FORM 10-K

Annual report pursuant to section 13 and 15(d)

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CVS CAREMARK CORP

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SIC: **5912** Drug stores and proprietary stores

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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, 2009

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 $46,267,935,658 as of June 30, 2009, 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 22, 2010, the registrant had 1,390,515,000 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

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

Information contained on pages 22 through 71, and page 73 of our Annual Report to Stockholders for the fiscal year ended December 31, 2009 is incorporated by reference in our response to Items 7, 8 and 9 of Part II.

Information contained in our Proxy Statement for the 2010 Annual Meeting of Stockholders is incorporated by reference in our response to Items 10 through 14 of Part III.

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PART I

Item 1. Business

Overview

CVS Caremark Corporation ("CVS Caremark", the "Company", "we" or "us") is the largest pharmacy health care provider in the United States. As a fully integrated pharmacy services company, we believe we can drive value for our customers by effectively managing pharmaceutical costs and improving health care outcomes through our pharmacy benefit management, mail order and specialty pharmacy division, Caremark Pharmacy Services®; approximately 7,000 CVS/pharmacy® retail stores; our retail-based health clinic subsidiary, MinuteClinic®; and our online pharmacy, CVS.com®.

In March 2007, we completed our merger with Caremark Rx, Inc. (the "Caremark Merger"). Following the Caremark Merger, we changed our name to CVS Caremark Corporation and Caremark Rx, Inc. became a wholly-owned subsidiary, Caremark Rx, L.L.C. ("Caremark"). The Caremark Merger brought together the nation' s largest retail pharmacy chain and a leading pharmacy benefit manager. We believe the Caremark Merger has uniquely positioned our Company 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. In addition, the Caremark Merger has enhanced our ability to offer plan members and consumers expanded choice, greater access and more personalized services.

Business Segments

During the third quarter of 2009, we made changes to our reportable segments to reflect changes that were made to the way our management evaluates the performance of operations, develops strategy and allocates resources. This change involves recording certain administrative expenses previously recorded within the Pharmacy Services and Retail Pharmacy segments in a new Corporate segment. The Corporate segment consists of costs primarily associated with executive management, corporate relations, legal, compliance, human resources, corporate information technology and finance. This change had no impact on our consolidated results of operations. As a result of this change, the Company has three segments: Pharmacy Services, Retail Pharmacy and Corporate. Our historical segment disclosures have been revised to conform to the current presentation.

During the third quarter of 2009, we also made a change to our Pharmacy Services segment as it relates to our intersegment activities (such as the Maintenance Choice® program). This change impacts the gross profit and operating profit lines within the Pharmacy Services segment. Under the Maintenance Choice program, eligible members in plans sponsored by Pharmacy Services clients can 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 now record the revenue, gross profit and operating profit on a standalone basis and corresponding intersegment eliminations are made. This change had no impact on our consolidated results of operations.

Pharmacy Services Segment

The Pharmacy Services segment provides a full range of pharmacy benefit management ("PBM") services including mail order pharmacy services, specialty pharmacy services, plan design and administration, formulary management and claims processing. 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. In addition, through our SilverScript Insurance Company ("SilverScript") and Accendo Insurance Company ("Accendo") subsidiaries, we are a national provider of drug benefits to eligible beneficiaries under the Federal Government' s Medicare Part D program. Currently, the pharmacy services business operates under the Caremark Pharmacy Services®, Caremark®, CVS Caremark™, CarePlus CVS/pharmacy™, CarePlus™, RxAmerica®, AccordantCare® and TheraCom® names. As of December 31, 2009, the Pharmacy Services segment operated 49 retail specialty pharmacy stores, 18 specialty mail order pharmacies and six mail service pharmacies located in 25 states, Puerto Rico and the District of Columbia.

Our 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 healthcare costs. We produce superior results for our clients and their plan members by leveraging our expertise in core PBM services, including (as described more fully below): plan design and administration, formulary management, drug purchasing arrangements, mail order services, specialty pharmacy services, retail pharmacy network management services, Medicare Part D services and a broad array of clinical services.

In addition, as a result of the Caremark Merger, we are able to offer our clients and their plan members a variety of new programs and plan designs that benefit from our integrated information systems and the ability of our more than 26,000 pharmacists, nurse practioners 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 healthcare outcomes. Examples of these programs and services include Maintenance Choice; new 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 a new ExtraCare Health Card program (which offers discounts to eligible plan members on certain over-the-counter healthcare 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 unique services available at MinuteClinic such as injection training for specialty pharmacy services.

While certain of these programs and services have already been adopted by many of our clients, others are in the formative stage and require additional information system enhancements and/or changes in work processes. Accordingly, there can be no assurance as to timing or benefits associated with certain of these programs.

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

Plan Design and Administration - Our clients sponsor pharmacy benefit plans that facilitate the ability of eligible members in these plans to receive medications prescribed by their physicians. 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 plans 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 of 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 manufacturers to obtain discounted acquisition costs for many of the products on our drug lists, and these negotiated discounts enable us to offer reduced costs to clients that choose to adopt our drug lists. The discounted drug purchase arrangements we negotiate typically provide for our receiving discounts from established list prices in various ways. In that regard, these discounts generally take the form of a direct discount at the time of purchase, a discount for prompt payment of invoices or, when products are indirectly purchased from a manufacturer (e.g., through a wholesaler or retail pharmacy/chain), a retroactive discount, or rebate. We also receive additional discounts under our wholesale contracts if we exceed contractually-defined annual purchase volumes. We record these discounts, regardless of their form, as a reduction of our cost of revenues.

Prescription Management Systems - We dispense prescription drugs both directly, through 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 tests for various items, including, but not limited to, plan eligibility, early refills, duplicate dispensing, appropriateness of dosage, drug interactions or allergies, over-utilization and potential fraud.

Mail Pharmacy Program - As of December 31, 2009, we operated six large, automated mail service pharmacies in the continental United States. Our clients or their prescribers submit prescriptions, primarily for maintenance medications, to these pharmacies via mail, telephone, fax or the Internet. We also operate a network of smaller mail service specialty pharmacies described below. 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 or to improve quality of treatment.

Specialty Pharmacy - Our specialty pharmacies support individuals that require complex and expensive drug therapies. As of December 31, 2009, our specialty pharmacies were comprised of 18 specialty mail order pharmacies located throughout the United States and are used for delivery of advanced medications to individuals with chronic or genetic diseases and disorders. Through our TheraCom subsidiary, we provide new product launch services for manufacturers of specialty drugs. Substantially all of these pharmacies have been accredited by the Joint Commission, which is an independent, not-for-profit organization which accredits and certifies more than 17,000 health care organizations and programs in the United States. As of December 31, 2009, the Company operated a network of 49 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.

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

Retail Pharmacy Network - We maintain a national network of approximately 64,000 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 customer data, including eligibility and member information, and perform a drug utilization review to determine clinical appropriateness and safety in addition to confirming that the pharmacy will receive payment for the prescription.

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") (the "Medicare Drug Benefit") through the provision of PBM services to our health plan clients and other clients that have qualified as Medicare Part D prescription drug plans ("PDP"). We also participate (i) by

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

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 target safety, 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, 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 AccordantCare 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 ("NCQA"), a private, not-for-profit organization that evaluates, accredits and certifies a wide range of health care organizations. In addition, we have entered into a strategic alliance with Alere, L.L.C. for the management of our common disease management program offerings, which cover such chronic diseases as asthma, diabetes, congestive heart failure and coronary artery disease.

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

Pharmacogenomic Services - In December 2009, we acquired a majority interest in Generation Health, Inc., a genetic benefit management company, that will allow us to expand our offering of pharmacogenomic clinical and testing services to our PBM clients. Pharmacogenomics is the study of how genetic makeup affects an individual' s response to drug therapies. Through genetic testing, doctors are able to evaluate a patient' s genetic makeup to determine the effectiveness of specific drugs, drug dosages and drug combinations. Through this relationship, we expect to use genetic testing to apply greater precision to client prescription management, with the goal of improving individual health outcomes and reducing overall medical costs. We expect to begin to offer these services to clients during 2010.

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 PBM clients' service contracts.

Clients - Our clients are primarily sponsors of health benefit plans (employers, unions, government employee groups, insurance companies and managed care organizations) and individuals located throughout the United States. We provide pharmaceuticals to eligible members in benefit plans maintained by our clients and utilize our information systems to perform safety checks, drug interaction screening and generic substitution. We generate substantially all of our Pharmacy Services segment net revenue from dispensing prescription drugs to eligible members in benefit plans maintained by our clients. During the year ended December 31, 2009, we managed approximately 660 million prescriptions for individuals from over 3,000 organizations.

Competition - We believe the primary competitive factors in the industry include: (i) the ability to negotiate favorable discounts from drug manufacturers; (ii) the ability to negotiate favorable discounts from, and access to, retail pharmacy networks; (iii) responsiveness to 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 competes with a number of large, national PBM companies, including Medco Health Solutions, Inc. and Express Scripts, Inc., as well as many smaller local or regional PBMs. We also compete with several large health insurers/managed care plans (e.g., UnitedHealthcare, Aetna and CIGNA) and retail pharmacies, which have their own PBM capabilities, as well as with several other national and regional companies which provide services similar to ours.

Retail Pharmacy Segment

As of December 31, 2009, the Retail Pharmacy segment included 7,025 retail drugstores, of which 6,964 operated a pharmacy, our online retail website, CVS.com, and our retail health care clinics. The retail drugstores are located in 41 states and the District of Columbia operating primarily under the CVS/pharmacy name. We currently operate in 91 of the top 100 U.S. drugstore markets and hold the number one or number two market share in 68 of these markets. CVS/pharmacy stores sell prescription drugs and a wide assortment of general merchandise, which we refer to as "front store" products. Existing retail stores range in size from approximately 8,000 to 25,000 square feet, although most new stores range in size from approximately 10,000 to 13,000 square feet and typically include a drive-thru pharmacy. During fiscal 2009, we filled approximately 615 million retail prescriptions, or approximately 18% of the U.S. retail pharmacy market.

As of December 31, 2009, we operated 569 retail health care clinics in 25 states and the District of Columbia under the MinuteClinic name, of which 557 were located within CVS/pharmacy stores. The clinics utilize nationally recognized medical protocols to diagnose and treat minor health conditions and are staffed by board-certified nurse practitioners and physician assistants.

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

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

	Percentage of Net Revenues[1]		
	2009	2008	2007
Prescription drugs	68 %	68 %	68 %
Over-the-counter and personal care	11	13	13
Beauty/cosmetics	5	4	4

General merchandise and other	16	15	15
	100 %	100 %	100 %

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

Pharmacy - Pharmacy revenues represented more than two-thirds of Retail Pharmacy revenues in 2009, 2008 and 2007, respectively. 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), the proliferation of new pharmaceutical products, the Medicare Drug Benefit and our on going program of purchasing customer lists from independent pharmacies. We believe our pharmacy business benefits from our investment in both people and technology. Given the nature of prescriptions, people want their prescriptions filled accurately and ready when promised, by professional pharmacists using the latest tools and technology. Consumers require medication management programs and better information to help them get the most out of their health care dollars. To assist our consumers with these requirements, we have introduced integrated pharmacy health care services that provide an earlier, easier and more effective approach to engaging plan members in behaviors that can help lower costs, improve health, and save lives. Examples include: Maintenance Choice (a flexible fulfillment option that affords eligible plan members the convenient choice of picking up their 90-day supply of maintenance medications at any CVS/pharmacy store or obtaining them through mail order, in either case at the cost of mail, which is typically lower for both the plan member and payor); enhanced medication adherence programs; 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 new 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 brand and proprietary brand products that are only available through CVS. We currently carry over 4,300 CVS brand and proprietary brand products, which accounted for approximately 17% of our front store revenues during 2009.

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 2009, we opened 178 new retail pharmacy stores, relocated 109 stores and closed 76 stores. During the last five years, we opened more than 1,400 new and relocated stores, and acquired approximately 1,200 stores. During 2010, we expect to open between 250 and 300 new or relocated stores. We believe that continuing to grow our store base and locating stores in desirable geographic markets are essential components to compete effectively in the current managed care environment. As a result, we believe that our store development program is an integral part of our ability to maintain our leadership position in the retail drugstore industry.

MinuteClinic - As of December 31, 2009, we operated 569 MinuteClinics in 25 states and the District of Columbia. 557 of these locations 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 and deliver vaccinations. Many locations have also begun treating a variety of chronic conditions. Insurers value MinuteClinic because it provides a high level of care at a competitive price, in many cases offering an attractive alternative to the far more expensive emergency room. As result, visits paid for by employers, health insurers or other third parties accounted for more than 80% of MinuteClinics' total revenues in 2009.

Information Systems - We have continued to invest in information systems to enable us to deliver a high level of customer service while lowering costs and increasing operating efficiency. In 2009, we began the rollout of Rx Connect, which is reengineering the way our pharmacists communicate and fill prescriptions. The rollout of Rx Connect will be completed by the end of 2010. Further, we continue to enhance our Assisted Inventory Management system, which is designed to more effectively link our stores and distribution centers with suppliers to speed the delivery of merchandise to our stores in a manner that both increases in-stock positions in the stores and lowers our investment in inventory. We were one of the first in the industry to introduce Drug Utilization Review technology that checks for harmful interactions between prescription drugs, over-the-counter products, vitamins and herbal remedies. We were also one of the first in the industry to install a chain wide automatic prescription refill system, CVS Rapid Refill, which enables customers to order prescription refills 24 hours a day using a touch-tone telephone. We continue to enhance our Visible Improvement in Profits, Execution and Results ("VIPER") system, a transaction-monitoring application designed to mitigate inventory losses attributable to process deficiencies or fraudulent behavior by providing visibility to transactions processed through our point-of-sale systems. In addition, we operate distribution centers with fully integrated technology solutions for storage, product retrieval and order picking.

Customers - Managed care and other third party plans accounted for 96.5% of our 2009 pharmacy revenues. Since our revenues relate to numerous payors, including employers and managed care organizations, the loss of any one payor should not have a material effect on our business. No single customer accounts for 10% or more of our total revenues. We also fill prescriptions for many government funded programs, including State Medicaid plans and Medicare Part D drug plans. Our contracts with such 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 could adversely affect our businesses*."

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" on page 71 in our Annual Report to Stockholders for the fiscal year ended December 31, 2009, which section is incorporated by reference herein.

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 each of the markets we serve, we compete with independent and other retail drugstore chains, supermarkets, convenience stores, pharmacy benefit managers and other mail order prescription providers, discount merchandisers, membership clubs, health clinics and Internet pharmacies.

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 and long-term borrowings. For additional information on our working capital practices, we refer you to the caption "Liquidity and Capital Resources" on page 33 in our Annual Report to Stockholders for the fiscal year ended December 31, 2009, which section is incorporated by reference herein. The majority of our non-pharmacy revenues are paid in cash, or by debit and by credit cards, while managed care and other third party insurance programs, which typically settle in less than 30 days, represented approximately 98.5% of our consolidated pharmacy revenues in 2009. Our customer returns are not significant.

Associate Development

As of December 31, 2009, we employed approximately 211,000 associates, which included more than 26,000 pharmacists, nurse practitioners and physician assistants. In addition, approximately 84,000 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 stores, clinics and throughout our organization.

Intellectual Property

We have registered or applied to register a variety of trademarks, service marks and trade names used in our business. We regard our intellectual property as having significant value in 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 - As a participant in the health care industry, our retail and pharmacy services businesses are subject to federal and state laws and regulations that govern the purchase, sale and distribution of prescription drugs and related services, including administration and management of prescription drug benefits. Many of our PBM clients, including insurers and managed care organizations ("MCOs"), are themselves subject to extensive regulations that affect the design and implementation of prescription drug benefit plans that they sponsor. The application of these complex legal and regulatory requirements to the detailed operation of our business creates areas of uncertainty. This is especially the case today as Congress considers major health reform legislation that could affect the entire health insurance system and virtually every aspect of health care in the country. At the time of this writing, different versions of health reform legislation had passed in the House and the Senate. However, it remains to be seen whether any legislation will ultimately be passed and signed into law by the President and, if so, what it will include. In addition to this major pending legislation, regulation of the health care industry continues to evolve, and there are numerous proposed health care laws and regulations at the federal and state levels, some of which could adversely affect our business if they are enacted. We are unable to predict what additional federal or state legislation or regulatory initiatives may be enacted in the future relating to our business or the health care industry in general, or what effect any such legislation or regulations might have on 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 financial condition.

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

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

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

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

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

In addition, certain quasi-regulatory organizations, including the National Association of Boards of Pharmacy and the National Association of Insurance Commissioners ("NAIC") have issued model regulations or may propose future regulations concerning PBMs and/or PBM activities. Similarly, credentialing organizations such as NCQA and the Utilization Review Accreditation Commission ("URAC") may establish voluntary standards regarding PBM 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 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. The application of these common laws to PBMs and/or PBM activities could have an adverse impact on our ability to conduct business on commercially reasonable terms.

Consumer Protection Laws - The Federal Government and most states have consumer protection laws that have been the basis for investigations, lawsuits and multi-state settlements relating to, among other matters, financial incentives provided by drug manufacturers to pharmacies in connection with therapeutic interchange programs. 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, which applies to plans or programs to induce the purchase of goods or services by consumers. (See the Telemarketing and Other Outbound Calls section below for further disclosures.)

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

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.

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

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

Disease Management Services Regulation - We provide or arrange for our customers to receive clinical services in the form of disease management programs for common and rare 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.

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 and pharmaceutical wastes. We periodically receive information requests and notices of potential noncompliance with environmental laws and regulations from governmental agencies, which are addressed on a case-by-case basis with the relevant agency.

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.

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 November 2007, the DOL announced final revisions to Form 5500 and its related schedules effective for plan years beginning on or after January 1, 2009. The revised Form 5500, which most pension and welfare plans subject to ERISA are required to file, includes modifications to Schedule C on which plans are required to report compensation paid to service providers.

In December 2009, the DOL also announced a new project to promulgate regulations under Section 408(b)(2) of ERISA. The regulations, which were previously issued in proposed form, could require service providers, including PBMs, to provide detailed disclosure regarding all direct and indirect compensation to be received in connection with the services to be provided, as well as potential conflicts of interest.

We cannot be certain the extent to which newly issued disclosure regulations may apply to our business as the DOL has provided very little final guidance regarding what constitutes reportable compensation under a PBM agreement.

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

False Claims and Fraudulent Billing Statutes - A range of federal civil and criminal laws target false claims and fraudulent billing activities. One of the most significant of these laws is the Federal False Claims Act ("FCA"), which prohibits the submission of a false claim or the making of a false record or statement in order to secure reimbursement from, or limit reimbursement to, a government-sponsored program. The Fraud Enforcement and Recovery Act of 2009 ("FERA") implemented substantial changes to the FCA which 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. Some states have passed substantially similar acts. In recent years, federal and state governments have launched several initiatives aimed at uncovering practices that violate false claims or fraudulent billing laws. The Federal Deficit Reduction Act of 2005 ("DRA"), for example, requires certain entities that receive or make annual Medicaid payments over a certain amount to provide their employees and certain contractors and agents with certain information regarding the federal and state false claims acts, whistleblower protections, and the entity' s processes for detecting and preventing fraud, waste and abuse. Claims under these laws may be brought either by the government or by private individuals on behalf of the government through a *qui tam* or "whistleblower" action, as discussed in more detail elsewhere in this Government Regulation section.

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

FDA Regulation - The 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. We have operated a FDA-regulated repackaging facility in which we repackage certain drugs into the most common prescription quantities dispensed

from our mail service pharmacies. We intend to close this repackaging facility in April 2010. The FDA also may inspect facilities in connection with procedures implemented to effect recalls of prescription drugs.

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

Managed Care Reform - Proposed legislation has been considered on both the federal and state level, and legislation has been enacted in several states, aimed primarily at providing additional rights and access to drugs to individuals enrolled in managed care plans. This legislation may impact the design and implementation of prescription drug benefit plans sponsored by our PBM health plan 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 Congress and state legislatures and reforms enacted by states to date vary greatly, and the scope of future legislation that may be enacted is uncertain.

Medicare Prescription Drug Benefit - The MMA created the Medicare Drug Benefit starting in January 2006. Medicare beneficiaries entitled to Medicare benefits under Part A or enrolled in Medicare Part B are eligible for the Medicare Drug Benefit under Medicare Part D. The MMA also created a subsidy available to certain employer, union and other group plans that provide retiree coverage to Part D eligible individuals that is at least equivalent to Part D coverage. Regulations implementing the Medicare Drug Benefit include requirements relating to developing and administering formularies, establishing pharmacy networks, processing and adjudicating claims at point of sale and compliance with electronic prescribing standards. Other government rules and regulations, which continue to evolve, impact the funding available for Medicare programs, the marketing of Part D services, reporting of drug costs and administrative costs for the Medicare Drug Benefit, PBM contracting arrangements with retail pharmacies, pharmaceutical manufacturers, health plans or other parties related to the Medicare Drug Benefit or retiree drug subsidy program and other terms and conditions affecting the Medicare Part D services we provide. In January 2009, CMS issued a regulation requiring that, beginning in 2010, any difference between the drug price charged to Medicare Part D plan sponsors by a PBM and the drug price paid by the PBM to the dispensing provider (commonly called "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. The regulation also required that any rebates retained by the PBM must reduce the Part D sponsor' s drug costs reported to the government, regardless of the terms of the contract between the PBM and Part D sponsor. The regulation did not make either of these changes to the calculation of the plan sponsor' s drug costs under the retiree drug subsidy program, which is a separate program under the MMA, but solicited comments on this issue. CMS has issued no further regulations or guidance on this issue to date. However, in both the House- and Senate-passed health reform bills currently

being considered by Congress, the tax deductibility of the retiree drug subsidy payment would be eliminated. The Senate bill (H.R. 3590) would make this change effective in 2011 and the House bill (H.R. 3962) beginning in 2013.

In October 2009, CMS issued proposed regulations affecting various aspects of the Part D program. Among other things, the proposed regulations give CMS greater latitude to limit the number of Part D plans available by allowing it to eliminate plans with persistently low enrollment and plans that it views as poor performers based on certain CMS performance criteria. It also shortens the period for Part D sponsors that acquire other Part D plans to merge the plans or otherwise change them so that their plan offerings remain substantially different. The proposed rule would also limit the period for coordination of benefits to three years for all payers. Currently, the three-year period applies only to coordination of benefits with Medicaid plans.

The MMA also requires that Part D sponsors support electronic prescribing and comply with electronic prescribing standards issued by CMS. While electronic prescribing is voluntary for pharmacies and prescribers, those pharmacies and prescribers that choose to conduct any of the electronic prescribing transactions are required to do so using the CMS standards, including standards for formulary and benefit transactions, medication history transactions and fill status notification. The American Recovery and Reinvestment Act of 2009 (Pub. L. 111‑5) ("ARRA"), which was signed into law in February 2009, amended the Social Security Act to establish incentive payments to 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 providers in the Medicare program that fail to adopt and meaningfully use certified EHR technology. Among the measures of meaningful use is the use of electronic prescribing. A proposed rule to implement the EHR incentive program was issued in December 2009, and requires that 75% of permissible prescriptions be sent electronically in order to qualify for the incentive payments.

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

Network Access Legislation - A majority of states now have some form of legislation affecting the ability to limit access to a pharmacy provider network or remove network providers. Certain "any willing provider" legislation may require us or our 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 the Medicare Drug Benefit, and CMS has interpreted this as requiring that a Medicare Part D sponsor, for each type of pharmacy in its network, allow participation by any pharmacy that meets the applicable terms and conditions for participation. To the extent any state or federal any willing provider laws are determined to apply to us or to certain of our 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.

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

Pharmacy Licensure and Regulation - We are subject to state and federal statutes and regulations governing the operation of retail and mail pharmacies, repackaging of drug products, wholesale distribution, dispensing of

controlled substances and listed chemical products, and medical and controlled substance waste disposal. Federal statutes and regulations govern the labeling, packaging, advertising and adulteration of prescription drugs and the dispensing of controlled substances. Federal controlled substance laws require us to register our pharmacies, distribution centers and repackaging facility with the United States Drug Enforcement Administration ("DEA") 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. See Item 3, "Legal Proceedings" for further information.

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 has statutory authority to restrict the transmission of drugs and medicines through the mail, and state licensing authorities may restrict the types of personnel who may work in mail service operations.

Our pharmacists and technicians are subject to state regulation of the profession of pharmacy, and our employees who are engaged in a professional practice must satisfy applicable state licensing or registration requirements and comply with applicable professional standards. Failure to comply with these regulations could subject our licenses and permits and our employee licenses to disciplinary action including fines, suspensions and/or revocations.

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

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

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

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

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

In February 2009, the President signed ARRA into law, which includes provisions relating to health information technology activities, such as e-prescribing and electronic health records, and contains revisions to existing federal privacy law. The privacy law changes include new restrictions on the use of PHI without an individual' s written authorization, a new requirement to account for routine disclosures of PHI held in an electronic health record, a requirement to notify individuals of breaches to their PHI, new enforcement rights of state attorneys

general, extension of the federal privacy and security law provisions and penalties to business associates of covered entities, and increased penalties for violations of the law. Since several of the provisions contemplate future adoption of implementing regulations, we cannot at this time determine the extent to which these changes may apply to or impact our business.

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

The Federal Government and numerous state governments have given increased attention to how pharmaceutical manufacturers develop and report pricing information, which, in turn, is used in setting payments under the Medicare and Medicaid programs. One element common to most payment formulas, Average Wholesale Price ("AWP"), has come under criticism for allegedly inaccurately reflecting prices actually charged and paid at the wholesale level. The calculation and reporting of AWP have been the subject of investigations by federal and state governments and litigation brought against pharmaceutical manufacturers and data services that report AWP. We are not responsible for calculations, reports or payments of AWP; however, such investigations or lawsuits could impact our business because many of our 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 expect reduced Medicaid reimbursement levels in 2010 for certain products. In addition, both FDB and Medi-Span have indicated that they intend to discontinue the publishing of AWP altogether in the future, most likely in September 2011. As a result, we believe the pharmaceutical industry will be evaluating and/or developing 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.

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

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

In 2005, the DRA was signed into law by the President. The DRA sought to reduce federal spending by altering the Medicaid reimbursement formula for multi-source (i.e., generic) drugs. These changes were expected to result in reduced Medicaid reimbursement rates for retail pharmacies. During 2007, CMS issued a final rule implementing provisions under the DRA regarding prescription drugs under the Medicaid program. Among other things, the rule defines AMP and "best price," and specifies the items that must be included and excluded in the calculation of each (the "AMP Rule"). In October 2008, approximately ten months after the U.S. District Court for the District of Columbia preliminarily enjoined CMS from implementing relevant portions of the AMP Rule, CMS issued a rule, subject to comment, which modified the definition of multiple source drugs, a component of the AMP calculation. The proposed rule seeks to address one of the legal challenges on which the injunction was issued. However, opponents of this new rule have asserted that the revised definition continues to be inconsistent with the DRA. In the event health care reform legislation is adopted, such legislation will likely include a provision to correct the definitional issues with the AMP. As a result of the above, we cannot predict the extent or timing of implementation of the AMP Rule, its effect on Medicaid reimbursement or its impact on the Company.

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

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

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

have implemented or proposed laws that impact certain components of retail clinic operations such as physician oversight, signage, third party contracting requirements, bathroom facilities, and scope of services. These laws and regulations may affect the operation of our owned and managed retail clinics.

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

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

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

Our SilverScript and Accendo PDPs 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. Both SilverScript and Accendo are licensed in all states in which they offer PDPs and do not operate under any Part D waivers. As licensed insurance companies, SilverScript and Accendo and their agents 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 the Medicare Drug Benefit are generally preempted by Medicare Part D to the extent that Medicare Part D regulates the issue.

Some states have laws that prohibit submitting a false claim or making a false record or statement in order to secure reimbursement from an insurance company. These state laws vary, and violation of them may lead to the imposition of civil or criminal penalties. Additionally, several states have passed legislation governing the prompt payment of claims that requires, among other things, that health plans and payors pay claims within certain prescribed time periods or pay specified interest penalties. These laws vary from state to state in regard to scope, requirements and application, and it is not clear the extent to which they may apply to our 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 the Medicare Drug Benefit. Payments by qualified SPAPs on behalf of a Medicare Part D enrollee are treated under Medicare Part D as if they were made by the enrollees themselves, thereby counting towards the enrollees' true out-of-pocket costs and helping them qualify for catastrophic coverage sooner. Part D plans are required to coordinate benefits with SPAPs, including allowing SPAPs to subsidize the Medicare Part D premiums of their members and/or their Medicare Part D cost sharing. Some qualified SPAPs have also received permission from CMS to auto-assign their enrollees that do not choose their own Medicare Part D plans into PDPs.

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

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

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

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

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

Available Information

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

Item 1A. Risk Factors

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

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

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

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

Further, interest rate fluctuations and changes in capital market conditions may affect our ability to obtain necessary financing on acceptable terms, our ability to secure suitable store locations under acceptable terms and our ability to execute sale-leaseback transactions under acceptable terms.

Inability to realize the benefits of the Caremark Merger.

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

Inability to realize the benefits of the acquisition of Longs Drug Stores Corporation

We may not be able to realize the planned benefits associated with the October 2008 acquisition of the Longs Drug Stores Corporation in accordance with the expected timing.

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

The continued efforts of health maintenance organizations, managed care organizations, PBM companies, government entities, and other third party payors to reduce prescription drug costs and pharmacy reimbursement

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

In 2005, the DRA was signed into law by the President. The DRA sought to reduce federal spending by altering the Medicaid reimbursement formula for multi-source (i.e., generic) drugs. These changes were expected to result in reduced Medicaid reimbursement rates for retail pharmacies. During 2007, CMS issued a final rule implementing provisions under the DRA regarding prescription drugs under the Medicaid program. Among other things, the rule defines AMP and "best price," and the AMP Rule. In October 2008, approximately ten months after the U.S. District Court for the District of Columbia preliminarily enjoined CMS from implementing relevant portions of the AMP Rule, CMS issued a rule, subject to comment, which modified the definition of multiple source drugs, a component of the AMP calculation. The proposed rule seeks to address one of the legal challenges on which the injunction was issued. However, opponents of this new rule have asserted that the revised definition continues to be inconsistent with the DRA. In the event health care reform legislation is adopted, such legislation will likely include a provision to correct the definitional issues with the AMP. As a result of the above, we cannot predict the extent or timing of implementation of the AMP Rule, its effect on Medicaid reimbursement or its impact on the Company.

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

Our PBM business generates net revenues primarily by contracting with clients to provide prescription drugs and related health care services to plan 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. Although none of our PBM clients represented more than 10% of our Company' s consolidated revenues in 2009, our top 10 clients are expected to represent approximately 29% of such revenues in 2010. 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. In that regard, during 2009, a small number of large client accounts elected not to renew their contractual relationships with the Company effective in 2010. Our failure to renew or win PBM business could adversely affect our business, financial position and results of operations.

Risks related to the frequency and rate of the introduction of 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 the introduction of new and successful prescription pharmaceuticals as well as lower priced generic alternatives to existing brand name products. Accordingly, a slowdown in the introduction of new and successful prescription pharmaceuticals and/or generic alternatives (the sale of which normally yield higher gross profit margins than brand name equivalents) could adversely affect our business, financial position and results of operations.

Risks of declining gross margins in the PBM industry.

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

Regulatory and business changes relating to our participation in Medicare Part D may adversely affect our business, financial position and our results of operations.

Since its inception in 2006, the Medicare Drug Benefit has resulted in increased utilization and decreased pharmacy gross margin rates as higher margin business, such as cash and state Medicaid customers, migrated to Medicare Part D coverage. Further, as a result of the Medicare Drug Benefit, our PBM clients could decide to discontinue providing prescription drug benefits to their Medicare-eligible members. To the extent this occurs, the adverse effects of the Medicare Drug Benefit may outweigh any opportunities for new business generated by the new benefit. In addition, if the cost and complexity of the Medicare Drug Benefit exceed management' s expectations or prevent effective program implementation or administration; if changes to the regulations regarding how drug costs are reported for Medicare Drug Benefit and retiree drug subsidy purposes are implemented in a manner that impacts the profitability of our Medicare Part D business; if the government alters Medicare program requirements or reduces funding because of the higher-than-anticipated cost to taxpayers of the Medicare Drug Benefit or for other reasons; if we fail to design and maintain programs that are attractive to Medicare participants; or if we are not successful in retaining enrollees, or winning contract renewals or new contracts under the Medicare Drug Benefit' s competitive bidding process, our Medicare Part D services and the ability to expand our Medicare Part D services could be materially and adversely affected, and our business, financial position and results of operations may be adversely affected. In that regard, in January 2009, CMS issued a regulation requiring that, beginning in 2010, any difference between the drug price charged to Medicare Part D plan sponsors by a PBM and the drug paid by the PBM to the dispensing provider (commonly called "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. These changes impact our ability to offer Medicare Part D plan sponsors pricing for 2010 that includes the use of retail network "differential" or "spread," and we expect these changes to reduce the profitability of our Medicare Part D business beginning in 2010.

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

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. In addition, both FDB and Medi-Span have indicated that they intend to discontinue the publishing of AWP altogether in the future, most likely in September 2011. As a result, we believe the pharmaceutical industry will be evaluating and/or developing 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.

The industries in which we operate are extremely competitive and competition could adversely affect our business, financial position and results of operations.

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

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

Efforts to reform the U.S. health care system may adversely affect our financial performance and the services we provide.

Congress periodically considers proposals to reform the U.S. health care system. This is especially the case today, as Congress considers major health reform legislation that could affect the entire health insurance system and virtually every aspect of health care in the country. If adopted, this legislation and/or other proposals may increase government involvement in health care and regulation of PBM or pharmacy services, or otherwise change the way the Company or its clients do business. Health plan sponsors may react to these proposals and the uncertainty surrounding them by reducing or delaying purchases of cost control mechanisms and related services that the Company would provide. The Company cannot predict what effect, if any, these proposals may have on its retail and pharmacy services businesses. Other legislative or market-driven changes in the health care system that the Company cannot anticipate could also have an adverse effect on our business, financial position and results of operations.

Existing and new government legislative and regulatory action could adversely affect our business, financial position and results of operations. The PBM business and retail drugstore business are subject to numerous federal, state and local laws and regulations. See "Business – Government Regulation." Changes in these regulations may require extensive system and operating changes that may be difficult to implement. Untimely compliance or noncompliance with applicable laws and regulations could adversely affect the continued operation of our business, including, but not limited to: imposition of civil or criminal penalties; suspension of payments from government programs; loss of required government certifications or approvals; loss of authorizations to participate in or exclusion from government reimbursement programs, such as the Medicare and Medicaid programs; or loss of licensure. The regulations to which we are subject include, but are not limited to:

the laws and regulations described in the Government Regulation section; accounting standards; 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 that regard, our business, financial position and results of operations could be affected by one or more of the following:

- federal and state laws and regulations governing the purchase, distribution, management, dispensing and reimbursement of prescription drugs and related services, whether at retail or mail, and applicable licensing requirements;

- the effect of the expiration of patents covering brand name drugs and the introduction of generic products;

- the frequency and rate of approvals by the FDA of new brand named and generic drugs, or of over-the-counter status for brand name drugs;

- FDA regulation affecting the retail or PBM industry;

- rules and regulations issued pursuant to the HIPAA; and other federal and state laws affecting the use, disclosure and transmission of health or other personal information, such as state security breach laws and state laws limiting the use and disclosure of prescriber information;

- administration of the Medicare Drug Benefit, including legislative changes and/or CMS rulemaking and interpretation;

- government regulation of the development, administration, review and updating of formularies and drug lists;

- federal, state and local waste management laws and regulations applicable to retail operations and distribution, 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 (any willing provider) legislation on our ability to manage pharmacy networks;

- managed care reform and plan design legislation;

insurance licensing and other insurance regulatory requirements applicable to offering a PDP in connection with the Medicare Drug Benefit; and

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

Risks related to litigation and other legal proceedings.

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

The foregoing is not a comprehensive listing and there can be no assurance that we have correctly identified and appropriately assessed all factors affecting the business. As such, we refer you to the “Management’ s Discussion and Analysis of Financial Condition and Results of Operations,” which includes our “Cautionary Statement Concerning Forward-Looking Statements” at the end of such section, on pages 40 through 41 of our Annual Report to Stockholders for the fiscal year ended December 31, 2009, which section is incorporated by reference.

Item 1B. Unresolved Staff Comments

There are no unresolved SEC Staff Comments.

Item 2. Properties

We lease most of our stores under long-term leases that vary as to rental amounts, expiration dates, renewal options and other rental provisions. For additional information on the amount of our rental obligations for our leases, we refer you to the Note "Leases" on page 59 in our Annual Report to Stockholders for the fiscal year ended December 31, 2009, which section is incorporated by reference herein.

As of December 31, 2009, we owned approximately 4.2% of our 7,025 retail stores. Net selling space for our retail drugstores increased to 67.8 million square feet as of December 31, 2009. More than two thirds of our store base was opened or significantly remodeled within the last five years.

We own nine distribution centers located in Alabama, California, Hawaii, Rhode Island, South Carolina, Tennessee and Texas and lease 11 additional facilities located in Arizona, California, Florida, Hawaii, Indiana, Michigan, New Jersey, Pennsylvania, Texas and Virginia. The 20 distribution centers total approximately 11.3 million square feet as of December 31, 2009. In addition, during 2009 we began construction on two new distribution centers, one in Chemung County, New York, which is expected to open during 2011, and one in Kapolei, Hawaii, which is expected to open during 2011.

As of December 31, 2009, we owned three mail service pharmacies located in Alabama, Pennsylvania and Texas and leased three additional mail service pharmacies located in Florida, Illinois and Pennsylvania. We leased call centers located in, Missouri, Pennsylvania, Tennessee, Texas and Puerto Rico. As of December 31, 2009, we also had 18 specialty mail order pharmacies, one of which we owned, and 49 specialty pharmacy stores, which we leased. The specialty mail order pharmacies and specialty pharmacy stores are located in 25 states, the District of Columbia and Puerto Rico.

Our FDA-regulated repackaging facility is located in Gurnee, Illinois. We intend to close this repackaging facility in April 2010.

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

We own our corporate offices located in Woonsocket, Rhode Island, which totals approximately 630,000 square feet. We are currently in the process of expanding our corporate offices in the State of Rhode Island. 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 70 former stores. We are indemnified for these guarantee obligations by the respective purchasers. These guarantees generally remain in effect for the initial lease term and any extension thereof pursuant to a renewal option provided for in the lease prior to the time of the disposition. For additional information, we refer you to the Note "Commitments & Contingencies" on page 65 in our Annual Report to Stockholders for the fiscal year ended December 31, 2009, which section is incorporated by reference herein.

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

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Following is a breakdown by state, District of Columbia and Puerto Rico of our retail and specialty pharmacy stores as well as our specialty mail order pharmacy locations as of December 31, 2009:

	Retail Stores	Retail Specialty Pharmacy Stores	Specialty Mail Order Pharmacies	Total
Alabama	150	1	–	151
Arizona	131	1	–	132
California	819	5	1	825
Colorado	–	1	–	1
Connecticut	137	–	–	137
Delaware	2	–	–	2
District of Columbia	56	1	–	57
Florida	693	3	1	697
Georgia	303	1	–	304
Hawaii	45	1	–	46
Iowa	10	–	–	10
Illinois	251	1	1	253
Indiana	290	–	–	290
Kansas	30	–	1	31

Kentucky	58	–	–	58
Louisiana	90	–	1	91
Maine	21	–	–	21
Maryland	165	–	2	167
Massachusetts	335	16	1	352
Michigan	242	–	1	243
Minnesota	40	1	1	42
Mississippi	39	–	–	39
Missouri	46	1	–	47
Montana	13	–	–	13
Nebraska	4	–	–	4
Nevada	85	–	–	85
New Hampshire	33	–	–	33
New Jersey	258	–	1	259
New Mexico	6	–	–	6
New York	439	4	–	443
North Carolina	297	1	1	299

North Dakota	6	–	–	6
Ohio	311	–	–	311
Oklahoma	36	–	–	36
Oregon	–	1	–	1
Pennsylvania	372	1	1	374
Puerto Rico	–	1	1	2
Rhode Island	56	2	–	58
South Carolina	193	1	–	194
Tennessee	125	1	1	127
Texas	507	3	2	512
Vermont	2	–	–	2
Virginia	249	–	–	249
Washington	–	1	1	2
West Virginia	50	–	–	50
Wisconsin	30	–	–	30
	7,025	49	18	7,092

Item 3. Legal Proceedings

1. Caremark' s subsidiary Caremark Inc. (now known as "Caremark, L.L.C.") is a defendant in a qui tam lawsuit initially filed by a relator on behalf of various state and federal government agencies in Texas federal court in 1999. The case was unsealed in May 2005. The case seeks 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) violates applicable federal or state false claims acts and fraud statutes. The United States and the States of Texas, Tennessee, Florida, Arkansas, Louisiana and California intervened in the lawsuit, but Tennessee and Florida withdrew from the lawsuit in August 2006 and May 2007, respectively. The parties previously filed cross motions for partial summary judgment, and in August 2008, the court granted several of Caremark' s motions and denied the motions filed by the plaintiffs. The court' s rulings are favorable to Caremark and substantially limit the ability of the plaintiffs to assert false claims act allegations or statutory or common law theories of recovery based on Caremark' s processing of Medicaid and other government reimbursement requests. The state plaintiffs and the relator filed motions asking the court to reconsider its rulings, and these motions were subsequently denied. The court' s rulings are on appeal before the United States Court of Appeals for the Fifth Circuit. 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 our processing of Texas Medicaid claims on behalf of PBM clients. The claims and issues raised in this lawsuit are related to the claims and issues pending in the federal qui tam lawsuit described above.

2. In December 2007, the Company received a document subpoena from the OIG, requesting information relating to the processing of Medicaid and other government agency claims on an adjudication platform of CaremarkPCS, L.L.C. The Company has initiated discussions with the OIG and with the U.S. Department of Justice concerning our government claims processing activities on the two adjudication platforms used by CaremarkPCS and one adjudication platform used by PharmaCare. In October 2009, the Company received two civil investigative demands from the Office of the Attorney General of the State of Texas requesting information produced under the OIG subpoena referenced above. The civil investigative demands are substantively identical and state that the Office of the Attorney General of the State of Texas is investigating allegations currently pending under seal relating to two adjudication platforms of CaremarkPCS. The Company is cooperating with the requests for information contained in OIG subpoena and in these two civil investigative demands. The Company cannot predict with certainty the timing or outcome of any review of such information.

3. Caremark was named in a putative class action lawsuit filed in October 2003 in Alabama state court by John Lauriello, purportedly on behalf of participants in the 1999 settlement of various securities class action and derivative lawsuits against Caremark and others. Other defendants include insurance companies that provided coverage to Caremark with respect to the settled lawsuits. The Lauriello lawsuit seeks approximately $3.2 billion in compensatory damages plus other non-specified damages based on allegations that the amount of insurance coverage available for the settled lawsuits was misrepresented and suppressed. A similar lawsuit was filed in November 2003 by Frank McArthur, also in Alabama state court, naming as defendants Caremark, several insurance companies, attorneys and law firms involved in the 1999 settlement. This lawsuit was stayed as a later-filed class action, but McArthur was subsequently allowed to intervene in the Lauriello action. The attorneys and law firms named as defendants in McArthur' s intervention pleadings have been dismissed from the case, and discovery on class certification and adequacy issues is underway.

4. Various lawsuits have been filed alleging that Caremark and its subsidiaries Caremark, L.L.C. and AdvancePCS (acquired by Caremark in March 2004 and now known as "CaremarkPCS, L.L.C.") have violated applicable antitrust laws in establishing and maintaining retail pharmacy networks for client health plans. In August 2003, Bellevue Drug Co., Robert Schreiber, Inc. d/b/a Burns Pharmacy and Rehn-Huerbinger Drug Co. d/b/a Parkway Drugs #4, together with Pharmacy Freedom Fund and the National Community Pharmacists Association filed a putative class action against CaremarkPCS, L.L.C. in Pennsylvania federal court, seeking treble damages and injunctive relief. The claims were initially sent to arbitration based on contract terms between the pharmacies and CaremarkPCS.

In October 2003, two independent pharmacies, North Jackson Pharmacy, Inc. and C&C, Inc. d/b/a Big C Discount Drugs, Inc. filed a putative class action complaint in Alabama federal court against Caremark, Caremark, L.L.C., CaremarkPCS, L.L.C, and two PBM competitors, seeking treble damages and injunctive relief. The case against Caremark and Caremark, L.L.C. was transferred to Illinois federal court, and the CaremarkPCS case was sent to arbitration based on contract terms between the pharmacies and CaremarkPCS. The arbitration was then stayed by the parties pending developments in Caremark' s court case.

In August 2006, the Bellevue case and the North Jackson Pharmacy case were transferred to Pennsylvania federal court by the Judicial Panel on Multidistrict Litigation for coordinated and consolidated proceedings with other cases before the panel, including cases against other PBMs. Caremark appealed a decision which vacated the order compelling arbitration and staying the proceedings in the Bellevue case and, following the appeal, the Court of Appeals reinstated the order compelling arbitration. 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. Beginning in November 2008, the Company received and has been responding to several subpoenas from the DEA, Los Angeles Field Division, requesting sales data and other information regarding the Company' s distribution of products containing pseudoephedrine ("PSE") at certain retail pharmacies and from one California distribution center. In September 2009, the United States Attorney' s Office for the Central District of California and the DEA commenced discussions with the Company regarding whether, in late 2007 and 2008, the Company distributed PSE in violation of the Controlled Substances Act. Violations of the Controlled Substances Act could result in the imposition of civil and/or criminal penalties against the Company. In addition, the DEA has issued an order to show cause against certain retail pharmacies and against the Company' s La Habra, California distribution center which could result in administrative action against the Company' s DEA registrations for these facilities. Discussions are underway to resolve these matters, but whether an agreement can be reached and on what terms are uncertain.

6. In August 2009, the Company was notified by the FTC that it is conducting a non-public investigation under the FTCA into certain of the Company' s business practices. The Company is cooperating in the FTC' s investigation and is producing documents and other information on a rolling basis as requested by the FTC. The Company is not able to predict with certainty the timing or outcome of the investigation. However, it remains confident that its business practices and service offerings (which are designed to reduce healthcare costs and expand consumer choice) are being conducted in compliance with the antitrust laws.

7. In March 2009, the Company received a subpoena from the OIG requesting information concerning the Medicare Part D prescription drug plans of RxAmerica, the PBM subsidiary of Longs Drug Stores Corporation which was acquired by the Company in October 2008. The Company is cooperating with the request for information and has been producing responsive documents on a rolling basis. The Company cannot predict with certainty the timing or outcome of any review by the government of such information.

8. Since March 2009, the Company has been named in a series of eight putative collective or class action lawsuits filed in federal courts in Connecticut, Florida, Massachusetts, New York and Rhode Island, purportedly on behalf of current and former assistant store managers working in the Company' s stores at various locations outside California. The lawsuits allege that the Company failed to pay overtime to assistant store managers as required under the Fair Labor Standards Act and under certain state statutes. The lawsuits also seek other relief, including liquidated damages, attorneys' fees, costs and injunctive relief arising out of the state and federal claims for overtime pay. At this time, the Company is not able to predict the outcome of these lawsuits, or any possible monetary exposure associated with the lawsuits. The Company believes, however, that the lawsuits are without merit and that the cases should not be certified as class or collective actions, and is vigorously defending these claims.

9. In January 2010, the Company received a subpoena from the OIG in connection with an investigation of possible false or otherwise improper claims for payment under the Medicare and Medicaid programs. The

subpoena requests retail pharmacy claims data for "dual eligible" customers (i.e., customers with both Medicaid and private insurance coverage), information concerning the Company' s retail pharmacy claims processing systems, copies of pharmacy payor contracts and other documents and records. The Company is cooperating with the request for information and intends to produce responsive documents on a rolling basis. The Company cannot predict with certainty the timing or outcome of any review by the government of such information.

10. 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 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. The Company believes these lawsuits are without merit and the Company plans to defend them vigorously.

11. 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 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, as they may relate to our business or the pharmacy services or retail industry; (iii) pending or future federal or state governmental investigations of our business or the pharmacy services or retail industry; (iv) institution of government enforcement actions against us; (v) adverse developments in any pending *qui tam* lawsuit against us, whether sealed or unsealed, or in any future *qui tam* lawsuit that may be filed against us; or (vi) adverse developments in other pending or future legal proceedings against us or affecting the pharmacy services or retail industry.

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

No matters were submitted to a vote of security holders during the fiscal quarter ended December 31, 2009.

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 26, 2010. 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 53, 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 55, 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.

Laird K. Daniels, age 41, Senior Vice President and Controller/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 May 2009; Assistant Controller, Budgeting, Forecasting and Reporting of CVS Pharmacy, Inc. from June 2003 through October 2006.

David M. Denton, age 44, Executive Vice President and Chief Financial Officer of CVS Caremark Corporation and CVS Pharmacy, Inc. 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; Senior Vice President, Finance and Controller of PharmaCare Management Services, Inc. from October 2005 through April 2007; and Vice President of CVS Pharmacy, Inc. from 2001 through October 2005.

Sara J. Finley, age 49, Senior Vice President and General Counsel of CVS Caremark since June 2009; Executive Vice President and General Counsel of Caremark from March 2009 through June 2009; Senior Vice President and General Counsel of Caremark from March 2007 through March 2009; Senior Vice President, Assistant General Counsel and Corporate Secretary of Caremark from August 1998 through March 2007.

Helena B. Foulkes, age 45, Executive Vice President and Chief Marketing Officer of CVS Caremark Corporation since January 2009; Senior Vice President of Health Services of CVS Caremark Corporation from May 2008 through January 2009, and of CVS Pharmacy, Inc. from October 2007 through January 2009; Senior Vice President, Marketing and Operations Services of CVS Pharmacy, Inc. from January 2007 through October 2007, and Senior Vice President, Advertising and Marketing of CVS Pharmacy, Inc. from April 2002 to January 2007.

Per G.H. Lofberg, age 62, Executive Vice President of CVS Caremark Corporation and President of Caremark Pharmacy Services since January 2010; 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. Also a director of inVentiv Health, Inc., a leading provider of value-added services to the pharmaceutical, life sciences and health care industries, and Xenoport, Inc., a biopharmaceutical company.

Stuart M. McGuigan, age 51, Senior Vice President and Chief Information Officer of CVS Caremark Corporation since January 2009 and Senior Vice President and Chief Information Officer of CVS Pharmacy, Inc. since December 2008; Senior Vice President and Chief Information Officer of Liberty Mutual Group from September 2004 to November 2008; also a director of NetScout Systems, Inc., a leading provider of integrated network and application performance management solutions.

Larry J. Merlo, age 54, Executive Vice President of CVS Caremark Corporation and President of CVS/pharmacy−Retail since January 2007; Executive Vice President−Stores of CVS Corporation from April 2000 to January 2007; and Executive Vice President- Stores of CVS Pharmacy, Inc. from March 1998 to January 2007.

Jonathan C. Roberts, age 54, Executive Vice President, Rx Purchasing, Pricing and Network Relations of CVS Caremark Corporation since January 2009; Senior Vice President and Chief Information Officer of CVS Caremark Corporation from May 2008 until January 2009, and of CVS Pharmacy, Inc. from January 2006 until January 2009; Senior Vice President−Store Operations of CVS Pharmacy, Inc. from August 2002 until December 2005.

Thomas M. Ryan, age 57, Chairman of the Board of CVS Caremark Corporation since November 2007 and, President and Chief Executive Officer of CVS Caremark Corporation since May 1998; formerly was Chairman of CVS Corporation from April 1999 until March 2007; also a director of Bank of America Corporation, a financial services company, and Yum! Brands, Inc., a quick service restaurant company.

Douglas A. Sgarro, age 50, Executive Vice President and Chief Legal Officer of CVS Caremark Corporation and CVS Pharmacy, Inc. since March 2004; President of CVS Realty Co., a real estate development company and a division of CVS Pharmacy, Inc., from October 1999 though August 2009.

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PART II

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

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

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
2009	**High**	**$30.47**	**$ 34.22**	**$ 37.75**	**$ 38.27**	**$38.27**
	Low	**$23.74**	**$ 27.08**	**$ 30.58**	**$ 27.38**	**$23.74**
	Cash dividends per common share	**$0.07625**	**$ 0.07625**	**$ 0.07625**	**$ 0.07625**	**$0.30500**
2008:	High	$41.53	$ 44.29	$ 40.14	$ 34.90	$44.29
	Low	$34.91	$ 39.02	$ 31.81	$ 23.19	$23.19
	Cash dividends per common share	$0.06000	$ 0.06000	$ 0.06900	$ 0.06900	$0.25800

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 19, 2010 there were 19,726 registered shareholders according to the records maintained by our transfer agent.

The following table presents the total number of shares purchased by the Company during the fourth quarter of 2009, the average price paid per share, the number of shares that were purchased as part of two publicly announced repurchase programs, and the approximate dollar value of shares that still could have been purchased at the end of the applicable fiscal period.

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[1][2]	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2009 through October 31, 2009	11,943,509	$ 36.59	11,943,509	$ 956,229
November 1, 2009 through November 30, 2009	8,340,000	$ 30.68	8,340,000	$ 1,745,047,026
December 1, 2009 through December 31, 2009	7,832,165	$ 31.29	7,832,165	$1,500,000,393

(1) On May 7, 2008, the Company' s Board of Directors authorized, effective May 21, 2008, a share repurchase program for up to $2.0 billion of outstanding common stock (the "2008 Repurchase Program"). During the fourth quarter of 2009, the Company repurchased 11.9 million shares of common stock for approximately $0.4 billion pursuant to the 2008 Repurchase Program. The shares were placed into the Company' s treasury upon delivery. The 2008 Repurchase Program was completed in November 2009.

(2) On November 4, 2009, the Company' s Board of Directors authorized a share repurchase program for up to $2.0 billion of the Company' s outstanding common stock (the "2009 Repurchase Program"). The specific timing and amount of repurchases under the 2009 Repurchase Program will vary based on market conditions and other factors. During the fourth quarter of 2009, the Company repurchased 16.1 million shares of common stock for approximately $500 million pursuant to the 2009 Repurchase Program. The shares were placed into the Company' s treasury upon delivery. The 2009 Repurchase Program may be modified, extended or terminated by the Board of Directors at any time.

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Item 6. Selected Financial Data

The selected consolidated financial data of CVS Caremark Corporation as of and for the periods indicated in the five-year period ended December 31, 2009 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	2009[1]	2008[1]	2007[1][2]	2006[1]	2005[1]
Statement of operations data:					
Net revenues	**$98,729**	$87,472	$76,330	$43,821	$37,007
Gross profit	**20,380**	18,290	16,108	11,742	9,695
Operating expenses[3]	**13,942**	12,244	11,314	9,300	7,675
Operating profit[4]	**6,438**	6,046	4,794	2,442	2,020
Interest expense, net	**525**	509	435	216	111
Income tax provision[5]	**2,205**	2,193	1,722	857	684
Income from continuing operations	**3,708**	3,344	2,637	1,369	1,225
Loss from discontinued operations, net of income tax benefit[6]	**(12)**	(132)	–	–	–
Net income	**$3,696**	$3,212	$2,637	$1,369	$1,225
Per common share data:					
Basic earnings per common share:					
Income from continuing operations	**$2.59**	$2.32	$1.97	$1.65	$1.49

Loss from discontinued operations	**(0.01)**	(0.09)	–	–	–
Net income	**$2.58**	$2.23	$1.97	$1.65	$1.49
Diluted earnings per common share:					
Income from continuing operations	**$2.56**	$2.27	$1.92	$1.60	$1.45
Loss from discontinued operations	**(0.01)**	(0.09)	–	–	–
Net income	**$2.55**	$2.18	$1.92	$1.60	$1.45
Cash dividends per common share	**$0.30500**	$0.25800	$0.22875	$0.15500	$0.14500
Balance sheet and other data:					
Total assets	**$61,641**	$60,960	$54,722	$20,574	$15,247
Long-term debt	**$8,756**	$8,057	$8,350	$2,870	$1,594
Total shareholders' equity	**$35,768**	$34,574	$31,322	$9,918	$8,331
Number of stores (end of year)	**7,074**	6,981	6,301	6,205	5,474

(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 fiscal 2009 includes 365 days; fiscal 2008 includes 368 days, compared to each of the remaining fiscal years presented, which include 364 days.

(2) Effective March 22, 2007, Caremark Rx, Inc. was merged into a newly formed subsidiary of CVS Corporation, with Caremark Rx, L.L.C., continuing as the surviving entity (the "Caremark Merger"). Following the Caremark Merger, the name of the Company was changed to "CVS Caremark Corporation." By virtue of the Caremark Merger, each issued and outstanding share of Caremark common stock, par value $0.001 per share, was converted into the right to receive 1.67 shares of CVS Caremark' s common stock, par value $0.01 per share. Cash was paid in lieu of fractional shares.

(3) In 2006, the Company adopted the SEC Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Qualifying Misstatements in Current Year Financial Statements." The adoption of this SAB resulted in a $40 million pre-tax ($25 million after-tax) decrease in operating expenses for 2006.

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

(5) Income tax provision includes the effect of the following: (i) 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, (ii) in 2006, a $11 million reversal of previously recorded tax reserves through the tax provision principally based on resolving certain state tax matters, and (iii) in 2005, a $53 million reversal of previously recorded tax reserves through the tax provision principally based on resolving certain state tax matters.

(6) In connection with certain business dispositions completed between 1991 and 1997, the Company continues to guarantee store lease obligations for a number of former subsidiaries, including Linens 'n Things. On May 2, 2008, Linens Holding Co. and certain affiliates, which operate Linens 'n Things, filed voluntary petitions under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. Pursuant to the court order entered on October 16, 2008, Linens Holding Co. is in the process of liquidating the entire Linens 'n Things retail chain. The loss from discontinued operations includes $12 million of lease-related costs ($19 million, net of an $7 million income tax benefit), and $132 million ($214 million, net of an $82 million income tax benefit) for 2009 and 2008 respectively, which the Company believes it will likely be required to satisfy pursuant to its Linens 'n Things lease guarantees.

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

We refer you to the "Management' s Discussion and Analysis of Financial Condition and Results of Operations," which includes our "Cautionary Statement Concerning Forward-Looking Statements" at the end of such section, on pages 40 through 41 of our Annual Report to Stockholders for the fiscal year ended December 31, 2009, which section is incorporated by reference herein.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

As of December 31, 2009, the Company had no derivative financial instruments or derivative commodity instruments in place and believes that its exposure to market risk associated with other financial instruments, principally interest rate risk inherent in its debt portfolio, is not material.

Item 8. Financial Statements and Supplementary Data

We refer you to the "Consolidated Statements of Operations," "Consolidated Balance Sheets," "Consolidated Statements of Shareholders' Equity," "Consolidated Statements of Cash Flows," and "Notes to Consolidated Financial Statements," on pages 44 through 71, and "Report of Independent Registered Public Accounting Firm" on page 73 of our Annual Report to Stockholders for the fiscal year ended December 31, 2009, 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, 2009, have concluded that as of such date the Company' s disclosure controls and procedures were adequate and effective and designed to ensure that material information relating to the Company and its subsidiaries would be made known to such officers on a timely basis.

Internal control over financial reporting: We refer you to "Management' s Report on Internal Control Over Financial Reporting" on page 42 and "Report of Independent Registered Public Accounting Firm" on page 73 of our Annual Report to Stockholders for the fiscal year ended December 31, 2009, 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, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

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

PART III

Item 10. Directors and Executive Officers of the Registrant

We refer you to our Proxy Statement for the 2010 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 2010 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 2010 Annual Meeting of Stockholders under the captions "Share Ownership of Directors and Certain Executive Officers," "Share Ownership of Principal Stockholders" and "Item 3: Adoption of 2010 Incentive Compensation Plan," which sections are incorporated by reference herein, for information concerning security ownership of certain beneficial owners and management and related stockholder matters.

Item 13. Certain Relationships and Related Transactions and Director Independence

We refer you to our Proxy Statement for the 2010 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 2010 Annual Meeting of Stockholders under the caption "Item 2: Ratification of Appointment of Independent Registered Public Accounting Firm," which section is incorporated by reference herein.

PART IV

Item 15. Exhibits, Financial Statement Schedules

A. Documents filed as part of this report:

1. Financial Statements:

The following financial statements are incorporated by reference from pages 22 through 71 and page 73 of our Annual Report to Stockholders for the fiscal year ended December 31, 2009, as provided in Item 8 hereof:

2. Financial Statement Schedules

The following financial statement schedule is filed on page 45 of this report: Schedule II − Valuation and Qualifying Accounts. All other financial statement schedules are omitted because they are not applicable or the information is included in the financial statements or related notes.

B. Exhibits

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

Exhibit	Description
1.1*	Underwriting Agreement dated September 5, 2008 by and among the Registrant and Lehman Brothers Inc., Banc of America Securities LLC, Deutsche Bank Securities Inc., Morgan Stanley & Co. Incorporated and Wachovia Capital Markets, LLC, as Representatives of the Underwriters [incorporated by reference to Exhibit 1.1 to the Registrant' s Current Report on Form 8-K dated September 5, 2008 (Commission File No. 001-01011)].
1.2*	Underwriting Agreement dated March 10, 2009 by and among the Registrant and Barclays Capital Inc., Banc of America Securities LLC, Deutsche Bank Securities Inc., Morgan Stanley & Co. Incorporated and Wachovia Capital Markets, LLC, as

Representatives of the Underwriters [incorporated by reference to Exhibit 1.1 to the Registrant' s Current Report on Form 8-K dated March 13, 2009 (Commission File No. 001-01011)].

1.3* Underwriting Agreement dated September 8, 2009 by and among the Registrant and Barclays Capital Inc., Banc of America Securities LLC, BNY Mellon Capital Markets, LLC, JP Morgan Securities Inc. and Wells Fargo Securities, LLC, as Representatives of the Underwriters [incorporated by reference to Exhibit 1.1 to the Registrant' s Current Report on Form 8-K dated September 11, 2009 (Commission File No. 001-01011)].

2.1* Agreement and Plan of Merger dated as of November 1, 2006 among, the Registrant, Caremark Rx, Inc. and Twain MergerSub Corp. [incorporated by reference to Exhibit 2.1 to the Registrant' s Registration Statement No. 333-139470 on Form S-4 filed December 19, 2006].

Exhibit	Description
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)].
3.1A*	Certificate of Amendment to the Amended and Restated Certificate of Incorporation, effective May 13, 1998 [incorporated by reference to Exhibit 4.1A to Registrant' s Registration Statement No. 333-52055 on Form S-3/A dated May 18, 1998].
3.1B*	Certificate of Amendment to the Amended and Restated Certificate of Incorporation [incorporated by reference to Exhibit 3.1 to Registrant' s Current Report on Form 8-K dated March 22, 2007 (Commission File No. 001-01011)].
3.1C*	Certificate of Merger dated May 9, 2007 [incorporated by reference to Exhibit 3.1C to Registrant' s Quarterly Report on Form 10-Q dated November 1, 2007 (Commission File No. 001-01011)].
3.2*	By-laws of the Registrant, as amended and restated [incorporated by reference to Exhibit 3.2 to the Registrant' s Current Report on Form 8-K dated January 21, 2009 (Commission File No. 001-01011)].
4	Pursuant to Regulation S-K, Item 601(b)(4)(iii)(A), no instrument which defines the rights of holders of long-term debt of the Registrant and its subsidiaries is filed with this report. The Registrant hereby agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.
4.1*	Specimen common stock certificate [incorporated by reference to Exhibit 4.1 to the Registration Statement of the Registrant on Form 8-B dated November 4, 1996 (Commission File No. 001-01011)].
4.2*	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[SM] [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)].

Exhibit	Description
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*	Caremark Rx, Inc. Special Retirement Plan [incorporated by reference to Exhibit 10.11 to the Registrant' s Annual Report on Form 10-K for the fiscal year ended December 29, 2007 (Commission File No. 001-01011)].
10.9*	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)].
10.10*	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)].
10.11*	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)].
10.12*	2007 Incentive Plan, as amended and restated through December 2008 [incorporated by reference to Exhibit 10.2 to the Registrant' s Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (Commission File No. 001-01011)].
10.13*	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].

Exhibit	Description
10.14*	Caremark Rx, Inc. Deferred Compensation Plan, effective April 1, 2005, as amended and restated through December 2008 [incorporated by reference to Exhibit 10.1 to the Registrant' s Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (Commission File No. 001-01011)].
10.15*	CVS Caremark Deferred Compensation Plan as amended and restated through December 2008 [incorporated by reference to Exhibit 10.5 to the Registrant' s Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (Commission File No. 001-01011)].
10.16*	CVS Partnership Equity Program [incorporated by reference to Exhibit 10.2 to the Registrant' s Quarterly Report on Form 10-Q for the quarter ended June 27, 1998 (Commission File No. 001-01011)].
10.17*	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)].
10.18*	Description of the Executive Retention Program [incorporated by reference to Exhibit 10.1 to the Registrant' s Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2000 (Commission File No. 001-01011)].
10.19*	Five Year Credit Agreement dated as of June 3, 2005 by and among the Registrant, the lenders party hereto, Bank of America, N.A., Credit Suisse First Boston, Wachovia Securities, Inc., and National Association as Co-Syndication Agents, Suntrust Bank as Documentation Agent, and The Bank of New York, as Administrative Agent [incorporated by reference to Exhibit 10.1 to the Registrant' s Quarterly Report on Form 10-Q for the quarterly period ended July 2, 2005 (Commission File No. 001-01011)].
10.20*	Retention Agreement dated as of August 5, 2005 between the Registrant and the Registrant' s President and Chief Executive Officer [incorporated by reference to Exhibit 10.2 to the Registrant' s Quarterly Report on Form 10-Q for the quarterly period ended October 1, 2005 (Commission File No. 001-01011)].
10.21*	Form of Restricted Stock Unit Agreement between the Registrant and the Registrant' s President and Chief Executive Officer [incorporated by reference to Exhibit 10.3 to the Registrant' s Quarterly Report on Form 10-Q for the quarterly period ended October 1, 2005 (Commission File No. 001-01011)].
10.22*	Five Year Credit Agreement dated as of May 12, 2006 by and among the Registrant, the lenders party thereto, Bank of America, N.A., Lehman Brothers Inc. and Wachovia Bank, N.A., as Co-Syndication Agents, Keybank N.A., as Documentation Agent, and The Bank of New York, as Administrative Agent [incorporated by reference to Exhibit 10.4 to the Registrant' s Current Report on Form 8-K dated June 2, 2006 (Commission File No. 001-01011)].
10.23*	Amended and Restated Employment Agreement dated as of December 22, 2008 between the Registrant and the Registrant' s Chairman of the Board, President and Chief Executive Officer [incorporated by reference to Exhibit 10.36 to the Registrant' s Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (Commission File No. 001-01011)].
10.24*	Amended and Restated Employment Agreement dated as of December 22, 2008 between the Registrant and the Registrant' s Executive Vice President, Chief Financial Officer and Chief Administrative Officer [incorporated by reference to Exhibit 10.37 to the Registrant' s Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (Commission File No. 001-01011)].
10.25*	Amended and Restated Employment Agreement dated as of December 22, 2008 between the Registrant and the Registrant' s Executive Vice President and President of CVS/pharmacy – Retail [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)].

Exhibit	Description
10.26*	Amended and Restated Employment Agreement dated as of December 22, 2008 between the Registrant and the Registrant' s Executive Vice President and Chief Legal Officer [incorporated by reference to Exhibit 10.39 to the Registrant' s Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (Commission File No. 001-01011)].
10.27*	Amendment dated as of December 22, 2008 to Term Sheet Agreement dated as of March 22, 2007 between the Registrant and the Registrant' s Executive Vice President and President of Caremark Pharmacy Services [incorporated by reference to Exhibit 10.40 to the Registrant' s Annual Report on Form 10-K for the fiscal year ended December 31, 2000 (Commission File No. 001-01011)].
10.28*	Term Sheet Agreement effective as of March 22, 2007 between the Registrant and the Registrant' s Executive Vice President and President of Caremark Pharmacy Services [incorporated by reference to Exhibit 10.41 to the Registrant' s Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (Commission File No. 001-01011)].
10.29*	Five Year Credit Agreement dated as of March 12, 2007 by and among the Registrant, the lenders party thereto, Lehman Commercial Paper Inc., and Wachovia Bank, N.A., as Co-Syndication Agents, Morgan Stanley Senior Funding, Inc. as Documentation Agent, and the Bank of New York, as Administrative Agent [incorporated by reference to Exhibit 10.1 to the Registrant' s Current Report on Form 8-K dated March 22, 2007 (Commission File No. 001-01011)].
10.30*	Bridge Credit Agreement dated as of March 15, 2007 by and among the Registrant, the lenders party thereto, Lehman Commercial Paper Inc., as Administration Agent, Morgan Stanley Senior Funding, Inc., as Syndication Agent, The Bank of New York, Bank of America, N.A. and Wachovia Bank, N.A., as Co-Documentation Agents [incorporated by reference to Exhibit 10.3 to the Registrant' s Current Report on Form 8-K dated March 22, 2007 (Commission File No. 001-01011)].
10.31*	Global Amendment dated as of March 15, 2007, to i) Five Year Credit Agreement dated as of June 11, 2004, (ii) Five Year Credit Agreement dated as of June 2, 2005, (iii) Five Year Credit Agreement dated as of May 12, 2006, (iv) Five Year Credit Agreement, dated as of March 12, 2007, and (v) 364 Day Credit Agreement, dated as of March 12, 2007 [incorporated by reference to Exhibit 10.4 to the Registrant' s Current Report on Form 8-K dated March 22, 2007 (Commission File No. 001-01011)].
10.32*	Credit Agreement dated September 12, 2008 by and among the Registrant, the Lenders party thereto, Lehman Commercial Paper Inc., as Administrative Agent, Deutsche Bank Securities Inc., as Syndication Agent, and Bank of America, N.A., Morgan Stanley Bank, and Wachovia Bank, N.A., as Co-Documentation Agents [incorporated by reference to Exhibit 10.1 to the Registrant' s Quarterly Report on Form 10-Q for the quarterly period ended September 27, 2008 (Commission File No. 001-01011)].
10.33*	Amendment to the Caremark Rx, Inc. Special Retirement Plan dated December 2008 [incorporated by reference to Exhibit 10.3 to the Registrant' s Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (Commission File No. 001-01011)].
10.34*	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)].
10.35*	Early Retirement Agreement dated November 4, 2009 between the Registrant and the Registrant' s Executive Vice President, Chief Financial Officer and Chief Administrative Officer [incorporated by reference to Exhibit 10.1 to the Registrant' s Current Report on Form 8-K dated November 6, 2009 (Commission File No. 001-01011)].
10.36	Form of Non-Qualified Stock Option Agreements between the Registrant and the selected employees of the Registrant.

Exhibit	Description
10.37	Form of Restricted Stock Unit Agreement between the Registrant and the selected employees of the Registrant.
10.38	CVS Caremark Long-Term Incentive Plan.
10.39	Separation Agreement between the Registrant and the Registrant' s Executive Vice President and President of Caremark Pharmacy Services dated December 21, 2009.
10.40	Partnership Equity Program Purchased Share, Matching Restricted Stock Unit and Stock Option Agreement between the Registrant and selected employees of the Registrant.
13	Portions of the 2009 Annual Report to Stockholders of CVS Caremark Corporation, which are specifically designated in this Form 10-K as being incorporated by reference.
21	Subsidiaries of the Registrant
23.1	Consent of Ernst & Young LLP
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 fiscal year ended December 31, 2009 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Operations, (ii) the Consolidated Balance Sheets, (iii) the Consolidated Statements of Cash Flows and (iv) related notes, tagged as blocks of text.

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Schedule II − Valuation and Qualifying Accounts

In millions	Balance at Beginning of Year	Additions Charged to Bad Debt Expense	Write-offs Charged to Allowance	Balance at End of Year
Accounts Receivable − Allowance for Doubtful Accounts:				
Fiscal Year Ended December 31, 2009	$ 189	$ 188	$ 105	$ 272
Fiscal Year Ended December 31, 2008	108	121	40	189
Fiscal Year Ended December 29, 2007	74	91	57	108

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SIGNATURES

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

CVS CAREMARK CORPORATION

Date: February 26, 2010

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/ EDWIN M. BANKS **Edwin M. Banks**	Director	February 26, 2010
/s/ C. DAVID BROWN II **C. David Brown II**	Director	February 26, 2010
/s/ LAIRD K. DANIELS **Laird K. Daniels**	Senior Vice President – Finance and Controller (Principal Accounting Officer)	February 26, 2010
/s/ DAVID M. DENTON **David M. Denton**	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 26, 2010
/s/ DAVID. W. DORMAN **David W. Dorman**	Director	February 26, 2010
/s/ KRISTEN GIBNEY WILLIAMS **Kristen Gibney Williams**	Director	February 26, 2010
/s/ MARIAN L. HEARD **Marian L. Heard**	Director	February 26, 2010
/s/ WILLIAM H. JOYCE **William H. Joyce**	Director	February 26, 2010
/s/ JEAN-PIERRE MILLON **Jean-Pierre Millon**	Director	February 26, 2010
/s/ TERRENCE MURRAY **Terrence Murray**	Director	February 26, 2010
/s/ C.A. LANCE PICCOLO **C.A. Lance Piccolo**	Director	February 26, 2010

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Signature	Title(s)	Date
/s/ SHELI Z. ROSENBERG **Sheli Z. Rosenberg**	Director	February 26, 2010
/s/ THOMAS M. RYAN **Thomas M. Ryan**	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	February 26, 2010
/s/ RICHARD J. SWIFT **Richard J. Swift**	Director	February 26, 2010

Exhibit 10.36

[LOGO]

CVS CAREMARK CORPORATION

NON-QUALIFIED STOCK OPTION AGREEMENT

GRANT DATE: _____

1. GRANT OF AWARD. Pursuant to the provisions of the Incentive Compensation Plan (the "**Plan**") 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 Plan is hereby made a part hereof and Optionee agrees to be bound by all the provisions of the Plan. Capitalized terms not otherwise defined herein shall have the meaning assigned to such term(s) in the Plan. Unless otherwise provided in the Plan or in any employment agreement between the Company and Optionee, the provisions in this Agreement shall govern Optionee' s rights with respect to the vesting and exercise of the Option. The Option is a nonqualified option as defined in the Plan.

Optionee: _____
Employee ID: _____
Shares: _____
Option Price: _____

2. TERM OF OPTION. The term of this Option shall be for a period of seven (7) years from the Grant Date, subject to the earlier termination of the Option, as set forth in the Plan and in this Agreement.

3. EXERCISE OF OPTION.

(a) The Option, subject to the provisions of the Plan, 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 may be exercised by Optionee, so long as Optionee has maintained continuous employment with the Company or a subsidiary of the Company immediately following the Grant Date, within the following time limitations:

[VESTING SCHEDULE]

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. TRANSFERABILITY. The Option may be transferred to and may thereafter be exercised by one or more members of Optionee' s immediate family, by a trust established by Optionee for the benefit of one or

more members of Optionee' s immediate family, or by a partnership or company of which the only owners are members of Optionee' s immediate family (the "Transferee(s)"); provided, that no portion of the Option may be transferred until such time as it becomes exercisable pursuant to Section 3b. hereof, and further provided that no more than fifty percent (50%) of the exercisable Option may be transferred by Optionee. An "immediate family member" shall mean Optionee' s spouse, parents, children, grandchildren and the spouses of such parents, children and grandchildren. Transferee will be subject to all terms and conditions applicable to Option prior to its transfer. Transferee may not again transfer said Option.

(a) In order to transfer this Option, Optionee must notify the Company in the form of a "Notice of Transfer of Nonqualified Stock Option" (which form may be obtained from the Company' s Legal Department) of such transfer and include the name, address and social security number of Transferee, as well as the relationship of Transferee to Optionee.

6. FORFEITURE OF OPTION UPON TERMINATION OF EMPLOYMENT. Unless otherwise provided for in the Plan or in this Agreement, the Option, 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 AND WITH SEVERANCE PAY. 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, vesting of the Option shall continue through the end of the severance period and any vested 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 option will be exercisable beyond its original option term. The Management Planning and Development Committee of the Board of Directors (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 an Optionee shall be deemed severance pay, the duration of any severance period, and/or whether a termination was without cause.

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. 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 have 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"). 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 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 on a pro rata basis as follows: the total number of Options vested as of the Termination Date, including Options previously vested, shall be equal to 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 [THE TOTAL NUMBER OF MONTHS IN THE VESTING SCHEDULE]. 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.

(a) The vested Option may be exercised at any time within one (1) year of Optionee' s Termination 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 of 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. 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.

12. NOTICE. Any notice required to be given hereunder to the Company shall be addressed to the Company, attention Senior Vice President - Human Resources, 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.

13. RECOUPMENT OF OPTION AWARDS DUE TO FINANCIAL FRAUD OR MISCONDUCT.

Any portion of the Option that has not vested or 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 the Option, if the Board determines that financial fraud or misconduct has occurred in a manner which subjects Optionee to recoupment under the Company' s recoupment policy, as in effect from time to time. The portion of the 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 the 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 the 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 the 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 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.

14. 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: _____

[NAME]
[TITLE]
CVS Caremark Corporation

Accepted By: _____

[OPTIONEE NAME]

_____

Date

Exhibit 10.37

[LOGO]

CVS CAREMARK CORPORATION
RESTRICTED STOCK UNIT AGREEMENT
GRANT DATE: _____

1. Pursuant to the provisions of the Incentive Compensation Plan (the "**Plan**") of CVS Caremark Corporation (the "**Company**"), on the date set forth above (the "**Grant Date**"), the Company has awarded and hereby evidences the award to the person named below (the "**Participant**"), subject to the terms and conditions set forth and incorporated in this Restricted Stock Unit agreement (the "**Agreement**"), the Restricted Stock Units ("**RSUs**") set forth below. The Plan is hereby made a part hereof and Participant agrees to be bound by all the provisions of the Plan. Capitalized terms not otherwise defined herein shall have the meaning assigned to such term(s) in the Plan. Unless otherwise provided in the Plan or in any employment agreement between the Company and Participant, the provisions of this Agreement shall govern the vesting and settlement of RSUs granted herein. On the Grant Date specified above, the Fair Market Value of each RSU equals $, which is the Closing Price of the Company' s common stock on the Grant Date.

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), 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 if such dividend is paid prior to an RSU' s Vesting Date, as set forth in Paragraph 4 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.

   (b) Participant hereby agrees that, prior to the Settlement Date, 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 Plan and this Agreement, subject to Paragraph 5 below, and subject to Participant' s continued employment, Participant shall be entitled to receive (and the Company shall deliver to Participant) within ninety (90) days following the Vesting Date(s) set forth herein (such delivery being hereafter referred to as the "**Settlement Date**"), the number of Shares underlying the RSUs on the date(s) set forth below, unless delivery of the Shares has been deferred in accordance with Paragraph 5 below. The "**Vesting Date**", except as otherwise provided in Paragraph 7 (b) – (g), shall be [the anniversary of the Grant Date.] [or] [in accordance with the schedule set forth below:

   VESTING SCHEDULE AND ANY RELATED TERMS OR CONDITIONS.]

5. (a) In accordance with rules promulgated by the Management Planning and Development Committee of the Board of Directors (the "**Committee**"), Participant 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) To the extent dividends are paid on such deferred Shares prior to the Settlement Date, Participant shall be entitled to receive an additional RSU 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 RSUs held by Participant on the record date of such dividend, divided by (z) the Fair Market Value of a Share on such record date.

6. Except as may be elected by Participant, at the Settlement Date for any RSUs, the number of Shares to be delivered by the Company to Participant shall be reduced by the smallest number of Shares having a Fair Market Value 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 settlement 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 Paragraph 7 (b) – (g) 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.

(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 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.

(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, in 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, including RSUs previously vested, 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 [THE TOTAL NUMBER OF MONTHS IN THE VESTING SCHEDULE]. 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.

(e) In the event Participant ceases to be employed by the Company, or any subsidiary of the Company, and is to receive severance pay, RSUs not yet vested shall continue to vest during the severance period and shall settle in accordance with Paragraph 4 of this Agreement. During any severance period, Participant is eligible to receive dividend equivalents as described in Section 3(a) above. Any RSUs not vested as of the end of the severance period shall be forfeited.

(f) Notwithstanding the above, (i) the provisions of Section 10 of the Plan 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 Plan 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 - Human Resources, One CVS Drive, Woonsocket, RI 02895. Any notice required to be given hereunder to Participant shall be addressed to such Participant at the address shown on the records of the Company, subject to the right of either party hereafter to designate, in writing, to the other, some other address.

11. All decisions and interpretations made by the Board of Directors or the Committee with regard to any question arising hereunder or under the Plan shall be binding and conclusive on all persons. In the event of any inconsistency between the terms hereof and the provisions of the Plan, this Agreement shall govern.

12. By accepting this Award, Participant acknowledges receipt of a copy of the Plan, and agrees to be bound by the terms and conditions set forth in this Agreement and the Plan as in effect from time to time.

13. By accepting this Award, Participant further acknowledges that the Federal securities laws and/or Company' s policies regarding trading in its securities may limit or restrict Participant' s right to trade Shares, including without limitation, sales of Shares acquired in connection with RSUs. Participant agrees to comply with such Federal securities law requirements and Company policies, as such laws and policies may be amended from time to time.

14. **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. In all events, the provisions of CVS Caremark Corporation' s 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.

15. **Recoupment of Restricted Stock Unit Award Due to Financial Fraud or 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 financial fraud or 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 the 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: _____

[NAME]
[TITLE]
CVS Caremark Corporation

Accepted By: _____

[OPTIONEE NAME]

_____

Date

LONG-TERM INCENTIVE PLAN

1. Purpose

The purpose of the CVS Caremark Long-Term Incentive Plan (the "Plan") is to encourage selected executives to focus on the long-term financial progress of CVS Caremark (the "Company") with the ultimate objective of enhancing 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 2007 Incentive Plan (the "2007 IP"), 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, 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 2007 IP.

3. Eligibility

Executives employed by CVS Caremark who are selected by the Committee shall be eligible to receive an award under this Plan (an "Eligible Person").

4. Awards

(a) At the beginning of any performance period, and no later than March 31 of the first year 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.

(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 which is at least, but not required to be, thirty-six months later (the "Performance Period").

(c) An Award is considered "earned" when such Award has been approved by the Committee (an "Earned Award"). Generally, an Award cannot be "earned" until the completion of the applicable Performance Period for which such Award is granted.

(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").

Any Shares to be issued in connection with an Earned Award shall be issued pursuant to the CVS Caremark Corporation 1997 Incentive Compensation Plan (the "1997 ICP").

Subject to an Eligible Person' s prior election to defer any or all of the Earned Award pursuant to Section 5, the cash portion of Earned Award will be paid to the Eligible Person as soon as practicable after the Earned Award is approved by the Committee. The stock portion of the Earned Award will be settled through the issuance to each Eligible Person of a certificate for Shares. The number of Shares will have an aggregate Fair Market Value (the closing price of CVS Caremark stock on the date the Award is approved by the Committee) equal to the stock portion of the Earned Award.

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

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, if the Eligible Person is or will be a covered officer in the Company' s proxy statement for the year in which the Earned Award is being reported and the circumstances under which the Eligible Person' s termination occurs are not specifically outlined below, the payment of such Earned Award will be determined and administered, at the sole discretion of the Committee, in accordance with Section 162(m) of the Internal Revenue Code in order to preserve the Company' s ability to deduct performance-based compensation.

(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 either of Section(s) 11, 12 or 13 of the CVS Caremark Corporation Employment Agreement (with respect to confidentiality, cooperation with regard to litigation and 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; (y) Eligible Person' s conviction of a felony involving moral turpitude; or (z) Eligible Person engages in conduct that constitutes willful gross misconduct in carrying out his duties under his Term Sheet agreement, or comparable agreement, resulting, in either case, in material harm to the financial condition or reputation of the Company.

(b) In the event an Eligible Person ceases to be employed by the Company, 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, and 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 in the most recent Employment Agreement, as amended, Change in Control Agreement, or Term Sheet 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, "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) If an Eligible Person ceases to be employed by the Company, or any subsidiary of the Company, in accordance with Paragraph 6 (b), (c), (d), or (e) above and the Award approved by the Committee is to be pro rated the Earned Award to be paid to the Eligible Person will be calculated based on the Eligible Person' s target award in the case of Paragraph 6(b) and (c) and in the case of Paragraph 6(d) and (e) based on the Company' s ***actual performance*** during the applicable Performance Period and in each case then multiplied 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.

(ii) Any payment to an Eligible Person under Paragraph 6(b) and (c) shall be made at the time of such death or disability, as the case may be, and any payment made under Paragraph 6(d) and (e) will be made after actual performance has been certified by the Committee and at the same time as payment is made to other Eligible Persons.

7. Tax Withholding

The Company will withhold from an Eligible Person' s Earned Award, subject to an Eligible Person' s election to defer all or a portion of the Earned Award, all required federal, state and local payroll taxes, including Medicare taxes. If an Eligible Person' s Social Security wages have not reached the Social Security maximum taxable wage base at the time the Earned Award is paid or Shares are delivered, Social Security taxes will also be withheld from the Award.

If an Eligible Person elects to defer an Earned Award, the Company may require the Eligible Person to remit to the Company in advance of the actual deferral of such Earned Award, the required FICA withholding taxes, including Social Security and Medicare taxes, in order to ensure compliance with the Sarbanes-Oxley Act of 2002.

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 Fair Market Value 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.

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 1997 ICP (a "Change in Control"), the performance criteria for any outstanding Performance Period shall be deemed to have been fully satisfied and all outstanding Awards under the Plan shall be come immediately nonforfeitable. Each Eligible Person shall receive the Target Award for each outstanding Performance Period to be paid as soon as administratively possible, 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 Internal Revenue Code ("Code").

9. Recoupment of Awards Due to Financial Fraud or Misconduct

The provisions of this Section 9 shall apply to each Award made with respect to any performance period beginning after December 31, 2008. 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 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 Share Recoupment Value to be repaid by the Eligible Person shall be the amount necessary to disgorge the value enjoyed or realized by Participant from the 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 determination of Share Recoupment Value under this paragraph, the Board may, by way of example only, (i) with respect to any Shares which have been transferred to the Eligible Person and which are beneficially owned by the Eligible Person as of a date the repayment obligation arises, require the Eligible Person to repay to the Company the fair market value of such Shares, and/or (ii) with respect to any Shares which were transferred to the Eligible Person and as to which beneficial ownership has been transferred by the Eligible Person as of the date a repayment obligation arises, require the Eligible Person to repay to the Company the fair market value of such Shares as of the date such Shares were transferred by the Eligible Person. In each case the Share Recoupment Value 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 Share Recoupment Value, 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. The foregoing notwithstanding, in connection with a Change in Control, the Company 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 an Eligible Person than existed on the 90th day preceding the Change in Control.

(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 Internal Revenue Code of 1986 (the "Code"), as amended, 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, 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.

(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.

Exhibit 10.39

SEPARATION AGREEMENT AND GENERAL RELEASE

This Separation Agreement and General Release ("Agreement") dated as of December 21, 2009 between Howard A. McLure ("Mr. McLure" or "Executive") and CVS Caremark Corporation (the "Company") shall be effective eight (8) days after it is signed by Executive (the "Effective Date"), so long as the Agreement is also signed by the Company' s Senior Vice President, Human Resources.

WHEREAS, Executive' s employment was transferred from Caremark Rx, Inc. ("Caremark") to the Company effective as of March 22, 2007, pursuant to a Term Sheet agreement dated November 1, 2006, which Term Sheet agreement was amended effective December 31, 2008;

WHEREAS, Executive and the Company desire to enter into an agreement concerning the terms and conditions of Executive' s separation from employment with the Company;

NOW THEREFORE, in consideration of the foregoing, and of the promises and mutual covenants contained herein, Executive and the Company agree as follows:

1. **SEPARATION FROM EMPLOYMENT**. Executive was employed with the Company through and including November 27, 2009 (the "Separation Date"), and his employment with the Company and/or any of its subsidiaries ended as of the close of business on the Separation Date. Executive is entitled to receive his salary and benefits through the Separation Date, and Executive' s entitlement to salary, benefits or any other compensation from the Company ended as of the Separation Date, except as set forth in this Agreement.

2. **ACCRUED PAID TIME OFF AND CASH BONUS PAYMENTS**. Prior to the Effective Date of this Agreement, the Company paid Executive, and Executive acknowledges receipt, of pay for one hundred eighty-four (184) hours of earned, unused Paid Time Off, which payment the parties acknowledge Executive was entitled to receive whether or not he signs this Agreement. Executive shall be eligible to receive a Management Incentive Plan ("MIP") award in respect of 2009 performance, subject to the terms of the MIP for Business Planning Committee ("BPC") members, which award shall be determined pursuant to the terms of the MIP for BPC members and paid to Executive at the same time as other senior members of the Company' s management are paid their MIP awards, provided that the MIP award shall be calculated as though Executive had been employed by the Company through December 31, 2009.

3. **DISTRIBUTION OF DEFERRAL ACCOUNT AND TERM SHEET RSU AWARD**. The Deferral Account described in the Term Sheet, including the Deferred Amount and the Deferred Stock Units, shall be distributed to Executive promptly after May 27, 2010, in accordance with the Term Sheet. In addition, the parties agree that the 43,720 RSUs from RSU Award No. CX200702, which were granted to Executive in accordance with the provision for an RSU Award set forth in the Term Sheet, shall be vested as of the Separation Date and shall be

delivered to Executive promptly after May 27, 2010, such delivery date being the minimum delay necessary to avoid adverse tax consequences under Section 409A.

4. **2008 RETENTION RSU AWARD**. Pursuant to Executive' s CVS Caremark Corporation Restricted Stock Unit Grant Agreement with a Grant Date of April 1, 2008 (the "2008 Retention RSU Agreement"), Executive was granted 121,448 Restricted Stock Units (RSUs), subject to the terms of the 2008 Retention RSU Agreement. The Company agrees that 60,724 of the RSUs granted to Executive pursuant to the 2008 Retention RSU Agreement shall vest as of the Separation Date and the Shares shall be distributed to Executive within 90 days following the Separation Date. The parties agree that the remaining RSUs granted pursuant to the 2008 Retention RSU Agreement shall be forfeited effective as of the close of business on the Separation Date.

5. **LTIP AWARD**. Executive shall be entitled to an Award under the Company' s Long Term Incentive Plan ("LTIP") for LTIP Cycle VI (2007-2009), which Award shall be payable at the same time when other senior members of the Company' s management are paid their LTIP awards for Cycle VI and in accordance with the terms of the LTIP, including the criteria established for payment of Cycle VI Awards, provided that the Award shall be calculated as though Executive had been employed by the Company through December 31, 2009. Executive shall not be entitled to any LTIP Award for LTIP Cycles VII (2008-2010) or VIII (2009-2011).

6. **STOCK OPTIONS.** The rights and obligations of Executive in respect of stock options granted to Executive by Caremark prior to March 22, 2007, will continue to be governed by the terms of the compensation plans authorizing the granting of such options, as well as the agreements granting such options, and in accordance with such plans and grant agreements, such stock options may be exercised within 90 days following the Separation Date, and if not exercised within such period, shall be forfeited. Any stock options granted to Executive by the Company after March 22, 2007, that have vested as of the Separation Date shall be governed by the Company' s 1997 Incentive Compensation Plan (the "ICP"), as amended, and the agreements granting such options, and in accordance with the ICP and such grant agreements, such stock options may be exercised within 90 days following the Separation Date, and if not exercised within such period, shall be forfeited. Any stock options granted to Executive by the Company after March 22, 2007, and that were not vested as of the Separation Date, have been forfeited.

7. **POST-EMPLOYMENT BENEFITS.** For two years following the Separation Date, the Company shall continue to provide Executive with the following benefits: (a) medical and dental insurance under the plan (or successor to the plan) in which Mr. McLure participated as of the Separation Date, provided that Executive makes timely payments to the Company of the portion of the monthly medical and dental premium which would have been deducted from his pay check if he were an employee of the Company; (b) life insurance under the plan (or successor to the plan) in which Executive participated as of the Separation Date; (c) supplemental long term disability insurance under the plan (or successor to the plan) in which Executive participated as of the Separation Date; (d) an executive survivor insurance benefit under the plan (or successor to the plan) in which Executive participated as of the Separation Date; and (e) reimbursement in accordance with applicable Company policies of the cost, up to the established maximum amount per calendar year, of financial planning services.

8. **RETIREMENT BENEFITS.** The parties acknowledge and agree that (a) Executive participated in the CareSave 401(k) plan, and Executive' s rights to benefits under that plan following the Separation Date will be governed by the terms of that plan; (b) Executive participated in Caremark' s Capital Accumulation Account ("CAA") plan, and shall be eligible for CAA plan benefits pursuant to the terms of that plan following the Separation Date; and (c) Executive participated in the Caremark Special Retirement Plan ("SRP"), and shall be eligible for SRP benefits in accordance with the terms of the SRP. Nothing in this Agreement shall alter any rights Executive may have under the Caremark Rx, Inc. Deferred Compensation Plan.

9. **FICA PAYMENT**. Executive agrees that on or before December 31, 2009, he shall deliver or cause to be delivered to the Company a check payable to CVS Pharmacy, Inc. in the amount of $26,043.00, in respect of the Medicare FICA tax on Executive' s SRP benefit.

10. **RETURN OF PROPERTY**. Executive agrees that on or before the Separation Date he shall return to the Company all property of CVS Caremark Corporation and/or any of its subsidiaries or affiliates ("CVS Caremark") in his control or possession, including but not limited to the originals and copies of any information provided to or acquired by Executive in connection with the performance of his duties for CVS Caremark or any of its predecessors, including but not limited to all files, correspondence, communications, memoranda, e-mails, slides, records, and all other documents, no matter how produced or reproduced, all computer equipment, programs and files, and all office keys and access cards, it being hereby acknowledged that all of said items are the sole and exclusive property of CVS Caremark.

11. **RESTRICTIVE COVENANTS**.

For two (2) years following the Separation Date, Executive shall not, without the Company' s prior written consent (i) directly or indirectly, establish, engage, own, manage, operate, join or control, or participate in the establishment, ownership, management, operation or control or be a director, officer, employee, salesman, agent or representative of, or be a consultant to, any person or entity in any business in competition with the Company or its subsidiaries in any state where the Company or any of its affiliates are then conducting any business; or (ii) directly or indirectly, in any capacity, for the benefit of any person or entity, solicit, interfere with, hire, or divert, any person who is a customer, patient, supplier, employee, salesman, agent or representative of the Company or its subsidiaries, in connection with any business in competition with the Company or its subsidiaries. Executive acknowledges and agrees that the restrictive covenants above and the covenants of the Executive below are essential to the Company.

At no time shall Executive divulge any secret or confidential information, knowledge or data relating to the Company, any of its subsidiaries or affiliates, or any of their predecessors, which the Executive has obtained in connection with Executive' s employment or services on behalf of CVS Caremark or any predecessors and which has not become public knowledge (other than by the Executive' s violation of the foregoing).

The foregoing restrictive covenants shall be enforceable by injunction, it being agreed that the damages suffered by the Company or its subsidiaries from any breach or threatened breach of any

of these restrictive covenants could not be adequately remedied solely by monetary damages alone.

12. **COOPERATION AND NOTIFICATION TO COMPANY**.

Executive agrees to cooperate with the Company following the Separation Date by making himself reasonably available to testify on behalf of CVS Caremark in any action, suit, or proceeding, whether civil, criminal, administrative, or investigative, and to assist CVS Caremark in any such action, suit, or proceeding, by providing information and meeting and consulting with the board of directors of the Company or its representatives or counsel, or representatives or counsel to CVS Caremark as reasonably requested; *provided, however*, that the same does not materially interfere with Executive' s then current professional activities. The Company agrees to reimburse Executive, on an after-tax basis, for all expenses actually incurred in connection with Executive' s provision of testimony or assistance.

In the event Executive receives a subpoena, deposition notice, interview request, or other process or order which requires or may reasonably be construed to require Executive to produce confidential information or trade secrets of CVS Caremark, Executive shall promptly: (i) notify the Company of the item, document, or information sought by such subpoena, deposition notice, interview request, or other process or order; (ii) furnish the Company with a copy of said subpoena, deposition notice, interview request, or other process or order; and (iii) provide reasonable cooperation with respect to any procedure that CVS Caremark may initiate at its expense to protect CVS Caremark confidential information, trade secrets or other interests. If CVS Caremark objects to the subpoena, deposition notice, interview request, process, or order, Executive shall cooperate to permit CVS Caremark to ensure that there shall be no disclosure until the court or other applicable entity has ruled upon the objection or otherwise ordered Executive to make such disclosure, and then only in accordance with the ruling so made, unless Executive is ordered by the court or other applicable entity to do so in the interim. If no such objection is made despite a reasonable opportunity to do so, Executive shall be entitled to comply with the subpoena, deposition notice, interview request, or other process or order provided that Executive has fulfilled the above obligations.

13. **NON-DISPARAGEMENT**. Executive agrees that he will not make any statements that disparage the business or reputation of CVS Caremark, and/or any officer, director or employee of CVS Caremark. The Company agrees that it will instruct Thomas M. Ryan, the Company' s President, CEO and Chairman of the Board, not to make, and not to direct any other employee of the Company to make, any disparaging statements regarding Executive. Notwithstanding the foregoing, nothing in this Agreement shall prohibit Executive or Mr. Ryan from (a) making truthful statements or disclosures that are required by applicable law, regulation or legal process; (b) requesting, receiving or discussing confidential legal advice; or (c) making confidential statements to officers of the Company or members of the Company' s Board of Directors.

14. **INDEMNIFICATION.** The Company acknowledges and agrees that, pursuant to Article Seventh of the Company' s Amended and Restated Certificate of Incorporation (i) each person (and the heirs, executors or administrators of such person) who was or is a party, or is threatened to be made a party to, or is involved in any threatened, pending or completed action,

suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person was or is an officer of the Company, shall be indemnified and held harmless by the Company to the fullest extent permitted by Delaware Law; (ii) the right to indemnification in Article Seventh includes the right to be paid by the Company the expenses incurred in connection with such proceeding in advance of its final disposition to the fullest extent authorized by Delaware law; and (iii) the right of indemnification conferred in Article Seventh is a contractual right.

15. **NO OTHER COMPENSATION; SUFFICIENCY OF CONSIDERATION.** Executive acknowledges and agrees that the payments and benefits described above exceed that to which he is entitled under the Term Sheet agreement, as amended, and are good and valuable consideration for the compensation, benefits, general release, covenant not to sue, and the other promises and terms in this Agreement. The parties agree that, except as specifically set forth in this Agreement, Executive is not and shall not be entitled to any salary, bonus, equity rights, benefits or other compensation of any kind, except as required by law.

16. **GENERAL RELEASE OF CLAIMS**. Executive hereby releases and forever discharges CVS Caremark Corporation and each of its divisions, affiliates, subsidiaries and operating companies, and the respective officers, directors, employees, agents and affiliates of each of them (collectively, the "Released Parties") from any and all causes of action, lawsuits, proceedings, complaints, charges, debts, contracts, judgments, damages, and claims against the Released Parties, whether known or unknown, which Executive ever had, now has or which Executive or Executive' s heirs, executors, administrators, successors or assigns may have prior to the date this Release is signed by Executive, due to any matter whatsoever relating to Executive' s employment, compensation, benefits, and/or termination of Executive' s employment with CVS Caremark and/or any of its subsidiaries or predecessors (collectively, the "Released Claims). The Released Claims include, but are not limited to, any claim that any of the Released Parties violated the National Labor Relations Act, Title VII of the Civil Rights Act of 1964, Sections 1981 through 1988 of Title 42 of the United States Code, the Employee Retirement Income Security Act, the Immigration Reform and Control Act, the Americans with Disabilities Act, the Age Discrimination in Employment Act, the Family Medical Leave Act, and/or the Occupational Safety and Health Act; any claim that any of the Released Parties violated any other federal, state or local statute, law, regulation or ordinance; any claim of unlawful discrimination of any kind; any public policy, contract, tort, or common law claim; and any claim for costs, fees, or other expenses including attorney' s fees incurred in these matters. Notwithstanding the foregoing, the Released Claims do not include the release of (i) any rights that Executive cannot lawfully waive, (ii) any claims by Executive that the Company has breached the terms of this Agreement, or (iii) any rights Executive has to defense and indemnification from the Company or its insurers.

17. **COVENANT NOT TO SUE**. Executive agrees not to file or initiate a lawsuit in any court or initiate an arbitration proceeding asserting any of the Released Claims against any of the Released Parties. Executive further agrees that he will not permit himself to be a member of any class in any court or in any arbitration proceeding seeking relief against the Released Parties based on claims released by this Release, and that even if a court or arbitrator rules that he may not waive a claim released by this Release, he will not accept any money damages or other relief

in connection with any other action or proceeding asserting any of the Released Claims against any of the Released Parties. Executive agrees to reimburse CVS for any legal fees that CVS incurs as a result of any knowing breach of this paragraph by Executive.

18. **TAX ISSUES**. To the extent that Executive receives any payments or benefits due to the merger of CVS Corporation and Caremark Rx Inc. and such payments or benefits result in an excise tax payable by the Executive under § 4999 of the Internal Revenue Code ("IRC"), the Company shall promptly pay to the Executive an additional amount necessary to place the Executive in the after-tax position that Executive would be in if IRC § 4999 did not apply with respect to such payments or benefits received by the Executive, provided, however, that any payment of such amount to the Executive shall be delayed to the minimum extent necessary to avoid the imposition of additional tax under IRC § 409A.

19. **NO PENDING ACTIONS**. Executive represents that as of the date he signs this Agreement, Executive has not filed or initiated, or caused to be filed or initiated, any complaint, claim, action or lawsuit of any kind against any of the Released Parties in any federal, state or local court or agency.

20. **WAIVER OF DAMAGES**. Nothing in this Agreement is intended to or shall interfere with Executive' s right to participate in a proceeding with any appropriate federal, state or local government agency enforcing federal, state or local discrimination laws and/or cooperating with said agency in its investigation. Executive shall not, however, be entitled to receive any relief, recovery or monies in connection with any complaint or charge brought against any of the Released Parties with respect to any Released Claims, without regard as to who brought any such complaint or charge.

21. **TIME TO CONSIDER AND REVOKE; ADVICE OF COUNSEL**. Executive acknowledges that he has been afforded at least twenty-one (21) days to consider whether to sign this Agreement. If Executive elects not to take the twenty-one (21) days to consider this Agreement, Executive acknowledges having done so voluntarily and with the understanding that Executive is waiving a statutory right to do so. If Executive chooses to execute this Agreement, Executive has the right to revoke the acceptance at any time within seven (7) days of signing (the "Revocation Period") by delivering a written revocation to CVS Caremark Corporation, Attention: V. Michael Ferdinandi, One CVS Drive, Woonsocket, RI 02895. Any such revocation shall state, "I hereby revoke my Separation Agreement and General Release" and must be signed by Executive and received by the Company before the end of the Revocation Period. If Executive decides to revoke this Agreement, the revocation shall make this Agreement null and void and shall be deemed effective on the date received by the Company. Executive acknowledges that in the absence of a valid and effective Agreement, Executive is not entitled to the post-employment payments and benefits set forth in the Agreement. Executive acknowledges that CVS Caremark has advised him to consult with an attorney before executing this Agreement, and Executive represents that he has done so.

22. **GOVERNING LAW**. This Agreement shall be governed by and conformed in accordance with the laws of the State of Rhode Island without regard to its conflict of laws

provisions. Any actions brought to enforce the terms of this Agreement shall be brought in a court of competent jurisdiction located in the State of Rhode Island.

23. **SECTION HEADINGS**. Section headings contained in this Agreement are for convenience of reference only and shall not affect the meaning of any provision herein.

24. **ENTIRE AGREEMENT**. This Agreement, together with any compensation, equity or benefit plan or agreement referred to herein, sets forth the entire agreement between the parties hereto with respect to its subject matter and fully supersedes any and all prior understandings, whether written or oral, between the parties concerning the subject matter of this Agreement. Executive acknowledges that he has not relied on any representations, promises or agreements of any kind made to him in connection with his decision to accept the terms of this Agreement, except for the representations, promises and agreements herein. Any modification to this Agreement must be in writing and signed by Mr. McLure and CVS Caremark' s Senior Vice President, Human Resources or his authorized representative.

IN WITNESS WHEREOF, the parties knowingly and voluntarily executed this Separation Agreement and General Release as of the dates set forth below.

HOWARD A. MCLURE

_____

DATE: _____

CVS CAREMARK CORPORATION

BY: _____

V. Michael Ferdinandi
Senior Vice President, Human Resources

DATE: _____

Exhibit 10.40

CVS CAREMARK CORPORATION

PARTNERSHIP EQUITY PROGRAM
Purchased Share, Matching Restricted Stock Unit
and Stock Option Agreement

AGREEMENT, by and between CVS Caremark Corporation, a Delaware corporation (the "Company"), and [NAME/ID NUMBER] ("Participant").

WHEREAS, Participant has been selected as an employee eligible to invest under the Company' s Partnership Equity Program (the "Program"), and has elected to invest in the Program, subject to the terms and conditions set forth in the Program and in this Purchased Share, Matching Restricted Stock Unit and Stock Option Agreement (the "Agreement");

WHEREAS, the Company desires to provide Participant with written evidence acknowledging Participant' s investment under the Program, his or her acquisition of Stock Units and/or acquisition of actual shares as Purchased Shares, and the corresponding grant of Matching Restricted Stock Units, under the Program, and evidence of further acquisitions and other transactions in Participant' s Purchased Share Account and Matching Account under the Program;

WHEREAS, the Program provides that Participant shall be granted an option to purchase from the Company the aggregate number of shares of Common Stock, $.01 par value per share ("Common Stock") of the Company set forth in this Agreement, at the specified purchase price per share, such option to be exercised as hereinafter provided, and the Company desires to provide Participant with confirmation of the grant of such option under the Program; and

WHEREAS, the provisions of the Program and the Company' s Incentive Compensation Plan (the "Plan") are hereby incorporated by reference and shall have the same force and effect as though fully set forth herein. Participant hereby acknowledges his receipt of a copy of the Program prior to or 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 the Program is inconsistent with a provision of this Agreement, the Program provision shall control. Capitalized terms used in this Agreement but not defined herein shall have the same meanings as in the Program.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the parties hereto agree as follows:

I. PURCHASED SHARES AND MATCHING RESTRICTED STOCK UNITS

(A) Purchased Shares. The Company has received from Participant an investment or a commitment to invest the amount set forth on the attached Statement, on [DATE], under the Program, in consideration of which the Company has established for Participant a Purchased Share Account (including a Pre-Tax Sub-account and/or After-Tax Sub-account, depending on Participant' s investment election), and credited to such Account the Stock Units, and/or issued and sold the actual shares and/or deposited the actual shares in such Account, as reflected on the Statement of Account attached hereto (such Statement of Account and subsequent statements under the Program being "Statements").

(B) Crediting of Matching Restricted Stock Units. In accordance with Section 6(a) of the Program, the Company has established for Participant a Matching Account, granted to Participant the number of Matching Restricted Stock Units equal to the number of Purchased Shares as reflected on the attached Statement, and credited such Matching Restricted Stock Units to Participant' s Matching Account, as set forth on such Statement.

(C) Additional Transactions in Participant Accounts; Settlement. The Company may from time to time credit additional Stock Units and Matching Restricted Stock Units to Participant' s

Purchased Share Account and Matching Account, in connection with the deemed reinvestment of dividend equivalents and otherwise in accordance with the Program. In addition, if the Participant has actual shares in his or her After-Tax Subaccount (under the Purchased Share Account), the Custodian of such Subaccount may acquire additional actual shares through dividend reinvestment (if then provided for under such Subaccount) and otherwise in accordance with the Program. Information relating to such transactions, and other transactions and events relating to Participant' s Accounts under the Program, shall be set forth in Statements furnished to Participant not less frequently than annually. Purchased Shares and Matching Restricted Stock Units shall be settled as provided in Sections 6(c), 6(d), and 8(c) of the Program.

II. OPTION TO PURCHASE COMMON STOCK

(A) Grant of Option. The Company hereby confirms the grant, under the Program and the Plan, to Optionee on [DATE], the option and right to purchase [NUMBER] shares (subject to adjustment) of the Company' s Common Stock, at a Purchase Price of $ per share (the "Option"), such Option to be exercisable as specified herein and in the Program. The Option granted hereby are non-qualified stock options subject to all of the terms and conditions set forth in the Program and the Plan.

(B) Option Exercise and Expiration. The Options shall be and become exercisable only as provided in Sections 7(b) and 8(d) of the Program, and shall expire at the earlier of the close of business on the day before the tenth anniversary of their respective Purchase Dates or such earlier expiration or termination of the Option as provided in Section 8(d) of the Program. The Optionee shall exercise such option 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 on hundred (100) shares. The Optionee so exercising all or part of the Option(s) shall, at the time of purchase, tender to the Company cash or cash equivalent for the full purchase price of the shares he has elected to purchase or certificates for shares of Common Stock of the Company owned by the Optionee for at least six (6) months with a fair market value at least equal to the full purchase price of the shares he has elected to purchase, or a combination of the foregoing. Except as provided below, the Optionee shall, at the time of purchase, tender to the Company cash or cash equivalent for the amount of income taxes required to be withheld by the Company in connection with the exercise of this option or portion thereof. In the event the Optionee is subject to the provisions of Section 16(b) of the Securities Exchange Act of 1934, such Optionee shall tender to the Company cash or cash equivalent for the amount of income taxed required to be withheld by the Company in connection with the exercise of the Option(s) or portion thereof at the earlier of (1) the date the shares received pursuant to such exercise become transferable or cease to be subject to a substantial risk of forfeiture within the meaning of Section 83 of the Internal Revenue Code of 1986, as amended ("Code") or (2) if such Optionee makes a valid election under Section 83(b) of the Code in respect of the shares received pursuant to such evidence, the date of such election.

(C) Intention. The Optionee hereby agrees that upon each and every exercise of the Option(s) evidenced hereby he/she will deliver to the Company, if the Company then so requests, a written representation that it is Optionee' s intention at the time of such exercise to acquire the shares being purchased for Optionee' s own account for investment and not with a view to, or for resale in connection with, the distribution thereof within the meaning of the Securities Act of 1933; and the Optionee hereby agrees that the issuance of shares pursuant to the exercise of the Option(s) shall be expressly conditioned upon the receipt of such a representation at the time of exercise if such representation is requested by the Company.

III. Non-Competition.

As a condition of receiving the benefits of this Agreement, Participant agrees as follows:

(A) During his or her employment with CVS Caremark Corporation or any of its subsidiaries (collectively, the "CVS Caremark Companies"), and for twenty-four (24) months following the termination of such employment (the "Restriction Period") for any reason, Participant shall not directly or indirectly engage in Competition with any of the CVS Caremark Companies. "Competition" shall mean engaging in

any activity for a Competitor of any of the CVS Caremark Companies, whether as an employee, consultant, principal, agent, officer, director, partner, shareholder (except as a less than one percent shareholder of a publicly traded company) or otherwise. A "Competitor" shall mean any person, corporation or other entity (and its parents, subsidiaries, affiliates and assigns) doing business in a geographical area in which any of the CVS Caremark Companies are doing or have imminent plans to do business, and which is engaged in the operation of (1) a retail business which includes or has imminent plans to include a pharmacy (*i.e.*, the sale of prescription drugs) as an offering or component of its business, including, without limitation, chain drug store companies such as Walgreen Co. or Rite Aid Corporation, mass merchants such as Wal-Mart Stores, Inc. or Target Corp., and food/drug combinations such as The Kroger Co. or Supervalu Inc.; and/or (2) a business which includes or has imminent plans to include mail order prescription, specialty pharmacy and/or pharmacy benefits management as an offering or component of its business, such as Medco Health Solutions, Inc. or Express Scripts, Inc.; and/or (3) a business which includes or has imminent plans to include offering, marketing or the sale of basic acute health care services at retail or other business locations, similar to the services provided by MinuteClinic, Inc. (and excluding hospitals, private physicians' offices, or other businesses dedicated to the direct provision of health care services).

(B) During the Restriction Period Participant shall not, whether for himself or herself or for any other individual, partnership, corporation or other business organization, directly or indirectly (1) solicit, recruit, offer employment to, hire as a consultant, or employ any employee or consultant of any of the CVS Caremark Companies, or (2) solicit, persuade or attempt to persuade any employee or consultant of any of the CVS Caremark Companies to leave the employ of any of the CVS Caremark Companies or to cease or reduce the provision of services to any of the CVS Caremark Companies.

(C) Participant acknowledges that a breach of this Non-competition section will result in irreparable injury to the CVS Caremark Companies for which there is no adequate remedy at law, that monetary relief will be inadequate, and that, in the event of such a breach or threat thereof, the Company shall be entitled to obtain, in addition to any other relief that may be available, a temporary restraining order and/or a preliminary or permanent injunction, restraining Participant from engaging in activities prohibited by this Non-competition section, as well as such other relief as may be required specifically to enforce this Agreement.

IV. Miscellaneous.

(A) Withholding Tax. Participant may be subject to withholding taxes as a result of the exercise of an Option, or other payment in respect of an Option, or settlement of Stock Units and/or Matching Restricted Stock Units. Participant shall 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, settlement or payment. However, Participant may elect to have shares of Common Stock withheld by the Company or to tender shares of Common Stock to the Company to pay the amount of tax required so to be withheld by the Company. Any shares of Common Stock so withheld or tendered will be valued as of the date they are withheld or tendered. Unless otherwise permitted by the Committee, the value of shares of Common Stock withheld or tendered may not exceed the required federal, state, local and foreign withholding tax obligations as computed by the Company.

(B) Certain Terms and Conditions of Program. Participant acknowledges and agrees that terms and conditions of the program preclude all transfers of certain Purchased Shares, all Matching Restricted Stock Units, and all Options, except in limited circumstances in the event of Participant' s death, impose a risk of forfeiture on Matching Restricted Stock Units and Options, relieve the Company of certain obligations unless and until laws and regulations have been complied with, provide for adjustments to Purchased Shares, Matching Restricted Stock Units, and 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.

(C) 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 Program, Plan, 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 Common Stock issuable under the Program, including upon exercise of an Option, into the name of any such person.

(D) Integration Clause; Amendments to Agreement. This Agreement, together with the Program, constitutes the entire Agreement between the parties with respect to the Program, 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 Program shall be valid unless contained in a writing signed by the party to be bound thereby.

(E) Employment. Neither the execution and delivery hereof nor the granting of the 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 Optionee for any specific period.

(F) Legal Effect of Statements. A Participant' s Statements shall be deemed a part of this Agreement, and shall evidence the Company' s obligation under the Program with respect to Purchased Shares, Matching Restricted Stock Units and Stock Options, including the numbers thereof held or credited under the Program. Any Statement containing an error shall not, however, represent a binding obligation to the extent of such error, notwithstanding the inclusion of such Statement as part of this Agreement.

(G) Acceptance of Award. Acceptance may be submitted either electronically, if available, or in writing. The Option may not be exercised unless and until the Company has received acceptance by the Participant of the terms and conditions set forth.

(H) Notices. Any notice hereunder to the Company shall be addressed to One CVS Drive, Woonsocket, RI 02895, Attention: Senior Vice President - Human Resources, 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.

CVS CAREMARK CORPORATION

By: _____

[NAME]
[TITLE]

PARTICIPANT

By: _____

[NAME]

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") is the largest pharmacy health care provider in the United States. As a fully integrated pharmacy services company, we believe we can drive value for our customers by effectively managing pharmaceutical costs and improving health care outcomes through our pharmacy benefit management, mail order and specialty pharmacy division, Caremark Pharmacy Services®; approximately 7,000 CVS/pharmacy® retail stores; our retail-based health clinic subsidiary, MinuteClinic®; and our online pharmacy, CVS.com®.

In March 2007, we completed our merger with Caremark Rx, Inc. (the "Caremark Merger"). Following the Caremark Merger, we changed our name to CVS Caremark Corporation and Caremark Rx, Inc. became a wholly-owned subsidiary, Caremark Rx, L.L.C. ("Caremark"). The Caremark Merger brought together the nation' s largest retail pharmacy chain and a leading pharmacy benefit manager. We believe the Caremark Merger has uniquely positioned our Company 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. In addition, the Caremark Merger has enhanced our ability to offer plan members and consumers expanded choice, greater access and more personalized services.

In 2009, we made changes to our reportable segments to reflect changes that were made to the way our management evaluates the performance of operations, develops strategy and allocates resources. This change involves recording certain administrative expenses previously recorded within the Pharmacy Services and Retail Pharmacy segments in a new Corporate segment. The Corporate segment consists of costs primarily associated with executive management, corporate relations, legal, compliance, human resources, corporate information technology and finance. This change had no impact on our consolidated results of operations. As a result of this change, the Company has three segments: Pharmacy Services, Retail Pharmacy and Corporate. Our historical segment disclosures have been revised to conform to the current presentation.

We also made a change to our Pharmacy Services segment as it relates to our intersegment activities (such as the Maintenance Choice® program). This change impacts the gross profit and operating profit lines within the Pharmacy Services segment. Under the Maintenance Choice program, eligible members and plan sponsors can 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 now record the revenue, gross profit and operating profit on a standalone basis and corresponding intersegment eliminations are made. This change had no impact on our consolidated results of operations.

Overview of Our Pharmacy Services Segment

Our Pharmacy Services business provides a full range of pharmacy benefit management ("PBM") services including mail order pharmacy services, specialty pharmacy services, plan design and administration, formulary management and claims processing. 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 64,000 retail pharmacies (which include our CVS/pharmacy and Longs Drugs® 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 Caremark® and CarePlus CVS/pharmacy™ names. Substantially all of our mail service specialty pharmacies have been accredited by The Joint Commission.

We also provide health management programs, which include integrated disease management for 27 conditions, through our strategic alliance with Alere LLC and 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 Accendo Insurance Company ("Accendo") subsidiaries, we are a national provider of drug benefits to eligible beneficiaries under the Federal Government' s Medicare Part D program. The Company acquired Accendo in the Longs Acquisition (defined later in this document), and, effective January 1, 2009, Accendo replaced RxAmerica® as the Medicare-approved prescription drug plan for the RxAmerica Medicare Part D drug benefit plans.

Our Pharmacy Services 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 Caremark Pharmacy Services®, Caremark, CVS Caremark™, CarePlus CVS/ pharmacy, CarePlus™, RxAmerica Accordant Care™ and TheraCom® names. As of December 31, 2009, the Pharmacy Services segment operated 49 retail specialty pharmacy stores, 18 specialty mail order pharmacies and six mail service pharmacies located in 25 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 Drug retail stores and online through CVS.com.

CVS/pharmacy is one of the nation' s largest retail pharmacy chains. With more than 40 years of dynamic growth in the retail pharmacy industry, the Retail Pharmacy segment generates more than two-thirds of its revenue from prescription sales and is committed to providing superior customer service by being the easiest pharmacy retailer for customers to use.

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 and deliver vaccinations. We believe our clinics provide quality services that are quick, affordable and convenient.

Our proprietary loyalty card program, ExtraCare®, has well over 64 million active cardholders, making it one of the largest and most successful retail loyalty card programs in the country.

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

As of December 31, 2009, our Retail Pharmacy segment included 7,025 retail drugstores (of which 6,964 operated a pharmacy) located in 41 states and the District of Columbia operating primarily under the CVS/pharmacy® or Longs Drug® names, our online retail website, CVS.com® and 569 retail health care clinics operating under the MinuteClinic® name (of which 557 were located in CVS/ pharmacy stores).

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

Fiscal Year Change - On December 23, 2008, the Board of Directors of the Company approved a change in the Company' s fiscal year end from the Saturday nearest December 31 of each year to December 31 of each year to better reflect the Company' s position in the health care, rather than the retail, industry. The fiscal year change was effective beginning with the fourth quarter of fiscal 2008.

As you review our operating performance, please consider the impact of the fiscal year change as set forth below:

Fiscal Year	Fiscal Year-End	Fiscal Period	Fiscal Period Includes
2009	December 31, 2009	January 1, 2009 - December 31, 2009	365 days
2008	December 31, 2008	December 30, 2007 - December 31, 2008	368 days
2007	December 29, 2007	December 31, 2006 - December 29, 2007	364 days

Unless otherwise noted, all references to years relate to the above fiscal years.

Summary of our Consolidated Financial Results

In millions, except per common share amounts	Fiscal Year		
	2009	2008	2007
Net revenues	**$98,729**	$87,472	$76,330
Gross profit	**20,380**	18,290	16,108
Operating expenses	**13,942**	12,244	11,314
Operating profit	**6,438**	6,046	4,794
Interest expense, net	**525**	509	435
Income before income tax provision	**5,913**	5,537	4,359
Income tax provision	**2,205**	2,193	1,722
Income from continuing operations	**3,708**	3,344	2,637
Loss from discontinued operations, net of income tax benefit	**(12)**	(132)	–
Net income	**$3,696**	$3,212	$2,637
Diluted earnings per common share:			
Income from continuing operations	**$2.56**	$2.27	$1.92
Loss from discontinued operations	**(0.01)**	(0.09)	–
Net income	**$2.55**	$2.18	$1.92

Net revenues increased $11.3 billion and $11.1 billion during 2009 and 2008, respectively. As you review our performance in this area,

we believe you should consider the following important information:

During 2009, the Longs Acquisition increased net revenues by $6.6 billion, compared to 2008.

Three fewer days in the 2009 fiscal year negatively impacted net revenues by $671 million, compared to 2008.

During 2008, the Longs Acquisition increased net revenues by $1.1 billion, compared to 2007. 2008 includes net revenues from the Longs Drug Stores and RxAmerica from the acquisition date (October 20, 2008) forward.

Four additional days in the 2008 fiscal year increased net revenues by $1.1 billion, compared to 2007.

During 2008, the Caremark Merger increased net revenues by $6.9 billion (net of intersegment eliminations of $1.0 billion), compared to 2007. 2008 includes a full year of net revenues from Caremark, compared to 2007, which includes net revenues from Caremark from the merger date (March 22, 2007) forward.

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

Gross profit increased $2.1 billion and $2.2 billion during 2009 and 2008, respectively. As you review our performance in this area, we believe you should consider the following important information:

During 2009, the Longs Acquisition increased gross profit dollars by $1.1 billion, but negatively impacted our gross profit rate compared to 2008.

Three fewer days in the 2009 fiscal year, negatively impacted gross profit by $146 million, compared to 2008.

During 2008, the Caremark Merger increased gross profit by approximately $553 million, compared to 2007. 2008 includes a full year of gross profit from Caremark, compared to 2007, which includes gross profit from Caremark from the merger date (March 22, 2007) forward.

During 2008, the Longs Acquisition increased gross profit by $314 million, compared to 2007. 2008 includes gross profit from the Longs Drug Stores and RxAmerica from the acquisition date (October 20, 2008) forward.

Four additional days in the 2008 fiscal year increased gross profit by $238 million, compared to 2007.

During 2008 and 2007, our gross profit benefited from significant purchasing synergies from the Caremark Merger.

In addition, our gross profit continued to benefit from the increased utilization of generic drugs (which normally yield a higher gross profit rate than equivalent brand name drugs) in both the 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 $1.7 billion and $930 million during 2009 and 2008, respectively. As you review our performance in this area, we believe you should consider the following important information:

During 2009, the Longs Acquisition increased operating expenses by $1.0 billion, but positively impacted our operating expense rate as a percentage of net revenues compared to 2008.

Three fewer days in the 2009 fiscal year, positively impacted operating expenses by $97 million, compared to 2008.

During 2008, the Caremark Merger increased operating expenses by approximately $92 million, compared to 2007. 2008 includes a full year of operating expenses from Caremark, compared to 2007, which includes operating expenses from Caremark from the merger date (March 22, 2007) forward.

During 2008, the Longs Acquisition increased operating expenses by $260 million, compared to 2007. 2008 includes operating expenses from the Longs Drug Stores and RxAmerica from the acquisition date (October 20, 2008) forward.

Four additional days in the 2008 fiscal year increased operating expenses by $146 million, compared to 2007.

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

Interest expense, net consisted of the following:

In millions

	2009	2008	2007
Interest expense	**$530**	$530	$468
Interest income	**(5)**	(21)	(33)
Interest expense, net	**$525**	$509	$435

Income tax provision - Our effective income tax rate was 37.3% in 2009, 39.6% in 2008 and 39.5% in 2007.

During 2009, the decrease in the effective income tax rate was due to the recognition of approximately $167 million of previously unrecognized tax benefits (including accrued interest) relating to the expiration of various statutes of limitation and settlements with tax authorities. Excluding the impact of the recognition of previously unrecognized tax benefits for 2009, the effective income tax rate for 2009 would have been approximately 40.1%.

Income from continuing operations increased $364 million or 10.9% to $3.7 billion (or $2.56 per diluted share) in 2009. This compares to $3.3 billion (or $2.27 per diluted share) in 2008 and $2.6 billion (or $1.92 per diluted share) in 2007.

Loss from discontinued operations - In connection with certain business dispositions completed between 1991 and 1997, the Company continues to guarantee store lease obligations for a number of former subsidiaries, including Linens 'n Things. On May 2, 2008, Linens Holding Co. and certain affiliates, which operate Linens 'n Things, filed voluntary petitions under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. The Company' s loss from discontinued operations includes $12 million ($19 million, net of a $7 million income tax benefit) and $132 million ($214 million, net of an $82 million income tax benefit) of lease-related costs for 2009 and 2008, respectively.

Net income increased $484 million or 15.1% to $3.7 billion (or $2.55 per diluted share) in 2009. This compares to $3.2 billion (or $2.18 per diluted share) in 2008 and $2.6 billion (or $1.92 per diluted share) in 2007. Net income for 2009 benefited from the $167 million income tax benefit described above.

During 2009, net interest expense increased by $16 million, compared to 2008, due primarily to lower interest income associated with our temporary investments.

During 2008, net interest expense increased by $74 million, compared to 2007, due to a combination of higher interest rates and an increase in our average debt balance, which resulted primarily from the borrowings used to fund an accelerated share repurchase program and the Longs Acquisition.

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][3]	Retail Pharmacy Segment[3]	Corporate Segment	Intersegment Eliminations[2][3]	Consolidated Totals
2009:					
Net revenues	**$ 51,065**	**$55,355**	**$ –**	**$ (7,691)**	**$ 98,729**
Gross profit	**3,835**	**16,593**	**–**	**(48)**	**20,380**
Operating profit	**2,866**	**4,159**	**(539)**	**(48)**	**6,438**
2008[4]:					
Net revenues	$ 43,769	$48,990	$ –	$ (5,287)	$ 87,472
Gross profit	3,550	14,741	–	(1)	18,290
Operating profit	2,755	3,753	(461)	(1)	6,046
2007[4]:					
Net revenues	$ 34,938	$45,087	$ –	$ (3,695)	$ 76,330
Gross profit	2,997	13,111	–	–	16,108
Operating profit	2,245	2,960	(411)	–	4,794

(1) Net revenues of the Pharmacy Services segment include approximately $6.9 billion, $6.3 billion and $4.6 billion of Retail Co-Payments for 2009, 2008 and 2007, respectively. Please 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 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.

(3) Beginning in 2008, when Pharmacy Services segment clients elect to pick up their maintenance prescriptions at Retail Pharmacy segment stores through the Company' s intersegment activities (such as the Maintenance Choice program) instead of receiving them through the mail, both segments record the corresponding revenue, gross profit and operating profit in their respective segment results. As a result, both the Pharmacy Services and the Retail Pharmacy segments include the following results for 2009 and 2008 associated with this activity: net revenues of $692 million and $8 million for 2009 and 2008, respectively; gross profit of $48 million and less than a $1 million for 2009 and 2008, respectively; operating profit of $48 million and less than a $1 million for 2009 and 2008, respectively.

(4) The results for 2008 and 2007 have been revised to conform to the current presentation of our reportable segments.

Pharmacy Services Segment

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

In millions	Fiscal Year Ended		
	2009	2008[3][8]	2007[3]
Net revenues	**$51,065**	$43,769	$34,938
Gross profit	**3,835**	3,550	2,997
Gross profit % of net revenues	**7.5 %**	8.1 %	8.6 %
Operating expenses	**969**	795	752
Operating expenses % of net revenues	**1.9 %**	1.8 %	2.2 %
Operating profit	**2,866**	2,755	2,245
Operating profit % of net revenues	**5.6 %**	6.3 %	6.4 %
Net revenues[4]:			
Mail choice[5]	**$16,711**	$14,909	$13,836
Pharmacy network[6]	**34,004**	28,482	20,831
Other	**350**	378	271
Comparable Financial Information[1]			
Net revenues	**$51,065**	$43,769	$43,349
Gross profit	**3,835**	3,550	3,558
Gross profit % of net revenues	**7.5 %**	8.1 %	8.2 %

Operating expenses	**969**	795	1,129
Merger and integration costs[2]	–	(23)	(273)
Operating expenses (net of merger and integration costs)	**969**	772	856
Operating expenses % of net revenues	**1.9 %**	1.8 %	2.0 %
Operating profit	**2,866**	2,778	2,702
Operating profit % of net revenues	**5.6 %**	6.3 %	6.2 %
Net revenues[4]:			
Mail choice[5]	**$16,711**	$14,909	$16,791
Pharmacy network[6]	**34,004**	28,482	26,219
Other	**350**	378	339
Pharmacy claims processed[4]:			
Total	**658.5**	633.4	607.2
Mail choice[5]	**66.0**	60.9	73.9
Pharmacy network[6]	**592.5**	572.5	533.3
Generic dispensing rate[4]:			
Total	**68.2 %**	65.1 %	60.1 %
Mail choice[5]	**56.5 %**	54.4 %	48.1 %

Pharmacy network[6]	**69.3**	**%**	66.2	%	61.7	%
Mail choice penetration rate[7]	**23.8**	**%**	22.9	%	28.2	%

(1) The Comparable Financial Information above combines the historical Pharmacy Services segment results of CVS and Caremark assuming the Caremark Merger occurred at the beginning of each period presented. In each period presented, the comparable results include incremental depreciation and amortization expense resulting from the fixed and intangible assets recorded in connection with the Caremark Merger and exclude merger-related expenses and integration costs. **The comparable financial information has been provided for illustrative purposes only and does not purport to be indicative of the actual results that would have been achieved by the combined business segment for the periods presented or that will be achieved by the combined business segment in the future.**

(2) Merger and integration costs for 2008 primarily include severance and retention, system integration and facility consolidation costs. Merger and integration costs for 2007 primarily include $80 million of stock option expense associated with the accelerated vesting of certain Caremark stock options, which vested upon consummation of the merger due to the change in control provisions of the underlying Caremark stock option plans, $43 million of change-in-control payments due upon the consummation of the Caremark Merger, resulting from the change-in-control provisions in certain Caremark employment agreements, and merger-related costs of $150 million.

(3) 2008 and 2007 have been revised to conform to the current presentation of our Pharmacy Services segment as discussed in the *Overview of Our Business* section of Management' s Discussion and Analysis of Financial Condition and Results of Operations.

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

(5) 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.

(6) Pharmacy network is defined as claims filled at retail pharmacies, including CVS/pharmacy stores.

(7) Excluding the impact of RxAmerica, the mail choice penetration rate would have been 26.2% and 23.3% for 2009 and 2008, respectively.

(8) 2008 includes the results of RxAmerica from the acquisition date (October 20, 2008) forward.

During 2009, the Pharmacy Services segment' s results of operations include a full year of RxAmerica results compared to 2008, which includes RxAmerica results from the acquisition date (October 20, 2008) forward.

During 2008 and 2007, the Pharmacy Services segment' s results of operations were significantly affected by the Caremark Merger. As such, the primary focus of our Pharmacy Services segment discussion is based on the comparable financial information presented previously in this document.

We define mail choice as claims filled at a Pharmacy Services' mail facility, which includes specialty mail claims, as well as 90-day claims filled at retail pharmacies under the Maintenance Choice program.

Mail choice penetration rate is calculated based on mail choice and specialty claims divided by total pharmacy claims processed.

Net revenues - As you review our Pharmacy Services segment' s revenue performance, we believe you should consider the following important information:

The Pharmacy Services segment recognizes revenues for its national retail pharmacy network transactions based on individual contract terms. Caremark' s contracts are predominantly accounted for using the gross method. Prior to April 1, 2009, RxAmerica' s contracts were accounted for using the net method. Effective April 1, 2009, we converted a number of RxAmerica' s retail pharmacy network contracts to the Caremark contract structure, which resulted in those contracts being accounted for using the gross method. As a result, net revenues increased by $2.5 billion during 2009 compared to 2008.

In addition, prior to September 2007, PharmaCare' s contracts were accounted for using the net method. Effective September 1, 2007, we converted a number PharmaCare' s retail pharmacy network contracts to the Caremark contract structure, which resulted in those contracts being accounted for using the gross method. As a result, net revenues increased by approximately $1.8 billion during 2008 compared to 2007. Please see Note 1 to the consolidated financial statements for additional information about the Pharmacy Services segment' s revenue recognition policies.

During 2009, the inclusion of RxAmerica' s results increased net revenues by approximately $3.2 billion compared to 2008. These increases include the conversion of RxAmerica' s retail pharmacy network contracts to the Caremark contract structure discussed above.

During 2008, the inclusion of Caremark' s results increased net revenues by $7.9 billion, compared to 2007. 2008 includes a full year of net revenues from Caremark, compared to 2007, which includes net revenues from Caremark from the merger date (March 22, 2007) forward.

Three fewer days in the 2009 fiscal year negatively impacted net revenues by $268 million, compared to 2008.

Four additional days in the 2008 fiscal year increased our net revenue by $495 million, compared to 2007.

During 2009, our comparable mail choice claims processed increased 8.3% to 66.0 million claims. This increase was primarily due to favorable net new business and significant adoption of mail choice plan design. During 2008, our comparable mail choice claims processed decreased 17.6% to 60.9 million claims, compared to 73.9 million claims in 2007. This decrease was primarily due to the termination of the Federal Employees Health Benefit Plan ("FEP") mail contract on December 31, 2007.

During 2009 and 2008, our average revenue per mail choice claim increased by 3.5% and 7.8%, compared to 2008 and 2007, respectively. Specialty mail choice claims, which have significantly higher average net revenues per claim, were the primary driver of the increase. Average revenue per specialty mail choice claim increased primarily due to drug cost inflation and claims mix. These increases were offset, in part, by an increase in the percentage of generic drugs dispensed and changes in client pricing.

During 2009 and 2008, our mail choice generic dispensing rate increased to 56.5% and 54.4%, respectively, compared to our comparable mail choice generic dispensing rate of 48.1% in 2007. 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. In addition, the termination of the FEP mail contract caused our comparable mail choice generic dispensing rate to increase by approximately 120 basis points during 2008, compared to 2007.

During 2009 and 2008, our pharmacy network claims processed increased to 592.5 million and 572.5 million, respectively, compared to our comparable pharmacy network claims of 533.3 million in 2007. The increase in 2009, was primarily due to an increase of 61.0 million RxAmerica claims compared with 2008. This was offset by the reduction in claims due to the termination of two large health plan clients effective January 1, 2009 and having three fewer days in the 2009 reporting period compared to 2008.

The increase in 2008 was primarily due to the addition of approximately 13.5 million RxAmerica claims (beginning October 20, 2008), growth in our existing business (including our Medicare Part D business), the four additional days in the 2008 reporting period compared to the 2007 reporting period and new clients.

During 2009, our average revenue per pharmacy network claim processed increased by 15.4%, compared to 2008. Our average revenue per pharmacy network claim processed is affected by (i) the inclusion of RxAmerica results, whose retail pharmacy network contracts were accounted for using the net revenue recognition method prior to April 1, 2009, as discussed above; (ii) higher drug costs, which normally result in higher claim revenues, (iii) client pricing, (iv) changes in the percentage of generic drugs dispensed and (v) claims mix.

During 2008, our comparable average revenue per pharmacy network claim processed increased by 1.2%, compared to 2007. This increase was primarily due to the change in the revenue recognition method from net to gross for certain PharmaCare contracts (as discussed above) and higher drug costs. These factors increased our average revenue per retail network claim by approximately 6.6%. These increases were offset, in part by (i) the inclusion of RxAmerica' s results (beginning October 20, 2008), which decreased our average revenue per retail network claim by 2.1%, (ii) client pricing, (iii) claims mix and (iv) an increase in the percentage of generic drugs dispensed.

During 2009 and 2008, our pharmacy network generic dispensing rate increased to 69.3% and 66.2%, respectively, compared to our comparable pharmacy network dispensing rate of 61.7% in 2007. These increases were primarily due to the impact of new generic drug introductions, our continued efforts to encourage plan members to use generic drugs when they are available, and the impact of RxAmerica claims. RxAmerica pharmacy network claims increased our generic dispensing rate by approximately 120 basis points in 2009 compared to 20 basis points in 2008. 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.

Part D Prescription Drug Plan (a "PDP"). We are also a national provider of drug benefits to eligible beneficiaries under the Medicare Part D program through our subsidiaries, Silverscript and Accendo (which have been approved by CMS as PDPs), and in 2008 and 2007, through a joint venture with Universal American Corp. ("UAC"), which sponsored a CMS approved PDP. The Company and UAC dissolved this joint venture at the end of 2008 and divided the responsibility for providing Medicare Part D services to the affected plan members beginning with the 2009 plan year. In addition, we assist employer, union and other health plan clients that qualify for the retiree drug subsidy under Medicare Part D by collecting eligibility data from and submitting drug cost data to CMS in order for them to obtain the subsidy.

Gross profit includes net revenues less cost of revenues. Cost of revenues includes (i) the cost of pharmaceuticals dispensed, either directly through our mail service and specialty retail pharmacies or indirectly through our national retail pharmacy network, (ii) shipping and handling costs and (iii) the operating costs of our mail service pharmacies, customer service operations and related information technology support. Gross profit as a percentage of revenues was 7.5%, 8.1% and 8.6% in 2009, 2008 and 2007, respectively.

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

Three fewer days in the 2009 fiscal year negatively impacted gross profit by $23 million, compared to 2008.

Four additional days in the 2008 fiscal year increased gross profit by $49 million, compared to 2007.

Our gross profit dollars and gross profit rates continued to be impacted by our efforts to (i) retain existing clients, (ii) obtain new business and (iii) maintain or improve the purchase discounts we received from manufacturers, wholesalers and retail pharmacies. In particular, competitive pressures in the PBM industry have caused us and other PBM' s to share a larger portion of rebates and/or discounts received from pharmaceutical manufacturers. During the 2008 selling season, the Company renewed a number of existing clients and obtained new clients at lower rates, which resulted in gross profit compression during 2009.

During 2009 and 2008, our net revenues benefited from our participation in the administration of the Medicare Part D drug benefit by providing PBM services to our health plan clients and other clients that have qualified as a Medicare

As discussed previously in this document, we review our national retail network contracts on an individual basis to determine if the related revenues should be accounted for using the gross method or net method under the

applicable accounting rules. Under these rules, the majority of Caremark' s national retail network contracts are accounted for using the gross method, which results in higher revenues, higher cost of revenues and lower gross profit rates. The conversion of certain PharmaCare contracts and RxAmerica contracts to the Caremark contract structure increased our net revenues, increased our cost of revenues and lowered our gross profit rates. Although this change did not affect our gross profit dollars, it did reduce our gross profit rates by approximately 40, 35 and 20 basis points during 2009, 2008 and 2007, respectively.

Our gross profit as a percentage of revenues benefited from the increase in our total generic dispensing rate, which increased to 68.2% and 65.1% in 2009 and 2008, respectively, compared to our comparable generic dispensing rate of 60.1% in 2007. 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. In addition, during 2009, the inclusion of a full year of RxAmerica claims increased our total generic dispensing rate by approximately 120 and 20 basis points during 2009 and 2008, respectively.

During 2008, our comparable gross profit rate was impacted by decreases in our mail penetration rate to 22.9%, compared to 28.2% in 2007. This and the impact of accounting for certain PharmaCare contracts using the gross method were offset, in part, by increases in the utilization of generic drugs, which normally yield a higher gross profit rate than equivalent brand name drugs.

During 2008, our comparable gross profit rates benefited from the purchasing synergies from the Caremark Merger.

In January 2009, the Centers for Medicare and Medicaid Services ("CMS") issued a regulation requiring that, beginning in 2010, any difference between the drug price charged to Medicare Part D plan sponsors by a PBM and the drug paid by the PBM to the dispensing provider (commonly called "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. These changes impact our ability to offer Medicare Part D plan sponsors pricing for 2010 that includes the use of retail network "differential" or "spread," and we expect these changes to reduce the profitability of our Medicare Part D business beginning in 2010.

In conjunction with a recently approved class action settlement with two entities that publish the average wholesale price ("AWP") of pharmaceuticals (a pricing benchmark widely used in the pharmacy industry), the AWP for many brand-name and some generic prescription drugs were reduced effective September 26, 2009. We have reached understandings with most of our commercial third-party payors where we participate as pharmacy providers 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 expect reduced Medicaid reimbursement levels in fiscal 2010.

Operating expenses, which include selling, general and administrative expenses (including integration and other merger-related expenses), depreciation and amortization related to selling, general and administrative activities and retail specialty pharmacy store and administrative payroll, employee benefits and occupancy costs increased to 1.9% of net revenues in 2009, compared to 1.8% and 2.2% in 2008 and 2007, respectively.

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

During 2009, the increase in operating expenses is primarily related to (i) increased litigation reserves, (ii) the dissolution of our joint venture with Universal American Corporation ("UAC") at the end of fiscal 2008, the income from which was historically an offset to operating expenses, and (iii) the inclusion of a full year of RxAmerica' s operating expenses during 2009.

During 2008, comparable operating expenses decreased 9.8% to $772 million (or 1.8% of net revenues), compared to $856 million (or 2.0% of net revenues) during 2007. Our comparable results include incremental depreciation and amortization expense resulting from the fixed and intangible assets recorded in connection with the Caremark Merger, but exclude merger-related expenses and integration costs.

Retail Pharmacy Segment

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

In millions	Fiscal Year Ended		
	2009	2008[1][2]	2007[1]
Net revenues	**$55,355**	$48,990	$45,087
Gross profit	**16,593**	14,741	13,111
Gross profit % of net revenues	**30.0 %**	30.1 %	29.1 %
Operating expenses	**12,434**	10,988	10,151
Operating expenses % of net revenues	**22.5 %**	22.4 %	22.5 %
Operating profit	**4,159**	3,753	2,960
Operating profit % of net revenues	**7.5 %**	7.7 %	6.6 %
Net revenue increase:			
Total	**13.0 %**	8.7 %	11.9 %
Pharmacy	**13.1 %**	8.1 %	10.9 %
Front Store	**12.7 %**	9.9 %	14.0 %
Same store sales increase:[3]			
Total	**5.0 %**	4.5 %	5.3 %
Pharmacy	**6.9 %**	4.8 %	5.2 %
Front Store	**1.2 %**	3.6 %	5.3 %

Generic dispensing rates	**69.9**	**%**	67.4	%	63.2	%
Pharmacy % of net revenues	**67.5**	**%**	67.5	%	67.8	%
Third party % of pharmacy revenue	**96.9**	**%**	96.1	%	95.3	%
Retail prescriptions filled	**616.5**		559.0		527.5	

(1) 2008 and 2007 have been revised to conform to the current presentation of our Retail Pharmacy segment as discussed in the Overview of Our Business section on Management' s Discussion and Analysis of Financial Condition and Results of Operations.

(2) 2008 includes the results of the Longs Drug Stores from the acquisition date (October 20, 2008) forward.

(3) Same store sales increase includes the Longs Drug Stores beginning in November 2009 and the stores acquired from Albertson' s, Inc. beginning in July 2007.

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

During 2009, net revenues from the Longs Drug Stores increased net revenues by $3.4 billion, compared to 2008. This increase is primarily due to a full year of net revenues associated with the Longs Drug Stores versus a partial quarter in 2008.

Three fewer days in the 2009 fiscal year negatively impacted net revenues by $403 million, compared to 2008.

During 2009, pharmacy same store sales were positively impacted by the growth of our Maintenance Choice program.

During 2008, net revenues from the Longs Drug Stores increased net revenues by $1.0 billion, compared to 2007.

Four additional days in the 2008 fiscal year increased net revenues by $608 million, compared to 2007.

As of December 31, 2009, we operated 7,025 retail stores, compared to 6,923 retail stores on December 31, 2008. Total net revenues from new stores (excluding acquired stores) contributed approximately 1.6%, 1.5%, and 1.3% to our total net revenue percentage increase in 2009, 2008 and 2007, respectively.

Pharmacy revenue growth continued to benefit from the introduction of a prescription drug benefit under Medicare Part D, 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.

Pharmacy revenue dollars continue to be negatively impacted in all years by the conversion of brand named drugs to equivalent generic drugs, which typically have a lower selling price. In addition, our pharmacy growth has also been affected by a decline in the number of significant new brand named drug introductions, higher consumer co-payments and co-insurance arrangements, and an increase in the number of over-the-counter remedies that were historically only available by prescription.

Gross profit, which includes net revenues less the cost of merchandise sold during the reporting period and the related purchasing costs, warehousing costs, delivery costs and actual and estimated inventory losses, as a percentage of net revenues was 30.0% in 2009. This compares to 30.1% in 2008 and 29.1% in 2007.

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

Three fewer days in the 2009 fiscal year negatively impacted gross profit by $123 million, compared to 2008.

During 2009, our front-store revenues were 32.5% of total revenues, compared to 32.5% and 32.2% in 2008 and 2007, respectively. On average, our gross profit on front-store revenues is higher than our average gross profit on pharmacy revenues.

During 2009, our front-store gross profit rate was negatively impacted by increased sales of promotional related items, which were partially offset by increases in private label and proprietary brand product sales, which normally yield a higher gross profit rate than other front-store products.

During 2009 and 2008, our pharmacy gross profit rate continued to benefit from an increase in generic drug revenues, which normally yield a higher gross profit rate than equivalent brand name drug revenues. However, the increased use of generic drugs has augmented the efforts of third party payors to reduce reimbursement payments to retail pharmacies for prescriptions. This trend, which we expect to continue, reduces the benefit we realize from brand to generic product conversions.

Sales to customers covered by third party insurance programs have continued to increase and, thus, have become a larger component of our total pharmacy business. On average, our gross profit on third party pharmacy revenues is lower than our gross profit on cash pharmacy revenues. Third party pharmacy revenues were 96.9% of pharmacy revenues in 2009, compared to 96.1% and 95.3% of pharmacy revenues in 2008 and 2007, respectively. We expect this trend to continue.

The Federal Government' s Medicare Part D benefit is increasing prescription utilization. However, it is also decreasing our pharmacy gross profit rates as our higher gross profit business (e.g., cash customers) continued to migrate to Part D coverage during 2009.

In 2005, the Deficit Reduction Act of 2005 (the "DRA") was signed into law by the President. The DRA sought to reduce federal spending by altering the Medicaid reimbursement formula for multi-source (i.e., generic) drugs. These changes were expected to result in reduced Medicaid reimbursement rates for retail pharmacies. During 2007, CMS issued a final rule implementing provisions under the DRA regarding prescription drugs under the Medicaid program. Among other things, the rule defines Average Manufacturer Price ("AMP") and "best price," and specifies the items that must be included and excluded in the calculation of each (the "AMP Rule"). In October 2008, approximately ten months after the U.S. District Court for the District of Columbia preliminarily enjoined CMS from implementing relevant portions of the AMP Rule, CMS issued a rule, subject to comment, which modified the definition of multiple source drugs, a component of the AMP calculation. The proposed rule seeks to address one of the legal challenges on which the injunction was issued. However, opponents of this new rule have asserted that the revised definition continues to be inconsistent with the DRA. In the event health care reform legislation is adopted, such legislation will likely include a provision to correct the definitional issues with the AMP. As a result of the above, we cannot predict the extent or timing of implementation of the AMP Rule, its effect on Medicaid reimbursement or its impact on the Company.

In conjunction with a recently approved class action settlement with two entities that publish the AWP of pharmaceuticals, the AWP for many brand-name and some generic prescription drugs were reduced effective September 26, 2009. We have reached understandings with most of our commercial third-party payors where we participate as pharmacy providers 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 expect reduced Medicaid reimbursement levels in fiscal 2010.

Four additional days in the 2008 fiscal year increased gross profit by $190 million, compared to 2007.

During 2008, our front-store gross profit rate benefited from improved product mix (including increases in private label and proprietary brand product sales, which normally yield a higher gross profit rate than other front-store products) and benefits derived from our ExtraCare loyalty program.

During 2008, our pharmacy gross profit rate continued to benefit from a portion of the purchasing synergies resulting from the Caremark Merger.

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.

Operating expenses, which include store and administrative payroll, employee benefits, store and administrative occupancy costs, selling expenses, advertising expenses, administrative expenses and depreciation and amortization expense increased slightly to 22.5% of net revenues in 2009, compared to 22.4% and 22.5% of net revenues in 2008 and 2007, respectively.

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

Three fewer days in the 2009 fiscal year positively impacted operating expenses by $92 million, compared to 2008.

During 2009, operating expenses as a percentage of net revenues increased as a result of integration costs associated with the Longs Acquisition.

Four additional days in the 2008 fiscal year increased operating expenses by $135 million, compared to 2007.

During 2008, operating expenses as a percentage of net revenues continued to be impacted by an increase in generic drug revenues. Generic drugs typically have a lower selling price than their brand named equivalents.

Corporate Segment

Operating expenses increased $78 million, or 16.9% and $50 million, or 12.2% during fiscal 2009 and fiscal 2008, respectively. Operating expenses within the Corporate segment include executive management, corporate relations, legal, compliance, human resources, corporate information technology and finance related costs. Operating expenses increased during 2009 primarily due to higher legal fees associated with increased litigation activity, depreciation and compensation and benefit costs. Operating expenses increased during 2008 primarily related to depreciation and compensation and benefit related 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, strengthen our financial position and maintain flexibility for future strategic initiatives. We continuously assess our working capital needs, debt and leverage levels, capital expenditure requirements, approximately $3.9 billion and $3.2 billion in 2008 and 2007, respectively. 2009 includes a full year of net cash provided by operating activities from the Longs Acquisition compared to 2008. The increase in net cash provided by operating activities during 2009 was primarily due to increased net income, offset by an increase in inventory purchases primarily associated with pharmacy pre-buy opportunities and our increased store count. 2008 includes a full year of net cash provided by operating activities from Caremark, compared to 2007, which includes Caremark from the merger date (March 22, 2007) forward. 2008 also includes net cash provided by operating activities from the Longs Acquisition from the acquisition date (October 20, 2008) forward.

Net cash used in investing activities decreased to approximately $1.1 billion in 2009. This compares to approximately $4.6 billion and $3.1 billion in 2008 and 2007, respectively. The decrease in net cash used in investing activities was primarily due to a reduction in acquisition activities in 2009 and an increase in sale-leaseback transactions. The increase in net cash used in investing activities during 2008 was primarily due to the Longs Acquisition. The $3.1 billion of net cash used in investing activities during 2007 was primarily due to the Caremark Merger.

Gross capital expenditures totaled approximately $2.5 billion during 2009, compared to approximately $2.2 billion in 2008 and $1.8 billion 2007. The increase in gross capital expenditures during 2009 was primarily due to resets related to stores acquired as part of the Longs Acquisition.

Proceeds from sale-leaseback transactions totaled approximately $1.6 billion in 2009. This compares to $204 million in 2008 and $601 million in 2007. Under the sale-leaseback transactions, the properties are sold at fair value, which approximates net book value, and the resulting leases qualify and are accounted for as operating leases. The specific timing and amount of future sale-leaseback transactions will vary depending on future market conditions and other factors. The significant increase in 2009 was primarily due to the deferral of transactions in 2008 due to market conditions at that time.

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

	2009	2008	2007
Total stores (beginning of year)	**6,981**	6,301	6,205
New and acquired stores[1]	**175**	719	140

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 increased to approximately $4.0 billion in 2009. This compares to

Closed stores	**(82)**	(39)	(44)
Total stores (end of year)	**7,074**	6,981	6,301
Relocated stores[2]	**110**	129	137

(1) 2008 includes 529 Longs Drug Stores that were acquired as part of the Longs Acquisition.

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

Net cash used in financing activities was approximately $3.2 billion in 2009, compared to net cash provided by financing activities of $929 million in 2008 and net cash provided by financing activities of $378 million in 2007. Net cash used in financing activities during 2009 was primarily due to approximately $2.5 billion of share repurchases associated with the share repurchase programs described below, the net reduction of approximately $2.2 billion of our outstanding commercial paper borrowings, the repayment of $500 million of borrowings outstanding under our bridge credit facility used to finance the Longs Acquisition and the payment of $439 million of dividends on our common stock. This was partially offset by the net increase in long-term debt of approximately $2.1 billion and proceeds from the exercise of stock options of $250 million. Net cash provided by financing activities during 2008 was primarily due to increased short-term and long-term borrowings used to fund the Longs Acquisition and retire $353 million of debt assumed as part of the Longs Acquisition. Net cash provided by financing activities during 2007 was primarily due to the increase in long-term borrowings used to fund the special cash dividend paid to Caremark shareholders in connection with the Caremark Merger and was offset, in part, by the repayment of short-term borrowings and the repurchase of common shares.

Share repurchase programs - On November 4, 2009, our Board of Directors authorized, effective immediately, a share repurchase program for up to $2.0 billion of our outstanding common stock (the "2009 Repurchase Program"). The share repurchase program expires in December 2011 and permits us to effect repurchases from time to time through a combination of open market repurchases, privately negotiated transactions and/or accelerated share repurchase programs. From November 4, 2009 through December 31, 2009, we repurchased 16.1 million shares of common stock for approximately $500 million pursuant to the 2009 Repurchase Program. The 2009 Repurchase Program may be modified, extended or terminated by our Board of Directors at any time.

On May 7, 2008, our Board of Directors authorized, effective May 21, 2008, a share repurchase program for up to $2.0 billion of our outstanding common stock (the "2008 Repurchase Program"). From May 21, 2008 through December 31, 2008, we repurchased approximately 0.6 million shares of common stock for $23 million under the 2008 Repurchase Program. During the year ended December 31, 2009, we repurchased approximately 57.0 million shares of common stock for approximately $2.0 billion completing the 2008 Repurchase Program.

On May 9, 2007, our Board of Directors authorized a share repurchase program for up to $5.0 billion of our outstanding common stock. The share repurchase program was completed during 2007 through a $2.5 billion fixed dollar accelerated share repurchase agreement (the "May ASR agreement"), under which final settlement occurred in October 2007 and resulted in the repurchase of approximately 67.5 million shares of common stock; an open market repurchase program, which concluded in November 2007 and resulted in approximately 5.3 million shares of common stock being repurchased for approximately $212 million; and a $2.3 billion dollar fixed accelerated share repurchase agreement (the "November ASR agreement"), which resulted in an initial 51.6 million shares of common stock being purchased and placed into treasury stock as of December 29, 2007. The final settlement under the November ASR agreement occurred on March 28, 2008 and resulted in us receiving an additional 5.7 million shares of common stock, which were placed into treasury stock as of March 29, 2008.

In connection with the Caremark Merger, on March 28, 2007, we commenced a tender offer to purchase up to 150 million common shares, or about 10%, of our outstanding common stock at a price of $35.00 per share. The offer to purchase shares expired on April 24, 2007 and resulted in approximately 10.3 million shares being tendered. The shares were placed into our treasury account.

Short-term borrowings - We had $315 million of commercial paper outstanding at a weighted average interest rate of 0.31% as of December 31, 2009. In connection with our commercial paper program, we maintain a $675 million, five-year unsecured back-up credit facility, which expires on June 2, 2010, a $1.4 billion, five-year unsecured back-up credit facility, which expires on May 12, 2011, and a $1.3 billion, five-year unsecured back-up credit facility, which expires on March 12, 2012. The credit facilities allow for borrowings at various rates that are dependent, in part, on our public debt rating. There were no borrowings outstanding under the back-up credit facilities. We intend to renew our back-up credit facility which expires in June 2010.

Long-term borrowings - On September 8, 2009, we issued $1.5 billion of 6.125% unsecured senior notes due September 15, 2039 (the "September 2009 Notes"). The September 2009 Notes pay interest semi-annually and may be redeemed, in whole or in part, at a defined redemption price plus accrued interest. The net proceeds were used to repay a portion of our outstanding commercial paper borrowings, $650 million of unsecured senior notes and for general corporate purposes.

On March 10, 2009, we issued $1.0 billion of 6.60% unsecured senior notes due March 15, 2019 (the "March 2009 Notes"). The March 2009 Notes pay interest semi-annually and may be redeemed, in whole or in part, at a defined redemption price plus accrued interest. The net proceeds were used to repay the bridge credit facility, a portion of our outstanding commercial paper borrowings and for general corporate purposes.

On July 1, 2009, we issued a $300 million unsecured floating rate senior note due January 30, 2011 (the "the 2009 Floating Rate Note"). The 2009 Floating Rate Note pays interest quarterly. The net proceeds from the 2009 Floating Rate Note will be used for general corporate purposes.

On September 10, 2008, we issued $350 million of floating rate senior notes due September 10, 2010 (the "2008 Notes"). The 2008 Notes pay interest quarterly and may be redeemed at any time, in whole or in part at a defined redemption price plus accrued interest. The net proceeds from the 2008 Notes were used to fund a portion of the Longs Acquisition.

On May 22, 2007, we issued $1.75 billion of floating rate senior notes due June 1, 2010, $1.75 billion of 5.75% unsecured senior notes due June 1, 2017, and $1.0 billion of 6.25% unsecured senior notes due June 1, 2027 (collectively the "2007 Notes"). Also on May 22, 2007, we entered into an underwriting agreement pursuant to which we agreed to issue and sell $1.0 billion of Enhanced Capital Advantaged Preferred Securities ("ECAPS") due June 1, 2062 to the underwriters. The ECAPS bear interest at 6.30% per year until June 1, 2012 at which time they will pay interest based on a floating rate. The 2007 Notes and the ECAPS pay interest semiannually and may be redeemed at any time, in whole or in part at a defined redemption price plus accrued interest. The net proceeds from the 2007 Notes and ECAPS were used to repay the bridge credit facility and a portion of the outstanding commercial paper borrowings.

Our credit facilities, backup credit facility, unsecured senior notes and ECAPS contain customary restrictive financial and operating covenants. These covenants do not include a requirement for the acceleration of our debt maturities in the event of a downgrade in our credit rating. We do not believe the restrictions contained in these covenants materially affect our financial or operating flexibility.

As of December 31, 2009 and 2008 we had no freestanding derivatives in place.

Debt Ratings - As of December 31, 2009, our long-term debt was rated "Baa2" by Moody' s with a stable outlook and "BBB+" by Standard & Poor' s with a negative 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, the Longs Acquisition, the Caremark Merger and other financial information. Although we currently believe our long-term debt ratings will remain investment grade, we cannot guarantee the future actions of Moody' s and/or Standard & Poor' s. Our debt ratings have a direct impact on our future borrowing costs, access to capital markets and new store operating lease costs.

Quarterly Dividend Increase - On January 12, 2010, the Company' s Board of Directors approved a 15% increase in the quarterly dividend on the common stock of the Company to $0.0875 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, 2009, the Company guaranteed approximately 70 such store leases (excluding the lease guarantees related to Linens 'n Things), with the maximum remaining lease term extending through 2018. Management believes the ultimate disposition of any of the remaining lease guarantees will not have a material adverse effect on the Company' s consolidated financial condition or future cash flows. Please see "Loss from Discontinued Operations" previously in this document for further information regarding our guarantee of certain Linens 'n Things' store lease obligations.

Following is a summary of our significant contractual obligations as of December 31, 2009:

In millions	Payments Due by Period				
	Total	2010	2011 to 2012	2013 to 2014	Thereafter
Operating leases	$26,913	$2,094	$ 3,830	$ 3,512	$17,477
Leases from discontinued operations	150	5	48	23	74
Long-term debt	10,706	2,102	2,103	551	5,950
Interest payments on long-term debt[1]	7,307	559	1,058	980	4,710
Other long-term liabilities reflected in our consolidated balance sheet	273	76	50	50	97
Capital lease obligations	154	2	7	9	136
	$45,503	$4,838	$ 7,096	$ 5,125	$28,444

(1) Interest payments on long-term debt are calculated on outstanding balances and interest rates in effect on December 31, 2009.

Critical Accounting Policies

We prepare our consolidated financial statements in conformity with generally accepted accounting principles, which require management to make certain estimates and apply judgment. We base our estimates and judgments on historical experience, current trends and other factors that management believes to be important at the time the consolidated financial statements are prepared. On a regular basis, we review our accounting policies and how they are applied and disclosed in our consolidated financial statements. While we believe the historical experience, current trends and other factors considered, support the preparation of our consolidated financial statements in conformity with generally accepted accounting principles, actual results could differ from our estimates, and such differences could be material.

Our significant accounting policies are discussed in Note 1 to our consolidated financial statements. We believe the following accounting policies include a higher degree of judgment and/or complexity and, thus, are considered to be critical accounting policies. The critical accounting policies discussed later in this document are applicable to each of our business segments. We have discussed the development and selection of our critical accounting

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

We evaluate the recoverability of certain long-lived assets, including intangible assets with finite lives, but excluding goodwill and intangible assets with indefinite lives, which are tested for impairment using separate tests, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. We group and evaluate these long-lived assets for impairment at the lowest level at which individual cash flows can be identified. When evaluating these long-lived assets for potential impairment, we first compare the carrying amount of the asset group to the asset group' s estimated future cash flows (undiscounted and without interest charges). If the estimated future cash flows are less than the carrying amount of the asset group, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the asset group to the asset group' s estimated future cash flows (discounted and with interest charges). If required, an impairment loss is recorded for the portion of the asset group' s carrying value that exceeds the asset group' s estimated future cash flows (discounted and with interest

policies with the Audit Committee of our Board of Directors and the Audit Committee has reviewed our disclosures relating to them.

Goodwill and Intangible Assets

Identifiable intangible assets consist primarily of trademarks, client contracts and relationships, favorable and unfavorable leases and covenants not to compete. These intangible assets arise primarily from the allocation of the purchase price of businesses acquired to identifiable intangible assets based on their respective fair market values at the date of acquisition.

charges). Our long-lived asset impairment loss calculation contains uncertainty since we must use judgment to estimate each asset group' s future sales, profitability and cash flows. When preparing these estimates, we consider historical results and current operating trends and our consolidated sales, profitability and cash flow results and forecasts.

These estimates can be affected by a number of factors including, but not limited to, general economic conditions, efforts of third party organizations to reduce their prescription

drug costs and/or increased member co-payments, the continued efforts of competitors to gain market share and consumer spending patterns.

Goodwill and indefinitely-lived intangible assets are subject to impairment reviews annually, or if changes or events indicate the carrying value may not be recoverable.

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

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

Goodwill is tested 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' s carrying amount exceeds its fair value, the second step of the impairment test is performed to measure the amount of impairment loss, if any. The second step of the impairment test compares the implied fair value of the reporting unit' s goodwill with the carrying amount of the goodwill. If the carrying amount of the reporting unit' s goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to that excess.

Our impairment loss calculation contains uncertainty since we must use judgment to estimate each reporting unit' s future revenues, profitability and cash flows as well as comparability with recent transactions in the industry. When preparing these estimates, we consider each reporting unit' s historical results and current operating trends and our consolidated revenues, profitability and cash flow results and forecasts. These estimates can be affected by a number of factors including, but not limited to, general economic conditions, efforts of third party organizations to reduce their prescription drug costs and/or increase member co-payments, the continued efforts of competitors to gain market share and consumer spending patterns.

The carrying value of goodwill and intangible assets covered by this critical accounting policy was $36 billion as of December 31, 2009. We did not record any impairment losses related to goodwill or intangible assets during 2009, 2008 or 2007.

Although we believe we have sufficient current and historical information available to us to test for impairment, it is possible that actual cash flows could differ from the estimated cash flows used in our impairment tests. Due to the nature of the uncertainties discussed previously in this document, we cannot determine a reasonably likely change.

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

Closed Store Lease Liability

We account for closed store lease termination costs 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 $586 million as of December 31, 2009. This amount is net of $325 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 $33 million as of December 31, 2009.

We have not made any material changes in the reserve methodology used to record closed store lease reserves during the past three years.

Self-Insurance Liabilities

We are self-insured for certain losses related to general liability, workers' compensation and auto liability, although we maintain stop loss coverage with third party insurers to limit our total liability exposure. We are also self-insured for certain losses related to health and medical liabilities.

The estimate of our self-insurance liability contains uncertainty since we must use judgment to estimate the ultimate cost that will be incurred to settle reported claims and unreported claims for incidents incurred but not reported as of the balance sheet date. When estimating our self-insurance liability, we consider a number of factors, which include, but are not limited to, historical claim experience, demographic factors, severity factors and other standard insurance industry actuarial assumptions. On a quarterly basis, we review to determine if our self-insurance liability is adequate as it relates to our general liability, workers' compensation and auto liability. Similar reviews are conducted semi-annually to determine if our self-insurance liability is adequate for our health and medical liability.

Our total self-insurance liability covered by this critical accounting policy was $449 million as of December 31, 2009. 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 $45 million as of December 31, 2009.

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

Inventory

Our inventory is stated at the lower of cost or market on a first-in, first-out basis using the retail method of accounting to determine cost of sales and inventory in our CVS/pharmacy stores, average cost to determine cost of sales and inventory in our mail service and specialty pharmacies and the cost method of accounting to determine inventory in 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 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 $132 million as of December 31, 2009. 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 $13 million as of December 31, 2009.

We have not made any material changes in the accounting methodology used to establish our inventory loss reserves during the past three years. Although we believe that the estimates discussed above are reasonable and the related calculations conform to generally accepted accounting principles, actual results could differ from our estimates, and such differences could be material.

Recently Adopted Accounting Pronouncements

In the third quarter of 2009, we adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") as the source of authoritative generally accepted accounting principles ("GAAP") for nongovernmental entities. The ASC does not change GAAP but rather takes the numerous individual pronouncements that previously constituted GAAP and reorganizes them into approximately 90 accounting topics, and displays all topics using a consistent structure. Citing particular content in the ASC involves specifying the unique numeric path to the content. The adoption of ASC did not have any effect on our consolidated results of operations, financial position or cash flows.

During the second quarter of 2009, we adopted ASC 855 *Subsequent Events* (formerly Statement of Financial Accounting Standards ("SFAS") No. 165, "Subsequent Events") which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but prior to the issuance of the financial statements. The adoption of this standard did not have a material impact on the Company' s consolidated results of operations, financial position, cash flows or disclosures.

During the first quarter of 2009, we adopted ASC 805 *Business Combinations* ("ASC 805") (formerly SFAS No. 141 (R), "Business Combinations"). ASC 805 establishes the principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. The guidance also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of business combinations. ASC 805 requires that income tax benefits related to business combinations that are not recorded at the date of acquisition are recorded as an income tax benefit in the statement of operations when subsequently recognized. Previously, unrecognized income tax benefits related to business combinations were recorded as an adjustment to the purchase price allocation when recognized. During 2009, we recognized approximately $147 million of previously unrecognized income tax benefits related to business combinations (after considering the federal benefit of state taxes), plus interest, due to the expiration of various statutes of limitations and settlements with tax authorities. As of December 31, 2009, the Company had approximately $20 million of unrecognized tax benefits (after considering the federal benefit of state taxes), plus interest, related to business combinations that would have been treated as an adjustment to the purchase price allocation if they would have been recognized under the previous business combination guidance.

In April 2009, the FASB issued further guidance as it relates to ASC 805 (formerly FASB Staff Position No. FAS 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies") to addresses the initial recognition, measurement and subsequent accounting for assets and liabilities arising from contingencies in a business combination, and requires that such assets acquired or liabilities assumed be initially recognized at fair value at the acquisition date if fair value can be determined during the measurement period. If the acquisition-date fair value cannot be determined, the asset acquired or liability assumed arising from a contingency is recognized only if certain criteria are met. This guidance also requires that a systematic and rational basis for subsequently measuring and accounting for the assets or liabilities be developed depending on their nature. The adoption of this guidance may have an impact on the accounting for future business combinations, but the impact is dependant upon acquisitions at that time.

During the first quarter of 2009, we adopted SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements"), which is now included in ASC 810 *Consolidations*. This statement requires the presentation of net income (loss) allocable to noncontrolling interests along with net income (loss) attributable to shareholders of the company to be separately disclosed in the consolidated statement of operations. Noncontrolling interests in consolidated subsidiaries are generally required to be reported as a separate component of equity in the consolidated balance sheet, apart from the equity of the parent company. However, a redeemable noncontrolling interest subject to a put option, which may require the purchase of an interest in a consolidated subsidiary from a noncontrolling interest holder, is required to be classified outside of shareholders' equity.

During the first quarter of 2008, we adopted additional guidance within ASC 715-60 *Defined Benefit Plans-Other Postretirement* (formerly Emerging Issues Task Force ("EITF") No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements" and EITF No. 06-10, "Accounting for Collateral Assignment

Split-Dollar Life Insurance Agreements"). The application of this guidance requires a company to recognize a liability for the discounted value of the future premium benefits that a company will incur through the death of the underlying insured and provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. The adoption of the content within ASC 715-60 did not have a material impact on our consolidated results of operations, financial position or cash flows.

Recent Accounting Pronouncement Not Yet Effective

In June 2009, the FASB issued SFAS No. 167 (not yet codified in ASC), "Amendments to FASB Interpretation No. 46(R)," ("SFAS 167"). The standard amends the content within ASC 810 Consolidations (formerly FASB Interpretations ("FIN") No. 46 (R)) to require a company to analyze whether its interest in a variable interest entity ("VIE") gives it a controlling financial interest. The determination of whether a company is required to consolidate another entity is based on, among other things, the other entity' s purpose and design and a company' s ability to direct the activities of the other entity that most significantly impact the other entity' s economic performance. Additional disclosures are required to identify a company' s involvement with the VIE and any significant changes in risk exposure due to such involvement. SFAS 167 is effective for all new and existing VIEs as of the beginning of the first fiscal year that begins after November 15, 2009. We do not believe the adoption of SFAS 167 will have a material impact on our consolidated results of operations, financial position or cash flows.

Cautionary Statement Concerning Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 (the "Reform Act") provides a safe harbor for forward-looking statements made by or on behalf of CVS Caremark Corporation. The Company and its representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in the Company' s filings with the Securities and Exchange Commission and in its reports to stockholders. Generally, the inclusion of the words "believe," "expect," "intend," "estimate," "project," "anticipate," "will," "should" and similar expressions identify statements that constitute forward-looking statements. All statements addressing operating performance of CVS Caremark Corporation or any subsidiary, events or developments that the Company expects or anticipates will occur in the future, including statements relating to revenue growth, earnings or earnings per common share growth, free cash flow, debt ratings, inventory levels, inventory turn and loss rates, store development, relocations and new market entries, as well as statements expressing optimism or pessimism about future operating results or events, are forward-looking statements within the meaning of the Reform Act.

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

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

Our business is affected by the economy in general including changes in consumer purchasing power, preferences and/or spending patterns. These changes could affect drug utilizations trends, the number of covered lives and the financial health of our PBM clients. Further, interest rate fluctuations and changes in capital market conditions may affect our ability to obtain necessary financing on acceptable terms, our ability to secure suitable store locations under acceptable terms and our ability to execute future sale-leaseback transactions under acceptable terms;

Our ability to realize the anticipated long-term strategic benefits from the Caremark Merger

Our ability to realize the planned benefits associated with the Longs Acquisition in accordance with the expected timing;

The continued efforts of health maintenance organizations, managed care organizations, pharmacy benefit management companies and other third party payors to reduce prescription drug costs and pharmacy reimbursement rates, particularly with respect to generic pharmaceuticals;

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

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

The effect on our Pharmacy Services business of a declining margin environment attributable to increased competition in the pharmacy benefit management industry and increased client demands for lower prices, enhanced service offerings and/or higher service levels;

Risks related to our inability to earn and retain purchase discounts and/or rebates from pharmaceutical manufacturers at current levels;

Risks regarding the impact of the Medicare prescription drug benefit on our business;

Risks related to the change in industry pricing benchmarks that could adversely affect our financial performance;

Increased competition from other drugstore chains, supermarkets, discount retailers, membership clubs and Internet companies, as well as changes in consumer preferences or loyalties;

The risks relating to adverse developments in the health care or pharmaceutical industry generally, including, but not limited to, developments in any investigation related to the pharmaceutical industry that may be conducted by any governmental authority; and

Other risks and uncertainties detailed from time to time in our filings with the Securities and Exchange Commission.

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

Risks related to proposed health care reform.

Litigation, legislative and regulatory risks associated with our business or the retail pharmacy business, retail clinic operations and/or pharmacy benefit management industry generally;

The risks relating to changes in laws and regulations, including changes in accounting standards and taxation requirements (including tax rate changes, new tax laws and revised tax law interpretations);

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, 2009.

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, 2009.

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 report is based upon an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States).

February 26, 2010

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
CVS Caremark Corporation

We have audited CVS Caremark Corporation' s internal control over financial reporting as of December 31, 2009, 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, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of CVS Caremark Corporation as of December 31, 2009 and 2008 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three fiscal years ended December 31, 2009 of CVS Caremark Corporation and our report dated February 26, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 26, 2010

Consolidated Statements of Operations

In millions, except per share amounts	Fiscal Year Ended Dec. 31, 2009	Dec. 31, 2008	Dec. 29, 2007
Net revenues	**$98,729**	$87,472	$76,330
Cost of revenues	**78,349**	69,182	60,222
Gross profit	**20,380**	18,290	16,108
Operating expenses	**13,942**	12,244	11,314
Operating profit	**6,438**	6,046	4,794
Interest expense, net	**525**	509	435
Income before income tax provision	**5,913**	5,537	4,359
Income tax provision	**2,205**	2,193	1,722
Income from continuing operations	**3,708**	3,344	2,637
Loss from discontinued operations, net of income tax benefit	**(12)**	(132)	–
Net income	**3,696**	3,212	2,637
Preference dividends, net of income tax benefit	**–**	14	14
Net income available to common shareholders	**$3,696**	$3,198	$2,623
Basic earnings per common share:			
Income from continuing operations	**$2.59**	$2.32	$1.97

Loss from discontinued operations	**(0.01)**	(0.09)	–
Net income	**$2.58**	$2.23	$1.97
Weighted average common shares outstanding	**1,434**	1,434	1,328
Diluted earnings per common share:			
Income from continuing operations	**$2.56**	$2.27	$1.92
Loss from discontinued operations	**(0.01)**	(0.09)	–
Net income	**$2.55**	$2.18	$1.92
Weighted average common shares outstanding	**1,450**	1,469	1,372
Dividends declared per common share	**$0.30500**	$0.25800	$0.22875

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

In millions, except per share amounts	December 31, 2009	2008
Assets:		
Cash and cash equivalents	**$1,086**	$1,352
Short-term investments	**5**	–
Accounts receivable, net	**5,457**	5,384
Inventories	**10,343**	9,153
Deferred income taxes	**506**	435
Other current assets	**140**	202
Total current assets	**17,537**	16,526
Property and equipment, net	**7,923**	8,125
Goodwill	**25,680**	25,494
Intangible assets, net	**10,127**	10,446
Other assets	**374**	369
Total assets	**$61,641**	$60,960
Liabilities:		
Accounts payable	**$3,560**	$3,801
Claims and discounts payable	**3,075**	2,814

Accrued expenses	**3,246**	3,178
Short-term debt	**315**	3,044
Current portion of long-term debt	**2,104**	653
Total current liabilities	**12,300**	13,490
Long-term debt	**8,756**	8,057
Deferred income taxes	**3,678**	3,702
Other long-term liabilities	**1,102**	1,137
Commitments and contingencies (Note 12)		
Redeemable noncontrolling interest	**37**	–
Shareholders' equity:		
Preferred stock, par value $0.01: 0.1 shares authorized; none issued or outstanding	**–**	–
Preference stock, series one ESOP convertible, par value $1.00: 50 shares authorized; no issued and outstanding shares at December 31, 2009 and 4 shares issued and outstanding at December 31, 2008	**–**	191
Common stock, par value $0.01: 3,200 shares authorized; 1,612 shares issued and 1,391 shares outstanding at December 31, 2009 and 1,603 shares issued and 1,436 shares outstanding at December 31, 2008	**16**	16
Treasury stock, at cost: 219 shares at December 31, 2009 and 165 shares at December 31, 2008	**(7,610)**	(5,812)
Shares held in trust: 2 shares at December 31, 2009 and 2008	**(56)**	(56)
Capital surplus	**27,198**	27,280
Retained earnings	**16,355**	13,098

Accumulated other comprehensive loss	**(135)**	(143)
Total shareholders' equity	**35,768**	34,574
Total liabilities and shareholders' equity	**$61,641**	$60,960

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

In millions	Fiscal Year Ended Dec. 31, 2009	Dec. 31, 2008	Dec. 29, 2007
Cash flows from operating activities:			
Cash receipts from revenues	**$93,568**	$82,250	$72,533
Cash paid for inventory and prescriptions dispensed by retail network pharmacies	**(73,536)**	(64,131)	(56,319)
Cash paid to other suppliers and employees	**(13,121)**	(11,832)	(10,769)
Interest and dividends received	**5**	20	34
Interest paid	**(542)**	(574)	(468)
Income taxes paid	**(2,339)**	(1,786)	(1,781)
Net cash provided by operating activities	**4,035**	3,947	3,230
Cash flows from investing activities:			
Additions to property and equipment	**(2,548)**	(2,180)	(1,805)
Proceeds from sale-leaseback transactions	**1,562**	204	601
Acquisitions (net of cash acquired) and other investments	**(101)**	(2,651)	(1,984)
Purchase of short-term investments	**(5)**	–	–
Sale of short-term investments	–	28	–
Proceeds from sale or disposal of assets	**23**	19	106

Net cash used in investing activities	**(1,069)**	(4,580)	(3,082)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	**(2,729)**	959	242
Repayment of debt assumed in acquisition	**–**	(353)	–
Issuance of long-term debt	**2,800**	350	6,000
Repayments of long-term debt	**(653)**	(2)	(822)
Dividends paid	**(439)**	(383)	(323)
Derivative settlements	**(3)**	–	–
Proceeds from exercise of stock options	**250**	328	553
Excess tax benefits from stock-based compensation	**19**	53	98
Repurchase of common stock	**(2,477)**	(23)	(5,370)
Net cash provided by (used in) financing activities	**(3,232)**	929	378
Net increase (decrease) in cash and cash equivalents	**(266)**	296	526
Cash and cash equivalents at beginning of year	**1,352**	1,056	530
Cash and cash equivalents at end of year	**$1,086**	$1,352	$1,056
Reconciliation of net income to net cash provided by operating activities:			
Net income	**$3,696**	$3,212	$2,637

Adjustments required to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**1,389**	1,274	1,095
Stock-based compensation	**165**	92	78
Deferred income taxes and other non-cash items	**48**	(3)	39
Change in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable, net	**(86)**	(291)	280
Inventories	**(1,199)**	(488)	(448)
Other current assets	**48**	12	(59)
Other assets	**(2)**	19	(26)
Accounts payable	**4**	(64)	(181)
Accrued expenses	**(66)**	183	(168)
Other long-term liabilities	**38**	1	(17)
Net cash provided by operating activities	**$4,035**	$3,947	$3,230

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

In millions	Shares			Dollars		
	Dec. 31, 2009	Dec. 31, 2008	Dec. 29, 2007	**Dec. 31, 2009**	Dec. 31, 2008	Dec. 29, 2007
Preference stock:						
Beginning of year	**4**	4	4	**$191**	$202	$212
Conversion to common stock	**(4)**	–	–	**(191)**	(11)	(10)
End of year	**–**	4	4	**$–**	$191	$202
Common stock:						
Beginning of year	**1,603**	1,590	847	**$16**	$16	$9
Common stock issued for Caremark Merger	**–**	–	713	**–**	–	7
Stock options exercised and stock awards	**9**	13	30	**–**	–	–
End of year	**1,612**	1,603	1,590	**$16**	$16	$16
Treasury stock:						
Beginning of year	**(165)**	(154)	(22)	**$(5,812)**	$(5,620)	$(314)
Purchase of treasury shares	**(73)**	(7)	(135)	**(2,477)**	(33)	(5,379)
Conversion of preference stock	**17**	1	1	**583**	35	25
Transfer from shares held in trust	**–**	(7)	–	**–**	(272)	–
Employee stock purchase plan issuances	**2**	2	2	**96**	78	48

End of year	**(219)**	(165)	(154)	**$(7,610)**	$(5,812)	$(5,620)
Guaranteed ESOP obligation:						
Beginning of year				**$–**	$(44)	$(82)
Reduction of guaranteed ESOP obligation				–	44	38
End of year				**$–**	$–	$(44)
Shares held in trust:						
Beginning of year	**(2)**	(9)	–	**$(56)**	$(301)	$–
Transfer to treasury stock	–	7	–	–	245	–
Shares acquired through Caremark Merger	–	–	(9)	–	–	(301)
End of year	**(2)**	(2)	(9)	**$(56)**	$(56)	$(301)
Capital surplus:						
Beginning of year				**$27,280**	$26,832	$2,198
Common stock issued for Caremark Merger, net of issuance costs				–	–	23,942
Conversion of shares held in Trust to treasury stock				–	27	–
Stock option activity and stock awards				**291**	392	608
Tax benefit on stock options and stock awards				**19**	53	98
Conversion of preference stock				**(392)**	(24)	$(14)

End of year	**$27,198**	$27,280	$26,832

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

In millions	Shares			Dollars		
	Dec. 31, 2009	Dec. 31, 2008	Dec. 29, 2007	**Dec. 31, 2009**	Dec. 31, 2008	Dec. 29, 2007
Accumulated other comprehensive loss:						
Beginning of year				**$(143)**	$(50)	$(73)
Net cash flow hedges, net of income tax				**1**	3	3
Pension liability adjustment, net of income tax				**7**	(96)	20
End of year				**$(135)**	$(143)	$(50)
Retained earnings:						
Beginning of year				**$13,098**	$10,287	$7,966
Net income				**3,696**	3,212	2,637
Common stock dividends				**(439)**	(370)	(308)
Preference stock dividends				–	(14)	(15)
Tax benefit on preference stock dividends				–	1	1
Adoption of ASC 715-60 (formerly EITF 06-04 and 06-10)				–	(18)	–
Adoption of ASC 740 (formerly FIN 48)				–	–	6
End of year				**$16,355**	$13,098	$10,287
Total shareholders' equity				**$35,768**	$34,574	$31,322

Comprehensive income:

Net income	**$3,696**	$3,212	$2,637
Net cash flow hedges, net of income tax	**1**	3	3
Pension liability adjustment, net of income tax	**7**	(96)	20
Comprehensive income	**$3,704**	$3,119	$2,660

See accompanying notes to consolidated financial statements.

1 Significant Accounting Policies

Description of business - CVS Caremark Corporation (the "Company") is the largest pharmacy health care provider (based on revenues and prescriptions filled) in the United States.

Pharmacy Services Segment (the "PSS") - The PSS provides a full range of prescription benefit management services including mail order pharmacy services, specialty pharmacy services, plan design and administration, formulary management and claims processing. The Company' s 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 our mail order pharmacies and national network of approximately 64,000 retail pharmacies to eligible members in the benefits plans maintained by our clients and utilizes its information systems to perform, among other things, safety checks, drug interaction screenings and brand to generic substitutions.

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

The PSS also provides health management programs, which include integrated disease management for 27 conditions, through Alere® and our Accordant® health management offering.

In addition, through our SilverScript Insurance Company ("SilverScript") and Accendo Insurance Company ("Accendo") subsidiaries, the PSS is a national provider of drug benefits to eligible beneficiaries under the Federal Government' s Medicare Part D program. The PSS acquired Accendo in the Longs Acquisition (defined later in Note 2), and, effective January 1, 2009, Accendo replaced RxAmerica® as the Medicare-approved prescription drug plan for the RxAmerica Medicare Part D drug benefit plans.

The pharmacy services business 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 Caremark Pharmacy Services®, Caremark, CVS Caremark™, CarePlus CVS/ pharmacy, CarePlus™, RxAmerica Accordant Care™ and TheraCom® names. As of December 31, 2009, the Pharmacy Services segment operated 49 retail specialty pharmacy stores, 18 specialty mail order pharmacies and six mail service pharmacies located in 25 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 our CVS/pharmacy and Longs Drug retail stores and online through CVS.com®.

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

As of December 31, 2009, the retail pharmacy business included 7,025 retail drugstores (of which 6,964 operated a pharmacy) located in 41 states and the District of Columbia operating primarily under the CVS/pharmacy® name, the online retail website, CVS.com® and 569 retail health care clinics operating under the MinuteClinic® name (of which 557 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 our 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.

Fiscal Year Change - On December 23, 2008, the Board of Directors of the Company approved a change in the Company' s fiscal year end from the Saturday nearest December 31 of each year to December 31 of each year to better reflect the Company' s position in the health care, rather than the retail, industry. The fiscal year change was effective beginning with the fourth quarter of fiscal 2008.

Following is a summary of the impact of the fiscal year change:

Fiscal Year	Fiscal Year-End	Fiscal Period	Fiscal Period Includes
2009	December 31, 2009	January 1, 2009 - December 31, 2009	365 days
2008	December 31, 2008	December 30, 2007 - December 31, 2008	368 days
2007	December 29, 2007	December 31, 2006 - December 29, 2007	364 days

Unless otherwise noted, all references to years relate to the above fiscal years.

Reclassifications - Certain reclassifications have been made to the 2008 and 2007 consolidated financial statements to conform to the current year presentation.

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.

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, 2009. The Company had no short-term investments at December 31, 2008.

Fair value of financial instruments - As of December 31, 2009, the Company' s financial instruments include cash and cash equivalents, accounts receivable, accounts payable, short-term debt and current portion of short-term debt. Due to the short-term nature of these instruments, the Company' s carrying value approximates fair value. The carrying amount and estimated fair value of long-term debt was $8.6 billion and $8.8 billion, respectively, as of December 31, 2009. The fair value of long-term debt was estimated based on rates currently offered to the Company for debt with similar terms and maturities. The Company had outstanding letters of credit, which guaranteed foreign trade purchases, with a fair value of $9 million and $7 million as of December 31, 2009 and 2008, respectively. There were no outstanding investments in derivative financial instruments as of December 31, 2009 and 2008.

Accounts receivable - Accounts receivable are stated net of an allowance for doubtful accounts of $272 million and $189 million as of December 31, 2009 and 2008, respectively. The balance primarily includes amounts due from third party providers (e.g., pharmacy benefit managers, insurance companies and governmental agencies) and vendors as well as clients, members and manufacturers.

Inventories - Inventories are stated at the lower of cost or market on a first-in, first-out basis using the retail method of accounting to determine cost of sales and inventory in our CVS/pharmacy stores, average cost to determine cost of sales and inventory in our mail service and specialty pharmacies and the cost method of accounting to determine inventory in our distribution centers. Physical inventory counts are taken on a regular basis in each store and a continuous cycle count process is the primary procedure used to validate the inventory balances on hand in each distribution center to ensure that the amounts reflected in the accompanying consolidated financial statements are properly stated. During the interim period between physical inventory counts, the Company

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, time deposits, as well as other available-for-sale debt securities that are classified as cash and cash equivalents within the accompanying consolidated balance sheets, as these funds are highly

accrues for anticipated physical inventory losses on a location-by-location basis based on historical results and current trends. The cost method of accounting was used to determine inventory in the Longs Drug Stores as of December 31, 2008. The Longs Drug Stores began using the retail method of accounting beginning in the second quarter of 2009.

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

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

In millions	**2009**	2008
Land	**$1,076**	$1,304
Building and improvements	**2,020**	1,525
Fixtures and equipment	**6,322**	6,216
Leasehold improvements	**2,673**	2,581
Software	**853**	666
	12,944	12,292
Accumulated depreciation and amortization	**(5,021)**	(4,167)
	$7,923	$8,125

The gross amount of property and equipment under capital leases was $191 million and $182 million as of December 31, 2009 and 2008, respectively.

The Company capitalizes application development stage costs for significant internally developed software projects. These costs are

Impairment of long-lived assets - The Company groups and evaluates fixed and finite-lived intangible assets, excluding goodwill, for impairment at the lowest level at which individual cash flows can be identified. When evaluating assets for potential impairment, the Company first compares the carrying amount of the asset group to the individual store' s estimated future cash flows (undiscounted and without interest charges). If the estimated future cash flows used in this analysis are less than the carrying amount of the asset group, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the asset group to the asset group' s estimated future cash flows (discounted and with interest charges). If required, an impairment loss is recorded for the portion of the asset group' s carrying value that exceeds the asset group' s estimated future cash flows (discounted and with interest charges).

Redeemable noncontrolling interest - The Company has an approximately 60% ownership interest in Generation Health, Inc. ("Generation Health") and consolidates Generation Health in its consolidated financial statements. The noncontrolling shareholders of Generation Health hold 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 $27 million and a maximum of $159 million, depending on certain financial metrics of Generation Health in 2014. Since the noncontrolling shareholders of Generation Health have a redemption feature as a result of the put right, the Company has classified the redeemable noncontrolling interest in Generation Health in the mezzanine section of the consolidated balance sheet outside of shareholders' equity. The Company initially recorded the redeemable noncontrolling interest at a fair value of $37 million on the date of acquisition. At the end of each reporting period, if the estimated accreted redemption value exceeds the carrying value of the noncontrolling interest, the difference is recorded as a reduction of retained earnings. Any such reductions in retained earnings would also reduce income available to common shareholders in the Company' s earnings per share calculations.

Revenue Recognition:

Pharmacy Services Segment - The PSS sells prescription drugs directly through its mail service pharmacies and indirectly through its national retail pharmacy network. The PSS recognizes revenues from prescription drugs sold by its mail service pharmacies and under national retail pharmacy network contracts where the PSS is the principal using the gross method at the contract prices negotiated with its clients. Net revenue from the PSS includes: (i) the portion of the price

amortized over the estimated useful lives of the software, which generally range from 3 to 5 years.

Goodwill - Goodwill and other indefinite-lived assets are not amortized, but are subject to impairment reviews annually, or more frequently if necessary. See Note 3 for additional information on goodwill.

Intangible assets - Purchased customer contracts and relationships are amortized on a straight-line basis over their estimated useful lives between 10 and 20 years. Purchased customer lists are amortized on a straight-line basis over their estimated useful lives of up to 10 years. Purchased leases are amortized on a straight-line basis over the remaining life of the lease. See Note 3 for additional information about intangible assets.

the client pays directly to the PSS, net of any volume-related or other discounts paid back to the client (see "Drug Discounts" later in this document), (ii) the price paid to the PSS ("Mail Co-Payments") or a third party pharmacy in the PSS' national retail pharmacy network ("Retail Co-Payments") by individuals included in its clients' benefit plans and (iii) administrative fees for national retail pharmacy network contracts where the PSS is not the principal as discussed later in this document.

The PSS recognizes revenue 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 Company has established the following revenue recognition policies 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 Company has performed substantially all of its obligations under its client contracts and does not experience a significant level of reshipments.

Revenues generated from prescription drugs sold by third party pharmacies in the PSS' national retail pharmacy network and associated administrative fees are recognized at the PSS' point-of-sale, which is when the claim is adjudicated by the PSS' online claims processing system.

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

Drug Discounts - The PSS deducts from its revenues any discounts paid to its clients. The PSS pays discounts to its clients in accordance with the terms of its client contracts, which are normally based on a fixed discount per prescription for specific products dispensed or a percentage of manufacturer discounts received for specific products dispensed. The liability for discounts due to the PSS' 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"). The PSS' net revenues include insurance premiums earned by the PDP, which are determined based on the PDP' s annual bid and related contractual arrangements with the Centers for Medicare and Medicaid Services ("CMS"). The insurance premiums include a beneficiary premium, which is the responsibility of the PDP member, but is subsidized by CMS in the case of low-income members, and a direct premium paid by CMS. Premiums collected in advance are initially deferred in accrued expenses and are then recognized in net revenues over the period in which members are entitled to receive benefits.

In addition to these premiums, the PSS' net revenues include co-payments, deductibles and co-insurance (collectively, the "Member Co-Payments") related to PDP members' actual prescription claims in its net revenues. In certain cases, CMS subsidizes a portion of these Member Co-Payments and pays the PSS an estimated prospective Member Co-Payment subsidy amount each month. The prospective Member Co-Payment subsidy amounts received from CMS are also included in the PSS' net revenues. The Company assumes no risk for these amounts, which represented 3.5%, 1.3% and 0.8% of consolidated net revenues in 2009, 2008 and 2007, respectively. If the prospective Member Co-Payment subsidies received differ from the amounts based on actual prescription claims, the difference is recorded in either accounts receivable or accrued expenses.

The PSS accounts for CMS obligations and Member Co-Payments (including the amounts subsidized by CMS) using the gross method consistent with its revenue recognition policies for Mail Co-Payments and Retail Co-Payments (discussed previously in this document). See Note 7 for additional information about Medicare Part D.

Retail Pharmacy Segment - The RPS recognizes revenue from the sale of merchandise (other than prescription drugs) at the time the merchandise is purchased by the retail customer. Revenue from the sale of prescription drugs is recognized at the time the prescription is filled, which is or approximates when the retail customer picks up the prescription. Customer returns are not material. Revenue generated from the performance of services in the RPS' health care clinics is recognized at the time the services are performed. See Note 13 for additional information about the revenues of the Company' s business segments.

Cost of revenues:

Pharmacy Services Segment - The PSS' cost of revenues includes: (i) the cost of prescription drugs sold during the reporting period directly through its mail service pharmacies and indirectly through its national retail pharmacy network, (ii) shipping and handling costs and (iii) the operating costs of its mail service pharmacies and 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' national retail pharmacy network under contracts where it is the principal, net of any volume-related or other discounts.

Retail Pharmacy Segment - The RPS' cost of revenues includes: the cost of merchandise sold during the reporting period and the related purchasing costs, warehousing and delivery costs (including depreciation and amortization) and actual and estimated inventory losses. See Note 13 for additional information about the cost of revenues of the Company' s business segments.

Vendor allowances and purchase discounts:

The Company accounts for vendor allowances and purchase discounts 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.

The PSS earns purchase discounts at various points in its business cycle (e.g., when the product is purchased, when the vendor is paid or when the product is dispensed) for products sold through its mail service pharmacies and third party pharmacies included in its national retail pharmacy network. In addition, the PSS receives fees from pharmaceutical manufacturers for administrative services. Purchase discounts and administrative service fees are recorded as a reduction of "Cost of revenues".

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

Insurance - The Company is self-insured for certain losses related to general liability, workers' compensation and auto liability. The Company obtains third party insurance coverage to limit exposure from these claims. The Company is also

self-insured for certain losses related to health and medical liabilities. The Company' s self-insurance accruals, which include reported claims and claims incurred but not reported, are calculated using standard insurance industry actuarial assumptions and the Company' s historical claims experience.

Store opening and closing costs - New store opening costs, other than capital expenditures, are charged directly to expense when incurred. When the Company closes a store, the present value of estimated unrecoverable costs, including the remaining lease obligation less estimated sublease income and the book value of abandoned property and equipment, are charged to expense. The long-term portion of the lease obligations associated with store closings was $424 million and $399 million in 2009 and 2008, respectively.

Advertising costs - Advertising costs are expensed when the related advertising takes place. Advertising costs, net of vendor funding (included in operating expenses), were $317 million in 2009, $324 million in 2008 and $291 million in 2007.

Interest expense, net - Interest expense was $530 million, $530 million and $468 million, and interest income was $5 million, $21 million and $33 million in 2009, 2008 and 2007, respectively. Capitalized interest totaled $39 million in 2009, $28 million in 2008 and $24 million in 2007.

Shares held in trust - As a result of the Caremark Merger (see Note 2), the Company maintains grantor trusts, which held approximately 2 million shares of its common stock at December 31, 2009 and 2008. 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 income related to the Company' s pension and postretirement plans was $203 million pre-tax ($125 million after-tax) as of December 31, 2009 and $217 million pre-tax ($132 million after-tax) as of December 31, 2008. The net impact on cash flow hedges totaled $15 million pre-tax ($10 million after-tax) and $17 million pre-tax ($11 million after-tax) as of December 31, 2009 and 2008, respectively.

Stock-based compensation - 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 3 to 5 years) using the straight-line method. Stock-based compensation costs are included in selling, general and administrative expenses.

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

Loss from discontinued operations - In connection with certain business dispositions completed between 1991 and 1997, the Company continues to guarantee store lease obligations for a number of former subsidiaries, including Linens 'n Things. On May 2, 2008, Linens Holding Co. and certain affiliates, which operate Linens 'n Things, filed voluntary petitions under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. The Company' s loss from discontinued operations includes $12 million of lease-related costs ($19 million, net of a $7 million income tax benefit) and $132 million of lease-related costs ($214 million, net of an $82 million income tax benefit) as of December 31, 2009 and 2008, respectively, which the Company believes is likely required to satisfy the lease guarantees associated with Linens 'n Things.

Earnings per common share - Basic earnings per common share is computed by dividing: (i) net earnings, after deducting the after-tax Employee Stock Ownership Plan ("ESOP") preference dividends, by (ii) the weighted average number of common shares outstanding during the year (the "Basic Shares").

When computing diluted earnings per common share for fiscal years 2008 and 2007, the Company assumed that the ESOP preference stock was converted into common stock and all dilutive stock awards were exercised. After the assumed ESOP preference stock conversion, the ESOP Trust would hold common stock rather than ESOP preference stock and would receive common stock dividends ($0.25800 per share in 2008 and $0.22875 per share in 2007) rather than ESOP preference stock dividends ($3.90 per share). Since the ESOP Trust used

the dividends it received to service its debt, the Company had to increase its contribution to the ESOP Trust to compensate it for the lower dividends. This additional contribution reduced the Company' s net earnings, which in turn, reduced the amounts that would be accrued under the Company' s incentive compensation plans.

Diluted earnings per common share is computed by dividing: (i) net earnings, after accounting for the difference between the dividends on the ESOP preference stock and common stock and after making adjustments for the incentive compensation plans, by (ii) Basic Shares plus the additional shares that would be issued assuming that all dilutive stock awards are exercised and the ESOP preference stock is converted into common stock. Options to purchase 37.7 million, 20.9 million, and 10.7 million shares of common stock were outstanding as of December 31, 2009, December 31, 2008 and December 29, 2007, respectively, but were not included in the calculation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would be antidilutive. See Note 8 for additional information about the ESOP.

Recently Adopted Accounting Pronouncements

In the third quarter of 2009, the Company adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") as the source of authoritative generally accepted accounting principles ("GAAP") for nongovernmental entities. The ASC does not change GAAP but rather takes the numerous individual pronouncements that previously constituted GAAP and reorganizes them into approximately 90 accounting topics, and displays all topics using a consistent structure. Citing particular content in the ASC involves specifying the unique numeric path to the content. The adoption of ASC did not have any effect on the Company' s consolidated results of operations, financial position or cash flows.

During the second quarter of 2009, the Company adopted ASC 855 *Subsequent Events* (formerly Statement of Financial Accounting Standards ("SFAS") No. 165, "Subsequent Events") which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but prior to the issuance of the financial statements. The adoption of this standard did not have a material impact on the Company' s consolidated results of operations, financial position, cash flows or disclosures.

During the first quarter of 2009, the Company adopted ASC 805 *Business Combinations* ("ASC 805") (formerly SFAS No. 141 (R), "Business Combinations"). ASC 805 establishes the principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. The guidance also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of business combinations. ASC 805 requires that income tax benefits related to business combinations that are not recorded at the date of acquisition are recorded as an income tax benefit in the statement of operations when subsequently recognized. Previously, unrecognized income tax benefits related to business combinations were recorded as an adjustment to the purchase price allocation when recognized. During 2009, the Company recognized approximately $147 million of previously unrecognized income tax benefits related to business combinations (after considering the federal benefit of state taxes), plus interest, due to the expiration of various statutes of limitations and settlements with tax authorities. As of December 31, 2009, the Company had approximately $20 million of unrecognized tax benefits (after considering the federal benefit of state taxes), plus interest, related to business combinations that would have been treated as an adjustment to the purchase price allocation if they would have been recognized under the previous business combination guidance.

In April 2009, the FASB issued further guidance as it relates to ASC 805 (formerly FASB Staff Position No. FAS 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies") to address the initial recognition, measurement and subsequent accounting for assets and liabilities arising from contingencies in a business combination, and requires that such assets acquired or liabilities assumed be initially recognized at fair value at the acquisition date if fair value can be determined during the measurement period. If the acquisition-date fair value cannot be determined, the asset acquired or liability assumed arising from a contingency is recognized only if certain criteria are met. This guidance also requires that a systematic and rational basis for subsequently measuring and accounting for the assets or liabilities be developed depending on their nature. The adoption of this guidance may have an impact on the accounting for future business combinations, but the effect is dependant upon acquisitions at that time.

During the first quarter of 2009, the Company adopted SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements", which is now included in ASC 810 *Consolidations*. This statement requires the presentation of net income (loss) allocable to noncontrolling interests along with net income (loss) attributable to shareholders of the

company to be separately disclosed in the consolidated statement of operations. Noncontrolling interests in consolidated subsidiaries are generally required to be reported as a separate component of equity in the consolidated balance sheet, apart from the equity of the parent company. However, a redeemable noncontrolling interest subject to a put option, which may require the purchase of an interest in a consolidated subsidiary from a noncontrolling interest holder, is required to be classified outside of shareholders' equity.

During the first quarter of 2008, the Company adopted additional guidance within ASC 715-60 *Defined Benefit Plans-Other Postretirement* (formerly Emerging Issues Task Force ("EITF") No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements" and EITF No. 06-10, "Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements"). The application of this guidance requires a company to recognize a liability for the discounted value of the future premium benefits that a company will incur through the death of the underlying insured and provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. The adoption of the content within ASC 715-60 did not have a material impact on the Company' s consolidated results of operations, financial position or cash flows.

Recent Accounting Pronouncement Not Yet Effective

In June 2009, the FASB issued SFAS No. 167 (not yet codified in ASC), "Amendments to FASB Interpretation No. 46(R)," ("SFAS 167"). The standard amends the content within ASC 810 *Consolidations* (formerly FASB Interpretations ("FIN") No. 46 (R)) to require a company to analyze whether its interest in a variable interest entity ("VIE") gives it a controlling financial interest. The determination of whether a company is required to consolidate another entity is based on, among other things, the other entity' s purpose and design and a company' s ability to direct the activities of the other entity that most significantly impact the other entity' s economic performance. Additional disclosures are required to identify a company' s involvement with the VIE and any significant changes in risk exposure due to such involvement. SFAS 167 is effective for all new and existing VIEs as of the beginning of the first fiscal year that begins after November 15, 2009. The Company does not believe the adoption of SFAS 167 will have a material impact on the Company' s consolidated results of operations, financial position or cash flows.

2 Business Combinations

Effective March 22, 2007, pursuant to the Agreement and Plan of Merger dated as of November 1, 2006, as amended (the "Merger Agreement"), Caremark Rx, Inc. was merged with a newly formed subsidiary of CVS Corporation, with Caremark Rx, Inc., L.L.C. ("Caremark") continuing as the surviving entity (the "Caremark Merger"). Following the merger, the Company changed its name to CVS Caremark Corporation.

Under the terms of the Merger Agreement, Caremark shareholders received 1.67 shares of common stock, par value $0.01 per share, of the Company for each share of common stock of Caremark, par value $0.001 per share, issued and outstanding immediately prior to the effective time of the merger. In addition, Caremark shareholders of record as of the close of business on the day immediately preceding the closing date of the merger received a special cash dividend of $7.50 per share.

CVS Corporation was considered the acquirer of Caremark for accounting purposes and the total purchase price was allocated to the assets acquired and liabilities assumed from Caremark based on their fair values as of March 22, 2007. The total consideration was approximately $26.9 billion and includes amounts related to Caremark common stock ($23.3 billion), Caremark stock options ($600 million) and special cash dividend ($3.2 billion), less shares held in trust ($300 million). The results of the operations of Caremark have been included in the consolidated statements of operations since March 22, 2007.

Effective October 20, 2008, the Company acquired Longs Drug Stores Corporation for approximately $2.6 billion (the "Longs Acquisition"). The fair value of the assets acquired and liabilities assumed were $4.4 billion and $1.8 billion, respectively. The Longs Acquisition included 529 retail drug stores, RxAmerica, LLC, which provides pharmacy benefit management services and Medicare Part D benefits and other related assets. The Company' s results of operations and cash flows include the Longs Acquisition beginning October 20, 2008.

Effective December 30, 2009, the Company acquired an approximately 60% interest in Generation Health, a genetic benefit management company for approximately $34 million in cash and issued certain put rights to the remaining noncontrolling shareholders. The put rights allow the noncontrolling shareholders to require the Company to buy their shares for cash in the future, depending on certain financial metrics of Generation Health. The fair value of the redeemable noncontrolling interest including put rights on the date of acquisition was approximately $37 million which was determined using inputs classified as Level 3 in the fair value hierarchy.

3 Goodwill and Other Intangibles

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

When evaluating goodwill for potential impairment, the Company first compares the fair value of the reporting unit to its carrying amount. 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. As the Company utilizes internal financial projections for the determination of future cash flows, the fair value methodology is considered to use inputs classified as Level 3 in the fair value hierarchy. 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 2009, 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 $25.7 billion and $25.5 billion as of December 31, 2009 and 2008, respectively. During 2009, goodwill increased primarily due to the acquisition of Generation Health and the finalization of the purchase price allocation in connection with the Longs Acquisition.

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. As this method of estimating fair value utilizes internal financial projections for determination of future cash flows, the fair value methodology is considered to use inputs classified as Level 3 in the fair value hierarchy. 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 2009, 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 indefinitely-lived assets was $6.4 billion as of December 31, 2009 and 2008. Intangible assets with finite useful lives are amortized over their estimated useful lives.

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 13.2 years. The weighted average useful lives of the Company' s customer contracts and relationships and covenants not to compete are 12.8 years. The weighted average of the Company' s favorable leases and other intangible assets are 15.3 years. Amortization expense for intangible assets totaled $430 million, $405 million and $344 million in 2009, 2008 and 2007, respectively. The anticipated annual amortization expense for these intangible assets is $418 million in 2010, $409 million in 2011, $390 million in 2012, $367 million in 2013 and $335 million in 2014.

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

	2009			2008		
In millions	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademarks (indefinitely-lived)	**$6,398**	**$ –**	**$6,398**	$6,398	$ –	$6,398
Customer contracts and relationships and covenants not to compete	**4,828**	**(1,604)**	**3,224**	4,749	(1,240)	3,509
Favorable leases and other	**756**	**(251)**	**505**	719	(180)	539
	$11,982	**$ (1,855)**	**$10,127**	$11,866	$ (1,420)	$10,446

4 Share Repurchase Program

On November 4, 2009, the Company' s Board of Directors authorized, effective immediately, a share repurchase program for up to $2.0 billion of its outstanding common stock (the "2009 Repurchase Program"). The share repurchase program expires in December 2011 and permits the Company to effect repurchases from time to time through a combination of open market repurchases, privately negotiated transactions and/or accelerated share repurchase programs. From November 4, 2009 through December 31, 2009, the Company repurchased 16.1 million shares of common stock for approximately $500 million pursuant to the 2009 Repurchase Program. The 2009 Repurchase Program may be modified, extended or terminated by the Company' s Board of Directors at any time.

On May 7, 2008, the Company' s Board of Directors authorized, effective May 21, 2008, a share repurchase program for up to $2.0 billion of its outstanding common stock (the "2008 Repurchase Program"). From May 21, 2008 through December 31, 2008, the Company repurchased approximately 0.6 million shares of common stock for $23 million under the 2008 Repurchase Program. During the year ended December 31, 2009, the Company repurchased approximately 57.0 million shares of common stock for approximately $2.0 billion completing the 2008 Repurchase Program.

On May 9, 2007, the Company' s Board of Directors authorized a share repurchase program for up to $5.0 billion of its outstanding common stock. The share repurchase program was completed during 2007 through a $2.5 billion fixed dollar accelerated share repurchase agreement (the "May ASR agreement"), under which final settlement occurred in October 2007 and resulted in the repurchase of approximately 67.5 million shares of common stock; an open market repurchase program, which concluded in November 2007 and resulted in approximately 5.3 million shares of common stock being repurchased for approximately $212 million; and a $2.3 billion dollar fixed accelerated share repurchase agreement (the "November ASR agreement"), which resulted in an initial 51.6 million shares of common stock being purchased and placed into treasury stock as of December 29, 2007. The final settlement under the November ASR agreement occurred on March 28, 2008 and resulted in the Company receiving an additional 5.7 million shares of common stock, which were placed into treasury stock as of March 29, 2008.

5 Borrowing and Credit Agreements

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

In millions	**2009**	2008
Commercial paper	**$315**	$2,544
Bridge credit facility	**–**	500
4.0% senior notes due 2009	**–**	650
Floating rate notes due 2010[(1)]	**350**	350
Floating rate notes due 2010[(1)]	**1,750**	1,750
5.75% senior notes due 2011	**800**	800
Floating rate note due 2011[(1)]	**300**	–
4.875% senior notes due 2014	**550**	550
6.125% senior notes due 2016	**700**	700
5.75% senior notes due 2017	**1,750**	1,750
6.25% senior notes due 2027	**1,000**	1,000
6.60% senior notes due 2019	**1,000**	–
6.125% note due 2039	**1,500**	–
6.302% Enhanced Capital Advantage Preferred Securities	**1,000**	1,000

Mortgage notes payable	**6**	7
Capital lease obligations	**154**	153
	11,175	11,754
Less:		
Short-term debt	**(315)**	(3,044)
Current portion of long-term debt	**(2,104)**	(653)
	$8,756	$8,057

(1) As of December 31, 2009, the weighted average interest rate for the Company' s floating rate notes due in 2010 was 0.87%.

In connection with its commercial paper program, the Company maintains a $675 million, five-year unsecured back-up credit facility, which expires on June 2, 2010, a $1.4 billion, five-year unsecured back-up credit facility, which expires on May 12, 2011 and a $1.3 billion, five-year unsecured back-up credit facility, which expires on March 12, 2012. The credit facilities allow for borrowings at various rates depending on the Company' s public debt ratings and require the Company to pay a quarterly facility fee of 0.1%, regardless of usage. As of December 31, 2009, the Company had no outstanding borrowings against the back-up credit facilities. The weighted average interest rate for short-term debt was 0.31% as of December 31, 2009 and 5.36% as of December 31, 2008.

On March 10, 2009, the Company issued $1.0 billion of 6.60% unsecured senior notes due March 15, 2019 (the "March 2009 Notes"). The March 2009 Notes pay interest semi-annually and may be redeemed, in whole or in part, at a defined redemption price plus accrued interest. The net proceeds were used to repay the bridge credit facility, a portion of the Company' s outstanding commercial paper borrowings and for general corporate purposes.

On July 1, 2009, the Company issued a $300 million unsecured floating rate senior note due January 30, 2011 (the “the 2009 Floating Rate Note”). The 2009 Floating Rate Note pays interest quarterly. The net proceeds from the 2009 Floating Rate Note were used for general corporate purposes.

On September 8, 2009, the Company issued $1.5 billion of 6.125% unsecured senior notes due September 15, 2039 (the “September 2009 Notes”). The September 2009 Notes pay interest semi-annually and may be redeemed, in whole or in part, at a defined redemption price plus accrued interest. The net proceeds were used to repay a portion of the Company’ s outstanding commercial paper borrowings, $650 million of unsecured senior notes and for general corporate purposes.

On September 10, 2008, the Company issued $350 million of floating rate senior notes due September 10, 2010 (the “2008 Notes”). The 2008 Notes pay interest quarterly and may be redeemed at any time, in whole or in part at a defined redemption price plus accrued interest. The net proceeds from the 2008 Notes were used to fund a portion of the Longs Acquisition.

On May 22, 2007, the Company issued $1.75 billion of floating rate senior notes due June 1, 2010, $1.75 billion of 5.75% unsecured senior notes due June 1, 2017, and $1.0 billion of 6.25% unsecured senior notes due June 1, 2027 (collectively the “2007 Notes”). Also on May 22, 2007, the Company entered into an underwriting agreement pursuant to which the Company agreed to issue and sell $1.0 billion of Enhanced Capital Advantaged Preferred Securities (“ECAPS”) due June 1, 2062 to the underwriters. The ECAPS bear interest at 6.30% per year until June 1, 2012 at which time they will pay interest based on a floating rate. The 2007 Notes and ECAPS pay interest semi-annually and may be redeemed at any time, in whole or in part at a defined redemption price plus accrued interest. The net proceeds from the 2007 Notes and ECAPS were used to repay a portion of the bridge credit facility and commercial paper borrowings used to fund a portion of the Longs Acquisition purchase price and retire $353 million of debt assumed as part of the Longs Acquisition.

The credit facilities, back-up credit 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, 2009 are $2.1 billion in 2010, $1.1 billion in 2011, $1.0 billion in 2012, $5 million in 2013 and $555 million in 2014.

6 Leases

The Company leases most of its retail and mail locations, 11 of its distribution centers and certain corporate offices under non-cancelable operating leases, with initial terms of 15 to 25 years and with options that permit renewals for additional periods. The Company also leases certain equipment and other assets under noncancelable operating leases, with initial terms of 3 to 10 years. Minimum rent is expensed on a straight-line basis over the term of the lease. In addition to minimum rental payments, certain leases require additional payments based on sales volume, as well as reimbursement for real estate taxes, common area maintenance and insurance, which are expensed when incurred.

The following table is a summary of the Company’ s net rental expense for operating leases for the respective years:

In millions	**2009**	2008	2007
Minimum rentals	**$1,857**	$1,691	$1,557
Contingent rentals	**61**	58	65
	1,918	1,749	1,622
Less: sublease income	**(19)**	(25)	(21)
	$1,899	$1,724	$1,601

The following table is a summary of the future minimum lease payments under capital and operating leases as of December 31, 2009:

In millions	**Capital Leases**	**Operating Leases**
2010	$17	$2,094
2011	17	1,877
2012	18	1,953
2013	18	1,855

2014	18	1,657
Thereafter	236	17,477
Total future lease payments	$324	$26,913
Less: imputed interest	(170)	
Present value of capital lease obligations	$154	

The Company finances a portion of its store development program through sale-leaseback transactions. The properties are sold at fair value, which approximates net book value, and the resulting leases qualify and are accounted for as operating leases. 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 $1.6 billion in 2009. This compares to $204 million in 2008 and $601 million in 2007.

7 Medicare Part D

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

The Company has recorded estimates of various assets and liabilities arising from its participation in the Medicare Part D program based on information in its claims management and enrollment systems. Significant estimates arising from its participation in this program include: (i) estimates of low-income cost subsidy and reinsurance amounts ultimately payable to or receivable from CMS based on a detailed claims reconciliation that will occur in 2010; (ii) estimates of amounts payable to or receivable from other PDPs for claims costs incurred as a result of retroactive enrollment changes, which were communicated by CMS after such claims had been incurred; and (iii) an estimate of amounts receivable from or payable to CMS under a risk-sharing feature of the Medicare Part D program design, referred to as the risk corridor.

8 Employee Stock Ownership Plan

The Company sponsored a defined contribution Employee Stock Ownership Plan (the "ESOP") that covered full-time employees with at least one year of service.

In 1989, the ESOP Trust issued and sold $358 million of 20-year, 8.52% notes, which were due and retired on December 31, 2008 (the "ESOP Notes"). The proceeds from the ESOP Notes were used to purchase 7 million shares of Series One ESOP Convertible Preference Stock (the "ESOP Preference Stock") from the Company. Since the ESOP Notes were guaranteed by the Company, the outstanding balance was reflected as long-term debt, and a corresponding guaranteed ESOP obligation was reflected in shareholders' equity in the consolidated balance sheet.

Each share of ESOP Preference Stock had a guaranteed minimum liquidation value of $53.45, was convertible into 4.628 shares of common stock and was entitled to receive an annual dividend of $3.90 per share.

The ESOP Trust used the dividends received and contributions from the Company to repay the ESOP Notes. As the ESOP Notes were repaid, ESOP Preference Stock was allocated to plan participants based on (i) the ratio of each year' s debt service payment to total current and future debt service payments multiplied by (ii) the number of unallocated shares of ESOP Preference Stock in the plan.

As of December 31, 2009, no shares of ESOP Preference Stock were outstanding and allocated to plan participants. On January 30, 2009, pursuant to the Company' s Amended and Restated Certificate of Incorporation (the "Charter"), the Company informed the trustee of the ESOP Trust of its intent to redeem for cash all of the outstanding shares of ESOP Preference Stock on February 24, 2009 (the "Redemption Date"). Under the Charter, at any time prior to the Redemption Date, the trustee had the right to convert the ESOP Preference Stock into shares of the Company' s Common Stock. The conversion rate at the time of the notice was 4.628 shares of Common Stock for each share of ESOP Preference Stock. The trustee exercised its right of conversion on February 23, 2009, and all outstanding shares of ESOP Preference Stock were converted into Common Stock.

Annual ESOP expense recognized is equal to (i) the interest incurred on the ESOP Notes plus (ii) the higher of (a) the principal repayments or (b) the cost of the shares allocated, less (iii) the dividends paid. Similarly, the guaranteed ESOP obligation is reduced by the higher of (i) the principal payments or (ii) the cost of shares allocated.

9 Pension Plans and Other Postretirement Benefits

During the fourth quarter of 2009, the Company adopted the new disclosure requirements of ASC 715 Subtopic 20 – *Defined Benefit Plans* (formerly FASB Staff Position ("FSP") No. FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets"), which enhances the required disclosures about plan assets in an employer' s defined benefit pension or other postretirement plan, including investment allocations decisions, inputs and valuations techniques used to measure the fair value of plan assets and significant concentrations of risks within plan assets.

Defined Contribution Plans

The Company sponsors voluntary 401(k) Savings Plans that cover substantially all employees who meet plan eligibility requirements. The Company makes matching contributions consistent with the provisions of the plans. At the participant' s option, account balances, including the Company' s matching contribution, can be moved without restriction among various investment options, including the Company' s common stock. The Company also maintains a nonqualified, unfunded Deferred Compensation Plan for certain key employees. This plan provides participants the opportunity to defer portions of their compensation and receive matching contributions that they would have otherwise received under the 401(k) Savings Plan if not for certain restrictions and limitations under the Internal Revenue Code. The Company' s contribution under the above defined contribution plans totaled $173 million in 2009, $117 million in 2008 and $81 million in 2007. The Company also sponsored an Employee Stock Ownership Plan. See Note 8 for additional information about this plan.

Other Postretirement Benefits

The Company provides postretirement health care and life insurance benefits to certain retirees who meet eligibility requirements. The Company' s funding policy is generally to pay covered expenses as they are incurred. For retiree medical plan accounting, the Company reviews external data and its own historical trends for health care costs to determine the health care cost trend rates. As of December 31, 2009 and 2008, the Company' s postretirement medical plans have an accumulated postretirement benefit obligation of $17 million. Net periodic benefit costs related to these postretirement medical plans were approximately $1 million for 2009, 2008 and 2007.

Pension Plans

The Company sponsors ten non-contributory defined benefit pension plans that cover certain full-time employees, which were frozen in prior periods. These plans are funded based on actuarial calculations and applicable federal regulations. As of December 31, 2009, the Company' s qualified defined benefit plans have a projected benefit obligation of $612 million and plan assets of $372 million. As of December 31, 2008, the Company' s qualified defined benefit plans had a projected benefit obligation of $546 million and plan assets of $286 million. Net periodic pension costs related to these qualified benefit plans were $16 million, $9 million and $14 million in 2009, 2008 and 2007, respectively.

The discount rate is determined by examining the current yields observed on the measurement date of fixed-interest, high quality investments expected to be available during the period to maturity of the related benefits on a plan by plan basis. The discount rate for the plans was 6.0% in 2009 and 6.25% in 2008. The expected long-term rate of return is determined by using the target allocation and historical returns for each asset class on a plan by plan basis. The expected long-term rate of return for all plans was 8.5% in 2009, 2008 and 2007.

The Company uses an investment strategy, which emphasizes equities in order to produce higher expected returns, and in the long run, lower expected expense and cash contribution requirements. The pension plan assets allocation targets were 60% equity and 40% fixed income. As the result of a detailed asset liability study performed during the fourth quarter of 2009, the pension plan asset allocation shall target 50% equity and 50% fixed income during the upcoming year.

As of December 31, 2009, the Company' s qualified defined benefit pension plan assets consisted of 64% equity, 35% fixed income, and 1% money market securities of which 67% were classified as Level 1 and 33% as Level 2 in the fair value hierarchy. The Company' s qualified defined benefit pension plan assets as of December 31, 2008 consisted of 62% equity, 37% fixed income, and 1% money market securities of which 69% were classified as Level 1 and 31% as Level 2 in the fair value hierarchy.

The Company utilized a measurement date of December 31, 2009 to determine pension and other postretirement benefit measurements. The Company contributed $50 million, $8 million and $10 million to the pension plans during 2009, 2008 and 2007, respectively. The Company plans to make approximately $55 million in contribution to the pension plans during 2010.

Pursuant to various labor agreements, the Company is also required to make contributions to certain union-administered pension and health and welfare plans that totaled $37 million, $49 million and $40 million in 2009, 2008 and 2007, respectively. The Company also has nonqualified supplemental executive retirement plans in place for certain key employees.

10 Stock Incentive Plans

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

Compensation expense related to stock options, which includes the 1999 Employee Stock Purchase Plan (the "1999 ESPP") and the 2007 Employee Stock Purchase Plan (the "2007 ESPP" and collectively, the "ESPP") totaled $136 million, $106 million and $85 million for 2009, 2008 and 2007, respectively. The recognized tax benefit was $45 million, $33 million and $27 million for 2009, 2008 and 2007, respectively. Compensation expense related to restricted stock awards totaled $29 million, $19 million and $12 million for 2009, 2008 and 2007, respectively.

The 1999 ESPP provides for the purchase of up to 15 million shares of common stock. As a result of the 1999 ESPP not having sufficient shares available for the program to continue beyond 2007, the Board of Directors adopted, and shareholders approved, the 2007 ESPP. Under the 2007 ESPP, eligible employees may purchase common stock at the end of each six-month offering period, at a purchase price equal to 85% of the lower of the fair market value on the first day or the last day of the offering period and provides for the purchase of up to 15 million shares of common stock. During 2009, 2 million shares of common stock were purchased, under the provisions of the 2007 ESPP, at an average price of $24.70 per share. As of December 31, 2009, 15 million and 4 million shares of common stock have been issued under the 1999 ESPP and 2007 ESPP, respectively.

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

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

	2009	2008	2007
Dividend yield[1]	**0.50 %**	0.32 %	0.33 %
Expected volatility[2]	**48.89%**	25.22%	21.72%
Risk-free interest rate[3]	**0.31 %**	2.75 %	5.01 %
Expected life *(in years)*[4]	**0.5**	0.5	0.5
Weighted-average grant date fair value	**$8.51**	$8.73	$7.26

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

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

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

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

The Company' s 1997 Incentive Compensation Plan (the "ICP") provides for the granting of up to 153 million shares of common stock in the form of stock options and other awards to selected officers, employees and directors of the Company. The ICP allows for up to 7 million restricted shares to be issued. The Company' s restricted awards are considered nonvested share awards and require no payment from the employee. Compensation cost is recorded based on the market price on the grant date and is recognized on a straight-line basis over the requisite service period.

The Company granted 1,284,000, 1,274,000 and 1,129,000 restricted stock units with a weighted average fair value of $27.77, $40.70 and $33.75 in 2009, 2008 and 2007, respectively. Compensation costs for restricted shares and units totaled $29 million, $19 million and $12 million in 2009, 2008 and 2007, respectively. As of December 31, 2009, there was $34 million of total unrecognized compensation costs related to the restricted stock units that are expected to vest. These costs are expected to be recognized over a weighted-average period of 2.04 years.

In 2007, the Board of Directors adopted and shareholders approved the 2007 Incentive Plan. The terms of the 2007 Incentive Plan provide for grants of annual incentive and long-term performance awards to executive officers and other officers and employees of the Company or any subsidiary of the Company. The payment of such annual incentive and long-term performance awards will be in cash, stock, other awards or other property, in the discretion of the Management Planning and Development Committee of the Company' s Board of Directors, with any payment in stock to be pursuant to the ICP discussed above.

The following table is a summary of the restricted share award activity under the ICP as of December 31:

Shares in thousands	2009 Shares	2009 Weighted Average Grant Date Fair Value	2008 Shares	2008 Weighted Average Grant Date Fair Value
Nonvested at beginning of year	**83**	**$ 22.16**	161	$ 22.40
Vested	**(83)**	**22.16**	(67)	39.75
Forfeited	**–**	**–**	(11)	18.75
Nonvested at end of year	**–**	**$ –**	83	$ 22.16

The following table is a summary of the restricted unit award activity under the ICP as of December 31:

Units in thousands	2009 Units	2009 Weighted Average Grant Date Fair Value	2008 Units	2008 Weighted Average Grant Date Fair Value
Nonvested at beginning of year	**3,969**	**$ 32.08**	2,915	$ 28.23
Granted	**1,284**	**27.77**	1,274	40.70
Vested	**(1,724)**	**26.70**	(180)	38.96
Forfeited	**(182)**	**37.55**	(40)	35.08
Nonvested at end of year	**3,347**	**$ 32.90**	3,969	$ 32.08

All grants under the ICP are awarded at fair market value on the date of grant. The fair value of stock options is estimated using the Black-Scholes Option Pricing Model and stock-based compensation is recognized on a straight-line basis over the requisite service period. Options granted prior to 2004 generally become exercisable over a four-year period from the grant date and expire ten years after the date of grant. Options granted during and subsequent to fiscal 2004 generally become exercisable over a three-year period from the grant date and expire seven years after the date of grant. As of December 31, 2009, there were 42 million shares available for future grants under the ICP.

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:

	2009	2008	2007
Dividend yield[1]	**1.07 %**	0.60 %	0.69 %
Expected volatility[2]	**31.34%**	22.98%	23.84%

Excess tax benefits of $19 million, $53 million and $98 million were included in financing activities in the accompanying consolidated statement of cash flow during 2009, 2008 and 2007, respectively. Cash received from stock options exercised, which includes the ESPP, totaled $250 million, $328 million and $553 million during 2009, 2008 and 2007, respectively. The total intrinsic value of options exercised was $104 million, $250 million and $642 million in 2009, 2008 and 2007, respectively.

Risk-free interest rate[3]	**1.65 %**	2.28 %	4.49 %
Expected life *(in years)*[4]	**4.3**	4.3	5.1
Weighted-average grant date fair value	**$7.20**	$8.53	$8.29

(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, 2009, unrecognized compensation expense related to unvested options totaled $149 million, which the Company expects to be recognized over a weighted-average period of 1.74 years. After considering anticipated forfeitures, the Company expects approximately 29 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, 2009:

Shares in thousands	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2008	**59,374**	**$ 28.21**	–	–
Granted	**17,436**	**$ 28.63**	–	–
Exercised	**(8,419)**	**$ 20.72**	–	–
Forfeited	**(1,085)**	**$ 36.48**	–	–
Expired	**(1,037)**	**$ 28.34**	–	–
Outstanding at December 31, 2009	**66,269**	**$ 29.14**	**4.39**	**$345,068,000**
Exercisable at December 31, 2009	**35,858**	**$ 25.84**	**3.30**	**$279,462,000**

11 Income Taxes

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

In millions	2009	2008	2007
Current: Federal	**$1,766**	$1,680	$1,251
State	**397**	365	241
	2,163	2,045	1,492
Deferred: Federal	**38**	133	206
State	**4**	15	24
	42	148	230
Total	**$2,205**	$2,193	$1,722

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	2009	2008
Deferred tax assets:		
Lease and rents	**$334**	$318
Inventory	**55**	73
Employee benefits	**250**	241
Allowance for bad debt	**130**	95
Retirement benefits	**94**	98

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

	2009	2008	2007
Statutory income tax rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal tax benefit	**4.5**	4.1	4.2
Other	**0.6**	0.5	0.3
Federal and net State reserve release	**(2.8)**	–	–
Effective income tax rate	**37.3%**	39.6%	39.5%

Net operating losses	**8**	13
Other	**287**	241
Total deferred tax assets	**1,158**	1,079

Deferred tax liabilities:

Depreciation and amortization	**(4,330)**	(4,346)
Net deferred tax liabilities	**$(3,172)**	$(3,267)

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

In millions	**2009**	2008
Deferred tax assets–current	**$506**	$435
Deferred tax liabilities–noncurrent	**(3,678)**	(3,702)
Net deferred tax liabilities	**$(3,172)**	$(3,267)

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

The following table is a summary of the activity in the Company' s income tax reserve as of December 31:

In millions	2009	2008
Beginning Balance	**$257**	$234
Additions based on tax positions related to the current year	**1**	6
Additions based on tax positions related to prior years	**12**	48
Reductions for tax positions of prior years	**(6)**	(8)
Expiration of statute of limitations	**(155)**	(9)
Settlements	**(48)**	(14)
Ending Balance	**$61**	$257

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 2001. 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 $38 million.

During 2009, the Internal Revenue Service (the "IRS") completed examinations of the Company' s 2007 and 2008 consolidated U.S. income tax returns pursuant to the Compliance Assurance Process ("CAP") program. The CAP program is a voluntary program under which taxpayers seek to resolve all or most issues with the IRS prior to or soon after the filing of their U.S. income tax returns, in lieu of being audited in the traditional manner.

The IRS is currently examining the Company' s 2009 consolidated U.S. income tax year pursuant to the CAP program. The Company and its subsidiaries are also currently under income tax

There are no material reserves established at December 31, 2009 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 $41 million, after considering the federal benefit of state income taxes.

12 Commitments and Contingencies

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

As of December 31, 2009, the Company guaranteed approximately 70 such store leases (excluding the lease guarantees related to Linens 'n Things, which are discussed in Note 1 previously in this document), with the maximum remaining lease term extending through 2018. Management believes the ultimate disposition of any of the remaining guarantees will not have a material adverse effect on the Company' s consolidated financial condition, results of operations or future cash flows.

Caremark' s subsidiary Caremark Inc. (now known as "Caremark, L.L.C.") is a defendant in a qui tam lawsuit initially filed by a relator on behalf of various state and federal government agencies in Texas federal court in 1999. The case was unsealed in May 2005. The case seeks 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) 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.

examinations by a number of state and local tax authorities. Additionally, the Company has filed a Protest with the IRS Appeals Office regarding various assessments made in connection with the IRS examinations of Caremark' s consolidated U.S. income tax returns for 2006 and for its short tax year ended March 22, 2007. As of December 31, 2009, no examination has resulted in any proposed adjustments that would result in a material change to the Company' s results of operations, financial condition or liquidity.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties in income tax expense. During the fiscal year ended December 31, 2009, the Company recognized interest of approximately $5 million. The Company had approximately $17 million accrued for interest and penalties as of December 31, 2009.

The parties previously filed cross motions for partial summary judgment, and in August 2008, the court granted several of Caremark' s motions and denied the motions filed by the plaintiffs. The court' s rulings are favorable to Caremark and substantially limit the ability of the plaintiffs to assert false claims act allegations or statutory or common law theories of recovery based on Caremark' s processing of Medicaid and other government reimbursement requests. The state plaintiffs and the relator filed motions asking the court to reconsider its rulings, and these motions were subsequently denied. The court' s rulings are on appeal before the United States Court of Appeals for the Fifth Circuit. 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 our processing of Texas Medicaid claims on behalf of PBM clients. The claims and issues raised in this lawsuit are related to the claims and issues pending in the federal qui tam lawsuit described above.

In December 2007, the Company received a document subpoena from the Office of Inspector General, United States Department of Health and Human Services ("OIG"), requesting information relating to the processing of Medicaid and other government agency claims on an adjudication platform of CaremarkPCS, L.L.C. The Company has initiated discussions with the OIG and with the U.S. Department of Justice concerning our government claims processing activities on the two adjudication platforms used by CaremarkPCS and one adjudication platform used by PharmaCare. In October 2009, the Company received two civil investigative demands from the Office of the Attorney General of the State of Texas requesting information produced under the OIG subpoena referenced above. The civil investigative demands are substantively identical and state that the Office of the Attorney General of the State of Texas is investigating allegations currently pending under seal relating to two adjudication platforms of CaremarkPCS. The Company is cooperating with the requests for information contained in OIG subpoena and in these two civil investigative demands. The Company cannot predict with certainty the timing or outcome of any review of such information.

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

Caremark and others. Other defendants include insurance companies that provided coverage to Caremark with respect to the settled lawsuits. The Lauriello lawsuit seeks approximately $3.2 billion in compensatory damages plus other non-specified damages based on allegations that the amount of insurance coverage available for the settled lawsuits was misrepresented and suppressed. A similar lawsuit was filed in November 2003 by Frank McArthur, also in Alabama state court, naming as defendants Caremark, several insurance companies, attorneys and law firms involved in the 1999 settlement. This lawsuit was stayed as a later-filed class action, but McArthur was subsequently allowed to intervene in the Lauriello action. The attorneys and law firms named as defendants in McArthur' s intervention pleadings have been dismissed from the case, and discovery on class certification and adequacy issues is underway.

Various lawsuits have been filed alleging that Caremark and its subsidiaries Caremark, L.L.C. and CaremarkPCS, L.L.C. have violated applicable antitrust laws in establishing and maintaining retail pharmacy networks for client health plans. In August 2003, Bellevue Drug Co., Robert Schreiber, Inc. d/b/a Burns Pharmacy and Rehn-Huerbinger Drug Co. d/b/a Parkway Drugs #4, together with Pharmacy Freedom Fund and the National Community Pharmacists Association filed a putative class action against CaremarkPCS in Pennsylvania federal court, seeking treble damages and injunctive relief. The claims were initially sent to arbitration based on contract terms between the pharmacies and CaremarkPCS.

In October 2003, two independent pharmacies, North Jackson Pharmacy, Inc. and C&C, Inc. d/b/a Big C Discount Drugs, Inc. filed a putative class action complaint in Alabama federal court against Caremark, Caremark, L.L.C., CaremarkPCS, L.L.C. and two PBM competitors, seeking treble damages and injunctive relief. The case against Caremark and Caremark, L.L.C. was transferred to Illinois federal court, and the CaremarkPCS case was sent to arbitration based on contract terms between the pharmacies and CaremarkPCS. The arbitration was then stayed by the parties pending developments in Caremark' s court case.

In August 2006, the Bellevue case and the North Jackson Pharmacy case were transferred to Pennsylvania federal court by the Judicial Panel on Multidistrict Litigation for coordinated and consolidated proceedings with other cases before the panel, including cases against other PBMs. Caremark appealed a decision which vacated the order compelling arbitration and staying the proceedings in the Bellevue case and, following the appeal, the Court of Appeals reinstated the order compelling arbitration. 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.

Beginning in November 2008, the Company received and has been responding to several subpoenas from the Drug Enforcement Administration ("DEA"), Los Angeles Field Division, requesting sales data and other information regarding the Company' s distribution of products containing pseudoephedrine ("PSE") at certain retail pharmacies and from one California distribution center. In September 2009, the United States Attorney' s Office for the Central District of California ("USAO") and the DEA commenced discussions with the Company regarding whether, in late 2007 and 2008, the Company distributed PSE in violation of the Controlled Substances Act. Violations of the Controlled Substances Act could result in the imposition of civil and/or criminal penalties against the Company. In addition, the DEA has issued an order to show cause against certain retail pharmacies and the Company' s La Habra, California distribution center which could result in administrative action against the Company' s DEA registrations for these facilities. Discussions are underway to resolve these matters, but whether an agreement can be reached and on what terms are uncertain.

In August 2009, the Company was notified by the Federal Trade Commission (the "FTC") that it is conducting a non-public investigation under the Federal Trade Commission Act into certain of the Company' s business practices. The Company is cooperating in the FTC' s investigation and is producing documents and other information on a rolling basis as requested by the FTC. The Company is not able to predict with certainty the timing or outcome of the investigation. However, it remains confident that its business practices and service offerings (which are designed to reduce health care costs and expand consumer choice) are being conducted in compliance with the antitrust laws.

In March 2009, the Company received a subpoena from the OIG requesting information concerning the Medicare Part D prescription drug plans of RxAmerica, the PBM subsidiary of Longs Drug Stores Corporation which was acquired by the Company in October 2008. The Company is cooperating with the request for information and has been producing responsive documents on a rolling basis. The Company cannot predict with certainty the timing or outcome of any review by the government of such information.

Since March 2009, the Company has been named in a series of eight putative collective or class action lawsuits filed in federal courts in Connecticut, Florida, Massachusetts, New York and Rhode Island, purportedly on behalf of current and former assistant store managers working in the Company' s stores at various locations outside California. The lawsuits allege that the Company failed to pay overtime to assistant store managers as required under the Fair Labor Standards Act and under certain state statutes. The lawsuits also seek other relief, including liquidated damages, attorneys' fees, costs and injunctive relief arising out of the state and federal claims for overtime pay. At this time, the Company is not able to predict the outcome of these lawsuits, or any possible monetary exposure associated with the lawsuits. The Company believes, however, that the lawsuits are without merit and that the cases should not be certified as class or collective actions, and is vigorously defending these claims.

In January 2010, the Company received a subpoena from the OIG in connection with an investigation of possible false or otherwise improper claims for payment under the Medicare and Medicaid programs. The subpoena requests retail pharmacy claims data for "dual eligible" customers (i.e., customers with both Medicaid and private insurance coverage), information concerning the Company' s retail pharmacy claims processing systems, copies of pharmacy payor contracts and other documents and records. The Company is cooperating with the request for information and intends to produce responsive documents on a rolling basis. The Company cannot predict with certainty the timing or outcome of any review by the government of such information.

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 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. The Company believes these lawsuits are without merit and the Company plans to defend them vigorously.

The Company cannot predict the ultimate outcome of the legal matters disclosed above. Management does not believe, however, that the outcome of any of these legal matters will have a material adverse effect on the Company' s operating results or financial condition.

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 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, as they may relate to our business or the pharmacy services or retail industry; (iii) pending or future federal or state governmental investigations of our business or the pharmacy services or retail industry; (iv) institution of government enforcement actions against us; (v) adverse developments in any pending *qui tam* lawsuit against us, whether sealed or unsealed, or in any future *qui tam* lawsuit that may be filed against us; or (vi) adverse developments in other pending or future legal proceedings against us or affecting the pharmacy services or retail industry.

13 Segment Reporting

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

During the third quarter of 2009, the Company made changes to its reportable segments to reflect changes that were made to the way the Company' s management evaluates the performance of operations, develops strategy and allocates resources. This change involves the recording of certain administrative expenses previously recorded within the Pharmacy Services and Retail Pharmacy segments to a new Corporate segment. The Corporate segment consists of costs primarily associated with executive management, corporate relations, legal, compliance, human resources, corporate information technology and finance. This change had no impact on the Company' s consolidated results of operations. The Company' s historical segment disclosures have been revised to conform to the current presentation.

During the third quarter of 2009, the Company also made a change to its Pharmacy Services segment as it relates to the Company' s intersegment activities (such as the Maintenance Choice® program). This change impacts the gross profit and operating profit lines within the Pharmacy Services segment. Under the Maintenance Choice program, Pharmacy Services clients can 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 now record the revenue, gross profit and operating profit on a standalone basis and corresponding intersegment eliminations are made. This change had no impact on the Company' s consolidated results of operations.

The Company evaluates its Pharmacy Services and Retail Pharmacy segment performance based on net revenue, gross profit and operating profit before the effect of non-recurring charges and gains and 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][3]	Retail Pharmacy Segment[3]	Corporate Segment	Intersegment Eliminations[2][3]	Consolidated Totals
2009:					
Net revenues	**$ 51,065**	**$ 55,355**	**$ –**	**$ (7,691)**	**$ 98,729**
Gross profit	**3,835**	**16,593**	**–**	**(48)**	**20,380**
Operating profit	**2,866**	**4,159**	**(539)**	**(48)**	**6,438**
Depreciation and amortization	**377**	**965**	**47**	**–**	**1,389**
Total assets	**33,082**	**28,302**	**774**	**(517)**	**61,641**
Goodwill	**18,879**	**6,801**	**–**	**–**	**25,680**
Additions to property and equipment	**218**	**2,183**	**147**	**–**	**2,548**
2008[4]:					
Net revenues	$ 43,769	$ 48,990	$ –	$ (5,287)	$ 87,472
Gross profit	3,550	14,741	–	(1)	18,290
Operating profit	2,755	3,753	(461)	(1)	6,046
Depreciation and amortization	357	881	36	–	1,274
Total assets	32,850	27,406	1,053	(349)	60,960
Goodwill	18,818	6,676	–	–	25,494
Additions to property and equipment	228	1,840	112	–	2,180

2007[4]:					
Net revenues	$ 34,938	$ 45,087	$ –	$ (3,695)	$ 76,330
Gross profit	2,997	13,111	–	–	16,108
Operating profit	2,245	2,960	(411)	–	4,794
Depreciation and amortization	289	779	27	–	1,095
Total assets	32,091	22,174	713	(256)	54,722
Goodwill	18,455	5,467	–	–	23,922
Additions to property and equipment	77	1,680	48	–	1,805

(1) Net revenues of the Pharmacy Services segment include approximately $6.9 billion, $6.3 billion, and $4.6 billion of Retail co-payments for the fiscal years ended December 31, 2009, December 31, 2008 and December 29, 2007, 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.

(3) Beginning in 2008, when Pharmacy Services segment clients elect to pick up their maintenance prescriptions at Retail Pharmacy segment stores through the Company' s intersegment activities (such as the Maintenance Choice program) instead of receiving them through the mail, both segments record the corresponding revenue, gross profit and operating profit in their respective segment results. As a result, both the Pharmacy Services and the Retail Pharmacy segments include the following results associated with this activity: net revenues of $692 million and $8 million for the fiscal year ended December 31, 2009 and 2008, respectively; gross profit of $48 million and $1 million for the fiscal year ended December 31, 2009 and 2008, respectively; operating profit of less than $48 million and $1 million for the fiscal year ended December 31, 2009 and 2008, respectively. These intersegment activities had no impact on the Company' s reportable segments for the fiscal year ended December 29, 2007.

(4) Amounts for the fiscal years ended December 31, 2008 and December 29, 2007 have been revised to conform to the current presentation of our reportable segments.

14 Earnings Per Common Share

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

In millions, except per share amounts	**2009**	2008	2007
Numerator for earnings per common share calculation:			
Income from continuing operations	**$3,708**	$3,344	$2,637
Preference dividends, net of income tax benefit	**–**	(14)	(14)
Income from continuing operations available to common shareholders, basic	**$3,708**	$3,330	$2,623
Loss from discontinued operations, net of income tax benefit	**(12)**	(132)	–
Net income available to common shareholders, basic	**$3,696**	$3,198	$2,623
Income from continuing operations	**$3,708**	$3,344	$2,637
Dilutive earnings adjustments	**–**	(3)	(4)
Income from continuing operations available to common shareholders, diluted	**$3,708**	$3,341	$2,633
Loss from discontinued operations, net of income tax benefit	**(12)**	(132)	–
Net income available to common shareholders, diluted	**$3,696**	$3,209	$2,633
Denominator for earnings per common share calculation:			
Weighted average common shares, basic	**1,434**	1,434	1,328
Preference stock	**1**	17	18
Stock options	**10**	13	23

Restricted stock units	**5**	5	3
Weighted average common shares, diluted	**1,450**	1,469	1,372
Basic earnings per common share:			
Income from continuing operations	**$2.59**	$2.32	$1.97
Loss from discontinued operations	**(0.01)**	(0.09)	–
Net income	**$2.58**	$2.23	$1.97
Diluted earnings per common share:			
Income from continuing operations	**$2.56**	$2.27	$1.92
Loss from discontinued operations	**(0.01)**	(0.09)	–
Net income	**$2.55**	$2.18	$1.92

15 Quarterly Financial Information (Unaudited)

In millions, except per share amounts

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
2009:					
Net revenues	$ 23,394	$ 24,871	$ 24,642	$ 25,822	$98,729
Gross profit	4,748	5,052	5,012	5,568	20,380
Operating profit	1,377	1,600	1,566	1,895	6,438
Income from continuing operations	743	889	1,023	1,053	3,708
Loss from discontinued operations, net of income tax benefit	(5)	(3)	(2)	(2)	(12)
Net income	738	886	1,021	1,051	3,696
Earnings per share from continuing operations, basic	$ 0.51	$ 0.61	$ 0.72	$ 0.75	$2.59
Loss per common share from discontinued operations	–	–	(0.01)	–	(0.01)
Net earnings per common share, basic	$ 0.51	$ 0.61	$ 0.71	$ 0.75	$2.58
Earnings per common share from continuing operations, diluted	$ 0.51	$ 0.60	$ 0.71	$ 0.74	$2.56
Loss per common share from discontinued operations	(0.01)	–	–	–	(0.01)
Net earnings per common share, diluted	$ 0.50	$ 0.60	$ 0.71	$ 0.74	$2.55
Dividends per common share	$ 0.07625	$ 0.07625	$ 0.07625	$ 0.07625	$0.30500

Stock price: (New York Stock Exchange)					
High	**$30.47**	**$ 34.22**	**$ 37.75**	**$ 38.27**	**$38.27**
Low	**$23.74**	**$ 27.08**	**$ 30.58**	**$ 27.38**	**$23.74**
2008[1]:					
Net revenues	$21,326	$ 21,140	$ 20,863	$ 24,143	$87,472
Gross profit	4,293	4,373	4,401	5,223	18,290
Operating profit	1,370	1,478	1,466	1,732	6,046
Income from continuing operations	749	824	819	952	3,344
Loss from discontinued operations, net of income tax benefit	–	(49)	(83)	–	(132)
Net income	749	775	736	952	3,212
Earnings per share from continuing operations, basic	$0.52	$ 0.57	$ 0.57	$ 0.66	$2.32
Loss per common share from discontinued operations	–	(0.03)	(0.06)	–	(0.09)
Net earnings per common share, basic	$0.52	$ 0.54	$ 0.51	$ 0.66	$2.23
Earnings per common share from continuing operations, diluted	$0.51	$ 0.56	$ 0.56	$ 0.65	$2.27
Loss per common share from discontinued operations	–	(0.03)	(0.06)	–	(0.09)
Net earnings per common share, diluted	$0.51	$ 0.53	$ 0.50	$ 0.65	$2.18

Dividends per common share	$ 0.06000	$ 0.06000	$ 0.06900	$ 0.06900	$0.25800
Stock price: (New York Stock Exchange)					
High	$ 41.53	$ 44.29	$ 40.14	$ 34.90	$44.29
Low	$ 34.91	$ 39.02	$ 31.81	$ 23.19	$23.19

(1) On December 23, 2008, our Board of Directors approved a change in our fiscal year-end from the Saturday nearest December 31 of each year to December 31 of each year to better reflect our position in the health care, rather than the retail, industry. The fiscal year change was effective beginning with the fourth of fiscal 2008.

Five-Year Financial Summary

In millions, except per share amounts

	2009	2008[1]	2007[2]	2006	2005
Statement of operations data:					
Net revenues	**$98,729**	$87,472	$76,330	$43,821	$37,007
Gross profit	**20,380**	18,290	16,108	11,742	9,695
Operating expenses[3]	**13,942**	12,244	11,314	9,300	7,675
Operating profit[4]	**6,438**	6,046	4,794	2,442	2,020
Interest expense, net	**525**	509	435	216	111
Income tax provision[5]	**2,205**	2,193	1,722	857	684
Income from continuing operations	**3,708**	3,344	2,637	1,369	1,225
Loss from discontinued operations, net of tax benefit[6]	**(12)**	(132)	–	–	–
Net income	**$3,696**	$3,212	$2,637	$1,369	$1,225
Per common share data:					
Basic earnings per common share:					
Income from continuing operations	**$2.59**	$2.32	$1.97	$1.65	$1.49
Loss from discontinued operations	**(0.01)**	(0.09)	–	–	–
Net income	**$2.58**	$2.23	$1.97	$1.65	$1.49

Diluted earnings per common share:					
Income from continuing operations	**$2.56**	$2.27	$1.92	$1.60	$1.45
Loss from discontinued operations	**(0.01)**	(0.09)	–	–	–
Net income	**$2.55**	$2.18	$1.92	$1.60	$1.45
Cash dividends per common share	**$0.30500**	$0.25800	$0.22875	$0.15500	$0.14500
Balance sheet and other data:					
Total assets	**$61,641**	$60,960	$54,722	$20,574	$15,247
Long-term debt	**$8,756**	$8,057	$8,350	$2,870	$1,594
Total shareholders' equity	**$35,768**	$34,574	$31,322	$9,918	$8,331
Number of stores (at end of year)	**7,074**	6,981	6,301	6,205	5,474

(1) On December 23, 2008, our Board of Directors approved a change in our fiscal year-end from the Saturday nearest December 31 of each year to December 31 of each year to better reflect our position in the health care, rather than the retail, industry. The fiscal year change is effective beginning with the fourth quarter of fiscal 2008. As you review our operating performance, please consider that fiscal 2008 includes 368 days, compared to each of the remaining fiscal years presented, which include 364 days.

(2) Effective March 22, 2007, pursuant to the Agreement and Plan of Merger dated as of November 1, 2006, as amended (the "Merger Agreement"), Caremark Rx, Inc. was merged with a newly formed subsidiary of CVS Corporation, with Caremark Rx, L.L.C., continuing as the surviving entity (the "Caremark Merger"). Following the Caremark Merger, the name of the Company was changed to "CVS Caremark Corporation." By virtue of the Caremark Merger, each issued and outstanding share of Caremark common stock, par value $0.001 per share, was converted into the right to receive 1.67 shares of CVS Caremark' s common stock, par value $0.01 per share. Cash was paid in lieu of fractional shares.

(3) In 2006, the Company adopted the Securities and Exchange Commission (SEC) Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Qualifying Misstatements in Current Year Financial Statements." The adoption of this statement resulted in a $40 million pre-tax ($25 million after-tax) decrease in operating expenses for 2006.

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

(5) Income tax provision includes the effect of the following: (i) 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, (ii) in 2006, a $11 million reversal of previously recorded tax reserves through the tax provision principally based on resolving certain state tax matters, and (iii) in 2005, a $53 million reversal of previously recorded tax reserves through the tax provision principally based on resolving certain state tax matters.

(6) In connection with certain business dispositions completed between 1991 and 1997, the Company continues to guarantee store lease obligations for a number of former subsidiaries, including Linens 'n Things. On May 2, 2008, Linens Holding Co. and certain affiliates, which operate Linens 'n Things, filed voluntary petitions under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. Pursuant to the court order entered on October 16,

2008, Linens Holding Co. is in the process of liquidating the entire Linens 'n Things retail chain. The loss from discontinued operations includes $12 million of lease-related costs ($19 million, net of an $7 million income tax benefit), and $132 million ($214 million, net of an $82 million income tax benefit) for 2009 and 2008 respectively, which the Company believes it will likely be required to satisfy pursuant to its Linens 'n Things lease guarantees.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
CVS Caremark Corporation

We have audited the accompanying consolidated balance sheets of CVS Caremark Corporation as of December 31, 2009 and 2008, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three fiscal years in the period ended December 31, 2009. 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 auditing 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, and 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, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the three fiscal years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, effective December 30, 2007, CVS Caremark Corporation adopted Accounting Standards Codification (ASC) 715-60, *Defined Benefit Plans – Other Postretirement* (formerly Emerging Issues Task Force (EITF) Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements* and EITF 06-10, *Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements*), and effective January 1, 2009 CVS Caremark Corporation adopted ASC 805, *Business Combinations* (formerly Statement of Financial Accounting Standards No. 141(R), *Business Combinations*).

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, 2009, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 26, 2010

Exhibit 21

SUBSIDIARIES OF THE REGISTRANT

As of January 1, 2010, CVS Caremark Corporation had the following significant subsidiaries:

CVS Pharmacy, Inc. (a Rhode Island corporation)(1)
Revco Discount Drug Centers, Inc. (a Michigan corporation)(2)
Holiday CVS, L.L.C. (a Florida limited liability company)
Garfield Beach CVS, L.L.C. (a California limited liability company)
CVS Albany, L.L.C. (a New York limited liability company)
Longs Drug Stores California, L.L.C. (a California limited liability company)
Caremark Rx, L.L.C. (a Delaware limited liability company)(3)
Caremark, L.L.C. (a California limited liability company)
CaremarkPCS Health, L.L.C. (a Delaware limited liability company)
CVS Caremark Part D Services, L.L.C. (a Delaware limited liability company)
SilverScript Insurance Company (a Tennessee corporation)
Accendo Insurance Company (a Utah corporation)
PharmaCare Management Services, L.L.C. (a Delaware limited liability company)
RxAmerica, LLC (a Delaware limited liability company)

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(1) CVS Pharmacy, Inc. is the immediate parent of approximately 40 entities that operate drugstores, all of which drugstores are in the United States and its territories.

(2) Revco Discount Drug Centers, Inc. (a Michigan corporation) is the immediate parent corporation of two corporations and the indirect parent of one corporation that operate drugstores, all of which drugstores are in the United States and its territories.

(3) Caremark Rx, L.L.C., the parent of the Registrant' s pharmacy services subsidiaries, is the immediate or indirect parent of several mail order, specialty mail and retail specialty pharmacy subsidiaries, all of which operate in the United States and its territories.

Exhibit 23.1

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
CVS Caremark Corporation

We have audited the consolidated financial statements of CVS Caremark Corporation as of December 31, 2009 and 2008, and each of the three fiscal years in the period ended December 31, 2009 and have issued our report thereon dated February 26, 2010. These consolidated financial statements and our reports thereon are incorporated by reference in the December 31, 2009 Annual Report on Form 10-K of CVS Caremark Corporation. Our audits also included the financial statement schedule listed in Item 15 of this Annual Report (Form 10-K). This schedule is the responsibility of the Company' s management. Our responsibility is to express an opinion based on our audits.

In our opinion, the financial statement schedule referred to above when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 26, 2010

Exhibit 31.1

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Thomas M. Ryan, Chairman of the Board, President and Chief Executive Officer of CVS Caremark Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of CVS Caremark Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: February 26, 2010

By: /s/ THOMAS M. RYAN

Thomas M. Ryan

Chairman of the Board, President and

Chief Executive Officer

Exhibit 31.2

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, David 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 26, 2010

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, 2009 (the "Report"), for the purpose of complying with Rule 13(a)-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, Thomas M. Ryan, Chairman of the Board, President and Chief Executive Officer of the Company, certify that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

February 26, 2010

/s/ THOMAS M. RYAN

Thomas M. Ryan
Chairman of the Board, 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, 2009 (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 26, 2010

/s/ DAVID M. DENTON

David M. Denton

Executive Vice President and Chief Financial Officer