16 percent on their specialty spend.

There is plenty of other good news coming out of our PBM, from our collaboration with Aetna to our streamlining initiative. The latter, which involves rationalizing our mail order pharmacies, streamlining operations, and consolidating our claims adjudication systems, is on track to deliver $1 billion in cumulative cost savings over the five-year period ending in 2015.

CVS/pharmacy® gained share and outperformed competitors on key metrics

Our retail business continued to fire on all cylinders in 2012, and we gained market share in both the pharmacy and the front of the store. In fact, our retail share of the prescription drug market has grown two percentage points in the past two years to reach more than 21 percent. We also far outpaced our peer group with 9.1 percent growth in prescriptions dispensed. Even factoring out the prescriptions gained during the Express Scripts-Walgreens impasse, our underlying pharmacy growth led the industry.

Our focus on excellence in patient care is a key driver of our strong performance in the pharmacy. As part of our patient care initiatives, our pharmacy teams performed 72 million customer interventions in 2012. Interventions like these keep our adherence rates well above all other pharmacy retailers, helping our patients stay healthy and driving savings for payors.

Another way in which we can control health care costs is by moving patients to lower-cost, generic drug alternatives when available and clinically appropriate. Given that generics produce greater profits for us than branded drugs, we can improve profitability even as we lower costs for patients and payors. The opportunity for us in this area remains significant for the next few years.

The ExtraCare® loyalty program and our store brands continued to drive front store gains

In the front of the store, our 3.4 percent rise in same store sales led the industry in 2012. We continue to use our ExtraCare loyalty program to help deliver a more personalized experience to each customer. We have been building, refining, and perfecting this industry-leading program for 15 years. Today, we have 70 million active cardholders who accounted for 84 percent of front-store sales during the past year.

We leverage the insights gained from card use to support each of these customers with promotions targeted to their specific tastes and needs. We'll be taking our efforts to the next level in the coming year by, among other things, personalizing the digital circular customers see when logging onto the ExtraCare page at CVS.com® and by offering incentives that encourage customers to shop categories that are new to them.

The insights gleaned from ExtraCare also helped provide a foundation for the myCVS clustering initiative currently underway. In brief, we've begun to tailor our merchandise mix and remodel store layouts to match the needs of customers within certain trade areas. For example, we began rolling out what we call our "urban cluster" in 2011. Designed as a general store for dense trade areas, this concept increases our consumable offerings and also features faster checkouts. We had 450 of these stores in place at the end of 2012, and they saw notable sales and margin gains. In 2013, we expect to convert another 85 stores to the urban format. Building upon the success we've experienced with these urban cluster stores, we're currently experimenting with other clusters to better tailor our stores to match our customer base.

Our store brands represent another opportunity to enhance customer value while increasing profitability. These products are sold under a variety of proprietary labels such as Gold Emblem™ and Just the Basics™. They represent more than 17 percent of our front store sales, and they accounted for 26 percent of our front store sales growth over the past four years. We have an aggressive plan in place to improve both the quality and packaging of our store brands, and we believe that they can reach at least 20 percent of front store sales in the next few years.

As we work to drive growth in existing stores, we have also continued to open locations and to enter new markets. In 2012, we opened 150 new or relocated stores in the United States. Factoring in closings, net units increased by 131 stores. That equates to 2.1 percent retail square footage growth for the year, in line with our annual goal.

Moreover, our acquisition of privately held Drogaria Onofre in January 2013 marked our first foray into drugstore operations outside the United States. This transaction includes 44 retail locations in and around Sao Paulo, Brazil, which we view as a highly attractive growth market. I've said many times that our approach to international expansion would be measured and that we will continue to exercise strong financial discipline. Onofre, with its strong reputation, represents an excellent opportunity to grow the business over time.

MinuteClinic's expansion included increased focus on non-acute care, new locations, and health system affiliations

A year from now, millions of Americans will begin to gain access to coverage as part of U.S. health care reform. This coming growth in demand will further exacerbate the current shortage of primary care physicians. Our expanding network of MinuteClinic locations will help address both the access issues related to this shortage as well as the rising cost of delivering care.

The largest and fastest-growing retail medical clinic provider in the country, MinuteClinic has approximately 640 locations within CVS/pharmacy stores in 25 states and the District of Columbia. Each offers convenient, cost-effective care seven days a week without appointment. Insurers understand MinuteClinic's value proposition, which is why visits are covered by more than 250 different commercial and government health plans.

"We believe that our business model is well aligned with the longer-term trends in the industry and uniquely positions us to drive value for our clients and customers in this rapidly changing environment."

MinuteClinic's 2,000 nurse practitioners and physician assistants have cared for nearly 15 million patients, more than eight million of them in the past three years alone. Although acute care accounts for the majority of visits, non-acute services such as immunizations, physicals, and chronic disease monitoring have increased at a compound annual growth rate of 41 percent over the past three years. In 2012, these services accounted for about 17 percent of total volume, a figure that should continue to rise in the coming years.

We expect to open 150 new clinics in 2013, with a long-term goal of operating 1,500 clinics in more than 35 states by 2017. MinuteClinic's expanding footprint supports our growth strategy on a number of fronts. Collaborating with our PBM on service offerings strengthens our appeal and value proposition to regional and national accounts. It also increases MinuteClinic's value as a partner to some of the nation's leading health systems and positions us to play an important role in new health care delivery systems, such as accountable care organizations.

We are keenly focused on future growth opportunities

Given all the change that is underway in health care, it is critically important that we are able to pivot to serve the changing needs of our clients and customers. We believe that our business model is well aligned with the longer-term trends in the industry and uniquely positions us to drive value for our clients and customers in this rapidly changing environment. Given this, we've done a substantial amount of work to more clearly define our long-term strategic growth framework to ensure that we capitalize on these significant opportunities.

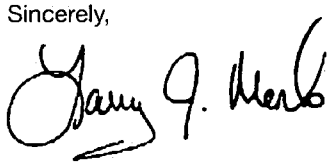
Our enterprise growth strategy represents not a change, but an evolution of our thinking. We've defined a three-pronged strategy to capitalize on market opportunities we foresee with our unique suite of assets:

- First, we will create greater health care value by increasing the convenience and quality of care; we are expanding and differentiating our services for better health at lower costs.
- Second, we will serve new and existing customers in new ways; our teams from across the enterprise are focused on identifying and targeting opportunities to better serve the fastest-growing customer segments.
- And third, we will optimize our enterprise assets by delivering innovative solutions that leverage our unmatched breadth of capabilities.

As we look ahead, our strategic growth framework will provide the lens through which we will make strategic investments and prioritize initiatives. We plan to grow share organically in our core businesses, and we will make investments and use bolt-on acquisitions to advance faster in areas with higher market momentum. We expect that this strategy will lead to continued healthy earnings growth and substantial free cash flow, which we will deploy to enhance shareholder value.

In closing, I want to thank our board of directors for their valued support throughout the year. I also want to thank all the other stakeholders that contribute to CVS Caremark's success – from our shareholders and customers to our more than 200,000 colleagues. Our people are helping us change the definition of pharmacy care, and they are positioning us to play a major role in the evolving delivery of health care in the United States.

Sincerely,



Larry J. Merlo
President and Chief Executive Officer

February 15, 2013

Mark Cosby
President
CVS/pharmacy

Jon Roberts
President
CVS Caremark
Pharmacy Services

Troy Brennan, M.D.
Chief Medical Officer

Questions and Answers

With Mark Cosby, President – CVS/pharmacy; Jon Roberts, President – CVS Caremark Pharmacy Services; and Troy Brennan, Chief Medical Officer

We recently had a chance to speak with three of CVS Caremark's top executives on a variety of topics, including the progress made on the company's integrated offerings. Below are excerpts from that conversation.

Q: With the three of you together, this seems like an appropriate time to discuss the company's integrated offerings. Can you provide an update on how they are being received?

JON ROBERTS: Initiatives like Pharmacy Advisor and Maintenance Choice are good examples of how we have brought our PBM and retail pharmacy assets together to improve access, cost, and quality. Take Pharmacy Advisor, which is our leading clinical program for addressing issues with adherence and gaps in care. The pilot program we launched for diabetes patients was highly successful, and the program has grown to address 10 different chronic conditions today. These programs continue to be well-received by our PBM clients.

Q: Can you quantify Pharmacy Advisor's results in any way?

MARK COSBY: Over the last two years, we have delivered more than 3.8 million live interventions to members. The results of the program so far are impressive. For example, we're seeing a 4 percent improvement in the number of patients who are optimally adherent compared to those not enrolled in the program. We're also seeing a 17 percent decrease in gaps in care. With more patients taking their medications – and taking them correctly – that can only lead to better health outcomes.

TROY BRENNAN: Our data shows that clients who implement both Pharmacy Advisor and Maintenance Choice are seeing significantly better results in areas like generic dispensing and medication adherence, as well as lower gross cost per eligible member. In fact, when we looked at the retiree population for two of our larger employer clients, costs fell by around 15 percent.

Q: Let's talk about Maintenance Choice. Why is this program so unique and how is it being received?

MARK COSBY: Like Pharmacy Advisor, this is another offering that no standalone PBM or retailer has matched. It gives qualifying plan participants the option of filling their 90-day maintenance prescriptions by mail or at one of our CVS/pharmacy or Longs Drugs® locations. It's about choice and access. If you make it easier for

people to get their medications, they are far more likely to take them. It also points out the fact that not all drugstores are created equal.

JON ROBERTS: Again, the adoption rate has been tremendous. The program has gone from just under 11 million members in 2012 to nearly 16 million in 2013. Many new PBM clients are adopting Maintenance Choice right out of the gate. Adoption has been helped by our recent rollout of Maintenance Choice 2.0. This new version of the program enables clients with either a mandatory or a voluntary mail plan design to participate and achieve cost savings.

Q: PBM models, which have been relatively similar in the past, appear to be diverging. Why is CVS Caremark confident that its PBM/retail integrated approach will succeed?

JON ROBERTS: When you look at CVS/pharmacy's share of our PBM book of business, you can quickly grasp the value of our model to the overall enterprise. In 2007, CVS/pharmacy had about an 18 percent share of our PBM's retail network claims. That percentage has grown to 31 percent, an increase that significantly outpaces the growth in CVS/pharmacy's overall retail market share. PBM plan members are choosing CVS/pharmacy because we provide unmatched offerings at a high level of service, which save them money and keep them healthier.

TROY BRENNAN: We're not suggesting that ours is the only model that will work, but we're confident in our approach for a lot of reasons. For example, the growth areas of Medicare, Medicaid, health insurance exchanges, and accountable care organizations will require a broader set of capabilities than those that are available under the traditional PBM model. These growing segments are also not as reliant on mail order, so they offer a greater opportunity for us to influence consumer and patient behavior at the local level.

MARK COSBY: As health care becomes increasingly consumer-directed, local presence will become increasingly important. We have more than 7,400 retail locations, and more than 72 percent of our PBM members live within five miles of one of our drugstore locations.

Q: Health care appears to be migrating to a much more integrated system, with stronger links between payors, providers, and patients. How are you positioning CVS Caremark under this new paradigm?

TROY BRENNAN: We've been preparing for this across our businesses. At MinuteClinic, the drive to increase connectivity is already well underway. In fact, the integration of electronic medical records is one of the key drivers behind the affiliations MinuteClinic has been forming over the past couple of years with health systems across the country. I'll give you a quick example of how this works. When a patient is treated at one of our locations, the nurse practitioner can access his or her medical record from the local collaborating health system and identify any medication allergies that could impact treatment. After treatment, that patient's MinuteClinic record is transmitted directly into the health system's electronic record for physician continuity and potential follow-up. It's all done seamlessly.

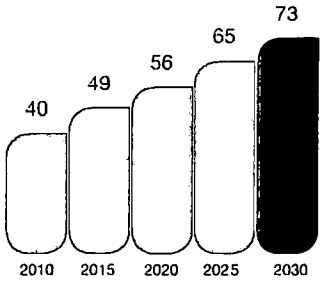
JON ROBERTS: Let's look at a PBM member – we'll call her Anne – who walks into a CVS/pharmacy to pick up her statin prescription. The pharmacist may receive an alert that Anne should get a cholesterol test. Anne can go right from the pharmacy counter to MinuteClinic for the screening and get her results immediately. Taking advantage of our new connections through health information exchanges, we can also send a complete record of all these interactions to Anne's primary care provider.

TROY BRENNAN: We are also working to provide seamless integration for at-risk providers. Our collaboration with HMSA, the Hawaii Blue Cross Blue Shield program, is a good example of that. HMSA has been moving to the patient-centered medical home model. We're preparing to send all of our adherence and gaps in care-based messaging through the health information network that HMSA has designed for the medical homes. Our Longs Drugs pharmacists in Hawaii will be reiterating the same messages to patients through the Pharmacy Advisor program. We're also going to open up several MinuteClinics in Hawaii to support the medical homes and provide the high level of information exchange I've already touched upon. It's a very exciting partnership and a sign of the direction in which health care in the United States is heading.

We're creating a new model for pharmacy care.

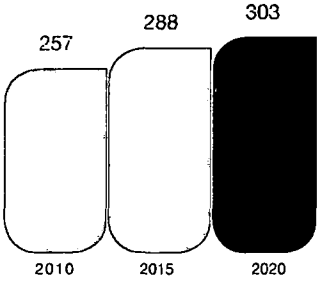
Through our distinctive pharmacy care model, CVS Caremark is enhancing convenience and access, lowering costs for payors and patients, and achieving better health outcomes. It begins with our unmatched purchasing scale, which we leverage to save clients and customers money. Through our deep understanding of consumer behavior and clinical expertise, we also drive best-in-class interventions across all our channels. Unlike other PBMs, we have more than 7,400 retail stores through which we engage members face-to-face and offer unique plan designs that drive better outcomes. By combining our mail and retail capabilities, CVS Caremark is also able to give patients greater access and choice on how they obtain their prescriptions. These key differentiators add up to a powerful competitive advantage that is helping drive share gains across our businesses.

AGING POPULATION
(millions of lives)

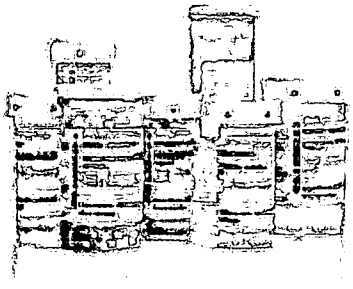


By 2030, the 65 and over population in the United States will have increased by more than 80 percent compared with 2010.

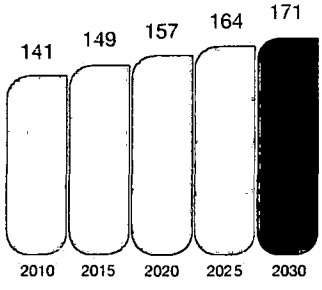
TOTAL NUMBER OF INSURED
(millions of lives)



By 2015, approximately 30 million Americans are expected to gain health coverage through implementation of the Affordable Care Act.



CHRONIC DISEASE PREVALENCE
(millions of lives)



Chronic disease prevalence is growing rapidly and accounts for the vast majority of health care spending.

Favorable demographics and health care reform represent major tailwinds for CVS Caremark.

An aging population, U.S. health care reform, and the rise in chronic disease will drive a significant increase in prescription drug use in the coming years. As the country's leading dispenser of prescription drugs, we expect this changing environment to create a major tailwind for CVS Caremark. For starters, nearly 10,000 people are turning 65 every day, and this demographic takes three times the number of prescriptions than the national average. Utilization will increase further as some 30 million Americans gain health coverage through the Affordable Care Act beginning in 2014. Moreover, approximately half the U.S. population suffers from one or more chronic diseases, a situation that is only expected to worsen over the next 20 years. Since pharmacy care is one of the most cost-effective lines of defense in health care, we expect clients and customers to turn increasingly to our unique initiatives for driving medication adherence and closing gaps in care.

We're driving improvements in adherence.

Developing breakthrough adherence interventions further differentiates our retail pharmacy and PBM services.

Through the combination of our PBM and retail assets, CVS Caremark has introduced unique programs for PBM clients that lower costs, improve access, and help produce better outcomes. For example, our Pharmacy Advisor® program is focused on improving adherence and closing gaps in care, and has been embraced by a growing number of our PBM clients. Through Pharmacy Advisor, our pharmacists have one-on-one consultations with PBM plan members, either face-to-face at one of our more than 7,400 retail stores or over the phone through our PBM call centers and mail order facilities. With chronic disease accounting for 84 percent of all health care spending, this capability is helping us lower costs. For example, by ensuring that diabetes patients are on the right medication and stay on that medication, we can reduce their cost of care by an average of $3,700 per patient annually. After initially targeting diabetes patients, Pharmacy Advisor has been expanded to address 10 chronic conditions in 2013, including asthma, chronic obstructive pulmonary disorder (COPD), depression, osteoporosis and breast cancer.

Even for CVS/pharmacy® customers not covered by our PBM, our retail-level patient care initiative has resulted in more than 230 million adherence interventions since 2008. Our efforts include outreach to patients on new prescriptions, first fill counseling, adherence outreach for patients who have stopped taking their medications, refill reminders, and ReadyFill®. These efforts have helped CVS/pharmacy post best-in-class adherence rates for chronic conditions such as diabetes, dislipidemia, and hypertension.

Our deep clinical expertise is built on diverse insights from across the enterprise. These insights are fueled by our understanding of consumer behavior and research collaborations with top-tier medical organizations, such as Harvard Medical School and Brigham and Women's Hospital. We are building the next generation of pharmacy care programs by infusing behavioral economics and predictive analytics into our programs. For example, we have learned that the challenge in designing truly cost-effective adherence programs lies in identifying those patients who will likely not be adherent and working with them on the terms they prefer. We are piloting advanced predictive analytics and testing new intervention methods that will allow us to more effectively identify and engage these customers.

We're helping to transform primary care.

Projected shortage of primary care physicians by 2020:

50,000

MinuteClinic is poised to play an important role in this new environment.

Expanding Affiliations

MinuteClinic has forged strategic alliances with some of the nation's largest and most prominent health care systems, including:

Advocate Health Care
Allina Health
Carolinas HealthCare System
Cleveland Clinic
Emory Healthcare
Florida Hospital Medical Group
Henry Ford Health System
OU Physicians
TriStar Health
UCLA Health
UMassMemorial Health Care
UT Medicine Health Science Center San Antonio

MinuteClinic® will play a valuable role under health care reform.

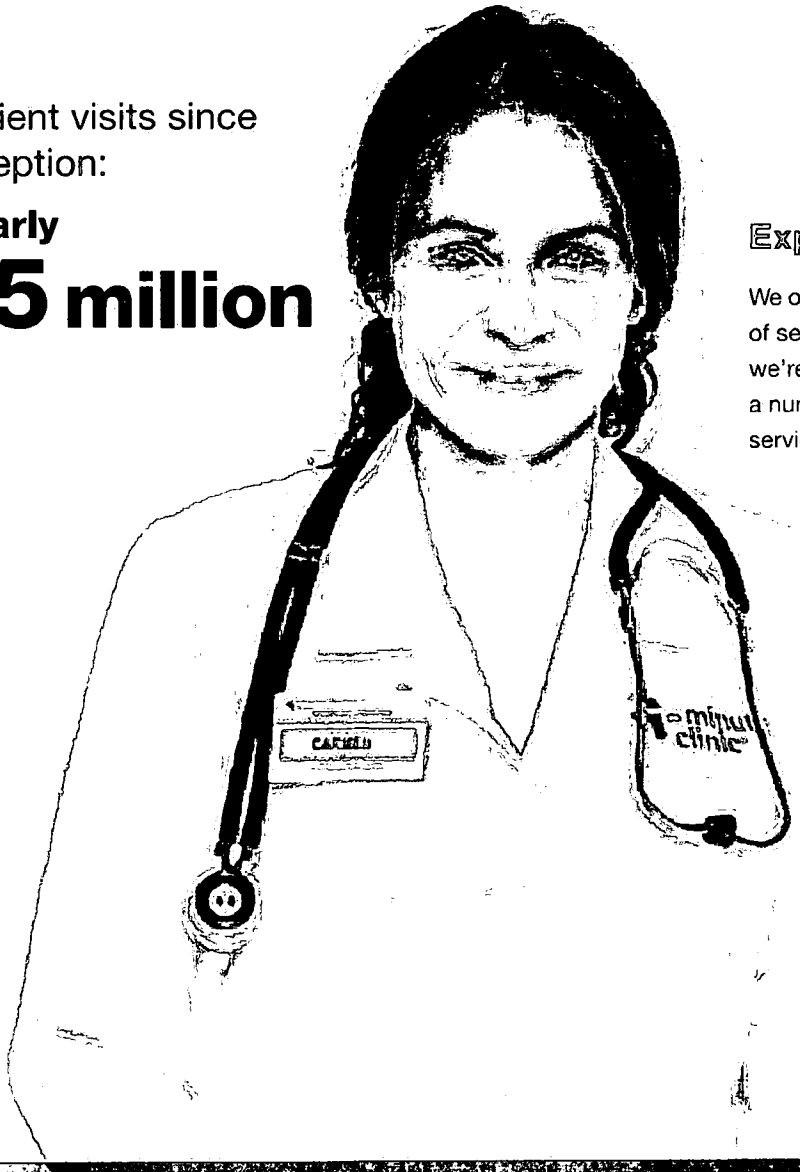
Scheduling an appointment with your doctor is about to become even more challenging than it is today. The Affordable Care Act will increase the number of Americans with health coverage by approximately 30 million people, pushing the shortage of primary care physicians to at least 50,000 doctors by 2020. The national epidemic of obesity and chronic disease, coupled with an aging population, are only compounding the problem. MinuteClinic is poised to play an important role in this new environment. The clear leader among retail medical clinics, MinuteClinic has been adding locations and increasing its scope of services to include not only treatment of everyday common ailments, immunizations, and physicals, but also chronic disease monitoring and other forms of non-acute care.

MinuteClinic has also been forging strategic clinical affiliations with some of the nation's largest and most prominent health care systems, creating opportunities for a variety of collaborative programs. During 2012, we added eight new health systems, bringing our total to 22 affiliations representing nearly 130 hospitals and 60,000 physicians.

Patient visits since inception:

nearly

15 million



Expanding Services

We offer a wide array of services, and we're developing a number of new services to include:

Chronic Disease Monitoring
Diabetes
Elevated cholesterol
Hypertension

Quality Improvement
Risk assessment
Star measures / HEDIS

Injection Therapies
Injection training
Specialty administration
Travel services

Convenient Testing
Biometric testing
Hepatitis C testing
HIV testing

Wellness Programs
Smoking cessation
Weight loss

These relationships include development of joint clinical programs and electronic medical records integration. Most importantly, they lay the groundwork for MinuteClinic's participation in accountable care organizations, patient-centered medical homes, and other integrated networks of care whose prevalence is growing rapidly.

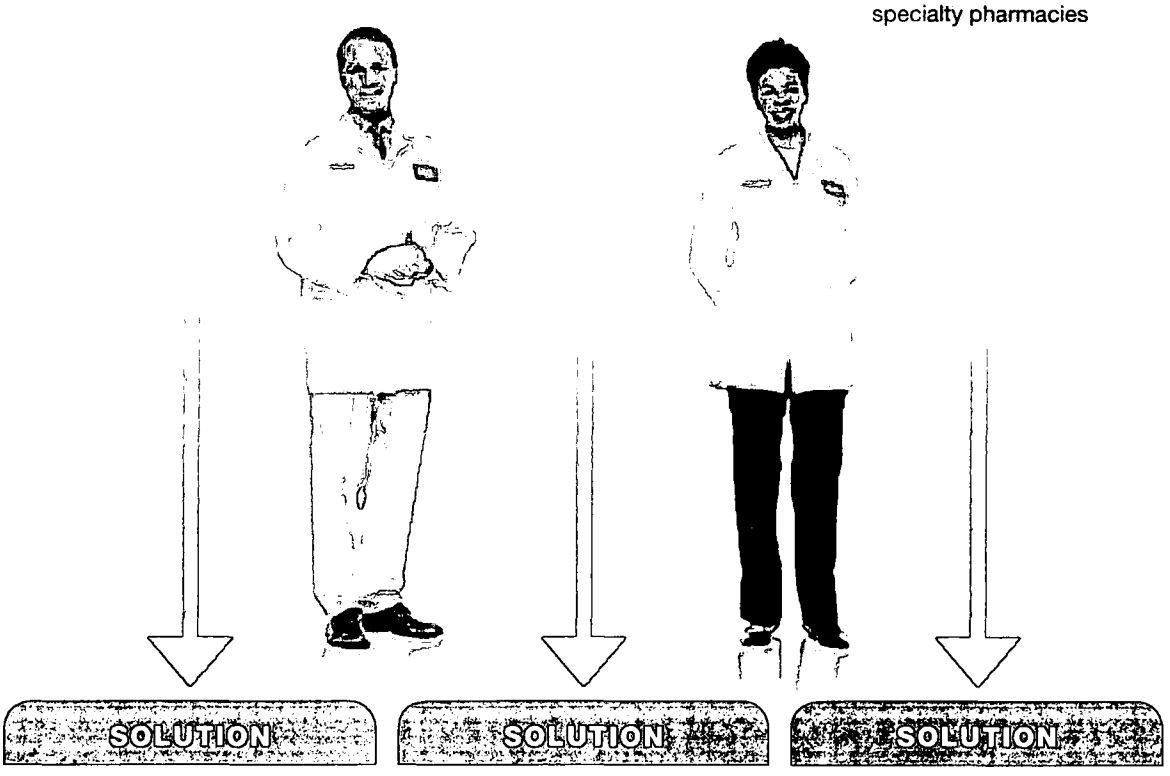
MinuteClinic is 40 to 80 percent less expensive than alternate sites of care offering the same quality services. In fact, using our own employee population as a pilot, we learned that employees that used MinuteClinic have significantly lower health care costs than matched nonusers. Our PBM clients have also begun leveraging MinuteClinic's cost advantage to address the health care needs of their members more efficiently. For example, some clients have substantially reduced or eliminated co-pays to encourage new patients to use MinuteClinic and lower overall health care costs. MinuteClinic can also provide health condition monitoring for several chronic conditions for our PBM patients. The value of these integrated offerings will grow as new locations open. By 2017, we expect two-thirds of all of our PBM members to live within 10 miles of a MinuteClinic location.

We're a leader in the rapidly growing specialty pharmacy market.

Our innovative solutions cover the entire continuum of specialty pharmacy care.

The current pipeline for new prescription drugs is dominated by specialty medications. By 2016, roughly one-third of all pharmacy spending in the United States will be for high-cost specialty medications, presenting significant challenges for payors. Roughly half of specialty spending will be covered by pharmacy benefits while the other half will be covered under the medical benefit. We are developing capabilities that manage spending for payors across the entire continuum of specialty care, and we are poised to capture an even larger share of this rapidly growing market. Our suite of solutions is focused on three key areas, namely minimizing drug costs, addressing inappropriate utilization, and ensuring that the lowest cost, clinically effective products are chosen. The integrated specialty initiative we are currently piloting represents another key point of differentiation in the marketplace. It offers the clinical support of traditional specialty pharmacy with the convenience of retail access. Through this initiative, specialty patients will have the choice of sending in their prescriptions by mail or simply dropping them off at any of our more than 7,400 retail locations. They can also decide whether to pick up their medication at the store or have it mailed to their home. This new capability significantly improves access and the patient experience, and no other PBM is able to offer this level of service and flexibility.

CHALLENGE	CHALLENGE	CHALLENGE
Specialty drugs are driving payor cost increases due to: • • • FDA approval of new drugs/indications • • • Changes in treatment guidelines • • • Widespread off-label prescribing driving increased utilization	**Managing spend under medical benefit due to:** • • • Rapid growth in drugs that fall under the medical benefit • • • Lack of visibility and tools that are available under the pharmacy benefit	**Traditional retail pharmacy unable to meet the needs of all specialty pharmacy patients due to:** • • • Requirement by plans to use a specific pharmacy ... mainly mail service • • • Lack of clinical and benefit verification support offered by specialty pharmacies



SOLUTION	SOLUTION	SOLUTION
Foundational Management Programs Control spend under the pharmacy benefit, with a focus on utilization and network management and ensuring appropriate, safe, and effective use of medications.	**Medical Pharmacy Management** Curbs specialty drug spending through a portfolio of programs under the medical benefit.	**Integrated Specialty** Allows access to specialty pharmacy services through CVS/pharmacy. Patients have choice to drop off and pick up prescriptions at retail, significantly improving access and the member experience.

CVS Caremark is developing a variety of unmatched solutions for the challenges of specialty care.

We're improving the value proposition for providers and health plans.

More Coordinated Care

With the patient at the center, we can help physicians and health plans achieve better results.

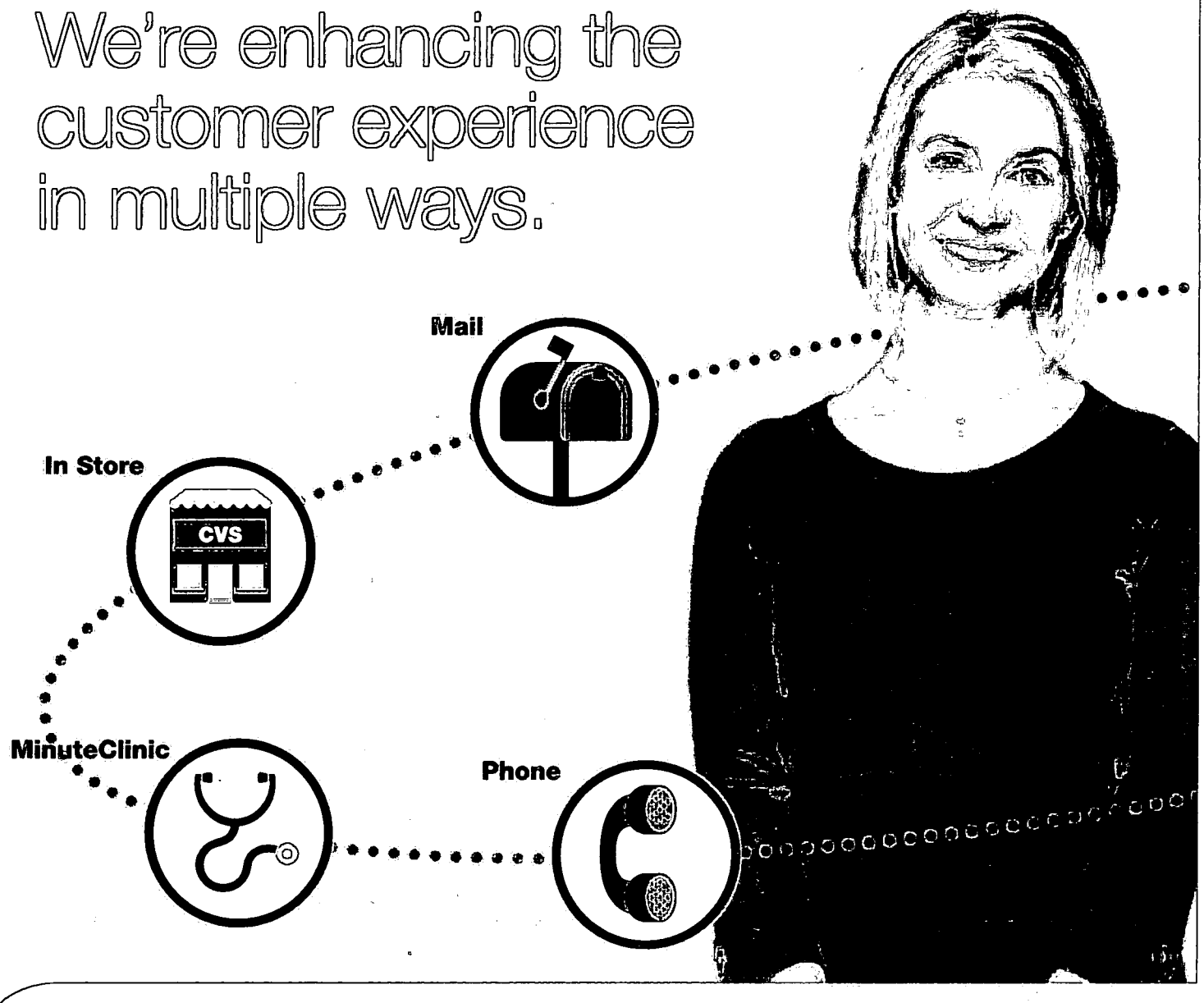
CVS Caremark is helping physicians improve outcomes while lowering the cost of care.

With the implementation of the Affordable Care Act underway, we are seeing a dramatic increase in the focus on health care value and the rise of new health care delivery systems, such as accountable care organizations. Payors across the country are moving away from the traditional fee-for-service system, in which physicians are paid for doing more procedures, and toward reimbursement models based on outcomes and cost effectiveness. Under capitation models, for example, health plans will pay providers to treat patient populations at a fixed amount per patient per month. Physicians who can produce quality outcomes cost-effectively will thrive in this new environment, and pharmacy care will play a major role. By moving patients to generic alternatives, improving adherence, and closing gaps in care – all areas in which CVS Caremark leads the industry – we can potentially reduce the total cost of care by more than 20 percent. We believe that no other set of care management interventions can help providers manage their costs as effectively.

We are working to create new partnership opportunities with health plans.

The payor landscape in the United States is changing dramatically, with government-sponsored and private exchanges on the rise and employer-sponsored coverage on the decline. These changes are expected to result in a significant increase in the number of lives covered by health plans. With our unmatched breadth of assets and strong consumer relationships, CVS Caremark can offer highly tailored, differentiated services that address the shifting needs of health plans and help them succeed in this new environment. For example, we see new opportunities to help health plans achieve higher Medicare star ratings through our unique adherence initiatives. We're also helping health plans tackle unnecessary hospital readmissions, a costly problem that can be addressed in part through proper pharmacy intervention. By identifying risk before discharge from the hospital, we are able to work with health plans to provide in-person pharmacy counseling to patients, and we can also dispatch pharmacists to the homes of those patients with the highest risk of readmission.

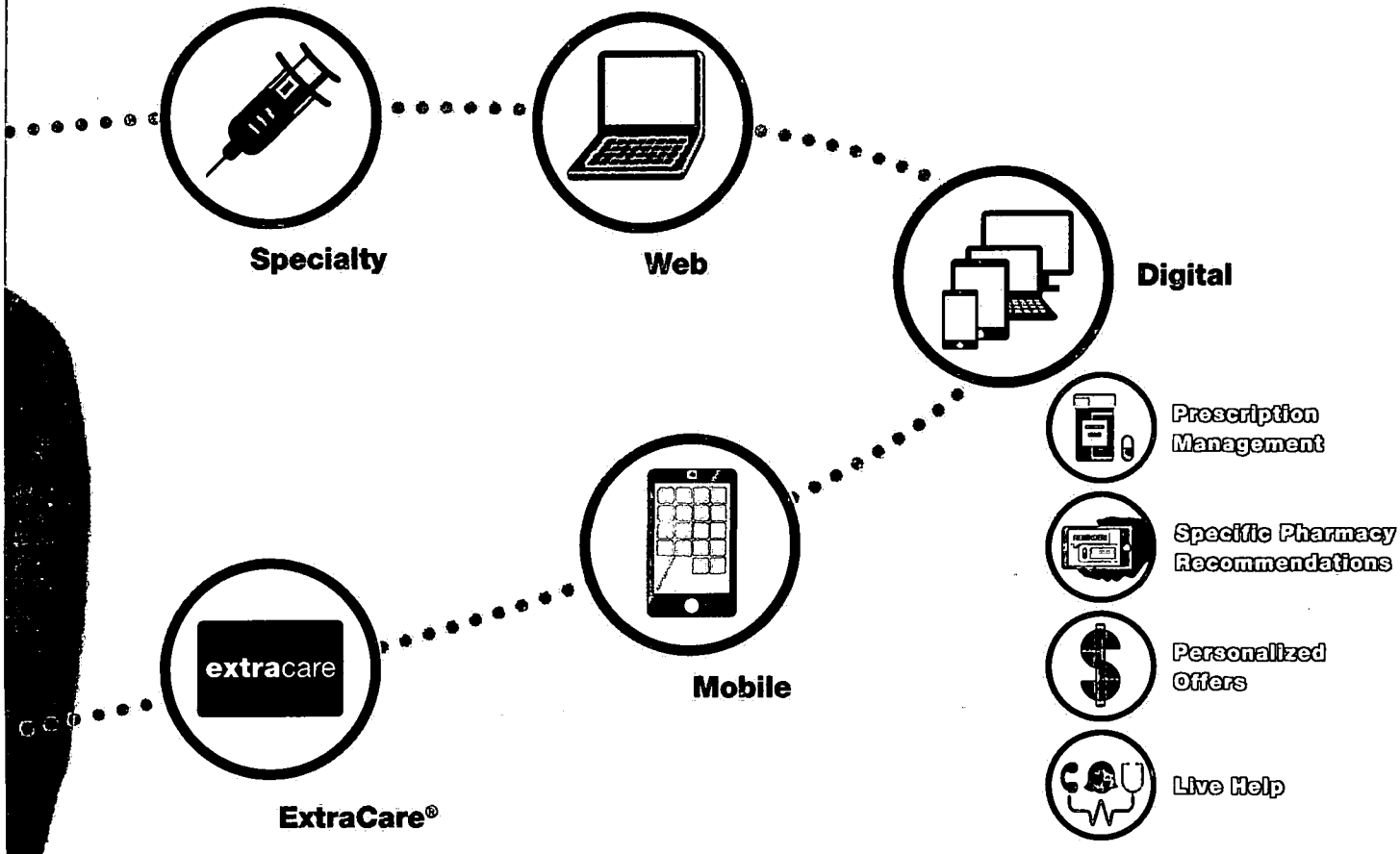
We're enhancing the customer experience in multiple ways.



Enhancing our digital strategy is a key enterprise growth initiative.

The model for engaging with consumers and delivering health care services is fundamentally changing due to unparalleled innovation in digital technology. CVS Caremark sits at the crossroads of health care, retail consumerism, and technology, which presents us with the unique chance to more meaningfully engage consumers on their path to better health. Mobile, social media, and other digital platforms – coupled with advanced analytics – create a significant opportunity to reshape how we connect with customers to influence their behavior and improve health outcomes, patient engagement, and adherence. The complexities of prescription management can be challenging, especially for someone who has to handle the health care needs of an entire family. Through our enterprise digital strategy, we are expanding on our core strengths in pharmacy care to create a seamless, more personalized experience for customers. In addition to connecting with customers in store, by mail, or on the phone, we are connecting through smartphones, tablets, and the web.

Meet Beth. She's her family's "chief executive health officer," looking after the health care needs of five different people. CVS Caremark is creating a new way for Beth to manage prescriptions and health care by combining all her family's information and allowing her to access it in one place: a digital hub with tools, knowledge, and resources all at her fingertips.



The myCVS™ smartphone app offers a glimpse at some of the ways in which we're employing digital tools today to make things easier for customers. For example, customers can use the app's Rapid Refill® feature to refill a prescription and designate the store where they want to pick it up. The app can help customers who are having trouble identifying their pills as well. Customers can also use it to locate the nearest MinuteClinic and view available services and in-network insurance plans. By integrating and enhancing the digital assets from across our businesses, we're creating a seamless digital experience with the customer in control at the center. That's critical in an environment that is moving toward more consumer-directed care. These tools will help our customers make better decisions and achieve better health outcomes while driving cost savings for them and their plan sponsors.

CVS Caremark in the Community

Our outreach is improving access to quality health care.

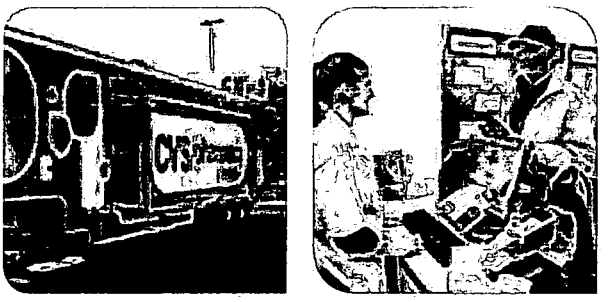
CVS Caremark's commitment to helping people on their path to better health could be seen across our community outreach efforts in 2012. In total, CVS Caremark and the CVS Caremark Charitable Trust contributed more than $81 million in donations, volunteer hours, and gifts-in-kind to support charitable causes that impact the lives of the people we serve every day.

As a pharmacy innovation company, we focused our support on organizations that are reducing barriers and increasing access to quality health care services, advancing medical research, or developing wellness and prevention programs for local communities. For example, we launched a one-of-a-kind partnership with the Rhode Island Free Clinic to help the uninsured obtain prescriptions for vital medications filled at no cost.

With the launch of the "Innovations in Community Health" partnership, the CVS Caremark Charitable Trust committed $3 million over three years to members of the National Association of Community Health Centers. This initiative supports the development of innovative community-based programs to manage chronic diseases such as diabetes, heart disease, asthma, and hypertension. In 2012, the Trust awarded 21 grants totaling more than $1 million to community health centers across the country.

Through our All Kids Can® program, we continued partnering with the nation's top children's hospitals. At Children's Hospital of Philadelphia, we invested $100,000 in rehabilitation equipment to be used in a pediatric setting for the first time. This equipment includes robotic devices that assist with regaining function in the lower and upper extremities, and it has been found to be effective in clinical trials for adults. We also helped Cedars-Sinai expand the medical center's COACH for Kids and Their Families® program, which provides health services to more vulnerable children in South Los Angeles who otherwise would not have access.

A CVS Caremark colleague teaches a child how to listen to her heart during a health fair celebrating the expansion of Cedars-Sinai's COACH for Kids® program in South Los Angeles. It is supported by our CVS Caremark All Kids Can initiative.



As part of our Hurricane Sandy disaster relief efforts, we ensured access to vital prescriptions by deploying mobile pharmacies in the storm's aftermath at the sites of closed CVS/pharmacy stores in Margate, New Jersey, and Rockaway Beach, New York.

Beyond our health care-related initiatives, support of first responders and community organizations in times of disaster has always played a significant role in our outreach efforts. In 2012, we donated more than $300,000 to aid victims of disasters across the United States, including floods in the Mid-Atlantic, Tropical Storm Debby, and Hurricanes Isaac and Sandy. We provided financial support and in-kind donations of water, snacks, and other products to help support the local communities impacted by these events.

2012 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 Caremark Corporation ("CVS Caremark", the "Company", "we" or "us"), together with its subsidiaries, is the largest integrated pharmacy health care provider in the United States. We are uniquely positioned to deliver significant benefits to health plan sponsors through effective cost management solutions and innovative programs that engage plan members and promote healthier and more cost-effective behaviors. Our integrated pharmacy services model enhances our ability to offer plan members and consumers expanded choice, greater access and more personalized services to help them on their path to better health. We effectively manage pharmaceutical costs and improve health care outcomes through our pharmacy benefit management ("PBM"), mail order and specialty pharmacy division, CVS Caremark® Pharmacy Services ("Caremark"); our more than 7,400 CVS/pharmacy® retail stores; our retail-based health clinic subsidiary, MinuteClinic® and our online retail pharmacy, CVS.com®.

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

Overview of Our Pharmacy Services Segment

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

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

As a pharmacy benefits manager, we manage the dispensing of pharmaceuticals through our mail order pharmacies and national network of approximately 67,000 retail pharmacies (which include our CVS/pharmacy stores) to eligible members in the benefit plans maintained by our clients and utilize our information systems to perform, among other things, safety checks, drug interaction screenings and brand to generic substitutions.

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

We also provide health management programs, which include integrated disease management for 17 conditions, through our Accordant® health management offering. The majority of these integrated programs are accredited by the National Committee for Quality Assurance.

In addition, through our SilverScript Insurance Company ("SilverScript") and Pennsylvania Life Insurance Company ("Pennsylvania Life") subsidiaries, 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 3.9 million beneficiaries through the above mentioned insurance companies.

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

The Pharmacy Services Segment operates under the CVS Caremark® Pharmacy Services, Caremark®, CVS Caremark®, CarePlus CVS/pharmacy®, RxAmerica® and Accordant® names. As of December 31, 2012, the Pharmacy Services Segment operated 31 retail specialty pharmacy stores, 12 specialty mail order pharmacies and five mail service pharmacies located in 22 states, Puerto Rico and the District of Columbia.

Overview of Our Retail Pharmacy Segment

Our Retail Pharmacy Segment sells prescription drugs and a wide assortment of general merchandise, including over-the-counter drugs, beauty products and cosmetics, photo finishing, seasonal merchandise, greeting cards and convenience foods through our CVS/pharmacy® and Longs Drugs® retail stores and online through CVS.com®. Our Retail Pharmacy Segment derives the majority of its revenues through the sale of prescription drugs, which are dispensed by our more than 26,000 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 quality services that are quick, 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, 2012, our Retail Pharmacy Segment included 7,458 retail drugstores (of which 7,402 operated a pharmacy) located in 42 states, the District of Columbia, and Puerto Rico operating primarily under the CVS/pharmacy® or Longs Drugs® names, 19 onsite pharmacies and 640 retail health care clinics operating under the MinuteClinic® name (of which 633 were located in CVS/pharmacy stores), and our online retail website, CVS.com®.

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

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	**2012**	2011	2010
Net revenues	**$ 123,133**	$ 107,100	$ 95,778
Gross profit	**22,506**	20,561	20,219
Operating expenses	**15,278**	14,231	14,082
Operating profit	**7,228**	6,330	6,137
Interest expense, net	**557**	584	536
Loss on early extinguishment of debt	**348**	—	—
Income before income tax provision	**6,323**	5,746	5,601
Income tax provision	**2,441**	2,258	2,179
Income from continuing operations	**3,882**	3,488	3,422
Income (loss) from discontinued operations, net of tax	**(7)**	(31)	2
Net income	**3,875**	3,457	3,424
Net loss attributable to noncontrolling interest	**2**	4	3
Net income attributable to CVS Caremark	**$ 3,877**	$ 3,461	$ 3,427
Diluted earnings per common share:			
Income from continuing operations attributable to CVS Caremark	**$ 3.03**	$ 2.59	$ 2.49
Loss from discontinued operations attributable to CVS Caremark	**(0.01)**	(0.02)	—
Net income attributable to CVS Caremark	**$ 3.03**	$ 2.57	$ 2.49

Net revenues increased $16.0 billion in 2012 compared to 2011, and increased $11.3 billion in 2011 compared to 2010. As you review our performance in this area, we believe you should consider the following important information:

- During 2012, net revenues in our Pharmacy Services Segment increased 24.7% and net revenues in our Retail Pharmacy Segment increased 6.8% compared to the prior year.
- During 2011, net revenues in our Pharmacy Services Segment increased by 24.9% and net revenues in our Retail Pharmacy Segment increased 3.9% 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 2012 as compared to 2011, as well as in 2011 as compared to 2010.

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

Gross profit increased $1.9 billion, or 9.5% in 2012, to $22.5 billion, or 18.3% of net revenues, as compared to $20.6 billion, or 19.2% of net revenues in 2011. Gross profit increased $342 million, or 1.7% in 2011, to $20.6 billion, or 19.2% of net revenues, as compared to $20.2 billion, or 21.1% of net revenues in 2010.

- During 2012, gross profit in our Pharmacy Services Segment and Retail Pharmacy Segment increased by 16.1% and 9.4%, respectively, compared to the prior year. For the year ended December 31, 2012, gross profit as a percent of net revenues in our Pharmacy Services Segment and Retail Pharmacy Segment was 5.2% and 30.0%, respectively.
- During 2011, gross profit in our Retail Pharmacy Segment increased by 2.5% which was partially offset by declines in our Pharmacy Services Segment of 1.1%, compared to the prior year. For the year ended December 31, 2011, gross profit as a percent of net revenues in our Pharmacy Services Segment and Retail Pharmacy Segment was 5.6% and 29.3%, respectively.
- The increased weighting toward the Pharmacy Services Segment, which has a lower gross margin than the Retail Pharmacy Segment, is resulting in a continued decline in consolidated gross profit as a percent of net revenues. In addition, gross profit has been negatively impacted by the efforts of managed care organizations, pharmacy benefit managers and governmental and other third-party payors to reduce their prescription drug costs.
- In addition, for the three years 2010 through 2012, our gross profit continued to benefit from the increased utilization of generic drugs (which normally yield a higher gross profit rate than equivalent brand name drugs) in both the Pharmacy Services and Retail Pharmacy Segments.

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

Operating expenses increased $1.0 billion, or 7.4% in the year ended December 31, 2012, as compared to the prior year. Operating expenses as a percent of net revenues improved approximately 90 basis points to 12.4% in the year ended December 31, 2012. The increase in operating expenses in the year ended December 31, 2012 was primarily due to incremental store operating costs associated with a higher store count as compared to the prior year period, as well as the expansion of our Medicare Part D business. The improvement in operating expenses as a percent of net revenues is primarily due to expense leverage from net revenue growth and expense control initiatives.

Operating expenses increased $149 million in the year ended December 31, 2011 as compared to the prior year. Operating expenses as a percent of net revenues increased approximately 140 basis points to 13.3% in the year ended December 31, 2011. The increase in operating expenses in the year ended December 31, 2011 was primarily due to incremental store operating costs associated with a higher store count as compared to the prior year period, as well as costs associated with changes designed to streamline our Pharmacy Services Segment and expenses associated with the acquisition and integration of the Medicare prescription drug business of Universal Medicare Corp. (the "UAM Medicare Part D Business").

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

Interest expense, net consisted of the following:

In millions	2012	2011	2010
Interest expense	**$ 561**	$ 588	$ 539
Interest income	**(4)**	(4)	(3)
Interest expense, net	**$ 557**	$ 584	$ 536

Net interest expense decreased $27 million during the year ended December 31, 2012, which resulted from a reduction in our average outstanding short-term and long-term debt. During 2011, net interest expense increased by $48 million, to $584 million compared to 2010, due to a higher average interest rate during the period as we shifted from short-term debt to long-term debt.

Income tax provision – Our effective income tax rate was 38.6%, 39.3% and 38.9% in 2012, 2011 and 2010, respectively. The lower effective income tax in 2012 versus 2011 primarily relates to permanent items, some of which are non-recurring in nature. The higher effective income tax in 2011 versus 2010 primarily relates to changes in the recognition of previously unrecognized tax benefits relating to the expiration of various statutes of limitation and settlements with tax authorities in 2010. In 2010, we recognized $47 million of income tax benefits related to the expiration of various statutes of limitation and settlements with tax authorities.

Income from continuing operations increased $394 million or 11.3% to $3.9 billion in 2012. Income from continuing operations increased $66 million or 1.9% to $3.5 billion in 2011 as compared to $3.4 billion in 2010. The 2012 increase in income from continuing operations was primarily related to increases in generic dispensing rates and growth of our Medicare Part D business in our Pharmacy Services Segment, as well as increased sales in the Retail Pharmacy Segment resulting from share gains in our underlying business and the contractual impasse between Express Scripts and Walgreens, our principal PBM and retail pharmacy competitors, respectively. Walgreens exited from the Express Scripts network as of January 1, 2012. Subsequently, Express Scripts and Walgreens entered into a new pharmacy network agreement that became effective on September 15, 2012.

Income (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 income (loss) from discontinued operations includes lease-related costs which the Company believes it will likely be required to satisfy pursuant to its Linens 'n Things lease guarantees.

We incurred a loss from discontinued operations of $7 million in 2012, a loss from discontinued operations of $31 million in 2011 and income from discontinued operations of $2 million in 2010. The loss from discontinued operations in 2012 was primarily due to lease-related costs related to Linens 'n Things lease guarantees. The loss from discontinued operations in 2011 was primarily due to the disposition of our TheraCom subsidiary. We recognized a $53 million pre-tax gain and a $37 million after-tax loss on the sale of TheraCom. The after-tax loss was caused by the income tax treatment of TheraCom's nondeductible goodwill. Income from discontinued operations (net of tax) was $2 million in 2010 due to $28 million in income from operations of TheraCom offset by $24 million in costs associated with our Linens 'n Things lease guarantees and a $2 million tax provision.

See Note 4 "Discontinued Operations" to the consolidated financial statements for additional information about discontinued operations and Note 13 "Commitments and Contingencies" for additional information about our lease guarantees.

Net loss attributable to noncontrolling interest represents the minority shareholders' portion of the net loss from our majority owned subsidiary, Generation Health, Inc. We acquired the remaining 40% interest of Generation Health, Inc. on June 29, 2012. The net loss attributable to noncontrolling interest for the years ended December 31, 2012, 2011 and 2010 was $2 million, $4 million and $3 million, respectively.

Net income attributable to CVS Caremark increased $416 million or 12.0% to $3.9 billion (or $3.03 per diluted share) in 2012. This compares to $3.5 billion (or $2.57 per diluted share) in 2011 and $3.4 billion (or $2.49 per diluted share) in 2010. As noted previously, the 2012 increase in net income attributable to CVS Caremark was primarily related to new 2012 client starts and growth of our Medicare Part D business in our Pharmacy Services Segment, as well as increased sales in the Retail Pharmacy Segment resulting from share gains in our underlying business and the contractual impasse between Express Scripts and Walgreens. The increase in net income attributable to CVS Caremark per diluted share was also driven by increased share repurchase activity in 2012 and 2011.

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
2012:					
Net revenues	**$ 73,444**	**$ 63,654**	**$ —**	**$ (13,965)**	**$ 123,133**
Gross profit	**3,808**	**19,109**	**—**	**(411)**	**22,506**
Operating profit	**2,679**	**5,654**	**(694)**	**(411)**	**7,228**
2011:					
Net revenues	$ 58,874	$ 59,599	$ —	$ (11,373)	$ 107,100
Gross profit	3,279	17,468	—	(186)	20,561
Operating profit	2,220	4,912	(616)	(186)	6,330
2010:					
Net revenues	$ 47,145	$ 57,345	$ —	$ (8,712)	$ 95,778
Gross profit	3,315	17,039	—	(135)	20,219
Operating profit	2,361	4,537	(626)	(135)	6,137

(1) Net revenues of the Pharmacy Services Segment include approximately $8.4 billion, $7.9 billion and $6.6 billion of Retail Co-Payments for 2012, 2011 and 2010, respectively. See Note 1 to the consolidated financial statements for additional information about Retail Co-Payments.

(2) Intersegment eliminations relate to two types of transactions: (i) Intersegment revenues that occur when Pharmacy Services Segment customers use Retail Pharmacy Segment stores to purchase covered products. When this occurs, both the Pharmacy Services and Retail Pharmacy segments record the revenue on a standalone basis, and (ii) Intersegment revenues, gross profit and operating profit that occur when Pharmacy Services Segment customers, through the Company's intersegment activities (such as the Maintenance Choice® program), elect to pick up their maintenance prescriptions at Retail Pharmacy Segment stores instead of receiving them through the mail. When this occurs, both the Pharmacy Services and Retail Pharmacy segments record the revenue, gross profit and operating profit on a standalone basis. Beginning in the fourth quarter of 2011, the Maintenance Choice eliminations reflect all discounts available for the purchase of mail order prescription drugs. The following amounts are eliminated in consolidation in connection with the item (ii) intersegment activity: net revenues of $3.4 billion, $2.6 billion and $1.8 billion for the years ended December 31, 2012, 2011 and 2010, respectively; gross profit and operating profit of $411 million, $186 million and $135 million for the years ended December 31, 2012, 2011 and 2010, respectively.

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

Pharmacy Services Segment

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

	Year Ended December 31,		
In millions	**2012**	2011	2010
Net revenues	**$ 73,444**	$ 58,874	$ 47,145
Gross profit	**3,808**	3,279	3,315
Gross profit % of net revenues	**5.2%**	5.6%	7.0%
Operating expenses	**1,129**	1,059	954
Operating expenses % of net revenues	**1.5%**	1.8%	2.0%
Operating profit	**2,679**	2,220	2,361
Operating profit % of net revenues	**3.7%**	3.8%	5.0%
Net revenues [1]:			
Mail choice [2]	**$ 22,843**	$ 18,616	$ 16,159
Pharmacy network [3]	**50,411**	40,040	30,681
Other	**190**	218	305
Pharmacy claims processed [1]:			
Total	**880.5**	774.6	584.7
Mail choice [2]	**81.7**	70.6	64.1
Pharmacy network [3]	**798.8**	704.0	520.6
Generic dispensing rate [1]:			
Total	**78.5%**	74.1%	71.5%
Mail choice [2]	**72.0%**	64.9%	61.3%
Pharmacy network [3]	**79.1%**	75.0%	72.7%
Mail choice penetration rate	**22.7%**	22.3%	25.8%

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

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

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

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

Net revenues increased $11.7 billion, or 24.9%, to $58.9 billion for the year ended December 31, 2011, as compared to the prior year. The increase in 2011 was primarily due to the addition of the long-term contract with Aetna Inc. ("Aetna"), which became effective on January 1, 2011, as well as activity resulting from our April 29, 2011 acquisition of the UAM Medicare Part D Business. Additionally, the increase in our generic dispensing rate had a negative impact on our revenue in 2011 as it did in 2010.

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

- Our mail choice claims processed increased 15.7% to 81.7 million claims in the year ended December 31, 2012, compared to 70.6 million claims in the prior year. The increase in mail choice claim volume was primarily due to a significant number of 2012 new client starts, as well as increased claims associated with the continuing client adoption of our Maintenance Choice program. During 2011, our mail choice claims processed increased 10.2% to 70.6 million claims. The increase in mail choice claim volume was primarily due to the addition of the long-term contract with Aetna, which became effective on January 1, 2011.
- During 2012 and 2011, our average revenue per mail choice claim increased by 6.0% and 4.6%, compared to 2011 and 2010, respectively. This increase was primarily due to drug cost inflation particularly in our specialty business.
- Our mail choice generic dispensing rate was 72.0%, 64.9% and 61.3% in the years ended December 31, 2012, 2011 and 2010, respectively.
- Our pharmacy network generic dispensing rate increased to 79.1% in the year ended December 31, 2012, compared to 75.0% in the prior year. During 2011, our pharmacy network generic dispensing rate increased to 75.0% compared to our pharmacy network generic dispensing rate of 72.7% in 2010. These continued increases in both mail choice and pharmacy network generic dispensing rates were primarily due to the impact of new generic drug introductions and our continuous efforts to encourage plan members to use generic drugs when they are available. We believe our generic dispensing rates will continue to increase in future periods. This increase will be affected by, among other things, the number of new generic drug introductions and our success at encouraging plan members to utilize generic drugs when they are available and clinically appropriate.
- Our pharmacy network claims processed increased 13.5% to 798.8 million claims in the year ended December 31, 2012, compared to 704.0 million claims in the prior year. The increase in the pharmacy network claim volume was primarily due to a large number of 2012 new client starts, as well as higher claims activity associated with our Medicare Part D program. During 2011, our pharmacy network claims processed increased 35.2% to 704.0 million compared to 520.6 million pharmacy network claims processed in 2010. The increase in the pharmacy network claim volume was primarily due to the addition of the long-term contract with Aetna, which became effective on January 1, 2011. Additionally, we experienced higher claims activity associated with our Medicare Part D program as a result of our acquisition of the UAM Medicare Part D Business completed during the second quarter of 2011 and increases in covered lives under our legacy Medicare Part D program.
- Our average revenue per pharmacy network claim processed increased 11.0% in the year ended December 31, 2012 as compared to the prior year. This increase was primarily due to drug cost inflation partially offset by increases in the generic dispensing rate. During 2011, our average revenue per pharmacy network claim processed decreased by 3.5%, compared to 2010. This decrease was primarily due to increases in the percentage of generic prescription drugs dispensed, changes in client pricing, and the impact of our acquisition of the UAM Medicare Part D Business, partially offset by our long-term contract with Aetna, which became effective on January 1, 2011.
- During 2012, 2011, and 2010, we generated net revenues from our participation in the administration of the Medicare Part D drug benefit by providing PBM services to our health plan clients and other clients that have qualified as a Medicare Part D Prescription Drug Plan (a "PDP") under regulations promulgated by the Centers for Medicare and Medicaid Services ("CMS"). We are also a national provider of drug benefits to eligible beneficiaries under the Medicare Part D program through our subsidiaries, SilverScript and Pennsylvania Life (which have been approved by CMS as PDPs).

- The Pharmacy Services Segment recognizes revenues for its pharmacy network transactions based on individual contract terms. In accordance with ASC 605, *Revenue Recognition*, Caremark's contracts are predominantly accounted for using the gross method.

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

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

During 2011, gross profit decreased $36 million, or 1.1%, to $3.3 billion for the year ended December 31, 2011, as compared to the prior year. Gross profit as a percentage of net revenues was 5.6% for the year ended December 31, 2011, compared to 7.0% in the prior year. The decrease in gross profit dollars in the year ended December 31, 2011 was primarily driven by pricing compression relating to contract renewals and in particular the renewal of a large government client contract that took effect during the third quarter of 2010 partially offset by activity associated with our April 2011 acquisition of the UAM Medicare Part D Business.

During the year ended December 31, 2011, the decrease in gross profit as a percentage of net revenues was also driven by the previously mentioned client pricing compression, as well as the profitability associated with our long-term contract with Aetna, which has lower margins. These factors were partially offset by the positive impact from the above mentioned increases in our generic dispensing rates as compared to the prior year.

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. 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. Caremark's network contracts are predominantly accounted for using the gross method, which results in higher revenues, higher cost of revenues and lower gross profit rates. The conversion of certain RxAmerica contracts to the Caremark contract structure increased our net revenues, increased our cost of revenues and lowered our gross profit rates in 2010. Although this change did not affect our gross profit dollars, it did reduce our gross profit rates by approximately 40 basis points in the year ended December 31, 2010.
- Our gross profit as a percentage of revenues benefited from the increase in our total generic dispensing rate, which increased to 78.5% and 74.1% in 2012 and 2011, respectively, compared to our generic dispensing rate of 71.5% in 2010. 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.
- Effective January 1, 2010, CMS issued a regulation requiring that any differential or spread between the drug price charged to Medicare Part D plan sponsors by a PBM and the price paid for the drug by the PBM to the dispensing provider be reported as an administrative cost rather than a drug cost of the plan sponsor for purposes of calculating certain government subsidy payments and the drug price to be charged to enrollees. As noted above, these changes have impacted our ability to offer Medicare Part D plan sponsors pricing that includes the use of retail network differential or spread. This change impacted both our gross profit dollars and gross profit as a percentage of net revenues in 2011 and 2010.
- As discussed in Note 13 to our consolidated financial statements, effective January 15, 2013, CMS imposed certain sanctions on our SilverScript Medicare Part D PDP. These sanctions and the remediation efforts that may be required to address issues resulting from our 2013 Medicare Part D enrollment systems conversion process and related plan consolidation efforts may have an adverse impact on the profitability of our Pharmacy Services Segment. Please see "Cautionary Statement Concerning Forward-Looking Statements" section later in Management's Discussion and Analysis of Financial Condition and Results of Operations.

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 1.5% of net revenues in 2012 compared to 1.8% and 2.0% in 2011 and 2010, respectively.

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

- Operating expenses increased $70 million or 6.6%, to $1.1 billion, in the year ended December 30, 2012, compared to the prior year. The increase in operating expenses is primarily related to increased costs associated with the expansion of our Medicare Part D business. The decrease in operating expenses as a percentage of net revenues is primarily due to expense leverage from net revenue growth and expense control initiatives.
- During 2011, the increase in operating expenses of $105 million or approximately 11%, to $1.1 billion compared to 2010, is primarily related to normal operating expenses of the acquired UAM Medicare Part D Business, costs associated with changes designed to streamline our business, expenses associated with the acquisition and integration of the UAM Medicare Part D Business, partially offset by disciplined expense management.

Retail Pharmacy Segment

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

	Year Ended December 31,		
In millions	2012	2011	2010
Net revenues	**$ 63,654**	$ 59,599	$ 57,345
Gross profit	**19,109**	17,468	17,039
Gross profit % of net revenues	**30.0%**	29.3%	29.7%
Operating expenses	**13,455**	12,556	12,502
Operating expenses % of net revenues	**21.1%**	21.1%	21.8%
Operating profit	**5,654**	4,912	4,537
Operating profit % of net revenues	**8.9%**	8.2%	7.9%
Retail prescriptions filled (90 Day = 1 prescription)	**717.9**	657.8	636.3
Retail prescriptions filled (90 Day = 3 prescriptions) [1]	**848.1**	763.4	723.1
Net revenue increase:			
Total	**6.8%**	3.9%	3.6%
Pharmacy	**7.6%**	4.4%	4.1%
Front Store	**5.1%**	3.0%	2.6%
Total prescription volume (90 Day = 1 prescription)	**9.1%**	3.4%	3.2%
Total prescription volume (90 Day = 3 prescriptions) [1]	**11.1%**	5.6%	6.1%
Same-store sales increase:			
Total	**5.5%**	2.3%	2.1%
Pharmacy	**6.5%**	3.1%	2.9%
Front Store	**3.4%**	0.8%	0.5%
Prescription volume (90 Day = 1 prescription)	**8.1%**	2.2%	2.1%
Prescription volume (90 Day = 3 prescriptions) [1]	**10.3%**	4.4%	6.4%
Generic dispensing rates	**79.2%**	75.6%	73.0%
Pharmacy % of net revenues	**68.8%**	68.3%	68.0%
Third party % of pharmacy revenue	**97.5%**	97.8%	97.4%

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

Net revenues increased $4.1 billion, or 6.8%, to $63.7 billion for the year ended December 31, 2012, as compared to the prior year. This increase was primarily driven by a same store sales increase of 5.5% and net revenues from new stores, which accounted for approximately 110 basis points of our total net revenue percentage increase during the year.

Net revenues in our Retail Pharmacy Segment increased $2.3 billion, or 3.9% to $59.6 billion for the year ended December 31, 2011, as compared to the prior year. This increase was primarily driven by a same store sales increase of 2.3% and net revenues from new stores, which accounted for approximately 130 basis points of our total net revenue percentage increase during the year. Additionally, we continued to see a positive impact on our net revenues due to the growth of our Maintenance Choice program.

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 rose 5.1% in the year ended December 31, 2012, as compared to the prior year. Front store same store sales were positively impacted by increased customer traffic resulting from new store growth, the contractual impasse between Express Scripts and Walgreens and an additional day as a result of 2012 being a leap year.
- Pharmacy same store sales rose 7.6% in the year ended December 31, 2012, as compared to the prior year. The contractual impasse between Express Scripts and Walgreens was a significant driver of the increase. Pharmacy same store sales also benefited from an additional day as a result of 2012 being a leap year.
- Pharmacy revenues continue to be negatively impacted by the conversion of brand name drugs to equivalent generic drugs, which typically have a lower selling price. Pharmacy same store sales were negatively impacted by approximately 700 and 215 basis points for the years ended December 31, 2012 and 2011, respectively, due to recent generic introductions. In addition, our pharmacy growth has also been adversely affected by the lack of significant new brand name drug introductions, higher consumer co-payments and co-insurance arrangements and an increase in the number of over-the-counter remedies that were historically only available by prescription.
- As of December 31, 2012, we operated 7,458 retail stores compared to 7,327 retail stores as of December 31, 2011 and 7,182 retail stores as of December 31, 2010. Total net revenues from new stores (excluding acquired stores) contributed approximately 1.1%, 1.3% and 1.4% to our total net revenue percentage increase in 2012, 2011, and 2010, respectively.
- Pharmacy revenue growth continued to benefit from increased utilization by Medicare Part D beneficiaries, the ability to attract and retain managed care customers and favorable industry trends. These trends include an aging American population; many "baby boomers" are now in their fifties and sixties and are consuming a greater number of prescription drugs. In addition, the increased use of pharmaceuticals as the first line of defense for individual health care also contributed to the growing demand for pharmacy services. We believe these favorable industry trends will continue.

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

Gross profit increased $1.6 billion, or 9.4%, to $19.1 billion in the year ended December 31, 2012, as compared to the prior year. Gross profit as a percentage of net revenues increased to 30.0% in year ended December 31, 2012, from 29.3% in 2011. The increase in gross profit dollars in the year ended December 31, 2012, was primarily driven by same store sales increases. The increase in gross profit as a percentage of revenue was primarily driven by increased pharmacy margins due to the positive impact of increased generic drugs dispensed, partially offset by continued reimbursement pressure and lower front store margins.

Gross profit increased $429 million, or 2.5%, to $17.5 billion for the year ended December 31, 2011, as compared to the prior year. Gross profit as a percentage of net revenues decreased to 29.3% for the year ended December 31, 2011, compared to 29.7% for the prior year. Gross profit as a percentage of revenue was negatively impacted during 2011 by lower pharmacy margins due to continued reimbursement pressure, which was partially offset by the positive impact of increased generic drugs dispensed.

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

- Gross profit was positively impacted by approximately $31 million for the year ended December 31, 2012 as a result of the change in inventory accounting methods described in Note 2 to our consolidated financial statements. The impact of this change on gross profit as a percentage of net revenues for the year ended December 31, 2012 was approximately five basis points.

- On average, our gross profit on front-store revenues is generally higher than our average gross profit on pharmacy revenues. Front-store revenues were 31.2%, 31.7% and 32.0% of total revenues, in 2012, 2011 and 2010, respectively. Pharmacy revenues were 68.8%, 68.3% and 68.0% of total revenues, in 2012, 2011 and 2010, respectively. This shift in sales mix had a negative effect on our overall gross profit for the year ended December 31, 2012 and 2011, respectively.
- During 2011, our front-store gross profit rate was positively impacted by private label and proprietary brand product sales, which normally yield a higher gross profit rate than other front-store products.
- Our pharmacy gross profit rates have been adversely affected by the efforts of managed care organizations, pharmacy benefit managers and governmental and other third-party payors to reduce their prescription drug costs. In the event this trend continues, we may not be able to sustain our current rate of revenue growth and gross profit dollars could be adversely impacted.
- The increased use of generic drugs has positively impacted our gross profit margins but has resulted in third party payors augmenting their efforts to reduce reimbursement payments to retail pharmacies for prescriptions. This trend, which we expect to continue, reduces the benefit we realize from brand to generic product conversions.
- Sales to customers covered by third party insurance programs are a large component of our total pharmacy business. On average, our gross profit on third party pharmacy revenues is lower than our gross profit on cash pharmacy revenues. Third party pharmacy revenues were 97.5% of pharmacy revenues in 2012, compared to 97.8% and 97.4% of pharmacy revenues in 2011 and 2010, respectively.
- The Medicare Part D program is increasing prescription utilization. However, it is also decreasing our pharmacy gross profit rates as our higher gross profit business continued to migrate to Part D coverage during 2012, 2011 and 2010.
- The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, "ACA") made several significant changes to Medicaid rebates and to reimbursement. One of these changes was to revise the definition of Average Manufacturer Price and the reimbursement formula for multi-source drugs. CMS has not yet issued final regulations implementing these changes. Therefore, we cannot predict the effect these changes will have on Medicaid reimbursement or their impact on the Company. See "Government Regulation" within Part I, Item 1, Business, for additional information.

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

Operating expenses increased $899 million, or 7.2% to $13.5 billion, or 21.1% as a percentage of net revenues, in the year ended December 31, 2012, as compared to $12.6 billion, or 21.1% as a percentage of net revenues, in the prior year. Operating expenses as a percentage of net revenues remained consistent with the prior year period. The increase in operating expense dollars was the result of higher store operating costs associated with our increased store count.

Operating expenses increased $54 million, or less than 1%, to $12.6 billion, or 21.1% as a percentage of net revenues, in the year ended December 31, 2011, as compared to $12.5 billion, or 21.8% as a percentage of net revenues, in the prior year. We saw improvement in operating expenses as a percentage of net revenues for the year ended December 31, 2011, due to improved expense leverage from our same store sales growth and expense control initiatives.

Corporate Segment

Operating expenses increased $78 million, or 12.5%, to $694 million in the year ended December 31, 2012, as compared to the prior year. Operating expenses decreased $10 million, or 1.6% during 2011. 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 2012 was primarily due to higher benefit costs and information technology expenses. The decrease in operating expenses in 2011 was primarily driven by lower professional fees for legal services and lower consulting 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.

Net cash provided by operating activities was $6.7 billion for the year ended December 31, 2012, compared to $5.9 billion in 2011, and $4.8 billion in 2010. The increase in 2012 was primarily due to the significant increase in net income, improved receivables management, improved payables management, and the timing of payments. The increase in 2011 was related to improvements in inventory and payables management, increases in accrued expenses due to the timing of payments and growth in claims payable due to increased volume of activity in our Pharmacy Services Segment, partially offset by increased accounts receivable.

Net cash used in investing activities was $1.8 billion, representing a decrease of $561 million in 2012. This compares to approximately $2.4 billion and $1.6 billion in 2011 and 2010, respectively. The decrease in 2012 was primarily due to the $1.3 billion acquisition of the UAM Medicare Part D Business which occurred in April 2011. In 2011, the increase in net cash used in investing activities was primarily due to the cash paid to acquire the UAM Medicare Part D Business, partially offset by the proceeds from the sale of our TheraCom subsidiary, increased proceeds from sale-lease back transactions and lower purchases of property and equipment.

In 2012, gross capital expenditures totaled $2.0 billion, an increase of $158 million compared to the prior year. During 2012, approximately 45% of our total capital expenditures were for new store construction, 40% were for store expansion and improvements and 15% were for technology and other corporate initiatives. Gross capital expenditures totaled approximately $1.9 billion during 2011, compared to approximately $2.0 billion in 2010. The decrease in gross capital expenditures during 2011 was primarily due to the absence of spending which occurred in 2010 related to store remodeling. During 2011, approximately 46% of our total capital expenditures were for new store construction, 18% were for store expansion and improvements and 36% were for technology and other corporate initiatives.

Proceeds from sale-leaseback transactions totaled $529 million in 2012. This compares to $592 million in 2011 and $507 million in 2010. Under the sale-leaseback transactions, the properties are generally sold at net book value, which generally approximates fair value, and the resulting leases qualify and are accounted for as operating leases. The specific timing and amount of future sale-leaseback transactions will vary depending on future market conditions and other factors.

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

	2012 [2]	2011 [2]	2010 [2]
Total stores (beginning of year)	**7,388**	7,248	7,095
New and acquired stores [1]	**150**	162	183
Closed stores [1]	**(30)**	(22)	(30)
Total stores (end of year)	**7,508**	7,388	7,248
Relocated stores	**90**	86	106

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

(2) Excludes specialty mail order facilities.

Net cash used in financing activities was approximately $4.9 billion in 2012, compared to net cash used in financing activities of $3.5 billion in 2011 and net cash used in financing activities of $2.8 billion in 2010. Net cash used in financing activities during 2012 was primarily related to $4.3 billion of share repurchases associated with the share repurchase programs discussed below, the repurchase of long-term debt for $1.7 billion, partially offset by the issuance of approximately $1.2 billion of long-term debt. Net cash used in financing activities during 2011 was primarily due to $3.0 billion of share repurchases associated with the share repurchase program, as well as a net reduction in our outstanding debt of $0.2 billion. Net cash used in financing activities during 2010 was primarily due to the repayment of long-term debt of approximately $2.1 billion and $1.5 billion of share repurchases associated with the share repurchase programs, partially offset by net proceeds from the issuance of long-term debt of approximately $1 billion.

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

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

Pursuant to the authorizations under the 2011 and 2012 Repurchase Programs, on September 19, 2012, we entered into a $1.2 billion fixed dollar accelerated share repurchase ("ASR") agreement with Barclays Bank PLC ("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. The total of 25.6 million shares of common stock delivered to us by Barclays over the term of the ASR agreement were placed into treasury stock.

Pursuant to the authorization under the 2011 Repurchase Program, on August 24, 2011, we entered into a $1.0 billion fixed dollar ASR agreement with Barclays. The ASR agreement contained provisions that establish the minimum and maximum number of shares to be repurchased during its term. Pursuant to the ASR agreement, on August 25, 2011, we paid $1.0 billion to Barclays in exchange for Barclays delivering 20.3 million shares of common stock to us. On September 16, 2011, upon establishment of the minimum number of shares to be repurchased, Barclays delivered an additional 5.4 million shares of common stock to us. At the conclusion of the transaction on December 28, 2011, Barclays delivered a final

installment of 1.6 million shares of common stock on December 29, 2011. The aggregate 27.3 million shares of common stock delivered to us by Barclays, were placed into treasury stock. This represented all the repurchases that occurred during the year ended December 31, 2011 under the 2011 Repurchase Program.

During the year ended December 31, 2012, we repurchased an aggregate of 95.0 million shares of common stock for approximately $4.3 billion under the 2012 and 2011 Repurchase Programs. As of December 31, 2012, the 2011 Repurchase Program was complete and there remained approximately $4.7 billion available for future repurchases under the 2012 Repurchase Program.

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

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

Short-term borrowings – We had $690 million of commercial paper outstanding at a weighted average interest rate of 0.35% as of December 31, 2012. In connection with our commercial paper program, we maintain a $1.0 billion, three-year unsecured back-up credit facility, which expires on May 27, 2013, a $1.25 billion, four-year unsecured back-up credit facility, which expires on May 12, 2015 and a $1.25 billion, five-year unsecured back-up credit facility, which expires on February 17, 2017. The credit facilities allow for borrowings at various rates that are dependent, in part, on our public debt ratings and require us to pay a weighted average quarterly facility fee of approximately 0.05%, regardless of usage. As of December 31, 2012, there were no borrowings outstanding under the back-up credit facilities. We intend to renew our back-up credit facility that expires in May 2013.

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

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

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

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

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

On May 13, 2010, we issued $550 million of 3.25% unsecured senior notes due May 18, 2015 and issued $450 million of 4.75% unsecured senior notes due May 18, 2020 (collectively, the "2010 Notes") for total proceeds of $991 million, which was net of discounts and underwriting fees. The 2010 Notes pay interest 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 2010 Notes were used to repay a portion of the Company's outstanding commercial paper borrowings, certain other corporate debt and for general corporate purposes.

Our backup credit facility, unsecured senior notes and ECAPS (see Note 7 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, 2012 and 2011, we had no outstanding derivative financial instruments.

Debt Ratings – As of December 31, 2012, our long-term debt was rated "Baa2" by Moody's with a positive 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 2012, our Board of Directors authorized a 38% increase in our quarterly common stock dividend to $0.225 per share. This increase equates to an annual dividend rate of $0.90 per share. In December 2011, our Board of Directors authorized a 30% increase in our quarterly common stock dividend to $0.1625 per share. This increase equated to an annual dividend rate of $0.65 per share. On January 11, 2011, our Board of Directors authorized a 43% increase in our quarterly common stock dividend to $0.125 per share. This increase equated to an annual dividend rate of $0.50 per share. In January 2010, our Board of Directors authorized a 15% increase in our quarterly common stock dividend to $0.0875 per share. This increase equated to an annual dividend rate of $0.35 per share.

Off-Balance Sheet Arrangements

In connection with executing operating leases, we provide a guarantee of the lease payments. We also finance a portion of our new store development through sale-leaseback transactions, which involve selling stores to unrelated parties and then leasing the stores back under leases that qualify and are accounted for as operating leases. We do not have any retained or contingent interests in the stores, and we do not provide any guarantees, other than a guarantee of the lease payments, in connection with the transactions. In accordance with generally accepted accounting principles, our operating leases are not reflected on our consolidated balance sheets.

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

As of December 31, 2012, the Company guaranteed approximately 74 such store leases (excluding the lease guarantees related to Linens 'n Things), with the maximum remaining lease term extending through 2022. 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 "Income (loss) from discontinued operations" previously in this document for further information regarding our guarantee of certain Linens 'n Things' store lease obligations.

Following is a summary of our significant contractual obligations as of December 31, 2012:

		Payments Due by Period			
In millions	Total	2013	2014 to 2015	2016 to 2017	Thereafter
Operating leases	$ 27,596	$ 2,261	$ 4,097	$ 3,802	$ 17,436
Leases from discontinued operations	93	21	36	24	12
Long-term debt	8,967	1	1,100	1,731	6,135
Interest payments on long-term debt [1]	6,545	472	897	813	4,363
Other long-term liabilities reflected in our consolidated balance sheet	512	39	152	104	217
Capital lease obligations	336	20	42	42	232
	$ 44,049	$ 2,814	$ 6,324	$ 6,516	$ 28,395

(1) Interest payments on long-term debt are calculated on outstanding balances and interest rates in effect on December 31, 2012.

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

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

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

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

We deduct from our revenues the manufacturers' rebates that are earned by our clients based on their members' utilization of brand-name formulary drugs. We estimate these rebates at period-end based on actual and estimated claims data and our estimates of the manufacturers' rebates earned by our clients. We base our estimates on the best available data at period-end and recent history for the various factors that can affect the amount of rebates due to the client. We adjust our rebates payable to clients to the actual amounts paid when these rebates are paid or as significant events occur. We record any cumulative effect of these adjustments against revenues as identified, and adjust our estimates prospectively to consider

recurring matters. Adjustments generally result from contract changes with our clients or manufacturers, differences between the estimated and actual product mix subject to rebates or whether the product was included in the applicable formulary. We also deduct from our revenues pricing guarantees and guarantees regarding the level of service we will provide to the client or member as well as other payments made to our clients. Because the inputs to most of these estimates are not subject to a high degree of subjectivity or volatility, the effect of adjustments between estimated and actual amounts have not been material to our results of operations or financial position.

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

In addition to these premiums, our net revenues include co-payments, coverage gap benefits, deductibles and co-insurance (collectively, the "Member Co-Payments") related to PDP members' actual prescription claims. In certain cases, CMS subsidizes a portion of these Member Co-Payments and we are paid an estimated prospective Member Co-Payment subsidy, each month. The prospective Member Co-Payment subsidy amounts received from CMS are also included in our net revenues. We assume no risk for these amounts, which represented 7.7%, 3.1% and 2.6% of consolidated net revenues in 2012, 2011 and 2010, respectively. If the prospective Member Co-Payment subsidies received differ from the amounts based on actual prescription claims, the difference is recorded in either accounts receivable or accrued expenses. We account for CMS obligations and Member Co-Payments (including the amounts subsidized by CMS) using the gross method consistent with our revenue recognition policies for Mail Co-Payments and Retail Co-Payments. We have recorded estimates of various assets and liabilities arising from our participation in the Medicare Part D program based on information in our claims management and enrollment systems. Significant estimates arising from our participation in the Medicare Part D program include: (i) estimates of low-income cost subsidy and reinsurance amounts ultimately payable to or receivable from CMS based on a detailed claims reconciliation, (ii) an estimate of amounts payable to CMS under a risk-sharing feature of the Medicare Part D program design, referred to as the risk corridor and (iii) estimates for claims that have been reported and are in the process of being paid or contested and for our estimate of claims that have been incurred but have not yet been reported. Actual amounts of Medicare Part D-related assets and liabilities could differ significantly from amounts recorded. Historically, the effect of these adjustments has not been material to our results of operations or financial position.

RETAIL PHARMACY SEGMENT

Our Retail Pharmacy Segment recognizes revenue from the sale of merchandise (other than prescription drugs) at the time the merchandise is purchased by the retail customer. Revenue from the sale of prescription drugs is recognized at the time the prescription is filled as opposed to upon delivery as required under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification 605, *Revenue Recognition*. For substantially all prescriptions, the fill date and the delivery date occur in the same reporting period. The effect on both revenue and income of recording prescription drug sales upon fill as opposed to delivery is immaterial. 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.

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

Vendor Allowances and Purchase Discounts

PHARMACY SERVICES SEGMENT

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

RETAIL PHARMACY SEGMENT

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

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

Inventory

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

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

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

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

Our total reserve for estimated inventory losses covered by this critical accounting policy was $207 million as of December 31, 2012. Although we believe we have sufficient current and historical information available to us to record reasonable estimates for estimated inventory losses, it is possible that actual results could differ. In order to help you assess the aggregate risk, if any, associated with the uncertainties discussed previously, a ten percent (10%) pre-tax change in our estimated inventory losses, which we believe is a reasonably likely change, would increase or decrease our total reserve for estimated inventory losses by about $21 million as of December 31, 2012.

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

Goodwill and Intangible Assets

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

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

We evaluate the recoverability of certain long-lived assets, including intangible assets with finite lives, but excluding goodwill and intangible assets with indefinite lives which are tested for impairment using separate tests, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. We group and evaluate these long-lived assets for impairment at the lowest level at which individual cash flows can be identified. When evaluating

these long-lived assets for potential impairment, we first compare the carrying amount of the asset group to the asset group's estimated future cash flows (undiscounted and without interest charges). If the estimated future cash flows are less than the carrying amount of the asset group, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the asset group to the asset group's estimated future cash flows (discounted and with interest charges). If required, an impairment loss is recorded for the portion of the asset group's carrying value that exceeds the asset group's estimated future cash flows (discounted and with interest charges). Our long-lived asset impairment loss calculation contains uncertainty since we must use judgment to estimate each asset group's future sales, profitability and cash flows. When preparing these estimates, we consider historical results and current operating trends and our consolidated sales, profitability and cash flow results and forecasts.

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

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

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

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

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

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

The carrying value of goodwill and other intangible assets covered by this critical accounting policy was $26.4 billion and $9.8 billion as of December 31, 2012, respectively. We did not record any impairment losses related to goodwill or other intangible assets during 2012, 2011 or 2010. During the third quarter of 2012, 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, 2012, in our Pharmacy Services and Retail Pharmacy reporting units was $19.6 billion and $6.7 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 $339 million as of December 31, 2012. This amount is net of $209 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 $21 million as of December 31, 2012.

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 $590 million as of December 31, 2012. 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 $59 million as of December 31, 2012.

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

New Accounting Pronouncements

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income* ("ASU 2011-05"). ASU 2011-05 eliminates the current option to report other comprehensive income and its components in the statement of shareholders' equity. Instead, an entity will have the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 also required entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. In December 2011, the FASB issued ASU 2011-12 *Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*, which indefinitely defers the guidance related to the presentation of reclassification adjustments. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011 and should be applied retrospectively. The Company elected to report other comprehensive income and its components in a separate statement of comprehensive income beginning in the first quarter of 2012. The adoption of ASU 2011-05 did not have a material effect on the Company's consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment* ("ASU 2011-08"). ASU 2011-08 allows entities to use a qualitative approach to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If after performing the qualitative assessment an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step goodwill impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step goodwill impairment test. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of ASU 2011-08 did not have a material effect on the Company's consolidated financial statements. The Company did not elect to use the qualitative approach in its 2012 annual goodwill impairment test.

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

Cautionary Statement Concerning Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 (the "Reform Act") provides a safe harbor for forward-looking statements made by or on behalf of CVS Caremark Corporation. The Company and its representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in the Company's filings with the Securities and Exchange Commission ("SEC") and in its reports to stockholders. Generally, the inclusion of the words "believe," "expect," "intend," "estimate," "project," "anticipate," "will," "should" and similar expressions identify statements that constitute forward-looking statements. All statements addressing operating performance of CVS Caremark Corporation or any subsidiary, events or developments that the Company expects or anticipates will occur in the future, including statements relating to 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, PBM business and sales trends, the Company's ability to attract or retain customers, Medicare Part D competitive bidding and enrollment, new product development and the impact of industry developments, as well as statements expressing optimism or pessimism about future operating results or events, are forward-looking statements within the meaning of the Reform Act.

The forward-looking statements are and will be based upon management's then-current views and assumptions regarding future events and operating performance, and are applicable only as of the dates of such statements. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

By their nature, all forward-looking statements involve risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements for a number of reasons, including, but not limited to:

- *Risks relating to the health of the economy in general and in the markets we serve, which could impact consumer purchasing power, preferences and/or spending patterns, drug utilization trends, the financial health of our PBM clients or other payors doing business with the Company and our ability to secure necessary financing, suitable store locations and sale-leaseback transactions on acceptable terms.*
- *Efforts to reduce reimbursement levels and alter health care financing practices, including pressure to reduce reimbursement levels for generic drugs.*
- *The possibility of PBM client loss and/or the failure to win new PBM business.*
- *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 relating to our participation in Medicare, Medicaid and other federal and state government-funded programs, including requirements and restrictions imposed by CMS and other government agencies, as applicable, relating to our participation in the Medicare Part D program and other government-funded programs.*
- *Possible changes in industry pricing benchmarks used to establish pricing in many of our PBM client contracts, pharmaceutical purchasing arrangements, retail network contracts, specialty payor agreements and other third party payor contracts.*

- *An extremely competitive business environment, including the uncertain impact of increased consolidation in the PBM industry, uncertainty concerning the ability of our retail pharmacy business to secure and maintain contractual relationships with PBMs and other payors on acceptable terms, uncertainty concerning the ability of our PBM business to secure and maintain competitive access, pricing and other contract terms from retail network pharmacies in an environment where some PBM clients are willing to consider adopting narrow or more restricted retail pharmacy networks.*
- *Uncertainty relating to the effect on our net revenues, gross profit, marketing and other operating expenses and cash flows over time if we are unable to retain the business we have gained as a result of the Express Scripts and Walgreens contractual impasse to the extent anticipated.*
- *Risks relating to our ability to secure timely and sufficient access to the products we sell from our domestic and/or international suppliers.*
- *Reform of the U.S. health care system, including ongoing implementation of the Patient Protection and Affordable Care Act, continuing legislative efforts, regulatory changes and judicial interpretations impacting our health care system and the possibility of shifting political and legislative priorities related to reform of the health care system in the future.*
- *Risks relating to our failure to properly maintain our information technology systems, our information security systems and our infrastructure to support our business and to protect the privacy and security of sensitive customer and business information.*
- *Risks related to compliance with a broad and complex regulatory framework, including compliance with new and existing federal, state and local laws and regulations relating to health care, accounting standards, corporate securities, tax, environmental and other laws and regulations affecting our business.*
- *Risks related to litigation, government investigations and other legal proceedings as they relate to our business, the pharmacy services, retail pharmacy or retail clinic industries or to the health care industry generally.*
- *Other risks and uncertainties detailed from time to time in our filings with the SEC.*

The foregoing list is not exhaustive. There can be no assurance that the Company has correctly identified and appropriately assessed all factors affecting its business. Additional risks and uncertainties not presently known to the Company or that it currently believes to be immaterial also may adversely impact the Company. Should any risks and uncertainties develop into actual events, these developments could have a material adverse effect on the Company's business, financial condition and results of operations. For these reasons, you are cautioned not to place undue reliance on the Company's forward-looking statements.

Management's Report on Internal Control Over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting. Our Company's internal control over financial reporting includes those policies and procedures that pertain to the Company's ability to record, process, summarize and report a system of internal accounting controls and procedures to provide reasonable assurance, at an appropriate cost/benefit relationship, that the unauthorized acquisition, use or disposition of assets are prevented or timely detected and that transactions are authorized, recorded and reported properly to permit the preparation of financial statements in accordance with generally accepted accounting principles (GAAP) and receipt and expenditures are duly authorized. In order to ensure the Company's internal control over financial reporting is effective, management regularly assesses such controls and did so most recently for its financial reporting as of December 31, 2012.

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

Based on our assessment, we conclude our Company's internal control over financial reporting is effective and provides reasonable assurance that assets are safeguarded and that the financial records are reliable for preparing financial statements as of December 31, 2012.

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

February 15, 2013

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of CVS Caremark Corporation

We have audited CVS Caremark Corporation's internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). CVS Caremark Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on CVS Caremark Corporation's internal control over financial reporting based on our audit.

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

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

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

In our opinion, CVS Caremark Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of CVS Caremark Corporation as of December 31, 2012 and 2011, 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, 2012 of CVS Caremark Corporation and our report dated February 15, 2013 expressed an unqualified opinion thereon.

Ernst & Young LLP

Boston, Massachusetts
February 15, 2013

Consolidated Statements of Income

In millions, except per share amounts	Year Ended December 31, 2012	2011	2010
Net revenues	**$ 123,133**	$ 107,100	$ 95,778
Cost of revenues	**100,627**	86,539	75,559
Gross profit	**22,506**	20,561	20,219
Operating expenses	**15,278**	14,231	14,082
Operating profit	**7,228**	6,330	6,137
Interest expense, net	**557**	584	536
Loss on early extinguishment of debt	**348**	—	—
Income before income tax provision	**6,323**	5,746	5,601
Income tax provision	**2,441**	2,258	2,179
Income from continuing operations	**3,882**	3,488	3,422
Income (loss) from discontinued operations, net of tax	**(7)**	(31)	2
Net income	**3,875**	3,457	3,424
Net loss attributable to noncontrolling interest	**2**	4	3
Net income attributable to CVS Caremark	**$ 3,877**	$ 3,461	$ 3,427
Basic earnings per common share:			
Income from continuing operations attributable to CVS Caremark	**$ 3.06**	$ 2.61	$ 2.51
Income (loss) from discontinued operations attributable to CVS Caremark	**(0.01)**	(0.02)	—
Net income attributable to CVS Caremark	**$ 3.05**	$ 2.59	$ 2.51
Weighted average common shares outstanding	**1,271**	1,338	1,367
Diluted earnings per common share:			
Income from continuing operations attributable to CVS Caremark	**$ 3.03**	$ 2.59	$ 2.49
Income (loss) from discontinued operations attributable to CVS Caremark	**(0.01)**	(0.02)	—
Net income attributable to CVS Caremark	**$ 3.03**	$ 2.57	$ 2.49
Weighted average common shares outstanding	**1,280**	1,347	1,377
Dividends declared per common share	**$ 0.65**	$ 0.50	$ 0.35

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

In millions	Year Ended December 31, 2012	2011	2010
Net income	**$ 3,875**	$ 3,457	$ 3,424
Other comprehensive income (loss):			
Net cash flow hedges, net of income tax	**3**	(9)	(1)
Pension liability adjustment, net of income tax	**(12)**	(20)	(7)
Comprehensive income	**3,866**	3,428	3,416
Comprehensive loss attributable to noncontrolling interest	**2**	4	3
Comprehensive income attributable to CVS Caremark	**$ 3,868**	$ 3,432	$ 3,419

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

In millions, except per share amounts	December 31, 2012	2011
Assets:		
Cash and cash equivalents	**$ 1,375**	$ 1,413
Short-term investments	**5**	5
Accounts receivable, net	**6,473**	6,047
Inventories	**10,759**	10,046
Deferred income taxes	**663**	503
Other current assets	**577**	580
Total current assets	**19,852**	18,594
Property and equipment, net	**8,632**	8,467
Goodwill	**26,395**	26,458
Intangible assets, net	**9,753**	9,869
Other assets	**1,280**	1,155
Total assets	**$ 65,912**	$ 64,543
Liabilities:		
Accounts payable	**$ 5,070**	$ 4,370
Claims and discounts payable	**3,974**	3,487
Accrued expenses	**4,051**	3,293
Short-term debt	**690**	750
Current portion of long-term debt	**5**	56
Total current liabilities	**13,790**	11,956
Long-term debt	**9,133**	9,208
Deferred income taxes	**3,784**	3,853
Other long-term liabilities	**1,501**	1,445
Commitments and contingencies (Note 13)		
Redeemable noncontrolling interest	**—**	30
Shareholders' equity:		
Preferred stock, par value $0.01: 0.1 shares authorized; none issued or outstanding	**—**	—
Common stock, par value $0.01: 3,200 shares authorized; 1,667 shares issued and 1,231 shares outstanding at December 31, 2012 and 1,640 shares issued and 1,298 shares outstanding at December 31, 2011	**17**	16
Treasury stock, at cost: 435 shares at December 31, 2012 and 340 shares at December 31, 2011	**(16,270)**	(11,953)
Shares held in trust: 1 share at December 31, 2012 and 2 shares at December 31, 2011	**(31)**	(56)
Capital surplus	**29,120**	28,126
Retained earnings	**25,049**	22,090
Accumulated other comprehensive loss	**(181)**	(172)
Total shareholders' equity	**37,704**	38,051
Total liabilities and shareholders' equity	**$ 65,912**	$ 64,543

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

In millions	Year Ended December 31, 2012	2011	2010
Cash flows from operating activities:			
Cash receipts from customers	**$ 113,205**	$ 97,688	$ 94,503
Cash paid for inventory and prescriptions dispensed by retail network pharmacies	**(90,032)**	(75,148)	(73,143)
Cash paid to other suppliers and employees	**(13,643)**	(13,635)	(13,778)
Interest received	**4**	4	4
Interest paid	**(581)**	(647)	(583)
Income taxes paid	**(2,282)**	(2,406)	(2,224)
Net cash provided by operating activities	**6,671**	5,856	4,779
Cash flows from investing activities:			
Purchases of property and equipment	**(2,030)**	(1,872)	(2,005)
Proceeds from sale-leaseback transactions	**529**	592	507
Proceeds from sale of property and equipment	**23**	4	34
Acquisitions (net of cash acquired) and other investments	**(378)**	(1,441)	(177)
Purchase of available-for-sale investments	**—**	(3)	—
Maturity of available-for-sale investments	**—**	60	1
Proceeds from sale of subsidiary	**7**	250	—
Net cash used in investing activities	**(1,849)**	(2,410)	(1,640)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	**(60)**	450	(15)
Proceeds from issuance of long-term debt	**1,239**	1,463	991
Repayments of long-term debt	**(1,718)**	(2,122)	(2,103)
Purchase of noncontrolling interest in subsidiary	**(26)**	—	—
Dividends paid	**(829)**	(674)	(479)
Derivative settlements	**—**	(19)	(5)
Proceeds from exercise of stock options	**836**	431	285
Excess tax benefits from stock-based compensation	**28**	21	28
Repurchase of common stock	**(4,330)**	(3,001)	(1,500)
Other	**—**	(9)	—
Net cash used in financing activities	**(4,860)**	(3,460)	(2,798)
Net increase (decrease) in cash and cash equivalents	**(38)**	(14)	341
Cash and cash equivalents at the beginning of the year	**1,413**	1,427	1,086
Cash and cash equivalents at the end of the year	**$ 1,375**	$ 1,413	$ 1,427
Reconciliation of net income to net cash provided by operating activities:			
Net income	**$ 3,875**	$ 3,457	$ 3,424
Adjustments required to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**1,753**	1,568	1,469
Stock-based compensation	**132**	135	150
Loss on early extinguishment of debt	**348**	—	—
Gain on sale of subsidiary	**—**	(53)	—
Deferred income taxes and other noncash items	**(106)**	144	30
Change in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable, net	**(387)**	(748)	532
Inventories	**(858)**	607	(352)
Other current assets	**3**	(420)	(4)
Other assets	**(99)**	(49)	(210)
Accounts payable and claims and discounts payable	**1,147**	1,128	(40)
Accrued expenses	**753**	85	(176)
Other long-term liabilities	**110**	2	(44)
Net cash provided by operating activities	**$ 6,671**	$ 5,856	$ 4,779

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

	Shares			Dollars		
	Year Ended December 31,			Year Ended December 31,		
In millions	2012	2011	2010	2012	2011	2010
Common stock:						
Beginning of year	**1,640**	1,624	1,612	**$ 16**	$ 16	$ 16
Stock options exercised and issuance of stock awards	**27**	16	12	**1**	—	—
End of year	**1,667**	1,640	1,624	**$ 17**	$ 16	$ 16
Treasury stock:						
Beginning of year	**(340)**	(259)	(219)	**$(11,953)**	$ (9,030)	$ (7,610)
Purchase of treasury shares	**(95)**	(84)	(42)	**(4,330)**	(3,001)	(1,500)
Employee stock purchase plan issuances	**1**	3	2	**47**	78	80
Transfer of shares from shares held in trust	**(1)**	—	—	**(34)**	—	—
End of year	**(435)**	(340)	(259)	**$(16,270)**	$(11,953)	$ (9,030)
Shares held in trust:						
Beginning of year	**(2)**	(2)	(2)	**$ (56)**	$ (56)	$ (56)
Transfer of shares to treasury stock	**1**	—	—	**25**	—	—
End of year	**(1)**	(2)	(2)	**$ (31)**	$ (56)	$ (56)
Capital surplus:						
Beginning of year				**$28,126**	$ 27,610	$ 27,198
Stock option activity and stock awards				**955**	495	384
Tax benefit on stock options and stock awards				**28**	21	28
Transfer of shares held in trust to treasury stock				**9**	—	—
Purchase of noncontrolling interest in subsidiary				**2**	—	—
End of year				**$29,120**	$ 28,126	$ 27,610
Retained earnings:						
Beginning of year				**$22,090**	$ 19,303	$ 16,355
Changes in inventory accounting principles (Note 2)				**(89)**	—	—
Net income attributable to CVS Caremark				**3,877**	3,461	3,427
Common stock dividends				**(829)**	(674)	(479)
End of year				**$25,049**	$ 22,090	$ 19,303
Accumulated other comprehensive loss:						
Beginning of year				**$ (172)**	$ (143)	$ (135)
Net cash flow hedges, net of income tax				**3**	(9)	(1)
Pension liability adjustment, net of income tax				**(12)**	(20)	(7)
End of year				**$ (181)**	$ (172)	$ (143)
Total shareholders' equity				**$37,704**	$ 38,051	$ 37,700

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1 Significant Accounting Policies

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

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

As a pharmacy benefits manager, the PSS manages the dispensing of pharmaceuticals through the Company's mail order pharmacies and national network of approximately 67,000 retail pharmacies to eligible members in the benefits plans maintained by the Company's clients and utilizes its information systems to perform, among other things, safety checks, drug interaction screenings and brand to generic substitutions.

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

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

In addition, through the Company's SilverScript Insurance Company ("SilverScript") and Pennsylvania Life Insurance Company ("Pennsylvania Life") subsidiaries, 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® and Accordant® names. As of December 31, 2012, the PSS operated 31 retail specialty pharmacy stores, 12 specialty mail order pharmacies and five mail service pharmacies located in 22 states, Puerto Rico and the District of Columbia.

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

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

Notes to Consolidated Financial Statements

As of December 31, 2012, the retail pharmacy business included 7,458 retail drugstores (of which 7,402 operated a pharmacy) located in 42 states, the District of Columbia and Puerto Rico operating primarily under the CVS/pharmacy® name, the online retail website, CVS.com, and 640 retail health care clinics operating under the MinuteClinic® name (of which 633 were located in CVS/pharmacy stores).

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

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

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

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

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

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

SHORT-TERM INVESTMENTS – The Company's short-term investments consist of certificate of deposits with initial maturities of greater than three months when purchased. These investments, which were classified as available-for-sale within Level 1 of the fair value hierarchy, were carried at historical cost, which approximated fair value at December 31, 2012 and 2011.

FAIR VALUE OF FINANCIAL INSTRUMENTS – As of December 31, 2012, the Company's financial instruments include cash and cash equivalents, short-term investments, accounts receivable, accounts payable and short-term debt. Due to the short-term nature of these instruments, the Company's carrying value approximates fair value. The carrying amount and estimated fair value of total long-term debt was $9.1 billion and $10.8 billion, respectively, as of December 31, 2012. 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 $4.9 million as of December 31, 2012. There were no outstanding derivative financial instruments as of December 31, 2012 and 2011.

Notes to Consolidated Financial Statements

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

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

	Year Ended December 31,		
In millions	**2012**	2011	2010
Beginning balance	**$ 189**	$ 182	$ 224
Additions charged to bad debt expense	**149**	129	73
Write-offs charged to allowance	**(95)**	(122)	(115)
Ending balance	**$ 243**	$ 189	$ 182

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

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

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

In millions	**2012**	2011
Land	**$ 1,429**	$ 1,295
Building and improvements	**2,614**	2,404
Fixtures and equipment	**7,928**	7,582
Leasehold improvements	**3,105**	3,021
Software	**1,230**	1,098
	16,306	15,400
Accumulated depreciation and amortization	**(7,674)**	(6,933)
	$ 8,632	$ 8,467

The gross amount of property and equipment under capital leases was $219 million and $211 million as of December 31, 2012 and 2011, respectively. Amortization of property and equipment under capital lease is included within depreciation expense. Depreciation expense totaled $1.3 billion, $1.1 billion and $1.0 billion in 2012, 2011 and 2010, respectively.

GOODWILL AND OTHER INDEFINITELY-LIVED ASSETS – Goodwill and other indefinitely-lived assets are not amortized, but are subject to impairment reviews annually, or more frequently if necessary. See Note 5 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 5 for additional information about intangible assets.

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

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

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

In millions	2012	2011	2010
Beginning balance	**$ 30**	$ 34	$ 37
Net loss attributable to noncontrolling interest	**(2)**	(4)	(3)
Purchase of noncontrolling interest	**(26)**	—	—
Reclassification to capital surplus in connection with purchase of noncontrolling interest	**(2)**	—	—
Ending balance	**$ —**	$ 30	$ 34

Revenue Recognition

Pharmacy Services Segment – The PSS sells prescription drugs directly through its mail service pharmacies and indirectly through its retail pharmacy network. The PSS recognizes revenue from prescription drugs sold by its mail service 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.

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

The PSS determines whether it is the principal or agent for its retail pharmacy network transactions on a contract by contract basis. In the majority of its contracts, the PSS has determined it is the principal due to it: (i) being the primary obligor in the arrangement, (ii) having latitude in establishing the price, changing the product or performing part of the service, (iii) having discretion in supplier selection, (iv) having involvement in the determination of product or service specifications, and (v) having credit risk. The PSS's obligations under its client contracts for which revenues are reported using the gross method are separate and distinct from its obligations to the third party pharmacies included in its retail pharmacy network contracts. Pursuant to these contracts, the PSS is contractually required to pay the third party pharmacies in its retail pharmacy network for products sold, regardless of whether the PSS is paid by its clients. The PSS's responsibilities under its client contracts typically include validating eligibility and coverage levels, communicating the prescription price and the co-payments due to the third party retail pharmacy, identifying possible adverse drug interactions for the pharmacist to address with the prescriber prior to dispensing, suggesting clinically appropriate generic alternatives where appropriate and approving the prescription for dispensing. Although the PSS does not have credit risk with respect to Retail Co-Payments, management believes that all of the other indicators of gross revenue reporting are present. For contracts under which the PSS acts as an agent, 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 participates in the Federal Government's Medicare Part D program as a Prescription Drug Plan ("PDP"). Net revenues include insurance premiums earned by the PDP, which are determined based on the PDP's annual bid and related contractual arrangements with the Centers for Medicare and Medicaid Services ("CMS"). The insurance premiums include a direct premium paid by CMS and a beneficiary premium, which is the responsibility of the PDP member, but is subsidized by CMS in the case of low-income members. Premiums collected in advance are initially deferred in accrued expenses and are then recognized in net revenues over the period in which members are entitled to receive benefits.

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

The PSS accounts for CMS obligations and Member Co-Payments (including the amounts subsidized by CMS) using the gross method consistent with its revenue recognition policies for Mail Co-Payments and Retail Co-Payments (discussed previously in this document).

Retail Pharmacy Segment – The RPS recognizes revenue from the sale of merchandise (other than prescription drugs) at the time the merchandise is purchased by the retail customer. Revenue from the sale of prescription drugs is recognized at the time the prescription is filled as opposed to upon delivery as required under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification 605, *Revenue Recognition.* For substantially all prescriptions, the fill date and the delivery date occur in the same reporting period. The effect on both revenue and income of recording prescription drug sales upon fill as opposed to delivery is immaterial. Customer returns are not material. Revenue generated from the performance of services in the RPS's health care clinics is recognized at the time the services are performed.

See Note 14 for additional information about the revenues of the Company's business segments.

Cost of revenues

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

Retail Pharmacy Segment – The RPS' cost of revenues includes: the cost of merchandise sold during the reporting period and the related purchasing costs, warehousing and delivery costs (including depreciation and amortization) and actual and estimated inventory losses. See Note 14 for additional information about the cost of revenues of the Company's business segments.

Vendor allowances and purchase discounts

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

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

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

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

FACILITY OPENING AND CLOSING COSTS – New facility opening costs, other than capital expenditures, are charged directly to expense when incurred. When the Company closes a facility, the present value of estimated unrecoverable costs, including the remaining lease obligation less estimated sublease income and the book value of abandoned property and equipment, are charged to expense. The long-term portion of the lease obligations associated with facility closings was $288 million and $327 million in 2012 and 2011, respectively.

ADVERTISING COSTS – Advertising costs are expensed when the related advertising takes place. Advertising costs, net of vendor funding (included in operating expenses), were $221 million, $211 million and $234 million in 2012, 2011 and 2010, respectively.

INTEREST EXPENSE, NET – Interest expense, net of capitalized interest, was $561 million, $588 million and $539 million, and interest income was $4 million, $4 million and $3 million in 2012, 2011 and 2010, respectively. Capitalized interest totaled $29 million, $37 million and $47 million in 2012, 2011 and 2010, respectively.

SHARES HELD IN TRUST – The Company maintains grantor trusts, which held approximately 1 and 2 million shares of its common stock at December 31, 2012 and 2011, respectively. These shares are designated for use under various employee compensation plans. Since the Company holds these shares, they are excluded from the computation of basic and diluted shares outstanding.

ACCUMULATED OTHER COMPREHENSIVE LOSS – Accumulated other comprehensive loss consists of changes in the net actuarial gains and losses associated with pension and other postretirement benefit plans, and unrealized losses on derivatives. The amount included in accumulated other comprehensive loss related to the Company's pension and postretirement plans was $268 million pre-tax ($165 million after-tax) as of December 31, 2012 and $250 million pre-tax ($152 million after-tax) as of December 31, 2011. The net impact on cash flow hedges totaled $26 million pre-tax ($16 million after-tax) and $32 million pre-tax ($20 million after-tax) as of December 31, 2012 and 2011, respectively.

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

INCOME TAXES – The Company provides for income taxes currently payable, as well as for those deferred because of timing differences between reported income and expenses for financial statement purposes versus income tax return purposes. Income tax credits are recorded as a reduction of income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax return purposes. Deferred income tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recoverable or settled. The effect of a change in income tax rates is recognized as income or expense in the period of the change.

EARNINGS PER COMMON SHARE – Basic earnings per common share is computed by dividing: (i) net earnings by (ii) the weighted average number of common shares outstanding during the year (the "Basic Shares").

Diluted earnings per common share is computed by dividing: (i) net earnings by (ii) Basic Shares plus the additional shares that would be issued assuming that all dilutive stock awards are exercised. Options to purchase 5.9 million, 30.5 million and 34.3 million shares of common stock were outstanding as of December 31, 2012, 2011 and 2010, respectively, but were not included in the calculation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-05, *Presentation of Comprehensive Income* ("ASU 2011-05"). ASU 2011-05 eliminates the current option to report other comprehensive income and its components in the statement of shareholders' equity. Instead, an entity will have the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 also required entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. In December 2011, the FASB issued ASU 2011-12 *Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*, which indefinitely defers the guidance related to the presentation of reclassification adjustments. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011 and should be applied retrospectively. The Company elected to report other comprehensive income and its components in a separate statement of comprehensive income beginning in the first quarter of 2012. The adoption of ASU 2011-05 did not have a material effect on the Company's consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment* ("ASU 2011-08"). ASU 2011-08 allows entities to use a qualitative approach to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If after performing the qualitative assessment an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step goodwill impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step goodwill impairment test. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of ASU 2011-08 did not have a material effect on the Company's consolidated financial statements. The Company did not elect to use the qualitative approach in its 2012 annual goodwill impairment test.

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

2 Changes in Accounting Principle

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

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

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

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

3 Business Combinations

On April 29, 2011, the Company acquired the Medicare prescription drug business of Universal American Corp. (the "UAM Medicare Part D Business") for approximately $1.3 billion. The fair value of assets acquired and liabilities assumed were $2.4 billion and $1.1 billion, respectively, which included identifiable intangible assets of approximately $0.4 billion and goodwill of approximately $1.0 billion that were recorded in the PSS. The Company's results of operations and cash flows include the UAM Medicare Part D Business beginning on April 29, 2011.

In addition to the 2011 acquisition discussed above, there were two immaterial acquisitions during 2012.

4 Discontinued Operations

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

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

Below is a summary of the results of discontinued operations:

	Year Ended December 31,		
In millions	2012	2011	2010
Net revenues of TheraCom	$ —	$ 650	$ 635
Income from operations of TheraCom	$ —	$ 18	$ 28
Gain on disposal of TheraCom	—	53	—
Loss on disposal of Linens 'n Things	(12)	(7)	(24)
Income tax benefit (provision)	5	(95)	(2)
Income (loss) from discontinued operations, net of tax	$ (7)	$ (31)	$ 2

5 Goodwill and Other Intangibles

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

When evaluating goodwill for potential impairment, the Company first compares the fair value of its two reporting units, the PSS and RPS, to their respective carrying amounts. The Company estimates the fair value of its reporting units using a combination of a future discounted cash flow valuation model and a comparable market transaction model. 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 2012, the Company performed its required annual goodwill impairment tests. The Company concluded there were no goodwill impairments as of the testing date. The carrying amount of goodwill was $26.4 billion and $26.5 billion as of December 31, 2012 and 2011, respectively (see Note 14 for a breakdown of Goodwill by segment). The $63 million decrease in goodwill in 2012 was due to the finalization of the assessment of the fair value of assets acquired and liabilities assumed in the 2011 acquisition of the UAM Medicare Part D Business which decreased goodwill by $44 million, the realization of tax benefits associated with replacement stock options issued in a 2007 acquisition which decreased goodwill by $11 million, certain balance sheet adjustments to land and close store reserves related to acquisitions in previous years which decreased goodwill by $52 million, partially offset by a $44 million increase in goodwill associated with two immaterial acquisitions in 2012. These changes to goodwill affected both the PSS and RPS.

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 2012, 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, 2012 and 2011.

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 13.4 years. The weighted average useful lives of the Company's customer contracts and relationships and covenants not to compete are 12.9 years. The weighted average lives of the Company's favorable leases and other intangible assets are 17.3 years. Amortization expense for intangible assets totaled $486 million, $452 million and $427 million in 2012, 2011 and 2010, respectively. The anticipated annual amortization expense for these intangible assets for the next five years is $454 million in 2013, $420 million in 2014, $392 million in 2015, $364 million in 2016 and $341 million in 2017.

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

	2012			2011		
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	**5,745**	**(2,812)**	**2,933**	5,427	(2,386)	3,041
Favorable leases and other	**802**	**(380)**	**422**	769	(339)	430
	$12,945	**$ (3,192)**	**$ 9,753**	$ 12,594	$ (2,725)	$ 9,869

6 Share Repurchase Programs

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

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

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 accelerated share repurchase ("ASR") agreement with Barclays Bank PLC ("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 ASR agreement were placed into treasury stock.

Pursuant to the authorization under the 2011 Repurchase Program, on August 24, 2011, the Company entered into a $1.0 billion fixed dollar ASR agreement with Barclays. The ASR agreement contained provisions that establish the minimum and maximum number of shares to be repurchased during its term. Pursuant to the ASR agreement, on August 25, 2011, the Company paid $1.0 billion to Barclays in exchange for Barclays delivering 20.3 million shares of common stock to the Company. On September 16, 2011, upon establishment of the minimum number of shares to be repurchased, Barclays delivered an additional 5.4 million shares of common stock to the Company. At the conclusion of the transaction on December 28, 2011, Barclays delivered a final installment of 1.6 million shares of common stock on December 29, 2011. The aggregate 27.3 million shares of common stock delivered to the Company by Barclays, were placed into treasury stock. This represented all the repurchases that occurred during the year ended December 31, 2011 under the 2011 Repurchase Program.

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 ASR described previously. As of December 31, 2012, the 2011 Repurchase Program was complete and there remained approximately $4.7 billion available for future repurchases under the 2012 Repurchase Program.

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

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

7 Borrowing and Credit Agreements

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

In millions	2012	2011
Commercial paper	**$ 690**	$ 750
4.875% senior notes due 2014	**550**	550
3.25% senior notes due 2015	**550**	550
6.125% senior notes due 2016	**421**	700
5.75% senior notes due 2017	**1,310**	1,750
6.6% senior notes due 2019	**394**	1,000
4.75% senior notes due 2020	**450**	450
4.125% senior notes due 2021	**550**	550
6.25% senior notes due 2027	**1,000**	1,000
Trust Preferred Securities	**—**	50
6.125% senior notes due 2039	**1,500**	1,500
5.75% senior notes due 2041	**950**	950
Enhanced Capital Advantage Preferred Securities due 2062 [1]	**41**	42
2.75% senior notes due 2022	**1,250**	—
Mortgage notes payable	**1**	4
Capital lease obligations	**171**	168
	9,828	10,014
Less:		
Short-term debt (commercial paper)	**(690)**	(750)
Current portion of long-term debt	**(5)**	(56)
	$ 9,133	$ 9,208

(1) The Enhanced Capital Advantage Preferred Securities ("ECAPS") had a stated rate of interest of 6.302% through June 1, 2012, at which time the rate converted to a variable rate which was 2.59% at December 31, 2012.

The Company had $690 million of commercial paper outstanding as of December 31, 2012. In connection with its commercial paper program, the Company maintains a $1.0 billion, three-year unsecured back-up credit facility, which expires on May 27, 2013, a $1.25 billion, four-year unsecured back-up credit facility, which expires on May 12, 2015, and a $1.25 billion, five-year unsecured back-up credit facility, which expires on February 17, 2017. 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 0.05%, regardless of usage. As of December 31, 2012, there were no borrowings outstanding under the back-up credit facilities. The weighted average interest rate for short-term debt was 0.35% as of December 31, 2012 and 0.37% as of December 31, 2011.

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

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

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

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

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

On May 13, 2010, the Company issued $550 million of 3.25% unsecured senior notes due May 18, 2015 and issued $450 million of 4.75% unsecured senior notes due May 18, 2020 (collectively, the "2010 Notes") for total proceeds of $991 million, which was net of discounts and underwriting fees. The 2010 Notes pay interest 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 2010 Notes were used to repay a portion of the Company's outstanding commercial paper borrowings and certain other corporate debt, and were used for general corporate purposes.

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

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2012 are $5 million in 2013, $555 million in 2014, $556 million in 2015, $427 million in 2016, and $1.3 billion in 2017.

8 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 respective years:

In millions	2012	2011	2010
Minimum rentals	**$ 2,165**	$ 2,087	$ 2,001
Contingent rentals	**48**	49	53
	2,213	2,136	2,054
Less: sublease income	**(20)**	(19)	(19)
	$ 2,193	$ 2,117	$ 2,035

The following table is a summary of the future minimum lease payments under capital and operating leases as of December 31, 2012:

In millions	Capital Leases	Operating Leases [1]
2013	$ 20	$ 2,261
2014	21	2,078
2015	21	2,019
2016	21	1,944
2017	21	1,858
Thereafter	232	17,436
Total future lease payments	336	$ 27,596
Less: imputed interest	(165)	
Present value of capital lease obligations	$ 171	

(1) Future operating lease payments have not been reduced by minimum sublease rentals of $263 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 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 $529 million in 2012, $592 million in 2011 and $507 million in 2010.

9 Medicare Part D

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

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

The Company has recorded estimates of various assets and liabilities arising from its participation in the Medicare Part D program based on information in its claims management and enrollment systems. Significant estimates arising from its participation in this program include: (i) estimates of low-income cost subsidy and reinsurance amounts ultimately payable to or receivable from CMS based on a detailed claims reconciliation that will occur in 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.

10 Pension Plans and Other Postretirement Benefits

Defined Contribution Plans

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

At the participant's option, account balances, including the Company's matching contribution, can be moved without restriction among various investment options, including the Company's common stock. The Company also maintains a nonqualified, unfunded Deferred Compensation Plan for certain key employees. This plan provides participants the opportunity to defer portions of their eligible compensation and receive matching contributions equivalent to what they could have received under the CVS Caremark 401(k) Plan absent certain restrictions and limitations under the Internal Revenue Code. The Company's contributions under the above defined contribution plans were $199 million, $187 million and $186 million in 2012, 2011 and 2010, 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, 2012 and 2011, the Company's postretirement medical plans have an accumulated postretirement benefit obligation of $16 million and $17 million, respectively. Net periodic benefit costs related to these postretirement medical plans were approximately $1 million for 2012, 2011 and 2010.

Pursuant to various labor agreements, the Company also contributes to multiemployer health and welfare plans that cover 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 $50 million, $47 million and $46 million in 2012, 2011 and 2010, respectively.

Pension Plans

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

As of December 31, 2012, the Company's pension plans had a projected benefit obligation of $758 million and plan assets of $527 million. As of December 31, 2011, the Company's pension plans had a projected benefit obligation of $685 million and plan assets of $463 million. Actual return on plan assets was $62 million and $37 million in 2012 and 2011, respectively. Net periodic pension costs related to these pension plans were $31 million, $49 million and $36 million in 2012, 2011 and 2010, respectively. The net periodic pension costs for 2012 include a curtailment loss of $2 million. The net periodic pension costs for 2011 and 2010 includes settlement losses of $25 million and $12 million, respectively, due to the impact of lump sum payouts.

The discount rate is determined by examining the current yields observed on the measurement date of fixed-interest, high quality investments expected to be available during the period to maturity of the related benefits on a plan by plan basis. The discount rate for the plans was 4.0% in 2012 and 4.75% in 2011. The expected long-term rate of return on plan assets is determined by using the plan's target allocation and historical returns for each asset class on a plan by plan basis. The expected long-term rate of return for all plans was 7.25% in 2012, 2011 and 2010.

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 are 50% equity and 50% fixed income.

As of December 31, 2012, the Company's qualified defined benefit pension plan assets consisted of 50% equity, 48% fixed income, and 2% money market securities of which 84% were classified as Level 1 and 16% as Level 2 in the fair value hierarchy. The Company's qualified defined benefit pension plan assets as of December 31, 2011 consisted of 47% equity 51% fixed income, and 2% money market securities of which 82% were classified as Level 1 and 18% as Level 2 in the fair value hierarchy.

The Company contributed $36 million, $92 million and $65 million to the pension plans during 2012, 2011 and 2010, respectively. The Company plans to make approximately $33 million in contributions to the pension plans during 2013.

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 the Company participates in are individually significant to the Company. Total Company contributions to multiemployer pension plans were $12 million, $11 million and $12 million in 2012, 2011 and 2010, respectively.

11 Stock Incentive Plans

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

Compensation expense related to stock options, which includes the 2007 Employee Stock Purchase Plan (the "2007 ESPP") totaled $102 million, $112 million and $127 million for 2012, 2011 and 2010, respectively. The recognized tax benefit was $33 million, $38 million and $42 million for 2012, 2011 and 2010, respectively. Compensation expense related to restricted stock awards totaled $30 million, $21 million and $23 million for 2012, 2011 and 2010, respectively.

The 2007 ESPP provides for the purchase of up to 15 million shares of common stock. Under the 2007 ESPP, eligible employees may purchase common stock at the end of each six month offering period at a purchase price equal to 85% of the lower of the fair market value on the first day or the last day of the offering period. During 2012, approximately 2 million shares of common stock were purchased under the provisions of the 2007 ESPP at an average price of $33.70 per share. As of December 31, 2012, approximately 3 million shares of common stock were available for issuance under the 2007 ESPP.

The fair value of stock-based compensation associated with the 2007 ESPP is estimated on the date of grant (i.e., the beginning of the offering period) using the Black-Scholes Option Pricing Model.

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

	2012	2011	2010
Dividend yield [1]	**0.73%**	0.69%	0.57%
Expected volatility [2]	**22.88%**	20.42%	32.58%
Risk-free interest rate [3]	**0.10%**	0.15%	0.21%
Expected life *(in years)* [4]	**0.5**	0.5	0.5
Weighted-average grant date fair value	**$ 9.22**	$ 7.21	$ 7.31

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

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

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

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

In May 2010, the Company's Board of Directors adopted and the shareholders approved the 2010 Incentive Compensation Plan (the "2010 ICP"), which superseded the 1997 Incentive Compensation Plan (the "1997 ICP"). The terms of the 2010 ICP provide for grants of annual incentive and long-term performance awards to executive officers and other officers and employees of the Company or any subsidiary of the Company. Payment of such annual incentive and long-term performance awards will be in cash, stock, other awards or other property, at the discretion of the Management Planning and Development Committee of the Company's Board of Directors. The 2010 ICP allows for a maximum of 74 million shares to be reserved and available for grants, plus the number of shares subject to awards under the Company's 1997 ICP which become available due to cancellation or forfeiture. Following approval and adoption of the 2010 ICP, no new grants can be made under the 1997 ICP. The 2010 ICP is the only compensation plan under which the Company grants stock options, restricted stock and other stock-based awards to its employees, with the exception of the Company's 2007 ESPP. In November 2012, the Company's Board of Director's approved an amendment to the 2010 ICP to eliminate the share recycling provision of the 2010 ICP. As of December 31, 2012, there were approximately 48 million shares available for future grants under the 2010 ICP.

The Company's restricted awards are considered non-vested share awards and require no payment from the employee. Compensation cost is recorded based on the market price on the grant date and is recognized on a straight-line basis over the requisite service period. The Company granted 1,811,000, 1,121,000 and 1,095,000 restricted stock units with a weighted average fair value of $44.80, $34.84 and $35.25 in 2012, 2011 and 2010, respectively. As of December 31, 2012, there was $67 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 2.06 years. The total fair value of restricted shares vested during 2012, 2011 and 2010 was $81 million, $33 million and $44 million, respectively.

The following table is a summary of the restricted stock unit and restricted share award activity for the year ended December 31, 2012:

Units in thousands	Units	Weighted Average Grant Date Fair Value
Nonvested at beginning of year	2,606	$ 32.80
Granted	1,811	44.80
Vested	(1,917)	43.10
Forfeited	(150)	37.77
Nonvested at end of year	2,350	$ 33.32

All grants under the 2010 ICP are awarded at fair market value on the date of grant. The fair value of stock options is estimated using the Black-Scholes Option Pricing Model and stock-based compensation is recognized on a straight-line basis over the requisite service period. Options granted prior to 2004 generally become exercisable over a four-year period from the grant date and expire ten years after the date of grant. Options granted between 2004 and 2010 generally become exercisable over a three-year period from the grant date and expire seven years after the grant date. Beginning in 2011, options granted generally become exercisable over a four-year period from the grant date and expire seven years after the grant date.

Excess tax benefits of $28 million, $21 million and $28 million were included in financing activities in the accompanying consolidated statements of cash flow during 2012, 2011 and 2010, respectively. Cash received from stock options exercised, which includes the 2007 ESPP, totaled $836 million, $431 million and $285 million during 2012, 2011 and 2010, respectively. The total intrinsic value of options exercised was $321 million, $161 million and $118 million in 2012, 2011 and 2010, respectively. The total fair value of options vested during 2012, 2011 and 2010 was $386 million, $452 million and $445 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:

	2012	2011	2010
Dividend yield [1]	**1.44%**	1.43%	1.00%
Expected volatility [2]	**32.49%**	32.62%	33.15%
Risk-free interest rate [3]	**0.84%**	1.81%	1.85%
Expected life *(in years)* [4]	**4.7**	4.7	4.3
Weighted-average grant date fair value	**$ 11.12**	$ 9.19	$ 9.49

(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, 2012, unrecognized compensation expense related to unvested options totaled $161 million, which the Company expects to be recognized over a weighted-average period of 2.18 years. After considering anticipated forfeitures, the Company expects approximately 21 million of the unvested options to vest over the requisite service period.

The following table is a summary of the Company's stock option activity for the year ended December 31, 2012:

Shares in thousands	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2011	59,107	$ 33.40	4.11	$ 439,671,000
Granted	8,759	$ 45.02	—	—
Exercised	(24,978)	$ 32.29	—	—
Forfeited	(1,511)	$ 35.80	—	—
Expired	(448)	$ 25.29	—	—
Outstanding at December 31, 2012	40,929	$ 36.57	4.34	$ 482,249,000
Exercisable at December 31, 2012	18,875	$ 34.23	2.99	$ 266,505,000

12 Income Taxes

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

In millions	2012	2011	2010
Current:			
Federal	**$ 2,226**	$ 1,807	$ 1,884
State	**410**	338	344
	2,636	2,145	2,228
Deferred:			
Federal	**(177)**	101	(44)
State	**(18)**	12	(5)
	(195)	113	(49)
Total	**$ 2,441**	$ 2,258	$ 2,179

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

	2012	2011	2010
Statutory income tax rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal tax benefit	**3.9**	3.9	4.1
Other	**(0.3)**	0.4	(0.2)
Effective income tax rate	**38.6%**	39.3%	38.9%

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	2012	2011
Deferred tax assets:		
Lease and rents	**$ 336**	$ 325
Inventories	**141**	77
Employee benefits	**202**	253
Allowance for doubtful accounts	**137**	112
Retirement benefits	**115**	114
Net operating losses	**5**	6
Other	**400**	315
Total deferred tax assets	**1,336**	1,202
Deferred tax liabilities:		
Depreciation and amortization	**(4,457)**	(4,552)
Net deferred tax liabilities	**$ (3,121)**	$ (3,350)

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

In millions	2012	2011
Deferred tax assets – current	**$ 663**	$ 503
Deferred tax liabilities – noncurrent	**(3,784)**	(3,853)
Net deferred tax liabilities	**$ (3,121)**	$ (3,350)

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

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

In millions	2012	2011	2010
Beginning balance	**$ 38**	$ 35	$ 61
Additions based on tax positions related to the current year	**15**	3	1
Additions based on tax positions related to prior years	**42**	13	2
Reductions for tax positions of prior years	**(2)**	—	(10)
Expiration of statutes of limitation	**(12)**	(7)	(16)
Settlements	**(1)**	(6)	(3)
Ending balance	**$ 80**	$ 38	$ 35

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of numerous state and local jurisdictions. Substantially all material income tax matters have been concluded for fiscal years through 2007. The Company and its subsidiaries anticipate that a number of income tax examinations will conclude and statutes of limitation for open years will expire over the next twelve months, which may cause a utilization or reduction of the Company's reserve for uncertain tax positions of up to approximately $6 million.

The IRS is currently examining the Company's 2011 and 2012 consolidated U.S. income tax years pursuant to the Compliance Assurance Process ("CAP") program. The CAP program is a voluntary program under which taxpayers seek to resolve all or most issues with the IRS prior to or soon after the filing of their U.S. income tax returns, in lieu of being audited in the traditional manner. 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, 2012, no examination has resulted in any proposed adjustments that would result in a material change to the Company's results of operations, financial condition or liquidity.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties in income tax expense. During the years ended December 31, 2012, 2011 and 2010, the Company recognized interest of approximately $4 million, $2 million and $3 million, respectively. The Company had approximately $10 million and $8 million accrued for interest and penalties as of December 31, 2012 and 2011, respectively.

There are no material reserves established at December 31, 2012 for income tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. If present, such items would impact deferred tax accounting, not the annual effective income tax rate, and would accelerate the payment of cash to the taxing authority to an earlier period.

The total amount of unrecognized tax benefits that, if recognized, would affect the effective income tax rate is approximately $61 million, after considering the federal benefit of state income taxes.

13 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 indemnified the Company for any lease obligations the Company was required to satisfy. If any of the purchasers or any of the former subsidiaries were to become insolvent and failed to make the required payments under a store lease, the Company could be required to satisfy these obligations.

As of December 31, 2012, the Company guaranteed approximately 74 such store leases (excluding the lease guarantees related to Linens 'n Things, which are discussed in Note 4), with the maximum remaining lease term extending through 2022. 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 afterwards. 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.

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

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

Caremark (the term "Caremark" being used herein to generally refer to any one or more pharmacy benefit management subsidiaries of the Company, as applicable) is a defendant in a *qui tam* lawsuit initially filed by a relator on behalf of various state and federal government agencies in Texas federal court in 1999. The case was unsealed in May 2005. The case seeks monetary damages and alleges that Caremark's processing of Medicaid and certain other government claims on behalf of its clients (which allegedly resulted in underpayments from our clients to the applicable government agencies) on one of Caremark's adjudication platforms violates applicable federal or state false claims acts and fraud statutes. The United States and the States of Texas, Tennessee, Florida, Arkansas, Louisiana and California intervened in the lawsuit, but Tennessee and Florida withdrew from the lawsuit in August 2006 and May 2007, respectively. Thereafter, in 2008, the Company prevailed on several motions for partial summary judgment and, following an appellate ruling from the Fifth Circuit Court of Appeals in 2011 which affirmed in part and reversed in part these prior rulings, the claims asserted in the case against Caremark have been substantially narrowed. In December 2007, the Company received a document subpoena from the Office of Inspector General ("OIG") within the U.S. Department of Health and Human Services ("HHS"), requesting information relating to the processing of Medicaid and other government agency claims on a different adjudication platform of Caremark. The Company has been providing documents and other information in response to this request for information. The Company has been conducting discussions with the United States Department of Justice ("DOJ") and the OIG regarding a possible settlement of these legal matters.

In April 2009, the State of Texas filed a purported civil enforcement action against Caremark for injunctive relief, damages and civil penalties in Travis County, Texas alleging that Caremark violated the Texas Medicaid Fraud Prevention Act and other state laws based on its processing of Texas Medicaid claims on behalf of PBM clients on one of Caremark's adjudication platforms. In September 2011, the Company prevailed on a motion for partial summary judgment against the State of Texas and narrowed the remaining claims in the lawsuit. In October 2009 and October 2010, the Company received civil investigative demands from the Office of the Attorney General of the State of Texas requesting, respectively, information produced under the OIG subpoena described above and other information related to the processing of Medicaid claims. These civil investigative demands state that the Office of the Attorney General of the State of Texas is investigating allegations currently pending under seal relating to two other adjudication platforms of Caremark. In January 2012, the parties filed joint motion with the Texas federal and state courts requesting that the lawsuits with the State of Texas be abated so that the parties can focus on completing settlement documentation relating to Caremark's processing of Texas Medicaid claims.

Caremark was named in a putative class action lawsuit filed in October 2003 in Alabama state court by John Lauriello, purportedly on behalf of participants in the 1999 settlement of various securities class action and derivative lawsuits against Caremark and others. Other defendants include insurance companies that provided coverage to Caremark with respect to the settled lawsuits. The Lauriello lawsuit seeks approximately $3.2 billion in compensatory damages plus other non-specified damages based on allegations that the amount of insurance coverage available for the settled lawsuits was misrepresented and suppressed. A similar lawsuit was filed in November 2003 by Frank McArthur, also in Alabama state court, naming as defendants Caremark, several insurance companies, attorneys and law firms involved in the 1999 settlement. This lawsuit was stayed as a later-filed class action, but McArthur was subsequently allowed to intervene in the Lauriello action. Following the close of class discovery, the trial court entered an Order on August 15, 2012 that granted the plaintiffs' motion to certify a class pursuant to Alabama Rule of civil Procedures 23(b)(3) but denied their request that the class also be certified pursuant to Rule 23(b)(1). In addition, the August 15, 2012 Order appointed class representatives and class counsel. The defendants have filed a notice of appeal with the Alabama Supreme Court and the plaintiffs have filed a notice of cross-appeal. The proceedings in the trial court are stayed by statute pending a decision on the appeal and cross-appeal by the Alabama Supreme Court.

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

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

In November 2009, a securities class action lawsuit was filed in the United States District Court for the District of Rhode Island purportedly on behalf of purchasers of the Company's stock between May 5, 2009 and November 4, 2009. The lawsuit names the Company and certain officers as defendants and includes allegations of securities fraud relating to

public disclosures made by the Company concerning the PBM business and allegations of insider trading. In addition, a shareholder derivative lawsuit was filed in December 2009 in the same court against the directors and certain officers of the Company. A derivative lawsuit is a lawsuit filed by a shareholder purporting to assert claims on behalf of a corporation against directors and officers of the corporation. This lawsuit, which was stayed pending developments in the related securities class action, includes allegations of, among other things, securities fraud, insider trading and breach of fiduciary duties and further alleges that the Company was damaged by the purchase of stock at allegedly inflated prices under its share repurchase program. In January 2011, both lawsuits were transferred to the United States District Court for the District of New Hampshire. In June 2012, the court granted the Company's motion to dismiss the securities class action. The plaintiffs subsequently filed a notice of appeal of the Court's ruling on the motion to dismiss, and the appeal is pending. The derivative lawsuit will remain stayed pending the outcome of the appeal of the securities class action.

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 continues to cooperate in the multi-state investigation.

In March 2010, the Company received a subpoena from the OIG requesting information about programs under which the Company has offered customers remuneration conditioned upon the transfer of prescriptions for drugs or medications to our pharmacies in the form of gift cards, cash, non-prescription merchandise or discounts or coupons for non-prescription merchandise. The subpoena relates to an investigation of possible false or otherwise improper claims for payment under the Medicare and Medicaid programs. The Company has been providing documents and other information in response to this request for information.

The Company received a subpoena from the U.S. Securities and Exchange Commission ("SEC") in February 2011 and has subsequently received additional subpoenas and other requests for information. The SEC's requests relate to, among other things, public disclosures made by the Company during 2009, transactions in the Company's securities by certain officers and employees of the Company during 2009 and the purchase accounting for the Longs Drug Stores acquisition. The Company has been providing documents and other information as requested by the SEC.

In January 2012, the United States District Court for the Eastern District of Pennsylvania unsealed a first amended *qui tam* complaint filed in August 2011 by an individual relator, who is described in the complaint as having once been employed by a firm providing pharmacy prescription benefit audit and recovery services. The complaint seeks monetary damages and alleges that Caremark's processing of Medicare claims on behalf of one of its clients violated the federal false claims act. The United States, acting through the U.S. Attorney's Office in Philadelphia, Pennsylvania, declined to intervene in the lawsuit. Caremark filed a motion to dismiss the amended complaint and the DOJ filed a Statement of Interest with regard to Caremark's motion to dismiss. In December 2012, the court denied Caremark's motion to dismiss the amended complaint.

In January 2012, the Company received a subpoena from OIG requesting information about its Health Savings Pass program, a prescription drug discount program for uninsured or under insured individuals, in connection with an investigation of possible false or otherwise improper claims for payment involving HHS programs. In February 2012, the Company also received a civil investigative demand from the Office of the Attorney General of the State of Texas requesting a copy of information produced under this OIG subpoena and other information related to prescription drug claims submitted by our

pharmacies to Texas Medicaid for reimbursement. The Company has been providing documents and other information in response to this request for information.

A purported shareholder derivative action was filed on behalf of nominal defendant CVS Caremark Corporation against certain of the Company's officers and members of its Board of Directors. The action was originally filed in June 2012 and, after the court granted leave to amend the original fling, an amended complaint was filed in November 2012. The amended complaint alleges a single claim for breach of fiduciary duty relating to the Company's alleged failure to properly implement internal regulatory controls to comply with the Controlled Substances Act and the Combat Methamphetamine Epidemic Act.

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 is cooperating and will be providing documents and other information in response to this request for information.

Effective January 15, 2013, CMS imposed intermediate sanctions on the Company's SilverScript Medicare Part D PDP, consisting of immediate suspension of further plan enrollment and marketing activities. The sanctions relate to the Company's compliance with certain Medicare Part D requirements and do not affect the enrollment status of the Company's current PDP enrollees. CMS has granted a limited waiver of these sanctions to allow the Company's PDP to continue to enroll eligible retirees of existing employer clients into its SilverScript plans and into employer group waiver plans to fulfill the Company's commitments to implement and provide employer group waiver plan services. This limited waiver currently extends through April 30, 2013, and CMS has advised the Company that it will consider further extensions of the waiver on a rolling basis. 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 PDP plans. These consolidation efforts have impacted the enrollment and coverage determination services the Company provides to PDP enrollees. The Company is cooperating with CMS to address the service issues resulting from the Company's plan consolidation efforts and to develop and implement a corrective action plan to resolve and remove the sanctions. The Company cannot predict how long the sanctions will remain in effect or the scope of corrective action or other remedial actions that CMS may require in order for the sanctions to be removed.

The Company is also a party to other legal proceedings and inquiries arising in the normal course of its business, none of which is expected to be material to the Company. The Company can give no assurance, however, that 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 our 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 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.

Notes to Consolidated Financial Statements

14 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
2012:					
Net revenues	**$ 73,444**	**$ 63,654**	**$ —**	**$ (13,965)**	**$ 123,133**
Gross profit	**3,808**	**19,109**	**—**	**(411)**	**22,506**
Operating profit	**2,679**	**5,654**	**(694)**	**(411)**	**7,228**
Depreciation and amortization	**517**	**1,153**	**83**	**—**	**1,753**
Total assets	**36,057**	**29,183**	**1,408**	**(736)**	**65,912**
Goodwill	**19,646**	**6,749**	**—**	**—**	**26,395**
Additions to property and equipment	**422**	**1,555**	**53**	**—**	**2,030**
2011:					
Net revenues	$ 58,874	$ 59,599	$ —	$ (11,373)	$ 107,100
Gross profit	3,279	17,468	—	(186)	20,561
Operating profit	2,220	4,912	(616)	(186)	6,330
Depreciation and amortization	433	1,060	75	—	1,568
Total assets	35,704	28,323	1,121	(605)	64,543
Goodwill	19,657	6,801	—	—	26,458
Additions to property and equipment	461	1,353	58	—	1,872
2010:					
Net revenues	$ 47,145	$ 57,345	$ —	$ (8,712)	$ 95,778
Gross profit	3,315	17,039	—	(135)	20,219
Operating profit	2,361	4,537	(626)	(135)	6,137
Depreciation and amortization	390	1,016	63	—	1,469
Total assets	32,254	28,927	1,439	(451)	62,169
Goodwill	18,868	6,801	—	—	25,669
Additions to property and equipment	234	1,708	63	—	2,005

(1) Net revenues of the Pharmacy Services Segment include approximately $8.4 billion, $7.9 billion and $6.6 billion of Retail co-payments for the years ended December 31, 2012, 2011 and 2010, respectively.

(2) Intersegment eliminations relate to two types of transactions: (i) Intersegment revenues that occur when Pharmacy Services Segment clients use Retail Pharmacy Segment stores to purchase covered products. When this occurs, both the Pharmacy Services and Retail Pharmacy Segments record the revenue on a standalone basis and (ii) Intersegment revenues, gross profit and operating profit that occur when Pharmacy Services Segment clients, through the Company's intersegment activities (such as the Maintenance Choice program), elect to pick up their maintenance prescriptions at Retail Pharmacy Segment stores instead of receiving them through the mail. When this occurs, both the Pharmacy Services and Retail Pharmacy segments record the revenue, gross profit and operating profit on a standalone basis. Beginning in the fourth quarter of 2011, the Maintenance Choice eliminations reflect all discounts available for the purchase of mail order prescription drugs. The following amounts are eliminated in consolidation in connection with the item (ii) intersegment activity: net revenues of $3.4 billion, $2.6 billion and $1.8 billion for the years ended December 31, 2012, 2011 and 2010, respectively; gross profit and operating profit of $411 million, $186 million and $135 million for the years ended December 31, 2012, 2011 and 2010, respectively.

15 Earnings Per Common Share

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

In millions, except per share amounts	2012	2011	2010
Numerator for earnings per common share calculation:			
Income from continuing operations	**$ 3,882**	$ 3,488	$ 3,422
Net loss attributable to noncontrolling interest	**2**	4	3
Income from continuing operations attributable to CVS Caremark, basic	**3,884**	3,492	3,425
Income (loss) from discontinued operations, net of tax	**(7)**	(31)	2
Net income attributable to CVS Caremark, basic and diluted	**$ 3,877**	$ 3,461	$ 3,427
Denominator for earnings per common share calculation:			
Weighted average common shares, basic	**1,271**	1,338	1,367
Stock options	**8**	8	8
Restricted stock units	**1**	1	2
Weighted average common shares, diluted	**1,280**	1,347	1,377
Basic earnings per common share:			
Income from continuing operations attributable to CVS Caremark	**$ 3.06**	$ 2.61	$ 2.51
Loss from discontinued operations attributable to CVS Caremark	**(0.01)**	(0.02)	—
Net income attributable to CVS Caremark	**$ 3.05**	$ 2.59	$ 2.51
Diluted earnings per common share:			
Income from continuing operations attributable to CVS Caremark	**$ 3.03**	$ 2.59	$ 2.49
Loss from discontinued operations attributable to CVS Caremark	**(0.01)**	(0.02)	—
Net income attributable to CVS Caremark	**$ 3.03**	$ 2.57	$ 2.49

Notes to Consolidated Financial Statements

16 Quarterly Financial Information (Unaudited)

In millions, except per share amounts	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2012:					
Net revenues	$ 30,798	$ 30,714	$ 30,227	$ 31,394	$123,133
Gross profit	5,113	5,449	5,647	6,297	22,506
Operating profit	1,404	1,708	1,814	2,302	7,228
Income from continuing operations	776	966	1,011	1,129	3,882
Loss from discontinued operations, net of tax	(1)	(1)	(5)	—	(7)
Net income	775	965	1,006	1,129	3,875
Net loss attributable to noncontrolling interest	1	1	—	—	2
Net income attributable to CVS Caremark	$ 776	$ 966	$ 1,006	$ 1,129	$ 3,877
Basic earnings per common share:					
Income from continuing operations attributable to CVS Caremark	$ 0.60	$ 0.76	$ 0.80	$ 0.91	$ 3.06
Loss from discontinued operations attributable to CVS Caremark	$ —	$ —	$ —	$ —	$ (0.01)
Net income attributable to CVS Caremark	$ 0.60	$ 0.76	$ 0.80	$ 0.91	$ 3.05
Diluted Earnings per common share:					
Income from continuing operations attributable to CVS Caremark	$ 0.59	$ 0.75	$ 0.79	$ 0.90	$ 3.03
Loss from discontinued operations attributable to CVS Caremark	$ —	$ —	$ —	$ —	$ (0.01)
Net income attributable to CVS Caremark	$ 0.59	$ 0.75	$ 0.79	$ 0.90	$ 3.03
Dividends per common share	$ 0.1625	$ 0.1625	$ 0.1625	$ 0.1625	$ 0.6500
Stock price: (New York Stock Exchange)					
High	$ 45.88	$ 46.93	$ 48.69	$ 49.80	$ 49.80
Low	$ 41.01	$ 43.08	$ 43.65	$ 44.33	$ 41.01

In millions, except per share amounts	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2011:					
Net revenues	$ 25,695	$ 26,414	$ 26,674	$ 28,317	$ 107,100
Gross profit	4,742	5,086	5,178	5,555	20,561
Operating profit	1,305	1,484	1,584	1,957	6,330
Income from continuing operations	709	813	867	1,099	3,488
Income (loss) from discontinued operations, net of tax	3	2	—	(36)	(31)
Net income	712	815	867	1,063	3,457
Net loss attributable to noncontrolling interest	1	1	1	1	4
Net income attributable to CVS Caremark	$ 713	$ 816	$ 868	$ 1,064	$ 3,461
Basic earnings per common share:					
Income from continuing operations attributable to CVS Caremark	$ 0.52	$ 0.60	$ 0.65	$ 0.84	$ 2.61
Income (loss) from discontinued operations attributable to CVS Caremark	$ —	$ —	$ —	$ (0.03)	$ (0.02)
Net income attributable to CVS Caremark	$ 0.52	$ 0.60	$ 0.65	$ 0.82	$ 2.59
Diluted Earnings per common share:					
Income from continuing operations attributable to CVS Caremark	$ 0.52	$ 0.60	$ 0.65	$ 0.84	$ 2.59
Income (loss) from discontinued operations attributable to CVS Caremark	$ —	$ —	$ —	$ (0.03)	$ (0.02)
Net income attributable to CVS Caremark	$ 0.52	$ 0.60	$ 0.65	$ 0.81	$ 2.57
Dividends per common share	$ 0.125	$ 0.125	$ 0.125	$ 0.125	$ 0.500
Stock price: (New York Stock Exchange)					
High	$ 35.95	$ 39.50	$ 38.82	$ 41.35	$ 41.35
Low	$ 32.08	$ 34.21	$ 31.30	$ 32.28	$ 31.30

Five-Year Financial Summary

In millions, except per share amounts	2012[4][5]	2011[1]	2010[1]	2009[1]	2008[1]
Statement of operations data:					
Net revenues	**$ 123,133**	$ 107,100	$ 95,778	$ 98,215	$ 87,005
Gross profit	**22,506**	20,561	20,219	20,358	18,272
Operating expenses	**15,278**	14,231	14,082	13,933	12,237
Operating profit	**7,228**	6,330	6,137	6,425	6,035
Interest expense, net	**557**	584	536	525	509
Loss on early extinguishment of debt	**348**	—	—	—	—
Income tax provision [2]	**2,441**	2,258	2,179	2,200	2,189
Income from continuing operations	**3,882**	3,488	3,422	3,700	3,337
Income (loss) from discontinued operations, net of tax benefit [3]	**(7)**	(31)	2	(4)	(125)
Net income	**3,875**	3,457	3,424	3,696	3,212
Net loss attributable to noncontrolling interest [4]	**2**	4	3	—	—
Preference dividends, net of income tax benefit	**—**	—	—	—	(14)
Net income attributable to CVS Caremark	**$ 3,877**	$ 3,461	$ 3,427	$ 3,696	$ 3,198
Per common share data:					
Basic earnings per common share:					
Income from continuing operations attributable to CVS Caremark	**$ 3.06**	$ 2.61	$ 2.51	$ 2.58	$ 2.32
Loss from discontinued operations attributable to CVS Caremark	**(0.01)**	(0.02)	—	—	(0.09)
Net income attributable to CVS Caremark	**$ 3.05**	$ 2.59	$ 2.51	$ 2.58	$ 2.23
Diluted earnings per common share:					
Income from continuing operations attributable to CVS Caremark	**$ 3.03**	$ 2.59	$ 2.49	$ 2.55	$ 2.27
Loss from discontinued operations attributable to CVS Caremark	**(0.01)**	(0.02)	—	—	(0.09)
Net income attributable to CVS Caremark	**$ 3.03**	$ 2.57	$ 2.49	$ 2.55	$ 2.18
Cash dividends per common share	**$ 0.65000**	$ 0.50000	$ 0.35000	$ 0.30500	$ 0.25800
Balance sheet and other data:					
Total assets	**$ 65,912**	$ 64,543	$ 62,169	$ 61,641	$ 60,960
Long-term debt	**$ 9,133**	$ 9,208	$ 8,652	$ 8,756	$ 8,057
Total shareholders' equity	**$ 37,704**	$ 38,051	$ 37,700	$ 35,768	$ 34,574
Number of stores (at end of year)	**7,508**	7,388	7,248	7,095	6,997

(1) On December 23, 2008, our Board of Directors approved a change in our fiscal year-end from the Saturday nearest December 31 of each year to December 31 of each year to better reflect our position in the health care, rather than the retail, industry. The fiscal year change was effective beginning with the fourth quarter of fiscal 2008. As you review our operating performance, please consider that 2012 includes 366 days, 2011, 2010 and 2009 include 365 days, and fiscal 2008 includes 368 days.

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

(3) As discussed in Note 4 to the consolidated financial statements, the results of the TheraCom business are presented as discontinued operations and have been excluded from continuing operations for all periods presented.

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

Below is a summary of the results of discontinued operations:

	Fiscal Year				
In millions	2012	2011	2010	2009	2008
Income from operations of TheraCom	**$ —**	$ 18	$ 28	$ 13	$ 11
Gain on disposal of TheraCom	**—**	53	—	—	—
Loss on disposal of Linens 'n Things	**(12)**	(7)	(24)	(19)	(214)
Income tax benefit (provision)	**5**	(95)	(2)	2	78
Income (loss) from discontinued operations, net of tax	**$ (7)**	$ (31)	$ 2	$ (4)	$ (125)

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

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

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of CVS Caremark Corporation

We have audited the accompanying consolidated balance sheets of CVS Caremark Corporation as of December 31, 2012 and 2011, 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, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CVS Caremark Corporation at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CVS Caremark Corporation's internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 15, 2013 expressed an unqualified opinion thereon.

Ernst & Young LLP

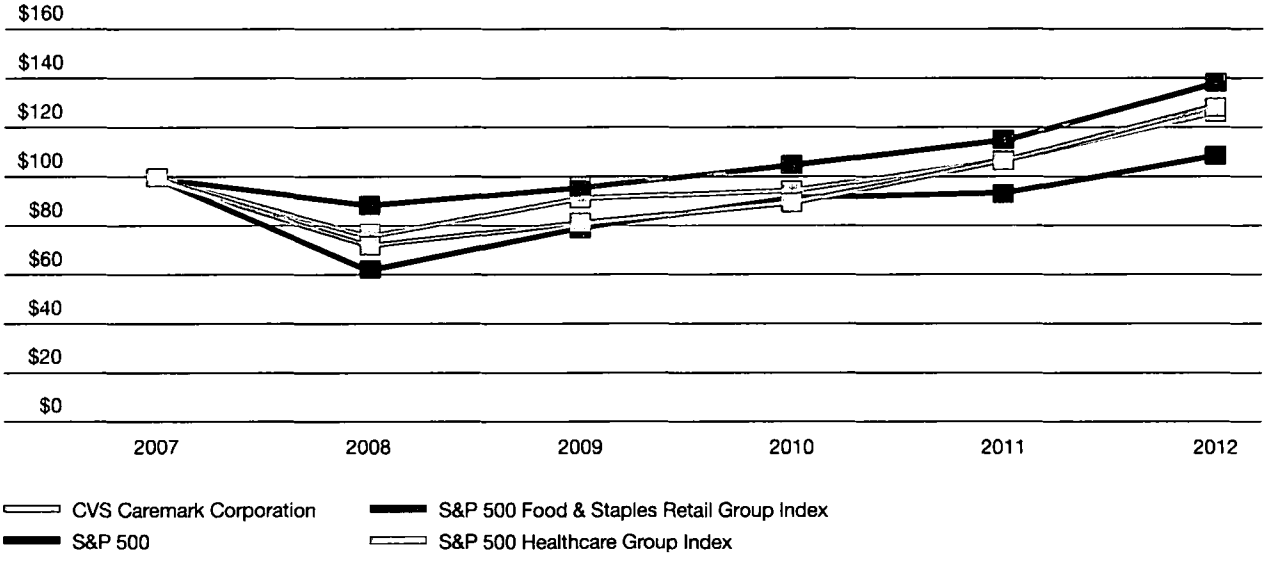
Boston, Massachusetts
February 15, 2013

Stock Performance Graph

The following graph shows changes over the past five-year period in the value of $100 invested in: (1) our common stock; (2) S&P 500 Index; (3) S&P 500 Food and Staples Retail Group Index, which currently includes eight retail companies; (4) S&P 500 Healthcare Group Index, which currently includes 53 health care companies.

RELATIVE TOTAL RETURNS SINCE 2007 – ANNUAL

December 31, 2007 to December 31, 2012



	Year End						Annual Return Rate (1 Year)	Compound Annual Return Rate (3 Year)	Compound Annual Return Rate (5 Year)
	2007	2008	2009	2010	2011	2012			
CVS Caremark Corporation	$100	$ 73	$ 82	$ 90	$107	$129	20.3%	16.0%	5.2%
S&P 500 [1]	$100	$ 63	$ 80	$ 92	$ 94	$109	16.0%	10.9%	1.7%
S&P 500 Food & Staples Retail Group Index [2]	$100	$ 89	$ 96	$105	$115	$138	19.6%	12.8%	6.6%
S&P 500 Healthcare Group Index [3]	$100	$ 77	$ 92	$ 95	$107	$126	17.9%	11.0%	4.8%

Note: Analysis assumes reinvestment of dividends.

(1) Includes CVS Caremark.

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

(3) Includes 53 companies.

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

Shareholder Information

OFFICERS

LARRY J. MERLO
President and Chief Executive Officer

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

MARK S. COSBY
Executive Vice President and
President – CVS/pharmacy

DAVID M. DENTON
Executive Vice President and
Chief Financial Officer

HELENA B. FOULKES
Executive Vice President and
Chief Health Care Strategy and
Marketing Officer

J. DAVID JOYNER
Executive Vice President,
Sales and Account Services –
CVS Caremark Pharmacy Services

PER G.H. LOFBERG
Executive Vice President

THOMAS M. MORIARTY
Executive Vice President and
General Counsel

JONATHAN C. ROBERTS
Executive Vice President and
President – CVS Caremark
Pharmacy Services

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

JOHN M. BUCKLEY
Senior Vice President and
Chief Compliance Officer

NANCY R. CHRISTAL
Senior Vice President – Investor Relations

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

CAROL A. DENALE
Senior Vice President and
Corporate Treasurer

STEPHEN J. GOLD
Senior Vice President and
Chief Information Officer

ANDREW J. SUSSMAN, M.D.
Senior Vice President and Associate Chief
Medical Officer; President – MinuteClinic

THOMAS S. MOFFATT
Vice President and Corporate Secretary

OFFICERS' CERTIFICATIONS
The Company has filed the required certifications under Section 302 of the Sarbanes-Oxley Act of 2002 regarding the quality of our public disclosures as Exhibits 31.1 and 31.2 to our annual report on Form 10-K for the fiscal year ended December 31, 2012. After our 2012 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

C. DAVID BROWN II [1] [2]
Chairman of the Firm
Broad and Cassel

DAVID W. DORMAN [1] [2]
Chairman of the Board
CVS Caremark Corporation

ANNE M. FINUCANE [2]
Global Strategy and Marketing Officer
Bank of America Corporation

KRISTEN GIBNEY WILLIAMS [3]
Former Executive
Prescription Benefits Management Division
of Caremark International, Inc.

MARIAN L. HEARD [1] [2]
President and Chief Executive Officer
Oxen Hill Partners

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

JEAN-PIERRE MILLON [3]
Former President and Chief Executive Officer
PCS Health Services, Inc.

C.A. LANCE PICCOLO [2]
Chief Executive Officer
HealthPic Consultants, Inc.

RICHARD J. SWIFT [3]
Former Chairman of the Board,
President and Chief Executive Officer
Foster Wheeler Ltd.

TONY L. WHITE [1]
Former Chairman of the Board,
President and Chief Executive Officer
Applied Biosystems, Inc.

(1) Member of the Management Planning and Development Committee

(2) Member of the Nominating and Corporate Governance Committee

(3) Member of the Audit Committee

SHAREHOLDER INFORMATION

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

ANNUAL SHAREHOLDERS' MEETING
May 9, 2013
CVS Caremark Corporate Headquarters

STOCK MARKET LISTING
The New York Stock Exchange
Symbol: CVS

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

Computershare
P.O. Box 43006
Providence, RI 02940-3006
Toll-free: (877) CVSPLAN (287-7526)
E-Mail:
shrrelations@cpushareownerservices.com

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

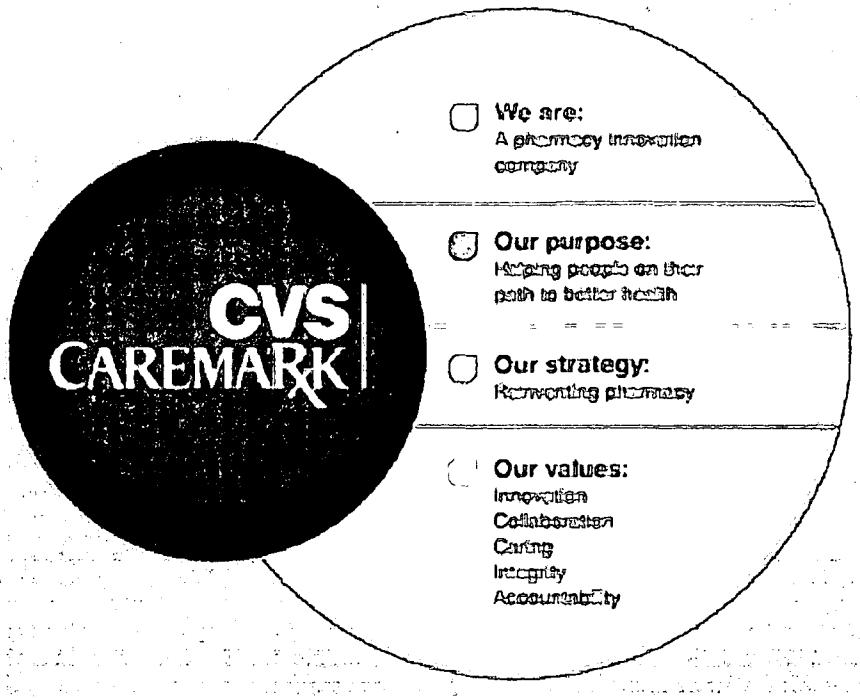
Computershare at (877) 287-7526

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

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

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

designed and produced by see see eye



MIX
Paper from responsible sources
FSC® C018101

The CVS Caremark 2012 Annual Report saved the following resources by printing on paper containing 10 percent post-consumer recycled content.

trees	wastewater	energy	solid waste	greenhouse gases	waterborne waste
120 fully grown	56,142 gallons	35,154,473 million BTUs	3,759 pounds	10,381 pounds	34 pounds

CVS Caremark, One CVS Drive, Woonsocket, RI 02895 | 401.765.1500 | info.cvscaremark.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, 2012

OR

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

For the transition period from to

Commission file number 001-01011

CVS CAREMARK CORPORATION

(Exact name of Registrant as specified in its charter)

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

(401) 765-1500

(Registrant's telephone number, including area code)

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

Common Stock, par value $0.01 per share	**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 $59,275,089,023 as of June 30, 2012, 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 8, 2013, the registrant had 1,231,194,296 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, 2012 is incorporated by reference in our response to Items 7, 8 and 9 of Part II.
- Information contained in our Proxy Statement for the 2013 Annual Meeting of Stockholders is incorporated by reference in our response to Items 10 through 14 of Part III.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I

Item 1. Business

Overview

CVS Caremark Corporation ("CVS Caremark", the "Company", "we" or "us"), together with its subsidiaries, is the largest integrated pharmacy health care provider in the United States. We are uniquely positioned to deliver significant benefits to health plan sponsors through effective cost management solutions and innovative programs that engage plan members and promote healthier and more cost-effective behaviors. Our integrated pharmacy services model enhances our ability to offer plan members and consumers expanded choice, greater access and more personalized services to help them on their path to better health. We effectively manage pharmaceutical costs and improve health care outcomes through our pharmacy benefit management ("PBM"), mail order and specialty pharmacy division, CVS Caremark® Pharmacy Services ("Caremark"); our more than 7,400 CVS/pharmacy® retail stores; our retail-based health clinic subsidiary, MinuteClinic®; and our online retail pharmacy, CVS.com®.

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

Pharmacy Services Segment

The Pharmacy Services business provides a full range of PBM services, as described more fully below, to our clients consisting primarily of employers, insurance companies, unions, government employee groups, managed care organizations ("MCOs") and other sponsors of health benefit plans and individuals throughout the United States. In addition, through our SilverScript Insurance Company ("SilverScript") and Pennsylvania Life Insurance Company ("Pennsylvania Life") subsidiaries, we are a national provider of drug benefits to eligible beneficiaries under the Federal Government's Medicare Part D program. The Pharmacy Services Segment operates under the CVS Caremark® Pharmacy Services, Caremark®, CVS Caremark®, CarePlus CVS/pharmacy®, RxAmerica® and Accordant® names. As of December 31, 2012, the Pharmacy Services Segment operated 31 retail specialty pharmacy stores, 12 specialty mail order pharmacies and five mail service pharmacies located in 22 states, Puerto Rico and the District of Columbia.

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

In addition, as a fully integrated pharmacy services company, we are able to offer our clients and their plan members a variety of programs and plan designs that benefit from our integrated information systems and the ability of our more than 26,000 pharmacists, nurse practitioners and physician assistants to interact personally with the many plan members who shop our stores every day. Through our multiple member touch points (retail stores, mail order and specialty pharmacies, retail clinics, call centers and proprietary websites), we seek to engage plan members in behaviors that lower cost and improve health care outcomes. Examples of these programs and services include: Maintenance Choice®, a program where eligible client plan members can elect to fill their maintenance prescriptions at our retail pharmacy stores for the same price as mail order; Pharmacy Advisor®, a program that uses our Consumer Engagement Engine™ technology to facilitate face-to-face and telephone counseling by our pharmacists to help participating plan members with certain chronic diseases, such as diabetes and cardiovascular conditions, to identify gaps in care, adhere to their prescribed medications and manage their health conditions; compliance and persistency programs designed to ensure that patients take their medications in the proper manner; enhanced disease management programs that are targeted at managing chronic disease states; and an ExtraCare® Health Card program which offers discounts to eligible plan members on certain over-the-counter health care products sold in our CVS/pharmacy stores. In addition, we are working with our clients to (i) decrease unnecessary and expensive emergency room visits by encouraging plan members to use MinuteClinic® locations for everyday common ailments and (ii) create pilot programs that offer convenient and unique services available at MinuteClinic, such as injection training for specialty pharmacy services.

Table of Contents

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

Plan Design and Administration - Our clients sponsor pharmacy benefit plans that facilitate the ability of eligible members in these plans to receive prescribed medications. We assist our clients in designing pharmacy benefit plans that minimize the costs to the client while prioritizing the welfare and safety of the clients' members. We also administer these benefit plans for our clients and assist them in monitoring the effectiveness of these plans through frequent, informal communications as well as through a formal annual client review.

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

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

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

Medicare Part D Services - We participate in the administration of the drug benefit added to the Medicare program under Part D of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 ("MMA") ("Medicare Part D") through the provision of PBM services to our

health plan clients and other clients that have qualified as Medicare Part D prescription drug plans ("PDP"). We also participate (i) by offering Medicare Part D pharmacy benefits through our subsidiaries, SilverScript and Pennsylvania Life, which have been approved as PDPs by the Centers for Medicare and Medicaid Services ("CMS"), and (ii) by assisting employer, union and other health plan clients that qualify for the retiree drug subsidy available under Medicare Part D by collecting and submitting eligibility and/or drug cost data to CMS in order for them to obtain the subsidy.

Mail Order Pharmacy - As of December 31, 2012, we operated five large, automated mail service pharmacies in the United States. Plan members or their prescribers submit prescriptions or refill requests, primarily for maintenance medications, to these pharmacies via mail, telephone, fax, e-prescribing or the Internet. We also operate a network of smaller mail service specialty pharmacies described below. Our staff pharmacists review mail service prescriptions and refill requests with the assistance of our prescription management systems. This review may involve communications with the prescriber and, with the prescriber's approval, can result in generic substitution, therapeutic interchange or other actions designed to reduce cost and improve quality of treatment.

Specialty Pharmacy - Our specialty pharmacies support individuals that require complex and expensive drug therapies. As of December 31, 2012, our specialty pharmacies were comprised of 12 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 19,000 health care organizations and programs in the United States. As of December 31, 2012, the Company operated a network of 31 retail specialty pharmacy stores, which operate under the CarePlus CVS/pharmacy® name. These stores average 2,000 square feet in size and sell prescription drugs and a limited assortment of front store items such as alternative medications, homeopathic remedies and vitamins.

Retail Pharmacy Network Management - We maintain a national network of approximately 67,000 retail pharmacies, including CVS/pharmacy stores. When a customer fills a prescription in a retail pharmacy, the pharmacy sends prescription data electronically to us from the point-of-sale. This data interfaces with our proprietary prescription management systems, which verify relevant plan member data and eligibility, while also performing a drug utilization review to evaluate clinical appropriateness and safety and confirming that the pharmacy will receive payment for the prescription.

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

Clinical Services - We offer multiple clinical programs and services to help clients manage overall pharmacy and health care costs in a clinically appropriate manner. Our programs are primarily designed to promote safety, and to target inappropriate utilization and non-adherence to medication, each of which may result in adverse medical events that negatively impact members' health and the client's 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® health management programs include integrated rare disease management programs, which cover diseases such as rheumatoid arthritis, Parkinson's disease, seizure disorders and multiple sclerosis. The majority of these integrated programs are accredited by the National Committee for Quality Assurance, a private, not-for-profit organization that evaluates, accredits and certifies a wide range of health care organizations.

Pharmacy Services Information Systems - We currently operate multiple information systems platforms to support our Pharmacy Services Segment. These information systems incorporate architecture that centralizes the data generated from filling mail service prescriptions, adjudicating retail pharmacy claims and fulfilling other services we provide to PBM clients. As part of our streamlining initiative, we are consolidating our adjudication platforms to one destination platform with enhanced capabilities.

Pharmacy Services Clients - Our clients are primarily sponsors of health benefit plans (employers, insurance companies, unions, government employee groups andMCOs) and individuals located throughout the United States. We provide pharmaceuticals to eligible members in benefit plans maintained by our clients and utilize our information systems, among other things, to perform safety checks, drug interaction screening and generic substitution. We generate substantially all of our Pharmacy Services Segment net revenue from dispensing prescription drugs to eligible members in benefit plans maintained by our clients. No single PBM client accounted for 10% or more of our total consolidated revenues in 2012. Our client agreements are subject to renegotiation of terms. See "Risk Factors — Efforts to reduce reimbursement levels and alter health care financing practices" and "Risk Factors — Risks of declining gross margins in the PBM industry." During the year ended December 31, 2012, our PBM filled or managed approximately 881 million prescriptions.

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

Pharmacy Services Competition - We believe the primary competitive factors in the industry include: (i) the ability to negotiate favorable discounts from drug manufacturers; (ii) the ability to negotiate favorable discounts from, and access to, retail pharmacy networks; (iii) responsiveness to clients' needs; (iv) the ability to identify and apply effective cost management programs utilizing clinical strategies; (v) the ability to develop and utilize preferred drug lists; (vi) the ability to market PBM products and services; (vii) the commitment to provide flexible, clinically-oriented services to clients; and (viii) the quality, scope and costs of products and services offered to clients and their members. The Pharmacy Services Segment has a significant number of competitors offering PBM services (e.g., Express Scripts, Catamaran, OptumRx and Prime Therapeutics) including large, national PBM companies, PBMs owned by large national health plans and smaller standalone PBMs.

Retail Pharmacy Segment

As of December 31, 2012, the Retail Pharmacy Segment included 7,458 retail drugstores, of which 7,402 operated a pharmacy, our online retail pharmacy website, CVS.com, 19 onsite pharmacy stores and our retail health care clinics. The retail drugstores are located in 42 states, Puerto Rico and the District of Columbia operating primarily under the CVS/pharmacy® name. We currently operate in 92 of the top 100 U.S. drugstore markets and hold the number one or number two market share in 74 of these markets. CVS/pharmacy stores sell prescription drugs and a wide assortment of over-the-counter and personal care products, beauty and cosmetic products, and general merchandise, which we refer to as "front store" products. Existing retail stores range in size from approximately 5,000 to 30,000 square feet, although most new stores range in size from approximately 8,000 to 15,000 square feet and typically include a drive-thru pharmacy. During 2012, we filled approximately 718 million retail prescriptions, or approximately 21% of the U.S. retail pharmacy market.

As of December 31, 2012, we operated 640 retail health care clinics in 26 states and the District of Columbia under the MinuteClinic® name, 633 of which were located within CVS/pharmacy stores.

Retail Pharmacy Business Strategy - Our integrated pharmacy services model has enhanced the ability of our retail pharmacy stores to expand customer access to care while helping to lower overall health care costs and improve health outcomes. In that regard, the role of our retail pharmacist is shifting from primarily dispensing prescriptions to also providing services, including flu vaccinations as well as face-to-face patient counseling with respect to adherence to drug therapies, closing gaps in care and more cost effective drug therapies. In addition, we seek to be the easiest pharmacy retailer for customers to use. We believe that ease of use means convenience for the time-starved customer. As such, our strategy is to have conveniently-located stores, many of which are open extended-hours or 24-hours per day, and to offer drive-through pharmacy services where practicable. We also provide a broad assortment of quality merchandise at competitive prices using a retail format that emphasizes service, innovation and convenience (easy-to-access, clean, well-lit and well stocked). One of the keys to our strategy is technology, which allows us to focus on constantly improving service and exploring ways to provide more personalized product offerings and services. We believe that continuing to be the first to market with new and unique products and services, using innovative marketing and adjusting our mix of merchandise to match our customers' needs and preferences is very important to our ability to continue to improve customer satisfaction.

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

Table of Contents

Consolidated net revenues by major product group are as follows:

	Percentage of Net Revenues(1)		
	2012	2011	2010
Prescription drugs	68.8%	68.3%	68.0%
Over-the-counter and personal care	10.8	10.9	10.9
Beauty/cosmetics	5.0	5.2	5.1
General merchandise and other	15.4	15.6	16.0
	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 2012, 2011 and 2010. 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 health care reform), the proliferation of new pharmaceutical products, Medicare Part D and our ongoing program of purchasing customer lists from independent pharmacies. We believe our pharmacy business benefits from our investment in both people and technology. Given the nature of prescriptions, people want their prescriptions filled accurately and ready when promised, by professional pharmacists using the latest tools and technology. 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; our Customer Savings Initiative, which educates customers about cost savings opportunities; Maintenance Choice; Pharmacy Advisor, our program that uses our Consumer Engagement Engine technology to facilitate 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; and the ExtraCare Health Card program. Further evidencing our belief in the importance of pharmacy service is our continuing investment in technology, such as our Drug Utilization Review system that checks for harmful interactions between prescription drugs, over-the-counter products, vitamins and herbal remedies; our pharmacy fulfillment system, Rx Connect; our touch-tone telephone reorder system, Rapid Refill®; and our online business, CVS.com®.

Front Store - Front store revenues benefited from our strategy to be the first to market with new and unique products and services, using innovative marketing and adjusting our mix of merchandise to match our customers' needs and preferences. A key component of our front store strategy is our ExtraCare® card program, which is helping us continue to build our loyal customer base. The ExtraCare program is one of the largest and most successful retail loyalty programs in the United States. In addition, the ExtraCare program allows us to balance our marketing efforts so we can reward our best customers by providing them automatic sale prices, customized coupons, ExtraBucks® rewards and other benefits. Another component of our front store strategy is our unique product offerings, which include a full range of high-quality CVS/pharmacy® and proprietary brand products that are only available through CVS/pharmacy stores. We currently carry over 4,600 CVS/pharmacy and proprietary brand products, which accounted for approximately 18% of our front store revenues during 2012. Furthermore, we are tailoring certain groups of stores, such as our urban cluster stores, to better meet the needs of our customers.

Table of Contents

MinuteClinic - As of December 31, 2012, we operated 640 MinuteClinic® locations in 26 states and the District of Columbia; of which 633 were located in CVS/pharmacy stores. MinuteClinics are staffed by nurse practitioners and physician assistants who utilize nationally recognized protocols to diagnose and treat minor health conditions, perform health screenings, monitor chronic conditions and deliver vaccinations. Many locations have also begun treating a variety of chronic conditions. Insurers value MinuteClinic because it provides convenient, high-quality, cost-effective care, in many cases offering an attractive alternative to the far more expensive emergency room. As a result, visits paid for by employers, health insurers or other third parties accounted for approximately 85% of MinuteClinic's total revenues in 2012. We anticipate opening up approximately 150 new clinics in CVS/pharmacy stores during 2013. 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 22 major health systems.

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

Retail Pharmacy Store Development - The addition of new stores has played, and will continue to play, a major role in our continued growth and success. Our store development program focuses on three areas: entering new markets, adding stores within existing markets and relocating stores to more convenient, freestanding sites. During 2012, we opened 150 new retail pharmacy stores, relocated 90 stores and closed 30 stores. During the last five years, we opened more than 1,300 new and relocated stores, and acquired approximately 500 stores. During 2013, we expect square footage growth of between 2% to 3%. We believe that continuing to grow our store base and locating stores in desirable geographic markets are essential components to compete effectively in the current managed care environment. As a result, we believe that our store development program is an integral part of our ability to maintain our leadership position in the retail drugstore industry.

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

Retail Pharmacy Customers - Managed care organizations, government-funded health care programs (including state Medicaid plans and Medicare Part D drug plans), commercial employers and other third party plans accounted for 97.5% of our 2012 pharmacy revenues. The loss of any one payor should not have a material effect on our business. No single retail payor accounts for 10% or more of our total consolidated revenues. However, the success of our retail drugstore business is dependent upon our ability to establish and maintain contractual relationships with PBMs and other payors on acceptable terms. During 2012, Express Scripts completed a merger with Medco Health Solutions, thereby creating the largest PBM in the nation. In 2012, Express Scripts accounted for approximately 18% of our Retail Pharmacy Segment revenues. Our contracts with commercial payors and government-funded programs are subject to renegotiation of reimbursement rates. See "Government Regulation — Reimbursement" and Item 1A., "Risk Factors — *Efforts to reduce reimbursement levels and alter health care financing practices.*"

Retail Pharmacy Seasonality - The majority of our revenues, particularly pharmacy revenues, are generally not seasonal in nature. However, front store revenues tend to be higher during the December holiday season. For additional information, we refer you to the Note "Quarterly Financial Information" in our Annual Report to Stockholders for the year ended December 31, 2012, which section is incorporated by reference herein.

Retail Pharmacy Competition - The retail drugstore business is highly competitive. We believe that we compete principally on the basis of:

(i) store location and convenience, (ii) customer service and satisfaction, (iii) product selection and variety and (iv) price. In the markets we serve, we compete with other drugstore chains, supermarkets, discount retailers, independent pharmacies, membership clubs, Internet companies, and retail health clinics, as well as other mail order pharmacies and PBMs.

Table of Contents

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.

Working Capital Practices

We fund the growth of our business through a combination of cash flow from operations, commercial paper, proceeds from sales-lease-back transactions, and long-term borrowings. For additional information on our working capital practices, we refer you to the caption "Liquidity and Capital Resources" in our Annual Report to Stockholders for the year ended December 31, 2012, which section is incorporated by reference herein. The majority of our non-pharmacy revenues are paid in cash, debit or credit cards, while managed care and other third party insurance programs, which typically settle in less than 30 days, represented approximately 99.1% of our consolidated pharmacy revenues, including both Retail Pharmacy and Pharmacy Services combined, in 2012. The remainder of consolidated pharmacy revenues are paid in cash, debit or credit cards. Our customer returns are not significant.

Associate Development

As of December 31, 2012, we employed approximately 203,000 associates, which included more than 26,000 pharmacists, nurse practitioners and physician assistants. In addition, approximately 77,000 associates were part-time employees who work less than 30 hours per week. To deliver the highest levels of service to our customers, we devote considerable time and attention to our people and service standards. We emphasize attracting and training knowledgeable, friendly and helpful associates to work in our organization.

Intellectual Property

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

Government Regulation

Overview - Our business is subject to federal and state laws and regulations that govern the purchase, sale and distribution of prescription drugs and related services, including administration and management of prescription drug benefits. Many of our PBM clients, including insurers and MCO, 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. 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, 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.

Table of Contents

Anti-Remuneration Laws - Federal law prohibits, among other things, an entity from knowingly and willfully offering, paying, soliciting or receiving, subject to certain exceptions and "safe harbors," any remuneration to induce the referral of individuals or the purchase, lease or order (or the arranging for or recommending of the purchase, lease or order) of items or services for which payment may be made under Medicare, Medicaid or certain other federal health care programs. A number of states have similar laws, some of which are not limited to services paid for with government funds. State laws and exceptions or safe harbors vary and have been infrequently interpreted by courts or regulatory agencies. Sanctions for violating these federal and state anti-remuneration laws may include imprisonment, criminal and civil fines, and exclusion from participation in Medicare, Medicaid and other government-sponsored health care programs. The federal anti-remuneration law has been interpreted broadly by some courts, the Office of Inspector General (the "OIG") within the United States Department of Health and Human Services ("HHS") and administrative bodies. A broad interpretation of the federal anti-remuneration law is supported by the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, "ACA"), which codified a reduced standard of "knowingly and willfully" by stating that this standard does not require that a person have actual knowledge of the federal anti-remuneration law or specific intent to violate this law. ACA also provides that a violation of the federal anti-remuneration law constitutes a false or fraudulent act under the Federal False Claims Act ("FCA"). Because of the federal statute's broad scope, HHS established certain safe harbor regulations that specify various practices that are protected from criminal or civil liability. Safe harbors exist for certain discounts offered to purchasers, certain personal services arrangements, certain payments made by vendors to group purchasing organizations, in certain cases the provision of electronic

prescribing technology to physicians, and certain other transactions and relationships. A practice that does not fall within a safe harbor is not necessarily unlawful but may be subject to challenge by HHS. In addition, as part of ACA, additional statutory exceptions have been created to permit the provision of certain incentives to federal health care program beneficiaries, including retailer coupons, rebates or other rewards and incentives offered to promote access to care. Also, waivers have been granted by the OIG and CMS to allow Affordable Care Organization ("ACO") providers to give certain free items and services to beneficiaries that encourage adherence to clinical goals, such as a drug regimen, as long as such items or services do not encourage the beneficiary to seek care from an ACO provider. See Item 3, "Legal Proceedings" for further information.

Antitrust and Unfair Competition - The Federal Trade Commission ("FTC") has authority under Section 5 of the Federal Trade Commission Act ("FTCA") to investigate and prosecute practices that are "unfair trade practices" or "unfair methods of competition." Relief under the FTCA can encompass equitable relief and consumer redress. In addition, numerous lawsuits have been filed throughout the United States against pharmaceutical manufacturers, retail pharmacies and/or PBMs under various state and federal antitrust and unfair competition laws challenging, among other things: (i) brand drug pricing practices of pharmaceutical manufacturers, (ii) the maintenance of retail pharmacy networks by PBMs, and (iii) various other business practices of PBMs and retail pharmacies. To the extent that we appear to have actual or potential market power in a relevant market, our business arrangements and practices may be subject to heightened scrutiny from an anti-competitive perspective and possible challenge by state or federal regulators or private parties. See Item 3, "Legal Proceedings" for further information.

Compliance Programs - ACA requires that health care providers enrolled in Medicare and Medicaid must establish and maintain compliance programs that satisfy core requirements to be established by the Secretary of HHS in consultation with the OIG. The Secretary of HHS has not yet published information concerning these compliance programs or the timeframe for implementation. In addition, certain state government health care programs have compliance program requirements, and we are subject to various government agreements described under "Government Agreements and Mandates" below that also contain requirements relating to the maintenance of compliance programs.

Consumer Protection Laws - The federal government and most states have consumer protection laws that have been the basis for investigations, lawsuits and multi-state settlements relating to, among other matters, the marketing of loyalty programs and health care services, and financial incentives provided by drug manufacturers to pharmacies in connection with therapeutic interchange programs. In addition, the FTCA bars unfair methods of competition and unfair or deceptive acts or practices in or affecting commerce. The Federal Postal Service Act generally prohibits the mailing of, and billing for, unordered merchandise. The FTC's Telemarketing Sales Rule also imposes extensive requirements and restrictions in connection with telemarketing of plans or programs that encourage the purchase of goods or services by consumers (See the "Telemarketing and Other Outbound Contacts" section below for further disclosures.).

Contract Audits - We are subject to audits of many of our contracts, including our PBM client contracts, our PBM rebate contracts, our pharmacy provider agreements and our contracts relating to Medicare Part D. Audits are typically conducted pursuant to certain provisions in our PBM contracts and provider agreements that grant audit rights and set forth applicable audit procedures. 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. The audits generally focus on, among other things, compliance with the applicable terms of our contracts and applicable legal requirements.

Disease Management Services Regulation - We provide disease management programs to PBM plan members for rare medical conditions and arrange for them to receive disease management programs for common medical conditions. Nurses, pharmacists and other clinicians, as needed, develop and implement these programs. State laws regulate the practice of medicine, the practice of pharmacy and the practice of nursing, and clinicians engaged in a professional practice must satisfy applicable state licensing requirements.

Electronic Prescribing - The federal government has implemented different programs to promote electronic prescribing, including the eRx Incentive Program established under the Medicare Improvements for Patients and Providers Act of 2008, which provides a combination of incentive payments and payment adjustments through 2014 to eligible professionals who are successful electronic prescribers. While this program sunsets after 2014, the American Recovery and Reinvestment Act of 2009 ("ARRA") established an incentive program for eligible professionals and hospitals participating in the Medicare or Medicaid program that adopt and meaningfully use certified electronic health records ("EHR") technology beginning in 2011. ARRA also provides for downward payment adjustments beginning in 2015 for eligible professionals in the Medicare program that fail to adopt and meaningfully use certified EHR technology such as electronic prescribing. A final rule implementing the Stage 1 criteria that eligible professionals must meet in order to qualify for Medicare and/or Medicaid EHR incentive payments was issued in July 2010 and requires that at least 40% of permissible prescriptions be sent electronically in order to qualify for the incentive payments. The final rule specifying the Stage 2 criteria was issued in September 2012 which, among other things, requires that more than 50 percent of all permissible prescriptions written by an eligible professional be queried for a drug formulary and transmitted electronically using a certified EHR technology. In March 2010, the U.S. Drug Enforcement Administration ("DEA") issued an interim final rule allowing electronic prescribing of controlled substances beginning June 1, 2010. These changes, together with the requirement for Medicare Part D plans to support electronic prescribing, should result in a growing number of prescribers adopting electronic prescribing.

Environmental Regulation - Our business is subject to various federal, state and local laws, regulations and other requirements pertaining to protection of the environment and public health, including, for example, regulations governing the management of waste materials and waste waters. Governmental agencies on the federal, state and local levels have, in recent years, increasingly focused on the retail sector's compliance with such laws and regulations, and have at times pursued enforcement activities. There is also an increased interest by regulators in better managing photo processing as well as pharmaceutical and other wastes. Our retail pharmacies have been subject to various state environmental

agency enforcement actions, and we periodically receive information requests and notices of potential noncompliance with environmental laws and regulations from governmental agencies.

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. We and other PBMs have been named in lawsuits alleging that we act as a fiduciary, as such term is defined by ERISA, with respect to health benefit plans and that we have breached certain fiduciary obligations under ERISA.

Table of Contents

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

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

Most pension and welfare plans subject to ERISA are required to report to the DOL compensation paid to service providers. In addition, the DOL announced a project in 2009 to promulgate regulations under ERISA that could require service providers, including PBMs, to provide detailed disclosure regarding all direct and indirect compensation to be received in connection with the services provided as well as potential conflicts of interest. The DOL issued supplemental "frequently asked questions" in 2010 that specifically addressed PBM disclosure of certain compensation, including: (i) fees for services, such as dispensing fees and administrative fees, which are reportable as direct compensation, and (ii) discounts and rebates received by PBMs from pharmaceutical companies, which pending further guidance from the DOL generally do not need to be treated as reportable indirect compensation. In February 2012, the DOL issued final regulations that impose numerous disclosure requirements on service providers and provide that contracts or arrangements with service providers will not be considered "reasonable" under ERISA unless the required disclosures are made. The required disclosures must be timely made to plan fiduciaries and must include, among other things, a description of the services provided, a description of direct and indirect compensation for the services and a description of the compensation expected to be received upon termination of the contract or arrangement.

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

False Claims and Fraudulent Billing Statutes - A range of federal civil and criminal laws target false claims and fraudulent billing activities. One of the most significant of these laws is the FCA, which prohibits the submission of a false claim or the making of a false record or statement in order to secure reimbursement from, or limit reimbursement to, a government-sponsored program. The Fraud Enforcement and Recovery Act of 2009 ("FERA") implemented substantial changes to the FCA which expand the scope of FCA liability, provide for new investigative tools and make it easier for *qui tam* relators (often referred to as "whistleblowers") to bring and maintain FCA suits on behalf of the government. ACA further eased the burden for whistleblowers to bring and maintain FCA suits by modifying the "public disclosure" and "original source" provisions of the FCA. Some states have passed substantially similar acts. In recent years, federal and state governments have launched several initiatives aimed at uncovering practices that violate false claims or fraudulent billing laws. FERA also expanded the FCA to cover improperly avoiding an obligation to pay money to the government, and ACA clarified that the retention of overpayments beyond the repayment deadline is a violation of the FCA. In addition, ACA provides that a violation of the federal anti-remuneration law constitutes a false or fraudulent act under the FCA and expands the jurisdiction of the FCA to the health insurance exchanges to be created under ACA. ACA also provides for the imposition of civil monetary penalties for knowingly making or causing to be made any false or fraudulent record or statement material to a false or fraudulent claim for payment under a government-sponsored program, for knowingly failing to report and return an overpayment, and for false statements in provider enrollment applications. The Federal Deficit Reduction Act of 2005 ("DRA"), for example, requires certain entities that receive or make annual Medicaid payments over a certain amount to provide their employees and certain contractors and agents with certain information regarding the federal and state false claims acts, whistleblower protections, and the entity's processes for detecting and preventing fraud, waste and abuse. Claims under these laws may be brought either by the government or by private individuals on behalf of the government through a *qui tam* or "whistleblower" action, as discussed in more detail elsewhere in this Government Regulation section. In recent years, federal and state government authorities have launched several initiatives aimed at uncovering practices that violate false claims or fraudulent billing laws, and they have conducted numerous investigations of pharmaceutical manufacturers, PBMs, pharmacies and health care providers with respect to false claims, fraudulent billing and related matters. See Item 3, "Legal Proceedings" for further information.

Table of Contents

FDA Regulation - The United States Food and Drug Administration ("FDA") generally has authority to regulate drugs, drug classifications and

drug promotional information and materials that are disseminated by a drug manufacturer or by other persons on behalf of a drug manufacturer. The FDA also has the regulatory authority over many of the products sold through retail pharmacies, including certain food items, cosmetics, dietary supplements and over-the-counter ("OTC") medications. We previously operated a FDA-regulated repackaging facility where we repackaged certain drugs into the most common prescription quantities dispensed from our mail service pharmacies, but we closed this repackaging facility in April 2010. The FDA also may inspect facilities in connection with procedures implemented to effect recalls of prescription drugs or other FDA-regulated products, as well as procedures to comply with food safety regulations. In addition, the FDA has authority to require the submission and implementation of a risk evaluation and mitigation strategy ("REMS") if the FDA determines that that a REMS is necessary for the safe and effective marketing of a drug. To the extent we dispense products subject to REMS requirements or provide REMS services to pharmaceutical manufacturers, we are subject to audit by the FDA and the pharmaceutical manufacturer. The FDA also has regulatory authority over medical devices such as OTC genetic tests and genetic tests conducted by medical laboratories, and the FDA continues to evaluate the need for further regulation of such tests.

Federal Employee Health Benefits Program - We have a contractual arrangement with the BlueCross BlueShield Association ("BCBSA") to provide pharmacy services to federal employees, postal workers, annuitants, and their dependents under the Government-wide Service Benefit Plan, as authorized by the Federal Employees Health Benefits Act ("FEHBA") and as part of the Federal Employees Health Benefits Program ("FEHBP"). This arrangement subjects us to FEHBA, FEHBA regulations, including the Federal Employees Health Benefits Acquisition Regulation, the Office of Personnel Management guidelines, and certain Federal Acquisition Regulations. These laws, regulations and guidelines govern the process by which the federal government contracts with health insurance carriers, such as BCBSA, that participate in the FEHBP, and obligate such health insurance carriers to impose various contractual requirements on their contract vendors, including, among other things, requirements relating to transparency, performance standards, drug interchanges, patient safety, consumer access, coordination of benefits, pricing adjustments, recordkeeping and audits.

Formulary Regulation - A number of states regulate the administration of prescription drug benefits. For example, some states have passed laws mandating coverage for off-label uses of drug products where those uses are recognized in peer-reviewed medical journals or reference compendia. Other states have enacted laws that regulate the development and use of formularies by insurers, MCOs and other third party payors. These laws have included requirements on the development, review and update of formularies, the role and composition of pharmacy and therapeutics committees, the disclosure of formulary information to health plan members, and a process for allowing members to obtain non-preferred drugs without additional cost-sharing when they are medically necessary and are determined to be clinically appropriate. Additionally, the National Association of Insurance Commissioners ("NAIC") has developed a model law, the "Health Carriers Prescription Drug Benefit Management Model Act," that addresses formulary regulation issues for risk-bearing entities regulated by state insurance commissioners and could form the basis of state legislation. The MMA also regulates how formularies are developed for and administered to beneficiaries of Medicare Part D. In July 2008, Congress enacted the Medicare Improvements for Patients and Providers Act which requires the Secretary for HHS to identify certain classes and categories of drugs for which, subject to certain exceptions, all the drugs in any such class or category must be included in a Medicare Part D plan's formulary. ACA's Essential Health Benefits Rule will also regulate how prescription drugs are covered and how formularies are developed for and administered by state-based or federal health insurance exchanges established pursuant to ACA. These exchanges must begin enrolling consumers into coverage on October 1, 2013 and become fully operational on January 1, 2014. The increasing government regulation of formularies could significantly affect our ability to develop and administer formularies on behalf of our insurer, MCO and other clients.

Government Agreements and Mandates - Our PBM business is subject to the terms of a 2008 consent order entered into with a number of states impacting certain of our PBM business practices, including matters relating to our relationships with clients, pharmaceutical manufacturers, retail pharmacies, plan members, prescribers and pharmacists.

In March 2008, the Company entered into a settlement agreement with the federal government and a number of states related to the dispensing of the generic drug ranitidine at its retail pharmacies. At the same time, the Company entered into a corporate integrity agreement with the OIG for a period of five years applicable to certain retail and mail service operations of the Company. This 2008 corporate integrity agreement requires, among other things, maintenance of our compliance program, employee training, specific reviews by an independent review organization and various government reporting obligations. In April 2011, we entered into an amendment of the corporate integrity agreement in connection with the previously announced settlement of a federal and state government investigation of certain retail pharmacy billing practices with respect to "dual eligible" customers having both Medicaid coverage and other third-party insurance coverage. This amendment requires the Company to comply with the corporate integrity agreement, as amended, for a period of three years and further requires, among other things, additional employee training obligations, additional reporting obligations and periodic Medicaid billing reviews by an independent review organization. Failure to meet our obligations under this corporate integrity agreement, as amended, could result in stipulated financial penalties, and failure to comply with material terms could lead to exclusion of our applicable business from participation in federal health care programs.

Table of Contents

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

In October 2010, the Company entered into a non-prosecution agreement and civil settlement agreement with the U.S. Department of Justice ("DOJ") and various United States Attorneys' Offices relating to the sale and distribution of pseudoephedrine products at certain CVS/pharmacy stores, primarily in California and Nevada. The Company also entered into a related memorandum of agreement with the DEA. The non-prosecution agreement and the memorandum of agreement contain certain ongoing compliance requirements for the Company, and failure to comply with the

terms of these documents could lead to civil or criminal remedies, financial penalties and/or administrative remedies against the DEA registrations for our retail pharmacies and distribution centers.

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

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

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

Health Reform Legislation - Congress passed major health reform legislation in 2010 known as ACA. This legislation affects the entire health insurance system and virtually every aspect of health care in the country, although many provisions of ACA were not effective immediately. In addition to establishing the framework for every individual to have health coverage beginning in 2014, ACA enacted a number of significant health care reforms. While these reforms may not affect our business directly, they affect the coverage and plan designs that are or will be provided by many of our health plan clients. As a result, they could indirectly impact many of our services and business practices. Given that many of the regulations implementing ACA are still being finalized and that ongoing sub-regulatory guidance is still being issued, there is considerable uncertainty as to its full impact.

Among the more significant ACA provisions is the requirement for health insurers to meet a minimum medical loss ratio ("MLR") to avoid having to pay rebates to enrollees. The MLR requires insurers to break out clinical, quality improvement and administrative costs. HHS issued an interim final regulation on the MLR in December 2010 that includes an example that could be interpreted to suggest that the differential between the drug price charged by PBMs to health plans and the amount reimbursed to retail pharmacies (commonly referred to as "differential" or "spread") should be excluded from claims costs. Subsequent sub-regulatory guidance remained consistent with this interpretation, although it made clear that clinical services performed by a PBM could be included in claims costs. Health plan clients that are subject to the MLR requirements may request pricing modifications, include requests to contract with our PBM using pass-through retail network pricing.

Another ACA provision requires PBMs that contract with a Medicare Part D plan or a qualified health plan offered through a health insurance exchange to disclose certain information to HHS, the Medicare Part D plan or the health insurance exchange. Among the information that must be disclosed is the generic dispensing rate for different types of pharmacies, the aggregate amount and types of rebates and other discounts negotiated on behalf of, and passed through to, the plan, and the aggregate amount of any differential. A final rule requiring this reporting for Medicare Part D was issued in April 2012 and reporting for qualified health plans is expected in 2014 upon the implementation of the health insurance exchanges to be established under ACA. ACA also increases the obligations of Part D plan sponsors to report rebates and other price concessions from pharmaceutical manufacturers to enable calculation of new annual fees being imposed on pharmaceutical manufacturers related to branded drug sales. ACA also made significant changes to the

Medicare and Medicaid programs, fraud and abuse laws and tax provisions, some of which are discussed elsewhere in this Government Regulation section.

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. Some of these initiatives would, among other things: (i) require that health plan members have greater access to drugs not included on a plan's formulary; (ii) give health plan members the right to sue their health plans for malpractice if they have been denied care; and/or (iii) mandate the content of the appeals or grievance process when a health plan member is denied coverage. Both the scope of the managed care reform proposals considered by state legislatures and reforms enacted by states to date vary greatly, and the scope of future legislation that may be enacted is uncertain.

Medicare Part D - The MMA created Medicare Part D, the Medicare drug benefit program, in January 2006. Medicare beneficiaries entitled to Medicare benefits under Part A or enrolled in Medicare Part B are eligible for drug coverage under Medicare Part D. Regulations implementing Medicare Part D included requirements relating to developing and administering formularies, establishing pharmacy networks, marketing of Medicare Part D plans, processing and adjudicating claims at point of sale and compliance with electronic prescribing standards. The Medicare Part D program has undergone significant legislative and regulatory changes since its inception, including changes made by ACA. Effective for the 2010 plan year, CMS issued a regulation requiring that any "differential" or "spread" be reported as an administrative cost rather than a drug cost of the plan sponsor for purposes of calculating certain government subsidy payments and the drug price to be charged to enrollees. This change resulted in Medicare Part D plan sponsors contracting for pass-through pricing for their retail networks rather than pricing that included the use of retail network "differential" or "spread".

ACA expanded the Medicare Part D benefit effective for the 2011 plan year by implementing the coverage gap discount program under which

participating manufacturers fund discounts of 50% on brand drugs obtained during the coverage gap or "donut hole," and starting the phase-out of the coverage gap for generic drugs, which is to be completed by 2020.

ACA also requires the Secretary of HHS to develop rules for shorter dispensing periods for enrollees in long-term care facilities in order to reduce waste. Several of the ACA changes will require significant adjudication and reporting systems modifications. In April 2012, CMS issued a final rule on Medicare Part D that, among other things, would establish a daily cost sharing rate as a form of drug utilization management and certain fraud, waste and abuse controls. The rule also permits CMS to terminate a Medicare Part D sponsor's contract if it fails to achieve at least a 3-star plan rating for three consecutive years. Finally, the rule provides that, beginning on January 1, 2013, employer group waiver plan ("EGWP") supplemental benefits to basic Medicare Part D coverage must be treated as other health or prescription drug coverage and a non-Medicare benefit. CMS has since announced that it is delaying the implementation of this change in the definition of Medicare Part D supplemental benefits until 2014 in order to develop guidance to address the policy implications of this change, including the applicability of other state and federal laws.

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

Mental Health Parity Legislation - The Paul Wellstone and Pete Domenici Mental Health Parity and Addiction Equity Act of 2008, and its implementing regulations require group health plans that provide both medical/surgical benefits and mental health or substance abuse disorder benefits to ensure that the financial requirements and treatment limitations that apply to the mental health and substance abuse disorder benefits are no more restrictive than those that apply to the medical/surgical benefits. While the implementing regulations contain a special rule allowing for "multi-tiered prescription drug benefits" that meet certain conditions, there is considerable uncertainty regarding the application of this rule. This has caused some group health plans to consider dropping mental health benefits, including drugs that treat these conditions, to avoid being found in violation of the regulation.

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

Table of Contents

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

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

In addition, certain quasi-regulatory organizations, including the National Association of Boards of Pharmacy and the NAIC have issued model regulations or may propose future regulations concerning PBMs and/or PBM activities. Similarly, credentialing organizations such as the National Committee for Quality Assurance and the Utilization Review Accreditation Commission ("URAC") may establish voluntary standards regarding PBM or specialty pharmacy activities. For example, URAC has issued PBM accreditation standards for PBMs serving the commercially insured market, and Caremark is currently accredited as a PBM by URAC. 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.

In addition to state statutes and regulations, we are also subject to state common laws to the extent applied to PBMs through judicial interpretation or otherwise. Potential common law claims could involve, for example, breach of fiduciary duty, constructive fraud, fraud or unjust enrichment.

Pharmacy and Professional Licensure and Regulation - We are subject to state and federal statutes and regulations governing the operation of retail and mail pharmacies, the transfer of prescriptions, repackaging of drug products, wholesale distribution, dispensing of controlled substance and listed chemical products, and medical and controlled substance waste disposal. Federal and state statutes and regulations govern the labeling,

packaging, advertising and adulteration of prescription drugs and the dispensing of controlled substances, and some state regulations require compliance with standards established by the United States Pharmacopeia with respect to the packaging, storing and shipping of pharmaceuticals. Federal and state controlled substance laws require us to register our pharmacies and distribution centers with the DEA and state controlled substances agencies and to comply with security, recordkeeping, inventory control, personnel and labeling standards in order to possess and dispense controlled substances and listed chemical products.

We also are subject to regulation by the DEA and state pharmacy boards in connection with our online pharmacies because we dispense prescription drugs pursuant to refill orders received through our Internet websites, among other methods. Numerous state laws also exist affecting our receipt and processing of electronic prescription drug orders.

Certain violations of the federal controlled substances laws can subject the Company, its pharmacies and distribution centers, and individual pharmacy personnel to criminal and civil penalties and can also result in administrative action by the DEA, including suspension or revocation of a pharmacy's or distribution center's registration to distribute controlled substances and/or listed chemical products. State authorities and state boards of pharmacy similarly have the authority to impose both monetary penalties and disciplinary sanctions, including revocation of a pharmacy's or individual pharmacist's license to dispense controlled substances, and these penalties and sanctions are in addition to sanctions imposed under the federal controlled substances laws. Certain violations of these federal and state legal requirements can also trigger other consequences for the Company's business and could potentially impact our eligibility to participate in federal health care programs.

Other statutes and regulations may affect our mail service operations. For example, the FTC requires mail service sellers of goods generally to engage in truthful advertising, to stock a reasonable supply of the products to be sold, to fill mail service orders within thirty days and to provide clients with refunds when appropriate. In addition, the United States Postal Service and the Department of Transportation each has regulatory authority to restrict the transmission of drugs and medicines through the mail or in commerce, and state licensing authorities may restrict the types of personnel who may work in mail service operations.

Our pharmacists, technicians and certain other health care professionals are subject to state regulation of their profession, and our employees who are engaged in a professional practice must satisfy applicable state licensing or registration requirements and comply with applicable professional standards. In addition, they must comply with any applicable federal or state requirements for participation in government-sponsored health care programs. Failure to comply with these requirements could subject us and our

employees to disciplinary action, including fines, penalties or sanctions, could impact our ability to obtain or retain reimbursement for services provided to participants of government-sponsored health care programs and/or could cause our licenses and permits and our employees' licenses to be suspended or revoked.

Plan Design Legislation - Some states have enacted legislation that prohibits a health plan sponsor from implementing certain restrictive design features, and many states have introduced legislation to regulate various aspects of managed care plans, including provisions relating to pharmacy benefits. For example, some states have adopted "freedom of choice" legislation, which provides that: (i) members of a plan may not be required to use network providers but must instead be provided with benefits even if they choose to use non-network providers or (ii) a plan member may sue his or her health plan if care is denied. Various states have enacted, or have considered enacting, legislation regarding plan design mandates, including legislation that prohibits or restricts therapeutic interchange, requires coverage of all drugs approved by the FDA or prohibits denial of coverage for non-FDA approved uses. Some states mandate coverage of certain benefits or conditions, and ACA requires the coverage of certain preventive services at no cost sharing. Such legislation does not generally apply to us, but it may apply to certain of our clients (generally, MCOs and health insurers). Other states have enacted legislation purporting to prohibit health plans not covered by ERISA from requiring or offering members financial incentives for use of mail service pharmacies or for use of certain health care providers. Legislation imposing plan design mandates may apply to certain of our clients and could have the effect of limiting the economic benefits achievable through PBM services we provide.

Privacy and Confidentiality Requirements - Many of our activities involve the receipt, use and disclosure by us of personally identifiable information ("PII") as permitted in accordance with applicable federal and state privacy and data security laws, which require organizations to provide appropriate privacy protections and security safeguards for such information. In addition to PII, we use and disclose de-identified data for analytical and other purposes.

The federal Health Insurance Portability and Accountability Act of 1996 and the regulations issued thereunder (collectively "HIPAA") impose extensive requirements on the way in which health plans, health care providers, health care clearinghouses (known as "covered entities") and their business associates use, disclose and safeguard protected health information ("PHI"). HIPAA also gives individuals certain rights with respect to their PHI. For most uses and disclosures of PHI other than for treatment, payment, health care operations or certain public policy purposes, HIPAA generally requires that covered entities obtain the individual's written authorization. Criminal penalties and civil sanctions may be imposed for failing to comply with HIPAA standards.

In January 2013, HHS issued a final Omnibus Rule to covered the rulemaking required by the Health Information Technology for Economic and Clinical Health Act (the "HITECH Act"), enacted as part of ARRA, to address significant changes to the HIPAA privacy and security rules. The rule addresses restrictions on the use of PHI without an individual's written authorization, requirements to update a covered entity's notice of privacy practices, a requirement to account for routine disclosures of PHI held in an electronic health record, a requirement to notify individuals of breaches to their PHI, requirements limiting how a covered entity may receive financial remuneration to make communications to patients, requirements to enforce HIPAA Privacy and Security Rules on business associates and their subcontractors, enforcement rights of state attorneys general, extension of the federal privacy and security law provisions and penalties to business associates of covered entities, and increased

penalties for violation of the law. The effective date of this new rule is March 26, 2013, and covered entities and business associates must comply with the applicable requirements by September 23, 2013. This rule did not address changes to the requirements surrounding the accounting of disclosures to an individual of all internal uses and disclosures of electronic PHI, which were previously addressed in the May 2011 Notice of Proposed Rulemaking ("NPRM"). If HHS adopts the NPRM as currently written, it could generate substantial burdens and costs for the Company and our business associates to implement fully. Nevertheless, since the Omnibus Rule has just been issued and the NPRM is not in final form, we cannot at this time determine the full extent to which these changes may apply to, or impact, our business.

In addition to HIPAA, most states have enacted health care information confidentiality laws which limit the disclosure of confidential medical information. These state laws supersede HIPAA to the extent they are more protective of individual privacy than is HIPAA. Most states have also enacted legislation and regulations governing the security of PII and specifying notification requirements for any security breaches involving PII.

The Genetic Information Nondiscrimination Act ("GINA") was signed into law in May 2008, and proposed and interim final regulations were issued under it in 2009 and 2010. GINA prohibits discrimination based on genetic information in health coverage (Title I) and employment (Title II). Under GINA, health plans are not permitted to use or disclose genetic information for underwriting purposes, which includes eligibility determinations. They also may not collect genetic information, such as by requiring genetic testing, except in very limited circumstances.

In March 2012, the FTC issued a final report setting forth best practices for businesses to protect the privacy of consumers and to give them greater control over the collection and use of PII. In this report, the FTC recommends that companies handling consumer data implement measures to increase the security of PII, to enable consumers to choose how their PII is shared and to promote transparency

Table of Contents

about how PII is collected and used. The report also recommends that Congress enact additional privacy-related legislation, even though it has not yet done so.

Reimbursement - A significant portion of our net revenue is derived directly from Medicare, Medicaid and other government-sponsored health care programs, and we are therefore subject to, among other laws and regulations, federal and state reimbursement laws and regulatory requirements, anti-remuneration laws, the Stark Law and/or federal and state false claims laws. (See the "Self-Referral Laws" section below for explanation of the Stark Law.) Sanctions for violating these federal and/or state laws may include, without limitation, recoupment or reduction of government reimbursement amounts, criminal and civil penalties and exclusion from participation in Medicare, Medicaid and other government health care programs. Also, we provide products and services to managed care entities that provide services to beneficiaries of Medicare, Medicaid and other government-sponsored health care programs, as well as employers and other entities that qualify for the Medicare Part D drug subsidy and/or the early retiree reinsurance program created under ACA. Some of these federal and state laws and regulations impose requirements on our PBM and our retail pharmacies to coordinate benefits among private health plans and government-sponsored health care programs when a customer or plan member has benefits coverage through more than one insurance company or other payor. In addition, our PBM has contractual agreements to process, on behalf of PBM clients, reimbursement claims submitted by or on behalf of federal and state government agencies following payment by the government agencies of claims that should have been submitted by members to private health plans as the primary source of benefits coverage. These claims are commonly known as "pay and chase" claims, and we and our PBM clients are subject to federal and state laws and regulations impacting how these claims are processed and reimbursed. See Item 3, "Legal Proceedings," for further information.

The federal government and numerous state governments have given increased attention to how pharmaceutical manufacturers develop and report pricing information, which, in turn, is used in setting payments under the Medicare and Medicaid programs. One element common to most payment formulas, Average Wholesale Price ("AWP"), has come under criticism for allegedly inaccurately reflecting prices actually charged and paid at the wholesale level. The calculation and reporting of AWP have been the subject of investigations by federal and state governments and litigation brought against pharmaceutical manufacturers and data services that report AWP. We are not responsible for calculations, reports or payments of AWP; however, such investigations or lawsuits could impact our business because many of our client contracts, pharmaceutical purchase agreements, retail network contracts and other agreements use AWP as a pricing benchmark. In conjunction with a class action settlement implemented in September 2009 involving First DataBank ("FDB") and Medi-Span, two entities that publish the AWP of pharmaceuticals, the methodology used to calculate AWP was modified in a manner that reduced AWP for many brand drugs and some generic drugs. We have reached understandings with most of our PBM clients and other third party payors to adjust reimbursements to account for this change in methodology, but most state Medicaid programs that utilize AWP as a pricing reference have not taken action to make similar adjustments. As a result, we have experienced reduced Medicaid reimbursement for certain products since the settlement was implemented. In addition, FDB discontinued the publishing of AWP in September 2011. Although Medi-Span continues to publish AWP, it is possible that the pharmaceutical industry may evaluate and/or develop an alternative pricing reference to replace AWP. We will continue to work with our PBM clients and other payors to anticipate and mitigate the impact of possible future changes to applicable references for pricing pharmaceuticals. AWP has already been replaced by Average Sales Price ("ASP") as the basis for reimbursing physicians, and sometimes pharmacies, for outpatient prescription drugs under Medicare Part B.

The federal Medicaid rebate program requires participating drug manufacturers to provide rebates on all drugs purchased by state Medicaid programs. Investigations have commenced by certain governmental entities that question whether the best price available to essentially any client other than the Medicaid program, or "best price," was properly calculated, reported and paid by the manufacturers to the Medicaid programs. We are not responsible for calculations, reports or payments of "best price"; however, these investigations could impact our ability to negotiate rebates from drug manufacturers. ACA increased the amount of rebates required to be paid by manufacturers under the Medicaid program and also imposes certain annual fees on pharmaceutical manufacturers. We do not anticipate the increased Medicaid rebate levels or the annual fees to impact the discounts we obtain from pharmaceutical companies.

ACA made several other significant changes to the Medicaid rebates and to reimbursement. One of these was to revise the definition of Average Manufacturer Price ("AMP") and the reimbursement formula for multi-source (i.e., generic) drugs, which is based on Federal Upper Limits ("FUL") established by CMS. In February 2012, CMS issued a proposed rule to interpret and implement these changes. CMS is proposing to set the FUL for multi-source drug reimbursement at 175% of AMP. The FUL would be established for each multi-source drug for which the FDA has rated three or more products therapeutically and pharmaceutically equivalent and would be based on the weighted average of the most recently reported monthly AMPs for such products. Among other things, the proposed CMS rule also proposes changes to Medicaid drug reimbursement payment methodologies and to Medicaid best price regulations. It is uncertain as to what extent these proposed changes may impact Medicaid reimbursement rates. CMS has stated that it intends to issue a final rule in 2013. Because of the proposed status of the rule, we cannot yet predict the impact of the proposed rule on the Company. CMS issued and solicited comments on a draft AMP-based FUL and draft three-month rolling average FUL files, and has stated that after it considers comments on these draft files and certain other draft drug pricing, it will release these data files in final form and post updated files on at least a monthly basis. These finalized files may then be used by states, depending on the

Table of Contents

approved state plan, to develop a pharmacy reimbursement methodology that will allow their pharmacy payments to remain within the FUL in the aggregate. CMS has not provided guidance on when the final FUL will be published.

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

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

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

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

Retiree Drug Subsidy - The MMA created a drug subsidy program available to certain employer, union and other group plans that provide retiree coverage to Medicare Part D eligible individuals that is at least equivalent to Medicare Part D coverage. The subsidy is equal to 28% of drug costs, and is currently tax-free. However, for plan years beginning in 2013, ACA eliminates the tax deductibility of the retiree drug subsidy payment received by sponsors of retiree drug plans. This may cause some employers to transition their retirees to employer-sponsored Medicare Part D plans.

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

Self-Referral Laws - The federal law commonly known as the "Stark Law" prohibits a physician from referring Medicare or Medicaid beneficiaries for "designated health services" (which include, among other things, outpatient prescription drugs, home health services and durable medical

equipment and supplies) to an entity with which the physician or an immediate family member of the physician has a "financial relationship" and prohibits the entity receiving a prohibited referral from presenting a claim to Medicare or Medicaid for the designated health service furnished under the prohibited referral. Possible penalties for violation of the Stark Law include denial of payment, refund of amounts collected in violation of the statute, civil monetary penalties and Medicare and Medicaid

program exclusion. The Stark Law contains certain statutory and regulatory exceptions for physician referrals and physician financial relationships, including certain physician consulting arrangements, fair market value purchases by physicians and, in certain cases, the provision of electronic prescribing technology to physicians.

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

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

During 2012, the Company offered PDPs through its SilverScript and Pennsylvania Life insurance subsidiaries. These insurance subsidiaries each must be licensed as a risk-bearing entity under applicable state laws or they must have obtained a waiver of the licensing requirement from CMS. Each of these subsidiaries is licensed in all states in which they offer PDPs and do not operate under any Medicare Part D waivers. As licensed insurance companies, they are subject to various state insurance regulations that generally require, among other things, maintenance of capital and surplus requirements, review of certain material transactions and the filing of various financial, licensing and operational reports. Pursuant to the MMA, state insurance licensing, insurance agent/broker licensure and solvency laws and regulations are generally applicable to PDPs, but the application of other state laws to Medicare Part D is generally preempted by Medicare Part D to the extent that Medicare Part D regulates the issue.

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

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

Telemarketing and Other Outbound Contacts - Certain federal and state laws give the FTC, Federal Communications Commission and state attorneys general law enforcement tools to regulate telemarketing practices and certain automated outbound contacts such as phone calls, texts or emails. These laws may, among other things, impose registration requirements, require disclosures of specific information, prohibit misrepresentations, limit when, where and how consumers may be contacted, require consumer consent prior to being contacted, require transmission of Caller ID information, prohibit certain abandoned outbound calls, prohibit unauthorized billing, set payment restrictions for the sale of certain goods and services, require the establishment of certain policies and training of personnel and require the retention of specific business records.

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

Whistleblower Statutes - Certain federal and state laws, including the FCA, contain provisions permitting the filing of *qui tam* or "whistleblower" lawsuits alleging violations of such laws. Whistleblower provisions allow private individuals to bring lawsuits on behalf of the federal or state government alleging that the defendant has defrauded the government, and there is generally no minimum evidentiary or legal threshold required for bringing such a lawsuit. These lawsuits are typically filed under seal with the applicable

Table of Contents

federal or state enforcement authority, and such authority is required to review the allegations made and to determine whether it will intervene in the lawsuit and take the lead in the litigation. If the government intervenes in the lawsuit and prevails, the whistleblower plaintiff filing the initial complaint may share in any settlement or judgment. If the government does not intervene in the lawsuit, the whistleblower plaintiff may pursue the action independently. Because a *qui tam* lawsuit typically is filed under seal pending a government review of the allegations, the defendant generally may not be aware of the lawsuit until the government determines whether or not it will intervene or until the lawsuit is otherwise unsealed, a process which may take years. See Item 3, "Legal Proceedings," for further information.

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

We can give no assurance, however, that our business, financial condition and results of operations will not be materially adversely affected, or that we will not be required to materially change our business practices, based on: (i) future enactment of new health care or other laws or regulations; (ii) the interpretation or application of existing laws or regulations, including the laws and regulations described in this Government Regulation section, as they may relate to our business, the pharmacy services, retail pharmacy or retail clinic industry or to the health care industry generally; (iii) pending or future federal or state governmental investigations of our business or the pharmacy services, retail pharmacy or retail clinic industry or of the health care industry generally; (iv) institution of government enforcement actions against us; (v) adverse developments in any pending *qui tam* lawsuit against us, whether sealed or unsealed, or in any future *qui tam* lawsuit that may be filed against us; or (vi) adverse developments in other pending or future legal proceedings against us or affecting the pharmacy services, retail pharmacy or retail clinic industry or the health care industry generally.

Available Information

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

Item 1A. Risk Factors

Our business is subject to various industry, economic, regulatory and other risks and uncertainties. Our business, financial position and results of operations could be materially adversely affected by any one or more of the following risk factors and by additional risks and uncertainties not presently known to us or that we currently deem to be immaterial:

The health of the economy in general and in the markets we serve.

Our business is affected by the economy in general, including changes in consumer purchasing power, preferences and/or spending patterns. These changes could affect drug utilization trends as well as the financial health and number of covered lives of our PBM clients, resulting in an adverse effect on our business and financial results.

Although a recovery might be underway, it is possible that a worsening of the economic environment will cause 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.

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 the Company's efforts to negotiate reduced acquisition costs of generic pharmaceuticals with manufacturers. However, in recent years, there has been significant consolidation within the generic manufacturing industry, and it is possible that this dynamic may enhance

Table of Contents

the ability of manufacturers to sustain or increase pricing of generic pharmaceuticals and diminish the ability of the Company to negotiate reduced acquisition costs.

In addition, during the past several years, the U.S. health care industry has been subject to an increase in governmental regulation at both the federal and state levels. Efforts to control health care costs, including prescription drug costs, are underway at the federal and state government levels. Changing political, economic and regulatory influences may significantly affect health care financing and reimbursement practices.

ACA made several significant changes to Medicaid rebates and to reimbursement. One of these changes was to revise the definition of AMP and the reimbursement formula for multi-source (i.e., generic) drugs. In February 2012, CMS issued a proposed rule to interpret and implement these changes. Among other things, the proposed CMS rule also proposes changes to Medicaid drug reimbursement payment methodologies and to Medicaid best price regulations, and the extent to which these proposed changes may impact Medicaid reimbursement rates remains uncertain. CMS has stated that it intends to issue a final rule in 2013. Because of the proposed status of the rule, we cannot yet predict its impact on the Company. 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 MLR to avoid having to pay rebates to enrollees. These ACA changes may not affect our business directly, but they could indirectly impact our services and/or business practices.

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

Our PBM business generates net revenues primarily by contracting with clients to provide prescription drugs and related health care services to plan members. PBM client contracts often have terms of approximately three years in duration, so approximately one third of a PBM's client base typically is subject to renewal each year. In some cases, however, PBM clients may negotiate a shorter or longer contract term or may require early or periodic renegotiation of pricing prior to expiration of a contract. Therefore, we face challenges in competing for new PBM business and retaining or renewing PBM business. None of our PBM clients represented more than 10% of our Company's consolidated revenues in 2012. There can be no assurance that we will be able to win new business or secure renewal business on terms as favorable to the Company as the present terms.

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

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

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

We dispense significant volumes of brand-name and generic drugs from our retail and mail-order pharmacies and through our network of retail pharmacies. When increased safety risk profiles or manufacturing or other supply issues of specific drugs or classes of drugs occur, physicians may cease writing prescriptions for these drugs or the utilization of these drugs may be otherwise reduced. Additionally, adverse publicity regarding drugs with higher safety risk profiles may result in reduced consumer demand for such drugs. On occasion, products are withdrawn by their manufacturers or transition to over-the-counter products, which can result in changes in 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 market changes.

Risks of declining gross margins in the PBM industry.

The PBM industry has been experiencing margin pressure as a result of competitive pressures and increased client demands for lower prices, enhanced service offerings and/or higher service levels. In that regard, our Company maintains contractual relationships with generic pharmaceutical manufacturers and brand name pharmaceutical manufacturers that provide for purchase discounts and/or rebates on drugs dispensed by pharmacies in our 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. Competitive pressures in the PBM industry have caused the Company's PBM and other PBMs to share with clients a larger portion of rebates and/or discounts received from pharmaceutical manufacturers. In addition, market dynamics and regulatory changes have impacted our ability to offer plan sponsors pricing that includes the use of retail "differential" or "spread", which could negatively impact our future profitability. Further, changes in existing federal or state laws or regulations or the adoption of new laws or regulations relating to patent term extensions, purchase discount and rebate arrangements with pharmaceutical manufacturers, or to formulary management or other PBM services could also reduce the discounts or rebates we receive. Our Retail Pharmacy Segment has also been impacted by the margin pressures described above.

Table of Contents

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

Since its inception in 2006, Medicare Part D has resulted in increased utilization and decreased pharmacy gross margin rates as higher margin business, such as cash and state Medicaid customers, migrated to Medicare Part D coverage. Further, as a result of Medicare Part D and as a result of the expected elimination in 2013 of the tax deductibility of the retiree drug subsidy payment received by sponsors of retiree drug plans, our PBM clients could decide to discontinue providing prescription drug benefits to their Medicare-eligible members. To the extent this occurs, the adverse effects of increasing customer migration into Medicare Part D may outweigh the benefits we realize from growth of our Medicare Part D business. In addition, if the cost and complexity of Medicare Part D exceed management's expectations or prevent effective program

implementation or administration; if changes to the regulations regarding how drug costs are reported for Medicare Part D and retiree drug subsidy purposes are implemented in a manner that impacts the profitability of our Medicare Part D business; if the government alters Medicare program requirements or reduces funding because of the higher-than-anticipated cost to taxpayers of Medicare Part D or for other reasons; if we fail to design and maintain programs that are attractive to Medicare participants; if CMS imposes sanctions or other 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 sanctions or other restrictions that may be imposed by CMS; if we fail to effectively integrate and operate the Medicare Part D businesses we have acquired; or if we are not successful in retaining enrollees, or winning contract renewals or new contracts under Medicare Part D's competitive bidding process, our Medicare Part D services and the ability to expand our Medicare Part D services could be impacted.

Possible changes in industry pricing benchmarks.

Implementation of the FDB and Medi-Span settlements, described in the Government Regulation section, have resulted in changes in the methodology used to calculate 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. Following these settlements, FDB discontinued the publishing of AWP in September 2011. Although Medi-Span continues to publish AWP, it is possible that the pharmaceutical industry may evaluate and/or develop an alternative pricing reference to replace AWP. Future changes to the use of AWP or to other published pricing benchmarks used to establish pharmaceutical pricing, including changes in the basis for calculating reimbursement by federal and state health programs and/or other payors, could impact the reimbursement we receive from Medicare and Medicaid programs, the reimbursement we receive from PBM clients and other payors and/or our ability to negotiate rebates and/or discounts with pharmaceutical manufacturers, wholesalers, PBMs and retail pharmacies. The effect of these possible changes on our business cannot be predicted at this time.

An extremely competitive business environment.

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

As a pharmacy retailer, we compete with other drugstore chains, supermarkets, discount retailers, independent pharmacies, membership clubs, Internet companies and retail health clinics, as well as other mail order pharmacies and PBMs. In that regard, many pharmacy benefit plans have implemented plan designs that mandate or provide incentives to fill maintenance medications through mail order pharmacies. To the extent this trend continues, our retail pharmacy business could be adversely affected (although the effect of this would likely be mitigated by an increase in our own mail order business and/or an increase in participation in our Maintenance Choice program). In addition, some of these competitors may offer services and pricing terms that we may not be willing or able to offer. Competition may also come from other sources in the future.

Competitors in the PBM industry (e.g., Express Scripts, Catamaran, OptumRx and Prime Therapeutics), include large, national PBM companies, PBMs owned by large national health plans and smaller standalone PBMs. Some of these competitors may offer services and pricing terms that we may not be willing or able to offer. In addition, competition may also come from other sources in the future.

Table of Contents

Reform of the U.S. health care system.

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

The 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.

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

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

Our business is subject to numerous federal, state and local laws and regulations. See "Business — Government Regulation." Changes in these regulations may require extensive system and operating changes that may be difficult to implement. Untimely compliance or noncompliance with applicable laws and regulations could adversely affect the continued operation of our business, including, but not limited to: imposition of civil or criminal penalties; suspension or disgorgement of payments from government programs; loss of required government certifications or approvals; loss of authorizations to participate in or exclusion from government reimbursement programs, such as the Medicare and Medicaid programs; or loss of registrations or licensure. The regulations to which we are subject include, but are not limited to: the laws and regulations described in the Government Regulation section; accounting standards; securities laws and regulations; tax laws and regulations; laws and regulations relating to the protection of the environment and health and safety matters, including those governing exposure to, and the management and disposal of, hazardous materials and wastes; and regulations of the FDA, the FTC, the DEA, and the Consumer Product Safety Commission, as well as state regulatory authorities, governing the sale, advertisement and promotion of products that we sell. In addition, our business interests outside of the United States are subject to the Foreign Corrupt Practices Act and other applicable domestic and international laws and regulations. We are also subject to the terms of various government agreements and mandates, including those described in the Government Regulation section. In that regard, our business, financial position and results of operations could be affected by existing and new government legislative and regulatory action, including, without limitation, any one or more of the following:

- federal and state laws and regulations governing the purchase, distribution, management, dispensing and reimbursement of prescription drugs and related services, whether at retail or mail, and applicable registration or licensing requirements;
- the effect of the expiration of patents covering brand name drugs and the introduction of generic products;
- the frequency and rate of approvals by the FDA of new brand-name and generic drugs, or of over-the-counter status for brand name drugs;
- FDA regulation affecting the retail or PBM industry;
- consumer protection laws affecting our health care services, our loyalty programs, the products we sell and/or the marketing of our goods and services;

- rules and regulations issued pursuant to HIPAA and the HITECH Act; and other federal and state laws affecting the collection, use, disclosure and transmission of health or other personal information, such as federal laws on information privacy precipitated by concerns about information collection through the Internet, state security breach laws and state laws limiting the use and disclosure of prescriber information;
- administration of Medicare Part D, including legislative changes and/or CMS rulemaking and interpretation;
- government regulation of the development, administration, review and updating of formularies and drug lists;
- federal, state and local waste management laws and regulations applicable to our business, including the management of pharmaceutical wastes and photo processing solutions, as well as the storage and transportation of hazardous materials;
- state laws and regulations establishing or changing prompt payment requirements for payments to retail pharmacies;
- impact of network access legislation, including "any willing provider" laws, on our ability to manage pharmacy networks;
- managed care reform and plan design legislation;
- insurance licensing and other insurance regulatory requirements applicable to offering Medicare Part D programs and services or other health care services; and
- direct regulation of pharmacies or PBMs by regulatory and quasi-regulatory bodies.

Risks related to litigation and other legal proceedings.

Pharmacy services and retail pharmacy are highly regulated and litigious industries. Our Company is currently subject to various litigation matters

and legal proceedings. As such, we refer you to Item 3. "Legal Proceedings" for additional information.

The foregoing is not a comprehensive listing and there can be no assurance that we have correctly identified and appropriately assessed all factors affecting the business. As such, we refer you to the "Management's Discussion and Analysis of Financial Condition and Results of Operations," which includes our "Cautionary Statement Concerning Forward-Looking Statements" at the end of such section of our Annual Report to Stockholders for the year ended December 31, 2012, which section is incorporated by reference.

Table of Contents

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 the Note "Leases" in our Annual Report to Stockholders for the year ended December 31, 2012, which section is incorporated by reference herein.

As of December 31, 2012, we owned approximately 5% of our 7,458 retail stores. Net selling space for our retail drugstores increased to 73.1 million square feet as of December 31, 2012. More than one third of our store base was opened or significantly remodeled within the last five years.

We own ten distribution centers located in Alabama, California, Hawaii, New York, Rhode Island, South Carolina, Tennessee and Texas and lease nine additional distribution facilities located in Arizona, Florida, Indiana, Michigan, New Jersey, Pennsylvania, Texas and Virginia. The 19 distribution centers total approximately 11.5 million square feet as of December 31, 2012.

As of December 31, 2012, we owned one mail service pharmacy located in Texas and leased five additional mail service pharmacies located in Florida, Hawaii, Illinois and Pennsylvania. We leased call centers located in Missouri, Pennsylvania, Tennessee and Texas. As of December 31, 2012, we also had 19 onsite pharmacy stores, which we leased, 31 specialty pharmacy stores, which we leased, and 12 specialty mail order pharmacies, one of which we owned.

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

In connection with certain business dispositions completed between 1991 and 1997, we continue to guarantee lease obligations for approximately 74 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 13 "Commitments and Contingencies" in our Annual Report to Stockholders for the year ended December 31, 2012, 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.

Table of Contents

The following is a breakdown by state, District of Columbia and Puerto Rico of our retail stores, onsite pharmacy stores, specialty pharmacy stores and specialty mail order pharmacies as of December 31, 2012:

	Retail Stores	Onsite Pharmacy Stores	Specialty Pharmacy Stores	Specialty Mail Order Pharmacies	Total
Alabama	152	—	1	—	153
Arkansas	1	—	—	—	1
Arizona	136	—	1	—	137
California	846	—	5	1	852
Colorado	—	—	1	—	1
Connecticut	145	1	—	—	146
Delaware	7	—	—	—	7
District of Columbia	58	—	1	—	59
Florida	715	—	3	1	719
Georgia	315	2	1	—	318
Hawaii	51	—	1	—	52
Iowa	13	2	—	—	15
Illinois	272	1	1	1	275
Indiana	294	—	—	—	294
Kansas	32	—	—	1	33

Kentucky	62	—	—	—	62
Louisiana	106	—	—	—	106
Maine	22	—	—	—	22
Maryland	170	1	—	—	171
Massachusetts	352	—	3	1	356
Michigan	248	1	—	1	250
Minnesota	55	1	—	—	56
Mississippi	48	—	—	—	48
Missouri	61	1	1	—	63
Montana	14	—	—	—	14
Nebraska	16	—	—	—	16
Nevada	86	—	—	—	86
New Hampshire	39	—	—	—	39
New Jersey	272	3	—	1	276
New Mexico	14	—	—	—	14
New York	463	—	2	—	465
North Carolina	308	—	1	1	310
North Dakota	6	—	—	—	6
Ohio	316	2	—	—	318
Oklahoma	46	—	—	—	46
Oregon	—	—	1	—	1
Pennsylvania	401	1	1	1	404
Puerto Rico	17	—	—	1	18
Rhode Island	60	—	1	—	61
South Carolina	195	—	1	—	196
Tennessee	133	1	1	1	136
Texas	551	1	3	1	556
Vermont	4	—	—	—	4
Virginia	266	—	—	—	266
Washington	—	—	1	—	1
West Virginia	49	—	—	—	49
Wisconsin	41	1	—	—	42
	7,458	19	31	12	7,520

Table of Contents

Item 3. Legal Proceedings

I. Legal Proceedings

1. Caremark (the term "Caremark" being used herein to generally refer to any one or more pharmacy benefit management subsidiaries of the Company, as applicable) is a defendant in a *qui tam* lawsuit initially filed by a relator on behalf of various state and federal government agencies in Texas federal court in 1999. The case was unsealed in May 2005. The case seeks monetary damages and alleges that Caremark's processing of Medicaid and certain other government claims on behalf of its clients (which allegedly resulted in underpayments from our clients to the applicable government agencies) on one of Caremark's adjudication platforms violates applicable federal or state false claims acts and fraud statutes. The United States and the States of Texas, Tennessee, Florida, Arkansas, Louisiana and California intervened in the lawsuit, but Tennessee and Florida withdrew from the lawsuit in August 2006 and May 2007, respectively. Thereafter, in 2008, the Company prevailed on several motions for partial summary judgment and, following an appellate ruling from the Fifth Circuit Court of Appeals in 2011 which affirmed in part and reversed in part these prior rulings, the claims asserted in the case against Caremark have been substantially narrowed. In December 2007, the Company received a document subpoena from the OIG within the HHS, requesting information relating to the processing of Medicaid and other government agency claims on a different adjudication platform of Caremark. The Company has been providing documents and other information in response to this request for information. The Company has been conducting discussions with the DOJ and the OIG regarding a possible settlement of these legal matters.

2. In April 2009, the State of Texas filed a purported civil enforcement action against Caremark for injunctive relief, damages and civil penalties in Travis County, Texas alleging that Caremark violated the Texas Medicaid Fraud Prevention Act and other state laws based on its processing of Texas Medicaid claims on behalf of PBM clients on one of Caremark's adjudication platforms. In September 2011, the Company prevailed on a motion for partial summary judgment against the State of Texas and narrowed the remaining claims in the lawsuit. In October 2009 and October 2010, the Company received civil investigative demands from the Office of the Attorney General of the State of Texas requesting, respectively, information produced under the OIG subpoena described above and other information related to the processing of Medicaid claims. These civil investigative demands state that the Office of the Attorney General of the State of Texas is investigating allegations currently pending under seal relating to two other adjudication platforms of Caremark. In January 2012, the parties filed joint motions with the Texas federal and state courts requesting that the lawsuits with the State of Texas be abated so that the parties can focus on completing settlement documentation relating to Caremark's processing of Texas Medicaid claims.

3. Caremark was named in a putative class action lawsuit filed in October 2003 in Alabama state court by John Lauriello, purportedly on behalf of participants in the 1999 settlement of various securities class action and derivative lawsuits against Caremark and others. Other

defendants include insurance companies that provided coverage to Caremark with respect to the settled lawsuits. The Lauriello lawsuit seeks approximately $3.2 billion in compensatory damages plus other non-specified damages based on allegations that the amount of insurance coverage available for the settled lawsuits was misrepresented and suppressed. A similar lawsuit was filed in November 2003 by Frank McArthur, also in Alabama state court, naming as defendants Caremark, several insurance companies, attorneys and law firms involved in the 1999 settlement. This lawsuit was stayed as a later-filed class action, but McArthur was subsequently allowed to intervene in the Lauriello action. 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 Procedure 23(b)(3) but denied their request that the class also be certified pursuant to Rule 23(b)(1). In addition, the August 15, 2012 Order appointed class representatives and class counsel. The defendants have filed a notice of appeal with the Alabama Supreme Court and the plaintiffs have filed a notice of cross-appeal. The proceedings in the trial court are stayed by statute pending a decision on the appeal and cross-appeal by the Alabama Supreme Court.

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

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

5. In November 2009, a securities class action lawsuit was filed in the United States District Court for the District of Rhode Island purportedly on behalf of purchasers of CVS Caremark Corporation stock between May 5, 2009 and November 4, 2009. The lawsuit names the Company and certain officers as defendants and includes allegations of securities fraud relating to public disclosures made by the Company concerning the PBM business and allegations of insider trading. In addition, a shareholder derivative lawsuit was filed in December 2009 in the same court against the directors and certain officers of the Company. A derivative lawsuit is a lawsuit filed by a shareholder purporting to assert claims on behalf of a corporation against directors and officers of the corporation. This lawsuit, which was stayed pending developments in the related securities class action, includes allegations of, among other things, securities fraud, insider trading and breach of fiduciary duties and further alleges that the Company was damaged by the purchase of stock at allegedly inflated prices under its share repurchase program. In January 2011, both lawsuits were transferred to the United States District Court for the District of New Hampshire. In June 2012, the court granted the Company's motion to dismiss the securities class action. The plaintiffs subsequently filed a notice of appeal of the Court's ruling on the motion to dismiss, and the appeal is pending. The derivative lawsuit will remain stayed pending the outcome of the appeal of the securities class action.

6. 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 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 continues to cooperate in the multi-state investigation.

7. In March 2010, the Company received a subpoena from the OIG requesting information about programs under which the Company has offered customers remuneration conditioned upon the transfer of prescriptions for drugs or medications to our pharmacies in the form of gift cards, cash, non-prescription merchandise or discounts or coupons for non-prescription merchandise. The subpoena relates to an investigation of possible false or otherwise improper claims for payment under the Medicare and Medicaid programs. The Company has been providing documents and other information in response to this request for information.

8. The Company received a subpoena from the SEC in February 2011 and has subsequently received additional subpoenas and other requests for information. The SEC's requests relate to, among other things, public disclosures made by the Company during 2009, transactions in the Company's securities by certain officers and employees of the Company during 2009 and the purchase accounting for the Longs Drug Stores acquisition. The Company has been providing documents and other information as requested by the SEC.

9. In January 2012, the United States District Court for the Eastern District of Pennsylvania unsealed a first amended *qui tam* complaint filed in August 2011 by an individual relator, who is described in the complaint as having once been employed by a firm providing pharmacy prescription benefit audit and recovery services. The complaint seeks monetary damages and alleges that Caremark's processing of

Medicare claims on behalf of one of its clients violated the federal false claims act. The United States, acting through the U.S. Attorney's Office in Philadelphia, Pennsylvania, declined to intervene in the lawsuit. Caremark filed a motion to dismiss the amended complaint and the DOJ filed a Statement of Interest with regard to Caremark's motion to dismiss. In December 2012, the court denied Caremark's motion to dismiss the amended complaint.

10. In January 2012, the Company received a subpoena from OIG requesting information about its Health Savings Pass program, a prescription drug discount program for uninsured or under insured individuals, in connection with an investigation of possible false or otherwise improper claims for payment involving HHS programs. In February 2012, the Company also received a civil investigative demand from the Office of the Attorney General of the State of Texas requesting a copy of information produced under this OIG subpoena and other information related to prescription drug claims submitted by our pharmacies to Texas Medicaid for reimbursement. The Company has been providing documents and other information in response to this request for information.

Table of Contents

11. A purported shareholder derivative action was filed on behalf of nominal defendant CVS Caremark Corporation against certain of the Company's officers and members of its Board of Directors. The action was originally filed in June 2012 and, after the court granted leave to amend the original filing, an amended complaint was filed in November 2012. The amended complaint alleges a single claim for breach of fiduciary duty relating to the Company's alleged failure to properly implement internal regulatory controls to comply with the Controlled Substances Act and the Combat Methamphetamine Epidemic Act.

12. 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 is cooperating and will be providing documents and other information in response to this request for information.

13. Effective January 15, 2013, CMS imposed intermediate sanctions on our SilverScript Medicare Part D PDP, consisting of immediate suspension of further plan enrollment and marketing activities. The sanctions relate to our compliance with certain Medicare Part D requirements and do not affect the enrollment status of our current PDP enrollees. CMS has granted a limited waiver of these sanctions to allow our PDP to continue to enroll eligible retirees of existing employer clients into our SilverScript plans and into employer group waiver plans to fulfill our commitments to implement and provide employer group waiver plan services. This limited waiver currently extends through April 30, 2013, and CMS has advised us that it will consider further extensions of the waiver on a rolling basis. At the beginning of the 2013 Medicare Part D plan year, the Company implemented an enrollment systems conversion process and other actions to consolidate our PDP plans. These consolidation efforts have impacted the enrollment and coverage determination services we provide to PDP enrollees. We are cooperating with CMS to address the service issues resulting from our plan consolidation efforts and to develop and implement a corrective action plan to resolve and remove the sanctions. We cannot predict how long the sanctions will remain in effect or the scope of corrective action or other remedial actions that CMS may require in order for the sanctions to be removed.

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

II. Environmental Matters

1. Item 103 of SEC Regulation S-K requires disclosure of certain environmental legal proceedings if management reasonably believes that the proceedings involve potential monetary sanctions of $100,000 or more. On January 24, 2013, the Company entered into Consent Orders with the State of Connecticut to resolve claims of alleged noncompliance with hazardous waste regulations by certain of the Company's stores in Connecticut. As part of this settlement, the company has agreed to pay $300,000 in civil penalties and $500,000 to fund supplemental environmental projects, and consented to injunctive provisions regarding future compliance with Connecticut waste laws.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents

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 15, 2013. 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 56, Senior Vice President and Chief Human Resources Officer of CVS Caremark Corporation since January 2010; Vice President, Human Resources of CVS Pharmacy, Inc. from September 2004 through December 2009.

Troyen A. Brennan, M.D., age 58, Executive Vice President and Chief Medical Officer of CVS Caremark Corporation since November 2008; Executive Vice President and Chief Medical Officer of Aetna, Inc. from February 2006 through November 2008; President and Chief Executive Officer of Brigham and Women's Physician Hospital Organization from 1997 through February 2006; also President and Chief Executive Officer of Brigham and Women's Physicians Organization from 2000 through February 2006.

Mark S. Cosby, age 54, Executive Vice President of CVS Caremark Corporation and President of CVS/pharmacy since September 2011; President of Stores of Macy's, Inc., a retail chain, from April 2009 through August 2011; President of Macy's East from April 2007 through March 2009; Executive Vice President of Real Estate and Development of Macy's from July 2006 through March 2007.

Laird K. Daniels, age 44, Senior Vice President and Controller and Chief Accounting Officer of CVS Caremark Corporation since January 2010; Vice President of Finance and Retail Controller of CVS Pharmacy, Inc. from May 2009 through December 2009; Vice President of Finance-Corporate Budgeting and Analysis of CVS Pharmacy, Inc. from November 2006 until April 2009.

David M. Denton, age 47, Executive Vice President and Chief Financial Officer of CVS Caremark Corporation since January 2010; Senior Vice President and Controller/Chief Accounting Officer of CVS Caremark Corporation from March 2008 until December 2009; Senior Vice President, Financial Administration of CVS Caremark Corporation and CVS Pharmacy, Inc. from April 2007 to March 2008.

Helena B. Foulkes, age 48, Executive Vice President and Chief Health Care Strategy and Marketing Officer of CVS Caremark Corporation since March 2011; Executive Vice President and Chief Marketing Officer of CVS Caremark Corporation from January 2009 through February 2011; Senior Vice President of Health Services of CVS Caremark Corporation from May 2008 through January 2009, and of CVS Pharmacy, Inc. from October 2007 through January 2009.

Steven J. Gold, age 53, Senior Vice President and Chief Information Officer for CVS Caremark Corporation since July 2012; Senior Vice President and Chief Information Officer of Avaya, Inc. from May 2010 through June 2012; Executive Vice President, Chief Information Officer and Chief Technology Officer of GSI Commerce, Inc. from February 2005 through April 2010.

J. David Joyner, age 48, Executive Vice President of CVS Caremark Corporation since March 2011 and Executive Vice President of Sales and Account Services, Caremark Pharmacy Services since March 2004.

Per G.H. Lofberg, age 65, Executive Vice President of CVS Caremark Corporation; Executive Vice President of CVS Caremark Corporation and President of Caremark Pharmacy Services from January 2010 through August 2012; President and Chief Executive Officer of Generation Health, Inc., a pharmacogenomics company, from November 2008 through December 2009; President and Chief Executive Officer of Merck Capital Ventures, LLC, a venture capital investment company focused on the pharmaceutical industry, from January 2001 through July 2008.

Table of Contents

Larry J. Merlo, age 57, President and Chief Executive Officer of CVS Caremark Corporation since March 2011; President and Chief Operating Officer of CVS Caremark Corporation from May 2010 through March 2011; President of CVS/pharmacy from January 2007 through August 2011; Executive Vice President of CVS Caremark Corporation from January 2007 through May 2010; Executive Vice President—Stores of CVS Corporation from April 2000 to January 2007; and Executive Vice President—Stores of CVS Pharmacy, Inc. from March 1998 to January 2007; also a director of CVS Caremark Corporation since May 2010.

Thomas M. Moriarty, age 49, Executive Vice President and General Counsel of CVS Caremark Corporation since October 2012; General Counsel of Celgene Corporation, a global biopharmaceutical company, from May 2012 through September 2012; General Counsel and Corporate Secretary of Medco Health Solutions, Inc., ("Medco"), a pharmacy benefit management company, from March 2008 through April 2012; also President of Global Pharmaceutical Strategies of Medco from March 2011 through April 2012; Senior Vice President, Pharmaceutical Strategies and Solutions of Medco from September 2007 through March 2011; and Senior Vice President, Business Development of Medco from August 2006 through March 2008.

Jonathan C. Roberts, age 57, Executive Vice President of CVS Caremark Corporation and President of Caremark Pharmacy Services since September 2012; Executive Vice President of CVS Caremark Corporation and Chief Operating Officer of Caremark Pharmacy Services from October 2010 through August 2011; Executive Vice President, Rx Purchasing, Pricing and Network Relations of CVS Caremark Corporation from January 2009 through October 2010; Senior Vice President and Chief Information Officer of CVS Caremark Corporation from May 2008 until January 2009, and of CVS Pharmacy, Inc. from January 2006 until January 2009.

Andrew J. Sussman, M.D., age 47, Senior Vice President and Associate Chief Medical Officer of CVS Caremark Corporation since March 2011 and President of MinuteClinic, L.L.C., the Company's retail-based health clinic subsidiary, since September 2009; Executive Vice President and Chief Operating Officer of the University of Massachusetts Memorial Medical Center, the major teaching affiliate of UMass Medical School, from May 2004 through August 2009.

Table of Contents

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	Fiscal Year
2012	High	$ 45.88	$ 46.93	$ 48.69	$ 49.80	$ 49.80
	Low	$ 41.01	$ 43.08	$ 43.65	$ 44.33	$ 41.01
	Cash dividends per common share	$ 0.16250	$ 0.16250	$ 0.16250	$ 0.16250	$ 0.65000
2011	High	$ 35.95	$ 39.50	$ 38.82	$ 41.35	$ 41.35
	Low	$ 32.08	$ 34.21	$ 31.30	$ 32.28	$ 31.30
	Cash dividends per common share	$ 0.12500	$ 0.12500	$ 0.12500	$ 0.12500	$ 0.50000

CVS Caremark has paid cash dividends every quarter since becoming a public company. Future dividend payments will depend on the Company's earnings, capital requirements, financial condition and other factors considered relevant by the Company's Board of Directors. As of February 8, 2013, there were 22,251 registered shareholders according to the records maintained by our transfer agent.

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

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

Pursuant to the authorization under the 2011 and 2012 Repurchase Programs, on September 19, 2012, the Company entered into a $1.2 billion fixed dollar accelerated share repurchase ("ASR") agreement with Barclays Bank PLC ("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 ASR agreement were placed into treasury stock.

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 2011 and 2012 Repurchase Programs. As of December 31, 2012, the 2011 Repurchase Program was complete and there remained approximately $4.7 billion available for future repurchases under the 2012 Repurchase Program.

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, 2012 through October 31, 2012	—	—	—	$ 4,998,170,756
November 1, 2012 through November 30, 2012	15,606,222	$ 46.07	15,606,222	$ 4,879,043,443
December 1, 2012 through December 31, 2012	4,490,900	$ 46.76	4,490,900	$ 4,669,070,943
	20,097,122		20,097,122	

Table of Contents

Item 6. Selected Financial Data

The selected consolidated financial data of CVS Caremark Corporation as of and for the periods indicated in the five-year period ended December 31, 2012 have been derived from the consolidated financial statements of CVS Caremark Corporation. The selected consolidated financial data should be read in conjunction with the consolidated financial statements and the audit reports of Ernst & Young LLP, which are incorporated elsewhere herein.

In millions, except per share amounts	2012(1) (5)	2011(1)	2010(1)	2009(1)	2008(1)
Statement of operations data:					

Net revenues	$ 123,133	$ 107,100	$ 95,778	$ 98,215	$ 87,005
Gross profit	22,506	20,561	20,219	20,358	18,272
Operating expenses	15,278	14,231	14,082	13,933	12,237
Operating profit	7,228	6,330	6,137	6,425	6,035
Interest expense, net	557	584	536	525	509
Loss on early extinguishment of debt	348	—	—	—	—
Income tax provision(2)	2,441	2,258	2,179	2,200	2,189
Income from continuing operations	3,882	3,488	3,422	3,700	3,337
Income (loss) from discontinued operations, net of tax (3)	(7)	(31)	2	(4)	(125)
Net income	3,875	3,457	3,424	3,696	3,212
Net loss attributable to noncontrolling interest(4)	2	4	3	—	—
Preference dividends, net of income tax benefit	—	—	—	—	(14)
Net income attributable to CVS Caremark	$ 3,877	$ 3,461	$ 3,427	$ 3,696	$ 3,198
Per common share data:					
Basic earnings per common share:					
Income from continuing operations attributable to CVS Caremark	$ 3.06	$ 2.61	$ 2.51	$ 2.58	$ 2.32
Loss from discontinued operations attributable to CVS Caremark	(0.01)	(0.02)	—	—	(0.09)
Net income attributable to CVS Caremark	$ 3.05	$ 2.59	$ 2.51	$ 2.58	$ 2.23
Diluted earnings per common share:					
Income from continuing operations attributable to CVS Caremark	$ 3.03	$ 2.59	$ 2.49	$ 2.55	$ 2.27
Loss from discontinued operations attributable to CVS Caremark	(0.01)	(0.02)	—	—	(0.09)
Net income attributable to CVS Caremark	$ 3.03	$ 2.57	$ 2.49	$ 2.55	$ 2.18
Cash dividends per common share	$ 0.650	$ 0.500	$ 0.350	$ 0.305	$ 0.258
Balance sheet and other data:					
Total assets	$ 65,912	$ 64,543	$ 62,169	$ 61,641	$ 60,960
Long-term debt	$ 9,133	$ 9,208	$ 8,652	$ 8,756	$ 8,057
Total shareholders' equity	$ 37,704	$ 38,051	$ 37,700	$ 35,768	$ 34,574
Number of stores (at end of year)	7,508	7,388	7,248	7,095	6,997

(1) On December 23, 2008, our Board of Directors approved a change in our fiscal year-end from the Saturday nearest December 31 of each year to December 31 of each year to better reflect our position in the health care, rather than the retail, industry. The fiscal year change was effective beginning with the fourth quarter of fiscal 2008. As you review our operating performance, please consider that 2012 includes 366 days, 2011, 2010 and 2009 include 365 days, and fiscal 2008 includes 368 days.

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

(3) As discussed in Note 4 to the consolidated financial statements, the results of the TheraCom business are presented as discontinued operations and have been excluded from continuing operations for all periods presented.

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

Table of Contents

Below is a summary of the results of discontinued operations:

In millions	Fiscal Year 2012	2011	2010	2009	2008
Income from operations of TheraCom	$ —	$ 18	$ 28	$ 13	$ 11
Gain on disposal of TheraCom	—	53	—	—	—
Loss on disposal of Linens 'n Things	(12)	(7)	(24)	(19)	(214)
Income tax benefit (provision)	5	(95)	(2)	2	78
Income (loss) from discontinued operations, net of tax	$ (7)	$ (31)	$ 2	$ (4)	$ (125)

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

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

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

We refer you to the "Management's Discussion and Analysis of Financial Condition and Results of Operations," which includes our "Cautionary Statement Concerning Forward-Looking Statements" at the end of such section of our Annual Report to Stockholders for the year ended December 31, 2012, which section is incorporated by reference herein.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

As of December 31, 2012, 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 Balance Sheets," "Consolidated Statements of Shareholders' Equity," "Consolidated Statements of Cash Flows," and "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, 2012, which sections are incorporated by reference herein.

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

None.

Item 9A. Controls and Procedures

Evaluation of disclosure controls and procedures: The Company's Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (f) and 15d-15(f)) as of December 31, 2012, have concluded that as of such date the Company's disclosure controls and procedures were adequate and effective and designed to ensure that material information relating to the Company and its subsidiaries would be made known to such officers on a timely basis.

Internal control over financial reporting: We refer you to "Management's Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm" of our Annual Report to Stockholders for the fiscal year ended December 31, 2012, which are incorporated by reference herein, for Management's report on the Registrant's internal control over financial reporting and the Independent Registered Public Accounting Firm's report with respect to the effectiveness of internal control over financial reporting.

Changes in internal control over financial reporting: There have been no changes in our internal controls over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 that occurred during the fourth quarter ended December 31, 2012 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.

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance

We refer you to our Proxy Statement for the 2013 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 2013 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 2013 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, 2012.

	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 (2)	40,929	$ 36.57	47,885
Equity compensation plans not approved by stockholders	—	—	—
Total	40,929	$ 36.57	47,885

(1) Shares in thousands.

(2) The number of shares available for delivery under the 2010 Incentive Compensation Plan (the "2010 ICP") is subject to adjustment in the event shares subject to awards under a predecessor plan are cancelled or forfeited; in such event the shares shall again be available for grants or awards. See Note 14, "Stock Incentive Plans" to the consolidated financial statements for amendments to the 2010 ICP.

Item 13. Certain Relationships and Related Transactions and Director Independence

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

Table of Contents

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, 2012, 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 Registrants' Current Report on Form 8-K dated March 8, 2007 (Commission File No. 001-01011)].
2.6*	Agreement and Plan of Merger dated as of August 12, 2008 among, the Registrant, Longs Drug Stores Corporation and Blue MergerSub Corp. [incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated August 13, 2008 (Commission File No. 001-01011)].
3.1*	Amended and Restated Certificate of Incorporation of the Registrant [incorporated by reference to Exhibit 3.1 of CVS Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 (Commission File No. 001-01011)].

Table of Contents

3.1A*	Certificate of Amendment to the Amended and Restated Certificate of Incorporation, effective May 13, 1998 [incorporated by reference to Exhibit 4.1A to Registrant's Registration Statement No. 333-52055 on Form S-3/A dated May 18, 1998].
3.1B*	Certificate of Amendment to the Amended and Restated Certificate of Incorporation [incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K dated March 22, 2007 (Commission File No. 001-01011)].
3.1C*	Certificate of Merger dated May 9, 2007 [incorporated by reference to Exhibit 3.1C to Registrant's Quarterly Report on Form 10-Q dated November 1, 2007 (Commission File No. 001-01011)].
3.1D*	Certificate of Amendment to the Amended and Restated Certificate of Incorporation [incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K dated May 13, 2010 (Commission File No. 001-01011)].
3.1E*	Certificate of Amendment to the Amended and Restated Certificate of Incorporation [incorporated by reference to Exhibit 3.1 to the Registrant's Current Report On Form 8-K dated May 10, 2012 (Commission File No. 001-01011)].
3.2*	By-laws of the Registrant, as amended and restated [incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K dated May 10, 2012 (Commission File No. 001-01011)].
4	Pursuant to Regulation S-K, Item 601(b)(4)(iii)(A), no instrument which defines the rights of holders of long-term debt of the Registrant and its subsidiaries is filed with this report. The Registrant hereby agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.
4.1*	Specimen common stock certificate [incorporated by reference to Exhibit 4.1 to the Registration Statement of the Registrant on Form 8-B dated November 4, 1996 (Commission File No. 001-01011)].
4.2*	Specimen First Supplemental Indenture between Registrant and The Bank of New York Trust Company, N. A., a national banking association [incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated May 22, 2007 (Commission File No. 001-01011)].

4.3* Specimen ECAPS℠ [incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated May 22, 2007 (Commission File No. 001-01011)].

10.1* Stock Purchase Agreement dated as of October 14, 1995 between The TJX Companies, Inc. and Melville Corporation, as amended November 17, 1995 [incorporated by reference to Exhibits 2.1 and 2.2 to Melville's Current Report on Form 8-K dated December 4, 1995 (Commission File No. 001-01011)].

10.2* Stock Purchase Agreement dated as of March 25, 1996 between Melville Corporation and Consolidated Stores Corporation, as amended May 3, 1996 [incorporated by reference to Exhibits 2.1 and 2.2 to Melville's Current Report on Form 8-K dated May 5, 1996 (Commission File No. 001-01011)].

10.3* Distribution Agreement dated as of September 24, 1996 among Melville Corporation, Footstar, Inc. and Footstar Center, Inc. [incorporated by reference to Exhibit 99.1 to Melville's Current Report on Form 8-K dated October 28, 1996 (Commission File No. 001-01011)].

10.4* Tax Disaffiliation Agreement dated as of September 24, 1996 among Melville Corporation, Footstar, Inc. and certain subsidiaries named therein [incorporated by reference to Exhibit 99.2 to Melville's Current Report on Form 8-K dated October 28, 1996 (Commission File No. 001-01011)].

10.5* Stockholder Agreement dated as of December 2, 1996 between the Registrant, Nashua Hollis CVS, Inc. and Linens 'n Things, Inc. [incorporated by reference to Exhibit 10(i)(6) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 (Commission File No. 001-01011)].

10.6* Tax Disaffiliation Agreement dated as of December 2, 1996 between the Registrant and Linens 'n Things, Inc. and certain of their respective affiliates [incorporated by reference to Exhibit 10(i)(7) 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* Supplemental Retirement Plan for Select Senior Management of CVS Caremark Corporation I as amended and restated in December 2008 [incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (Commission File No. 001-01011)].

10.8* CVS Corporation 1996 Directors Stock Plan, as amended and restated November 5, 2002 [incorporated by reference to Exhibit 10.18 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 28, 2002 (Commission File No. 001-01011)].

10.9* CVS Caremark Deferred Stock Compensation Plan, as amended and restated [incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (Commission File No. 001-01011)].

10.10* 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)].

10.11* Caremark Rx, Inc. 2004 Incentive Stock Plan [incorporated by reference to Exhibit 99.2 of the Registrant's Registration Statement No. 333-141481 on Form S-8 filed March 22, 2007].

10.12* 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)].

10.13* 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)].

10.14* 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)].

10.15* Three Year Credit Agreement dated as of May 27, 2010 by and among the Registrant, the lenders party hereto, 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, 2010 (Commission File No. 001-01011)].

10.16* Employment Agreement between the Registrant and the Registrant's Executive Vice President and President of Caremark Pharmacy Services effective as of January 1, 2010 [incorporated by reference to Exhibit 10.34 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 (Commission File No. 001-01011)].

10.17* Change in Control Agreement between the Registrant and the Registrant's Executive Vice President and former President of Caremark Pharmacy Services effective as of January 1, 2010 [incorporated by reference to Exhibit 10.34 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 (Commission File No. 001-01011)].

10.18* Long Term Incentive Plan — former President, Pharmacy Benefit Management [incorporated by reference to Exhibit 10.36 of the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 (Commission File No. 001-01011)].

10.19* 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)].

10.20* 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)].

10.21* Executive Severance Policy effective March 31, 2011 [incorporated by reference to Exhibit 10.39 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (Commission File No. 001-01011)].

10.22* Letter Agreement dated August 5, 2011 between the Registrant and the Registrant's Executive Vice President and President — CVS/pharmacy [incorporated by reference to Exhibit 10.41 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (Commission File No. 001-01011)].

10.23* Change in Control Agreement dated September 1, 2011 between the Registrant and the Registrant's Executive Vice President and President — CVS/pharmacy [incorporated by reference to Exhibit 10.42 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (Commission File No. 001-01011)].

10.24* Amendment No. 1, dated as of November 22, 2011, to the Five Year Credit Agreement dated as of March 12, 2007 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 10.43 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (Commission File No. 001-01011)].

10.25* Amendment No. 1, dated as of November 22, 2011, to the Three Year Credit Agreement dated as of May 27, 2010 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 10.44 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (Commission File No. 001-01011)].

10.26* 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)].

10.27* Amendment dated March 29, 2012 to the Employment Agreement between the Registrant and the Registrant's Executive Vice President and President of CVS Caremark Pharmacy Services [incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated March 29, 2012 (Commission File No. 001-01011)].

10.28* Form of Restricted Stock Unit Agreement between the Registrant and the Registrant's President and Chief Executive Officer [incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2012 (Commission File No. 001-01011)].

Table of Contents

10.29* 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)].

10.30 2010 Incentive Compensation Plan, as amended through January 15, 2013.

10.31 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.

10.32 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.

10.33	Change in Control Agreement dated December 22, 2008 between the Registrant and the Registrant's Executive Vice President and President of CVS Caremark Pharmacy Services .
10.34	Amendment dated as of December 31, 2012 to the Change in Control Agreement dated December 22, 2008 between the Registrant and the Registrant's Executive Vice President and President of CVS Caremark Pharmacy Services.
10.35	The Registrant's Partnership Equity Program (Revised December 2012).
10.36	Form of Partnership Equity Program Participant Purchased RSUs, Company Matching RSUs and Company Matching Options Agreement. (Pre-Tax).
10.37	Form of Partnership Equity Program Participant Purchased Shares, Company Matching RSUs and Company Matching Option Agreement. (Post-Tax).
10.38	Form of Non-Qualified Stock Option Agreement between the Registrant and the selected employees of the Registrant.
10.39	Form of Restricted Stock Unit Agreement — Annual Grant — between the Registrant and the selected employees of the Registrant.
10.40	Form of Performance-Based Restricted Stock Unit Agreement between the Registrant and the selected employees of the Registrant.
10.41	The Registrant's Long-Term Incentive Plan.
10.42	The Registrant's 2012 Management Incentive Plan.
10.43	The Registrant's Performance-Based Restricted Stock Unit Plan.
13	Portions of the 2012 Annual Report to Stockholders of CVS Caremark Corporation, which are specifically designated in this Form 10-K as being incorporated by reference.
21	Subsidiaries of the Registrant.
23	Consent of Ernst & Young LLP.
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the CVS Caremark Corporation Annual Report on Form 10-K for the year ended December 31, 2012 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.

Table of Contents

SIGNATURES

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

CVS CAREMARK CORPORATION

Date: February 15, 2013

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/ C. DAVID BROWN II **C. David Brown II**	Director	February 15, 2013
/s/ LAIRD K. DANIELS	Senior Vice President —	February 15, 2013

Laird K. Daniels	Finance and Controller (Principal Accounting Officer)	
/s/ DAVID M. DENTON **David M. Denton**	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 15, 2013
/s/ DAVID W. DORMAN **David W. Dorman**	Chairman of the Board and Director	February 15, 2013
/s/ ANNE M. FINUCANE **Anne M. Finucane**	Director	February 15, 2013
/s/ KRISTEN GIBNEY- WILLIAMS **Kristen Gibney Williams**	Director	February 15, 2013
/s/ MARIAN L. HEARD **Marian L. Heard**	Director	February 15, 2013
/s/ LARRY J. MERLO **Larry J. Merlo**	President and Chief Executive Officer (Principal Executive Officer) and Director	February 15, 2013

Table of Contents

Signature	Title(s)	Date
/s/ JEAN-PIERRE MILLON **Jean-Pierre Millon**	Director	February 15, 2013
/s/ C.A. LANCE PICCOLO **C.A. Lance Piccolo**	Director	February 15, 2013
/s/ RICHARD J. SWIFT **Richard J. Swift**	Director	February 15, 2013
/s/ TONY L. WHITE **Tony L. White**	Director	February 15, 2013

Exhibit 10.30

2010 Incentive Compensation Plan

of

CVS Caremark Corporation

1. ***Purpose***. The purpose of this 2010 Incentive Compensation Plan (the "Plan") is to assist CVS Caremark Corporation, a Delaware corporation (the "Corporation"), and its subsidiaries in attracting, retaining and rewarding high-quality executives, employees, and other persons who provide services to the Corporation and/or its subsidiaries, to enable such persons to acquire or increase a proprietary interest in the Corporation in order to strengthen the mutuality of interests between such persons and the Corporation's stockholders and to provide such persons with short- and long-term performance incentives to expend their maximum efforts in the creation of stockholder value. The Plan is also intended to qualify certain compensation awarded under the Plan for maximum tax deductibility under Code Section 162(m) (as hereafter defined) to the extent deemed appropriate by the Committee (or any successor committee) of the Board of Directors of the Corporation. The Plan, initially adopted as of May 12, 2010, is amended by the Board effective as of January 15, 2013 to read as follows.

2. ***Definitions***. For purposes of the Plan, the following terms shall be defined as set forth below, in addition to such terms defined in Section 1 hereof:

(a) "Annual Incentive Award" means a conditional right granted to a Participant under Section 9(c) hereof to receive a cash payment, Stock or other Award, unless otherwise determined by the Committee, after the end of a specified fiscal year.

(b) "Award" means any Option, Restricted Stock, Restricted Stock Unit, Stock Appreciation Right, Deferred Stock, Stock granted as a bonus or in lieu of another award, Stock awarded to a director pursuant to Section 8, Dividend Equivalent, Other Stock-Based Award, Performance Award or Annual Incentive Award, together with any other right or interest granted to a Participant under the Plan.

(c) "Beneficiary" means the person, persons, trust or trusts which have been designated by a Participant in his or her most recent written beneficiary designation filed with the Committee to receive the benefits specified under the Plan upon such Participant's death or to which Awards or other rights are transferred if and to the extent permitted under Section 11(b) hereof. If, upon a Participant's death, there is no designated Beneficiary or surviving designated Beneficiary, then the term Beneficiary means person, persons, trust or trusts entitled by will or the laws of descent and distribution to receive such benefits.

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

(e) "Board" means the Corporation's Board of Directors.

(f) "Change in Control" means Change in Control as defined with related terms in Section 10 of the Plan.

(g) "Code" means the Internal Revenue Code of 1986, as amended from time to time, including regulations thereunder and successor provisions and regulations thereto.

(h) "Committee" means a committee of two or more directors designated by the Board to administer the Plan.

(i) "Covered Employee" means an Eligible Person who is a Covered Employee as specified in Section 9(e) of the Plan.

(j) "Deferred Stock" means a right, granted to a Participant under Section 6(f) hereof, to receive Stock, cash or a combination thereof at the end of a specified deferral period.

(k) "Dividend Equivalent" means a right, granted to a Participant under Section 6(h), to receive cash, Stock, other Awards or other property equal in value to dividends paid with respect to a specified number of shares of Stock, or other periodic payments.

(l) "Effective Date" means May 12, 2010.

(m) "Eligible Person" means each Executive Officer and other officers and employees of the Corporation or of any subsidiary, including such persons who may also be directors of the Corporation, and any Eligible Director. An employee on leave of absence may be considered as still in the employ of the Corporation or a subsidiary for purposes of eligibility for participation in the Plan.

(n) "Eligible Director" means a director of the Corporation who at the relevant time is not, and for the preceding twelve (12) months was not, an employee of the Corporation or its subsidiaries.

(o) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, including rules thereunder and successor provisions and rules thereto.

(p) "Executive Officer" means an executive officer of the Corporation as defined under the Exchange Act.

(q) "Fair Market Value" means the fair market value of Stock, Awards or other property as determined by the Committee or under procedures established by the Committee. Unless otherwise determined by the Committee, the Fair Market Value of Stock 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.

(r) "Incentive Stock Option" or "ISO" means any Option intended to be and designated as an incentive stock option within the meaning of Code Section 422 or any successor provision thereto; provided, however, that only an Eligible Person who is an employee within the meaning of Code Section 422 and the regulations thereunder shall be eligible to receive an ISO.

(s) "Option" means a right, granted to a Participant under Section 6(b) hereof, to purchase Stock or other Awards at a specified price during specified time periods.

(t) "Other Stock-Based Awards" means Awards granted to a Participant under Section 6(i) hereof.

(u) "Participant" means a person who has been granted an Award under the Plan that remains outstanding, including a person who is no longer an Eligible Person.

(v) "Performance Award" means a right, granted to a Participant under Section 9 hereof, to receive Awards based upon performance criteria specified by the Committee.

(w) "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, and shall include a "group" as defined in Section 13(d) thereof.

(x) "Prior Plan" means the CVS Caremark Corporation 1997 Incentive Compensation Plan, as amended.

(y) "Qualified Member" means a member of the Committee who is a "Non-Employee Director" within the meaning of Rule 16b-3(b)(3) and an "outside director" within the meaning of Regulation 1.162-27 under Code Section 162(m).

(z) "Restricted Stock" means Stock granted to a Participant under Section 6(d) hereof, that is subject to certain restrictions and to a risk of forfeiture.

(aa) "Restricted Stock Unit" shall mean a contractual right granted under Section 6(d) that represents a right to receive the value of a share of Stock upon the terms and conditions set forth in the Plan and the applicable Award agreement.

(bb) "Rule 16b-3" means Rule 16b-3, as in effect from time to time and applicable to the Plan and Participants, promulgated by the Securities and Exchange Commission under Section 16 of the Exchange Act.

(cc) "Stock" means the Corporation's Common Stock, and such other securities as may be substituted (or resubstituted) for Stock pursuant to Section 11(c) hereof.

(dd) "Stock Appreciation Rights" or "SAR" means a right granted to a Participant under Section 6(c) hereof.

(ee) "Substitute Award" means an Award granted in assumption of, or in substitution for, outstanding awards previously granted by a company acquired by the Corporation or with which the Corporation combines.

3. ***Administration.***

(a) *Authority of the Committee.* The Plan shall be administered by the Committee, except to the extent the Board elects to administer the Plan, in which case references herein to the "Committee" shall be deemed to include references to the "Board". The Committee shall have full and final authority, in each case subject to and consistent with the provisions of the Plan, to select Eligible Persons to become 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 Plan, construe and interpret the Plan 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 Plan.

(b) *Manner of Exercise of Committee Authority.* At any time that a member of the Committee is not a Qualified Member, any action of the Committee relating to an Award granted or to be granted to a Participant who is then subject to Section 16 of the Exchange Act in respect of the Corporation, or relating to an Award intended by the Committee to qualify as "performance-based compensation" within the meaning of Code Section 162(m) and regulations thereunder, may be taken either (i) by a subcommittee, designated by the Committee, composed solely of two or more Qualified Members, or (ii) by the Committee but with each such member who is not a Qualified Member abstaining or recusing himself or herself from such action; provided, however, that, upon such abstention or recusal, the Committee remains composed solely of two or more Qualified Members. Such action, authorized by such a

subcommittee or by the Committee upon the abstention or recusal of such non-Qualified Member(s), shall be the action of the Committee for purposes of the Plan. Any action of the Committee shall be final, conclusive and binding on all persons, including the Corporation, its subsidiaries, Participants, Beneficiaries, transferees under Section 11(b) hereof or other persons claiming rights from or through a Participant, and stockholders. 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 Corporation 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, to the extent that such delegation will not result in the loss of an exemption under Rule 16b-3(d)(1) for Awards granted to Participants subject to Section 16 of the Exchange Act in respect of the Corporation and will not cause Awards intended to qualify as "performance-based compensation" under Code Section 162(m) to fail to so qualify. The Committee may appoint agents to assist it in administering the Plan.

(c) *Limitation of Liability*. The Committee and each member thereof shall be entitled to rely or act upon in good faith any report or other information furnished to him or her by any executive officer, other officer or employee of the Corporation or a subsidiary, the Corporation's independent auditors, consultants or any other agents assisting in the administration of the Plan. Members of the Committee and any officer or employee of the Corporation 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 Plan and shall, to the extent permitted by law, be fully indemnified and protected by the Corporation with respect to any such action or determination.

4. ***Stock Subject to Plan***.

(a) *Overall Number of Shares Available for Delivery*. Subject to adjustment as provided in Section 11(c) hereof, the total number of shares of Stock reserved and available for delivery in connection with Awards under the Plan shall be seventy-four million (74,000,000); provided, however, that the total number of shares of Stock with respect to which ISOs may be granted shall not exceed eight (8) million. Any shares of Stock delivered under the Plan shall consist of authorized and unissued shares or treasury shares.

(b) *Application of Limitation to Grants of Awards*. No Award may be granted if the number of shares of Stock to be delivered in connection with such Award exceeds the number of shares of Stock remaining available under the Plan minus the number of shares of Stock issuable in settlement of Awards or relating to then-outstanding Awards. Notwithstanding the foregoing, Awards settleable only in cash shall not reduce the number of shares of Stock available under the Plan and Stock issued for Substitute Awards shall not count against the limits of Section 4(a). The Committee may adopt reasonable counting procedures to ensure appropriate counting, avoid double counting (as, for example, in the case of tandem or substitute awards) and make adjustments if the number of shares of Stock actually delivered differs from the number of shares previously counted in connection with an Award.

5. ***Eligibility; Per-Person Award Limitations***. Awards may be granted under the Plan only to Eligible Persons. In each fiscal year during any part of which the Plan is in effect, an Eligible Person may not be granted Awards relating to more than three (3) million shares of Stock, subject to adjustment as provided in Section 11(c), under each of Sections 6(b) through 6(h), 9(b) and 9(c). In addition, the maximum cash amount that may be earned under the Plan as a final Annual Incentive Award or other cash annual Award in respect of any fiscal year by any one Participant shall be ten million dollars ($10,000,000), and the maximum cash amount that may be earned under the Plan as a final Performance

Award or other cash Award in respect of a performance period other than an annual period by any one Participant on an annualized basis shall be five million dollars ($5,000,000).

6. ***Specific Terms of Awards***.

(a) *General*. Awards may be granted on the terms and conditions set forth in this Section 6, and with respect to directors of the Corporation, in Section 8. In addition, the Committee may impose on any Award or the exercise thereof, at the date of grant or thereafter (subject to Section 11(e)), such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall determine, including terms requiring forfeiture of Awards in the event of termination of employment of the Participant and terms permitting a Participant to make elections relating to his or her Award. The Committee shall retain full power and discretion to accelerate, waive or modify, at any time, any term or condition of an Award that is not mandatory under the Plan. Except in cases in which the Committee is authorized to require other forms of consideration under the Plan, or to the extent other forms of consideration must be paid to satisfy the requirements of the Delaware General Corporation Law, no consideration other than services may be required for the grant of any Award.

(b) *Options*. The Committee is authorized to grant Options to Participants on the following terms and conditions:

(i) *Exercise Price*. The exercise price per share of Stock purchasable under an Option shall be determined by the Committee, provided that such exercise price shall be not less than the Fair Market Value of a share of Stock on the date of grant of such Option except as provided under the first sentence of Section 7(a) hereof.

(ii) *Time and Method of Exercise.* The Committee shall determine the time or times at which or the circumstances under which an Option may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), the methods by which such exercise price may be paid or deemed to be paid, the form of such payment, including, without limitation, cash, Stock, other Awards or awards granted under other plans of the Corporation or any subsidiary, or other property, and the methods by or forms in which Stock will be delivered or deemed to be delivered to Participants.

(iii) *ISOs.* The terms of any ISO granted under the Plan shall comply in all respects with the provisions of Code Section 422. Anything in the Plan to the contrary notwithstanding, no term of the Plan relating to ISOs shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be exercised, so as to disqualify either the Plan or any ISO under Code Section 422, unless the Participant has first requested the change that will result in such disqualification.

(c) *Stock Appreciation Rights.* The Committee is authorized to grant SARs to Participants on the following terms and conditions:

(i) *Right to Payment.* A SAR shall confer on the Participant to whom it is granted a right to receive, upon exercise thereof, the excess of (A) the Fair Market Value of one share of Stock on the date of exercise over (B) the grant price of the SAR as determined by the Committee.

(ii) *Other Terms.* The Committee shall determine at the date of grant or thereafter, the time or times at which and the circumstances under which a SAR may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), the method of exercise, method of settlement, form of consideration payable in settlement, method by or forms in which Stock will be delivered or deemed to be delivered to Participants, whether or not a SAR shall be in tandem or in combination with any other Award and any other terms and conditions of any SAR. SARs may be either freestanding or in tandem with other Awards.

(d) *Restricted Stock and Restricted Stock Units.* The Committee is authorized to grant Restricted Stock or Restricted Stock Units to Participants on the following terms and conditions:

(i) *Grant and Restrictions.* Restricted Stock and Restricted Stock Units shall be subject to such restrictions on transferability, risk of forfeiture and other restrictions, if any, as the Committee may impose, which restrictions may lapse separately or in combination at such times, under such circumstances (including based on achievement of performance goals and/or future service requirements), in such installments or otherwise, as the Committee may determine at the date of grant or thereafter. Except to the extent restricted under the terms of the Plan and any Award agreement relating to the Restricted Stock, a Participant granted Restricted Stock shall have all of the rights of a stockholder, including the right to vote the Restricted Stock and the right to receive dividends thereon (subject to any mandatory reinvestment or other requirement imposed by the Committee). During the restricted period applicable to the Restricted Stock, subject to Section 11(b) below, the Restricted Stock may not be sold, transferred, pledged, hypothecated, margined or otherwise encumbered by the Participant. Restricted Stock Units may be settled in Stock, cash equal to the Fair Market Value of the specified number of shares of Stock covered by the Units, or a combination thereof, as determined by the Committee at the date of grant or thereafter.

(ii) *Forfeiture.* Except as otherwise determined by the Committee, upon termination of employment during the applicable restriction period, Restricted Stock and Restricted Stock Units that are at that time subject to restrictions shall be forfeited, provided that the Committee may provide, by rule or regulation or in any Award agreement, or may determine in any individual case, that restrictions or forfeiture conditions relating to Restricted Stock and Restricted Stock Units shall be waived in whole or in part in the event of terminations resulting from specified causes and the Committee may in other cases waive in whole or in part the forfeiture of Restricted Stock and Restricted Stock Units.

(iii) *Certificates for Stock.* Restricted Stock granted under the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing Restricted Stock are registered in the name of the Participant, the Committee may require that such certificates bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Restricted Stock, that the Corporation retain physical possession of the certificates and that the Participant deliver a stock power to the Corporation, endorsed in blank, relating to the Restricted Stock.

(iv) *Dividends and Splits.* As a condition to the grant of an Award of Restricted Stock, the Committee may require that any cash dividends paid on a share of Restricted Stock be automatically reinvested in additional shares of

Restricted Stock or applied to the purchase of additional Awards under the Plan. Unless otherwise determined by the Committee, Stock distributed in connection with a Stock split or Stock dividend, and other property distributed as a dividend, shall be subject to restrictions and a risk of forfeiture to the same extent as the Restricted Stock with respect to which such Stock or other property has been distributed. The Committee shall determine and specify in the Restricted Stock Unit Agreement the effect, if any, of dividends paid on Stock during the period such Award is outstanding.

(e) *Deferred Stock*. The Committee is authorized to grant Deferred Stock to Participants, which are rights to receive Stock, cash, or a combination thereof at the end of a specified deferral period, subject to the following terms and conditions:

(i) *Award and Restrictions*. Satisfaction of an Award of Deferred Stock shall occur upon expiration of the deferral period specified for such Deferred Stock by the Committee (or, if permitted by the Committee, as elected by the Participant). In addition, Deferred Stock shall be subject to such restrictions (which may include a risk of forfeiture) as the Committee may impose, if any, which restrictions may lapse at the expiration of the deferral period or at earlier specified times (including based on achievement of performance goals and/or future service requirements), separately or in combination, in installments or otherwise, as the Committee may determine. Deferred Stock may be satisfied by delivery of Stock, cash equal to the Fair Market Value of the specified number of shares of Stock covered by the Deferred Stock, or a combination thereof, as determined by the Committee at the date of grant or thereafter.

(ii) *Forfeiture*. Except as otherwise determined by the Committee, upon termination of employment during the applicable deferral period or portion thereof to which forfeiture conditions apply (as provided in the Award agreement evidencing the Deferred Stock), all Deferred Stock that is at that time subject to deferral (other than a deferral at the election of the Participant) shall be forfeited; provided that the Committee may provide, by rule or regulation or in any Award agreement, or may determine in any individual case, that restrictions or forfeiture conditions relating to Deferred Stock shall be waived in whole or in part in the event of terminations resulting from specified causes, and the Committee may in other cases waive in whole or in part the forfeiture of Deferred Stock.

(iii) *Dividend Equivalents*. Unless otherwise determined by the Committee at date of grant, Dividend Equivalents on the specified number of shares of Stock covered by an Award of Deferred Stock shall be either (A) paid with respect to such Deferred Stock at the dividend payment date in cash or in shares of unrestricted Stock having a Fair Market Value equal to the amount of such dividends, or (B) deferred with respect to such Deferred Stock and the amount or value thereof automatically deemed reinvested in additional Deferred Stock, other Awards or other investment vehicles, as the Committee shall determine or permit the Participant to elect.

(f) *Bonus Stock and Awards in Lieu of Obligations*. The Committee is authorized to grant Stock as a bonus, or to grant Stock or other Awards in lieu of obligations to pay cash or deliver other property under the Plan or under other plans or compensatory arrangements, provided that, in the case of Participants subject to Section 16 of the Exchange Act, the amount of such grants remains within the discretion of the Committee to the extent necessary to ensure that acquisitions of Stock or other Awards are exempt from liability under Section 16(b) of the Exchange Act. Stock or

Awards granted hereunder shall be subject to such other terms as shall be determined by the Committee. In the case of any grant of Stock to an officer of the Corporation in lieu of salary or other cash compensation, the number of shares granted in place of such compensation shall be reasonable, as determined by the Committee.

(g) *Dividend Equivalents*. Except with respect to Options and SARs, the Committee is authorized to grant Dividend Equivalents to a Participant, entitling the Participant to receive cash, Stock, other Awards, or other property equal in value to dividends paid with respect to a specified number of shares of Stock, or other periodic payments. Dividend Equivalents may be awarded on a free-standing basis or in connection with another Award. The Committee may provide that Dividend Equivalents shall be paid or distributed when accrued or shall be deemed to have been reinvested in additional Stock, Awards, or other investment vehicles and subject to such restrictions on transferability and risks of forfeiture, as the Committee may specify.

(h) *Other Stock-Based Awards*. The Committee is authorized, subject to limitations under applicable law, to grant to Participants such other Awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Stock, as deemed by the Committee to be consistent with the purposes of the Plan, including, without limitation, convertible or exchangeable debt securities, other rights convertible or exchangeable into Stock, purchase rights for Stock, Awards with value and payment contingent upon performance of the Corporation or any other factors designated by the Committee and Awards valued by reference to the book value of Stock or the value of securities of or the performance of specified subsidiaries. The Committee shall determine the terms and conditions of such Awards. Stock delivered pursuant to an Award in the nature of a purchase right granted under this Section 6(h) shall be purchased for such consideration, paid for at such times, by such methods, and in such forms, including, without limitation, cash, Stock, other Awards, or other property, as the Committee shall determine. Cash awards, as an element of or supplement to any other Award under the Plan, may also be granted pursuant to this Section 6(h).

7. ***Certain Provisions Applicable to Awards.***

(a) *Stand-Alone, Additional, Tandem and Substitute Awards*. Awards granted under the Plan may, in the discretion of the Committee, be granted at any time, either alone or in addition to, in tandem with, or in substitution or exchange for, any other Award or any award granted under another plan of the Corporation, any subsidiary, or any business entity to be acquired by the Corporation or a subsidiary, or any other right of a Participant to receive payment from the Corporation or any subsidiary, but if an Award is granted in substitution or exchange for another Award or award, the Committee shall require the surrender of such other Award or award in consideration for the grant of the new Award. In addition, Awards may be granted in lieu of cash compensation, including in lieu of cash amounts payable under other plans of the Corporation or any subsidiary, in which the value of Stock subject to the Award (for example, Deferred Stock or Restricted Stock) is equivalent in value to the cash compensation, provided, however, that any such Award that is an Option shall have an exercise price that is at least one hundred percent (100%) of the Fair Market Value of a share of Stock on

the date of grant of such Option. Notwithstanding the foregoing language of this Section 7(a), no outstanding Option or SAR may be amended to decrease the exercise price except in accordance with Section 11(c) and no outstanding Option or SAR may be surrendered in exchange for another Award.

(b) *Term of Awards*. The term of each Award shall be for such period as may be determined by the Committee; provided that in no event shall the term of any Option exceed a period of ten (10) years (or such shorter term as may be required in respect of an ISO under Code Section 422).

(c) *Form and Timing of Payment under Awards; Deferrals*. Subject to the terms of the Plan, including but not limited to Section 11(l), and any applicable Award agreement, (i) payments to be made by the Corporation or a subsidiary upon the exercise of an Option or other Award or settlement of an Award may be made in such forms as the Committee shall determine, including, without limitation, cash, Stock, other Awards or other property, and may be made in a single payment or transfer, in installments, or on a deferred basis, (ii) the settlement of any Award may be accelerated, and cash paid in lieu of Stock in connection with such settlement, in the discretion of the Committee or upon occurrence of one or more specified events (in addition to a Change in Control), (iii) installment or deferred payments may be required by the Committee (subject to Section 11(e) of the Plan, including the consent provisions thereof in the case of any deferral of an outstanding Award not provided for in the original Award agreement) or permitted at the election of the Participant on terms and conditions established by the Committee, and (iv) payments may include, without limitation, provisions for the payment or crediting of reasonable interest on installment or deferred payments or the grant or crediting of Dividend Equivalents or other amounts in respect of installment or deferred payments denominated in Stock.

(d) *Exemptions from Section 16(b) Liability*. It is the intent of the Corporation that the grant of any Awards to or other transaction by a Participant who is subject to Section 16 of the Exchange Act shall be exempt under Rule 16b-3 (except for transactions acknowledged in writing to be non-exempt by such Participant). Accordingly, if any provision of this Plan or any Award agreement does not comply with the requirements of Rule 16b-3 as then applicable to any such transaction, such provision shall be construed or deemed amended to the extent necessary to conform to the applicable requirements of Rule 16b-3 so that such Participant shall avoid liability under Section 16(b).

(e) *Cancellation and Rescission of Awards*. Unless the Award agreement specifies otherwise, the Committee may cancel any unexpired, unpaid, or deferred Awards at any time, and the Corporation shall have the additional rights set forth in Section 7(e)(iv) below, if the Participant is not in compliance with all applicable provisions of the Award agreement and the Plan including the following conditions:

(i) While employed by the Corporation or one of its subsidiaries, a Participant shall not render services for any organization or engage directly or indirectly in any business that, in the judgment of the Chief Executive Officer of the Corporation or other senior officer designated by the Committee, is or becomes competitive with the Corporation.

(ii) A Participant shall not, without prior written authorization from the Corporation, disclose to anyone outside the Corporation, or use in other than the Corporation's business, any confidential information or material relating to the business of the Corporation that is acquired by the Participant either during or after employment with the Corporation.

(iii) A Participant shall disclose promptly and assign to the Corporation all right, title, and interest in any invention or idea, patentable or not, made or conceived by the Participant during employment by the Corporation, relating in any manner to the actual or anticipated business, research or development work

of the Corporation and shall do anything reasonably necessary to enable the Corporation to secure a patent where appropriate in the United States and in foreign countries.

(iv) (A) Upon exercise, settlement, payment or delivery pursuant to an Award, the Participant shall certify on a form acceptable to the Committee that he or she is in compliance with the terms and conditions of the Plan. Failure to comply with the provisions of this Section 7(e) prior to, or during the six (6) months after, any exercise, payment or delivery pursuant to an Award shall cause such exercise, payment or delivery to be rescinded. The Corporation shall notify the Participant in writing of any such rescission within two (2) years after such exercise, payment or delivery. Within ten (10) days after receiving such a notice from the Corporation, the Participant shall pay to the Corporation the amount of any gain realized or payment received as a result of the rescinded exercise, payment or delivery pursuant to an Award. Such payment shall be made either in cash or by returning to the Corporation the number of shares of Stock that the Participant received in connection with the rescinded exercise, payment or delivery.

(B) To the extent determined by the Committee, all Awards shall be subject to the terms and conditions of the Corporation's recoupment policy as it exists from time to time.

(f) *Limitation of Vesting of Certain Awards*. Notwithstanding anything in this Plan to the contrary, Restricted Stock, Restricted Stock Units, Deferred Stock, and Other Stock-Based Awards, as described in Section 6(d), 6(e) and 6(h) of the Plan, respectively, granted to employees generally will vest over a minimum period of three (3) years, except in the event of a Participant's

death, disability, or retirement, or in the event of a Change in Control or other special circumstances and (i) Restricted Stock, Restricted Stock Units, Deferred Stock, and Other Stock—Based Awards as to which either the grant or the vesting is based on the achievement of one or more performance conditions generally will vest over a minimum period of one (1) year except in the event of a Participant's death, disability, or retirement, or in the event of a Change in Control or other special circumstances, and (ii) up to five percent (5%) of the shares of Stock authorized under the Plan may be granted as Restricted Stock, Restricted Stock Units, Deferred Stock, or Other Stock-Based Awards without any minimum vesting requirements. For purposes of this Section 7(f), vesting over a three (3)-year period or one (1)-year period will include periodic vesting over such period if the rate of such vesting is proportional throughout such period.

8. ***Special Rules for Directors.***

(a) *Awards.* Eligible Directors may receive Awards, including without limitation Awards in respect of their annual retainer and any additional retainers for chairing a committee of the board or serving as lead independent director.

(b) *Deferral of Shares by Directors.* Each Eligible Director may elect to defer the receipt of shares otherwise currently payable to such Eligible Director under Section 8(a) of this Plan until such Eligible Director terminates service as a director or such other date or event as permitted under rules established by the Board and uniformly applied. In that event, such Eligible Director shall be granted an award of share credits equal to the number of shares of Stock elected to be deferred, including fractional share credits to not less than three decimal places.

(c) *Settlement.* As soon as practicable after an Eligible Director has ceased being a Director of the Corporation or such other date or event elected by an Eligible Director under Section 8(b), all awards shall be paid to the Eligible Director or, in the case of the death of the Eligible Director, the Eligible Director's designated beneficiary or beneficiaries, or in the absence of a designated beneficiary, to the estate of the Eligible Director, in a single payment or installments as elected by the Eligible Director.

(d) *Dividend Equivalents.*

(i) In addition to the payment provided for in Section 8(c), each Eligible Director (or beneficiary) entitled to payment under this Section 8(d) shall receive at the same time the dividend equivalent amounts calculated under subsection (ii) below.

(ii) The dividend equivalent amount is the number of additional share credits attributable to the number of share credits originally granted plus additional share credits previously calculated hereunder. Such additional share credits shall be determined and credited as of each dividend payment date by dividing the aggregate cash dividends that would have been paid had share credits awarded or credited (but not yet paid) under this Section 8(d), as the case may be, been actual shares of Stock on the record date for such dividend by the market price per share of Stock on the dividend payment date. For this purpose, the market price on any day shall be the average of the highest and lowest sales price of Stock as quoted on the composite transactions table for such day, unless the Board determines that another procedure for determining market price would be more appropriate. Fractional share credits shall be calculated to not less than three decimal places.

(e) *Payment; Fractional Shares.* Payments pursuant to Sections 8(c) and 8(d) above shall be made in shares of Stock, except that there shall be paid in cash the value of any fractional share.

9. ***Performance and Annual Incentive Awards.***

(a) *Performance Conditions.* The right of a Participant to exercise or receive a grant or settlement of any Award, and the timing thereof, may be subject to such performance conditions as may be specified by the Committee. The Committee may use such business criteria and other measures of performance as it may deem appropriate in establishing any performance conditions and may exercise its discretion to reduce or increase the amounts payable under any Award subject to performance conditions, except as limited under Sections 9(b) and 9(c) hereof in the case of a Performance Award or Annual Incentive Award intended to qualify under Code Section 162(m).

(b) *Performance Awards Granted to Designated Covered Employees.* If the Committee determines that a Performance Award to be granted to an Eligible Person who is designated by the Committee as likely to be a Covered Employee should qualify as "performance-based compensation" for purposes of Code Section 162(m), the grant, exercise and/or settlement of such Performance Award shall be contingent upon achievement of pre-established performance goals and other terms set forth in this Section 9(b).

(i) *Performance Goals Generally.* The performance goals for such Performance Awards shall consist of one or more business criteria and a targeted level or levels of performance with respect to each of such criteria, as specified by the Committee consistent with this Section 9(b). Performance goals shall be

objective and shall otherwise meet the requirements of Code Section 162(m) and regulations thereunder (including Regulation 1.162-27 and successor regulations thereto), including the requirement that the level or levels of performance targeted by the

Committee result in the achievement of performance goals being "substantially uncertain." The Committee may determine that such Performance Awards shall be granted, exercised and/or settled upon achievement of any one performance goal or that two or more of the performance goals must be achieved as a condition to grant, exercise and/or settlement of such Performance Awards. Performance goals may differ for Performance Awards granted to any one Participant or to different Participants.

(ii) *Business Criteria.* One or more of the following business criteria for the Corporation, on a consolidated basis, and/or for specified subsidiaries or business units of the Corporation (except with respect to the total stockholder return and earnings per share criteria), shall be used by the Committee in establishing performance goals for such Performance Awards: (1) earnings per share; (2) revenues; (3) cash flow; (4) cash flow return on investment; (5) return on net assets, return on assets, return on investment, return on capital, return on equity; (6) economic value added; (7) operating margin; (8) Common Knowledge Retail Customer Service score or a similar customer service measurement as measured by a third-party administrator; (9) Pharmacy Benefit Services Customer Satisfaction score; (10) net income; pretax earnings; pretax earnings before interest, depreciation and amortization; pretax operating earnings after interest expense and before incentives, service fees and extraordinary or special items; operating earnings; (11) total stockholder return; or (12) any of the above goals as compared to the performance of a published or special index deemed applicable by the Committee including, but not limited to, the Standard & Poor's 500 Stock Index or a group of comparator companies. One or more of the foregoing business criteria shall also be exclusively used in establishing performance goals for Annual Incentive Awards granted to a Covered Employee under Section 9(c) hereof.

(iii) *Performance Period; Timing for Establishing Performance Goals.* Achievement of performance goals in respect of such Performance Awards shall be measured over a performance period of up to ten (10) years, as specified by the Committee. Performance goals shall be established not later than ninety (90) days after the beginning of any performance period applicable to such Performance Awards, or at such other date as may be required or permitted for "performance-based compensation" under Code Section 162(m).

(iv) *Performance Award Pool.* The Committee may establish a Performance Award pool, which shall be an unfunded pool, for purposes of measuring performance of the Corporation in connection with Performance Awards. The amount of such Performance Award pool shall be based upon the achievement of a performance goal or goals based on one or more of the business criteria set forth in Section 9(b)(ii) hereof during the given performance period, as specified by the Committee in accordance with Section 9(b)(iii) hereof. The Committee may specify the amount of the Performance Award pool as a percentage of any of such business criteria, a percentage thereof in excess of a threshold amount, or as another amount that need not bear a strictly mathematical relationship to such business criteria. The maximum amount payable to any Participant shall be a stated percentage of the pool; provided the sum of such

percentages shall not exceed one hundred percent (100%) and the payment does not exceed the per-person award limit set forth in Section 5.

(v) *Settlement of Performance Awards; Other Terms.* Settlement of such Performance Awards shall be in cash, Stock, other Awards or other property, at the discretion of the Committee. The Committee may, in its discretion, reduce the amount of a settlement otherwise to be made in connection with such Performance Awards, but may not exercise discretion to increase any such amount payable to a Covered Employee in respect of a Performance Award subject to this Section 9(b). The Committee shall specify the circumstances in which such Performance Awards shall be paid or forfeited in the event of termination of employment of the Participant prior to the end of a performance period or settlement of Performance Awards.

(c) *Annual Incentive Awards Granted to Designated Covered Employees.* If the Committee determines that an Annual Incentive Award to be granted to an Eligible Person who is designated by the Committee as likely to be a Covered Employee should qualify as "performance-based compensation" for purposes of Code Section 162(m), the grant, exercise and/or settlement of such Annual Incentive Award shall be contingent upon achievement of pre-established performance goals and other terms set forth in this Section 9(c).

(i) *Annual Incentive Award Pool.* The Committee may establish an Annual Incentive Award pool, which shall be an unfunded pool, for purposes of measuring performance of the Corporation in connection with Annual Incentive Awards. The amount of such Annual Incentive Award pool shall be based upon the achievement of a performance goal or goals based on one or more of the business criteria set forth in Section 9(b)(ii) hereof during the given performance period, as specified by the Committee in accordance with Section 9(b)(iii) hereof. The Committee may specify the amount of the Annual Incentive Award pool as a percentage of any of such business criteria, a percentage thereof in excess of a threshold amount, or as another amount that need not bear a strictly mathematical relationship to such business criteria. The maximum amount payable to any Participant shall be a stated percentage of the pool; provided the sum of such percentages shall not exceed one hundred percent (100%) and the payment does not exceed the per-person award limit set forth in Section 5.

(ii) *Potential Annual Incentive Awards.* Not later than the end of the ninetieth (90^{th}) day of each fiscal year, or at such other date as may be required or permitted in the case of Awards intended to be "performance-based compensation" under Code Section 162(m), the Committee shall determine the Eligible Persons who will potentially receive Annual Incentive Awards, and the amounts potentially payable thereunder, for that fiscal year, either out of an Annual Incentive Award pool established by such date under Section 9(c)(i) hereof or as individual Annual Incentive Awards. In the case of individual Annual Incentive Awards intended to qualify under Code Section 162(m), the amount potentially payable shall be based upon the achievement of

a performance goal or goals based on one or more of the business criteria set forth in Section 9(b)(ii) hereof in the given performance year, as specified by the Committee; in other cases, such amount shall be based on such criteria as shall be established by the Committee. In all cases, the maximum Annual Incentive Award of any Participant shall be subject to the limitation set forth in Section 5 hereof.

(iii) *Payout of Annual Incentive Awards*. After the end of each fiscal year, the Committee shall determine the amount, if any, of (A) the Annual Incentive Award pool, and the maximum amount of potential Annual Incentive Award payable to each Participant in the Annual Incentive Award pool, or (B) the amount of potential Annual Incentive Award otherwise payable to each Participant. The Committee may, in its discretion, determine that the amount payable to any Participant as a final Annual Incentive Award shall be increased or reduced from the amount of his or her potential Annual Incentive Award, including a determination to make no final Award whatsoever, but may not exercise discretion to increase any such amount in the case of an Annual Incentive Award intended to qualify under Code Section 162(m). The Committee shall specify the circumstances in which an Annual Incentive Award shall be paid or forfeited in the event of termination of employment by the Participant prior to the end of a fiscal year or settlement of such Annual Incentive Award.

(d) *Written Determinations*. All determinations by the Committee as to the establishment of performance goals, the amount of any Performance Award pool or potential individual Performance Awards and as to the achievement of performance goals relating to Performance Awards under Section 9(b), and the amount of any Annual Incentive Award pool or potential individual Annual Incentive Awards and the amount of final Annual Incentive Awards under Section 9(c), shall be made in writing in the case of any Award intended to qualify under Code Section 162(m). The Committee may not delegate any responsibility relating to such Performance Awards or Annual Incentive Awards.

(e) *Status of Section 9(b) and Section 9(c) Awards under Code Section 162(m)*. It is the intent of the Corporation that Performance Awards and Annual Incentive Awards under Sections 9(b) and 9(c) hereof granted to persons who are designated by the Committee as likely to be Covered Employees within the meaning of Code Section 162(m) and regulations thereunder (including Regulation 1.162-27 and successor regulations thereto) shall, if so designated by the Committee, constitute "performance-based compensation" within the meaning of Code Section 162(m) and regulations thereunder. Accordingly, the terms of Sections 9(b) through (e), including the definitions of Covered Employee and other terms used therein, shall be interpreted in a manner consistent with Code Section 162(m) and regulations thereunder. The foregoing notwithstanding, because the Committee cannot determine with certainty whether a given Participant will be a Covered Employee with respect to a fiscal year that has not yet been completed, the term Covered Employee as used herein shall mean only a person designated by the Committee, at the time of grant of Performance Awards or an Annual Incentive Award, as likely to be a Covered Employee with respect to that fiscal year. If any provision of the Plan as in effect on the date of adoption or any agreements relating to Performance Awards or Annual Incentive Awards that are designated as intended to comply with Code Section 162(m) does not comply or is inconsistent with the requirements of Code Section 162(m) or regulations thereunder, such provision shall be construed or deemed amended to the extent necessary to conform to such requirements.

10. ***Change in Control.***

(a) *Effect of "Change in Control"*. In the event that a Participant experiences a Termination Without Cause or a Constructive Termination Without Cause within two

(2) years following a "Change in Control," the following provisions shall apply unless otherwise provided in the Award agreement:

(i) Any Award carrying a right to exercise that was not previously exercisable and vested shall become fully exercisable and vested as of the time of the Change in Control and shall remain exercisable and vested for the balance of the stated term of such Award without regard to any termination of employment by the Participant, subject only to applicable restrictions set forth in Section 11(a) hereof;

(ii) The restrictions, deferral of settlement and forfeiture conditions applicable to any other Award granted under the Plan shall lapse and such Awards shall be deemed fully vested as of the time of the Change in Control, except to the extent of any waiver by the Participant and subject to applicable restrictions set forth in Section 11(a) hereof; and

(iii) With respect to any outstanding Award subject to achievement of performance goals and conditions under the Plan, such performance goals and other conditions will be deemed to be met if and to the extent so provided by the Committee in the Award agreement relating to such Award.

(b) *Definition of "Change in Control"*. A "Change in Control" shall be deemed to have occurred if:

(i) any Person (other than (w) the Corporation, (x) any trustee or other fiduciary holding securities under any employee benefit plan of the Corporation, (y) any corporation owned, directly or indirectly, by the stockholders of the Corporation 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 Corporation 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 (60) day period referred to in Rule 13d-3 under the Exchange Act), as directly or indirectly, of securities of the Corporation or of any subsidiary owning directly or indirectly all or substantially all of the consolidated assets of the Corporation (a "Significant Subsidiary"), representing thirty percent (30%) or more of the combined voting power of the Corporation'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 Corporation'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 Corporation or any Significant Subsidiary with any other entity, other than a merger or consolidation which would result in the voting securities of the Corporation 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 fifty percent (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 twelve (12)-month period) which constitutes the sale or disposition of all or substantially all of the consolidated assets of the Corporation but in no event assets having a gross fair market value of less than forty percent (40%) of the total gross fair market value of all of the consolidated assets of the Corporation (other than such a sale or disposition immediately after which such assets will be owned directly or indirectly by the stockholders of the Corporation in substantially the same proportions as their ownership of the common stock of the Corporation immediately prior to such sale or disposition.

(c) Definition of "Termination Without Cause" and "Constructive Termination Without Cause".

(i) "Termination Without Cause" shall mean the involuntary termination of a Participant's employment by the Corporation or a subsidiary without Cause.

(ii) "Constructive Termination Without Cause" shall mean the Participant's termination of his or her employment following the occurrence, without the Participant's written consent, of one or more of (A) an assignment of any duties to the Participant that is materially inconsistent with Participant's position, (B) a material decrease in Participant's annual base salary or target annual incentive award opportunity, or (C) a relocation of Participant's principal place of employment more than thirty-five (35) miles from Executive's place of employment before such relocation. In all cases, no Constructive Termination Without Cause shall be deemed to have occurred if any such event occurs as a result of a prior termination. In addition, no Constructive termination Without cause shall be deemed to have occurred unless the Participant provides written notice to the Corporation that any such event has occurred, which notice identifies the event and is provided within thirty (30) days of the initial occurrence of such event, a cure period of forty-five (45) days following the Corporation's receipt of such notice expires and the Corporation has not cured such event within such cure period, and the Participant actually terminates his/her employment within thirty (30) days of the expiration of the cure period.

(iii) "Cause" shall be deemed to occur if the Participant (A) willfully and materially breaches any of his or her obligations to the Corporation with respect to confidentiality, cooperation with regard to litigation, non-disparagement and non-solicitation; (B) is convicted of a felony involving moral turpitude; or (C) engages in conduct that constitutes willful gross neglect or willful gross misconduct in carrying out Participant's duties to the Corporation, resulting, in either case, in material harm to the financial condition or reputation of the Corporation.

11. ***General Provisions.***

(a) *Compliance with Legal and Other Requirements.* The Corporation may, to the extent deemed necessary or advisable by the Committee, postpone the issuance or delivery of Stock or payment of other benefits under any Award until completion of such registration or qualification of such Stock or other required action under any

federal or state law, rule or regulation, listing or other required action with respect to any stock exchange or automated quotation system upon which the Stock or other securities of the Corporation are listed or quoted, or compliance with any other obligation of the Corporation, as the Committee may consider appropriate, and may require any Participant to make such representations, furnish such information and comply with or be subject to such other conditions as it may consider appropriate in connection with the issuance or delivery of Stock or payment of other benefits in compliance with applicable laws, rules, and regulations, listing requirements, or other obligations. The foregoing notwithstanding, in connection with a Change in Control, the Corporation shall take or cause to be taken no

action, and shall undertake or permit to arise no legal or contractual obligation, that results or would result in any postponement of the issuance or delivery of Stock or payment of benefits under any Award or the imposition of any other conditions on such issuance, delivery or payment, to the extent that such postponement or other condition would represent a greater burden on a Participant than existed on the ninetieth (90^{th}) day preceding the Change in Control.

(b) *Limits on Transferability; Beneficiaries.* No Award or other right or interest of a Participant under the Plan shall be pledged, hypothecated or otherwise encumbered or subject to any lien, obligation or liability of such Participant to any party (other than the Corporation or a subsidiary), or assigned or transferred by such Participant otherwise than by will or the laws of descent and distribution or to a Beneficiary upon the death of a Participant, and such Awards or rights that may be exercisable shall be exercised during the lifetime of the Participant only by the Participant or his or her guardian or legal representative, except that Awards and other rights (other than ISOs in tandem therewith) may be transferred (without receipt of value from the transferee) to one or more Beneficiaries, family members or other permitted transferees designated by the Committee during the lifetime of the Participant, and may be exercised by such transferees in accordance with the terms of such Award, but only if and to the extent such transfers are permitted by the Committee pursuant to the express terms of an Award agreement (subject to any terms and conditions which the Committee may impose thereon). A Beneficiary, transferee, or other person claiming any rights under the Plan from or through any Participant shall be subject to all terms and conditions of the Plan and any Award agreement applicable to such Participant, except as otherwise determined by the Committee, and to any additional terms and conditions deemed necessary or appropriate by the Committee.

(c) *Adjustments.* In the event that any dividend or other distribution (whether in the form of cash, Stock, or other property), recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, share exchange, liquidation, dissolution or other similar corporate transaction or event affects the Stock such that an adjustment is determined by the Committee to be appropriate under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and kind of shares of Stock which may be delivered in connection with Awards granted thereafter, (ii) the number and kind of shares of Stock by which annual per-person Award limitations are measured under Section 5 hereof, (iii) the number and kind of shares of Stock subject to or deliverable in respect of outstanding Awards, and (iv) the exercise price, grant price or purchase price relating to any Award and/or make provision for payment of cash or other property in respect of any outstanding Award. In addition, the Committee is authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards (including Performance Awards and performance goals, and Annual Incentive Awards and any

Annual Incentive Award pool or performance goals relating thereto) in recognition of unusual or nonrecurring events (including, without limitation, events described in the preceding sentence, as well as acquisitions and dispositions of businesses and assets) affecting the Corporation, any subsidiary or any business unit, or the financial statements of the Corporation or any subsidiary, or in response to changes in applicable laws, regulations, accounting principles, tax rates and regulations or business conditions or in view of the Committee's assessment of the business strategy of the Corporation, any subsidiary or business unit thereof, performance of comparable organizations, economic and business conditions, personal performance of a Participant, and any other circumstances deemed relevant; provided that no such adjustment shall be authorized or made if and to the extent that such authority or the making of such adjustment would cause Performance Awards granted under Section 9(b) hereof or Annual Incentive Awards granted under Section 9(c) hereof to Participants designated by the Committee as Covered Employees and intended to qualify as "performance-based compensation" under Code Section 162(m) and regulations thereunder to otherwise fail to qualify as "performance-based compensation" under Code Section 162(m) and regulations thereunder.

(d) *Taxes.* The Corporation and any subsidiary is authorized to withhold from any Award granted, any payment relating to an Award under the Plan, including from a distribution of Stock, or any payroll or other payment to a Participant, amounts of withholding and other taxes required to be withheld by the applicable employment tax rules in connection with any transaction involving an Award, and to take such other action as the Committee may deem advisable to enable the Corporation to satisfy obligations for the payment of withholding taxes relating to any Award. This authority shall include authority to withhold or receive Stock or other property and to make cash payments in respect thereof in satisfaction of such withholding tax obligations.

(e) *Changes to the Plan and Awards.* The Board may amend, alter, suspend, discontinue or terminate the Plan or the Committee's authority to grant Awards under the Plan without the consent of stockholders or Participants, except that any amendment or alteration to the Plan shall be subject to the approval of the Corporation's stockholders not later than the annual meeting next following such Board action if such stockholder approval is required by any federal or state law or regulation or the rules of any stock exchange or automated quotation system on which the Stock may then be listed or quoted, or if the amendment increases the number of shares of Stock reserved and available for delivery in connection with Awards, materially modifies the requirements as to eligibility for participation in the Plan, or materially increases the benefits accruing to Participants, and the Board may otherwise, in its discretion, determine to submit other such changes to the Plan to stockholders for approval; provided that, without the consent of an affected Participant, no such Board action may materially and adversely affect the rights of such Participant under any previously granted and outstanding Award. Subject to the provisions of Section 7(a) the Committee may waive any conditions or rights under, or amend, alter, suspend, discontinue or terminate any Award theretofore granted and any Award agreement relating thereto, except as otherwise provided in the Plan; provided that, without the consent of an affected Participant, no such Committee action may materially and adversely affect the rights of such Participant under such Award.

(f) *Limitation on Rights Conferred under Plan.* Neither the Plan nor any action taken hereunder shall be construed as (i) giving any Eligible Person or Participant the right to continue as an Eligible Person or Participant or in the employ or service of the Corporation or a subsidiary, (ii) interfering in any way with the right of the Corporation

or a subsidiary to terminate any Eligible Person's or Participant's employment or service at any time, (iii) giving an Eligible Person or Participant any claim to be granted any Award under the Plan or to be treated uniformly with other Participants and employees, or (iv) conferring on a Participant any of the rights of a stockholder of the Corporation unless and until the Participant is duly issued or transferred shares of Stock in accordance with the terms of an Award.

(g) *Unfunded Status of Awards; Creation of Trusts.* The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant or obligation to deliver Stock pursuant to an Award, nothing contained in the Plan or any Award shall give any such Participant any rights that are greater than those of a general creditor of the Corporation; provided that the Committee may authorize the creation of trusts and deposit therein cash, Stock, other Awards or other property, or make other arrangements to meet the Corporation's obligations under the Plan. Such trusts or other arrangements shall be consistent with the "unfunded" status of the Plan unless the Committee otherwise determines with the consent of each affected Participant. The trustee of such trusts may be authorized to dispose of trust assets and reinvest the proceeds in alternative investments, subject to such terms and conditions as the Committee may specify and in accordance with applicable law.

(h) *Non-exclusivity of the Plan.* Neither the adoption of the Plan by the Board nor its submission to the stockholders of the Corporation for approval shall be construed as creating any limitations on the power of the Board or a committee thereof to adopt such other incentive arrangements as it may deem desirable including incentive arrangements and awards which do not qualify under Code Section 162(m).

(i) *Payments in the Event of Forfeitures; Fractional Shares.* Unless otherwise determined by the Committee, in the event of a forfeiture of an Award with respect to which a Participant paid cash or other consideration, the Participant shall be repaid the amount of such cash or other consideration. No fractional shares of Stock shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, other Awards or other property shall be issued or paid in lieu of such fractional shares or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

(j) *Governing Law.* The validity, construction and effect of the Plan, any rules and regulations under the Plan, and any Award agreement shall be determined in accordance with the Delaware General Corporation Law, without giving effect to principles of conflicts of laws, and applicable federal law.

(k) *Recoupment Policy.* Except as may be specifically provided in the Award agreement, each Award under the Plan shall be subject to the terms of the Corporation's Recoupment Policy as it exists from time to time.

(l) *Code Section 409A.* With respect to Awards 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 related regulations, and the Plan shall be operated accordingly. If any provision of the Plan or any term or condition of any Award would otherwise frustrate or conflict with this intent, the provision, term or condition will be interpreted and deemed amended so as to avoid this conflict. Notwithstanding anything in the Plan to the contrary, if a Participant is determined under rules adopted by the Committee to be a "specified employee" within the meaning of Code Section 409A(a)(2)(B)(i) and as defined in the Corporation's Universal 409A Definition

Document, payment under any Award hereunder shall be delayed to the extent necessary to avoid a violation of Code Section 409A.

(m) *Plan Effective Date and Stockholder Approval; Expiration Date.* The Plan has been initially adopted by the Board effective May 12, 2010, subject to approval by the stockholders of the Corporation, and amended by the Board effective as of January 15, 2013. Unless an extension is approved by the stockholders of the Corporation, the Plan shall have a term that expires on May 11, 2020, after which no further Awards may be made, provided, however, that the provisions of the Plan shall continue to apply to Awards made prior to such date.

Exhibit 10.31

Amendment

to the CVS Caremark Corporation

Amended and Restated Employment Agreement for Larry Merlo

This Amendment to the CVS Caremark Corporation Amended and Restated Employment Agreement for Larry Merlo (the "Agreement") is made and entered into as of December 21, 2012 between CVS Caremark Corporation (the "Company") and Larry Merlo (the "Executive").

WHEREAS, the Management, Planning and Development Committee of the Board of Directors of the Company 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 22 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 unless otherwise noted:

1. As of December , 2012, Subsection (a) of Section 3, Position, Duties and Responsibilities, of the Agreement shall be revised to read as follows:

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

2. The definition of "Constructive Termination Without Cause" in Section 10(c) of the Agreement shall be revised as follows:

(a) Subsection (A) shall be revised to read:

"(A) an assignment of any duties to Executive which are materially inconsistent with his status as the President and Chief Executive Officer of the Company;"

(b) Subsection (B) shall be revised to read:

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

(c) The final paragraph of the current definition of "Constructive Termination Without Cause" shall be amended to add the following at the end thereof:

", and Executive actually terminates his employment within 30 (thirty) days following the

expiration of such 30 day cure period."

3. Subsection (k) of Section 10 shall be revised to read:

"(k) Subject to the provisions of Section 22(b), all payments to be made pursuant to this Section 10 upon the termination of employment of Executive shall be made or commence, as the case may be, within 75 days after Executive's termination of employment provided, however, that is such 75-day period straddles the Executive's tax years, the payments shall be paid or commence, as the case may be, in the second, rather than the first, of such tax years."

4. Section 17, Excise Tax Gross-Up, of the Agreement shall be deleted in its entirety and replaced with the following new Section 17:

"Change in Control Best Payments Determination. In the event that the severance payments and benefits described in 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 this 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 10 above shall be done first by reducing:

in the event of a Termination Without Cause or Constructive Termination Without Cause prior to a Change in Control, cash severance determined in accordance with Section 10(c)(ii),10(c)(iii) and 10(c)(iv) and to the extent a further Benefit Reduction is necessary, then Severance Benefits will be reduced from the amounts determined in accordance with Section 10(c)(v) and 10(c)(vi);

in the event of a Termination Without Cause or Constructive Termination Without Cause following a Change in Control, cash severance determined in accordance with Section 10(e)(ii), 10(e)(iii) and 10(e)(iv) and to the extent a further Benefit Reduction is necessary, then Severance Benefits will be reduced from the amounts determined in accordance with Section 10(e)(v) and 10(e)(vi); and

in the event of a Termination upon Executive's Approved Early Retirement or Normal Retirement, cash severance determined in accordance with Section 10(f)(ii), 10(f)(iii) and 10(f)(iv) and to the extent a further Benefit Reduction is necessary, then Severance Benefits will be reduced from the amounts determined in accordance with Section 10(f)(v);

all as determined by the Accounting Firm."

5. The follow language shall be added to the end of Subsection (b) of Section 22 of the Agreement:

"In addition, it is intended that this Agreement comply with the exemptions from Code Section 409A, and shall be interpreted, operated and administered in a manner consistent with same. Any payments hereunder that qualify for the exemptions under Code Section 409A for short-term deferrals, severance pay or any other exemption shall be paid under such applicable exemption. In no event may Executive directly or indirectly designate the calendar year of any payment hereunder. Notwithstanding anything to the contrary in this Agreement, all reimbursements and in-kind benefits to Executive that constitute nonqualified deferred compensation under Code Section 409A shall be made or provided in accordance with its requirements, including the requirements that (i) any reimbursement is for expenses incurred during Executive's lifetime (or during a shorter period of time specified in this Agreement); (ii) the amount of expenses eligible for reimbursement, or in-kind benefits provided, during a calendar year may not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other calendar year; (iii) the reimbursement of an eligible expense will be made no later than the last day of the calendar year following the year in which the expense is incurred or as otherwise required by Code Section 409A; and (iv) the right to reimbursement or in kind benefits is not subject to liquidation or exchange for another benefit.

6. 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 Caremark Corporation

By: /s/ Lisa G. Bisaccia
Name: Lisa G. Bisaccia
Title: Senior Vice President and
Chief Human Resource Officer

Executive

/s/ Larry Merlo
Larry Merlo

Exhibit 10.32

Amendment

to the CVS Caremark Corporation Change in Control Agreement for

David Denton

This Amendment to the CVS Caremark Corporation Change in Control Agreement for David Denton (the "Agreement") is made and entered into as of December 31, 2012 between CVS Pharmacy, Inc. (the "Company") and David Denton (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 his employment within 30 days of the expiration of the cure period.

2. Section 3.b., Excise Tax Gross-Up, 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/ David Denton
Name: David Denton
Title: Executive Vice President and
Chief Financial Officer

Exhibit 10.33

CVS CAREMARK

CVS CAREMARK CORPORATION

Change in Control Agreement for

JONATHAN ROBERTS

This Change in Control Agreement ("Agreement") is made and entered into as of December 22, 2008 between CVS Pharmacy, Inc. ("CVS") and Jonathan Roberts (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. Definitions.

a. "Base Salary" shall mean Executive's annual rate of base salary at the time of Executive's termination of employment or, if greater, as in effect immediately prior to a Change in Control.

b. "Cause" shall exist if:

i. Executive willfully and materially breaches Sections 4 or 5 of this Agreement;

ii. Executive is convicted of a felony involving moral turpitude; or

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

For purposes of this Agreement, an act or failure to act on Executive's part shall be considered "willful" if it was done or omitted to be done by Executive not in good faith, and shall not include any act or failure to act resulting from any incapacity of Executive. A termination for Cause shall not take effect absent compliance with the provisions of this paragraph. Executive shall be given written notice by the Company of its intention to terminate Executive's employment for Cause, such notice (A) to state in detail the particular act or acts or failure or failures to act that constitute the grounds on which the proposed termination for Cause is based and (B) to be given within 90 days of the Company's learning of such act or acts or failure or failures to act. Executive shall have 20 days after the date that such written notice has been given to Executive in which to cure such conduct, to extent such cure is possible. If Executive fails to cure such conduct, Executive shall then be entitled to a hearing before the Committee, or an officer or officers designated by the Committee, at which Executive is entitled to appear. Such hearing shall be held within 25 days of such notice to Executive, provided Executive requests such hearing within 10 days of the written notice from the Company of the intention to terminate Executive for Cause. If, within five days following such hearing, Executive is furnished written notice by the Committee confirming that, in its judgment, grounds for Cause on the basis of the original notice exist, Executive shall thereupon be terminated for Cause. Executive's right to cure in accordance with this provision applies only in the event of a Change in Control as defined in Section 1(c) below and does not alter Executive's "at will" employment status.

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

(i) any Person (other than (w) the Company, (x) any trustee or other fiduciary holding securities under any employee benefit plan of the Company, (y) any company owned, directly or indirectly, by the stockholders of the Company immediately after the occurrence with respect to which the evaluation is being made in substantially the same proportions as their ownership of the common stock of the Company immediately prior to such occurrence or (z) any surviving or resulting entity from a merger or consolidation referred to in clause (iii) below that does not constitute a Change 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 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:

Jonathan Roberts
*
*

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/ Jonathan Roberts
Jonathan Roberts
Senior Vice President, Chief Information Officer, CVS
Caremark

Exhibit 10.34

Amendment

to the CVS Caremark Corporation Change in Control Agreement for

Jonathan Roberts

This Amendment to the CVS Caremark Corporation Change in Control Agreement for Jonathan Roberts (the "Agreement") is made and entered into as of December 31, 2012 between CVS Pharmacy, Inc. (the "Company") and Jonathan Roberts (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 his employment within 30 days of the expiration of the cure period.

2. Section 3.b., Excise Tax Gross-Up, 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/ Jonathan Roberts
Name: Jonathan Roberts
Title: Executive Vice President and President — CVS
Caremark Pharmacy Services

CVS CAREMARK

Partnership Equity Program

Revised December 2012

Partnership Equity Program

Table of Contents

I. Purpose and Status of the PEP. The Partnership Equity Program (the "PEP") has been adopted by the Management Planning & Development Committee ("Committee") of the Board of Directors of CVS Caremark Corporation (the "Company"), as a subplan implemented under the Company's 2010 Incentive Compensation Plan (the "2010 ICP"). The purpose of the PEP is to promote a partnership between the participating executive and the Company through a mutual commitment based on ownership of a proprietary interest in the Company. This is accomplished through an investment by the participating executive in the Company's common stock and an award by the Company of restricted stock units and stock options. All shares of Stock (as hereinafter defined) issued or delivered in settlement of Participant Purchased RSUs (as hereinafter defined) and Company Matching RSUs (as hereinafter defined) under the PEP or issued upon exercise of Company Matching Options (as hereinafter defined) granted under the PEP shall be shares of Stock reserved and available under the 2010 ICP. All of the terms and conditions of the 2010 ICP are hereby incorporated by reference. Capitalized terms used in the PEP but not defined herein shall have the same meanings as defined in the 2010 ICP Plan. If any provision of the PEP is inconsistent with a provision of the 2010 ICP, the provision of the 2010 ICP shall govern.

II. Eligibility. The Committee shall determine and approve, in its sole discretion, the executives eligible to participate in the PEP.

III. Definitions.

A. **"Award"** means any Participant's investment, Company Matching RSUs, and Company Matching Options granted to a Participant under the PEP.

B. **"Beneficiary"** has the same meaning as the definition in the 2010 ICP.

C. **"Board"** means the Company's Board of Directors.

D. **"Change in Control"** means Change in Control as defined in the 2010 ICP.

E. **"Code"** means the Internal Revenue Code of 1986, as amended from time to time, including regulations thereunder and successor

provisions and regulations thereto.

F. **"Company Matching Option"** means a right granted to a Participant under Section VIII of the PEP and 6(b) of the 2010 ICP to purchase Stock at a specified price during a specified time period.

G. **"Company Matching RSU"** refers to a RSU granted by the Company pursuant to which the Participant has a right to receive, at the time of settlement specified in the PEP, the value of one share of Stock.

H. **"Eligible Participant"** means an employee of the Company or of any subsidiary who is selected to have an opportunity to participate in the PEP.

I. **"Fair Market Value"** or **"FMV"** means the fair market value of the Stock as determined by the Committee or under procedures established by the Committee. Unless otherwise determined by the Committee, the Fair Market Value shall be the closing price of a share of Stock, as quoted on the composite transactions table on the New York Stock Exchange, on the date on which the determination of Fair Market Value is being made.

J. **"Grant Date"** means the date an Award is granted, as approved by the Committee.

K. **"Grant Price"** means the Fair Market Value of a share of Stock of the Company on the Grant Date, as approved by the Committee.

L. **"Participant"** means an Eligible Participant who has been granted an Award that remains outstanding under the PEP.

M **"Participant Purchased RSUs"** means the number of RSUs credited to a designated account representing a Participant's pre-tax investment in the PEP.

N **"Participant Purchased Shares"** means number of shares of Stock credited to a designated account representing a Participant's post-tax investment in the PEP.

O. **"Post-Tax Investment Date"** means the date on which the Participant purchases Stock in the PEP on a post-tax basis.

P. **"RSU"** means a restricted stock unit granted under Sections VII and VIII of the PEP and Section 6(d) of the 2010 ICP in each case that represents a right to receive the value of a share of Stock upon the terms and conditions set forth in the PEP, the 2010 ICP and the applicable Award agreement.

Q. **"Stock"** means the Company's common stock, $0.01 par value, and such other securities as may be substituted for Stock pursuant to Section 11 (c) of the 2010 ICP.

IV. Administration.

(A) Authority of the Committee. The PEP shall be administered by the Committee. The Committee shall have full and final authority, in each case subject to and consistent with the provisions of the PEP, to select Eligible Participants, grant Awards, determine the type, number and other terms and conditions of, and all other matters relating to, Awards, prescribe Award agreements (which need not be identical for each Participant) and rules and regulations for the administration of the PEP, construe and interpret the PEP and Award agreements and correct defects, supply omissions or reconcile inconsistencies therein, and to make all other decisions and determinations as the Committee may deem necessary or advisable for the administration of the PEP. The Committee, in its sole discretion, may waive the forfeiture provisions applicable to any Participant Purchased RSUs or Company Matching RSUs, provided that those RSUs shall be settled at the same time that they would otherwise have been settled if they had vested in due course under the terms of the PEP and the applicable Award.

(B) Manner of Exercise of Committee Authority. The express grant of any specific power to the Committee, and the taking of any action by the Committee, shall not be construed as limiting any power or authority of the Committee. To the extent permitted by applicable law, the Committee may delegate to officers or managers of the Company or any subsidiary, or committees thereof, the authority, subject to such terms as the Committee shall determine, to perform such functions, including administrative functions, as the Committee may determine. The Committee may appoint agents to assist it in administering the PEP.

(C) Limitation of Liability. The Committee and each member thereof shall be entitled to, in good faith, rely or act upon any report or other information furnished to him or her by any Participant officer, other officer or employee of the Corporation or a subsidiary, the Company's independent auditors, consultants or any other agents assisting in the administration of the PEP. Members of the Committee and any officer or employee of the Company or a subsidiary acting at the direction or on behalf of the Committee shall not be personally liable for any action or determination taken or made in good faith with respect to the PEP, and shall, to the extent permitted by law, be fully indemnified and protected by the Company with respect to any such action or determination.

V. Award. Upon approval by the Committee, an Eligible Participant shall be notified that he or she has been selected to receive an Award,

contingent upon the Eligible Participant's decision to invest in the PEP by completion of a PEP participant election form (an "Election Form"). The Award will stipulate the Grant Date and the amount the Eligible Participant may invest in the PEP.

VI. Participation. On or before the Grant Date, the Eligible Participant shall be provided an Election Form to indicate (A) the dollar amount to be invested; and (B) the form of participation by the Eligible Participant. In order to become a Participant in the PEP, the Eligible Participant must return the executed Election Form to the Company within the time period designated on such form.

VII. Form of Participation. At the determination of the Committee, an Eligible Participant may invest in the PEP in one or in a combination of the following:

(A) Participant Purchased RSUs. On a pre-tax basis by electing to use cash payable to the Participant by the Company to invest in Participant Purchased RSUs, with such investment to occur on the Grant Date (Participant shall pay all applicable FICA taxes on the total dollar value of such pre-tax investment). The Company shall establish and maintain for each Participant an account on its stock administration system for purposes of tracking and administering the Participant Purchased RSUs.

Upon receipt by the Company from the Participant of a commitment to invest an amount in the PEP on a pre-tax basis as set forth on an Election Form, as of the Grant Date the Company will credit to the Participant's account an amount of Participant Purchased RSUs, as follows:

(i) The initial number of Participant Purchased RSUs shall be equal to the Participant's elected investment amount divided by the Fair Market Value of the Stock as of the Grant Date, rounded up to the next whole number of shares.

(ii) Each Participant Purchased RSU represents a right to receive, at the time of settlement specified in the PEP, the value of one share of Stock.

(iii) Participant Purchased RSUs are non-transferable.

(B) Participant Purchased Shares. On an after-tax basis by designating Stock as follows:

(i) Designation by the Participant of Stock that the Participant owns as Participant Purchased Shares, with such designation as provided on the completed Election Form. The number of shares of Stock designated by the Participant as Participant Purchased Shares shall have a total Fair Market Value as of the Grant Date at least equal to the amount of the approved investment amount set forth in the Award.

(ii) Purchase of Stock by the Participant to be designated as Participant Purchased Shares, with such purchase and investment in the PEP to occur within thirty (30) days of the Grant Date.

a. The number of shares of Stock purchased by the Participant shall have a total Fair Market Value as of the purchase date at least equal to the investment amount set forth in the applicable Election Form (or, if applicable, at least equal to the difference between the Fair Market Value of the shares of Stock designated by the Participant under Section VII (B) (i) and the investment amount).

b. The Participant is responsible for the payment of any brokerage fees associated with the purchase of Stock for this purpose.

Under no circumstance may a Participant designate as Participant Purchased Shares any shares not actually owned by the Participant, including shares that are held in any other deferred compensation program sponsored by the Company or any prior employer of the Participant or any shares of Stock that are held in a qualified defined contribution plan as defined by the Code.

In all cases, the Participant shall maintain an account administered by a brokerage firm to hold the Participant Purchased Shares. The Participant is required to demonstrate, on a semi-annual basis and in the form required by the Company, that he or she has maintained ownership of such designated Participant Purchased Shares throughout the required ownership period.

VIII. Company Matching Investments. The Company shall establish and maintain for each Participant an account on its stock administration system for purposes of tracking and administering the Company Matching RSUs and Company Matching Options. As of the Grant Date, the Company shall make a matching Award to the Participant as described below.

(A) Company Matching RSUs. The Company Matching RSUs are non-transferable, shall be equal in number to the total Participant Purchased RSUs or to the Participant's investment amount divided by the Fair Market Value as of the Grant Date, and shall be credited to the Participant's account as of the Grant Date.

(B) Company Matching Option. The Company Matching Option is non-transferable and shall comprise an option to purchase a number of shares of Stock equal to ten (10) times the number of Company Matching RSUs and shall be credited to the Participant's account as of the Grant Date.

IX. Restrictions on Disposition of Participant Purchased Shares. Participant Purchased Shares are not subject to restriction on transfer, withdrawal, or other dispositions, except that if the Participant transfers, withdraws, sells or otherwise disposes of Participant Purchased Shares

prior to the earlier of the fifth (5th) anniversary of the Grant Date or the date of the settlement of the Company Matching RSUs relating to Participant Purchased Shares, the Participant will immediately forfeit the number of Company Matching RSUs (including additional Company Matching RSUs acquired as a result of dividend reinvestment, as described below) and all or a portion of the Company Matching Options, in each case granted in respect of the Purchased Shares disposed of, determined as follows: such Participant shall forfeit the Company Matching Option to purchase ten (10) shares for each Participant Purchased Share so disposed of, except that only the portion of the Company Matching Option that is not yet exercisable shall be forfeited.

X. Dividends. To the extent that dividends are declared on Stock as of a record date on which Participant Purchased RSUs or Company Matching RSUs remain outstanding and prior to the Settlement Date (as defined below), the Company shall credit as of the dividend payment date, a number of additional Participant Purchased RSUs or Company Matching RSUs to the Participant's account, which shall be determined by multiplying (i) the amount of cash actually paid by the Company as a dividend per share of Stock by (ii) the number of Participant Purchased RSUs and Company Matching RSUs credited to the Participant's account as of the record date and dividing the product by (iii) the FMV per share of Stock on the dividend or dividend equivalent payment date; provided, however, that such additional Participant Purchased RSUs and Company Matching RSUs shall be subject to the same terms and conditions (including vesting) as the underlying award. As necessary to reflect dividend equivalents, a Participant's RSUs account will include fractional Stock units calculated to not

less than three decimal places.

XI. Vesting and Settlement of Participant Purchased RSUs and Company Matching RSUs. Except as provided under Section XIII, Participant Purchased RSUs and Company Matching RSUs not previously forfeited shall vest on the fifth anniversary of the Grant Date (the "Vesting 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 Vesting Date (the "Settlement Date"). On the Settlement Date, the Company shall deliver to the Participant one share of Stock for each Participant Purchased RSU and Company Matching RSU; provided, however, that at the Settlement Date the number of shares of Stock to be delivered by the Company to the Participant shall be reduced by the smallest number of shares of Stock having a FMV at least equal to the dollar amount of Federal, state or local tax withholding required to be withheld by the Company with respect to such Participant Purchased RSUs and Company Matching RSUs on such date. In lieu of having the number of shares of Stock underlying the Participant Purchased RSUs and Company Matching RSU reduced, the Participant may elect to pay the Company for any amounts required to be withheld by the Company in connection with the settlement of the Participant Purchased RSUs and Company Matching RSUs pursuant to the Agreement. Such election may be made electronically at any time prior to the Settlement Date.

If the settlement includes any fractional share of Stock the Company may instead pay cash in lieu of delivery of a fractional share, on such basis as the Committee may determine. Upon settlement, all obligations of the Company in respect of Participant Purchased RSUs and Company Matching RSUs will be terminated, and the shares of Stock so distributed will no longer be subject to any risk of forfeiture or restriction under the PEP.

The settlement of Participant Purchased RSUs and Company Matching RSUs shall be subject to the settlement timing provisions of Section XIV(C)(ix) of the PEP.

XII. Options to Purchase Common Stock.

(A) Grant of Option. A Participant shall be granted a Company Matching Option in accordance with VIII (B) of the PEP.

(B) Exercise Price. The exercise price per share of Stock under a Company Matching Option shall be the FMV on the Grant Date, unless otherwise determined by the Committee, provided that in no event will the exercise price be less than the FMV of a share of Stock on the Grant Date.

(C) Vesting and Method of Exercise. Unless otherwise determined by the Committee, Company Matching Options will vest as to one-third of the underlying shares of Stock on each of the third, fourth and fifth anniversaries of the Grant Date; provided, however, that the exercisability of said Company Matching Option may be accelerated in accordance with the provisions of the PEP. To the extent vested, a Company Matching Option may be exercised in whole or in part, from time to time, all subject to the limitations on exercise set forth in this Section XII. An exercise shall be accomplished in accordance with Section 6(b) of the 2010 ICP. At the time of exercise, the exercise price of the number of shares as to which the Company Matching Option is being exercised shall be tendered to the Company. The exercise price of such Company Matching Option shall be paid in cash or

by check or by surrender to the Company of shares of Stock (valued at their FMV as of the date of exercise) already owned by the Participant, other than shares acquired from the Company by exercise of an option during the preceding six months, or by a combination of cash, check, and surrender of such shares.

(D) Expiration. The Company Matching Option, to the extent it has not been exercised or previously terminated due to forfeiture, shall expire on the tenth (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, or a 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 the date of termination. For purposes of this section, "Cause" shall have the same meaning as defined in the Company's standard change in control agreement. Participant's transfer of employment from the Company to a subsidiary, from a subsidiary to the Company or from one subsidiary to another subsidiary shall not be considered a termination of employment.

(A) Termination of Participant's Employment without Cause.

(i) In the event that a Participant's employment is terminated without Cause by the Company or one of its subsidiaries and the Participant receives severance pay following the Participant's termination of employment, any Participant Purchased Shares or Participant Purchased RSUs shall be vested and no longer subject to any transfer or sale restrictions. In addition, vesting of the Company Matching RSUs and Company Matching Options shall continue through the end of the severance period set forth in the Participant's severance agreement providing for such severance pay if and to the extent those awards would otherwise vest during such period, and any 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. A "Qualified Retiree" is a Participant who is at least age fifty-five (55) with at least ten (10) years of service, or at least age sixty (60) with at least five (5) years of service, at the time of the Participant's voluntary termination of employment or termination by the Company without Cause ("Retirement Date"). As of the Qualified Retiree's Retirement Date any Participant Purchased Shares or Participant Purchased RSUs shall be vested and no longer subject to any transfer or sale restrictions. The Qualified Retiree may exercise his or her vested Company Matching Option during the two-year period following the Retirement Date; any portion of the Company Matching Option which is not vested as of the Retirement Date shall be forfeited by the Participant as of the Retirement Date. Any Company Matching RSU that is not vested as of the Retirement Date shall be forfeited by the Participant, except to the extent that the Participant is

granted severance pay and the vesting of the Participant's Company Matching RSU is extended pursuant to Section XIII (A) above.

(C) Disability of Participant. In the event a Participant ceases to be employed by the Company, or any subsidiary of the Company, by reason of total and permanent disability (as defined in the Company's Long-Term Disability Plan, or, if not defined in such plan, as defined by the Social Security Administration), any Participant Purchased Shares or Participant Purchased RSUs shall be vested and no longer subject to any transfer or sale restrictions. In addition, any Company Matching RSUs shall be vested and be settled and any Company Matching Option shall vest and be exercisable, in each case on a pro rata basis in accordance with the Award in effect for the Participant. Notwithstanding the foregoing, a Participant shall be deemed to have ceased employment due to a qualifying disability under this Section XIII (C) only if at the time of such cessation of employment the Participant is disabled within the meaning of Section 409A of the Code pursuant to the regulations thereunder.

(D) Death of Participant. In the event of a Participant's death while employed by the Company or one of its subsidiaries, any Participant Purchased Shares or Participant Purchased RSUs shall be vested and no longer subject to any transfer or sale restrictions. In addition, all Company Matching RSUs shall vest and be settled and Company Matching Options shall become immediately vested in full. The Company Matching Option may be exercised up to one (1) year following the Participant's death, or prior to the Company Matching Option expiration date, whichever occurs first, by the Participant's executor, administrator, personal representative or any person or persons who acquired the Company Matching Option directly from the Participant by bequest or inheritance. At the end of said one-year time period, all rights with respect to any Company Matching Option that is unexercised shall terminate and the unexercised Company Matching Option shall be cancelled.

(E) Change In Control. In the event of a Termination Without Cause or a Constructive Termination Without Cause, in each case within the two-year period following a Change in Control, any Participant Purchased Shares or Participant Purchased RSUs shall be vested and no longer subject to any transfer or sale restrictions. In addition, all of the Participant's outstanding Company Matching RSUs shall vest and be settled and Company Matching Options that are not then vested will become immediately vested and exercisable. All other terms and conditions governing such Company Matching RSUs, Participant Purchased RSUs and Company Matching Options will be subject to the provisions of the Company's 2010 ICP.

(F) Coordination of Provisions. Notwithstanding anything to the contrary above, to the extent that the circumstances of the termination of a Participant's employment are within the description of more than one of the subparagraphs above in this Section XIII, each portion of a Participant's Company Matching RSU or Company Matching Option under any Award shall be

entitled to the more favorable treatment explicitly applicable to such portion of the Participant's Company Matching RSU or Company Matching Option under the provisions of this Section XIII. For example, if a Participant qualifies as Qualified Retiree at the time of the Participant's termination of

employment but the Participant receives severance in connection with the Participant's termination as described in Section XIII (A), the Participant's unvested Matching Company Option shall continue to vest during the applicable severance period and any portion of the Company Matching Option that vests during the severance period shall be exercisable on or before the ninetieth (90^{th}) 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 Vesting 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.

Exhibit 10.36

Pre-Tax

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

AGREEMENT, by and between CVS Caremark Corporation, a Delaware corporation (the "Company"), and ("Participant"), effective on , herein after known as the "Grant Date" (this "Agreement").

WHEREAS, Participant has been selected as an employee eligible to invest under the Company's Partnership Equity Program (the "PEP") and has elected in the Participant's Election Form to invest $ in the PEP, subject to the terms and conditions set forth in the PEP and in this Agreement;

WHEREAS, the Company desires to provide Participant with written evidence acknowledging Participant's investment under the PEP, his or her acquisition of Participant Purchased RSUs) and the corresponding grant of Company Matching RSUs and Company Matching Options under the PEP.

WHEREAS, the provisions of the PEP and the Company's 2010 Incentive Compensation Plan (the "ICP") are hereby incorporated by reference and shall have the same force and effect as though fully set forth herein; participant hereby acknowledges receipt of a copy of the PEP and the ICP at the time of receipt of this Agreement and agrees to be bound by such provisions (as presently in effect or hereafter amended); if any provision of this Agreement is inconsistent with a provision of the PEP or the ICP, the terms of the PEP and/or the ICP, or any successor thereto, shall control; capitalized terms used in this Agreement but not defined herein shall have the same meanings as in the PEP or the ICP, as the case may be; and on the Grant Date specified above, the Fair Market Value (the "FMV") of a share of CVS Caremark Common Stock equals $, which is the closing price on such date.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the parties hereto agree as follows:

I. PARTICIPANT PURCHASED RSUs AND COMPANY MATCHING RSUs

(A) **Participant Purchased RSUs**. The Company has received from Participant an Election Form authorizing the Company to apply designated future compensation of $ to the purchase of Participant Purchased RSUs on the Grant Date under the PEP, and the Company has accordingly credited Participant's Account under the PEP with the Participant Purchased RSUs. The Participant Purchased RSUs (including any Participant Purchased RSUs credited to Participant pursuant to Section I(C)(ii)) shall be fully vested at all times.

(B) **Crediting of Company Matching RSUs**. As of the Grant Date the Company hereby awards the Participant, subject to the terms and conditions set forth and incorporated in this Agreement and the PEP, Company Matching RSUs.

(C) **Additional Transactions in Participant Accounts**.

(i) Each Participant Purchased RSU and Company Matching RSU represents a right to a future payment of one share of Stock, subject to applicable tax withholding.

(ii) To the extent that dividends are declared and paid on shares of Stock while the Participant Purchased RSUs and Company Matching RSUs remain outstanding and prior to a Settlement Date (as defined below), the Company shall credit to

Participant's Purchased RSU account and Company Matching RSU account (as applicable) an additional number of Participant Purchased RSUs and Company Matching RSUs calculated by multiplying (a) the amount of dividend per share of Stock paid by the Company by (b) the number of Participant Purchased RSUs and Company Matching RSUs held by Participant on the record date of such dividend, and dividing the product by (c) the FMV of a share of Stock on such dividend payment date:

(iii) provided, however, that if such dividend is paid prior to the Vesting Date of Participant Purchased RSUs and/or 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 referred 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 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 anniversary of the Grant Date, Participant's termination of employment (to the extent not forfeited under the PEP) or a Change in Control (as defined in Section 10 of the ICP), 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 Participant Purchased RSUs. 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) Within **fifteen** (15) days following the earliest of the fifth 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).

(iv) Subject to the rules promulgated by the Committee, the terms of the CVS Caremark Deferred Stock Compensation Plan and Section 409A, Participant may elect to defer settlement of Participant Purchased or Company Matching RSUs covered by this Agreement.

II. COMPANY MATCHING OPTION

(A) Grant of Option. The Company hereby awards and evidences the grant to Participant, subject to the terms and conditions incorporated in this Agreement, the right, and option, to purchase from the Company shares of Stock, with an Exercise Price per share of

Stock equal to the FMV of a share of Stock on the Grant Date , such Company Matching Option to be exercised as hereinafter provided. The Company Matching Option is a nonqualified option as defined in the ICP.

(B) Term of Company Matching Option. The term of this Company Matching Option shall be for a period of ten (10) years from the Grant Date, subject to the earlier termination of the Company Matching Option, as set forth in the ICP and in this Agreement.

(C) Exercise of Company Matching Option.

(i) 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 option price of the shares of Stock Participant has elected to purchase or certificates for shares of Stock of the Company owned by Participant for at least six (6) months with a FMV at least equal to the aggregate option price of the shares of Stock Participant has elected to purchase, or a combination of the foregoing.

(ii) Prior to its expiration or termination, and except as otherwise provided herein, the Company Matching Option may be exercised by Participant, provided Participant has maintained continuous employment with the Company or a subsidiary of the Company immediately following the Grant Date, within the following time limitations:

a. On or after three (3) years from the Grant Date, the Company Matching Option may be exercised as to not more than one-third (1/3) of the shares of Stock originally subject to the Company Matching Option;

b. On or after four (4) years from the Grant Date, the Company Matching Option may be exercised as to not more than an aggregate of two-thirds (2/3) of the shares of Stock originally subject to the Company Matching Option; and

c. On or after five (5) years from the Purchase Date, the Company Matching Option may be exercised as to any part or all of the shares of Stock originally subject to the Company Matching Option.

(D) **Company Matching Option Expiration**. The Company Matching Option shall be and become exercisable only as provided above and shall expire at the earlier of the close of business on the day before the tenth anniversary of its Grant Date or such earlier termination as described in Section III below.

III. TERMINATION OF EMPLOYMENT AND CHANGE IN CONTROL

(A) Except as provided in Sections III(B) - (E) below, if, for any reason, Participant's employment is terminated by the Company, or a subsidiary of the Company, all Company Matching RSUs and Company matching Options 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, or any subsidiary of the Company, terminates by reason of death, Company Matching RSUs and Company Matching Options not then vested in accordance with Section I(D) and II(C)(ii) will become immediately vested, and the vested portion of the Company Matching Option shall be exercisable during the twelve (12) month period following the date on which Participant's employment terminates, 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 is terminated 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), the Company Matching RSUs and the Company Matching Options shall vest on a pro rata basis as follows:

(i) the total number of Company Matching RSUs vested as of the Separation 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 total number of Company Matching Options vested as of the Separation Date (which is the last day that the Participant is employed by the Company or any subsidiary of the Company), including Company Matching Options previously vested, shall be equal to the number of Company Matching Options granted on the Grant Date 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 the date on which Participant's employment terminates, 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.

(D) **Termination of Employment without Cause.** In the event that Participant's employment is terminated without cause, as that term is defined in Participant's Change in Control agreement ("Cause"), by the Company or any subsidiary thereof, and Participant receives severance pay following Participant's employment, vesting of Participant's Company Matching RSU and the Company Matching Option shall continue through the last day of the severance period (to the extent that a relevant vesting date occurs within the severance period) and the vested portion of 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 no Company Matching Option will be exercisable beyond its original term.

(E) **Retirement**. An Participant shall be a "Qualified Retiree" if he or she (i) is at least age fifty-five (55) and has at least ten (10) years of continuous service, or (ii) is at least age sixty (60) and has at least five (5) years of continuous service at the time of his or her Retirement Date; provided, however, that an Participant who (a) voluntarily terminates his or her employment, or (b) whose employment is terminated without Cause by the Company or one of its subsidiaries, each at a time when Participant has satisfied the age and service requirements set forth above, shall be deemed a Qualified Retiree and such termination date shall be deemed a Retirement Date.

(i) A Qualified Retiree may exercise a vested Company Matching Option, to the extent that Participant shall be entitled to do so 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. Company Matching Options unvested at the Retirement Date are 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 shall be deemed a Qualified Retiree.

(ii) Company Matching RSUs that are unvested as of the Retirement Date are forfeited.

(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. As a condition of receiving the benefits of this Agreement, Participant acknowledges that he has previously executed the CVS Caremark Corporation Employee Non-Competition, Non-Disclosure and Developments Agreement and reaffirms his intent to be bound by and to comply with his obligations in that agreement.

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.** The award(s) covered by this Agreement shall be subject to the terms of the Company's Recoupment Policy as it exists from time to time.

(C) **Certain Terms and Conditions of the PEP**. Participant acknowledges and agrees that terms and conditions of the PEP preclude all transfers of Participant Purchased RSUs, all Company Matching RSUs, and all Company Matching Options, except in limited circumstances in the event of Participant's death, impose a risk of forfeiture on Company Matching RSUs and Company Matching Options, 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 Company Matching Options 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 a 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 with respect to 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 nor Company Matching Options evidenced hereby shall constitute or be evidenced of any agreement or understanding, expressed or implied, on the part of the Company or its subsidiaries to employ the 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.

(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 shares of Stock have been delivered to Participant.

(I) **Section 409A.** The Company intends that the award granted under this Agreement comply with the provisions of Section 409A of the Internal Revenue Code of 1986, as amended, and all regulations and guidance promulgated thereunder ("Section 409A. Notwithstanding the foregoing, the Company makes no guarantees as to the tax consequences of the payments made hereunder, including under Section 409A, and the Participant shall be solely responsible and liable there for.

(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 the Participant shall be addressed to such Participant at the 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, and shall be deemed given as of [five (5)] days following the date of mailing.

By: **s/Lisa G. Bisaccia**
Senior Vice President
Chief Human Resources Officer
CVS CAREMARK CORPORATION

Accepted by: _____
[Name]

_____
[Employee ID #]

_____
[Date]

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

AGREEMENT, by and between CVS Caremark Corporation, a Delaware corporation (the "Company"), and ("Participant"), effective on , herein after known as the "Grant Date" (this "Agreement").

WHEREAS, Participant has been selected as an employee eligible to invest under the Company's Partnership Equity Program (the "PEP"), and has elected in the Participant's Election Form to invest $ in the PEP, subject to the terms and conditions set forth in the PEP and in this Agreement.

WHEREAS, the Company desires to provide Participant with written evidence acknowledging Participant's investment under the PEP through Participant Purchased Shares and the corresponding grant of Company Matching RSUs and Company Matching Options under the PEP.

WHEREAS, the provisions of the PEP and the Company's 2010 Incentive Compensation Plan (the "ICP") are hereby incorporated by reference and shall have the same force and effect as though fully set forth herein; Participant hereby acknowledges receipt of a copy of the PEP and the ICP at the time of receipt of this Agreement and agrees to be bound by such provisions (as presently in effect or hereafter amended); if any provision of this Agreement is inconsistent with a provision of the PEP or the ICP, the terms of the PEP and/or the ICP, or any successor thereto, shall control; capitalized terms used in this Agreement but not defined herein shall have the same meanings as in the PEP, or the ICP, as the case may be; and on the Grant Date specified above, the Fair Market Value (the "FMV") of a share of CVS Caremark Common Stock ("Stock") equals $, which is the closing price on such date.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the parties hereto agree as follows:

I. PARTICIPANT PURCHASED SHARES AND COMPANY MATCHING RSUs

(A) Participant Purchased Shares.

(i) The Company has received from Participant a completed Election Form pursuant to which the Participant elects to invest the amount of $ in Participant Purchased Shares under the PEP. Participant's Post-Tax Investment Date must occur within thirty (30) days of the Grant Date, and Participant must provide evidence to the Company of Participant's purchase and ownership of the Participant Purchased Shares with a value as of the purchase 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, 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 Account (as applicable) an additional number of Company Matching RSUs calculated by multiplying (a) the amount of dividend per share of Stock paid by the Company's Board of Directors by (b) the number of Company Matching RSUs held by Participant on the record date of such dividend and dividing the product by (c) the FMV of a share of Stock on such dividend payment date; 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.

(iii) Participant hereby agrees that, prior to the Settlement Date, the Company may withhold from the dividend equivalent amounts referred 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 Caremark Deferred Stock Compensation Plan and Section 409A, Participant may elect to defer settlement of Company Matching RSUs covered by this Agreement.

II. COMPANY MATCHING OPTION

(A) Grant of Option. The Company has awarded as of the Grant Date and hereby evidences the grant to Participant, subject to the terms and conditions incorporated in this Agreement, the right, and option, to purchase from the Company shares of Stock, with an Exercise Price per share of Stock equal to the FMV of a share of Stock on the Grant Date, such Company Matching Option to be exercised as hereinafter provided. The Company Matching Option is a nonqualified option as defined in the ICP.

(B) Term of Company Matching Option. The term of this Company Matching Option shall be for a period of ten (10) years from the Grant Date, subject to the earlier termination of the Company Matching Option, as set forth in the ICP and in this Agreement.

(C) Exercise of Company Matching Option.

(i) 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 option price of the shares of Stock Participant has elected to purchase or certificates for shares of Stock already owned by Participant for at least six (6) months with a FMV at least equal to the aggregate option price of the shares of Stock Participant has elected to purchase, or a combination of the foregoing.

(ii) Prior to its expiration or termination, and except as otherwise provided herein, the Company Matching Option may be exercised by Participant, provided Participant has maintained continuous employment with the Company or a subsidiary of the Company immediately following the Grant Date, within the following time limitations:

a. On or after three (3) years from the Grant Date, the Company Matching Option may be exercised as to not more than one-third (1/3) of the shares of Stock originally subject to the Company Matching Option;

b. On or after four (4) years from the Grant Date, the Company Matching Option may be exercised as to not more than an aggregate of two-thirds (2/3) of the shares of Stock originally subject to the Company Matching Option; and

c. On or after five (5) years from the Grant Date, the Company Matching Option may be exercised as to any part or all of the shares of Stock originally subject to the Company Matching Option.

(D) **Company Matching Option Expiration**. The Company Matching Option shall be and become exercisable only as provided above, and shall expire at the earlier of the close of business on the day before 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) - (E) below, if, for any reason, Participant's employment is terminated by the Company, or a subsidiary of the Company, all Company

Matching RSUs and Company Matching Options 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, or any subsidiary of the Company, terminates by reason of death, Company Matching RSUs and Company Matching Options not then vested in accordance with Section I(D) and II(C)(ii) will become immediately vested, and the vested portion of the Company Matching Option shall be exercisable during the twelve (12) month period following the date on which Participant's employment terminates, 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 is terminated 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), the Company Matching RSUs and the Company Matching Option shall vest on a pro rata basis as follows:

(i) the total number of Company Matching RSUs vested as of the Separation 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 total number of Company Matching Options vested as of the Separation Date (which is the last day that the Participant is employed by the Company or any subsidiary of the Company), including Company Matching Options previously vested, shall be equal to the number of Company matching Options granted on the Grant Date 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 the date on which Participant's employment terminates, as long as no government regulations or rules are violated by such accelerated vesting or exercise period; provide, however, that no Company Matching Option shall be exercisable beyond its original term.

(D) **Termination of Employment without Cause.** In the event that Participant's employment is terminated without cause, as that term is defined in Participant's Change in Control agreement ("Cause"), by the Company or any subsidiary thereof, and Participant receives severance pay following Participant's employment, vesting of Participant's Company Matching RSU and the Company Matching Option shall continue through the last day of the severance period (to the extent that a relevant vesting date occurs within the severance period) and the vested portion of 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 no Company Matching Option will be exercisable beyond its original term.

(E) **Retirement**. A Participant shall be a "Qualified Retiree" if he or she (i) is at least age fifty-five (55) and has at least ten (10) years of continuous service, or (ii) is at least age sixty (60) and has at least five (5) years of continuous service at the time of his or her Retirement Date; provided, however, that an Participant who (a) voluntarily terminates his or her employment, or

(b) whose employment is terminated without Cause by the Company or one of its subsidiaries, each at a time when Participant has satisfied the age and service requirements set forth above, shall be deemed a Qualified Retiree and such termination date shall be deemed a Retirement Date.

(i) A Qualified Retiree may exercise a vested Company Matching Option, to the extent that Participant shall be entitled to do so 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. Company Matching Options unvested at the Retirement Date are 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 shall be deemed a Qualified Retiree.

(ii) Company Matching RSUs that are unvested as of the Participant's Retirement Date are forfeited as of the Retirement Date.

(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. As a condition of receiving the benefits of this Agreement, Participant acknowledges that he or she has previously executed the CVS Caremark Corporation Employee Non-Competition, Non-Disclosure and Developments Agreement and reaffirms his or her intent to be bound by and to comply with his or her obligations in that agreement.

V. MISCELLANEOUS.

(A) Withholding Tax. Participant may be subject to withholding taxes as a result of the exercise of a Company Matching Option or settlement of Company Matching Restricted Stock Units. 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. The award(s) covered by this agreement shall be subject to the terms of the Company's Recoupment Policy as it exists from time to time.

(C) Certain Terms and Conditions of the PEP. Participant acknowledges and agrees that terms and conditions of the PEP preclude all transfers of Participant Purchased Shares, all Company Matching RSUs, and all Company Matching Options, except in limited circumstances in the event of Participant's death, impose a risk of forfeiture on Company Matching RSUs and Company Matching Options, 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 Company Matching Options 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 an 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 subject matter addressed herein, 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 with respect to 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 Company Matching Options 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 the 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.

(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 and the award granted hereunder comply with the provisions of Section 409A of the Internal Revenue Code of 1986, as amended, and all regulations and guidance promulgated thereunder ("Section 409A"). Notwithstanding the foregoing, the Company makes no guarantees as to the tax consequences of the payments made hereunder under Section 409A, and the Participant shall be solely responsible and liable therefor.

(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 the Participant shall be addressed to such Participant at the address as shown on the records of the Company, subject to the right of either party to designate in writing some other address for notices.

By: **s/Lisa G. Bisaccia**
Senior Vice President
Chief Human Resources Officer
CVS CAREMARK CORPORATION

Accepted by:

[NAME]

[Employee ID #]

Date

CVS CAREMARK CORPORATION
NONQUALIFIED STOCK OPTION AGREEMENT
GRANT DATE: APRIL 2, 2012

1. GRANT OF AWARD. Pursuant to the provisions of the 2010 Incentive Compensation Plan (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 "**Optionee**"), 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 Optionee 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.

Optionee:
Employee ID:
Shares:
Option Price: **$xx.xx**

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 Optionee entitled to exercise the Option to utilize such "cashless exercise" procedures, Optionee 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 Optionee has elected to purchase or certificates for Shares of Common Stock of the Company owned by Optionee for at least six (6) months with a fair market value at least equal to the aggregate option price of the Shares Optionee 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 the Optionee so long as Optionee 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 Optionee to pay the amount of such taxes immediately, upon notification from the Company, before a certificate for the Shares purchased is delivered to Optionee pursuant to such Option. Furthermore, the Company may elect to deduct such taxes from any other amounts then payable to Optionee in cash or in Shares or from any other amounts payable any time thereafter to Optionee.

5. NON-TRANSFERABILITY. The Option shall not be transferable by Optionee other than by will or by the laws of descent and distribution, and during Optionee's lifetime the Option shall be exercised only by Optionee and only during the continuance of Optionee's employment, except as may otherwise be provided under the ICP.

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 Optionee's termination of employment with the Company or any of its subsidiaries.

7. TERMINATION OF OPTIONEE'S EMPLOYMENT WITHOUT CAUSE. In the event that Optionee's employment is terminated without cause by the Company or one of its subsidiaries and Optionee receives severance pay following Optionee'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. Any vested Options shall be exercisable at any time during the severance period and on or before the ninetieth (90th) day following the last day of the severance period, as long as no government regulations or rules are violated by such continued vesting or exercise period; *provided, however*, that no Option will be exercisable beyond its original option term.

8. **RETIREMENT OF OPTIONEE.** A "Qualified Retiree" (defined below) may exercise a vested Option, to the extent that Optionee shall be entitled to do so as of Optionee's Retirement Date, at any time within two (2) years after Optionee's Retirement Date, but not beyond the original term of the Option. Subject to the provisions below regarding vesting during a severance period, Options unvested at the Retirement Date are forfeited. A "Qualified Retiree" shall be an Optionee who (a) voluntarily terminates his or her employment with, or is terminated without cause by the Company or one of its subsidiaries, and (b) has attained the age of fifty-five (55) and has at least ten (10) years of continuous service, or attained the age of sixty (60) with at least five (5) years of continuous service on his or her last date of employment (the "**Retirement Date**"). If the Qualified Retiree is receiving severance pay following such Retirement Date pursuant to a written agreement, the vesting provisions of Section 7 shall apply to any Options that are not vested as of the Retirement Date. Any Options that vest during such severance period shall be exercisable until the later of the ninetieth (90th) day following the last day of the severance period and the two-year anniversary of Optionee's Retirement Date, but not beyond the original term of the Option, as long as no government regulations or rules are violated by such continued vesting or exercise period. 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 Optionee shall be deemed a Qualified Retiree.

9. **DISABILITY OF OPTIONEE.** In the event Optionee 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), the Options shall vest as follows: the total number of Options vesting as of the separation date (which is the last day that Optionee is employed by the Company or any subsidiary of the Company), shall be equal to (i) the number of Options granted on the Grant Date *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 forty-eight (48), *minus* (ii) the number of Options vested prior to the separation date (whether or not such previously vested Options were 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 separation date is eight months and five days, the numerator in sub-section (A) above shall be nine. The vested Option may be exercised at any time within one (1) year of Optionee's separation date but not beyond the original term of the Option.

10. **DEATH OF OPTIONEE.** In the event of Optionee's death while Optionee is employed by the Company or a subsidiary of the Company, all unvested Options shall immediately vest and the Option shall remain exercisable for a period of one (1) year after Optionee's death, or prior to the Option expiration date, whichever occurs first, by Optionee's executor, administrator, personal representative or any person or persons who acquired the Option directly from Optionee by bequest or inheritance. At the end of said one-year time period, all rights with respect to any Option that is unexercised shall terminate and the unexercised Option shall be cancelled.

11. **TRANSFER OF EMPLOYMENT.** Transfer of employment of Optionee 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 cessation of employment.

12. **ACCEPTANCE OF AWARD.** The Option may not be exercised unless and until the Company has received acceptance by Optionee of the terms and conditions set forth herein. Acceptance may be submitted either electronically, if available, or in writing.

13. **NOTICE.** Any notice required to be given hereunder to the Company shall be addressed to the Company, attention Senior Vice President, Chief Human Resources Officer, One CVS Drive, Woonsocket, RI 02895, and any notice required to be given hereunder to Optionee shall be addressed to Optionee 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 AWARDS DUE TO FRAUD OR FINANCIAL MISCONDUCT.** Any portion of this Stock Option that has not been exercised shall be forfeited and cancelled, and Optionee shall immediately repay to the Company the value of any pre-tax economic benefit that Optionee derived from any portion of this Stock Option that has been exercised if the Board determines that Optionee is subject to recoupment under the Company's recoupment policy as it exists from time to time. The portion of this Stock Option to be cancelled and the amount to be repaid by Optionee shall be the portion and amount necessary to disgorge the value enjoyed or realized by Optionee from this Stock Option and the underlying Shares, as determined by the Board, or a portion of such value as may be determined by the Board in its sole discretion. In making its determinations under this paragraph, the Board may, by way of example only, (i) with respect to any portion of this Stock Option which has been exercised and as to which beneficial ownership of the Shares obtained on exercise has not been transferred by Optionee as of the date the repayment obligation arises, require Optionee to repay to the Company an amount equal to the Fair Market Value of such Shares as of the date of such repayment, less the exercise price paid by Optionee to acquire such Shares; and (ii) with respect to any portion of this Stock Option which has been exercised and as to which beneficial ownership of the Shares obtained on exercise has been transferred by Optionee as of the date the repayment obligation arises, require Optionee to repay to the Company an amount equal to the Fair Market Value of such Shares as of the date such Shares were transferred by Optionee, less the exercise price paid by Optionee to acquire such Shares. In each case the amount to be repaid by Optionee shall also include any dividends (including any economic benefit thereof) or distributions received by Optionee with respect to any Stock Option Shares and, in calculating the value to be repaid, adjustments may be made for stock splits or other capital changes or corporate transactions, as determined by the Board. If Optionee fails to repay the required value immediately upon request by the Board, the Company may seek reimbursement of such value from Optionee by reducing salary or any other payments that may be due to Optionee, to the extent legally permissible, and/or through initiating a legal action to recover the such amount, which recovery shall include any reasonable attorneys fees incurred by the Company in bringing such action.

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 Optionee 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 the State of Rhode Island, without giving effect to principles of conflict of laws.

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

CVS CAREMARK CORPORATION
RESTRICTED STOCK UNIT AGREEMENT — ANNUAL GRANT
GRANT DATE: DATE

1. Pursuant to the provisions of the 2010 Incentive Compensation Plan (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 or incorporated in this RSU 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 $45.07.

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, if applicable, such payment shall be in Shares.

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 payment 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, including Section 5 below, 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 set forth herein, unless delivery of the Shares has been deferred in accordance with Section 5 below (the date of delivery of the Shares being hereafter referred to as the "**Settlement Date**"). The "**Vesting Date,**" except as otherwise provided in Section 7, shall be the fourth anniversary of the Grant Date.

5. (a) In accordance with rules promulgated by the Management Planning and Development Committee of the Board of Directors (the "**Committee**"), Participant, to the extent eligible under the CVS Caremark Deferred Stock Compensation Plan, may elect to defer delivery of Shares in settlement of RSUs covered by this Agreement. Any such deferred delivery date elected by Participant shall become the Settlement Date for purposes of this Agreement.

(b) Notwithstanding Section 3(a), to the extent dividends are paid on such deferred Shares following the Vesting Date and prior to the Settlement Date, Participant shall be entitled to receive a number of additional deferred Shares equal to: (x) the amount of dividend per Share as declared by the Company's Board of Directors on the Company's common stock multiplied by (y) the number of deferred Shares held by Participant on the record date of such dividend, divided by (z) the FMV of a Share on such dividend payment date. The Company may decrease the number of additional deferred Shares calculated as provided herein by the number of Shares sufficient to satisfy the applicable tax withholding in respect of such dividend equivalent payments.

6. Except as may be elected by Participant, on the Vesting Date or the Settlement Date, as the case may be, 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 or 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) — (f) below, if, for any reason, Participant ceases to be employed by the Company, or a subsidiary of the Company, all RSUs not then vested in accordance with Section 4 above shall be immediately forfeited.

(b) In the event Participant ceases to be employed by the Company, or any subsidiary of the Company, 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) In the event 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), 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 since the Grant Date and (B) the denominator shall be forty-eight (48). 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 date the employee ceases to be employed by the Company.

(d) In the event Participant ceases to be employed by the Company or any subsidiary of the Company and receives severance pay, RSUs not vested at the time of termination but scheduled to vest during the severance period set forth in the separation agreement setting forth the severance pay shall continue to vest during such severance period. Such RSUs shall vest and settle in accordance with Section 4 of this Agreement, provided Participant remains in compliance with the 2012 Employee Agreement. Failure to comply with the 2012 Employee Agreement will result in forfeiture of all outstanding RSUs or the right to receive Shares subject to the RSUs as of the date of noncompliance. 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.

(e) 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 Section 10) and (ii) the provisions of Section 7(e)(iv) of the ICP shall apply.

(f) For purposes of this Section 7, 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 cessation 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
SVP, Chief Human Resources Officer
One CVS Drive
Woonsocket, RI 02895

and 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 vesting of the RSUs and any rights or benefits associated with the RSUs awarded 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 NO LATER THAN June 18, 2012, the restrictive covenant agreement required by CVS Caremark Corporation (the "2012 Employee Agreement"), unless such requirement is waived by the Company in its sole discretion because Participant has an employment agreement which contains the restrictions deemed appropriate by the Company. Delivery of Participant's fully executed 2012 Employee Agreement must be made by hand or mail to:

Executive Compensation
CVS Caremark Corporation
One CVS Drive
Woonsocket, RI 02895

Participant may not make such acceptance or delivery by electronic means. Participant acknowledges and agrees that failure to execute and return the 2012 Employee Agreement by the date stated above, except as otherwise waived by the Company, will result in forfeiture of the RSUs, any dividend equivalents, and any right to receive Shares. Participant further acknowledges and agrees the grant of RSUs under this Agreement is good and sufficient consideration for the 2012 Employee Agreement.

13. By accepting this Award, Participant acknowledges receipt of a copy of the ICP, 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 2012 Employee Agreement by June 18, 2012, 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. **Section 409A of the Internal Revenue Code.** 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 relevant date of payment that will result in compliance with the rules of Section 409A(a)(2)(B)(i) of the Code. 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.

16. **Recoupment of Restricted Stock Unit Award Due to Material Fraud or Financial Misconduct**.

Participant shall immediately repay to the Company the value of any pre-tax economic benefit that Participant derived from such RSUs, if the Board determines that misconduct has occurred in a manner which subjects Participant to recoupment under the Company's recoupment policy, as in effect from time to time. The amount to be repaid by Participant shall be the amount necessary to disgorge the value enjoyed or realized by Participant from the RSUs and the underlying Shares, as determined by the Board, or a portion of such value as may be determined by the Board in its sole discretion. In making its determinations under this paragraph, the Board may, by way of example only, (i) with respect to any Shares which have been transferred to Participant in settlement of the RSUs and which are beneficially owned by Participant as of a date the repayment obligation arises, require Participant to repay to the Company the Fair Market Value of such Shares as of the date of such repayment and/or (ii) with respect to any Shares which were transferred to Participant in settlement of the RSUs and as to which beneficial ownership has been transferred by Participant as of the date a repayment obligation arises, require Participant to repay to the Company the Fair Market Value of such Shares as of the date such Shares were transferred by Participant. In each case the amount to be repaid by Participant shall also include any dividends (including any economic benefit thereof) or distributions received by Participant with respect to any RSU Shares and, in calculating the value to be repaid, adjustments may be made for stock splits or other capital changes or

corporate transactions, as determined by the Board. If Participant has deferred payment of any portion of the amounts relating to an RSU that are subject to repayment hereunder, the amount of Participant's deferred stock compensation accrual shall be reduced by the amount subject to repayment, plus all Company matching amounts and earnings on such amount. If Participant fails to repay the required value immediately upon request by the Board, the Company may seek reimbursement of such value from Participant by reducing salary or any other payments that may be due to Participant, to the extent legally permissible, and/or through initiating a legal action to recover such amount, which recovery shall include any reasonable attorneys fees incurred by the Company in bringing such action.

17. This Agreement shall be governed by the laws of the State of Rhode Island, without giving effect to its choice of law provisions.

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

CVS CAREMARK

CVS CAREMARK CORPORATION
PERFORMANCE-BASED RESTRICTED STOCK UNIT AGREEMENT
GRANT DATE: DATE

1. Pursuant to the provisions of the 2010 Incentive Compensation Plan (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, if applicable, such payment shall be in Shares.

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 payment date.

(b) Participant hereby agrees that the Company may withhold from the dividend equivalent amounts referred to in Paragraph 3(a) above amounts sufficient to satisfy the applicable tax withholding in respect of such dividend equivalent payments.

4. Subject to the terms and conditions of the ICP and this PBRS Agreement, and subject to Participant's continued employment, Participant shall be entitled to receive (and the Company shall deliver to Participant) the Shares within sixty (60) days following the Vesting Date(s) set forth herein, unless delivery of the Shares has been deferred in accordance with Paragraph 5 below (the date of such delivery of the Shares being hereafter referred to as the "**Settlement Date**"). Each "**Vesting Date**," except as otherwise provided in Paragraph 7, shall be in accordance with the schedule set forth below:

(a) one-third of the Shares underlying the RSU on the first anniversary of the Grant Date;
(b) one-third of the Shares underlying the RSU on the second anniversary of the Grant Date; and
(c) one-third of the Shares underlying the RSU on the third anniversary of the Grant Date.

5. (a) In accordance with rules promulgated by the Management Planning and Development Committee of the Board of Directors (the "**Committee**"), Participant, to the extent eligible under the CVS Caremark Deferred Stock Compensation Plan, may elect to defer delivery of Shares in settlement of RSUs covered by this PBRS Agreement. Any such deferred delivery date elected by Participant shall become the Settlement Date for purposes of this PBRS Agreement.

(b) Notwithstanding Paragraph 3(a), to the extent dividends are paid on such deferred Shares following the Vesting Date and prior to the Settlement Date, Participant shall be entitled to receive a number of additional deferred Shares equal to: (x) the amount of dividend per Share as declared by the Company's Board of Directors on the Company's common stock multiplied by (y) the number of deferred Shares held by Participant

on the record date of such dividend, divided by (z) the FMV of a Share on such dividend payment date. The Company may decrease the number of additional deferred Shares calculated as provided herein by the number of Shares sufficient to satisfy the applicable tax withholding in respect of such dividend equivalent payments.

6. Except as may be elected by Participant, on the Vesting Date or the Settlement Date, as the case may be, 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 or 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) — (f) below, if, for any reason, Participant ceases to be employed by the Company or a subsidiary of the Company, all RSUs not then vested in accordance with Paragraph 4 above, shall be immediately forfeited .

(b) In the event Participant ceases to be employed by the Company, or any subsidiary of the Company, 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 ceases to be employed by the Company, or any subsidiary of the Company, by reason of a "Qualified Retirement," which 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, RSUs not yet vested in accordance with Paragraph 4 will become immediately vested. The Vesting Date shall be the date of retirement.

(d) In the event 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), 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 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 date the Employee ceases to be employed by the Company.

(e) In the event Participant ceases to be employed by the Company, or any subsidiary of the Company and receives severance pay, RSUs not vested at the time of termination 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. Such RSUs shall vest and settle in accordance with Paragraph 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 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 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 cessation 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

and 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 receipt of a copy of the ICP, 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 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. 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 relevant date of payment that will result in compliance with the rules of Section 409A(a)(2)(B)(i) of the Code. 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)).

15. **Recoupment of Restricted Stock Unit Award Due to Material Fraud or Financial Misconduct**.

Participant shall immediately repay to the Company the value of any pre-tax economic benefit that Participant derived from such RSUs, if the Board determines that material fraud or financial misconduct has occurred in a manner which subjects Participant to recoupment under the Company's recoupment policy, as in effect from time to time. The amount to be repaid by Participant shall be the amount necessary to disgorge the value enjoyed or realized by Participant from the RSUs and the underlying Shares, as determined by the Board, or a portion of such value as may be determined by the Board in its sole discretion. In making its determinations under this paragraph, the Board may, by way of example only, (i) with respect to any Shares which have been transferred to Participant in settlement of the RSUs and which are beneficially owned by Participant as of a date the repayment obligation arises, require Participant to repay to the Company the Fair Market Value of such Shares as of the date of such repayment and/or (ii) with respect to any Shares which were transferred to Participant in settlement of the RSUs and as to which beneficial ownership has been transferred by Participant as of the date a repayment obligation arises, require Participant to repay to the Company the Fair Market Value of such Shares as of the date such Shares were transferred by Participant. In each case the amount to be repaid

by Participant shall also include any dividends (including any economic benefit thereof) or distributions received by Participant with respect to any RSU Shares and, in calculating the value to be repaid, adjustments may be made for stock splits or other capital changes or corporate transactions, as determined by the Board. If Participant has deferred payment of any portion of the amounts relating to an RSU that are subject to repayment hereunder, the amount of Participant's deferred stock compensation accrual shall be reduced by the amount subject to repayment, plus all Company matching amounts and earnings on such amount. If Participant fails to repay the required value immediately upon request by the Board, the Company may seek reimbursement of such value from Participant by reducing salary or any other payments that may be due to Participant, to the extent legally permissible, and/or through initiating a legal action to recover such amount, which recovery shall include any reasonable attorneys fees incurred by the Company in bringing such action.

16. This Agreement shall be governed by the laws of the State of Rhode Island, without giving effect to its choice of law provisions.

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

CVS CAREMARK

LONG-TERM INCENTIVE PLAN

1. Purpose

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

2. Administration

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

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

3. Eligibility

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

The Committee may grant Awards under the Plan which are intended to qualify as performance-based compensation within the meaning of the rules under Section 162(m) of the Code ("the Section 162(m) performance-based compensation rules") and Awards that are not intended to qualify as performance-based compensation within the meaning of Section 162(m) performance-based compensation rules.

An Award granted under the Plan shall be intended to qualify as performance-based compensation under the Section 162(m) performance-based compensation rules to the extent that (1) the initial grant and terms of such Award comply with the Section 162(m) performance-based compensation rules; (2) the Award recipient is a member of the Company's Business Planning Committee at the time the Award is granted; and (3) the Award recipient is expected to be a "covered employee" within the meaning of the rules under Section 162(m) of the Code for the calendar year in which the Award is settled. The terms of each Award intended to qualify as performance-based compensation under the Section 162 (m) performance-based compensation rules shall be established and approved by the Committee.

An Award granted under the Plan shall not be intended to qualify as performance-based compensation under the Section 162(m) performance-based compensation rules to the extent that the Award or the recipient of the Award does not meet the conditions set forth in the paragraph above unless the Committee, in its discretion, elects to administer the Award in compliance with the Section 162(m) performance-based compensation rules. The terms of each Award that is not intended to qualify as performance-based compensation under the Section 162(m) performance-based compensation rules may be established pursuant to such procedures and methods as may be approved by the Committee or its designate.

4. Awards

(a) At the beginning of any performance period and, if the award is Section 162(m) performance-based compensation, not later than the earlier of 90 days after the start of the performance period and 25% of the performance period, the Committee shall determine the Eligible Persons to whom Awards shall be granted and the terms and conditions relating to the Awards, including but not limited to the target amount of each Eligible Person's Award, the range of each Eligible Person's Award that may be earned based on the Company's performance, the performance period relating to such Awards, the performance criteria that will be used to determine if and to what extent such Awards may be earned by Eligible Persons participating in the Plan and any other provisions as the Committee deems appropriate; *provided, however*, that performance criteria with respect to Section 162(m) performance-based compensation shall be consistent with the 2010 ICP.

(i) If the Eligible Person is not a member of the Business Planning Committee of the Company, the Eligible Person may become a participant in the Plan prior to the earlier of 90 days after the start of the performance period and 25% of the performance period, provided the Eligible Person is designated an Eligible Person by the Committee or its designate prior to the end of the Performance Period.

(b) A "performance period" shall be defined by the Committee at the time the performance cycle for the Award is established but shall generally begin on a January 1st of a calendar year and end on a December 31st of a succeeding calendar year (the "Performance Period").

(i) The Committee may establish, in its sole discretion, one or more periodic performance measurement periods within a Performance Period (an "Interim Performance Period").

(ii) Any Interim Performance Period(s) commencement and end date(s), corresponding performance criteria and other relevant factors will be established to allow the Company to deduct to the full extent possible under Section 162(m) of the Code any compensation paid as a performance award against such pre-determined goals.

(c) An Award is considered "earned" when such Award has been approved by the Committee (an "Earned Award") which, with respect to Section 162(m) performance-based compensation, shall be consistent with the Section 162(m) performance-based compensation rules.

(d) Settlement of Earned Awards. At the end of a Performance Period, the Committee shall determine, in its sole discretion, the portion of the Earned Award that shall be distributed to each Eligible Person in cash and in shares of CVS Caremark common stock (the "Shares") based on the level of achievement of the relevant performance criteria.

Any Shares to be issued in connection with an Earned Award shall be issued pursuant to the CVS Caremark Corporation 2010 Incentive Compensation Plan (the "2010 ICP"). The portion of the Earned Award payable in Shares shall be determined by dividing such portion of the Earned Award by the closing price of CVS Caremark stock ("FMV") on the date the Award is approved by the Committee, which shall be rounded down to the nearest whole share.

Subject to an Eligible Person's prior election to defer any or all of the Earned Award pursuant to Section 5, the cash and Shares payable in respect of an Earned Award will be paid to the Eligible Person as soon as practicable after the Earned Award is approved by the Committee and in no event later than two and a half months following the completion of the relevant performance period. The Shares portion of the Earned Award will be settled through the issuance to each Eligible Person of a certificate for Shares or such other method of transfer of Shares as may be made in accordance with prevailing Company practice.

5. Deferral Elections

In accordance with the rules promulgated by the Committee, an Eligible Person may elect to defer any or all of such Earned Award.

6. Termination of Employment

(a) In the event an Eligible Person ceases to be employed by the Company, or any subsidiary of the Company, prior to the completion of a Performance Period, due to an Eligible Person's voluntary termination of employment, or the termination of an Eligible Person by the Company for Cause (as defined below), any Award granted but not yet earned for a Performance Period shall be forfeited.

(i) "Cause" is defined as (x) an Eligible Person's willful material breach of those provisions of the Eligible Person's Employment Agreement that pertain to confidentiality, cooperation with regard to litigation, non-disparagement; non-competition; and non-solicitation if such Eligible Person is party to an Employment Agreement with the Company; or Section 1(b) of the CVS Caremark Corporation Change in Control Agreement if such Eligible Person is party to a Change in Control Agreement with the Company. If there is no such Agreement between the Company and the Eligible Person, then Cause shall have the same meaning for the Eligible Person as is defined for a similarly-situated Eligible Person in his or her Change in Control Agreement..

(b) In the event an Eligible Person ceases to be employed by the Company, or any subsidiary of the Company, prior to the completion of a Performance Period, by reason of death, any Award not yet earned in accordance with Section 4 shall be pro rated pursuant to Paragraph 6 (f) below.

(c) In the event an Eligible Person ceases to be actively employed by the Company, or any subsidiary of the Company, prior to the completion of a Performance Period due to an Eligible Person becoming totally and permanently disabled (as defined in the Company's Long-Term Disability Plan, or, if not defined in such plan, as defined by the Social Security Administration) while actively employed by Company or a subsidiary of the Company, an Award granted but not yet earned for a Performance Period shall be pro rated pursuant to Paragraph 6(f) below.

(d) In the event an Eligible Person ceases to be employed by the Company, or any subsidiary of the Company, due to a Termination by the Company without Cause (as defined above in Paragraph 6(a)(i)) or a "Constructive Termination without Cause" (defined below), any Award granted but not yet earned for a Performance Period shall be pro rated pursuant to Paragraph 6(f) below.

(i) "Constructive Termination without Cause" shall mean a termination of the Eligible Person's employment at his or her initiative as provided under the definition of either "Constructive Termination without Cause" or "Termination by Executive for Good Reason" set forth in the most recent Employment Agreement, as amended, Change in Control Agreement, or other comparable agreement, between the Company and the Eligible Person. If there is no such Agreement between the Company and the Eligible Person, then Constructive Termination without Cause shall have the same meaning for the Eligible Person as is defined for a similarly-situated Eligible Person in his or her Employment or Change in Control Agreement.

(e) In the event an Eligible Person ceases to be employed by the Company, or any subsidiary of the Company, due to an Eligible Person's Normal Retirement or Approved Early Retirement, prior to the completion of a Performance Period, and Award granted but not yet earned for a Performance Period shall be pro rated pursuant to Paragraph 6(f) below.

(i) "Normal Retirement" and "Approved Early Retirement" each shall have the meaning ascribed to it in an Eligible Person's Employment Agreement, as amended, or if

such Eligible Person is not party to an Employment Agreement with the Company in which retirement is defined, "Normal Retirement" shall mean (A) an Eligible Person's voluntary termination of employment with the Company at or after attaining age sixty (60); and "Approved Early Retirement" shall mean (B) an Eligible Person's voluntary termination of employment with the Company at or after attaining age fifty-five (55), but prior to attaining age (60), if such termination is approved in advance by the Committee.

(f) Pro Rating.

(i) Subject to Paragraph 6(f)(ii), in the case of Paragraphs 6(b) and 6(c), the Award payable will be determined based on the Eligible Person's target award and, in the case of Paragraphs 6(d) and 6(e), the Award payable will be determined based on the Company's ***actual performance*** during the applicable Performance Period. The amount of the Award will be calculated by multiplying the Award amount (based on target or actual performance, as the case may be) by the following fraction: (A) the numerator shall be the number of whole months elapsed since the beginning of the Performance Period and (B) the denominator shall be the total number of months in the Performance Period. For purposes of this calculation, the number of months in the numerator in sub-section (A) shall include any partial month in which an Eligible Person has worked. Any payment to an Eligible Person under Paragraphs 6(b) and 6(c) shall be made within two and a half months days of such death or disability, as the case may be, and any payment made under Paragraphs 6(d) and 6(e) will be made following completion of the performance period at the same time payment is made to other Eligible Persons in accordance with Paragraph 4(d).

(ii) Notwithstanding the foregoing and subject to compliance with Section 409A of the Code, the Committee may provide, in its sole discretion, that the amount payable following terminations described in Paragraphs 6(b) and 6(c) with respect to Awards subject to the 162 (m) performance-based compensation rules will be determined based on the Company's ***actual performance*** during the applicable Performance Period and payable on the earlier of (i) the time payment is made to other Eligible Persons in accordance with Paragraph 4(d) and (ii) the Company's first taxable year when payment would not reasonably be anticipated to result in a loss of a tax deduction under the Section 162(m) performance-based compensation rules.

7. Tax Withholding

The Company will withhold from an Eligible Person's Earned Award, subject to an Eligible Person's election to defer all or a portion of the Earned Award, all required federal, state and local payroll taxes, including Medicare taxes. If an Eligible Person's Social Security wages have not reached the Social Security maximum taxable wage base at the time the Earned Award is paid or Shares are delivered, Social Security taxes will also be withheld from the Award.

Except as may be elected by an Eligible Person, at the settlement date for any Shares, the number of Shares to be delivered by the Company to an Eligible Person shall be reduced by the smallest number of Shares 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 Shares on the Settlement Date. In lieu of having the number of Shares delivered reduced, an Eligible Person may elect to pay the Company by personal check or by such other means satisfactory to the Company for any amounts required to be withheld by the Company in connection with the settlement of the Shares.

If an Eligible Person elects to defer an Earned Award, the Company may require the Eligible Person to remit to the Company in advance of the actual deferral of such Earned Award, the required FICA withholding taxes, including Social Security and Medicare taxes, in order to ensure compliance with the Sarbanes-Oxley Act of 2002.

8. Change in Control of the Company

Upon the occurrence of a change in control of the Company, as defined in Section 10(c) of the 2010 ICP (a "Change in Control"), the performance criteria for any outstanding Performance Period shall be deemed to have been fully satisfied at target and all outstanding Awards under the Plan shall be come immediately non-forfeitable Earned Awards. Each Eligible Person shall receive the Target Award for each outstanding Performance Period to be paid as soon as administratively possible within two and a half months days of the Change in Control, subject all applicable Plan provisions and federal regulations governing payment of such Award(s), including but not limited to the Eligible Person's deferral elections, and Sections 162(m), 4999 and 409A of the Code.

9. Recoupment of Awards Due to Fraud or Financial Misconduct

If the Board determines that financial fraud or misconduct has occurred in a manner that subjects an Eligible Person to recoupment of any Earned Award under the Company's recoupment policy, as in effect from time to time, the Eligible Person shall immediately repay to the Company (a) the entire pre-tax cash portion of the Earned Award that is subject to recoupment, or a portion thereof as determined by the Board (the "Cash Recoupment Amount"), and (b) the value, or a portion thereof as determined by the Board, of any pre-tax economic benefit that the Eligible Person derived from any Shares issued in connection with an Earned Award that is subject to recoupment (the "Share Recoupment Value"). The amount to be repaid by the Eligible Person shall also include any dividends (including any economic benefit thereof) or distributions received by the Eligible Person with respect to any Shares and, in calculating the value to be repaid, adjustments may be made for stock splits or other capital changes or corporate transactions, as determined by the Board.

If an Eligible Person has deferred payment of any portion of the Cash Recoupment Amount, the amount of the Eligible Person's deferred compensation accrual shall be reduced by the amount subject to repayment, plus all Company matching amounts and earnings on such amount. If an Eligible Person has deferred receipt of any portion of the Shares that are subject to repayment hereunder, the amount of the Eligible Person's deferred stock compensation accrual shall be reduced by the amount subject to repayment, plus all Company matching amounts and earnings on such amount.

If the Eligible Person fails to repay the required Cash Recoupment Amount and/or the Share Recoupment Value immediately upon request by the Board, the Company may seek reimbursement of such amounts from the Eligible Person by reducing salary or any other payments that may be due to the Eligible Person, to the extent legally permissible, and/or through initiating a legal action to recover such amount, which recovery shall include any reasonable attorneys fees incurred by the Company in bringing such action.

10. Miscellaneous

(a) *Not a Contract of Employment.* The adoption and maintenance of the Plan shall not be deemed to be a contract of between the Company and an Eligible Person and shall not be consideration for the employment of an Eligible Person. Nothing contained herein shall be deemed to give an Eligible Person the right to be retained in the employ of the Company or to restrict the right of the Company to discharge an Eligible Person at any time nor shall the Plan be deemed to give the Company the right to require an Eligible Person to remain in the employ of the Company or to restrict an Eligible Person's right to terminate their employment at any time.

(b) *Non-Assignability of Benefits.* No Eligible Person, Beneficiary or distributees of benefits under the Plan shall have any power or right to transfer, assign, anticipate, hypothecate or

otherwise encumber any part or all of the amounts payable hereunder, which are expressly declared to be unassignable and nontransferable. Any such attempted assignment or transfer shall be void. No amount payable hereunder shall, prior to actual payment hereof, be subject to seizure by any creditor or any such Eligible Person, Beneficiary or other distributees for the payment of any debt judgment or other obligation, by a proceeding at law or in equity, nor transferable by operation of law in the event of the bankruptcy, insolvency or death of such Eligible Person, Beneficiary or other distributes hereunder.

(c) *Amendment and Termination.* The Board may amend, alter, suspend, discontinue or terminate the Plan or the Committee's authority to grant Awards under the Plan without the consent of Eligible Persons, except that without the consent of an affected Eligible Person, no such Board action may materially and adversely affect the rights of such Eligible Person under any previously granted and outstanding Awards. The Committee may waive any conditions or rights under, or amend, alter, suspend, discontinue or terminate any Award(s) previously granted, except as otherwise provided in the Plan, provided that, without the consent of an affected Eligible Person, no such Committee action may materially and adversely affect the rights of such Eligible Person under such Award(s).

(d) *Compliance with Legal and Other Requirements.* Notwithstanding any Plan provision to the contrary, the Committee may at any time impose such restrictions on the Plan and participation therein as the Committee may deem advisable from time to time in order to comply with or preserve compliance with any applicable laws, including any applicable federal and state securities laws and exemptions from registrations thereunder.

Further, to the extent it would not violate an applicable provision of Section 409A of the Code the Company may, to the extent deemed necessary or advisable by the Committee, postpone the issuance or delivery of CVS Caremark stock or payment of other benefits under any Earned Award until completion of such registration or qualification of such stock or other required action under any federal or state law, rule or regulation, listing or other required action with respect to any stock exchange or automated quotation system upon which such stock are listed or quoted, or compliance with any other obligation of the Company, as the Committee may consider appropriate, and may require any Eligible Person to make such representations, furnish such information and comply with or be subject to such other conditions as it may consider appropriate in connection with the issuance or delivery of stock or payment of other benefits in compliance with applicable laws, rules, and regulations, listing requirements, or other obligations.

(e) *Section 409A.* The company intends that this Plan not violate any applicable provision of, or result in any additional tax or penalty under, Section 409A of the Code, and that to the extent any provisions of the LTIP do not comply with Code Section 409A the Company will make such changes in order to comply with Code Section 409A. In all events, the provisions of CVS Caremark Corporation's Universal Definitions Document are hereby incorporated by this 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 (requiring certain delays for "specified employees"), payment of any amounts subject to Section 409A of the Code shall be delayed until the relevant date of payment that will result in compliance with the rules of Section 409A(a)(2)(B)(i) of the Code. Notwithstanding any provision of this Plan to the contrary, for purposes of any provision of this Plan providing for the payment of any amounts or benefits upon or following a termination of employment, references to a Eligible Person's "termination of employment" (and corollary terms) with the Company shall be construed to refer to the Eligible Person's "separation from service" with the Company.

(f) *Adjustments.* In the event that any dividend or other distribution (whether in the form of cash, stock, or other property), re-capitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, share exchange, liquidation, dissolution or other similar corporate transaction or event affects the stock such that an

adjustment is appropriate under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust the number and kind of Shares of stock subject to or deliverable in respect of outstanding Awards.

(g) *Limitation on Rights Conferred by Awards Granted under Plan.* Neither the Plan nor any action taken under the Plan shall be construed as conferring on an Eligible Person any of the rights of a shareholder of CVS Caremark until the Eligible Person is duly issued or transferred Shares in accordance with the terms of an Earned Award.

(h) *Unfunded Status of Awards; Creation of Trusts.* The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to an Eligible Person or obligation to deliver stock pursuant to an Award, nothing contained in any Award shall give any such Eligible Person any rights that are greater than those of a general creditor of CVS Caremark, provided that the Committee may authorize the creation of trusts and deposit therein cash, stock, other awards or other property, or make other arrangements to meet CVS Caremark's obligations under the Plan. Such trusts or other arrangements shall be consistent with the "unfunded" status of the Plan unless the Committee otherwise determines with the consent of each affected Eligible Person.

11. Governing Law

The validity, construction and effect of the Plan, and any rules and regulations under the Plan shall be determined in accordance with the Rhode Island law, without giving effect to principles of conflicts of laws, and applicable federal law.

2012 Management Incentive Plan

I. Objectives and Summary

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

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

II. Plan Year

The MIP is a calendar year plan, which runs from January 1 to December 31, 2012 ("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 subject to Section 162(m) of the Internal Revenue Code ("Section 162(m)") or who have been identified by the Committee as individuals who may be subject to Section 162(m) (collectively, "162(m) Eligible Participants" and each of 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.

Eligibility for participation in the MIP is contingent upon the Eligible Participant being employed in an incentive-eligible position on the last day of the Plan Year. The CEO (or, as to 162(m) Eligible Participants, the Committee) may, for any reason and in his or her sole discretion, at any time prior to the end of the Plan Year, determine an employee's eligibility for participation in the Plan. Eligible Participants are subject to the terms and conditions relating to incentive awards set forth in the MIP.

B. 162(m) Eligible Participants

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 162(m) Eligible Participant's eligibility for an award, the target award, and the amount of the actual award. In no event shall a 162(m) Eligible Participant's award exceed the amount permitted by Section 162(m).

C. Newly-Eligible Employees

An employee will be eligible for a prorated incentive award if he or she becomes an Eligible Participant on or before November 1 of the Plan Year; provided, however, that a 162(m) Eligible Participant shall be eligible for an award for the Plan Year in which he or she was hired or otherwise becomes a 162(m) participant only to the extent that such award does not violate the requirements of Section 162(m).

D. Transfers

Participants who become newly eligible during the Plan Year may be eligible for a prorated MIP award. If a change in assignments results in an Eligible Participant being eligible for the MIP for part of the Plan Year and other incentives during other parts of the Plan Year, the participant may be eligible to receive a prorated award for the amount of time in each incentive eligible position, subject to the terms of the other applicable incentive plans. Change in assignments from one MIP-eligible position to another during the Plan Year does not result in pro rata award but rather an award funded on the base salary of the Eligible Participant on December 31 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/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 this plan.

F. Terminations

To be eligible for an incentive, an Eligible Participant must be employed as of the end of the Plan Year (December 31st) and at the time that the award is paid (which will be on or before March 15 of the year following the Plan Year). Employees who terminate employment prior to payment of the award shall not be eligible to receive an award.

G. Rehires

Eligible Participants who are rehired 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. Administration

A. Consolidated Company Funding

MIP funding is based on consolidated Company Performance, measured by operating profit, Retail Customer Service and Pharmacy Benefit Management ("PBM") Customer Satisfaction. Achievement of the Company's consolidated operating profit target will determine 80% of the total corporate funding; achievement of the Retail Customer Service target, as measured by 'Triple S' scores, will determine 10% of the total corporate funding; and achievement of PBM Customer Satisfaction targets will determine the remaining 10% of the total corporate funding.

1. Operating Profit

Operating profit may be adjusted by the permitted financial adjustments as approved by the Committee prior to the end of the first fiscal quarter of the applicable Plan Year (the "Permitted Financial Adjustments").

If Operating Profit is below the minimum threshhold, (see Exhibit A) no formulaic funding will be made available for incentive awards, regardless of Business Unit performance, and there is no requirement that incentive awards be paid under the MIP.

2. Pharmacy Services Customer Satisfaction

Achievement of the PBM Customer Satisfaction segment of the incentive will be determined by the aggregate actual performance against target 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%)

Pharmacy Services Customer Satisfaction funding is subject to adjustment based on the Operating Profit.

3. Retail Customer Service

The Retail Customer Service segment of the incentive will be measured using the Total Triple 'S' actual performance against the target. The Triple 'S' Score Card consists of performance in three elements of customer satisfaction: Stock, Shop and Service.

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

Measurement	Percent Weight	Measurement Tool	Achievement Measured Against	Modifier
Consolidated Operating Profit	80%	Earnings Before Interest and Taxes ("EBIT")	2012 EBIT Goal	CEO & Committee Discretion (1) Permitted Financial Adjustments
Pharmacy Services Customer Satisfaction	10%	Client Relationship and Loyalty, Customer Care, Mail Service and Specialty Surveys	2012 PBM Customer Satisfaction Target	Operating Profit Funding
Retail Customer Service	10%	Triple "S" Scorecard	2012 Triple "S" Target	Operating Profit Funding

(1) May not modify pool for 162(m) Eligible Participants

B. Business Unit Funding

After the achievement of consolidated corporate performance level is determined, performance will be calculated for each of the business units (i.e., Retail, Pharmacy Benefit Management and Shared Services) based on the achievement of the respective business unit's actual EBIT compared to the EBIT target for the performance period.

The total funding for the Retail and PBM Business Units will be based on is a combination of the respective Business Unit's EBIT results compared to target, which funds seventy-five percent (75%) of the respective Business Unit's total pool, and the consolidated Company Operating Profit/Customer Service and Satisfaction performance, which funds the remaining twenty-five percent (25%) of the Business Unit's total pool. The total funding for the Shared Services Business Units will fully based (100%) on corporate EBIT performance.

The CEO may adjust Business Unit and Shared Services pool funding at his discretion resulting from (a) input from the Business Unit Presidents and Finance regarding the performance of the Business Unit to assist the CEO and the Committee in their assessment of the overall performance; and (b) the CEO's (or, in the case of 162(m) Eligible Participants's, the Committee's) assessment of the achievement of Plan Year performance goals by the business unit.

C. Management Discretion

The Total Pool will be available for managers to award to Eligible Participants, taking into account the aggregate contributions made by the Eligible Participants. The amount, if any, of the calculated incentive award for an Eligible Participant shall be detemined in the sole discretion of CVS Caremark management. The amount, if any, of the calculated incentive award for a 162(m) Eligible Participant shall be determined in the sole discretion of the Committee.

V. MIP Earnings and Payout

A. Timing

Incentive awards will be paid to Eligible Participants as soon as administratively feasible following the date the Total Pool is funded and calculation of incentive payments may be ascertained, which will be in the year following the Plan year, on or before March 15. Payments 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 on the last day of the Plan Year.

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

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

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

3. If an Eligible Participant's employment is terminated on or before the 15th of the month and the Eligible Employee remains eligible for an award pursuant to this plan, then the month will be excluded from incentive calculations.

4. If an Eligible Participant's employment is terminated after the 15th of the month and the Eligible Participant remains eligible for an award pursuant to this plan, then the month will be included in the incentive calculations.

Examples:

a. An Eligible Participant is hired on September 14th. Because the Eligible Participant is actively employed prior to the 15th of September, the month of September will be included in his/her prorated incentive award and the Eligible Participant will receive a prorated incentive award covering a total of four months. The award will be calculated using the Eligible Participant's individual award opportunity target and base salary as of December 31st.

b An Eligible Participant begins a personal leave of absence on June 3rd and returns to active status on July 22nd. Assuming the Eligible Participant was incentive eligible for the entire year, the months of June and July will be excluded from the Eligible Participant's incentive award and the Eligible Participant will receive a prorated incentive award covering a total of 10 months. The award will be calculated using the Eligible Participant's individual award opportunity target and base salary as of December 31st.

C. **Award Opportunity**

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

D. **Obligation to Pay Total Pool**

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

VI Company-Wide Pool

Notwithstanding anything to the contrary, as of the end of each Plan Year an aggregate annual plan pool shall be deemed to be established under the Plan for such Plan Year (the "Plan Year Aggregate Pool"). The Plan Year Aggregate Pool for a Plan Year shall be the product of (A) the sum of the amounts that would be payable under the Plan to each Eligible Participant in strict accordance with the store-by-store and participant-by-participant calculation methodologies set forth in the Plan if full incentive payment checks were issued to each Eligible Participant as of the last day of such Plan Year, multiplied by (B) the Applicable Percentage. The "Applicable Percentage" with respect to a Plan Year shall be the percentage established in writing and confirmed by the affirmative or negative assent of the senior officers of the CVS Caremark Compensation Department; provided, however, that if there is any irresolvable uncertainty regarding the Applicable Percentage with respect to any Plan Year, the Applicable Percentage for that Plan Year shall be 92.5%.

The aggregate amount of the annual incentives paid under the Plan in respect of a Plan Year will not be less than the Plan Year Aggregate Pool for such Plan Year. Eligible Participants who are active employees in an incentive eligible position as of the end of the Plan Year and as of the actual check distribution date for incentives under the Plan in respect of such Plan Year shall, as a group, have a legal right to receive incentives the sum of which is at least equal to the Plan Year Aggregate Pool for such Plan Year, but no individual Eligible Participant shall be entitled to receive an incentive payment or any specific amount or portion of the Plan Year Aggregate Pool for such Plan Year, and the incentive amount payable to any Eligible Participants who terminate active employment in an incentive eligible position prior to the check distribution date for such Plan Year will be reallocated to Eligible Participants who are active employees in an incentive eligible position as of the check distribution date for such Plan Year using a reallocation methodology determined in the sole discretion of the Company.

If the Company fails to honor the above provisions in this section VI of the Plan, injured Eligible Participants as a class shall have legal standing to enforce this section VI against the Company, and the Company waives any objection to such standing. To discourage unmerited litigation, any party or class asserting a challenge or claim against the Company under any provision of the Plan, including this section VI, 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.

Any amendment of the provisions of this Section VI by the Company shall only be effective with respect to a Plan Year if such amendment is made prior to the end of such Plan Year.

VII. Corrections to Incentive Awards

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

VIII. Eligible Participant Status

A. **Performance**

An Eligible Participant's eligibility for a MIP award is discretionary and his or her individual performance throughout the Plan Year will be considered by a manager 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 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.

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 will earn a prorated incentive award based on the number of months worked during the Plan Year,

provided the Eligible Participant meets all other eligibility criteria for an incentive award. For purposes of proration, the 15th of the month will be used to determine if the month is included or excluded from the incentive calculation, as set forth above.

2. Retirement

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

3. Death

In case of the death of an Eligible Participant, a pro rated incentive award shall 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 parents in equal shares; and in the event none of the above-named individuals survives the Eligible Participant, the death benefit shall be paid to the executor or administrator of the Eligible Participant's estate. The incentive award will be prorated based on the number of months the Eligible Participant worked during the Plan Year and shall be paid as soon as administratively

practicable following the death of the Eligible Participant but no later than March 15 of the year following the Plan Year. If final performance numbers are not available at the time of the employee's death, the incentive award will be calculated using the incentive target and the number of months worked.

IX. Employment Rights

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.

A. 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.

B. Compliance with Applicable Regulations

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

C. Change in Control

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

Provisions regarding the payment of annual incentive awards that are set forth in Change in Control agreements shall supersede those appearing in the MIP.

D. 2010 Incentive Compensation Plan

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.

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.

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 162(m) Eligible Participant

that would not comply with the requirements of Section 162(m).

G. MIP Interpretation

All requests for interpretation of any provision in the MIP must be submitted to the appropriate Human Resources Business Partner. Failure to submit a request for resolution of a dispute or question 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.

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.

H. Recoupment of Incentive Awards Due to Fraud or Financial Misconduct

If the Board determines that fraud or financial misconduct has occurred in a manner which subjects a recipient of a MIP award to recoupment under the Company's recoupment policy, as in effect from time to time, the MIP award recipient shall immediately repay to the Company the entire incentive award received by the MIP award recipient, or a portion thereof as determined by the Board. If a MIP award recipient fails to repay his or her incentive award (or portion thereof) immediately upon request by the Board, the Company may seek reimbursement of such amount from the MIP award recipient by reducing salary or any other payments that may be due to the MIP award recipient, to the extent legally permissible, and/or through initiating a legal action to recover such amount, which recovery shall include any reasonable attorneys fees incurred by the Company in bringing such action. If a MIP award recipient has deferred payment of any portion of an incentive award that is subject to repayment hereunder, the amount of the MIP award recipient's deferred compensation accrual shall be reduced by the amount subject to repayment, plus all Company matching amounts and earnings on such amount.

I. Section 409A of the Internal Revenue Code

The Company intends that this 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 that to the extent any provisions of the Plan do not comply with Code Section 409A the Company will make such changes in order to comply with Code Section 409A. Payments hereunder are intended to qualify as short-term deferral payments under Code Section 409A. In all events, 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 relevant date of payment that will result in compliance with the rules of Section 409A(a)(2)(B)(i) of the Code.

CVS CAREMARK

CVS Caremark Corporation

Performance-Based Restricted Stock Unit Plan

I. Objectives and Summary

The objective of the CVS Caremark Corporation (the "Company") Performance-Based Restricted Stock Unit Plan ("PBRS Plan") is to reward eligible participants for their role in achieving the Company's Earnings before Interest and Taxes ("EBIT") target and to encourage continued employment with the Company and its subsidiaries. PBRS Awards are generally delivered as restricted stock units ("RSUs") and are based on actual EBIT results measured against a pre-established target.

II. Administration

The PBRS Plan shall be administered by the Management Planning and Development Committee (the "Committee") of the Board of Directors, or its designee, under the provisions of the 2010 Incentive Compensation Plan, as amended (the "2010 ICP"). The Committee shall have full and final authority, in each case, subject to and consistent with the provisions of the 2010 ICP and the PBRS Plan, to construe and interpret rules and regulations for the administration of the PBRS Plan, correct defects, supply omissions or reconcile inconsistencies therein, and to make all other decisions and determinations as the Committee may deem necessary or advisable for the administration of the PBRS Plan. Capitalized terms not otherwise defined herein shall have the meaning assigned to such terms in the 2010 ICP. In the event of a conflict between the 2010 ICP and the PBRS Plan, the provisions of the 2010 ICP shall control.

III PBRS Plan Year

The "PBRS Plan Year" commences on January 1 and ends on December 31 of each year, unless otherwise approved by the Committee. All dates in this document occur during the PBRS Plan Year unless otherwise stated.

IV. Eligibility

A. Eligible Employees

The Chief Executive Officer (the "CEO") or his 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 designee. Generally, Business Planning Committee ("BPC") members are not eligible to participate, unless otherwise named as an Eligible Employee by the Committee.

B. Newly-Hired Eligible Employees

A newly-hired employee satisfying the requirements set forth on Paragraph IV(A) is an Eligible Employee and may receive a PBRS Award for the PBRS Plan Year in which he or she is hired provided he or she is hired on or before November 1 and remains in an Eligible Employee position through December 31 of the PBRS Plan Year.

C. Status Changes

(i) Promotions. An employee who is promoted on or before November 1 of the PBRS Plan Year to a position satisfying the requirements set forth on Paragraph IV(A) is an Eligible Employee and may receive a PBRS Award for the year in which the promotion occurs. The salary upon which the Eligible Employee's PBRS Award will be based shall be the base salary as of December 31 of the PBRS Plan Year.

(ii) Demotions. An Eligible Employee who is demoted on or after November 1 of the PBRS Plan Year to a position not satisfying the requirements set forth on Paragraph IV(A) will remain an Eligible Employee and may receive a PBRS Award provided such demotion is not the result of voluntarily transfer to a lower level position, is not related to unsatisfactory performance, and is not as a result of a violation of a Company policy or Code of Ethics.

D. Participants

Unless the Committee is required to make such determinations under applicable law or the 2010 Plan, the CEO shall determine which Eligible Employees will receive an award under the PBRS Plan (a "PBRS Award") within 70 days following completion of the PBRS Plan Year. Each Eligible Employee who receives a PBRS Award is a "Participant" and the date a PBRS Award is granted is the "PBRS Award Date." No Eligible Employee has any right to receive a PBRS Award, regardless of whether such Eligible Employee is employed on the last day of the Plan Year, and the determination of whether an Eligible Employee will be a Participant shall be made in the sole discretion of the CEO or the Committee, as the case may be.

V. The Plan

A. 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.

(i) Actual EBIT compared to Target EBIT must meet a minimum threshold as specified in Exhibit A prior to the grant of any PBRS Award.

a. Actual EBIT may be adjusted by the permitted financial adjustments as approved by the Committee prior to the end of the first fiscal quarter of the applicable PBRS Plan Year.

b. 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.

c. 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.

(ii) 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. PBRS Target 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 ratably on each of the first three anniversaries of the PBRS Award Date, contingent upon the continued employment of the Participant and subject to the terms and conditions of the 2010 ICP and the RSU award agreement.

D. Termination of Employment During PBRS Plan Year.

(i) Death or Disability. If an Eligible Employee dies or commences a long-term disability (as defined in the Company's LTD plan or by the Social Security Administrator), the Eligible Employee may receive a PBRS Award for the year in which the death or commencement of long-term disability occurs at the same time PBRS Awards are made to other Participants. Such PBRS Award will be pro-rated for the number of full months (a partial month will be counted as a full month) during which the Eligible Employee was an active employee based on a full calendar year and will (unless otherwise determined by the CEO or the Committee) be paid in cash based on the Eligible Employee's base salary in effect at the time of death or commencement of long-term disability. PBRS Awards with respect to deceased Eligible Employees shall be paid to the Eligible Employee's Beneficiary.

(ii) Other Terminations. In the sole discretion of the CEO or the Committee (as the case may be), an Eligible Employee who terminates employment with the Company and its subsidiaries prior to the last day of the PBRS Plan Year or prior to the Plan Payout date for any reason other than death or long-term disability may receive a PBRS Award. Such PBRS Award may be payable in cash at the same time PBRS Awards are made to other Participants and may be pro-rated for the number of full months (a partial month will be counted as a full month) during which the Eligible Employee was an active employee based on a full

calendar year.

VII. Plan Administration

A. Employment Rights

This 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, this PBRS Plan shall remain in full force and effect. Any modifications to or dissolution of this PBRS Plan by the acquiring entity may only occur prospectively and will not effect 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 this 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 Resource Officer or designee.

E. Withholding

The Company may provide for the withholding from any benefits payable under this 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 this 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 that to the extent any provisions of the PBRS Plan do not comply with Code Section 409A the Company will make such changes in order to comply with Code Section 409A. In all events, the provisions of CVS Caremark Corporation's Universal 409A 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 relevant date of payment that will result in compliance with the rules of Section 409A(a)(2)(B)(i) of the Code.

G. 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. Failure to submit a dispute or question within 30 days of distribution of the PBRS Awards may result in a waiver of the Eligible Employee's right to dispute the PBRS Award. It is the Company's policy to comply with all applicable laws concerning PBRS Awards; this policy is not intended to conflict with any applicable state or federal law.

H. Compliance with Applicable Regulations

In order to be eligible to receive a PBRS Award under this Plan, a Participant must comply with all applicable state and federal regulations and Company policies.

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

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

Overview of Our Business

CVS Caremark Corporation ("CVS Caremark", the "Company", "we" or "us"), together with its subsidiaries, is the largest integrated pharmacy health care provider in the United States. We are uniquely positioned to deliver significant benefits to health plan sponsors through effective cost management solutions and innovative programs that engage plan members and promote healthier and more cost-effective behaviors. Our integrated pharmacy services model enhances our ability to offer plan members and consumers expanded choice, greater access and more personalized services to help them on their path to better health. We effectively manage pharmaceutical costs and improve health care outcomes through our pharmacy benefit management ("PBM"), mail order and specialty pharmacy division, CVS Caremark® Pharmacy Services ("Caremark"); our more than 7,400 CVS/pharmacy® retail stores; our retail-based health clinic subsidiary, MinuteClinic®; and our online retail pharmacy, CVS.com®.

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

Overview of Our Pharmacy Services Segment

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

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

As a pharmacy benefits manager, we manage the dispensing of pharmaceuticals through our mail order pharmacies and national network of approximately 67,000 retail pharmacies (which include our CVS/pharmacy stores) to eligible members in the benefit plans maintained by our clients and utilize our information systems to perform, among other things, safety checks, drug interaction screenings and brand to generic substitutions.

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

We also provide health management programs, which include integrated disease management for 17 conditions, through our Accordant® health management offering. The majority of these integrated programs are accredited by the National Committee for Quality Assurance.

In addition, through our SilverScript Insurance Company ("SilverScript") and Pennsylvania Life Insurance Company ("Pennsylvania Life") subsidiaries, 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 3.9 million beneficiaries through the above mentioned insurance companies.

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

The Pharmacy Services Segment operates under the CVS Caremark® Pharmacy Services, Caremark®, CVS Caremark®, CarePlus CVS/pharmacy®, RxAmerica® and Accordant® names. As of December 31, 2012, the Pharmacy Services Segment operated 31 retail specialty pharmacy stores, 12 specialty mail order pharmacies and five mail service pharmacies located in 22 states, Puerto Rico and the District of Columbia.

Overview of Our Retail Pharmacy Segment

Our Retail Pharmacy Segment sells prescription drugs and a wide assortment of general merchandise, including over-the-counter drugs, beauty products and cosmetics, photo finishing, seasonal merchandise, greeting cards and convenience foods through our CVS/pharmacy® and Longs Drugs® retail stores and online through CVS.com®. Our Retail Pharmacy Segment derives the majority of its revenues through the sale of prescription drugs, which are dispensed by our more than 26,000 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 quality services that are quick, 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, 2012, our Retail Pharmacy Segment included 7,458 retail drugstores (of which 7,402 operated a pharmacy) located in 42 states, the District of Columbia, and Puerto Rico operating primarily under the CVS/pharmacy® or Longs Drugs® names, 19 onsite pharmacies and 640 retail health care clinics operating under the MinuteClinic® name (of which 633 were located in CVS/pharmacy stores), and our online retail website, CVS.com®.

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	**2012**	**2011**	**2010**
Net revenues	$ 123,133	$ 107,100	$ 95,778
Gross profit	22,506	20,561	20,219
Operating expenses	15,278	14,231	14,082
Operating profit	7,228	6,330	6,137
Interest expense, net	557	584	536
Loss on early extinguishment of debt	348	—	—
Income before income tax provision	6,323	5,746	5,601
Income tax provision	2,441	2,258	2,179
Income from continuing operations	3,882	3,488	3,422
Income (loss) from discontinued operations, net of tax	(7)	(31)	2
Net income	3,875	3,457	3,424
Net loss attributable to noncontrolling interest	2	4	3
Net income attributable to CVS Caremark	$ 3,877	$ 3,461	$ 3,427
Diluted earnings per common share:			
Income from continuing operations attributable to CVS Caremark	$ 3.03	$ 2.59	$ 2.49
Loss from discontinued operations attributable to CVS Caremark	(0.01)	(0.02)	—
Net income attributable to CVS Caremark	$ 3.03	$ 2.57	$ 2.49

Net revenues increased $16.0 billion in 2012 compared to 2011, and increased $11.3 billion in 2011 compared to 2010. As you review our performance in this area, we believe you should consider the following important information:

- During 2012, net revenues in our Pharmacy Services Segment increased 24.7% and net revenues in our Retail Pharmacy Segment increased 6.8% compared to the prior year.

- During 2011, net revenues in our Pharmacy Services Segment increased by 24.9% and net revenues in our Retail Pharmacy Segment increased 3.9% 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 2012 as compared to 2011, as well as in 2011 as compared to 2010.

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

Gross profit increased $1.9 billion, or 9.5% in 2012, to $22.5 billion, or 18.3% of net revenues, as compared to $20.6 billion, or 19.2% of net revenues in 2011. Gross profit increased $342 million, or 1.7% in 2011, to $20.6 billion, or 19.2% of net revenues, as compared to $20.2 billion, or 21.1% of net revenues in 2010.

- During 2012, gross profit in our Pharmacy Services Segment and Retail Pharmacy Segment increased by 16.1% and 9.4%, respectively, compared to the prior year. For the year ended December 31, 2012, gross profit as a percent of net revenues in our Pharmacy Services Segment and Retail Pharmacy Segment was 5.2% and 30.0%, respectively.

- During 2011, gross profit in our Retail Pharmacy Segment increased by 2.5% which was partially offset by declines in our Pharmacy Services Segment of 1.1%, compared to the prior year. For the year ended December 31, 2011, gross profit as a percent of net revenues in our Pharmacy Services Segment and Retail Pharmacy Segment was 5.6% and 29.3%, respectively.

- The increased weighting toward the Pharmacy Services Segment, which has a lower gross margin than the Retail Pharmacy Segment, is resulting in a continued decline in consolidated gross profit as a percent of net revenues. In addition, gross profit has been negatively impacted by the efforts of managed care organizations, pharmacy benefit managers and governmental and other third-party payors to reduce their prescription drug costs.

- In addition, for the three years 2010 through 2012, our gross profit continued to benefit from the increased utilization of generic drugs (which normally yield a higher gross profit rate than equivalent brand name drugs) in both the Pharmacy Services and Retail Pharmacy segments.

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

Operating expenses increased $1.0 billion, or 7.4% in the year ended December 31, 2012, as compared to the prior year. Operating expenses as a percent of net revenues improved approximately 90 basis points to 12.4% in the year ended December 31, 2012. The increase in operating expenses in the year ended December 31, 2012 was primarily due to incremental store operating costs associated with a higher store count as compared to the prior year period, as well as the expansion of our Medicare Part D business. The improvement in operating expenses as a percent of net revenues is primarily due to expense leverage from net revenue growth and expense control initiatives.

Operating expenses increased $149 million in the year ended December 31, 2011 as compared to the prior year. Operating expenses as a percent of net revenues increased approximately 140 basis points to 13.3% in the year ended December 31, 2011. The increase in operating expenses in the year ended December 31, 2011 was primarily due to incremental store operating costs associated with a higher store count as compared to the prior year period, as well as costs associated with changes designed to streamline our Pharmacy Services Segment and expenses associated with the acquisition and integration of the Medicare prescription drug business of Universal Medicare Corp. (the "UAM Medicare Part D Business").

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

Interest expense, net consisted of the following:

In millions	2012	2011	2010
Interest expense	$ 561	$ 588	$ 539
Interest income	(4)	(4)	(3)
Interest expense, net	$ 557	$ 584	$ 536

Net interest expense decreased $27 million during the year ended December 31, 2012, which resulted from a reduction in our average outstanding short-term and long-term debt. During 2011, net interest expense increased by $48 million, to $584 million compared to 2010, due to a higher average interest rate during the period as we shifted from short-term debt to long-term debt.

Income tax provision - Our effective income tax rate was 38.6%, 39.3% and 38.9% in 2012, 2011 and 2010, respectively. The lower effective income tax in 2012 versus 2011 primarily relates to permanent items, some of which are non-recurring in nature. The higher effective income tax in 2011 versus 2010 primarily relates to changes in the recognition of previously unrecognized tax benefits relating to the expiration of various statutes of limitation and settlements with tax authorities in 2010. In 2010, we recognized $47 million of income tax benefits related to the expiration of various statutes of limitation and settlements with tax authorities.

Income from continuing operations increased $394 million or 11.3% to $3.9 billion in 2012. Income from continuing operations increased $66 million or 1.9% to $3.5 billion in 2011 as compared to $3.4 billion in 2010. The 2012 increase in income from continuing operations was primarily related to increases in generic dispensing rates and growth of our Medicare Part D business in our Pharmacy Services Segment, as well as increased sales in the Retail Pharmacy Segment resulting from share gains in our underlying business and the contractual impasse between Express Scripts and Walgreens, our principal PBM and retail pharmacy competitors, respectively. Walgreens exited from the Express Scripts network as of January 1, 2012. Subsequently, Express Scripts and Walgreens entered into a new pharmacy network agreement that became effective on September 15, 2012.

Income (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 income (loss) from discontinued operations includes lease-related costs which the Company believes it will likely be required to satisfy pursuant to its Linens 'n Things lease guarantees.

We incurred a loss from discontinued operations of $7 million in 2012, a loss from discontinued operations of $31 million in 2011 and income from discontinued operations of $2 million in 2010. The loss from discontinued operations in 2012 was primarily due to lease-related costs related to Linens 'n Things lease guarantees. The loss from discontinued operations in 2011 was primarily due to the disposition of our TheraCom subsidiary. We recognized a $53 million pre-tax gain and a $37 million after-tax loss on the sale of TheraCom. The after-tax loss was caused by the income tax treatment of TheraCom's nondeductible goodwill. Income from discontinued operations (net of tax) was $2 million in 2010 due to $28 million in income from operations of TheraCom offset by $24 million in costs associated with our Linens 'n Things lease guarantees and a $2

million tax provision.

See Note 4 "Discontinued Operations" to the consolidated financial statements for additional information about discontinued operations and Note 13 "Commitments and Contingencies" for additional information about our lease guarantees.

Net loss attributable to noncontrolling interest represents the minority shareholders' portion of the net loss from our majority owned subsidiary, Generation Health, Inc. We acquired the remaining 40% interest of Generation Health, Inc. on June 29, 2012. The net loss attributable to noncontrolling interest for the years ended December 31, 2012, 2011 and 2010 was $2 million, $4 million and $3 million, respectively.

Net income attributable to CVS Caremark increased $416 million or 12.0% to $3.9 billion (or $3.03 per diluted share) in 2012. This compares to $3.5 billion (or $2.57 per diluted share) in 2011 and $3.4 billion (or $2.49 per diluted share) in 2010. As noted above, the 2012 increase in net income attributable to CVS Caremark was primarily related to new 2012 client starts and growth of our Medicare Part D business in our Pharmacy Services Segment, as well as increased sales in the Retail Pharmacy Segment resulting from share gains in our underlying business and the contractual impasse between Express Scripts and Walgreens. The increase in net income attributable to CVS Caremark per diluted share was also driven by increased share repurchase activity in 2012 and 2011.

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
2012:					
Net revenues	$ 73,444	$ 63,654	$ —	$ (13,965)	$ 123,133
Gross profit	3,808	19,109	—	(411)	22,506
Operating profit	2,679	5,654	(694)	(411)	7,228
2011:					
Net revenues	$ 58,874	$ 59,599	$ —	$ (11,373)	$ 107,100
Gross profit	3,279	17,468	—	(186)	20,561
Operating profit	2,220	4,912	(616)	(186)	6,330
2010:					
Net revenues	$ 47,145	$ 57,345	$ —	$ (8,712)	$ 95,778
Gross profit	3,315	17,039	—	(135)	20,219
Operating profit	2,361	4,537	(626)	(135)	6,137

(1) Net revenues of the Pharmacy Services Segment include approximately $8.4 billion, $7.9 billion and $6.6 billion of Retail Co-Payments for 2012, 2011 and 2010, respectively. See Note 1 to the consolidated financial statements for additional information about Retail Co-Payments.

(2) Intersegment eliminations relate to two types of transactions: (i) Intersegment revenues that occur when Pharmacy Services Segment customers use Retail Pharmacy Segment stores to purchase covered products. When this occurs, both the Pharmacy Services and Retail Pharmacy segments record the revenue on a standalone basis, and (ii) Intersegment revenues, gross profit and operating profit that occur when Pharmacy Services Segment customers, through the Company's intersegment activities (such as the Maintenance Choice® program), elect to pick-up their maintenance prescriptions at Retail Pharmacy Segment stores instead of receiving them through the mail. When this occurs, both the Pharmacy Services and Retail Pharmacy segments record the revenue, gross profit and operating profit on a standalone basis. Beginning in the fourth quarter of 2011, the Maintenance Choice eliminations reflect all discounts available for the purchase of mail order prescription drugs. The following amounts are eliminated in consolidation in connection with the item (ii) intersegment activity: net revenues of $3.4 billion, $2.6 billion and $1.8 billion for the years ended December 31, 2012, 2011 and 2010, respectively; gross profit and operating profit of $411 million, $186 million and $135 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Pharmacy Services Segment

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

In millions	Year Ended December 31, 2012	2011	2010
Net revenues	$ 73,444	$ 58,874	$ 47,145
Gross profit	3,808	3,279	3,315
Gross profit % of net revenues	5.2%	5.6%	7.0%

Operating expenses	1,129	1,059	954
Operating expenses % of net revenues	1.5%	1.8%	2.0%
Operating profit	2,679	2,220	2,361
Operating profit % of net revenues	3.7%	3.8%	5.0%
Net revenues(1) :			
Mail choice(2)	$ 22,843	$ 18,616	$ 16,159
Pharmacy network(3)	50,411	40,040	30,681
Other	190	218	305
Pharmacy claims processed(1) :			
Total	880.5	774.6	584.7
Mail choice(2)	81.7	70.6	64.1
Pharmacy network(3)	798.8	704.0	520.6
Generic dispensing rate(1) :			
Total	78.5%	74.1%	71.5%
Mail choice(2)	72.0%	64.9%	61.3%
Pharmacy network(3)	79.1%	75.0%	72.7%
Mail choice penetration rate	22.7%	22.3%	25.8%

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

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

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

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

Net revenues increased $11.7 billion, or 24.9%, to $58.9 billion for the year ended December 31, 2011, as compared to the prior year. The increase in 2011 was primarily due to the addition of the long-term contract with Aetna Inc. ("Aetna"), which became effective on January 1, 2011, as well as activity resulting from our April 29, 2011 acquisition of the UAM Medicare Part D Business. Additionally, the increase in our generic dispensing rate had a negative impact on our revenue in 2011 as it did in 2010.

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

- Our mail choice claims processed increased 15.7% to 81.7 million claims in the year ended December 31, 2012, compared to 70.6 million claims in the prior year. The increase in mail choice claim volume was primarily due to a significant number of 2012 new client starts, as well as increased claims associated with the continuing client adoption of our Maintenance Choice program. During 2011, our mail choice claims processed increased 10.2% to 70.6 million claims. The increase in mail choice claim volume was primarily due to the addition of the long-term contract with Aetna, which became effective on January 1, 2011.

- During 2012 and 2011, our average revenue per mail choice claim increased by 6.0% and 4.6%, compared to 2011 and 2010, respectively. This increase was primarily due to drug cost inflation particularly in our specialty business.

- Our mail choice generic dispensing rate was 72.0%, 64.9% and 61.3% in the years ended December 31, 2012, 2011 and 2010, respectively.

- Our pharmacy network generic dispensing rate increased to 79.1% in the year ended December 31, 2012, compared to 75.0% in the prior year. During 2011, our pharmacy network generic dispensing rate increased to 75.0% compared to our pharmacy network generic dispensing rate of 72.7% in 2010. These continued increases in both mail choice and pharmacy network generic dispensing rates were primarily due to the impact of new generic drug introductions and our continuous efforts to encourage plan members to use generic drugs when they are available. We believe our generic dispensing rates will continue to increase in future periods. This increase will be affected by, among other things, the number of new generic drug introductions and our success at encouraging plan members to utilize generic drugs when they are available and clinically appropriate.

- Our pharmacy network claims processed increased 13.5% to 798.8 million claims in the year ended December 31, 2012, compared to 704.0 million claims in the prior year. The increase in the pharmacy network claim volume was primarily due to a large number of 2012 new client starts, as well as higher claims activity associated with our Medicare Part D program. During 2011, our pharmacy network claims processed increased 35.2% to 704.0 million compared to 520.6 million pharmacy network claims processed in 2010. The increase in the pharmacy network claim volume was primarily due to the addition of the long-term contract with Aetna, which became effective on January 1, 2011. Additionally, we experienced higher claims activity associated with our Medicare Part D program as a result of our acquisition of the UAM Medicare Part D Business completed during the second quarter of 2011 and increases in covered lives under our legacy Medicare Part D program.

- Our average revenue per pharmacy network claim processed increased 11.0% in the year ended December 31, 2012 as compared to the prior year. This increase was primarily due to drug cost inflation partially offset by increases in the generic dispensing rate. During 2011, our average revenue per pharmacy network claim processed decreased by 3.5%, compared to 2010. This decrease was primarily due to increases in the percentage of generic prescription drugs dispensed, changes in client pricing, and the impact of our acquisition of the UAM Medicare Part D Business, partially offset by our long-term contract with Aetna, which became effective on January 1, 2011.

- During 2012, 2011, and 2010, we generated net revenues from our participation in the administration of the Medicare Part D drug benefit by providing PBM services to our health plan clients and other clients that have qualified as a Medicare Part D Prescription Drug Plan (a "PDP") under regulations promulgated by the Centers for Medicare and Medicaid Services ("CMS"). We are also a national provider of drug benefits to eligible beneficiaries under the Medicare Part D program through our subsidiaries, SilverScript and Pennsylvania Life (which have been approved by CMS as PDPs).

- The Pharmacy Services Segment recognizes revenues for its pharmacy network transactions based on individual contract terms. In accordance with ASC 605, *Revenue Recognition*, Caremark's contracts are predominantly accounted for using the gross method.

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

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

During 2011, gross profit decreased $36 million, or 1.1%, to $3.3 billion for the year ended December 31, 2011, as compared to the prior year. Gross profit as a percentage of net revenues was 5.6% for the year ended December 31, 2011, compared to 7.0% in the prior year. The decrease in gross profit dollars in the year ended December 31, 2011 was primarily driven by pricing compression relating to contract renewals and in particular the renewal of a large government client contract that took effect during the third quarter of 2010 partially offset by activity associated with our April 2011 acquisition of the UAM Medicare Part D Business.

During the year ended December 31, 2011, the decrease in gross profit as a percentage of net revenues was also driven by the previously mentioned client pricing compression, as well as the profitability associated with our long-term contract with Aetna, which has lower margins. These factors were partially offset by the positive impact from the above mentioned increases in our generic dispensing rates as compared to the prior year.

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. 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. Caremark's network contracts are predominantly accounted for using the gross method, which results in higher revenues, higher cost of revenues and lower gross profit rates. The conversion of certain RxAmerica contracts to the Caremark contract structure increased our net revenues, increased our cost of revenues and lowered our gross profit rates in 2010. Although this change did not affect our gross profit dollars, it did reduce our gross profit rates by approximately 40 basis points in the year ended December 31, 2010.

- Our gross profit as a percentage of revenues benefited from the increase in our total generic dispensing rate, which increased to 78.5% and 74.1% in 2012 and 2011, respectively, compared to our generic dispensing rate of 71.5% in 2010. 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.

- Effective January 1, 2010, CMS issued a regulation requiring that any differential or spread between the drug price charged to Medicare Part D plan sponsors by a PBM and the price paid for the drug by the PBM to the dispensing provider be reported as an administrative cost rather than a drug cost of the plan sponsor for purposes of calculating certain government subsidy payments and the drug price to be charged to enrollees. As noted above, these changes have impacted our ability to offer Medicare Part D plan sponsors pricing that includes the use of

retail network differential or spread. This change impacted both our gross profit dollars and gross profit as a percentage of net revenues in 2011 and 2010.

- As discussed in Note 13 to our consolidated financial statements, effective January 15, 2013, CMS imposed certain sanctions on our SilverScript Medicare Part D PDP. These sanctions and the remediation efforts that may be required to address issues resulting from our 2013 Medicare Part D enrollment systems conversion process and related plan consolidation efforts may have an adverse impact on the profitability of our Pharmacy Services Segment. Please see "Cautionary Statement Concerning Forward-Looking Statements" section later in Management's Discussion and Analysis of Financial Condition and Results of Operations.

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 1.5% of net revenues in 2012 compared to 1.8% and 2.0% in 2011 and 2010, respectively.

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

- Operating expenses increased $70 million or 6.6%, to $1.1 billion, in the year ended December 30, 2012, compared to the prior year. The increase in operating expenses is primarily related to increased costs associated with the expansion of our Medicare Part D business. The decrease in operating expenses as a percentage of net revenues is primarily due to expense leverage from net revenue growth and expense control initiatives.

- During 2011, the increase in operating expenses of $105 million or approximately 11%, to $1.1 billion compared to 2010, is primarily related to normal operating expenses of the acquired UAM Medicare Part D Business, costs associated with changes designed to streamline our business, expenses associated with the acquisition and integration of the UAM Medicare Part D Business, partially offset by disciplined expense management.

Retail Pharmacy Segment

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

	Year Ended December 31,		
In millions	**2012**	**2011**	**2010**
Net revenues	$ 63,654	$ 59,599	$ 57,345
Gross profit	19,109	17,468	17,039
Gross profit % of net revenues	30.0%	29.3%	29.7%
Operating expenses	13,455	12,556	12,502
Operating expenses % of net revenues	21.1%	21.1%	21.8%
Operating profit	5,654	4,912	4,537
Operating profit % of net revenues	8.9%	8.2%	7.9%
Retail prescriptions filled (90 Day = 1 prescription)	717.9	657.8	636.3
Retail prescriptions filled (90 Day = 3 prescriptions) (1)	848.1	763.4	723.1
Net revenue increase:			
Total	6.8%	3.9%	3.6%
Pharmacy	7.6%	4.4%	4.1%
Front Store	5.1%	3.0%	2.6%
Total prescription volume (90 Day = 1 prescription)	9.1%	3.4%	3.2%
Total prescription volume (90 Day = 3 prescriptions) (1)	11.1%	5.6%	6.1%
Same store sales increase:			
Total	5.5%	2.3%	2.1%
Pharmacy	6.5%	3.1%	2.9%
Front Store	3.4%	0.8%	0.5%
Prescription volume (90 Day = 1 prescription)	8.1%	2.2%	2.1%
Prescription volume (90 Day = 3 prescriptions) (1)	10.3%	4.4%	6.4%
Generic dispensing rates	79.2%	75.6%	73.0%
Pharmacy % of net revenues	68.8%	68.3%	68.0%
Third party % of pharmacy revenue	97.5%	97.8%	97.4%

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

Net revenues increased $4.1 billion, or 6.8%, to $63.7 billion for the year ended December 31, 2012, as compared to the prior year. This increase was primarily driven by a same store sales increase of 5.5% and net revenues from new stores, which accounted for approximately 110 basis points of our total net revenue percentage increase during the year.

Net revenues in our Retail Pharmacy Segment increased $2.3 billion, or 3.9% to $59.6 billion for the year ended December 31, 2011, as compared to the prior year. This increase was primarily driven by a same store sales increase of 2.3% and net revenues from new stores, which accounted for

approximately 130 basis points of our total net revenue percentage increase during the year. Additionally, we continued to see a positive impact on our net revenues due to the growth of our Maintenance Choice program.

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 rose 5.1% in the year ended December 31, 2012, as compared to the prior year. Front store same store sales were positively impacted by increased customer traffic resulting from new store growth, the contractual impasse between Express Scripts and Walgreens and an additional day as a result of 2012 being a leap year.

- Pharmacy same store sales rose 7.6% in the year ended December 31, 2012, as compared to the prior year. The contractual impasse between Express Scripts and Walgreens was a significant driver of the increase. Pharmacy same store sales also benefited from an additional day as a result of 2012 being a leap year.

- Pharmacy revenues continue to be negatively impacted by the conversion of brand name drugs to equivalent generic drugs, which typically have a lower selling price. Pharmacy same store sales were negatively impacted by approximately 700 and 215 basis points for the years ended December 31, 2012 and 2011, respectively, due to recent generic introductions. In addition, our pharmacy growth has also been adversely affected by the lack of significant new brand name drug introductions, higher consumer co-payments and co-insurance arrangements and an increase in the number of over-the-counter remedies that were historically only available by prescription.

- As of December 31, 2012, we operated 7,458 retail stores compared to 7,327 retail stores as of December 31, 2011 and 7,182 retail stores as of December 31, 2010. Total net revenues from new stores (excluding acquired stores) contributed approximately 1.1%, 1.3% and 1.4% to our total net revenue percentage increase in 2012, 2011, and 2010, respectively.

- Pharmacy revenue growth continued to benefit from increased utilization by Medicare Part D beneficiaries, the ability to attract and retain managed care customers and favorable industry trends. These trends include an aging American population; many "baby boomers" are now in their fifties and sixties and are consuming a greater number of prescription drugs. In addition, the increased use of pharmaceuticals as the first line of defense for individual health care also contributed to the growing demand for pharmacy services. We believe these favorable industry trends will continue.

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

Gross profit increased $1.6 billion, or 9.4%, to $19.1 billion in the year ended December 31, 2012, as compared to the prior year. Gross profit as a percentage of net revenues increased to 30.0% in year ended December 31, 2012, from 29.3% in 2011. The increase in gross profit dollars in the year ended December 31, 2012, was primarily driven by same store sales increases. The increase in gross profit as a percentage of revenue was primarily driven by increased pharmacy margins due to the positive impact of increased generic drugs dispensed, partially offset by continued reimbursement pressure and lower front store margins.

Gross profit increased $429 million, or 2.5%, to $17.5 billion for the year ended December 31, 2011, as compared to the prior year. Gross profit as a percentage of net revenues decreased to 29.3% for the year ended December 31, 2011, compared to 29.7% for the prior year. Gross profit as a percentage of revenue was negatively impacted during 2011 by lower pharmacy margins due to continued reimbursement pressure which was partially offset by the positive impact of increased generic drugs dispensed.

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

- Gross profit was positively impacted by approximately $31 million for the year ended December 31, 2012 as a result of the change in inventory accounting methods described in Note 2 to our consolidated financial statements. The impact of this change on gross profit as a percentage of net revenues for the year ended December 31, 2012 was approximately five basis points.

- On average, our gross profit on front-store revenues is generally higher than our average gross profit on pharmacy revenues. Front-store revenues were 31.2%, 31.7% and 32.0% of total revenues, in 2012, 2011 and 2010, respectively. Pharmacy revenues were 68.8%, 68.3% and 68.0% of total revenues, in 2012, 2011 and 2010, respectively. This shift in sales mix had a negative effect on our overall gross profit for the year ended December 31, 2012 and 2011, respectively.

- During 2011, our front-store gross profit rate was positively impacted by private label and proprietary brand product sales, which normally yield a higher gross profit rate than other front-store products.

- Our pharmacy gross profit rates have been adversely affected by the efforts of managed care organizations, pharmacy benefit managers and governmental and other third-party payors to reduce their prescription drug costs. In the event this trend continues, we may not be able to sustain our current rate of revenue growth and gross profit dollars could be adversely impacted.

- The increased use of generic drugs has positively impacted our gross profit margins but has resulted in third party payors augmenting their

efforts to reduce reimbursement payments to retail pharmacies for prescriptions. This trend, which we expect to continue, reduces the benefit we realize from brand to generic product conversions.

- Sales to customers covered by third party insurance programs are a large component of our total pharmacy business. On average, our gross profit on third party pharmacy revenues is lower than our gross profit on cash pharmacy revenues. Third party pharmacy revenues were 97.5% of pharmacy revenues in 2012, compared to 97.8% and 97.4% of pharmacy revenues in 2011 and 2010, respectively.

- The Medicare Part D program is increasing prescription utilization. However, it is also decreasing our pharmacy gross profit rates as our higher gross profit business continued to migrate to Part D coverage during 2012, 2011 and 2010.

- The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, "ACA") made several significant changes to Medicaid rebates and to reimbursement. One of these changes was to revise the definition of Average Manufacturer Price and the reimbursement formula for multi-source drugs. CMS has not yet issued final regulations implementing these changes. Therefore, we cannot predict the effect these changes will have on Medicaid reimbursement or their impact on the Company. See "Government Regulation" within Part I, Item 1, Business, for additional information.

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

Operating expenses increased $899 million, or 7.2% to $13.5 billion, or 21.1% as a percentage of net revenues, in the year ended December 31, 2012, as compared to $12.6 billion, or 21.1% as a percentage of net revenues, in the prior year. Operating expenses as a percentage of net revenues remained consistent with the prior year period. The increase in operating expense dollars was the result of higher store operating costs associated with our increased store count.

Operating expenses increased $54 million, or less than 1%, to $12.6 billion, or 21.1% as a percentage of net revenues, in the year ended December 31, 2011, as compared to $12.5 billion, or 21.8% as a percentage of net revenues, in the prior year. We saw improvement in operating expenses as a percentage of net revenues for the year ended December 31, 2011, due to improved expense leverage from our same store sales growth and expense control initiatives.

Corporate Segment

Operating expenses increased $78 million, or 12.5%, to $694 million in the year ended December 31, 2012, as compared to the prior year. Operating expenses decreased $10 million, or 1.6% during 2011. 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 2012 was primarily due to higher benefit costs and information technology expenses. The decrease in operating expenses in 2011 was primarily driven by lower professional fees for legal services and lower consulting 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.

Net cash provided by operating activities was $6.7 billion for the year ended December 31, 2012, compared to $5.9 billion in 2011, and $4.8 billion in 2010. The increase in 2012 was primarily due to the significant increase in net income, improved receivables management, improved payables management, and the timing of payments. The increase in 2011 was related to improvements in inventory and payables management, increases in accrued expenses due to the timing of payments and growth in claims payable due to increased volume of activity in our Pharmacy Services Segment, partially offset by increased accounts receivable.

Net cash used in investing activities was $1.8 billion, representing a decrease of $561 million in 2012. This compares to approximately $2.4 billion and $1.6 billion in 2011 and 2010, respectively. The decrease in 2012 was primarily due to the $1.3 billion acquisition of the UAM Medicare Part D Business which occurred in April 2011. In 2011, the increase in net cash used in investing activities was primarily due to the cash paid to acquire the UAM Medicare Part D Business, partially offset by the proceeds from the sale of our TheraCom subsidiary, increased proceeds from sale-lease back transactions and lower purchases of property and equipment.

In 2012, gross capital expenditures totaled $2.0 billion, an increase of $158 million compared to the prior year. During 2012, approximately 45% of our total capital expenditures were for new store construction, 40% were for store expansion and improvements and 15% were for technology and other corporate initiatives. Gross capital expenditures totaled approximately $1.9 billion during 2011, compared to approximately $2.0 billion in 2010. The decrease in gross capital expenditures during 2011 was primarily due to the absence of spending which occurred in 2010 related to store remodeling. During 2011, approximately 46% of our total capital expenditures were for new store construction, 18% were for store expansion and improvements and 36% were for technology and other corporate initiatives.

Proceeds from sale-leaseback transactions totaled $529 million in 2012. This compares to $592 million in 2011 and $507 million in 2010. Under the

sale-leaseback transactions, the properties are generally sold at net book value, which generally approximates fair value, and the resulting leases qualify and are accounted for as operating leases. The specific timing and amount of future sale-leaseback transactions will vary depending on future market conditions and other factors.

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

	2012(2)	2011(2)	2010(2)
Total stores (beginning of year)	7,388	7,248	7,095
New and acquired stores(1)	150	162	183
Closed stores(1)	(30)	(22)	(30)
Total stores (end of year)	7,508	7,388	7,248
Relocated stores	90	86	106

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

(2) Excludes specialty mail order facilities.

Net cash used in financing activities was approximately $4.9 billion in 2012, compared to net cash used in financing activities of $3.5 billion in 2011 and net cash used in financing activities of $2.8 billion in 2010. Net cash used in financing activities during 2012 was primarily related to $4.3 billion of share repurchases associated with the share repurchase programs discussed below, the repurchase of long-term debt for $1.7 billion, partially offset by the issuance of approximately $1.2 billion of long-term debt. Net cash used in financing activities during 2011 was primarily due to $3.0 billion of share repurchases associated with the share repurchase program, as well as a net reduction in our outstanding debt of $0.2 billion. Net cash used in financing activities during 2010 was primarily due to the repayment of long-term-debt of approximately $2.1 billion and $1.5 billion of share repurchases associated with the share repurchase programs, partially offset by net proceeds from the issuance of long-term debt of approximately $1 billion.

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

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

Pursuant to the authorizations under the 2011 and 2012 Repurchase Programs, on September 19, 2012, we entered into a $1.2 billion fixed dollar accelerated share repurchase ("ASR") agreement with Barclays Bank PLC ("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. The total of 25.6 million shares of common stock delivered to us by Barclays over the term of the ASR agreement were placed into treasury stock.

Pursuant to the authorization under the 2011 Repurchase Program, on August 24, 2011, we entered into a $1.0 billion fixed dollar ASR agreement with Barclays. The ASR agreement contained provisions that establish the minimum and maximum number of shares to be repurchased during its term. Pursuant to the ASR agreement, on August 25, 2011, we paid $1.0 billion to Barclays in exchange for Barclays delivering 20.3 million shares of common stock to us. On September 16, 2011, upon establishment of the minimum number of shares to be repurchased, Barclays delivered an additional 5.4 million shares of common stock to us. At the conclusion of the transaction on December 28, 2011, Barclays delivered a final installment of 1.6 million shares of common stock on December 29, 2011. The aggregate 27.3 million shares of common stock delivered to us by Barclays, were placed into treasury stock. This represented all the repurchases that occurred during the year ended December 31, 2011 under the 2011 Repurchase Program.

During the year ended December 31, 2012, we repurchased an aggregate of 95.0 million shares of common stock for approximately $4.3 billion under the 2012 and 2011 Repurchase Programs. As of December 31, 2012, the 2011 Repurchase Program was complete and there remained approximately $4.7 billion available for future repurchases under the 2012 Repurchase Program.

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

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

Short-term borrowings - We had $690 million of commercial paper outstanding at a weighted average interest rate of 0.35% as of December 31, 2012. In connection with our commercial paper program, we maintain a $1.0 billion, three-year unsecured back-up credit facility, which expires on May 27, 2013, a $1.25 billion, four-year unsecured back-up credit facility, which expires on May 12, 2015 and a $1.25 billion, five-year unsecured back-up credit facility, which expires on February 17, 2017. The credit facilities allow for borrowings at various rates that are dependent, in part, on our public debt ratings and require us to pay a weighted average quarterly facility fee of approximately 0.05%, regardless of usage. As of December 31, 2012, there were no borrowings outstanding under the back-up credit facilities. We intend to renew our back-up credit facility that expires in May 2013.

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

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

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

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

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

On May 13, 2010, we issued $550 million of 3.25% unsecured senior notes due May 18, 2015 and issued $450 million of 4.75% unsecured senior notes due May 18, 2020 (collectively, the "2010 Notes") for total proceeds of $991 million, which was net of discounts and underwriting fees. The 2010 Notes pay interest 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 2010 Notes were used to repay a portion of the Company's outstanding commercial paper borrowings, certain other corporate debt and for general corporate purposes.

Our backup credit facility, unsecured senior notes and ECAPS (see Note 7 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, 2012 and 2011, we had no outstanding derivative financial instruments.

Debt Ratings - As of December 31, 2012, our long-term debt was rated "Baa2" by Moody's with a positive 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 2012, our Board of Directors authorized a 38% increase in our quarterly common stock dividend to $0.225 per share. This increase equates to an annual dividend rate of $0.90 per share. In December 2011, our Board of directors authorized a 30% increase in our quarterly common stock dividend to $0.1625 per share. This increase equated to an annual dividend rate of $0.65 per share. On January 11, 2011, our Board of Directors authorized a 43% increase in our quarterly common stock dividend to $0.125 per share. This increase equated to an annual dividend rate of $0.50 per share. In January 2010, our Board of Directors authorized a 15% increase in our quarterly common stock dividend to $0.0875 per share. This increase equated to an annual dividend rate of $0.35 per share.

Off-Balance Sheet Arrangements

In connection with executing operating leases, we provide a guarantee of the lease payments. We also finance a portion of our new store development through sale-leaseback transactions, which involve selling stores to unrelated parties and then leasing the stores back under leases that qualify and are accounted for as operating leases. We do not have any retained or contingent interests in the stores, and we do not provide any guarantees, other than a guarantee of the lease payments, in connection with the transactions. In accordance with generally accepted accounting principles, our operating leases are not reflected on our consolidated balance sheets.

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

As of December 31, 2012, the Company guaranteed approximately 74 such store leases (excluding the lease guarantees related to Linens 'n Things), with the maximum remaining lease term extending through 2022. 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 "Income (loss) from discontinued operations" previously in this document for further information regarding our guarantee of certain Linens 'n Things' store lease obligations.

Following is a summary of our significant contractual obligations as of December 31, 2012:

	Payments Due by Period				
In millions	Total	2013	2014 to 2015	2016 to 2017	Thereafter
Operating leases	$ 27,596	$ 2,261	$ 4,097	$ 3,802	$ 17,436
Leases from discontinued operations	93	21	36	24	12
Long-term debt	8,967	1	1,100	1,731	6,135
Interest payments on long-term debt(1)	6,545	472	897	813	4,363
Other long-term liabilities reflected in our consolidated balance sheet	512	39	152	104	217
Capital lease obligations	336	20	42	42	232
	$ 44,049	$ 2,814	$ 6,324	$ 6,516	$ 28,395

(1) Interest payments on long-term debt are calculated on outstanding balances and interest rates in effect on December 31, 2012.

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

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

- Revenues generated from prescription drugs sold by mail service pharmacies are recognized when the prescription is shipped. At the time of shipment, the Pharmacy Services Segment has performed substantially all of its obligations under its client contracts and does not experience a significant level of returns or reshipments.

- Revenues generated from prescription drugs sold by third party pharmacies in the Pharmacy Services Segment's retail pharmacy network and associated administrative fees are recognized at the Pharmacy Services Segment's point-of-sale, which is when the claim is adjudicated by the Pharmacy Services Segment's online claims processing system.

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

price and the co-payments due to the third party retail pharmacy, identifying possible adverse drug interactions for the pharmacist to address with the physician prior to dispensing, suggesting clinically appropriate generic alternatives where appropriate and approving the prescription for dispensing. Although we do not have credit risk with respect to Retail Co-Payments, we believe that all of the other indicators of gross revenue reporting are present. For contracts under which we act as an agent, we record revenues using the net method.

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

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

In addition to these premiums, our net revenues include co-payments, coverage gap benefits, deductibles and co-insurance (collectively, the "Member Co-Payments") related to PDP members' actual prescription claims. In certain cases, CMS subsidizes a portion of these Member Co-Payments and we are paid an estimated prospective Member Co-Payment subsidy, each month. The prospective Member Co-Payment subsidy amounts received from CMS are also included in our net revenues. We assume no risk for these amounts, which represented 7.7%, 3.1% and 2.6% of consolidated net revenues in 2012, 2011 and 2010, respectively. If the prospective Member Co-Payment subsidies received differ from the amounts based on actual prescription claims, the difference is recorded in either accounts receivable or accrued expenses. We account for CMS obligations and Member Co-Payments (including the amounts subsidized by CMS) using the gross method consistent with our revenue recognition policies for Mail Co-Payments and Retail Co-Payments. We have recorded estimates of various assets and liabilities arising from our participation in the Medicare Part D program based on information in our claims management and enrollment systems. Significant estimates arising from our participation in the Medicare Part D program include: (i) estimates of low-income cost subsidy and reinsurance amounts ultimately payable to or receivable from CMS based on a detailed claims reconciliation, (ii) an estimate of amounts payable to CMS under a risk-sharing feature of the Medicare Part D program design, referred to as the risk corridor and (iii) estimates for claims that have been reported and are in the process of being paid or contested and for our estimate of claims that have been incurred but have not yet been reported. Actual amounts of Medicare Part D-related assets and liabilities could differ significantly from amounts recorded. Historically, the effect of these adjustments has not been material to our results of operations or financial position.

Retail Pharmacy Segment

Our Retail Pharmacy Segment recognizes revenue from the sale of merchandise (other than prescription drugs) at the time the merchandise is purchased by the retail customer. Revenue from the sale of prescription drugs is recognized at the time the prescription is filled as opposed to upon delivery as required under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification 605, *Revenue Recognition*. For substantially all prescriptions, the fill date and the delivery date occur in the same reporting period. The effect on both revenue and income of recording prescription drug sales upon fill as opposed to delivery is immaterial. 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.

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

Vendor Allowances and Purchase Discounts

Pharmacy Services Segment

Our Pharmacy Services Segment receives purchase discounts on products purchased. Contractual arrangements with vendors, including manufacturers, wholesalers and retail pharmacies, normally provide for the Pharmacy Services Segment to receive purchase discounts from established list prices in one, or a combination, of the following forms: (i) a direct discount at the time of purchase, (ii) a discount for the prompt payment of invoices or (iii) when products are purchased indirectly from a manufacturer (e.g., through a wholesaler or retail pharmacy), a discount (or rebate) paid subsequent to dispensing. These rebates are recognized when prescriptions

are dispensed and are generally calculated and billed to manufacturers within 30 days of the end of each completed quarter. Historically, the effect of adjustments resulting from the reconciliation of rebates recognized to the amounts billed and collected has not been material to the results of operations. We account for the effect of any such differences as a change in accounting estimate in the period the reconciliation is completed. The Pharmacy Services Segment also receives additional discounts under its wholesaler contract if it exceeds contractually defined annual purchase volumes. In addition, the Pharmacy Services Segment receives fees from pharmaceutical manufacturers for administrative services. Purchase discounts and administrative service fees are recorded as a reduction of "Cost of revenues".

Retail Pharmacy Segment

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

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

Inventory

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

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

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

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

Our total reserve for estimated inventory losses covered by this critical accounting policy was $207 million as of December 31, 2012. 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 $21 million as of December 31, 2012.

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

Goodwill and Intangible Assets

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

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

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

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

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

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

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

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

The determination of the fair value of our reporting units requires the Company to make significant assumptions and estimates. These assumptions and estimates primarily include, but are not limited to, the selection of appropriate peer group companies; control premiums and valuation multiples appropriate for acquisitions in the industries in which the Company competes; discount rates,

terminal growth rates; and forecasts of revenue, operating profit, depreciation and amortization, capital expenditures and future working capital requirements. When determining these assumptions and preparing these estimates, we consider each reporting unit's historical results and current operating trends and our consolidated revenues, profitability and cash flow results and forecasts. Our estimates can be affected by a number of factors including, but not limited to, general economic and regulatory conditions, our market capitalization, efforts of third party organizations to reduce their prescription drug costs and/or increase member co-payments, the continued efforts of competitors to gain market share and consumer

spending patterns.

The carrying value of goodwill and other intangible assets covered by this critical accounting policy was $26.4 billion and $9.8 billion as of December 31, 2012, respectively. We did not record any impairment losses related to goodwill or other intangible assets during 2012, 2011 or 2010. During the third quarter of 2012, 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, 2012, in our Pharmacy Services and Retail Pharmacy reporting units was $19.6 billion and $6.7 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 $339 million as of December 31, 2012. This amount is net of $209 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 $21 million as of December 31, 2012.

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 $590 million as of December 31, 2012. 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 $59 million as of December 31, 2012.

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

New Accounting Pronouncements

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income* ("ASU 2011-05"). ASU 2011-05 eliminates the current option to report other comprehensive income and its components in the statement of shareholders' equity. Instead, an entity will have the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 also required entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is

presented and the statement in which other comprehensive income is presented. In December 2011, the FASB issued ASU 2011-12 *Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*, which indefinitely defers the guidance related to the presentation of reclassification adjustments. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011 and should be applied retrospectively. The Company elected to report other comprehensive income and its components in a separate statement of comprehensive income beginning in the first quarter of 2012. The adoption of ASU 2011-05 did not have a material effect on the Company's consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment* ("ASU 2011-08"). ASU 2011-08 allows entities to use a qualitative approach to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If after performing the qualitative assessment an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step goodwill impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step goodwill impairment test. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of ASU 2011-08 did not have a material effect on the Company's consolidated financial statements. The Company did not elect to use the qualitative approach in its 2012 annual goodwill impairment test.

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

Cautionary Statement Concerning Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 (the "Reform Act") provides a safe harbor for forward-looking statements made by or on behalf of CVS Caremark Corporation. The Company and its representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in the Company's filings with the Securities and Exchange Commission ("SEC") and in its reports to stockholders. Generally, the inclusion of the words "believe," "expect," "intend," "estimate," "project," "anticipate," "will," "should" and similar expressions identify statements that constitute forward-looking statements. All statements addressing operating performance of CVS Caremark Corporation or any subsidiary, events or developments that the Company expects or anticipates will occur in the future, including statements relating to 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, PBM business and sales trends, the Company's ability to attract or retain customers, Medicare Part D competitive bidding and enrollment, new product development and the impact of industry developments, as well as statements expressing optimism or pessimism about future operating results or events, are forward-looking statements within the meaning of the Reform Act.

The forward-looking statements are and will be based upon management's then-current views and assumptions regarding future events and operating performance, and are applicable only as of the dates of such statements. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

By their nature, all forward-looking statements involve risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements for a number of reasons, including, but not limited to:

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

- *Efforts to reduce reimbursement levels and alter health care financing practices, including pressure to reduce reimbursement levels for generic drugs.*

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

- *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 relating to our participation in Medicare, Medicaid and other federal and state government-funded programs, including requirements and restrictions imposed by CMS and other government agencies, as applicable, relating to our participation in the Medicare Part D program and other government-funded programs.*

- *Possible changes in industry pricing benchmarks used to establish pricing in many of our PBM client contracts, pharmaceutical*

purchasing arrangements, retail network contracts, specialty payor agreements and other third party payor contracts.

- *An extremely competitive business environment, including the uncertain impact of increased consolidation in the PBM industry, uncertainty concerning the ability of our retail pharmacy business to secure and maintain contractual relationships with PBMs and other payors on acceptable terms, uncertainty concerning the ability of our PBM business to secure and maintain competitive access, pricing and other contract terms from retail network pharmacies in an environment where some PBM clients are willing to consider adopting narrow or more restricted retail pharmacy networks.*

- *Uncertainty relating to the effect on our net revenues, gross profit, marketing and other operating expenses and cash flows over time if we are unable to retain the business we have gained as a result of the Express Scripts and Walgreens contractual impasse to the extent anticipated.*

- *Risks relating to our ability to secure timely and sufficient access to the products we sell from our domestic and/or international suppliers.*

- *Reform of the U.S. health care system, including ongoing implementation of the Patient Protection and Affordable Care Act, continuing legislative efforts, regulatory changes and judicial interpretations impacting our health care system and the possibility*

of shifting political and legislative priorities related to reform of the health care system in the future.

- *Risks relating to our failure to properly maintain our information technology systems, our information security systems and our infrastructure to support our business and to protect the privacy and security of sensitive customer and business information.*

- *Risks related to compliance with a broad and complex regulatory framework, including compliance with new and existing federal, state and local laws and regulations relating to health care, accounting standards, corporate securities, tax, environmental and other laws and regulations affecting our business.*

- *Risks related to litigation, government investigations and other legal proceedings as they relate to our business, the pharmacy services, retail pharmacy or retail clinic industries or to the health care industry generally.*

- *Other risks and uncertainties detailed from time to time in our filings with the SEC.*

The foregoing list is not exhaustive. There can be no assurance that the Company has correctly identified and appropriately assessed all factors affecting its business. Additional risks and uncertainties not presently known to the Company or that it currently believes to be immaterial also may adversely impact the Company. Should any risks and uncertainties develop into actual events, these developments could have a material adverse effect on the Company's business, financial condition and results of operations. For these reasons, you are cautioned not to place undue reliance on the Company's forward-looking statements.

Management's Report on Internal Control Over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting. Our Company's internal control over financial reporting includes those policies and procedures that pertain to the Company's ability to record, process, summarize and report a system of internal accounting controls and procedures to provide reasonable assurance, at an appropriate cost/benefit relationship, that the unauthorized acquisition, use or disposition of assets are prevented or timely detected and that transactions are authorized, recorded and reported properly to permit the preparation of financial statements in accordance with generally accepted accounting principles (GAAP) and receipt and expenditures are duly authorized. In order to ensure the Company's internal control over financial reporting is effective, management regularly assesses such controls and did so most recently for its financial reporting as of December 31, 2012.

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

Based on our assessment, we conclude our Company's internal control over financial reporting is effective and provides reasonable assurance that assets are safeguarded and that the financial records are reliable for preparing financial statements as of December 31, 2012.

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

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of CVS Caremark Corporation

We have audited CVS Caremark Corporation's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). CVS Caremark Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on CVS Caremark Corporation's internal control over financial reporting based on our audit.

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

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

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

In our opinion, CVS Caremark Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of CVS Caremark Corporation as of December 31, 2012 and 2011, 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, 2012 of CVS Caremark Corporation and our report dated February 15, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 15, 2013

Consolidated Statements of Income

In millions, except per share amounts	Year Ended December 31, 2012	2011	2010
Net revenues	$ 123,133	$ 107,100	$ 95,778
Cost of revenues	100,627	86,539	75,559
Gross profit	22,506	20,561	20,219
Operating expenses	15,278	14,231	14,082
Operating profit	7,228	6,330	6,137
Interest expense, net	557	584	536
Loss on early extinguishment of debt	348	—	—
Income before income tax provision	6,323	5,746	5,601
Income tax provision	2,441	2,258	2,179
Income from continuing operations	3,882	3,488	3,422
Income (loss) from discontinued operations, net of tax	(7)	(31)	2
Net income	3,875	3,457	3,424

Net loss attributable to noncontrolling interest	2	4	3
Net income attributable to CVS Caremark	$ 3,877	$ 3,461	$ 3,427
Basic earnings per common share:			
Income from continuing operations attributable to CVS Caremark	$ 3.06	$ 2.61	$ 2.51
Income (loss) from discontinued operations attributable to CVS Caremark	(0.01)	(0.02)	—
Net income attributable to CVS Caremark	$ 3.05	$ 2.59	$ 2.51
Weighted average common shares outstanding	1,271	1,338	1,367
Diluted earnings per common share:			
Income from continuing operations attributable to CVS Caremark	$ 3.03	$ 2.59	$ 2.49
Income (loss) from discontinued operations attributable to CVS Caremark	(0.01)	(0.02)	—
Net income attributable to CVS Caremark	$ 3.03	$ 2.57	$ 2.49
Weighted average common shares outstanding	1,280	1,347	1,377
Dividends declared per common share	$ 0.65	$ 0.50	$ 0.35

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

	Year Ended December 31,		
In millions	2012	2011	2010
Net income	$ 3,875	$ 3,457	$ 3,424
Other comprehensive income (loss):			
Net cash flow hedges, net of income tax	3	(9)	(1)
Pension liability adjustment, net of income tax	(12)	(20)	(7)
Comprehensive income	3,866	3,428	3,416
Comprehensive loss attributable to noncontrolling interest	2	4	3
Comprehensive income attributable to CVS Caremark	$ 3,868	$ 3,432	$ 3,419

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

	December 31,	
In millions, except per share amounts	2012	2011
Assets:		
Cash and cash equivalents	$ 1,375	$ 1,413
Short-term investments	5	5
Accounts receivable, net	6,473	6,047
Inventories	10,759	10,046
Deferred income taxes	663	503
Other current assets	577	580
Total current assets	19,852	18,594
Property and equipment, net	8,632	8,467
Goodwill	26,395	26,458
Intangible assets, net	9,753	9,869
Other assets	1,280	1,155
Total assets	$ 65,912	$ 64,543
Liabilities:		
Accounts payable	$ 5,070	$ 4,370
Claims and discounts payable	3,974	3,487
Accrued expenses	4,051	3,293
Short-term debt	690	750
Current portion of long-term debt	5	56
Total current liabilities	13,790	11,956
Long-term debt	9,133	9,208
Deferred income taxes	3,784	3,853
Other long-term liabilities	1,501	1,445
Commitments and contingencies (Note 13)		
Redeemable noncontrolling interest	—	30
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; 1,667 shares issued and 1,231 shares outstanding at December 31, 2012 and 1,640 shares issued and 1,298 shares outstanding at December 31, 2011	17	16
Treasury stock, at cost: 435 shares at December 31, 2012 and 340 shares at December 31, 2011	(16,270)	(11,953)
Shares held in trust: 1 share at December 31, 2012 and 2 shares at December 31, 2011	(31)	(56)
Capital surplus	29,120	28,126
Retained earnings	25,049	22,090
Accumulated other comprehensive loss	(181)	(172)
Total shareholders' equity	37,704	38,051
Total liabilities and shareholders' equity	$ 65,912	$ 64,543

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Year Ended December 31,		
In millions	2012	2011	2010
Cash flows from operating activities:			
Cash receipts from customers	$ 113,205	$ 97,688	$ 94,503
Cash paid for inventory and prescriptions dispensed by retail network pharmacies	(90,032)	(75,148)	(73,143)
Cash paid to other suppliers and employees	(13,643)	(13,635)	(13,778)
Interest received	4	4	4
Interest paid	(581)	(647)	(583)
Income taxes paid	(2,282)	(2,406)	(2,224)
Net cash provided by operating activities	6,671	5,856	4,779
Cash flows from investing activities:			
Purchases of property and equipment	(2,030)	(1,872)	(2,005)
Proceeds from sale-leaseback transactions	529	592	507
Proceeds from sale of property and equipment	23	4	34
Acquisitions (net of cash acquired) and other investments	(378)	(1,441)	(177)
Purchase of available-for-sale investments	—	(3)	—
Maturity of available-for-sale investments	—	60	1
Proceeds from sale of subsidiary	7	250	—
Net cash used in investing activities	(1,849)	(2,410)	(1,640)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	(60)	450	(15)
Proceeds from issuance of long-term debt	1,239	1,463	991
Repayments of long-term debt	(1,718)	(2,122)	(2,103)
Purchase of noncontrolling interest in subsidiary	(26)	—	—
Dividends paid	(829)	(674)	(479)
Derivative settlements	—	(19)	(5)
Proceeds from exercise of stock options	836	431	285
Excess tax benefits from stock-based compensation	28	21	28
Repurchase of common stock	(4,330)	(3,001)	(1,500)
Other	—	(9)	—
Net cash used in financing activities	(4,860)	(3,460)	(2,798)
Net increase (decrease) in cash and cash equivalents	(38)	(14)	341
Cash and cash equivalents at the beginning of the year	1,413	1,427	1,086
Cash and cash equivalents at the end of the year	$ 1,375	$ 1,413	$ 1,427
Reconciliation of net income to net cash provided by operating activities:			
Net income	$ 3,875	$ 3,457	$ 3,424
Adjustments required to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,753	1,568	1,469
Stock-based compensation	132	135	150
Loss on early extinguishment of debt	348	—	—
Gain on sale of subsidiary	—	(53)	—
Deferred income taxes and other noncash items	(106)	144	30
Change in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable, net	(387)	(748)	532
Inventories	(858)	607	(352)
Other current assets	3	(420)	(4)
Other assets	(99)	(49)	(210)
Accounts payable and claims and discounts payable	1,147	1,128	(40)
Accrued expenses	753	85	(176)
Other long-term liabilities	110	2	(44)

Net cash provided by operating activities	$ 6,671	$ 5,856	$ 4,779

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

In millions	Shares Year Ended December 31, 2012	2011	2010	Dollars Year Ended December 31, 2012	2011	2010
Common stock:						
Beginning of year	1,640	1,624	1,612	$ 16	$ 16	$ 16
Stock options exercised and issuance of stock awards	27	16	12	1	—	—
End of year	1,667	1,640	1,624	$ 17	$ 16	$ 16
Treasury stock:						
Beginning of year	(340)	(259)	(219)	$ (11,953)	$ (9,030)	$ (7,610)
Purchase of treasury shares	(95)	(84)	(42)	(4,330)	(3,001)	(1,500)
Employee stock purchase plan issuances	1	3	2	47	78	80
Transfer of shares from shares held in trust	(1)	—	—	(34)	—	—
End of year	(435)	(340)	(259)	$ (16,270)	$ (11,953)	$ (9,030)
Shares held in trust:						
Beginning of year	(2)	(2)	(2)	$ (56)	$ (56)	$ (56)
Transfer of shares to treasury stock	1	—	—	25	—	—
End of year	(1)	(2)	(2)	$ (31)	$ (56)	$ (56)
Capital surplus:						
Beginning of year				$ 28,126	$ 27,610	$ 27,198
Stock option activity and stock awards				955	495	384
Tax benefit on stock options and stock awards				28	21	28
Transfer of shares held in trust to treasury stock				9	—	—
Purchase of noncontrolling interest in subsidiary				2	—	—
End of year				$ 29,120	$ 28,126	$ 27,610
Retained earnings:						
Beginning of year				$ 22,090	$ 19,303	$ 16,355
Changes in inventory accounting principles (Note 2)				(89)	—	—
Net income attributable to CVS Caremark				3,877	3,461	3,427
Common stock dividends				(829)	(674)	(479)
End of year				$ 25,049	$ 22,090	$ 19,303
Accumulated other comprehensive loss:						
Beginning of year				$ (172)	$ (143)	$ (135)
Net cash flow hedges, net of income tax				3	(9)	(1)
Pension liability adjustment, net of income tax				(12)	(20)	(7)
End of year				$ (181)	$ (172)	$ (143)
Total shareholders' equity				$ 37,704	$ 38,051	$ 37,700

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1 Significant Accounting Policies

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

Pharmacy Services Segment (the "PSS") - The PSS provides a full range of pharmacy benefit management services including mail order pharmacy

services, specialty pharmacy services, plan design and administration, formulary management and claims processing. The Company's clients are primarily employers, insurance companies, unions, government employee groups, managed care organizations and other sponsors of health benefit plans and individuals throughout the United States.

As a pharmacy benefits manager, the PSS manages the dispensing of pharmaceuticals through the Company's mail order pharmacies and national network of approximately 67,000 retail pharmacies to eligible members in the benefits plans maintained by the Company's clients and utilizes its information systems to perform, among other things, safety checks, drug interaction screenings and brand to generic substitutions.

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

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

In addition, through the Company's SilverScript Insurance Company ("SilverScript") and Pennsylvania Life Insurance Company ("Pennsylvania Life") subsidiaries, 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® and Accordant® names. As of December 31, 2012, the PSS operated 31 retail specialty pharmacy stores, 12 specialty mail order pharmacies and five mail service pharmacies located in 22 states, Puerto Rico and the District of Columbia.

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

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

As of December 31, 2012, the retail pharmacy business included 7,458 retail drugstores (of which 7,402 operated a pharmacy) located in 42 states, the District of Columbia and Puerto Rico operating primarily under the CVS/pharmacy® name, the online retail website, CVS.com, and 640 retail health care clinics operating under the MinuteClinic® name (of which 633 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.

Notes to Consolidated Financial Statements (continued)

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

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

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

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

- Level 2 - Inputs to the valuation methodology are quoted prices for similar assets and liabilities in active markets, quoted prices in markets that are not active or inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the instrument.

- Level 3 - Inputs to the valuation methodology are unobservable inputs based upon management's best estimate of inputs market participants could use in pricing the asset or liability at the measurement date, including assumptions about risk.

Cash and cash equivalents - Cash and cash equivalents consist of cash and temporary investments with maturities of three months or less when

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

Short-term investments - The Company's short-term investments consist of certificate of deposits with initial maturities of greater than three months when purchased. These investments, which were classified as available-for-sale within Level 1 of the fair value hierarchy, were carried at historical cost, which approximated fair value at December 31, 2012 and 2011.

Fair value of financial instruments - As of December 31, 2012, the Company's financial instruments include cash and cash equivalents, short-term investments, accounts receivable, accounts payable and short-term debt. Due to the short-term nature of these instruments, the Company's carrying value approximates fair value. The carrying amount and estimated fair value of total long-term debt was $9.1 billion and $10.8 billion, respectively, as of December 31, 2012. 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 $4.9 million as of December 31, 2012. There were no outstanding derivative financial instruments as of December 31, 2012 and 2011.

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

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

	Year Ended December 31,		
In millions	2012	2011	2010
Beginning balance	$ 189	$ 182	$ 224
Additions charged to bad debt expense	149	129	73
Write-offs charged to allowance	(95)	(122)	(115)
Ending balance	$ 243	$ 189	$ 182

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

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

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

In millions	2012	2011
Land	$ 1,429	$ 1,295
Building and improvements	2,614	2,404
Fixtures and equipment	7,928	7,582
Leasehold improvements	3,105	3,021
Software	1,230	1,098
	16,306	15,400
Accumulated depreciation and amortization	(7,674)	(6,933)
	$ 8,632	$ 8,467

The gross amount of property and equipment under capital leases was $219 million and $211 million as of December 31, 2012 and 2011, respectively. Amortization of property and equipment under capital lease is included within depreciation expense. Depreciation expense totaled $1.3 billion, $1.1 billion and $1.0 billion in 2012, 2011 and 2010, respectively.

Goodwill and other indefinitely-lived assets - Goodwill and other indefinitely-lived assets are not amortized, but are subject to impairment reviews

annually, or more frequently if necessary. See Note 5 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 5 for additional information about intangible assets.

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

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

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

In millions	2012	2011	2010
Beginning balance	$ 30	$ 34	$ 37
Net loss attributable to noncontrolling interest	(2)	(4)	(3)
Purchase of noncontrolling interest	(26)	—	—
Reclassification to capital surplus in connection with purchase of noncontrolling interest	(2)	—	—
Ending balance	$ —	$ 30	$ 34

Revenue Recognition

Pharmacy Services Segment - The PSS sells prescription drugs directly through its mail service pharmacies and indirectly through its retail pharmacy network. The PSS recognizes revenue from prescription drugs sold by its mail service 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.

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 pharmacies are recognized when the prescription is shipped. At the time of shipment, the PSS has performed substantially all of its obligations under its client contracts and does not experience a significant level of returns or reshipments.

- Revenues generated from prescription drugs sold by third party pharmacies in the PSS's retail pharmacy network and associated administrative fees are recognized at the PSS's point-of-sale, which is when the claim is adjudicated by the PSS's online claims processing system.

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

appropriate generic alternatives where appropriate and approving the prescription for dispensing. Although the PSS does not have credit risk with respect to Retail Co-Payments, management believes that all of the other indicators of gross revenue reporting are present. For contracts under which the PSS acts as an agent, 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 participates in the Federal Government's Medicare Part D program as a Prescription Drug Plan ("PDP"). Net revenues include insurance premiums earned by the PDP, which are determined based on the PDP's annual bid and related contractual arrangements with the Centers for Medicare and Medicaid Services ("CMS"). The insurance premiums include a direct premium paid by CMS and a beneficiary premium, which is the responsibility of the PDP member, but is subsidized by CMS in the case of low-income members. Premiums collected in advance are initially deferred in accrued expenses and are then recognized in net revenues over the period in which members are entitled to receive benefits.

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

The PSS accounts for CMS obligations and Member Co-Payments (including the amounts subsidized by CMS) using the gross method consistent with its revenue recognition policies for Mail Co-Payments and Retail Co-Payments (discussed previously in this document).

Retail Pharmacy Segment - The RPS recognizes revenue from the sale of merchandise (other than prescription drugs) at the time the merchandise is purchased by the retail customer. Revenue from the sale of prescription drugs is recognized at the time the prescription is filled as opposed to upon delivery as required under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification 605, *Revenue Recognition*. For substantially all prescriptions, the fill date and the delivery date occur in the same reporting period. The effect on both revenue and income of recording prescription drug sales upon fill as opposed to delivery is immaterial. Customer returns are not material. Revenue generated from the performance of services in the RPS's health care clinics is recognized at the time the services are performed.

See Note 14 for additional information about the revenues of the Company's business segments.

Cost of revenues

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

Retail Pharmacy Segment - The RPS' cost of revenues includes: the cost of merchandise sold during the reporting period and the related purchasing costs, warehousing and delivery costs (including depreciation and amortization) and actual and estimated inventory losses. See Note 14 for additional information about the cost of revenues of the Company's business segments.

Vendor allowances and purchase discounts

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

Pharmacy Services Segment - The PSS receives purchase discounts on products purchased. The PSS' contractual arrangements with vendors, including manufacturers, wholesalers and retail pharmacies, normally provide for the PSS to receive purchase discounts from established list prices in one, or a combination, of the following forms: (i) a direct discount at the time of purchase, (ii) a discount for the prompt payment of invoices, or (iii) when products are purchased indirectly from a manufacturer (e.g., through a wholesaler or retail pharmacy), a discount (or rebate) paid subsequent to dispensing. These rebates are recognized when prescriptions are dispensed and are generally calculated and billed to manufacturers within 30 days of the end of each completed quarter. Historically, the effect of adjustments resulting from the reconciliation of

rebates recognized to the amounts billed and collected has not been material to the PSS' results of operations. The PSS accounts for the effect of any such differences as a change in accounting estimate in the period the reconciliation is completed. The PSS also receives additional discounts under its wholesaler contract if it exceeds contractually defined annual purchase volumes. In addition, the PSS receives fees from pharmaceutical manufacturers for administrative services. Purchase discounts and administrative service fees are recorded as a reduction of "Cost of revenues".

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

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

Facility opening and closing costs - New facility opening costs, other than capital expenditures, are charged directly to expense when incurred. When the Company closes a facility, the present value of estimated unrecoverable costs, including the remaining lease obligation less estimated sublease income and the book value of abandoned property and equipment, are charged to expense. The long-term portion of the lease obligations associated with facility closings was $288 million and $327 million in 2012 and 2011, respectively.

Advertising costs - Advertising costs are expensed when the related advertising takes place. Advertising costs, net of vendor funding (included in operating expenses), were $221 million, $211 million and $234 million in 2012, 2011 and 2010, respectively.

Interest expense, net - Interest expense, net of capitalized interest, was $561 million, $588 million and $539 million, and interest income was $4 million, $4 million and $3 million in 2012, 2011 and 2010, respectively. Capitalized interest totaled $29 million, $37 million and $47 million in 2012, 2011 and 2010, respectively.

Shares held in trust - The Company maintains grantor trusts, which held approximately 1 and 2 million shares of its common stock at December 31, 2012 and 2011, respectively. These shares are designated for use under various employee compensation plans. Since the Company holds these shares, they are excluded from the computation of basic and diluted shares outstanding.

Accumulated other comprehensive loss - Accumulated other comprehensive loss consists of changes in the net actuarial gains and losses associated with pension and other postretirement benefit plans, and unrealized losses on derivatives. The amount included in accumulated other comprehensive loss related to the Company's pension and postretirement plans was $268 million pre-tax ($165 million after-tax) as of December 31, 2012 and $250 million pre-tax ($152 million after-tax) as of December 31, 2011. The net impact on cash flow hedges totaled $26 million pre-tax ($16 million after-tax) and $32 million pre-tax ($20 million after-tax) as of December 31, 2012 and 2011, respectively.

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

Income taxes - The Company provides for income taxes currently payable, as well as for those deferred because of timing differences between reported income and expenses for financial statement purposes versus income tax return purposes. Income tax credits are recorded as a reduction of income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax return purposes. Deferred income tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recoverable or settled. The effect of a change in income tax rates is recognized as income or expense in the period of the change.

Earnings per common share - Basic earnings per common share is computed by dividing: (i) net earnings by (ii) the weighted average number of common shares outstanding during the year (the "Basic Shares").

Diluted earnings per common share is computed by dividing: (i) net earnings by (ii) Basic Shares plus the additional shares that would be issued assuming that all dilutive stock awards are exercised. Options to purchase 5.9 million, 30.5 million and 34.3 million shares of common stock were outstanding as of December 31, 2012, 2011 and 2010, respectively, but were not included in the calculation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-05, *Presentation of Comprehensive Income* ("ASU 2011-05"). ASU 2011-05 eliminates the current option to report other comprehensive income and its components in the statement of shareholders' equity. Instead, an entity will have the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 also required entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. In December 2011, the FASB issued ASU 2011-12 *Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*, which indefinitely defers the guidance related to the presentation of reclassification adjustments. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011 and should be applied retrospectively. The Company elected to report other comprehensive income and its components in a separate statement of comprehensive income beginning in the first quarter of 2012. The adoption of ASU 2011-05 did not have a material effect on the Company's consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment* ("ASU 2011-08"). ASU 2011-08 allows entities to use a qualitative approach to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If after performing the qualitative assessment an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step goodwill impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step goodwill impairment test. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of ASU 2011-08 did not have a material effect on the Company's consolidated financial statements. The Company did not elect to use the qualitative approach in its 2012 annual goodwill impairment test.

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

2 Changes in Accounting Principle

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

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

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

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

3 Business Combinations

On April 29, 2011, the Company acquired the Medicare prescription drug business of Universal American Corp. (the "UAM Medicare Part D Business") for approximately $1.3 billion. The fair value of assets acquired and liabilities assumed were $2.4 billion and $1.1 billion, respectively, which included identifiable intangible assets of approximately $0.4 billion and goodwill of approximately $1.0 billion that were recorded in the PSS.

The Company's results of operations and cash flows include the UAM Medicare Part D Business beginning on April 29, 2011.

In addition to the 2011 acquisition discussed above, there were two immaterial acquisitions during 2012.

4 Discontinued Operations

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

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

Below is a summary of the results of discontinued operations:

	Year Ended December 31,		
In millions	2012	2011	2010
Net revenues of TheraCom	$ —	$ 650	$ 635
Income from operations of TheraCom	$ —	$ 18	$ 28
Gain on disposal of TheraCom	—	53	—
Loss on disposal of Linens 'n Things	(12)	(7)	(24)
Income tax benefit (provision)	5	(95)	(2)
Income (loss) from discontinued operations, net of tax	$ (7)	$ (31)	$ 2

5 Goodwill and Other Intangibles

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

When evaluating goodwill for potential impairment, the Company first compares the fair value of its two reporting units, the PSS and RPS, to their respective carrying amounts. The Company estimates the fair value of its reporting units using a combination of a future discounted cash flow valuation model and a comparable market transaction model. 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 2012, the Company performed its required annual goodwill impairment tests. The Company concluded there were no goodwill impairments as of the testing date. The carrying amount of goodwill was $26.4 billion and $26.5 billion as of December 31, 2012 and 2011, respectively (see Note 14 for a breakdown of Goodwill by segment). The $63 million decrease in goodwill in 2012 was due to the finalization of the assessment of the fair value of assets acquired and liabilities assumed in the 2011 acquisition of the UAM Medicare Part D Business which decreased goodwill by $44 million, the realization of tax benefits associated with replacement stock options issued in a 2007 acquisition which decreased goodwill by $11 million, certain balance sheet adjustments to land and close store reserves related to acquisitions in previous years which decreased goodwill by $52 million, partially offset by a $44 million increase in goodwill associated with two immaterial acquisitions in 2012. These changes to goodwill affected both the PSS and RPS.

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 2012, 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, 2012 and 2011.

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 13.4 years. The weighted average useful lives of the Company's customer contracts and relationships and covenants not to compete are 12.9 years. The weighted average lives of the Company's favorable leases and other intangible assets are 17.3 years. Amortization expense for intangible assets totaled $486 million, $452 million and $427 million in 2012, 2011 and 2010, respectively. The anticipated annual amortization expense for these intangible assets for the next five years is $454 million in 2013, $420 million in 2014, $392 million in 2015, $364 million in 2016 and $341 million in 2017.

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

In millions	2012 Gross Carrying Amount	2012 Accumulated Amortization	2012 Net Carrying Amount	2011 Gross Carrying Amount	2011 Accumulated Amortization	2011 Net Carrying Amount
Trademark (indefinitely-lived)	$ 6,398	$ —	$ 6,398	$ 6,398	$ —	$ 6,398
Customer contracts and relationships and covenants not to compete	5,745	(2,812)	2,933	5,427	(2,386)	3,041
Favorable leases and other	802	(380)	422	769	(339)	430
	$ 12,945	$ (3,192)	$ 9,753	$ 12,594	$ (2,725)	$ 9,869

6 Share Repurchase Programs

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

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

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 accelerated share repurchase ("ASR") agreement with Barclays Bank PLC ("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 ASR agreement were placed into treasury stock.

Pursuant to the authorization under the 2011 Repurchase Program, on August 24, 2011, the Company entered into a $1.0 billion fixed dollar ASR agreement with Barclays. The ASR agreement contained provisions that establish the minimum and maximum number of shares to be repurchased during its term. Pursuant to the ASR agreement, on August 25, 2011, the Company paid $1.0 billion to Barclays in exchange for Barclays delivering 20.3 million shares of common stock to the Company. On September 16, 2011, upon establishment of the minimum number of shares to be repurchased, Barclays delivered an additional 5.4 million shares of common stock to the Company. At the conclusion of the transaction on December 28, 2011, Barclays delivered a final installment of 1.6 million shares of common stock on December 29, 2011. The aggregate 27.3 million shares of common stock delivered to the Company by Barclays, were placed into treasury stock. This represented all the repurchases that occurred during the year ended December 31, 2011 under the 2011 Repurchase Program.

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 ASR described above. As of December 31, 2012, the 2011 Repurchase Program was complete and there remained approximately $4.7 billion available for future repurchases under the 2012 Repurchase Program.

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

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

7 Borrowing and Credit Agreements

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

In millions	2012	2011
Commercial paper	$ 690	$ 750

4.875% senior notes due 2014	550	550
3.25% senior notes due 2015	550	550
6.125% senior notes due 2016	421	700
5.75% senior notes due 2017	1,310	1,750
6.6% senior notes due 2019	394	1,000
4.75% senior notes due 2020	450	450
4.125% senior notes due 2021	550	550
6.25% senior notes due 2027	1,000	1,000
Trust Preferred Securities	—	50
6.125% senior notes due 2039	1,500	1,500
5.75% senior notes due 2041	950	950
Enhanced Capital Advantage Preferred Securities due 2062(1)	41	42
2.75% senior notes due 2022	1,250	—
Mortgage notes payable	1	4
Capital lease obligations	171	168
	9,828	10,014
Less:		
Short-term debt (commercial paper)	(690)	(750)
Current portion of long-term debt	(5)	(56)
	$ 9,133	$ 9,208

(1) The Enhanced Capital Advantage Preferred Securities ("ECAPS") had a stated rate of interest of 6.302% through June 1, 2012, at which time the rate converted to a variable rate which was 2.59% at December 31, 2012.

The Company had $690 million of commercial paper outstanding as of December 31, 2012. In connection with its commercial paper program, the Company maintains a $1.0 billion, three-year unsecured back-up credit facility, which expires on May 27, 2013, a $1.25 billion, four-year unsecured back-up credit facility, which expires on May 12, 2015, and a $1.25 billion, five-year unsecured back-up credit facility, which expires on February 17, 2017. 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 0.05%, regardless of usage. As of December 31, 2012, there were no borrowings outstanding under the back-up credit facilities. The weighted average interest rate for short-term debt was 0.35% as of December 31, 2012 and 0.37% as of December 31, 2011.

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

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

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

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

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

On May 13, 2010, the Company issued $550 million of 3.25% unsecured senior notes due May 18, 2015 and issued $450 million of 4.75% unsecured senior notes due May 18, 2020 (collectively, the "2010 Notes") for total proceeds of $991 million, which was net of discounts and underwriting fees. The 2010 Notes pay interest 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 2010 Notes were used to repay a portion of the Company's outstanding commercial paper borrowings and certain other corporate debt, and were used for general corporate purposes.

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

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2012 are $5 million in 2013, $555 million in 2014, $556 million in 2015, $427 million in 2016, and $1.3 billion in 2017.

8 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 respective years:

In millions	2012	2011	2010
Minimum rentals	$ 2,165	$ 2,087	$ 2,001
Contingent rentals	48	49	53
	2,213	2,136	2,054
Less: sublease income	(20)	(19)	(19)
	$ 2,193	$ 2,117	$ 2,035

The following table is a summary of the future minimum lease payments under capital and operating leases as of December 31, 2012:

In millions	Capital Leases	Operating Leases(1)
2013	$ 20	$ 2,261
2014	21	2,078
2015	21	2,019
2016	21	1,944
2017	21	1,858
Thereafter	232	17,436
Total future lease payments	336	$ 27,596
Less: imputed interest	(165)	
Present value of capital lease obligations	$ 171	

(1) Future operating lease payments have not been reduced by minimum sublease rentals of $263 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 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 $529 million in 2012, $592 million in 2011 and $507 million in 2010.

9 Medicare Part D

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

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

The Company has recorded estimates of various assets and liabilities arising from its participation in the Medicare Part D program based on information in its claims management and enrollment systems. Significant estimates arising from its participation in this program include: (i) estimates of low-income cost subsidy and reinsurance amounts ultimately payable to or receivable from CMS based on a detailed claims reconciliation that will occur in 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.

10 Pension Plans and Other Postretirement Benefits

Defined Contribution Plans

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

At the participant's option, account balances, including the Company's matching contribution, can be moved without restriction among various investment options, including the Company's common stock. The Company also maintains a nonqualified, unfunded Deferred Compensation Plan for certain key employees. This plan provides participants the opportunity to defer portions of their eligible compensation and receive matching contributions equivalent to what they could have received under the CVS Caremark 401(k) Plan absent certain restrictions and limitations under the Internal Revenue Code. The Company's contributions under the above defined contribution plans were $199 million, $187 million and $186 million in 2012, 2011 and 2010, 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, 2012 and 2011, the Company's postretirement medical plans have an accumulated postretirement benefit obligation of $16 million and $17 million, respectively. Net periodic benefit costs related to these postretirement medical plans were approximately $1 million for 2012, 2011 and 2010.

Pursuant to various labor agreements, the Company also contributes to multiemployer health and welfare plans that cover 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 $50 million, $47 million and $46 million in 2012, 2011 and 2010, respectively.

Pension Plans

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

As of December 31, 2012, the Company's pension plans had a projected benefit obligation of $758 million and plan assets of $527 million. As of December 31, 2011, the Company's pension plans had a projected benefit obligation of $685 million and plan assets of $463 million. Actual return on plan assets was $62 million and $37 million in 2012 and 2011, respectively. Net periodic pension costs related to these pension plans were $31 million, $49 million and $36 million in 2012, 2011 and 2010, respectively. The net periodic pension costs for 2012 include a curtailment loss of $2 million. The net periodic pension costs for 2011 and 2010 includes settlement losses of $25 million and $12 million, respectively, due to the impact of lump sum payouts.

The discount rate is determined by examining the current yields observed on the measurement date of fixed-interest, high quality investments expected to be available during the period to maturity of the related benefits on a plan by plan basis. The discount rate for the plans was 4.0% in 2012 and 4.75% in 2011. The expected long-term rate of return on plan assets is determined by using the plan's target allocation and historical returns for each asset class on a plan by plan basis. The expected long-term rate of return for all plans was 7.25% in 2012, 2011 and 2010.

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 are 50% equity and 50% fixed income.

As of December 31, 2012, the Company's qualified defined benefit pension plan assets consisted of 50% equity, 48% fixed income, and 2% money market securities of which 84% were classified as Level 1 and 16% as Level 2 in the fair value hierarchy. The Company's qualified defined benefit pension plan assets as of December 31, 2011 consisted of 47% equity 51% fixed income, and 2% money market securities of which 82% were classified as Level 1 and 18% as Level 2 in the fair value hierarchy.

The Company contributed $36 million, $92 million and $65 million to the pension plans during 2012, 2011 and 2010, respectively. The Company plans to make approximately $33 million in contributions to the pension plans during 2013.

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 the Company participates in are individually significant to the Company. Total Company contributions to multiemployer pension plans were $12 million, $11 million and $12 million in 2012, 2011 and 2010, respectively.

11 Stock Incentive Plans

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

Compensation expense related to stock options, which includes the 2007 Employee Stock Purchase Plan (the "2007 ESPP") totaled $102 million, $112 million and $127 million for 2012, 2011 and 2010, respectively. The recognized tax benefit was $33 million, $38 million and $42 million for 2012, 2011 and 2010, respectively. Compensation expense related to restricted stock awards totaled $30 million, $21 million and $23 million for 2012, 2011 and 2010, respectively.

The 2007 ESPP provides for the purchase of up to 15 million shares of common stock. Under the 2007 ESPP, eligible employees may purchase common stock at the end of each six month offering period at a purchase price equal to 85% of the lower of the fair market value on the first day or the last day of the offering period. During 2012, approximately 2 million shares of common stock were purchased under the provisions of the 2007 ESPP at an average price of $33.70 per share. As of December 31, 2012, approximately 3 million shares of common stock were available for issuance under the 2007 ESPP.

The fair value of stock-based compensation associated with the 2007 ESPP is estimated on the date of grant (i.e., the beginning of the offering period) using the Black-Scholes Option Pricing Model.

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

	2012	2011	2010
Dividend yield (1)	0.73%	0.69%	0.57%
Expected volatility(2)	22.88%	20.42%	32.58%
Risk-free interest rate(3)	0.10%	0.15%	0.21%
Expected life *(in years)*(4)	0.5	0.5	0.5
Weighted-average grant date fair value	$ 9.22	$ 7.21	$ 7.31

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

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

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

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

In May 2010, the Company's Board of Directors adopted and the shareholders approved the 2010 Incentive Compensation Plan (the "2010 ICP"), which superseded the 1997 Incentive Compensation Plan (the "1997 ICP"). The terms of the 2010 ICP provide for grants of annual incentive and long-term performance awards to executive officers and other officers and employees of the Company or any subsidiary of the Company. Payment of such annual incentive and long-term performance awards will be in cash, stock, other awards or other property, at the discretion of the Management Planning and Development Committee of the Company's Board of Directors. The 2010 ICP allows for a maximum of 74 million shares to be reserved and available for grants, plus the number of shares subject to awards under the Company's 1997 ICP which become available due to cancellation or forfeiture. Following approval and adoption of the 2010 ICP, no new grants can be made under the 1997 ICP. The 2010 ICP is the only compensation plan under which the Company grants stock options, restricted stock and other stock-based awards to its employees, with the exception of the Company's 2007 ESPP. In November 2012, the Company's Board of Director's approved an amendment to the 2010 ICP to eliminate the share recycling provision of the 2010 ICP. As of December 31, 2012, there were approximately 48 million shares available for future grants under the 2010 ICP.

The Company's restricted awards are considered non-vested share awards and require no payment from the employee. Compensation cost is recorded based on the market price on the grant date and is recognized on a straight-line basis over the requisite service period. The Company granted 1,811,000, 1,121,000 and 1,095,000 restricted stock units with a weighted average fair value of $44.80, $34.84 and $35.25 in 2012, 2011 and 2010, respectively. As of December 31, 2012, there was $67 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 2.06 years. The total fair value of restricted shares vested during 2012, 2011 and 2010 was $81 million, $33 million and $44 million, respectively.

The following table is a summary of the restricted stock unit and restricted share award activity for the year ended December 31, 2012:

Units in thousands	Units	Weighted Average Grant Date Fair Value
Nonvested at beginning of year	2,606	$ 32.80
Granted	1,811	44.80
Vested	(1,917)	43.10
Forfeited	(150)	37.77
Nonvested at end of year	2,350	$ 33.32

All grants under the 2010 ICP are awarded at fair market value on the date of grant. The fair value of stock options is estimated using the Black-Scholes Option Pricing Model and stock-based compensation is recognized on a straight-line basis over the requisite service period. Options granted prior to 2004 generally become exercisable over a four-year period from the grant date and expire ten years after the date of grant. Options granted between 2004 and 2010 generally become exercisable over a three-year period from the grant date and expire seven years after the grant date. Beginning in 2011, options granted generally become exercisable over a four-year period from the grant date and expire seven years after the grant date.

Excess tax benefits of $28 million, $21 million and $28 million were included in financing activities in the accompanying consolidated statements of cash flow during 2012, 2011 and 2010, respectively. Cash received from stock options exercised, which includes the 2007 ESPP, totaled $836 million, $431 million and $285 million during 2012, 2011 and 2010, respectively. The total intrinsic value of options exercised was $321 million, $161 million and $118 million in 2012, 2011 and 2010, respectively. The total fair value of options vested during 2012, 2011 and 2010 was $386 million, $452 million and $445 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:

	2012	2011	2010
Dividend yield (1)	1.44%	1.43%	1.00%
Expected volatility(2)	32.49%	32.62%	33.15%
Risk-free interest rate(3)	0.84%	1.81%	1.85%
Expected life *(in years)*(4)	4.7	4.7	4.3
Weighted-average grant date fair value	$ 11.12	$ 9.19	$ 9.49

(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, 2012, unrecognized compensation expense related to unvested options totaled $161 million, which the Company expects to be recognized over a weighted-average period of 2.18 years. After considering anticipated forfeitures, the Company expects approximately 21 million of the unvested options to vest over the requisite service period.

The following table is a summary of the Company's stock option activity for the year ended December 31, 2012:

Shares in thousands	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2011	59,107	$ 33.40	4.11	$ 439,671,000
Granted	8,759	$ 45.02	—	—
Exercised	(24,978)	$ 32.29	—	—

Forfeited	(1,511)	$ 35.80	—		—
Expired	(448)	$ 25.29	—		—
Outstanding at December 31, 2012	40,929	$ 36.57	4.34	$	482,249,000
Exercisable at December 31, 2012	18,875	$ 34.23	2.99	$	266,505,000

12 Income Taxes

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

In millions	2012	2011	2010
Current:			
Federal	$ 2,226	$ 1,807	$ 1,884
State	410	338	344
	2,636	2,145	2,228
Deferred:			
Federal	(177)	101	(44)
State	(18)	12	(5)
	(195)	113	(49)
Total	$ 2,441	$ 2,258	$ 2,179

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

	2012	2011	2010
Statutory income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	3.9	3.9	4.1
Other	(0.3)	0.4	(0.2)
Effective income tax rate	38.6%	39.3%	38.9%

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	2012	2011
Deferred tax assets:		
Lease and rents	$ 336	$ 325
Inventories	141	77
Employee benefits	202	253
Allowance for doubtful accounts	137	112
Retirement benefits	115	114
Net operating losses	5	6
Other	400	315
Total deferred tax assets	1,336	1,202
Deferred tax liabilities:		
Depreciation and amortization	(4,457)	(4,552)
Net deferred tax liabilities	$ (3,121)	$ (3,350)

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

In millions	2012	2011
Deferred tax assets—current	$ 663	$ 503
Deferred tax liabilities—noncurrent	(3,784)	(3,853)
Net deferred tax liabilities	$ (3,121)	$ (3,350)

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

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

In millions	2012	2011	2010
Beginning balance	$ 38	$ 35	$ 61
Additions based on tax positions related to the current year	15	3	1
Additions based on tax positions related to prior years	42	13	2
Reductions for tax positions of prior years	(2)	—	(10)
Expiration of statutes of limitation	(12)	(7)	(16)

Settlements	(1)	(6)	(3)
Ending balance	$ 80	$ 38	$ 35

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of numerous state and local jurisdictions. Substantially all material income tax matters have been concluded for fiscal years through 2007. The Company and its subsidiaries anticipate that a number of income tax examinations will conclude and statutes of limitation for open years will expire over the next twelve months, which may cause a utilization or reduction of the Company's reserve for uncertain tax positions of up to approximately $6 million.

The IRS is currently examining the Company's 2011 and 2012 consolidated U.S. income tax years pursuant to the Compliance Assurance Process ("CAP") program. The CAP program is a voluntary program under which taxpayers seek to resolve all or most issues with the IRS prior to or soon after the filing of their U.S. income tax returns, in lieu of being audited in the traditional manner. 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, 2012, no examination has resulted in any proposed adjustments that would result in a material change to the Company's results of operations, financial condition or liquidity.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties in income tax expense. During the years ended December 31, 2012, 2011 and 2010, the Company recognized interest of approximately $4 million, $2 million and $3 million, respectively. The Company had approximately $10 million and $8 million accrued for interest and penalties as of December 31, 2012 and 2011, respectively.

There are no material reserves established at December 31, 2012 for income tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. If present, such items would impact deferred tax accounting, not the annual effective income tax rate, and would accelerate the payment of cash to the taxing authority to an earlier period.

The total amount of unrecognized tax benefits that, if recognized, would affect the effective income tax rate is approximately $61 million, after considering the federal benefit of state income taxes.

13 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 indemnified the Company for any lease obligations the Company was required to satisfy. If any of the purchasers or any of the former subsidiaries were to become insolvent and failed to make the required payments under a store lease, the Company could be required to satisfy these obligations.

As of December 31, 2012, the Company guaranteed approximately 74 such store leases (excluding the lease guarantees related to Linens 'n Things, which are discussed in Note 4), with the maximum remaining lease term extending through 2022. 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.

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

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

Caremark (the term "Caremark" being used herein to generally refer to any one or more pharmacy benefit management subsidiaries of the Company, as applicable) is a defendant in a *qui tam* lawsuit initially filed by a relator on behalf of various state and federal government agencies in Texas federal court in 1999. The case was unsealed in May 2005. The case seeks monetary damages and alleges that Caremark's processing of Medicaid and certain other government claims on behalf of its clients (which allegedly resulted in underpayments from our clients to the applicable government agencies) on one of Caremark's adjudication platforms violates applicable federal or state false claims acts and fraud statutes. The United States and the States of Texas, Tennessee, Florida, Arkansas, Louisiana and California intervened in the lawsuit, but Tennessee and Florida withdrew from the lawsuit in August 2006 and May 2007, respectively. Thereafter, in 2008, the Company prevailed on several motions for partial summary judgment and, following an appellate ruling from the Fifth Circuit Court of Appeals in 2011 which affirmed in part and reversed in part these prior rulings, the claims asserted in the case against Caremark have been substantially narrowed. In December 2007, the Company received a document subpoena from the Office of Inspector General ("OIG") within the U.S. Department of Health and Human Services ("HHS"), requesting information relating to the processing of Medicaid and other government agency claims on a different adjudication platform of Caremark. The Company has been providing documents and other information in response to this request for information. The Company has been conducting discussions with the United States Department of Justice ("DOJ") and the OIG regarding a possible settlement of these legal matters.

In April 2009, the State of Texas filed a purported civil enforcement action against Caremark for injunctive relief, damages and civil penalties in Travis County, Texas alleging that Caremark violated the Texas Medicaid Fraud Prevention Act and other state laws based on its processing of Texas Medicaid claims on behalf of PBM clients on one of Caremark's adjudication platforms. In September 2011, the Company prevailed on a motion for partial summary judgment against the State of Texas and narrowed the remaining claims in the lawsuit. In October 2009 and October 2010, the Company received civil investigative demands from the Office of the Attorney General of the State of Texas requesting, respectively, information produced under the OIG subpoena described above and other information related to the processing of Medicaid claims. These civil investigative demands state that the Office of the Attorney General of the State of Texas is investigating allegations currently pending under seal relating to two other adjudication platforms of Caremark. In January 2012, the parties filed joint motion with the Texas federal and state courts requesting that the lawsuits with the State of Texas be abated so that the parties can focus on completing settlement documentation relating to Caremark's processing of Texas Medicaid claims.

Caremark was named in a putative class action lawsuit filed in October 2003 in Alabama state court by John Lauriello, purportedly on behalf of participants in the 1999 settlement of various securities class action and derivative lawsuits against Caremark and others. Other defendants include insurance companies that provided coverage to Caremark with respect to the settled lawsuits. The Lauriello lawsuit seeks approximately $3.2 billion in compensatory damages plus other non-specified damages based on allegations that the amount of insurance coverage available for the settled lawsuits was misrepresented and suppressed. A similar lawsuit was filed in November 2003 by Frank McArthur, also in Alabama state court, naming as defendants Caremark, several insurance companies, attorneys and law firms involved in the 1999 settlement. This lawsuit was stayed as a later-filed class action, but McArthur was subsequently allowed to intervene in the Lauriello action. Following the close of class discovery, the trial court entered an Order on August 15, 2012 that granted the plaintiffs' motion to certify a class pursuant to Alabama Rule of civil Procedures 23 (b)(3) but denied their request that the class also be certified pursuant to Rule 23(b)(1). In addition, the August 15,2012 Order appointed class representatives and class counsel. The defendants have filed a notice of appeal with the Alabama Supreme Court and the plaintiffs have filed a notice of cross-appeal. The proceedings in the trial court are stayed by statute pending a decision on the appeal and cross-appeal by the Alabama Supreme Court.

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

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

In November 2009, a securities class action lawsuit was filed in the United States District Court for the District of Rhode Island purportedly on behalf of purchasers of the Company's stock between May 5, 2009 and November 4, 2009. The lawsuit names the Company and certain officers as defendants and includes allegations of securities fraud relating to public disclosures made by the Company concerning the PBM business and allegations of insider trading. In addition, a shareholder derivative lawsuit was filed in December 2009 in the same court against the directors and

certain officers of the Company. A derivative lawsuit is a lawsuit filed by a shareholder purporting to assert claims on behalf of a corporation against directors and officers of the corporation. This lawsuit, which was stayed pending developments in the related securities class action, includes allegations of, among other things, securities fraud, insider trading and breach of fiduciary duties and further alleges that the Company was damaged by the purchase of stock at allegedly inflated prices under its share repurchase program. In January 2011, both lawsuits were transferred to the United States District Court for the District of New Hampshire. In June 2012, the court granted the Company's motion to dismiss the securities class action. The plaintiffs subsequently filed a notice of appeal of the Court's ruling on the motion to dismiss, and the appeal is pending. The derivative lawsuit will remain stayed pending the outcome of the appeal of the securities class action.

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 continues to cooperate in the multi-state investigation.

In March 2010, the Company received a subpoena from the OIG requesting information about programs under which the Company has offered customers remuneration conditioned upon the transfer of prescriptions for drugs or medications to our pharmacies in the form of gift cards, cash, non-prescription merchandise or discounts or coupons for non-prescription merchandise. The subpoena relates to an investigation of possible false or otherwise improper claims for payment under the Medicare and Medicaid programs. The Company has been providing documents and other information in response to this request for information.

The Company received a subpoena from the U.S. Securities and Exchange Commission ("SEC") in February 2011 and has subsequently received additional subpoenas and other requests for information. The SEC's requests relate to, among other things, public disclosures made by the Company during 2009, transactions in the Company's securities by certain officers and employees of the Company during 2009 and the purchase accounting for the Longs Drug Stores acquisition. The Company has been providing documents and other information as requested by the SEC.

In January 2012, the United States District Court for the Eastern District of Pennsylvania unsealed a first amended *qui tam* complaint filed in August 2011 by an individual relator, who is described in the complaint as having once been employed by a firm providing pharmacy prescription benefit audit and recovery services. The complaint seeks monetary damages and alleges that Caremark's processing of Medicare claims on behalf of one of its clients violated the federal false claims act. The United States, acting through the U.S. Attorney's Office in Philadelphia, Pennsylvania, declined to intervene in the lawsuit. Caremark filed a motion to dismiss the amended complaint and the DOJ filed a Statement of Interest with regard to Caremark's motion to dismiss. In December 2012, the court denied Caremark's motion to dismiss the amended complaint.

In January 2012, the Company received a subpoena from OIG requesting information about its Health Savings Pass program, a prescription drug discount program for uninsured or under insured individuals, in connection with an investigation of possible false or otherwise improper claims for payment involving HHS programs. In February 2012, the Company also received a civil investigative demand from the Office of the Attorney General of the State of Texas requesting a copy of information produced under this OIG subpoena and other information related to prescription drug claims submitted by our pharmacies to Texas Medicaid for reimbursement. The Company has been providing documents and other information in response to this request for information.

A purported shareholder derivative action was filed on behalf of nominal defendant CVS Caremark Corporation against certain of the Company's officers and members of its Board of Directors. The action was originally filed in June 2012 and, after the court granted leave to amend the original filing, an amended complaint was filed in November 2012. The amended complaint alleges a single claim for breach of fiduciary duty relating to the Company's alleged failure to properly implement internal regulatory controls to comply with the Controlled Substances Act and the Combat Methamphetamine Epidemic Act.

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 is cooperating and will be providing documents and other information in response to this request for information.

Effective January 15, 2013, CMS imposed intermediate sanctions on the Company's SilverScript Medicare Part D PDP, consisting of immediate suspension of further plan enrollment and marketing activities. The sanctions relate to the Company's compliance with certain Medicare Part D requirements and do not affect the enrollment status of the Company's current PDP enrollees. CMS has granted a limited waiver of these sanctions to allow the Company's PDP to continue to enroll eligible retirees of existing employer clients into its SilverScript plans and into employer group waiver plans to fulfill the Company's commitments to implement and provide employer group waiver plan services. This limited waiver currently extends through April 30, 2013, and CMS has advised the Company that it will consider further extensions of the waiver on a rolling basis. 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 PDP plans. These consolidation efforts have impacted the enrollment and coverage determination services the Company provides to PDP enrollees. The Company is cooperating with CMS to address the service issues resulting from the Company's plan consolidation efforts and to develop and implement a corrective action plan to resolve and remove the sanctions. The Company cannot predict how long the sanctions will remain in effect or the scope of corrective action or other remedial actions that CMS may require in order for the sanctions to be removed.

The Company is also a party to other legal proceedings and inquiries arising in the normal course of its business, none of which is expected to be material to the Company. The Company can give no assurance, however, that 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 our 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 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.

14 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
2012:					
Net revenues	$ 73,444	$ 63,654	$ —	$ (13,965)	$ 123,133
Gross profit	3,808	19,109	—	(411)	22,506
Operating profit	2,679	5,654	(694)	(411)	7,228
Depreciation and amortization	517	1,153	83	—	1,753
Total assets	36,057	29,183	1,408	(736)	65,912
Goodwill	19,646	6,749	—	—	26,395
Additions to property and equipment	422	1,555	53	—	2,030
2011:					
Net revenues	$ 58,874	$ 59,599	$ —	$ (11,373)	$ 107,100
Gross profit	3,279	17,468	—	(186)	20,561
Operating profit	2,220	4,912	(616)	(186)	6,330
Depreciation and amortization	433	1,060	75	—	1,568
Total assets	35,704	28,323	1,121	(605)	64,543
Goodwill	19,657	6,801	—	—	26,458
Additions to property and equipment	461	1,353	58	—	1,872
2010:					
Net revenues	$ 47,145	$ 57,345	$ —	$ (8,712)	$ 95,778
Gross profit	3,315	17,039	—	(135)	20,219
Operating profit	2,361	4,537	(626)	(135)	6,137
Depreciation and amortization	390	1,016	63	—	1,469
Total assets	32,254	28,927	1,439	(451)	62,169
Goodwill	18,868	6,801	—	—	25,669
Additions to property and equipment	234	1,708	63	—	2,005

(1) Net revenues of the Pharmacy Services Segment include approximately $8.4 billion, $7.9 billion and $6.6 billion of Retail co-payments for the years ended December 31, 2012, 2011 and 2010, respectively.

(2) Intersegment eliminations relate to two types of transactions: (i) Intersegment revenues that occur when Pharmacy Services Segment clients use Retail Pharmacy Segment stores to purchase covered products. When this occurs, both the Pharmacy Services and Retail Pharmacy Segments record the revenue on a standalone basis and (ii) Intersegment revenues, gross profit and operating profit that occur when Pharmacy Services Segment clients, through the Company's intersegment activities (such as the Maintenance Choice program), elect to pick up their maintenance prescriptions at Retail Pharmacy Segment stores instead of receiving them through the mail. When this occurs, both the Pharmacy Services and Retail Pharmacy segments record the revenue, gross profit and operating profit on a standalone basis. Beginning in the fourth quarter of 2011, the Maintenance Choice eliminations reflect all discounts available for the purchase of mail order prescription drugs. The following amounts are eliminated in consolidation in connection with the item (ii) intersegment activity: net revenues of $3.4 billion, $2.6 billion and $1.8 billion for the years ended December 31, 2012, 2011 and 2010, respectively; gross profit and operating profit of $411 million, $186 million and $135 million for the years ended December 31, 2012, 2011 and 2010, respectively.

15 Earnings Per Common Share

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

In millions, except per share amounts	2012	2011	2010
Numerator for earnings per common share calculation:			
Income from continuing operations	$ 3,882	$ 3,488	$ 3,422
Net loss attributable to noncontrolling interest	2	4	3
Income from continuing operations attributable to CVS Caremark, basic	3,884	3,492	3,425
Income (loss) from discontinued operations, net of tax	(7)	(31)	2
Net income attributable to CVS Caremark, basic and diluted	$ 3,877	$ 3,461	$ 3,427
Denominator for earnings per common share calculation:			
Weighted average common shares, basic	1,271	1,338	1,367
Stock options	8	8	8
Restricted stock units	1	1	2
Weighted average common shares, diluted	1,280	1,347	1,377
Basic earnings per common share:			
Income from continuing operations attributable to CVS Caremark	$ 3.06	$ 2.61	$ 2.51
Loss from discontinued operations attributable to CVS Caremark	(0.01)	(0.02)	—
Net income attributable to CVS Caremark	$ 3.05	$ 2.59	$ 2.51
Diluted earnings per common share:			
Income from continuing operations attributable to CVS Caremark	$ 3.03	$ 2.59	$ 2.49
Loss from discontinued operations attributable to CVS Caremark	(0.01)	(0.02)	—
Net income attributable to CVS Caremark	$ 3.03	$ 2.57	$ 2.49

16 Quarterly Financial Information (Unaudited)

In millions, except per share amounts	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2012:					
Net revenues	$ 30,798	$ 30,714	$ 30,227	$ 31,394	$ 123,133
Gross profit	5,113	5,449	5,647	6,297	22,506
Operating profit	1,404	1,708	1,814	2,302	7,228
Income from continuing operations	776	966	1,011	1,129	3,882
Loss from discontinued operations, net of tax	(1)	(1)	(5)	—	(7)
Net income	775	965	1,006	1,129	3,875
Net loss attributable to noncontrolling interest	1	1	—	—	2
Net income attributable to CVS Caremark	$ 776	$ 966	$ 1,006	$ 1,129	$ 3,877
Basic earnings per common share:					
Income from continuing operations attributable to CVS Caremark	$ 0.60	$ 0.76	$ 0.80	$ 0.91	$ 3.06
Loss from discontinued operations attributable to CVS Caremark	$ —	$ —	$ —	$ —	$ (0.01)
Net income attributable to CVS Caremark	$ 0.60	$ 0.76	$ 0.80	$ 0.91	$ 3.05
Diluted Earnings per common share:					
Income from continuing operations attributable to CVS Caremark	$ 0.59	$ 0.75	$ 0.79	$ 0.90	$ 3.03
Loss from discontinued operations attributable to CVS Caremark	$ —	$ —	$ —	$ —	$ (0.01)
Net income attributable to CVS Caremark	$ 0.59	$ 0.75	$ 0.79	$ 0.90	$ 3.03
Dividends per common share	$ 0.1625	$ 0.1625	$ 0.1625	$ 0.1625	$ 0.6500
Stock price: (New York Stock Exchange)					
High	$ 45.88	$ 46.93	$ 48.69	$ 49.80	$ 49.80
Low	$ 41.01	$ 43.08	$ 43.65	$ 44.33	$ 41.01

In millions, except per share amounts	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2011:					
Net revenues	$ 25,695	$ 26,414	$ 26,674	$ 28,317	$ 107,100

Gross profit	4,742	5,086	5,178	5,555	20,561
Operating profit	1,305	1,484	1,584	1,957	6,330
Income from continuing operations	709	813	867	1,099	3,488
Income (loss) from discontinued operations, net of tax	3	2	—	(36)	(31)
Net income	712	815	867	1,063	3,457
Net loss attributable to noncontrolling interest	1	1	1	1	4
Net income attributable to CVS Caremark	$ 713	$ 816	$ 868	$ 1,064	$ 3,461
Basic earnings per common share:					
Income from continuing operations attributable to CVS Caremark	$ 0.52	$ 0.60	$ 0.65	$ 0.84	$ 2.61
Income (loss) from discontinued operations attributable to CVS Caremark	$ —	$ —	$ —	$ (0.03)	$ (0.02)
Net income attributable to CVS Caremark	$ 0.52	$ 0.60	$ 0.65	$ 0.82	$ 2.59
Diluted Earnings per common share:					
Income from continuing operations attributable to CVS Caremark	$ 0.52	$ 0.60	$ 0.65	$ 0.84	$ 2.59
Income (loss) from discontinued operations attributable to CVS Caremark	$ —	$ —	$ —	$ (0.03)	$ (0.02)
Net income attributable to CVS Caremark	$ 0.52	$ 0.60	$ 0.65	$ 0.81	$ 2.57
Dividends per common share	$ 0.125	$ 0.125	$ 0.125	$ 0.125	$ 0.500
Stock price: (New York Stock Exchange)					
High	$ 35.95	$ 39.50	$ 38.82	$ 41.35	$ 41.35
Low	$ 32.08	$ 34.21	$ 31.30	$ 32.28	$ 31.30

Five-Year Financial Summary

In millions, except per share amounts	2012(1) (5)	2011(1)	2010(1)	2009(1)	2008(1)
Statement of operations data:					
Net revenues	$ 123,133	$ 107,100	$ 95,778	$ 98,215	$ 87,005
Gross profit	22,506	20,561	20,219	20,358	18,272
Operating expenses	15,278	14,231	14,082	13,933	12,237
Operating profit	7,228	6,330	6,137	6,425	6,035
Interest expense, net	557	584	536	525	509
Loss on early extinguishment of debt	348	—	—	—	—
Income tax provision(2)	2,441	2,258	2,179	2,200	2,189
Income from continuing operations	3,882	3,488	3,422	3,700	3,337
Income (loss) from discontinued operations, net of tax benefit(3)	(7)	(31)	2	(4)	(125)
Net income	3,875	3,457	3,424	3,696	3,212
Net loss attributable to noncontrolling interest(4)	2	4	3	—	—
Preference dividends, net of income tax benefit	—	—	—	—	(14)
Net income attributable to CVS Caremark	$ 3,877	$ 3,461	$ 3,427	$ 3,696	$ 3,198
Per common share data:					
Basic earnings per common share:					
Income from continuing operations attributable to CVS Caremark	$ 3.06	$ 2.61	$ 2.51	$ 2.58	$ 2.32
Loss from discontinued operations attributable to CVS Caremark	(0.01)	(0.02)	—	—	(0.09)
Net income attributable to CVS Caremark	$ 3.05	$ 2.59	$ 2.51	$ 2.58	$ 2.23
Diluted earnings per common share:					
Income from continuing operations attributable to CVS Caremark	$ 3.03	$ 2.59	$ 2.49	$ 2.55	$ 2.27
Loss from discontinued operations attributable to CVS Caremark	(0.01)	(0.02)	—	—	(0.09)
Net income attributable to CVS Caremark	$ 3.03	$ 2.57	$ 2.49	$ 2.55	$ 2.18
Cash dividends per common share	$ 0.65000	$ 0.50000	$ 0.35000	$ 0.30500	$ 0.25800
Balance sheet and other data:					
Total assets	$ 65,912	$ 64,543	$ 62,169	$ 61,641	$ 60,960
Long-term debt	$ 9,133	$ 9,208	$ 8,652	$ 8,756	$ 8,057
Total shareholders' equity	$ 37,704	$ 38,051	$ 37,700	$ 35,768	$ 34,574
Number of stores (at end of year)	7,508	7,388	7,248	7,095	6,997

(1) On December 23, 2008, our Board of Directors approved a change in our fiscal year-end from the Saturday nearest December 31 of each year to December 31 of each year to better reflect our position in the health care, rather than the retail, industry. The fiscal year change was effective

beginning with the fourth quarter of fiscal 2008. As you review our operating performance, please consider that 2012 includes 366 days, 2011, 2010 and 2009 include 365 days, and fiscal 2008 includes 368 days.

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

(3) As discussed in Note 4 to the consolidated financial statements, the results of the TheraCom business are presented as discontinued operations and have been excluded from continuing operations for all periods presented.

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

Below is a summary of the results of discontinued operations:

	Fiscal Year				
In millions	2012	2011	2010	2009	2008
Income from operations of TheraCom	$ —	$ 18	$ 28	$ 13	$ 11
Gain on disposal of TheraCom	—	53	—	—	—
Loss on disposal of Linens 'n Things	(12)	(7)	(24)	(19)	(214)
Income tax benefit (provision)	5	(95)	(2)	2	78
Income (loss) from discontinued operations, net of tax	$ (7)	$ (31)	$ 2	$ (4)	$ (125)

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

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

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of CVS Caremark Corporation

We have audited the accompanying consolidated balance sheets of CVS Caremark Corporation as of December 31, 2012 and 2011, 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, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CVS Caremark Corporation at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CVS Caremark Corporation's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 15, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 15, 2013

Exhibit 21

SUBSIDIARIES OF THE REGISTRANT

As of December 31, 2012, CVS Caremark Corporation had the following significant subsidiaries:

Caremark, L.L.C. (a California limited liability company)
CaremarkPCS Health, L.L.C. (a Delaware limited liability company)
Caremark PhC, L.L.C. (a Delaware limited liability company)
Caremark Rx, L.L.C. (a Delaware limited liability company)(2)
CVS Albany, L.L.C. (a New York limited liability company)
CVS Caremark Part D Services, L.L.C. (a Delaware limited liability company)
CVS Pharmacy, Inc. (a Rhode Island corporation)(1)
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) 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.

(2) Caremark Rx, L.L.C., the parent of the Registrant's pharmacy services subsidiaries, is the immediate or indirect parent of several mail order, specialty mail and retail specialty pharmacy subsidiaries, all of which operate in the United States and its territories.

Exhibit 23

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-3 No. 333-165672) of CVS Caremark Corporation, and
(2) Registration Statements (Form S-8 Nos. 333-49407, 333-34927, 333-28043, 333-91253, 333-63664, 333-139470, 333- 141481 and 333-167746) of CVS Caremark Corporation;

of our reports dated February 15, 2013, with respect to the consolidated financial statements of CVS Caremark Corporation and the effectiveness of internal control over financial reporting of CVS Caremark Corporation, incorporated by reference in this Annual Report (Form 10-K) for the year ended December 31, 2012, and to the reference to our firm under the heading "Selected Financial Data", included therein.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 15, 2013

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 Caremark Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of CVS Caremark Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 15, 2013

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 Caremark Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of CVS Caremark Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 15, 2013

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 Caremark Corporation (the "Company") on Form 10-K for the period ended December 31, 2012 (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 15, 2013

/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 Caremark Corporation (the "Company") on Form 10-K for the period ended December 31, 2012 (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 15, 2013

/S/ DAVID M. DENTON
David M. Denton
Executive Vice President and Chief Financial Officer