

CVS CORP

Form S-4/A

January 18, 2007

As filed with the Securities and Exchange Commission on January 18, 2007

Registration No. 333-139470

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 3
TO
Form S-4
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

CVS CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or
Organization)

5912

(Primary Standard Industrial
Classification Code Number)

05-0494040

(I.R.S. Employer
Identification No.)

**One CVS Drive
Woonsocket, RI 02895
(401) 765-1500**

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

**David B. Rickard
Executive Vice President and Chief Financial Officer
CVS Corporation
One CVS Drive
Woonsocket, RI 02895
(401) 765-1500**

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

Copies to:

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Executive Vice President-Strategy and
Chief Legal Officer
CVS Corporation
One CVS Drive
Woonsocket, RI 02895
(401) 765-1500**

**Louis Goldberg, Esq.
John D. Amorosi, Esq.
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450 Lexington Avenue
New York, NY 10017
(212) 450-4000**

**Sara J. Finley, Esq.
Senior Vice President, Secretary and
Assistant General Counsel
Caremark Rx, Inc.
211 Commerce Street
Suite 800
Nashville, TN 37201
(615) 743-6600**

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement and the effective time of the merger (the Merger) of Caremark Rx, Inc. with and into Twain MergerSub L.L.C., a Delaware limited liability company and a wholly owned subsidiary of CVS Corporation, a Delaware corporation, as described in the Agreement and Plan of Merger, dated as of November 1, 2006, as amended by Amendment No. 1, dated as of January 16, 2007, attached as Annex A to the joint proxy statement/prospectus forming part of this registration statement.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box:

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box

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and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities To Be Registered	Amount To Be Registered(1)	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price(2)	Regis
Common Stock, par value \$0.01 per share	745,887,633	N/A	\$22,233,705,898	\$

(1) Represents the maximum number of shares of common stock, with par value \$0.01 per share, of CVS Corporation (CVS Common Stock) estimated to be issuable upon completion of the Merger, based on the exchange ratio of 1.670 shares of CVS Common Stock for each share of common stock, par value \$0.001 per share, of Caremark Rx, Inc. (Caremark Common Stock) (based on 426,541,731 shares of Caremark Common Stock outstanding on December 14, 2006 and 20,097,600 shares of Caremark Common Stock issuable pursuant to the exercise of Caremark options and warrants outstanding on December 14, 2006).

(2) Previously paid in connection with the initial filing of this registration statement on December 19, 2006. Estimated solely for the purpose of calculating the amount of the registration fee required by Section 6(b) of the Securities Act of 1933 (the Securities Act), and calculated pursuant to Rules 457(f)(1) and 457(c) under the Securities Act, the proposed maximum aggregate offering price of the registrant s common stock was calculated based upon the market value of shares of Caremark Common Stock (the securities to be cancelled in the merger) in accordance with Rule 457(c) under the Securities Act as follows: the product of (1) \$49.78 the average of the high and low prices per share of Caremark Common Stock on December 12, 2006 as quoted on the New York Stock Exchange, multiplied by (2) 446,639,331, the sum of the aggregate number of shares of Caremark Common Stock outstanding as of December 14, 2006 and the aggregate number of shares of Caremark Common Stock issuable upon exercise of Caremark options and warrants.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this joint proxy statement/prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary joint proxy statement/prospectus is not an offer to sell and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JANUARY 18, 2007

MERGER PROPOSED □ YOUR VOTE IS VERY IMPORTANT

The boards of directors of CVS Corporation and Caremark Rx, Inc. have each approved a merger agreement which provides for the combination of the two companies in a transaction structured as a merger of equals. The boards of directors of CVS and Caremark believe that the combination of the two companies will be able to create substantially more long-term stockholder value than either company could individually achieve. Following the completion of the merger, Caremark will be a wholly owned subsidiary of CVS and Caremark stockholders will own approximately 45.5% of the outstanding common stock of the combined company and CVS stockholders will own approximately 54.5% of the outstanding common stock of the combined company, in each case, on a fully diluted basis. CVS Corporation is referred to as CVS and Caremark Rx, Inc. is referred to as Caremark.

The combined company will be named CVS/Caremark Corporation and the shares of the combined company will be traded on the New York Stock Exchange, or the NYSE, under the symbol □CVS□.

If the merger is completed, Caremark□s stockholders will receive 1.670 shares of common stock of CVS/Caremark, for each share of Caremark common stock that they own immediately before the effective time of the merger. Caremark stockholders will receive cash for any fractional shares which they would otherwise receive in the merger. Caremark stockholders will also receive a one-time special cash dividend in the amount of \$2.00 per share of Caremark common stock held by each such holder on a record date to be set by the Caremark board of directors, which dividend will be conditioned on the completion of the merger and will be paid at or immediately following the effective time of the merger. CVS stockholders will continue to own their existing shares after the merger. CVS common stock is traded on the NYSE under the symbol □CVS□. On January 12, 2007, the last practicable day before the mailing of this document, the closing price per share of CVS common stock as reported by the NYSE was \$31.94.

CVS and Caremark estimate that CVS will issue approximately 712.4 million shares of CVS/Caremark common stock in the merger based on the number of shares of Caremark common stock outstanding on January 15, 2007, and will reserve an additional approximately 33.5 million shares of CVS/Caremark common stock for issuance in connection with CVS/Caremark□s assumption of Caremark□s outstanding options and warrants.

YOUR VOTE IS IMPORTANT. The merger cannot be completed unless, among other things, holders of Caremark common stock vote to adopt the merger agreement and approve the merger, and holders of CVS common stock and CVS Series One ESOP Convertible Preference Stock, voting together as a single class, approve the amendments to CVS□ charter and approve the issuance of CVS/Caremark common stock in the merger.

The CVS board of directors unanimously recommends that CVS stockholders vote □FOR□ the amendments to the CVS charter to increase the authorized number of shares and to change the name of CVS to □CVS/Caremark Corporation□ and □FOR□ the issuance of CVS/Caremark common stock to Caremark stockholders in the merger. The Caremark board of directors unanimously recommends that Caremark stockholders vote □FOR□ the adoption of the merger agreement and the approval of the merger.

CVS and Caremark will each hold a special meeting of their respective stockholders to vote on these proposals. Whether or not you plan to attend your company□s special meeting, please take the time to vote by completing and mailing the enclosed proxy card or submitting your proxy by telephone or through the Internet, using the procedures in the proxy voting instructions included with your proxy card. Even if you return the proxy, you may attend the special meeting and vote your shares in person.

This document describes the proposed merger and related transactions in more detail. **CVS and Caremark encourage you to read this entire document carefully, including the merger agreement, which is included as Annex A, and the section discussing *Risk Factors* relating to the merger beginning on page 27.**

CVS and Caremark look forward to the successful combination of the two companies.

Thomas M. Ryan
Chairman, President and Chief Executive Officer,
CVS Corporation

E. Mac Crawford
Chairman, President and Chief Executive Officer,
Caremark Rx, Inc.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the merger described in this joint proxy statement/prospectus or the CVS/Caremark common stock to be issued pursuant to the merger or determined if this joint proxy statement/prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.

This joint proxy statement/prospectus is dated January 19, 2007 and, together with the accompanying proxy card, is first being mailed or otherwise delivered to stockholders of CVS and Caremark on or about January 19, 2007.

THIS JOINT PROXY STATEMENT/PROSPECTUS INCORPORATES ADDITIONAL INFORMATION

This document incorporates by reference important business and financial information about CVS and Caremark from other documents filed with the Securities and Exchange Commission, which is referred to as the SEC, that are not included in or delivered with this joint proxy statement/prospectus. This information is available to you without charge upon your written or oral request. For a list of the documents incorporated by reference into this joint proxy statement/prospectus, see "Where You Can Find More Information" beginning on page 158. You can obtain electronic or hardcopy versions of the documents that are incorporated by reference into this document, without charge, from the Investor Relations section of each company's website or by requesting them in writing or by telephone as set forth below:

if you are a CVS stockholder:

if you are a Caremark stockholder:

Electronic: www.cvs.com (please see "Financial Information" page or "Contact Us" page in the Investor Relations portion of the site)

Electronic: www.caremarkrx.com (please see "SEC Filings" page or "Request Document" page in the Investor Relations portion of the site)

By Mail: CVS Corporation
One CVS Drive
Woonsocket, RI 02895
Attention: Investor Relations
E-mail Address:
investorinfo@cvs.com

By Mail: Caremark Rx, Inc.
211 Commerce Street, Suite 800
Nashville, TN 37201
Attention: Investor Relations
E-mail Address:
investorinfo@caremark.com

By Telephone: (800) 201-0938

By Telephone: (800) 633-9509

IF YOU WOULD LIKE TO REQUEST DOCUMENTS, PLEASE DO SO BY FEBRUARY 12, 2007 IN ORDER TO RECEIVE THEM BEFORE YOUR SPECIAL MEETING.

VOTING ELECTRONICALLY, BY TELEPHONE OR BY MAIL

CVS stockholders of record on January 19, 2007 may submit their proxies:

- Through the Internet, by visiting the website established for that purpose at www.proxypush.com/cvs and following the instructions; or
- By telephone, by calling the toll-free number (866) 509-2156 in the United States, Canada or Puerto Rico on a touch-tone phone and following the recorded instructions; or
- By mail, by marking, signing, and dating your **WHITE** proxy and returning it in the postage-paid envelope provided or pursuant to the instructions set out in the proxy card.

Caremark stockholders of record on January 15, 2007 may submit their proxies:

- Through the Internet, by visiting the website established for that purpose at <https://www.proxyvotenow.com/cmz> and following the instructions (please note you must type an "s" after http); or

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- By telephone, by calling the toll-free number (866) 233-5371 in the United States, Canada or Puerto Rico on a touch-tone phone (or (215) 521-1342 from elsewhere), providing the unique 10-digit control number shown on the enclosed **WHITE** proxy card and following the recorded instructions; or
- By mail, by signing, and dating the enclosed **WHITE** proxy card and returning it in the postage-paid envelope provided or returning it pursuant to the instructions provided in the proxy card.

If you are a beneficial owner, please refer to your proxy card or the information forwarded by your bank, broker or other holder of record to see which options are available to you.

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
To Be Held On February 23, 2007**

Dear Stockholder:

A special meeting of stockholders of CVS Corporation will be held on February 23, 2007 at 11:00 a.m., Eastern Time, at CVS's corporate headquarters, One CVS Drive, Woonsocket, Rhode Island 02895.

The purpose of the CVS special meeting is to consider and to vote upon the following proposals:

- a proposal to approve the amendments to CVS's Amended and Restated Certificate of Incorporation, which is referred to as the CVS charter, effective upon completion of the merger, to increase the authorized number of shares of CVS common stock from 1 billion to 3.2 billion and to change the name of CVS Corporation to CVS/Caremark Corporation;
- a proposal to approve the issuance of shares of CVS/Caremark common stock to stockholders of Caremark Rx, Inc. on the terms and conditions set out in the Agreement and Plan of Merger dated as of November 1, 2006, as amended, among CVS, Caremark and Twain MergerSub Corp., a wholly owned subsidiary of CVS formed for the purpose of the merger; and
- a proposal to approve an adjournment or postponement of the special meeting, including if necessary, to solicit additional proxies in favor of the foregoing proposals if there are not sufficient votes for either of the proposals.

The CVS board of directors has unanimously determined that the amendments to the CVS charter and the share issuance are advisable and in the best interests of CVS and its stockholders and recommends that CVS stockholders vote **FOR** the amendments to the CVS charter, **FOR** the issuance of CVS/Caremark common stock to Caremark stockholders in the merger and **FOR** the adjournment or postponement of the special meeting, including if necessary, to solicit additional proxies in favor of the amendments and issuance.

CVS and Caremark cannot complete the merger unless:

- the proposed amendments to the CVS charter are approved by holders of CVS common stock and holders of CVS Series One ESOP Convertible Preference Stock, voting together as a single class, representing at least a majority of the aggregate votes entitled to be cast by all such holders; and
- the issuance of shares of CVS/Caremark common stock to Caremark stockholders in the merger is approved by holders of CVS common stock and CVS Series One ESOP Convertible Preference Stock, voting together as a single class, representing at least a majority of the votes cast in person or by proxy at such meeting, so long as the total number of votes cast on the proposal represents over 50% of the total number of votes entitled to be cast by holders of the outstanding CVS common stock and CVS Series One ESOP Convertible Preference Stock, voting together as a single class.

Your failure to vote will have the same effect as a vote against the approval of the CVS charter amendments and will make it more difficult to obtain the necessary quorum for purposes of approving the share issuance. Therefore, your vote is very important.

The close of business on January 19, 2007 has been fixed as the record date, which is referred to as the CVS record date, for the determination of CVS stockholders entitled to notice of, and to vote at, the CVS special meeting or any adjournments or postponements of the CVS special meeting. Only holders of CVS common stock and holders of CVS Series One ESOP Convertible Preference Stock of record at the close of business on January 19, 2007 are entitled to notice of, and to vote at, the CVS special meeting or any adjournments or postponements of the CVS special meeting. All CVS Series One ESOP Convertible Preference Stock, which is referred to as the CVS ESOP preference stock, is held by the Bank of New York, as Trustee under the 401(k) Plan and the Employee

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Stock Ownership Plan of CVS Corporation and Affiliated Companies, which is referred to as the CVS Plan. The CVS Plan consists of both a 401(k) Plan and an Employee Stock Ownership Plan. Each participant in the CVS Plan instructs the trustee of the CVS Plan how to vote his or her shares of (i) CVS ESOP preference stock and (ii) CVS common stock held in the CVS Plan. Unallocated shares of CVS ESOP preference stock and CVS common stock held in the CVS Plan and shares of CVS ESOP preference stock and CVS common stock held in the CVS Plan with respect to which the trustee of the CVS Plan receives no timely voting instructions will be voted by the trustee of the CVS Plan in the same proportion as it votes all the shares as to which such trustee has received timely voting instructions. A list of the holders of CVS common stock entitled to vote at the CVS special meeting will be available for examination by any CVS stockholder, for any purpose germane to the CVS special meeting, at CVS's principal executive offices at One CVS Drive, Woonsocket, Rhode Island 02895, for ten days before the CVS special meeting, between the hours of 9:00 a.m. and 3:00 p.m., and at the CVS special meeting during the entire time of the meeting.

We direct your attention to the joint proxy statement/prospectus accompanying this notice for a more complete statement regarding the matters proposed to be acted upon at the meeting. **We encourage you to read the entire joint proxy statement/prospectus carefully, including the merger agreement, which is included as Annex A to the joint proxy statement/prospectus, and the section discussing Risk Factors beginning on page 27.**

SO THAT YOUR SHARES WILL BE REPRESENTED WHETHER OR NOT YOU ATTEND THE CVS SPECIAL MEETING, PLEASE VOTE AS SOON AS POSSIBLE BY MAIL, BY TELEPHONE OR THROUGH THE INTERNET. INSTRUCTIONS ON THESE DIFFERENT WAYS TO VOTE YOUR PROXY ARE FOUND ON THE ENCLOSED **WHITE** PROXY FORM. YOU MAY REVOKE YOUR PROXY AT ANY TIME BEFORE IT IS VOTED AT THE CVS SPECIAL MEETING. **REMEMBER, YOUR VOTE IS IMPORTANT, SO PLEASE ACT TODAY!**

By Order of the Board of Directors,

Thomas M. Ryan
Chairman, President and Chief Executive Officer

January 19, 2007

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To Be Held On February 20, 2007

Dear Caremark Stockholder:

Caremark is pleased to invite you to attend a special meeting of the stockholders of Caremark Rx, Inc. which will be held on February 20, 2007 at 8:30 a.m., Central Time, at the Hilton Nashville Downtown at 121 Fourth Avenue South, Nashville, Tennessee 37201.

The purpose of the Caremark special meeting is to consider and to vote upon the following proposals:

- a proposal to adopt the Agreement and Plan of Merger dated as of November 1, 2006, as amended by Amendment No.1 to the merger agreement dated January 16, 2007, among CVS Corporation, Caremark and Twain MergerSub Corp., a wholly owned subsidiary of CVS formed for the purpose of the merger, a copy of which is attached as Annex A to the joint proxy statement/prospectus, and to approve the merger contemplated by the merger agreement, pursuant to which Caremark will become a wholly owned subsidiary of CVS Corporation (which will be renamed CVS/Caremark Corporation); and
- a proposal to approve an adjournment or postponement of the Caremark special meeting, including if necessary, to solicit additional proxies in favor of the adoption of the merger agreement and the approval of the merger if there are not sufficient votes for that proposal.

The Caremark board of directors has unanimously determined that the merger agreement and the transactions contemplated by it, including the merger, are advisable and in the best interests of Caremark and its stockholders, unanimously approved and adopted the merger agreement and the transactions contemplated by it, including the merger, and recommends that the Caremark stockholders vote **FOR** the adoption of the merger agreement and the approval of the merger and **FOR** the adjournment or postponement of the Caremark special meeting, including if necessary, to solicit additional proxies in favor of such adoption and approval.

CVS and Caremark cannot complete the merger unless the proposal to adopt the merger agreement and to approve the merger is approved by holders of a majority of the outstanding shares of Caremark common stock entitled to vote at the Caremark special meeting.

Your failure to vote will have the same effect as a vote against the adoption of the merger agreement and the approval of the merger. Therefore, your vote is very important.

The close of business on January 15, 2007 has been fixed as the record date, which is referred to as the Caremark record date, for the determination of Caremark stockholders entitled to notice of, and to vote at, the Caremark special meeting or any adjournments or postponements of the Caremark special meeting. Only holders of record of Caremark common stock at the close of business on the Caremark record date are entitled to notice of, and to vote at, the Caremark special meeting. A complete list of stockholders entitled to vote at the Caremark special meeting will be available for examination by any of Caremark's stockholders at Caremark's headquarters at 211 Commerce Street, Suite 800, Nashville, Tennessee 37201 for purposes pertaining to the Caremark special meeting, during normal business hours, for a period of 10 days before the Caremark special meeting, and at the time and place of the Caremark special meeting.

We direct your attention to the joint proxy statement/prospectus accompanying this notice for more detailed information regarding the matters proposed to be acted upon at the Caremark special meeting. **You are encouraged to read the entire joint proxy statement/prospectus carefully, including the merger agreement, which is included as Annex A to the joint proxy statement/prospectus, and Risk Factors beginning on page 27 of the joint proxy statement/prospectus.**

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SO THAT YOUR SHARES WILL BE REPRESENTED WHETHER OR NOT YOU ATTEND THE CAREMARK SPECIAL MEETING, PLEASE VOTE AS SOON AS POSSIBLE BY (1) ACCESSING THE INTERNET WEBSITE SPECIFIED ON YOUR **WHITE** PROXY CARD; (2) CALLING THE TOLL-FREE NUMBER SPECIFIED ON YOUR **WHITE** PROXY CARD; OR (3) SIGNING, DATING AND MAILING THE ENCLOSED **WHITE** PROXY CARD SO THAT YOUR SHARES MAY BE REPRESENTED AT THE CAREMARK SPECIAL MEETING. YOU MAY REVOKE YOUR PROXY AT ANY TIME BEFORE IT IS VOTED AT THE CAREMARK SPECIAL MEETING BY FOLLOWING THE PROCEDURES SET FORTH IN THE ACCOMPANYING JOINT PROXY STATEMENT/PROSPECTUS. **REMEMBER, YOUR VOTE IS IMPORTANT, SO PLEASE ACT PROMPTLY.**

By Order of the Board of Directors,

E. Mac Crawford
Chairman, President and Chief Executive Officer

January 19 , 2007

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QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: *What will happen in the transaction?*

A: CVS and Caremark are proposing to combine the two companies in a merger of equals transaction. In the merger, Caremark will be merged with and into a wholly owned subsidiary of CVS that was formed for the purpose of the merger with the CVS subsidiary surviving the merger and remaining a wholly owned subsidiary of CVS. Immediately following the merger, CVS Corporation will be renamed "CVS/Caremark Corporation" and Twain MergerSub LLC will be renamed "Caremark Rx, L.L.C.". Caremark stockholders will have their shares of Caremark common stock converted into newly issued shares of common stock of CVS/Caremark Corporation, and CVS stockholders will retain their existing shares of CVS common stock and CVS Series One ESOP Convertible Preference Stock, which is referred to as CVS ESOP preference stock. CVS and Caremark expect that, upon completion of the merger, approximately 45.5% of the outstanding common stock of the combined company on a fully diluted basis will be held by former Caremark stockholders, and approximately 54.5% of the outstanding common stock of the combined company on a fully diluted basis will be held by former CVS stockholders.

In the merger, CVS' Amended and Restated Certificate of Incorporation, which is referred to as the CVS charter, will be amended to increase the number of authorized shares of CVS common stock from 1 billion to 3.2 billion and to change CVS' name to CVS/Caremark Corporation. These changes are described under the section entitled "CVS Charter Amendment" beginning on page 127.

Q: *What will I receive in the merger?*

A: *CVS Stockholders.* Each share of CVS common stock and CVS ESOP preference stock held by CVS stockholders immediately before the merger will continue to represent one share of CVS/Caremark common stock and one share of ESOP preference stock of the combined company, as applicable, after the effective time of the merger. In other words, CVS stockholders will receive no consideration in the merger.

Caremark Stockholders. For each share of Caremark common stock held, Caremark stockholders will have the right to receive 1.670 shares of CVS/Caremark common stock. At the effective time of the merger, each share of Caremark common stock will be cancelled and converted automatically into the right to receive 1.670 shares of CVS/Caremark common stock. Caremark stockholders will receive cash for any fractional shares of CVS/Caremark common stock that they would otherwise receive in the merger. The amount of cash for fractional shares will be calculated by multiplying the fraction of a share of CVS/Caremark common stock to which the Caremark stockholder would be entitled to receive in the merger by the closing sale price of a share of CVS/Caremark common stock on the first trading day immediately following the effective time of the merger.

Q: *Will I receive the Caremark special cash dividend?*

A: CVS has granted a waiver to Caremark from the restrictions set forth in the merger agreement to permit Caremark to pay a one-time, special cash dividend to holders of Caremark common stock (on a record date to be set by the Caremark board of directors) in the amount of \$2.00 per share of Caremark common stock held by each such holder on such record date, which dividend shall be declared prior to the Caremark special meeting, but shall only become payable upon the completion of the merger, and such payment shall be conditioned upon occurrence of the effective time of the merger. You can find further details regarding this dividend in the section entitled "The Merger" Caremark Special Cash Dividend" beginning on page 40.

Q: *What is the accelerated share repurchase transaction?*

A: CVS and Caremark have agreed that as promptly as practicable after the closing of the merger, CVS/Caremark will execute an accelerated share repurchase transaction on customary terms, whereby CVS/Caremark will retire 150 million shares of its common stock (approximately 9.8% of the combined

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company's pro-forma outstanding shares after giving effect to the merger). To implement this transaction, CVS/Caremark will enter into an agreement with one or more financial institutions to purchase shares of common stock from each of them and pay each of them for the shares to be retired. The effect of this transaction and the related borrowing by the combined

company to finance the transaction will be the immediate reduction of shares outstanding by 150 million shares and an increase in the combined company's funded debt by approximately \$4.8 billion. CVS has received commitments for such financing. It is anticipated that the agreement with the financial institutions will provide for a purchase price adjustment mechanism customary for such a transaction. The purchase price adjustment under such agreement may be subject to limits on the amounts that may be owed by CVS/Caremark or the financial institutions or both.

Q: *When and where are the CVS and Caremark special meetings?*

A: *CVS Special Meeting.* A special meeting of CVS stockholders, which is referred to as the CVS special meeting, will be held on February 23, 2007 at 11:00 a.m., Eastern Time, at CVS's corporate headquarters, One CVS Drive, Woonsocket, Rhode Island 02895, to consider and vote on proposals related to the merger.

Caremark Special Meeting. A special meeting of Caremark stockholders, which is referred to as the Caremark special meeting, will be held on February 20, 2007 at 8:30 a.m., Central Time, at the Hilton Nashville Downtown at 121 Fourth Avenue South, Nashville, Tennessee 37201 to consider and vote on proposals related to the merger.

Q: *What stockholder votes are required?*

A: CVS stockholders are being asked to approve two separate proposals that are necessary to complete the merger. The completion of the merger requires:

- the approval of the amendments to the CVS charter by holders of CVS common stock and CVS ESOP preference stock, voting together as a single class, representing a majority of the votes entitled to be cast by such holders on the proposal; and
- the approval of the issuance of shares of CVS/Caremark common stock to Caremark stockholders in the merger by holders of CVS common stock and CVS ESOP preference stock, voting together as a single class, representing a majority of the votes cast in person or by proxy at the CVS special meeting, provided that the total number of votes cast on the proposal represents over 50% of the total number of votes entitled to be cast by holders of the outstanding CVS common stock and CVS ESOP preference stock, voting together as a single class, which is referred to as the 50% "vote cast" quorum requirement.

The CVS board of directors recommends that CVS stockholders vote "FOR" the amendments of the CVS charter to increase the number of authorized shares of CVS common stock and to rename the combined company CVS/Caremark Corporation and "FOR" the issuance of CVS/Caremark common stock in connection with the merger.

Caremark stockholders are being asked to adopt the merger agreement and approve the merger, which requires the approval of holders of a majority of the outstanding shares of Caremark common stock entitled to vote at the Caremark special meeting.

The Caremark board of directors recommends that Caremark stockholders vote "FOR" the adoption of the merger agreement and approval of the merger.

Q: *Why is my vote important?*

A: In order to complete the merger, Caremark stockholders must adopt the merger agreement and approve the merger, and CVS stockholders must approve the issuance of CVS/Caremark common stock to

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Caremark stockholders in the merger and the amendments to the CVS charter to increase the number of authorized shares of CVS common stock and to rename the combined company CVS/Caremark Corporation.

If you are a CVS stockholder and you abstain from voting or do not vote (either in person or by proxy), or fail to direct your broker how to vote, it will have the same effect as a vote AGAINST the proposal to approve the amendments to the CVS charter. If you abstain or do not vote (either in person or by proxy), or fail to direct your broker how to vote, it will have no effect in determining whether the issuance of shares of CVS/Caremark common stock to Caremark stockholders in the merger will be approved, but will not be

considered to be a "vote cast" for purposes of this proposal, making it more difficult to satisfy the 50% "vote cast" quorum requirement for the proposal.

If you are a Caremark stockholder and you abstain from voting or do not vote (either in person or by proxy), or fail to direct your broker how to vote, it will have the same effect as a vote "AGAINST" the proposal to adopt the merger agreement and to approve the merger.

Q: *Are the issuance of CVS/Caremark common stock in the merger and the CVS charter amendments each conditioned upon each other?*

A: Yes. The proposal to amend the CVS charter and the proposal to issue shares of CVS/Caremark common stock to Caremark stockholders in the merger are each conditioned upon the approval of the other and the approval of each such proposal is a condition to completion of the merger. Neither the issuance of CVS/Caremark common stock in connection with the merger nor the amendments of the CVS charter will take place unless both of these proposals are approved by the CVS stockholders and the merger is completed. Therefore, the completion of the merger cannot proceed without the approval of both proposals.

Q: *What do I do if I want to change my vote?*

A: You can change your vote at any time before your proxy is voted at your stockholders' meeting. You can do this in one of four ways:

- you can send a signed notice of revocation;
- you can grant a new, valid proxy bearing a later date;
- you can vote again by telephone or through the Internet; or
- if you are a holder of record, you can attend the applicable special meeting and vote in person, but your attendance alone will not revoke any proxy that you have previously given.

If you choose either of the first two methods, you must send your notice of revocation or your new proxy to your company's Corporate Secretary at the address under "The Companies" beginning on page 104 no later than the beginning of the applicable special meeting. If you are a CVS stockholder, you can find further details on how to revoke your proxy in "The CVS Special Meeting" "Revocation of Proxies" beginning on page 121. If you are a Caremark stockholder, you can find further details on how to revoke your proxy in "The Caremark Special Meeting" "Revocation of Proxies" beginning on page 125.

Q: *If my shares are held in "street name" by my broker, will my broker vote my shares for me?*

A: No. Your broker is not permitted to decide how your shares should be voted. Your broker will only vote your shares on a proposal if you provide your broker with voting instructions on that proposal. You should instruct your broker to vote your shares by following the directions that your broker provides you. Please check the voting information form used by your broker to see if it offers telephone or Internet voting.

A broker non-vote occurs when a beneficial owner fails to provide voting instructions to his or her broker as to how to vote the shares held by the broker in street name and the broker does not have discretionary authority to vote without instructions. Brokers do not have discretionary authority to vote on any of the Caremark proposals or CVS proposals. By signing your proxy card and returning it to your broker without specific instructions as to any proposal, your shares represented by that proxy will be voted in favor of that proposal. Any shares you beneficially own not identified as represented by that proxy will be considered broker non-votes. See "The CVS Special Meeting" beginning on page 118 and "The Caremark

Special Meeting beginning on page 123.

Q: *What if I fail to instruct my broker with respect to those items that are necessary to consummate the merger?*

A: If you are a CVS stockholder:

- with respect to the proposal to amend the CVS charter, a broker non-vote will be counted towards a quorum at the CVS special meeting, but will have the same effect as a vote AGAINST the proposal to amend the CVS charter; and
- with respect to the proposal to issue shares of CVS/Caremark common stock to Caremark stockholders in the merger, a broker non-vote will not be considered a vote cast for purposes of satisfying the applicable quorum requirement, making it more difficult to obtain the necessary quorum. However, if the quorum requirement is satisfied, a broker non-vote will have no effect on the proposal to issue shares of CVS/Caremark common stock to Caremark stockholders in the merger.

If you are a Caremark stockholder, a broker non-vote will be counted towards a quorum at the Caremark special meeting, but will have the same effect as a vote AGAINST the proposal to adopt the merger agreement and approve the merger.

For additional information, see The CVS Special MeetingVotes Required to Approve CVS Proposals beginning on page 120 if you are a CVS stockholder, and The Caremark Special MeetingVotes Required to Approve Caremark Proposals beginning on page 124 if you are a Caremark stockholder.

Q: *What do I do now?*

A: Carefully read and consider the information contained in and incorporated by reference into this document, including its annexes.

In order for your shares to be represented at your stockholders meeting:

- you can vote by telephone or through the Internet by following the instructions included on your **WHITE** proxy card;
- you can indicate on the enclosed **WHITE** proxy card how you would like to vote and sign and return the proxy card in the accompanying pre-addressed postage paid envelope; or
- you can attend your special meeting in person.

Q: *Should I send in my stock certificates now?*

A: No. Caremark stockholders should not send in their stock certificates at this time. If the merger proceeds, CVS exchange agent will send former Caremark stockholders a letter of transmittal explaining what they must do to exchange their Caremark stock certificates or transfer uncertificated shares for the merger consideration payable to them.

CVS stockholders will retain their current stock certificates after the merger and should not send in their stock certificates.

Q: *Can I dissent and require appraisal of my shares?*

A: No. Under Delaware law, CVS and Caremark stockholders have no right to an appraisal of the value of their shares in connection with the merger.

Q: *Are there risks involved in undertaking the merger?*

A: Yes. In evaluating the merger, CVS and Caremark stockholders should carefully consider the factors discussed in Risk Factors beginning on page 27 and other information about CVS and Caremark included in the documents incorporated by reference into this document.

Q: *When do you expect to complete the merger?*

A: CVS and Caremark are working to complete the merger as quickly as practicable. However, CVS and Caremark cannot assure you when or if the merger will be completed. Completion of the merger is subject to satisfaction or waiver of the conditions specified in the merger agreement, including receipt of the necessary

approvals of CVS and Caremark's stockholders at their respective special meeting and any necessary regulatory approvals. It is possible that factors outside the control of both companies could result in the merger being completed later than expected. Although the exact timing of completion of the merger cannot be predicted with certainty, CVS and Caremark anticipate completing the merger in the first quarter of 2007. See "The Merger Agreement" Conditions to Completion of the Merger beginning on page 114.

Q: Do the Caremark stockholders have to vote on the merger with CVS at the Caremark special meeting if Caremark has changed its recommendation of the merger with CVS?

A: Yes, unless CVS terminates the merger agreement before the Caremark special meeting, Caremark stockholders will be asked to vote on the merger with CVS even if Caremark has changed its recommendation of the merger with CVS consistent with the terms of the merger agreement.

Q: Whom should I call with questions?

A: *CVS Stockholders.* If you have additional questions about the merger, you should contact:

CVS Corporation
One CVS Drive
Woonsocket, RI 02895
Attention: Investor Relations
Phone Number: (800) 201-0938
E-mail Address: investorinfo@cvs.com

If you would like additional copies of this document, or if you have questions about the merger or need assistance voting your shares, you should contact:

Morrow & Co., Inc.
470 West Avenue
Stamford, CT 06902
Phone Number: (800) 245-1502 (toll-free)

Caremark Stockholders. If you have additional questions about the merger, you should contact:

Caremark Rx, Inc.
211 Commerce Street, Suite 800
Nashville, TN 37201
Attention: Investor Relations
Phone Number: (800) 633-9509
E-mail Address: investorinfo@caremark.com

If you would like additional copies of this document, have questions about the merger or need assistance voting your shares, you should contact:

Innisfree M&A Incorporated
501 Madison Avenue, 20th Floor
New York, NY 10022
Phone Number: Stockholders: (877) 750-9498 (toll-free)
Banks and Brokers: (212) 750-5833 (collect)

SUMMARY

This summary highlights information contained elsewhere in this document. It does not contain all of the information that may be important to you. You are urged to read carefully this entire document, including the attached annexes, and the other documents to which this document refers you in order for you to fully understand the proposed merger. See [Where You Can Find More Information] beginning on page 158. Each item in this summary refers to the page of this document on which that subject is discussed in more detail.

The Companies

CVS Corporation (see page 104)

One CVS Drive
Woonsocket, Rhode Island 02895
(401) 765-1500
<http://investor.cvs.com>¹

CVS is a leader in the retail drug industry in the U.S. operating approximately 6200 retail and specialty pharmacy stores in 43 states and the District of Columbia, which is more stores than any other pharmacy chain. CVS currently operates in 71 of the top 100 U.S. drugstore markets and holds the number one or number two market share in 50 of these markets. CVS serves the healthcare needs of its customers through a number of distribution channels, including CVS/pharmacy stores, CVS.com (its online pharmacy), MinuteClinic, its retail-based health clinic subsidiary, and PharmaCare, its pharmacy benefit management, mail services and specialty pharmacy subsidiary.

Caremark Rx, Inc. (see page 104)

211 Commerce Street, Suite 800
Nashville, Tennessee 37201
(615) 743-6600
<http://www.caremark.com>²

Caremark Rx, Inc. is a leading pharmaceutical services company in the United States. Caremark's operations are conducted primarily through its subsidiaries, Caremark Inc. and CaremarkPCS (f/k/a AdvancePCS) and involve the design and administration of programs aimed at reducing the costs and improving the safety, effectiveness and convenience of prescription drug use. Caremark's customers 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, Caremark, through its SilverScript insurance subsidiary is a national provider of drug benefits to eligible beneficiaries under the federal government's Medicare Part D program.

Caremark operates a national retail pharmacy network with over 60,000 participating pharmacies (including CVS/pharmacy stores), 7 mail service pharmacies, 21 specialty mail service pharmacies and the industry's only repackaging plant regulated by the Food & Drug Administration. Through its Accordant disease management offering, Caremark also provides disease management programs for 27 conditions. Twenty-one of these programs are accredited by the National Committee for Quality Assurance.

¹ The information contained on CVS's website is expressly not incorporated by reference into this document

² The information contained on Caremark's website is expressly not incorporated by reference into this document.

The Merger

The Agreement and Plan of Merger, dated as of November 1, 2006, among CVS, Caremark and Twain MergerSub Corp., as amended by Amendment No. 1 to the merger agreement, dated as of January 16, 2007, which is referred to as the merger agreement, is attached as Annex A to this document. Caremark and CVS encourage you to read carefully the merger agreement in its entirety because it is the principal legal agreement that governs the merger.

Structure of the Merger (see page 40)

Subject to the terms and conditions of the merger agreement and in accordance with Delaware law, Caremark will merge with and into Twain MergerSub LLC, a wholly owned subsidiary of CVS that was formed for the purpose of the merger, with Twain MergerSub LLC surviving the merger and remaining a wholly owned subsidiary of CVS. Immediately following the merger, CVS Corporation will be renamed "CVS/Caremark Corporation" and Twain MergerSub LLC will be renamed "Caremark Rx, L.L.C.". Accordingly, after the effective time of the merger, shares of Caremark common stock will no longer be publicly traded.

Merger Consideration (see page 106)

Caremark Stockholders. As a result of the merger, Caremark stockholders will be entitled to receive, for each share of Caremark common stock that they own, 1.670 shares of CVS/Caremark common stock. The number of shares of CVS/Caremark common stock delivered in respect of each share of Caremark common stock in the merger is referred to as the exchange ratio. The combined company will not issue any fractional shares of CVS/Caremark common stock in the merger. Instead, Caremark stockholders will receive cash for any fractional shares of CVS/Caremark common stock that they otherwise would receive in the merger. The amount of cash for fractional shares will be calculated by multiplying the fraction of a share of CVS/Caremark common stock to which the Caremark stockholder would be entitled to receive in the merger by the closing sale price of a share of CVS/Caremark common stock on the first trading day immediately following the effective time of the merger. The CVS/Caremark common stock received based on the exchange ratio, together with any cash received in lieu of fractional shares, is referred to as the merger consideration. For more information about fractional share treatment, please see "The Merger Agreement" "Fractional Shares" beginning on page 107 and for more information about the treatment of Caremark options, please see "The Merger Agreement" "Caremark Stock Options" beginning on page 107.

CVS Stockholders. CVS stockholders will continue to own their existing shares of CVS common stock and CVS ESOP preference stock after the merger. Each share of CVS common stock or CVS ESOP preference stock will represent one share of common stock or ESOP preference stock, respectively, in the combined company. CVS stockholders should not send in their stock certificates in connection with the merger.

Ownership of the Combined Company After the Merger

The combined company will issue approximately 712.4 million shares of CVS/Caremark common stock to Caremark stockholders in the merger based on the number of shares of Caremark common stock outstanding on January 15, 2007. At the completion of the merger, before giving effect to the accelerated repurchase share transaction described under "The Merger" "Accelerated Share Repurchase Transaction" on page 40, it is expected that there will be outstanding approximately 1.56 billion shares of common stock of the combined company. The shares of CVS/Caremark common stock issued to Caremark stockholders in the merger will represent approximately 45.5% of the outstanding common stock of the combined company immediately after the merger on a fully diluted basis including shares reserved for issuance upon exercise of options and warrants. Shares of CVS/Caremark common stock held by CVS stockholders will represent approximately 54.5% of the outstanding common stock of the combined company immediately after the merger on a fully diluted basis.

Caremark Special Cash Dividend

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On the date of Amendment No. 1 to the merger agreement, CVS separately granted a waiver to Caremark from the restrictions set forth in Section 6.01(b) of the merger agreement to permit Caremark to pay a one-time, special

cash dividend, which is referred to as the Caremark special cash dividend, to holders of record of Caremark common stock (on a record date to be set by the Caremark board of directors) in the amount of \$2.00 per share of Caremark common stock held by each such holder on such record date, which dividend shall, under the terms of the CVS waiver, be declared prior to the Caremark special meeting, but shall only become payable upon or after the effective time of the merger, and such payment shall be conditioned upon the completion of the merger.

Accelerated Share Repurchase Transaction

The parties have agreed that as promptly as practicable after the closing of the merger, CVS/Caremark will execute an accelerated share repurchase transaction, which is referred to as the accelerated share repurchase transaction, on customary terms, whereby CVS/Caremark will retire 150 million shares of its common stock (approximately 9.8% of the combined company's pro-forma outstanding shares after giving effect to the merger). To implement this transaction, CVS/Caremark will enter into an agreement with one or more financial institutions to purchase from each of them shares of common stock and pay each of them for the shares to be retired. The effect of this transaction and the related borrowing by the combined company to finance the transaction will be the immediate reduction of shares outstanding by 150 million shares and an increase in the combined company's funded debt by approximately \$4.8 billion. CVS has received commitments for such financing. It is anticipated that the agreement with the financial institutions will provide for a purchase price adjustment mechanism customary for such a transaction. The purchase price adjustment under such agreement may be subject to limits on the amounts that may be owed by CVS/Caremark or the financial institutions or both.

Comparative Market Prices and Share Information (see page 24 and page 25)

CVS common stock is listed on the NYSE under the symbol "CVS". Caremark common stock is listed on the NYSE under the symbol "CMX". The following table sets forth the closing sale prices of CVS common stock as reported on the NYSE and the closing sale prices of Caremark common stock as reported on the New York Stock Exchange, each on October 31, 2006, the last trading day before CVS and Caremark announced the transaction, and on January 12, 2007. This table also shows the implied value of a Caremark common share, which was calculated by multiplying the closing price of CVS common stock on those dates by the exchange ratio of 1.670.

	CVS Common Stock	Caremark Common Stock	Implied Value of Caremark Common Stock (a)
October 31, 2006	\$31.38	\$49.23	\$52.40
January 12, 2007	\$31.94	\$56.83	\$53.34

(a) The implied value of Caremark common stock does not include the \$2.00 per share special cash dividend.

The market prices of CVS common stock and Caremark common stock will fluctuate before the special meetings and before the merger is completed. Therefore, you should obtain current market quotations for CVS common stock and Caremark common stock.

Recommendations to Stockholders

Recommendations to CVS Stockholders. The CVS board of directors has unanimously determined that the merger agreement and the merger and other transactions contemplated therein, including the issuance of CVS/Caremark common stock and the amendments to CVS's charter are advisable and in the best interests of CVS and its stockholders. The CVS board of directors recommends that CVS stockholders vote:

- **FOR** the amendments to the CVS charter to change CVS's name to CVS/Caremark Corporation and to increase the authorized number of shares of CVS common stock from 1 billion to 3.2 billion shares;
- **FOR** the issuance of CVS/Caremark common stock to Caremark stockholders in the merger; and

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- **FOR** the adjournment or postponement of the special meeting, including if necessary, to solicit additional proxies in favor of the foregoing proposals.

For additional information see "The CVS Special Meeting" Board Recommendations beginning on page 118.

Recommendations to Caremark Stockholders. The Caremark board of directors has unanimously determined that the merger agreement and the merger contemplated by the merger agreement are advisable and in the best interests of Caremark and its stockholders. The Caremark board of directors recommends that Caremark stockholders vote:

- **FOR** the adoption of the merger agreement and approval of the merger; and
- **FOR** the adjournment or postponement of the special meeting, including if necessary, to solicit additional proxies in favor of the foregoing proposals.

For additional information see "The Caremark Special Meeting" Board Recommendations beginning on page 123.

Opinions of Financial Advisors (see pages 56 and 80)

CVS. In connection with the merger, the CVS board of directors received separate oral opinions on the date of the merger agreement and on the date of Amendment No. 1 to the merger agreement, which were followed later by the delivery of separate written opinions, from each of CVS's financial advisors, Evercore Group L.L.C., which is referred to as Evercore, and Lehman Brothers Inc., which is referred to as Lehman Brothers, as to the fairness, from a financial point of view and as of the date of such opinions, of the exchange ratio provided for in the merger to CVS. The written opinions of Evercore and Lehman Brothers, each dated January 16, 2007, are attached to this document as Annex D and Annex E, respectively. CVS stockholders are encouraged to read these opinions carefully in their entirety for a description of the assumptions made, procedures followed, matters considered and qualifications and limitations on the review undertaken. **Evercore's and Lehman Brothers' opinions as to the fairness, from a financial point of view, of the exchange ratio to CVS were provided to the CVS board of directors in connection with its evaluation of the exchange ratio from a financial point of view, do not address any other aspect of the merger and do not constitute a recommendation to any stockholder as to how to vote or act with respect to the merger.**

Caremark. In connection with the merger, the Caremark board of directors received separate oral opinions, which were followed later by the delivery of separate written opinions from Caremark's financial advisors, UBS Securities LLC, which is referred to as UBS, and J.P. Morgan Securities Inc., which is referred to as JPMorgan, as to the fairness, from a financial point of view and as of the date of such opinions, of the exchange ratio provided for in the merger. The written opinions of UBS and JPMorgan, each dated November 1, 2006, are attached to this document as Annex F and Annex G, respectively. Holders of Caremark common stock are encouraged to read these opinions carefully in their entirety for a description of the assumptions made, procedures followed, matters considered and limitations on the review undertaken. **UBS' and JPMorgan's opinions as to the fairness, from a financial point of view, of the exchange ratio were provided to the Caremark board of directors in connection with its evaluation of the exchange ratio from a financial point of view, do not address any other aspect of the merger and do not constitute a recommendation to any stockholder as to how to vote or act with respect to the merger.**

Treatment of Caremark Options (see page 107)

Prior to the effective time of the merger, the compensation committee of the Caremark board of directors will make adjustments to Caremark's outstanding stock options to reflect the Caremark special cash dividend. At the effective time of the merger, each outstanding option to purchase shares of Caremark common stock, which is referred to as a Caremark option, will be converted into an option to purchase shares of CVS/Caremark common stock on the same terms and conditions as were applicable before the merger except that each option will allow the holder thereof to purchase a number of shares of CVS/Caremark common stock equal to (1) the number of shares of Caremark common stock subject to the Caremark option before the completion of the merger multiplied by (2) 1.670, rounded down to the nearest whole share. In addition, at the effective time of the merger, each option to purchase shares of the combined company common stock will have an exercise price per share equal to (1) the aggregate exercise price required to purchase all shares of Caremark common stock subject to the Caremark option before the completion of the merger divided by (2) the number of shares of CVS/Caremark common stock subject to the option after completion of the merger, rounded up to the nearest whole cent.

Interests of CVS and Caremark's Executive Officers and Directors in the Merger (see pages 74 and 86)

When you consider the CVS and Caremark board of directors' respective recommendations that stockholders vote in favor of the proposals described in this document, you should be aware that (1) some Caremark executive officers and directors may have interests that may be different from, or in addition to, Caremark stockholders' interests, including but not limited to, their receipt of severance benefits under existing Caremark employment arrangements, entry into employment arrangements with the combined company, accelerated vesting of Caremark options and participation in various benefits plans and (2) some CVS executive officers and directors may have interests that may be different from, or in addition to, CVS stockholders' interests.

No Appraisal or Dissenters' Rights (see page 96)

Under Delaware law, CVS and Caremark stockholders have no right to an appraisal of the value of their shares in connection with the merger.

Material Federal Income Tax Consequences of the Caremark Special Cash Dividend and the Merger (see page 99)

Tax Consequences of the Caremark Special Cash Dividend. Caremark and CVS intend to report the Caremark special cash dividend as a distribution with respect to Caremark common stock that will be taxable as dividend income to Caremark stockholders to the extent of Caremark's earnings and profits as determined for U.S. federal income tax purposes. The tax treatment of the Caremark special cash dividend, however, is unclear and if the Caremark special cash dividend were treated for tax purposes as additional consideration received in connection with the merger, the amount of cash received by a Caremark stockholder would be taxable to such stockholder only to the extent of the gain realized by such stockholder in the merger.

Tax Consequences of the Merger. A Caremark stockholder's receipt of CVS/Caremark common stock in the merger will generally be tax-free for U.S. federal income tax purposes, except for taxes that may result from (i) any receipt of cash in lieu of a fractional share of CVS/Caremark common stock, and, (ii) if the Caremark special cash dividend were treated as additional consideration in connection with the Merger, gain recognized in respect of such additional consideration. There will be no U.S. federal income tax consequences to a holder of CVS common stock as a result of the Merger.

The U.S. federal income tax consequences described above may not apply to some holders of Caremark common stock, including some types of holders specifically referred to on page 99. Accordingly, please consult your tax advisor for a full understanding of the particular tax consequences of the merger to you.

Accounting Treatment (see page 95)

CVS/Caremark will account for the merger under the purchase method of accounting for business transactions. In accordance with accounting principles generally accepted in the U.S., which is referred to as U.S. GAAP, CVS will be considered the acquiror of Caremark for accounting purposes.

Regulatory Approvals (see page 102)

The merger is subject to review by the U.S. Federal Trade Commission, the U.S. Department of Justice and state antitrust authorities pursuant to applicable federal and state antitrust laws. Under the provisions of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations thereunder, which is referred to as the HSR Act, the merger cannot be completed until the companies have made required notifications, given certain information and materials to the Federal Trade Commission and to the Antitrust Division of the U.S. Department of Justice and a required waiting period has expired or been terminated. CVS and Caremark filed the required notification and report forms with the Antitrust Division and the Federal Trade Commission on November 20, 2006. On December 20, 2006, the initial waiting period required under the HSR Act expired without a request for additional information from the Federal Trade Commission. CVS and Caremark

have been informed that Arizona, California, Florida, Illinois, Louisiana, Maine, Massachusetts, Missouri, Nebraska, New York, Ohio,

Pennsylvania, Rhode Island, Virginia and the District of Columbia, the states that had previously indicated they would be reviewing the merger from an antitrust perspective, will not pursue their review of the proposed merger.

As described further under "Risk Factors", Caremark's and CVS's businesses are subject to numerous federal, state and local laws and regulations including, but not limited to, healthcare regulatory laws and regulations applicable to the following: the licensure and regulation of pharmacies and pharmacists and other healthcare professionals; Medicare, Medicaid and other government reimbursement programs; the Health Insurance Portability and Accountability Act, or HIPAA; the storage, advertisement, promotion, sale and distribution of controlled substances and other products; and the like. Certain of these healthcare regulatory laws and regulations may require filings or approvals in connection with the completion of the merger; however, it is not expected that (1) any such filings or approvals would delay the merger or (2) the failure to make any such filings or obtain any such approvals prior to the merger would have a material adverse effect on either of CVS or Caremark.

Listing of CVS/Caremark Common Stock (see page 108)

CVS has agreed to use its commercially reasonable efforts to cause the shares of CVS/Caremark common stock to be issued in the merger and the shares of CVS/Caremark common stock to be reserved for issuance upon exercise of the Caremark stock options and warrants to be approved for listing on the NYSE. It is also a condition to the merger that the shares of CVS/Caremark common stock issuable in the merger be approved for listing on the NYSE on or prior to the effective time of the merger.

Conditions to Completion of the Merger (see page 114)

CVS and Caremark will be required to complete the merger only if specific conditions, including the following, are satisfied or waived:

- approval of (1) the amendment of the CVS charter to increase its authorized shares and (2) the issuance of shares of CVS/Caremark common stock to Caremark stockholders in the merger, in each case, by the requisite vote of the CVS stockholders;
- the adoption of the merger agreement and the approval of the merger by the requisite vote of the Caremark stockholders;
- absence of any applicable law prohibiting or preventing the completion of the merger;
- expiration or termination of the waiting period (and any extension thereof) applicable to the merger under the HSR Act;
- the effectiveness of, and the absence of any stop order with respect to, the registration statement on Form S-4 of which this document forms a part;
- approval for listing on the NYSE, subject to official notice of issuance, of the shares of CVS/Caremark common stock issuable in the merger to Caremark's stockholders;
- receipt of all required approvals of any governmental authority, subject to certain exceptions as described herein (see "The Merger Agreement" Conditions to Completion of the Merger beginning on page 114);
- absence of legal prohibitions issued or deemed applicable to the merger that would reasonably be expected to (1) materially and adversely diminish the benefits expected to be derived by the parties on the date of the merger agreement from the combination of CVS and Caremark via the merger (such combined business to be taken as a whole), in such a manner that either CVS or Caremark would not

have entered into the merger agreement in the face of such materially and adversely diminished benefits, or (2) otherwise have a material adverse effect (see "The Merger Agreement" Representations and Warranties" beginning on page 108 for a definition of material adverse effect) after the effective time of the merger on CVS/Caremark and its subsidiaries, taken as a whole;

- CVS having taken all actions necessary to cause the amended charter and amended bylaws of the combined company to be effective at the effective time of the merger and to ensure that the CVS/Caremark board of directors is comprised in the manner contemplated by the merger agreement;
- receipt of opinions of CVS and Caremark's counsel that the merger will qualify as a tax-free reorganization;
- the representations and warranties made by each party being true in all respects (but without regard to materiality qualifications or references to material adverse effect that may be contained in any representation or warranty) as of the effective time of the merger (except for representations and warranties expressly made as of a specific date, the accuracy of which will be determined as of such specified date), except where failure of such representations and warranties to be true would not reasonably be expected to have, whether individually or in the aggregate, a material adverse effect on the party making the representation or warranty; and
- each party having performed in all material respects the obligations required to be performed by it at or before the effective time of the merger.

Termination of the Merger Agreement (see page 115)

The merger agreement may be terminated at any time before the effective time of the merger by mutual written consent of CVS and Caremark.

The merger agreement may also be terminated prior to the effective time of the merger by either CVS or Caremark if:

- the merger has not been completed by November 1, 2007, unless the only reason that the merger has not occurred by November 1, 2007 is that the waiting period applicable to the merger under the HSR Act has not expired or been terminated, in which case the termination date will be extended to May 1, 2008;
- there is a permanent legal prohibition to completing the merger; or
- Caremark stockholders or CVS stockholders fail to give the necessary approval at their special meetings or any adjournments or postponements thereof.

The merger agreement may also be terminated prior to the effective time of the merger by CVS if:

- the Caremark board of directors has made a change in recommendation (see "The Merger Agreement" Certain Covenants" No Solicitation" beginning on page 110);
- there has been a willful or material breach by Caremark of its obligations under the no solicitation covenant in the merger agreement (see "The Merger Agreement" Certain Covenants" No Solicitation" beginning on page 110);
- for any reason Caremark fails to call and hold a meeting of the Caremark stockholders to consider the adoption of the merger agreement and approval of the merger as required by the merger agreement; or
- Caremark has breached any of its representations or warranties or failed to perform any of its covenants or agreements set forth in the merger agreement, if such breach or failure to perform would result in the failure to satisfy the closing condition of the merger relating to the accuracy of the representations and

warranties or compliance with covenants contained in the merger agreement by November 1, 2007 (or, May 1, 2008, if extended as permitted in the merger agreement).

The merger agreement may also be terminated prior to the effective time of the merger by Caremark if:

- the CVS board of directors has made a change in recommendation (see The Merger AgreementCertain Covenants No Solicitation beginning on page 110);

- there has been a willful or material breach by CVS of its obligations under the no solicitation covenant in the merger agreement (see "The Merger Agreement" Certain Covenants No Solicitation beginning page 110);
- for any reason CVS fails to call and hold a meeting of the CVS stockholders to consider the approval of the amendments to the CVS charter and the issuance of shares of CVS/Caremark common stock to Caremark stockholders in the merger as required by the merger agreement; or
- CVS has breached any of its representations or warranties or failed to perform any of its covenants or agreements set forth in the merger agreement, if such breach or failure to perform would result in the failure to satisfy the closing condition of the merger relating to the accuracy of the representations and warranties or compliance with covenants contained in the merger agreement by November 1, 2007 (or, May 1, 2008, if extended as permitted in the merger agreement).

Termination Fees and Expenses (see page 116)

Termination Fee Payable by CVS. CVS has agreed to pay a fee of \$675 million to Caremark if the merger agreement is terminated under any of the following circumstances:

- the CVS board of directors makes a change in recommendation;
- CVS willfully and materially breaches certain obligations not to solicit acquisition proposals or fails to call a stockholders' meeting to vote on the proposals to amend the CVS charter and issue CVS/Caremark common stock to Caremark stockholders in the merger; or
- the merger is not consummated by November 1, 2007 (or, May 1, 2008, if extended as permitted in the merger agreement) or CVS' stockholders fail to approve the proposals to amend the CVS charter and to issue CVS/Caremark common stock to Caremark stockholders in the merger, in each case, only if (1) a third party has made an acquisition proposal before the CVS special meeting and (2) within 12 months of the termination of the merger agreement, CVS enters into an alternative transaction.

Termination Fee Payable by Caremark. Caremark has agreed to pay a fee of \$675 million to CVS if the merger agreement is terminated under any of the following circumstances:

- the Caremark board of directors makes a change in recommendation;
- Caremark willfully and materially breaches certain obligations not to solicit acquisition proposals or fails to call a stockholders' meeting to vote on the merger agreement and merger; or
- the merger is not consummated by November 1, 2007 (or, May 1, 2008, if extended as permitted in the merger agreement) or Caremark's stockholders fail to adopt the merger agreement and to approve the merger, in each case, only if (1) a third party has made an acquisition proposal before the Caremark special meeting and (2) within 12 months of the termination of the merger agreement, Caremark enters into an alternative transaction.

Headquarters (see page 129)

The combined company's corporate headquarters will be located in Woonsocket, Rhode Island. The headquarters of the combined company's pharmacy services business will be located in Nashville, Tennessee.

Executive Officers (see page 128)

CVS and Caremark have agreed that E. Mac Crawford will be the chairman of the CVS/Caremark board of directors and Thomas M. Ryan will be the chief executive officer and a director of CVS/Caremark. A vote of three-quarters of the board of directors will be required to remove Mr. Ryan as CVS/Caremark's chief executive officer prior to January 2010.

Certain current executive officers of CVS and Caremark will have executive officer positions with the combined company after the merger.

Governance After the Merger (see page 128)

In connection with the merger, the parties have reached certain agreements regarding the governance of CVS/Caremark, including the following:

- After the merger, the board of directors of the combined company will be comprised of an equal number of directors to be selected by each of CVS and Caremark. Commencing with the first annual meeting of CVS/Caremark stockholders after the effective time of the merger, composition of the CVS/Caremark board of directors and its committees will be determined by the nomination and election process provided for in the amended CVS charter, amended CVS bylaws and Delaware law.
- The CVS/Caremark board of directors will have a standing audit committee; management, planning and development committee; nominating and corporate governance committee and executive committee. At the effective time of the merger, the chairman of the CVS/Caremark audit committee will be selected by the members of the CVS/Caremark board of directors designated by Caremark and the chairman of each of the management, planning and development committee and the nominating and corporate governance committee will be selected by the members of the CVS/Caremark board of directors designated by CVS.
- At the effective time of the merger, the executive committee of the CVS/Caremark board of directors will consist of four directors: the chairman of the combined company's board of directors, its chief executive officer, one director selected by the members of the CVS/Caremark board of directors designated by CVS and one director selected by the members of the CVS/Caremark board of directors designated by Caremark.
- Prior to the first annual meeting of CVS/Caremark stockholders after the effective time of the merger a director designated to the CVS/Caremark board of directors by CVS, referred to as a CVS-designated director, may only be removed by a majority vote of the other CVS-designated directors, and any vacancy on the CVS/Caremark board of directors resulting from the death, removal or resignation of any CVS-designated director may only be filled by the remaining CVS-designated directors.
- Prior to the first annual meeting of CVS/Caremark stockholders after the effective time of the merger, a director designated to the CVS/Caremark board of directors by Caremark, referred to as a Caremark-designated director, may only be removed by a majority vote of the other Caremark-designated directors, and any vacancy on the CVS/Caremark board of directors resulting from the death, removal or resignation of any Caremark-designated director may only be filled by the remaining Caremark-designated directors.

CVS Bylaws Amendment (see page 128)

In connection with entering into the merger agreement, the CVS board of directors approved amendments to the CVS bylaws, which will become effective only upon the effective time of the merger. The amendments to the CVS bylaws will:

- increase the size of the CVS board of directors to an even number to be agreed by CVS and Caremark before the effective time of the merger (as described above under "Governance After the Merger");
- increase the number of directors comprising a quorum of the combined company's board of directors from one-third to a majority of the total number of CVS/Caremark directors; and

- give effect to the governance provisions described above under Governance After the Merger.

In addition, the CVS bylaws amendment will provide that the following decisions by the CVS/Caremark board of directors will require a three-quarters vote:

- the removal of Thomas M. Ryan as chief executive officer of CVS/Caremark prior to January 2010 (as described above under "Executive Officers");
- any decision to change the headquarters of the combined company's pharmacy services business from Nashville, Tennessee prior to the third anniversary of the effective time of the merger; and
- any amendment to the provisions of the bylaws with respect to the two immediately preceding bullets or the provisions of the bylaws giving effect to the matters described above under "Governance After the Merger".

Special Meetings of CVS and Caremark Stockholders

CVS Special Meeting (see page 118)

Meeting. The CVS special meeting will be held on February 23, 2007, at 11:00 a.m., Eastern Time, at CVS corporate headquarters, One CVS Drive, Woonsocket, Rhode Island 02895. At the CVS special meeting, CVS stockholders will be asked:

- to approve the amendments of the CVS charter, effective upon completion of the merger, to increase the authorized number of shares of CVS common stock from 1 billion to 3.2 billion shares and to change CVS name to "CVS/Caremark Corporation";
- to approve the issuance of CVS/Caremark common stock to Caremark stockholders in the merger; and
- to approve an adjournment or postponement of the special meeting, including if necessary, to solicit additional proxies in favor of the foregoing proposals.

Record Date; Votes. CVS has fixed the close of business on January 19, 2007 as the record date, which is referred to as the CVS record date, for determining the CVS stockholders entitled to receive notice of and to vote at the CVS special meeting. Only holders of record of CVS common stock and CVS ESOP preference stock on the CVS record date are entitled to receive notice of and vote at the CVS special meeting, and any adjournment or postponement thereof.

Each share of CVS common stock is entitled to one vote and each share of CVS ESOP preference stock is entitled to the number of votes equal to the number of shares of CVS common stock into which that share of CVS ESOP preference stock is entitled to be converted on the CVS record date, rounded up to the nearest tenth of a share. Each share of CVS ESOP preference stock is currently entitled to 4.6 votes at the CVS special meeting (subject to adjustment before the CVS special meeting in the case of certain dilutive events). On the CVS record date, there were approximately 826,911,756 shares of CVS common stock and approximately 3,990,277 shares of CVS ESOP preference stock (representing approximately 18,355,274 votes in the aggregate) entitled to vote at the CVS special meeting.

Required Vote. The CVS proposals require different percentages of votes for approval:

- the approval of the amendments of the CVS charter requires the affirmative vote of at least a majority of the votes represented by the outstanding CVS common stock and CVS ESOP preference stock entitled to vote at the CVS special meeting, voting together as a single class;
- the approval of the issuance of shares of CVS/Caremark common stock to Caremark stockholders in the merger requires the affirmative vote of holders of CVS common stock and CVS ESOP preference stock, voting together as a single class, representing a majority of the votes cast in person or represented by proxy at the CVS special meeting, provided that the total number of votes cast on the proposal represents

over 50% of the total number of votes of the CVS common stock and CVS ESOP preference stock entitled to be cast at the CVS special meeting; and

- the approval of an adjournment or postponement of the CVS special meeting, including, if necessary, to solicit additional proxies if there are not sufficient votes for each of the foregoing proposals, requires the affirmative vote of holders of CVS common stock and CVS ESOP preference stock, voting together as a single class, representing a majority of the votes cast in person or represented by proxy at the CVS special meeting and entitled to vote on the proposal.

Each of the first two proposals listed above relating to the merger (i.e., the amendments of the CVS charter and the CVS/Caremark common stock issuance) are conditioned on one another and the approval of each of these proposals is a condition to completion of the merger. Neither the amendments of the CVS charter nor the issuance of CVS/Caremark common stock in the merger will take place unless both of these proposals are approved by the CVS stockholders and the merger is completed. Therefore, the completion of the merger cannot proceed without the approval of both proposals.

Failure to Vote; Abstentions. If you abstain from voting on the proposal to amend the CVS charter or the proposal to adjourn or postpone the meeting it will have the same effect as a vote "AGAINST" that proposal. If you abstain from voting on the proposal to issue shares of CVS/Caremark common stock, the abstention will have no effect in determining the outcome of the vote, assuming a quorum is present. If you fail to vote your CVS common stock, including broker non-votes, (1) on the proposal to amend the CVS charter it will have the same effect as a vote "AGAINST" that proposal and (2) on either the proposal to issue CVS/Caremark common stock in the merger or to adjourn or postpone the CVS special meeting, it will have no effect in determining the outcome of the applicable vote. For more information regarding the effect of abstentions, a failure to vote or broker non-votes, see "The CVS Special Meeting" Votes Required to Approve CVS Proposals beginning on page 120.

Each participant in the CVS Plan instructs the trustee of the CVS Plan how to vote his or her shares of (1) CVS ESOP preference stock and (2) CVS common stock held in the CVS Plan. Unallocated shares of CVS ESOP preference stock and CVS common stock held in the CVS Plan and shares of CVS ESOP preference stock and CVS common stock held in the CVS Plan for which no voting instruction is timely received by the trustee of the CVS Plan will be voted by such trustee in the same proportion as such trustee votes all the shares of CVS ESOP preference stock and CVS common stock held in the CVS Plan as to which it has received timely voting instructions.

Revocation of Proxies. You have the power to revoke your proxy at any time before the proxy is voted at the CVS special meeting. You can revoke your proxy in one of four ways:

- you can send a signed notice of revocation;
- you can grant a new, valid proxy bearing a later date;
- you can revoke the proxy in accordance with the telephone or Internet voting procedures described in the proxy voting instructions attached to the proxy card; or
- if you are a holder of record, you can attend the CVS special meeting and vote in person which will automatically cancel any proxy previously given, but your attendance alone will not revoke any proxy that you have previously given.

If you choose either of the first two methods, you must submit your notice of revocation or your new proxy to CVS' Corporate Secretary at the CVS address under "The Companies" beginning on page 104 no later than the beginning of the CVS special meeting.

Stock Ownership of CVS Directors and Executive Officers. On January 19, 2007, the CVS record date, directors and executive officers of CVS and their respective affiliates owned and were entitled to vote approximately 1,181,972 shares of CVS common stock, or approximately 0.14% of the shares of CVS common

stock outstanding on that date. To CVS's knowledge, the directors and executive officers of CVS and their respective affiliates intend to vote their shares of CVS common stock in favor of all CVS proposals at the CVS special meeting.

Caremark Special Meeting (see page 123)

Meeting. The Caremark special meeting will be held on February 20, 2007, at 8:30 a.m., Central Time, at the Hilton Nashville Downtown at 121 Fourth Avenue South, Nashville, Tennessee 37201. At the Caremark special meeting, Caremark stockholders will be asked:

- to adopt the merger agreement and approve the merger, pursuant to which Caremark will become a wholly owned subsidiary of CVS; and
- to approve an adjournment or postponement of the Caremark special meeting, including if necessary, to solicit additional proxies in favor of the adoption of the merger agreement and approval of the merger if there are not sufficient votes for such proposal.

Record Date; Votes. Caremark has fixed the close of business on January 15, 2007 as the record date, which is referred to as the Caremark record date, for determining the Caremark stockholders entitled to receive notice of and to vote at the Caremark special meeting. Only holders of record of Caremark common stock on the Caremark record date are entitled to receive notice of and vote at the Caremark special meeting, and any adjournment or postponement thereof.

Each share of Caremark common stock is entitled to one vote. On the Caremark record date, there were 426,570,418 shares of Caremark common stock entitled to vote at the Caremark special meeting.

Required Vote. The proposals require different percentages of votes in order to approve them:

- The adoption of the merger agreement and the approval of the merger require the affirmative vote of holders of a majority of the outstanding shares of Caremark common stock entitled to vote at the Caremark special meeting.
- The approval of an adjournment or postponement of the Caremark special meeting, including if necessary, to solicit additional proxies in favor of such adoption and approval requires the affirmative vote of holders of Caremark common stock representing a majority of the voting power of such shares present in person or represented by proxy at the Caremark special meeting and entitled to vote on the proposal.

Adoption of the merger agreement and approval of the merger by Caremark stockholders is a condition to completion of the merger.

Failure to Vote; Abstentions. If you abstain from voting on any proposal it will have the same effect as a vote AGAINST that proposal. If you fail to vote, including broker non-votes, (1) on the proposal to adopt the merger agreement and approve the merger, it will have the same effect as a vote AGAINST that proposal and (2) on the proposal to adjourn or postpone the Caremark special meeting, it will have no effect in determining the outcome of the applicable vote. For more information regarding the effect of abstentions, a failure to vote or broker non-votes, see The Caremark Special MeetingVotes Required to Approve Caremark Proposals beginning on page 124.

Revocation of Proxies. You have the power to revoke your proxy at any time before the proxy is voted at the Caremark special meeting. You can revoke your proxy in one of four ways:

- you can send a signed notice of revocation;
- you can grant a new, valid proxy bearing a later date;

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- you can revoke the proxy in accordance with the telephone or Internet voting procedures described in the proxy voting instructions attached to the proxy card; or
- if you are a holder of record, you can attend the Caremark special meeting and vote in person which will automatically cancel any proxy previously given, but your attendance alone will not revoke any proxy that you have previously given.

If you choose either of the first two methods, you must submit your notice of revocation or your new proxy to Caremark's Corporate Secretary at the Caremark address under "The Companies" beginning on page 104 no later than the beginning of the Caremark special meeting.

Stock Ownership of Directors and Executive Officers. On January 15, 2007, the Caremark record date, directors and executive officers of Caremark and their respective affiliates owned and were entitled to vote 449,201 shares of Caremark common stock, or less than 1 % of the shares of Caremark common stock outstanding on that date. To Caremark's knowledge, the directors and executive officers of Caremark and their respective affiliates intend to vote their shares of Caremark common stock in favor of both Caremark proposals at the Caremark special meeting.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA OF CVS

The following tables set forth the selected historical consolidated financial and operating data for CVS. The selected consolidated financial and operating data as of and for the fifty-two week periods ended December 31, 2005, January 1, 2005, December 28, 2002, December 29, 2001 and the fifty-three week period ended January 3, 2004 have been derived from CVS's consolidated financial statements. You should not take historical results as necessarily indicative of the results that may be expected for any future period. The selected consolidated financial and operating data as of and for the nine months ended September 30, 2006 and October 1, 2005 have been derived from CVS's unaudited consolidated condensed financial statements. The results for the nine months ended September 30, 2006 are not necessarily indicative of results that may be expected for the entire fiscal year.

You should read this selected consolidated financial and operating data in conjunction with CVS's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and CVS's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006.

Nine Months Ended		Fiscal Year				
9/30/06	10/01/05	2005 (52 weeks)	2004 (52 weeks)	2003 (52 weeks)	2002 (52 weeks)	2001 (52 weeks)

(\$ in millions, except per share amounts)

Historical Consolidated Statement of Operations Data:

Net revenues	\$ 31,747.5	\$ 27,274.2	\$ 37,006.2	\$ 30,594.3	\$ 26,588.0	\$ 24,181.5	\$ 22,241.4
Gross profit(1)	8,573.7	7,199.2	9,901.2	8,031.2	6,863.0	6,068.8	5,691.0
Selling, general & administrative(2)	6,349.5	5,349.6	7,292.6	6,079.7	5,097.7	4,552.3	4,256.3
Depreciation and amortization(2)(3)	531.9	433.2	589.1	496.8	341.7	310.3	320.8
Merger, restructuring and other nonrecurring charges and gains							343.3
Operating profit(4)	1,692.3	1,416.4	2,019.5	1,454.7	1,423.6	1,206.2	770.6
Other expense (income), net	134.7	83.6	110.5	58.3	48.1	50.4	61.0
Income tax provision(5)	605.9	514.5	684.3	477.6	528.2	439.2	296.4
Net earnings(6)	\$ 951.7	\$ 818.3	\$ 1,224.7	\$ 918.8	\$ 847.3	\$ 716.6	\$ 413.2

Historical Per Common Share Data(7):

Net earnings(6)							
Basic	\$ 1.15	\$ 1.00	\$ 1.49	\$ 1.13	\$ 1.06	\$ 0.89	\$ 0.51
Diluted	1.11	0.97	1.45	1.10	1.03	0.88	0.50
Cash dividends per common share	\$ 0.11625	\$ 0.10875	\$ 0.145	\$ 0.1325	\$ 0.115	\$ 0.115	\$ 0.115

Historical Consolidated Balance Sheet Data:

Total assets	\$ 21,127.4	\$ 15,225.9	\$ 15,283.4	\$ 14,546.8	\$ 10,543.1	\$ 9,645.3	\$ 8,636.3
Long term debt	3,279.9	1,627.9	1,594.1	1,925.9	753.1	1,076.3	810.4
Total stockholders' equity	9,434.4	7,955.6	8,331.2	6,987.2	6,021.8	5,197.0	4,566.9

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- (1) Gross profit includes the pre-tax effect of \$5.7 million (\$3.6 million after-tax) non-recurring charge in 2001 related to the markdown of certain inventory contained in the stores as part of a strategic restructuring program.
 - (2) In 2004, CVS conformed its accounting for operating leases and leasehold improvements to the views expressed by the Office of the Chief Accountant of the Securities and Exchange Commission to the American Institute of Certified Public Accountants on February 7, 2005. As a result, CVS recorded a non-cash pre-tax adjustment of \$9.0 million (\$5.4 million after-tax) to selling, general and administrative expenses and \$56.9 million (\$35.1 million after tax) to depreciation and amortization, which represents the cumulative effect of the adjustment for a period of approximately 20 years. Since the effect of this non-cash adjustment was not material to any previously reported fiscal year, the cumulative effect was recorded in the fourth quarter of 2004.
 - (3) As a result of adopting SFAS No. 142, "Goodwill and Other Intangible Assets" at the beginning of fiscal 2002, CVS no longer amortizes goodwill and other indefinite-lived intangible assets. Goodwill amortization totaled \$31.4 million pre-tax (\$28.2 million after-tax) in 2001.
 - (4) Operating profit includes the pre-tax effect of the charges discussed in Note (1) above and the following merger, restructuring, and other nonrecurring charges and gains: (i) in 2004, \$65.9 million (\$40.5 million after-tax) relating to conforming CVS' accounting for operating leases and leasehold improvements and (ii) in 2001, \$346.8 million (\$226.9 million after-tax) related to restructuring and asset impairment

costs associated with the strategic restructuring and \$3.5 million (\$2.1 million after-tax) non-recurring gain resulting from the net effect of the \$50.3 million of settlement proceeds received from various lawsuits against certain manufacturers of brand name prescription drugs which was offset by our contribution of \$46.8 million of these settlement proceeds to the CVS Charitable Trust, Inc. to fund future charitable giving.

- (5) Income tax provision includes the effect of the following: (i) in 2005, a \$52.6 million reversal of previously recorded tax reserves through the tax provision principally based on resolving certain state tax matters, and (ii) in 2004, a \$60.0 million reversal of previously recorded tax reserves through the tax provision principally based on finalizing certain tax return years and on a 2004 court decision relevant to the industry.
- (6) Net earnings and net earnings per common share include the after-tax effect of the charges and gains discussed in Notes (1), (2), (3), (4) and (5) above.
- (7) On May 12, 2005, the CVS board of directors authorized a two-for-one common stock split, which was effected in the form of a dividend by the issuance of one additional share of CVS common stock for each share of CVS common stock outstanding. These shares were distributed on June 6, 2005 to stockholders of record as of May 23, 2005. All prior periods have been restated to reflect the effect of the two-for-one stock split.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA OF CAREMARK

The following tables set forth the selected historical consolidated financial and operating data for Caremark. The selected consolidated financial and operating data as of and for the fiscal years ended December 31, 2005, 2004, 2003, 2002 and 2001 have been derived from Caremark's consolidated financial statements. You should not take historical results as necessarily indicative of the results that may be expected for any future period. The selected consolidated financial and operating data as of and for the nine months ended September 30, 2006 and 2005 have been derived from Caremark's unaudited consolidated condensed financial statements. The results for the nine months ended September 30, 2006 are not necessarily indicative of results that may be expected for the entire fiscal year.

You should read this selected consolidated financial and operating data in conjunction with Caremark's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and Caremark's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006.

	Nine Months Ended September 30,		Year Ended December 31,				
	2006	2005	2005	2004	2003	2002(1)	2001
(\$ in millions, except per share amounts)							
Historical Consolidated Statement of Operations Data:							
Net revenues	\$ 27,480.8	\$ 24,623.5	\$ 32,991.3	\$ 25,801.1	\$ 9,067.3	\$ 6,805.3	\$ 5,614.4
Income from continuing operations	772.5	641.7	932.4	600.3	290.8	828.8	190.5
Loss from discontinued operations	□	□	□	□	□	(37.5)	
Net earnings	\$ 772.5	\$ 641.7	\$ 932.4	\$ 600.3	\$ 290.8	\$ 791.3	\$ 190.5
Historical Per Common Share Data:							
Net earnings							
Basic	\$ 1.79	\$ 1.43	\$ 2.09	\$ 1.46	\$ 1.13	\$ 3.34	\$ 0.79
Diluted	1.76	1.41	2.05	1.43	1.10	3.01	0.79
Cash dividends per common share	0.20	□	□	□	□	□	
Historical Consolidated Balance Sheet Data:							
Total assets	\$ 12,356.0	\$ 12,404.1	\$ 12,850.8	\$ 12,309.7	\$ 2,473.6	\$ 1,912.7	\$ 873.7
Long term debt (net of current portion) (2)	□	450.0	386.6	450.0	693.1	695.6	695.6
Total stockholders' equity (deficit)	7,470.6	7,898.5	8,180.6	7,539.7	640.6	257.7	(772.5)

(1) The 2002 period includes amounts related to adjustments to the deferred income tax asset valuation allowance. This adjustment resulted in the recognition of: (i) a \$520 million deferred tax benefit included in income from continuing operations and related statement of operations and per common share line items; (ii) a \$615 million deferred tax asset included in total assets; and (iii) a direct increase to stockholder's equity of approximately \$69.5 million.

(2) The December 31, 2005 long-term debt (net of current portion) reflects the classification of \$386.6 million of 7.375% senior notes due 2006 as long-term debt due to Caremark's intent and ability to refinance this amount on a long-term basis at the time of filing its Annual Report on Form 10-K. The amount classified as long-term debt (net of current portion) was limited to Caremark's availability under its revolving credit facility, and the remaining \$63.4 million of its 7.375% senior notes were classified as a current liability.

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Caremark ultimately did not refinance these notes and repaid them using cash on hand when they matured in October 2006. The December 31, 2004 long-term debt (net of current portion) amount excludes Caremark's \$147 million term loan which was repaid on February 18, 2005, and the repurchase of remaining senior notes of a recently acquired business at 104.25% of face value on April 1, 2005.

- (3) Caremark acquired AdvancePCS on March 24, 2004. The Statement of Operations data includes the results of operations of AdvancePCS beginning March 24, 2004. The Statement of Operations, Per Common Share and Balance Sheet data were significantly impacted by the AdvancePCS acquisition.

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SUMMARY UNAUDITED PRO FORMA FINANCIAL DATA

The following unaudited pro forma statements of operations data for the year ended December 31, 2005 and the nine months ended September 30, 2006 reflect the merger as if it had occurred on the first day of each period presented. The following unaudited pro forma balance sheet data at September 30, 2006 reflect the merger as if it had occurred on that date. Such pro forma financial data is based on the historical financial statements of CVS and Caremark and gives effect to the merger under the purchase method of accounting for business combinations as well as the acquisition CVS completed on June 2, 2006. As a result, the pro forma financial information is based on certain assumptions and adjustments as discussed in the section titled "Unaudited Pro Forma Condensed Combined Financial Information", including assumptions relating to the consideration paid and the allocation thereof for the assets and liabilities of Caremark based on preliminary estimates of their fair value. In addition, the pro forma financial information does not reflect the payment of the Caremark special cash dividend discussed in "The Merger—Caremark Special Cash Dividend" beginning on page 40. The following should be read in connection with the sections titled "Unaudited Pro Forma Condensed Combined Financial Information", and other information included in or incorporated by reference into this document.

In millions, except per share amounts	Pro Forma Combined	
	Fiscal Year Ended December 31, 2005	Nine Months Ended September 30, 2006
Statement of Operations data:		
Net revenue	\$ 71,655.2	\$ 58,135.2
Net earnings	\$ 2,135.7	\$ 1,693.8
Average number of common shares outstanding □ basic	1,557.7	1,541.1
Average number of common shares outstanding □ diluted	1,602.8	1,586.2
Earnings per common share:		
Basic	\$ 1.36	\$ 1.09
Diluted	\$ 1.33	\$ 1.07
Balance Sheet data:		
Cash and cash equivalents		\$ 614.7
Total assets		\$ 47,875.1
Long-term debt		\$ 3,279.9
Total stockholders' equity		\$ 30,961.2

COMPARATIVE PER SHARE INFORMATION

The following unaudited pro forma combined per share information for the year ended December 31, 2005 and the nine months ended September 30, 2006 reflect the merger as if it had occurred on the first day of each period presented. Such pro forma financial data is based on the historical financial statements of CVS and Caremark and gives effect to the merger under the purchase method of accounting for business combinations as well as the acquisition CVS completed on June 2, 2006. As a result, the pro forma financial information is based on certain assumptions and adjustments as discussed in the section titled "Unaudited Pro Forma Condensed Combined Financial Information". The following should be read in connection with the section titled "Unaudited Pro Forma Condensed Combined Financial Information", and other information included in or incorporated by reference into this document.

CVS Historical Per Share Data:

	As of and for	
	Fiscal Year Ended	
	December 31, 2005	Nine Months Ended September 30, 2006
Net Earnings per Common Share □ Basic	\$ 1.49	\$ 1.15
Net Earnings per Common Share □ Diluted	1.45	1.11
Cash Dividends	0.145	0.11625
Book Value per Common Share □ Basic	11.46	10.23

Caremark Historical Per Share Data:

	As of and for	
	Fiscal Year Ended	
	December 31, 2005	Nine Months Ended September 30, 2006
Net Earnings per Common Share □ Basic	\$ 2.09	\$ 1.79
Net Earnings per Common Share □ Diluted	2.05	1.76
Cash Dividends	□	0.20
Book Value per Common Share □ Basic	18.34	17.75

Unaudited Pro Forma Combined Per Share Data:

	As of and for	
	Fiscal Year Ended	
	December 31, 2005	Nine Months Ended September 30, 2006
Net Earnings per Common Share □ Basic	\$ 1.36	\$ 1.09

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Net Earnings per Common Share □ Diluted		1.33	1.07
Cash Dividends		0.145	0.11625
Book Value per Common Share □ Basic		□	20.29
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COMPARATIVE PER SHARE MARKET PRICE AND DIVIDEND INFORMATION

Shares of CVS common stock and Caremark common stock are each listed and principally traded on the NYSE. CVS common stock is listed for trading under the symbol "CVS" and Caremark common stock is listed for trading under the symbol "CMX". The following table sets forth, for the periods indicated, the high and low sales prices per share of CVS common stock and Caremark common stock, in each case as reported on the consolidated tape of the NYSE, and the cash dividends per share of common stock, as reported, respectively, in CVS' and Caremark's Annual Report on Form 10-K for the year ended December 31, 2005 with respect to years 2004 and 2005, and thereafter as reported in published financial sources.

	CVS Common Stock			Caremark Common Stock		
	Market Price		Dividends	Market Price		Dividends
	High	Low		High	Low	
2004						
First Quarter	\$ 19.26	\$ 16.98	\$ 0.03313	\$ 34.19	\$ 23.50	None
Second Quarter	\$ 21.50	\$ 17.85	\$ 0.03313	\$ 35.31	\$ 30.50	None
Third Quarter	\$ 22.07	\$ 19.31	\$ 0.03313	\$ 32.94	\$ 27.56	None
Fourth Quarter	\$ 23.67	\$ 20.86	\$ 0.03313	\$ 39.95	\$ 28.29	None
2005						
First Quarter	\$ 26.89	\$ 22.02	\$ 0.03625	\$ 42.30	\$ 37.00	None
Second Quarter	\$ 29.68	\$ 25.02	\$ 0.03625	\$ 46.83	\$ 37.23	None
Third Quarter	\$ 31.60	\$ 27.67	\$ 0.03625	\$ 50.43	\$ 41.02	None
Fourth Quarter	\$ 29.30	\$ 23.89	\$ 0.03625	\$ 53.90	\$ 47.24	None
2006						
First Quarter	\$ 30.98	\$ 26.06	\$ 0.03875	\$ 53.00	\$ 48.14	None
Second Quarter	\$ 31.89	\$ 27.51	\$ 0.03875	\$ 50.66	\$ 42.40	\$ 0.10
Third Quarter	\$ 36.14	\$ 29.85	\$ 0.03875	\$ 59.89	\$ 49.40	\$ 0.10
Fourth Quarter	\$ 32.26	\$ 27.09	\$ 0.03875	\$ 58.08	\$ 44.30	\$ 0.10
2007						
January 1, 2007 to January 12, 2007	\$ 31.99	\$ 30.46	None	\$ 57.50	\$ 54.92	None

The table below sets forth the closing sale prices of CVS common stock and Caremark common stock as reported on the NYSE each on October 31, 2006, the last trading day prior to the public announcement of the transaction, and on January 12, 2007. The table also shows the implied value of one Caremark common share, which was calculated by multiplying the closing price of CVS common stock on those dates and the exchange ratio of 1.670. The market prices of CVS and Caremark common stock on those dates will fluctuate between the date of this document and the time of the special meetings and the completion of the merger. No assurance can be given concerning the market prices of CVS common stock or Caremark common stock before the completion of the merger or the market price of CVS/Caremark common stock after the completion of the merger. The exchange ratio is fixed in the merger agreement. One result of this is that the market value of the CVS/Caremark common stock that Caremark stockholders will receive in the merger may vary significantly from the prices shown in the table below.

CVS Common	Caremark Common	Implied Value
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	<u>Stock</u>	<u>Stock</u>	<u>of Caremark Common Stock (a)</u>
October 31, 2006	\$ 31.38	\$ 49.23	\$ 52.40
January 12, 2007	\$ 31.94	\$ 56.83	\$ 53.34

(a) The implied value of Caremark common stock does not include the \$2.00 per share special cash dividend

Caremark stockholders should obtain current market quotations for shares of CVS common stock and Caremark common stock in deciding whether to vote for adoption of the merger agreement and approval of the merger. CVS stockholders should obtain current market quotations for shares of CVS and Caremark common stock in deciding whether to vote for approval of the issuance of CVS/Caremark common stock to Caremark stockholders in the merger and the amendments of the CVS charter to increase the number of authorized shares and change the name of the corporation to CVS/Caremark.

Pursuant to the merger agreement, CVS and Caremark are permitted to pay to holders of their respective shares of common stock, before the effective time of the merger, regular quarterly cash dividends. However, CVS and Caremark have also agreed to coordinate the declaration of dividends prior to the effective time of the merger so that the holders of CVS common stock and holders of Caremark common stock do not receive, in any quarter, more than or less than one dividend in respect of those shares held prior to the effective time of the merger and those shares of CVS/Caremark issued in the merger. In addition, as previously discussed, Caremark stockholders will receive a one-time special cash dividend in the amount of \$2.00 per share of Caremark common stock held by each such holder on a record date to be set by the Caremark board of directors, which dividend will be conditioned on completion of the merger and will be paid at or immediately following the effective time of the merger. After the effective time of the merger, CVS and Caremark expect that the combined company will continue to pay quarterly dividends to stockholders of the combined company at an annual dividend rate per share of CVS/Caremark common stock of \$0.24. This is higher than the current annual dividend payment on shares of CVS common stock and approximately equal to the current annual dividend of \$0.40 on shares of Caremark common stock. The combined company's payment of dividends in the future, however, will depend on business conditions, its financial condition and earnings, and other factors and there can be no guarantee that any dividends will be paid by the combined company.

RISK FACTORS

In addition to the other information included and incorporated by reference into this document, including the matters addressed in [Cautionary Statement Regarding Forward-Looking Statements] below, you should carefully consider the following risk factors before deciding whether to vote for adoption of the merger agreement and approval of the merger, in the case of Caremark stockholders, or for the issuance of shares of CVS/Caremark common stock and the amendments to the CVS charter, in the case of CVS stockholders. In addition to the risk factors set forth below, you should read and consider other risk factors specific to each of the CVS and Caremark businesses that will also affect the combined company after the merger, described in Part I, Item 1A of each company's annual report on Form 10-K for the year ended December 31, 2005, and Part II, Item 1A of Caremark's quarterly report on Form 10-Q for the quarter ended September 30, 2006, each of which has been filed by CVS or Caremark, as applicable, with the SEC and all of which are incorporated by reference into this document. If any of the risks described below or in the periodic reports incorporated by reference into this document actually occurs, the respective businesses, financial results, financial condition, operating results or stock prices of CVS, Caremark or CVS/Caremark could be materially adversely affected. See [Where You Can Find More Information], beginning on page 158.

Risks Related to the Merger

The exchange ratio is fixed and will not be adjusted. The market price of shares of CVS common stock may fluctuate, and Caremark stockholders cannot be sure of the market value of the shares of CVS/Caremark common stock that will be issued in the merger.

Upon completion of the merger, each share of Caremark common stock outstanding immediately prior to the merger will be converted into the right to receive 1.670 shares of CVS/Caremark common stock. The exchange ratio is fixed at 1.670 shares of CVS/Caremark common stock for each share of Caremark common stock, and will not be adjusted due to any increases or decreases in the price of CVS common stock or Caremark common stock. The value of Caremark common stock in the merger will depend upon the market price of a share of CVS/Caremark common stock upon the completion of the merger. If the price of CVS common stock declines, Caremark stockholders will receive less value for their shares upon completion of the merger than the value calculated pursuant to the exchange ratio on the date the merger agreement was signed or on the date of the Caremark special meeting.

The merger may not be completed until a significant period of time has passed after the CVS and Caremark special meetings, during which time the market value of CVS common stock and Caremark common stock will fluctuate. Therefore, at the time of their respective special meetings, CVS and Caremark stockholders will not know the exact market value of CVS/Caremark common stock that will be issued in connection with the merger. The market price of a share of CVS common stock at the time the merger is completed is likely to be different, and may be lower, than it was at the time the merger agreement was signed and at the time of the special meetings. The closing price of CVS common stock on the NYSE on October 31, 2006 was \$31.38 per share. From November 1, 2006 through the date of this document, the trading price of CVS common stock ranged from a high of \$32.62 per share to a low of \$27.09 per share. For CVS and Caremark historical market prices, see [Comparative Per Share Market Price and Dividend Information] beginning on page 25.

Stock price changes may result from a variety of factors, including, but not limited to:

- changes in the business, operations or prospects of CVS or Caremark;
- catastrophic events, both natural and man-made;
- government, litigation and/or regulatory developments or considerations;
- general market and economic conditions;

- market assessments as to whether and when the merger will be consummated and market assessments of the condition, results or prospects of either company's business; and
- governmental actions or legislative developments affecting the retail pharmacy, pharmacy benefits management, or pharmaceutical services or healthcare industry generally.

Stockholders of CVS and Caremark are urged to obtain market quotations for CVS and Caremark common stock when they consider whether to approve the proposals required to complete the merger at the respective special meetings.

The combined company may be unable to successfully integrate CVS and Caremark's operations or to realize the anticipated cost savings and other benefits of the merger. As a result, the value of CVS/Caremark common stock may be adversely affected.

CVS and Caremark entered into the merger agreement because each company believes that the merger will be beneficial to each of CVS, Caremark and their respective stockholders. Currently, each company operates as an independent public company. Achieving the anticipated benefits of the merger will depend in part upon whether the two companies integrate their businesses in an efficient and effective manner. The companies may not be able to accomplish this integration process smoothly or successfully. The necessity of coordinating geographically separated organizations, systems and facilities and addressing possible differences in business backgrounds, corporate cultures and management philosophies may increase the difficulties of integration. The companies operate numerous systems, including those involving management information, purchasing, accounting and finance, sales, billing, employee benefits, payroll and regulatory compliance. The integration of certain operations following the merger will require the dedication of significant management resources, which may temporarily distract management's attention from the day-to-day business of the combined company. Employee uncertainty and lack of focus during the integration process may also disrupt the business of the combined company. Any inability of management to integrate successfully the operations of the two companies could have a material adverse effect on the business and results of operations of the combined company. The companies may not be able to achieve the anticipated operating and cost synergies or long-term strategic benefits of the merger. An inability to realize the full extent of, or any of, the anticipated benefits of the merger, as well as any delays encountered in the integration process, could have an adverse effect on the business and results of operations of the combined company, which may affect the value of the shares of CVS/Caremark common stock after the completion of the merger.

The success of the combined company after the merger will depend in part upon the ability of CVS and Caremark to retain key employees of both companies. Competition for qualified personnel can be very intense. In addition, key employees may depart because of issues relating to the uncertainty or difficulty of integration or a desire not to remain with the combined company. Accordingly, no assurance can be given that CVS or Caremark will be able to retain key employees.

Due to legal restrictions, Caremark and CVS have been able to conduct only limited planning regarding the integration of the two companies following the merger and have not yet determined the exact nature of how the businesses and operations of the two companies will be combined after the merger. The actual integration may result in additional and unforeseen expenses, and the anticipated benefits of the integration plan may not be realized.

CVS/Caremark common stock may be affected by factors different from those affecting the price of Caremark common stock or CVS common stock.

On completion of the merger, holders of Caremark common stock and CVS common stock will become holders of CVS/Caremark common stock. As the business of CVS and the business of Caremark are different, the results of operations as well as the price of CVS/Caremark common stock may be affected by factors different than those factors affecting CVS and Caremark as independent stand-alone entities. The combined company will face additional risks and uncertainties not otherwise facing each independent company in the merger. For a discussion of CVS and Caremark's businesses and certain factors to consider in connection with their respective businesses, see "Risks Related to CVS, Caremark and the Combined Company", as well as the respective sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in each of CVS and

Caremark's annual reports on Form 10-K for the year ended December 31, 2005, the CVS quarterly reports on Form 10-Q for the periods ended April 1, 2006, July 1, 2006 and September 30, 2006, the Caremark quarterly reports on Form 10-Q for the periods ended March 31, 2006, June 30, 2006 and September 30, 2006 and other documents incorporated by reference into this document.

The merger may not be accretive and may cause dilution to CVS/Caremark earnings per share, which may harm the market price of the CVS/Caremark common stock.

The parties currently anticipate that the merger will be accretive to earnings per share during the first full calendar year after the merger. However, due to legal restrictions, Caremark and CVS have been able to conduct only limited planning regarding the integration of the two companies. Accordingly, this expectation is based on preliminary estimates which may materially change after the completion of the merger. The combined company could also encounter additional transaction and integration-related costs or other factors such as the failure to realize all of the benefits anticipated in the merger. All of these factors could cause dilution to CVS/Caremark's earnings per share or decrease the expected accretive effect of the merger and cause a decrease in the price of CVS/Caremark common stock.

Failure to complete the merger could negatively impact the stock prices and the future business and financial results of CVS and Caremark.

If the merger is not completed, the ongoing businesses of CVS or Caremark may be adversely affected and CVS and Caremark will be subject to several risks, including the following:

- being required, under certain circumstances under the merger agreement, to pay a termination fee of \$675 million to the other party (see "The Merger Agreement" Termination Fees beginning on page 116);
- having to pay certain costs relating to the merger;
- the attention of management of CVS and Caremark will have been diverted to the merger instead of on such company's own operations and pursuit of other opportunities that could have been beneficial to such company; and
- customer perception may be negatively impacted which could affect the ability of CVS and Caremark to compete for, or to win, new and renewal business in the marketplace.

Charges to earnings resulting from the application of the purchase method of accounting may adversely affect the market value of CVS/Caremark common stock following the merger.

In accordance with U.S. GAAP, CVS will be considered the acquiror of Caremark for accounting purposes. CVS will account for the merger using the purchase method of accounting, which will result in charges to CVS/Caremark's earnings that could adversely affect the market value of CVS/Caremark common stock following the completion of the merger. Under the purchase method of accounting, CVS will allocate the total purchase price to the assets acquired and liabilities assumed from Caremark based on their fair values as of the date of the completion of the merger, and record any excess of the purchase price over those fair values as goodwill. For certain tangible and intangible assets, reevaluating their fair values as of the completion date of the merger will result in CVS/Caremark's incurring additional depreciation and/or amortization expense that exceed the combined amounts recorded by CVS and Caremark prior to the merger. This increased expense will be recorded by CVS/Caremark over the useful lives of the underlying assets. In addition, to the extent the value of goodwill or intangible assets were to become impaired, CVS/Caremark may be required to incur charges relating to the impairment of those assets. See "The Merger" Accounting Treatment beginning on page 95.

CVS and Caremark must obtain governmental and regulatory consents to complete the merger, which, if delayed, not granted or granted with unacceptable conditions, may jeopardize or delay the completion of the merger, result in additional expenditures of money and resources and/or reduce the anticipated benefits of the merger.

Completion of the merger is conditioned on the receipt of all material governmental authorizations, consents, orders and approvals, including the expiration or termination of the applicable waiting periods under the HSR Act and any required approvals of applicable insurance regulatory agencies in connection with the merger. CVS and Caremark intend to pursue all required approvals in accordance with the merger agreement. If the companies do not receive these approvals, or do not receive them on terms that satisfy the conditions set forth in the merger agreement, then neither company will be obligated to complete the merger. On December 20, 2006, the initial waiting period required under the HSR Act expired without a request for additional information from the Federal Trade Commission.

The governmental agencies from which the companies will seek these approvals have broad discretion in administering the governing regulations. As a condition to approval of the merger, agencies may impose requirements, limitations or costs or require divestitures or place restrictions on the conduct of the combined company's business. These requirements, limitations, costs, divestitures or restrictions could jeopardize or delay the completion of the merger or may reduce the anticipated benefits of the merger. Further, no assurance can be given that the required consents and approvals will be obtained or that the required conditions to closing will be satisfied, and, if all required consents and approvals are obtained and the conditions to the completion of the merger are satisfied, no assurance can be given as to the terms, conditions and timing of the approvals. If CVS and Caremark agree to any material requirements, limitations, costs, divestitures or restrictions in order to obtain any approvals required to complete the merger, these requirements, limitations, additional costs or restrictions could adversely affect the two companies' ability to integrate their operations or reduce the anticipated benefits of the merger. This could result in a failure to complete the merger or have a material adverse effect on the business and results of operations of the combined company. See "The Merger Agreement" Conditions to Completion of the Merger beginning on page 114 for a discussion of the conditions to the completion of the merger and "Regulatory and Other Approvals Required for the Merger" beginning on page 102 for a description of the regulatory approvals necessary in connection with the merger.

The combined company will incur significant transaction and merger-related costs in connection with the merger.

CVS and Caremark expect to incur a number of non-recurring costs associated with combining the operations of the two companies. The substantial majority of non-recurring expenses resulting from the merger will be comprised of transaction costs related to the merger, facilities and systems consolidation costs and employment-related costs. CVS and Caremark will also incur transaction fees and costs related to formulating integration plans. Additional unanticipated costs may be incurred in the integration of the two companies' businesses. Due to legal restrictions, Caremark and CVS have been able to conduct only limited planning regarding the integration of the two companies and have not yet been able to formulate detailed integration plans to deliver anticipated synergies. Although CVS and Caremark expect that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses should allow them to offset incremental transaction and merger-related costs over time, this net benefit may not be achieved in the near term, or at all.

Whether or not the merger is completed, the announcement and pendency of the merger could impact or cause disruptions in Caremark's and CVS' businesses, which could have an adverse effect on their results of operations and financial condition.

Specifically:

- current and prospective clients of PharmaCare (CVS' PBM) and Caremark may experience uncertainty associated with the merger, including with respect to current or future business relationships with PharmaCare, Caremark or the combined company and may attempt to negotiate changes in existing

business relationships or consider entering into business relationships with parties other than PharmaCare, Caremark or the combined company, either before or after completion of the merger;

- Caremark and CVS employees may experience uncertainty about their future roles with the combined company, which might adversely affect Caremark's and CVS' ability to retain and hire key managers and other employees;
- if the merger is completed, the accelerated vesting of most stock options and availability of certain other [change in control] benefits to Caremark's officers and employees on completion of the merger could result in increased difficulty or cost in retaining Caremark officers and employees;
- the attention of management of each of Caremark and CVS may be directed toward the completion of the merger and transaction-related considerations and may be diverted from the day-to-day business operations of their respective companies; and
- pharmaceutical manufacturers, retail pharmacies, pharmacy benefit management companies or other vendors or suppliers may seek to modify or terminate their business relationships with CVS or Caremark.

Approximately one third of a PBM's customer base typically is subject to renewal each year, and therefore Caremark and CVS may face additional challenges in competing for new business and retaining or renewing business. Caremark's largest client, the Federal Employees Health Benefits Plan, is currently subject to renewal for services beginning January 1, 2008. There can be no assurance that Caremark will be able to secure renewal of this business; however, such renewal is not a condition to the completion of the merger. These disruptions could be exacerbated by a delay in the completion of the merger or termination of the merger agreement and could have an adverse effect on the businesses, financial condition, results of operations or prospects of Caremark and CVS if the merger is not completed or of the combined company if the merger is completed.

Certain directors and executive officers of CVS and Caremark have interests that are different from, or in addition to, interests of CVS and Caremark stockholders generally.

Some of the directors of Caremark who recommend that Caremark stockholders vote in favor of adopting the merger agreement, and the executive officers of Caremark who provided information to the Caremark board of directors relating to the merger, have employment, indemnification and severance benefit arrangements, rights to acceleration of stock options and other benefits on a change in control of Caremark and rights to ongoing indemnification and insurance that provide them with interests in the merger that may differ from Caremark stockholders generally. The receipt of compensation or other benefits, including the rights to acceleration of stock options referred to above by Caremark's executive officers in connection with the merger, may make it more difficult for the combined company to retain their services after the merger, or require the combined company to expend additional sums to continue to retain their services. Caremark stockholders should be aware of these interests when considering the Caremark board of directors' recommendation that they vote in favor of adopting the merger agreement and approving the merger. See [Interests of Caremark Executive Officers and Directors in the Merger] beginning on page 86.

In addition, under the bylaws of CVS to be amended in connection with the merger, a vote of three-quarters of the combined company's board of directors will be required to remove Mr. Thomas M. Ryan as its chief executive officer before January 2010. CVS stockholders should be aware of this interest when considering the CVS board of directors' recommendation that they vote in favor of the proposals relating to the merger. See [Interests of CVS Executive Officers and Directors in the Merger] beginning on page 74.

Risks Related to CVS, Caremark and the Combined Company

The industries in which CVS and Caremark operate are extremely competitive and competition could adversely affect the combined company's business and results of operations following the merger.

CVS currently operates in a highly competitive environment. CVS competes, and after the completion of the merger, the combined company will compete, with other drugstore chains, supermarkets, discount retailers,

membership clubs and Internet companies. The combined company will continue to face competition from other mail order pharmacies and PBMs.

The pharmacy benefits management industry in which Caremark and, to a lesser extent, CVS through PharmaCare, operate is extremely competitive. Competitors in the pharmacy benefits management industry include large national pharmacy benefit management 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., Wellpoint, Aetna, CIGNA, United Healthcare) and retail pharmacies (e.g., Walgreens, Longs and Rite-Aid) 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 the combined company, even if the anticipated benefits of the 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 its business and results of operations.

Changes in industry pricing benchmarks could adversely affect the financial performance of the combined company

Contracts in the prescription drug industry, including Caremark's and PharmaCare's contracts with retail pharmacy networks as well as their contracts with clients for PBM and Specialty services, generally use certain published benchmarks to establish pricing for prescription drugs. These benchmarks include average wholesale price, which is referred to as AWP, average selling price, which is referred to as ASP, and wholesale acquisition cost, which is referred to as WAC. Most of Caremark's and PharmaCare's PBM client contracts utilize the AWP standard. Further, most of the contracts governing the participation of CVS stores in retail pharmacy networks also utilize the AWP standard.

Recent events have raised uncertainties as to whether payors, pharmacy providers, PBMs and others in the prescription drug industry will continue to utilize AWP as it has previously been calculated or whether other pricing benchmarks will be adopted for establishing prices within the industry.

Specifically, in the proposed settlement in the case of *New England Carpenters Health Benefits Fund, et al. v. First DataBank, et al.*, a civil class action case brought against First DataBank, which is referred to as FDB, one of several companies that report data on prescription drug prices, and McKesson Corporation, FDB has agreed to reduce the reported AWP of certain drugs by four percent at a future time as contemplated by the settlement. At this time, the proposed settlement has not received final court approval. The court could approve the proposed settlement in part, in its entirety, or not at all. CVS and Caremark cannot predict the outcome of this case, or, if the settlement is approved, the precise timing of any of the proposed AWP changes or the effect of such changes, if any, on the financial performance of the combined company.

Over 90% of Caremark's client relationships and most of its relationships with other affected parties contain terms that Caremark believes will enable it to mitigate any adverse effect of this proposed reduction in FDB's reported AWP. Two other publicly traded large national PBMs have also stated that their contractual relationships contain similar terms. However, because in some cases payors may seek to negotiate with PBMs in an effort to reduce prescription drug costs as a result of a reduction in FDB's reported AWP, the ultimate effect of this development on the business of the combined company cannot be precisely predicted.

Whatever the outcome of the FDB case, it is possible that payors, pharmacy providers and PBMs will begin to evaluate other pricing benchmarks as the basis for contracting for prescription drugs and pharmacy benefit management services in the future.

Existing and new government legislative and regulatory action could adversely affect the combined company's business and financial results.

CVS and Caremark are subject to changes in laws and regulations, including changes in accounting standards and taxation requirements and interpretations. As a participant in the healthcare and PBM industries, Caremark's and CVS's operations are subject to complex and evolving federal and state laws and regulations and enforcement by

federal and state governmental agencies. These laws and regulations are described in detail at Part I, Item 1, "Business" Government Regulation" in Caremark's Annual Report on Form 10-K for the period ended December 31, 2005 and Part I, Item 1A, "Business" Regulatory Risks" in CVS' Annual Report on Form 10-K for the period ended December 31, 2005.

Caremark's and CVS' pharmacy benefit services businesses and CVS' retail drugstore business are subject to numerous federal, state and local laws and regulations. Changes in these regulations may require extensive system and operating changes that may be difficult to implement. Untimely compliance or noncompliance with applicable regulations could result in the imposition of civil or criminal penalties that could adversely affect the continued operation of Caremark's or CVS' business, including, but not limited to: suspension of payments from government programs; loss of required government certification; approvals; loss of authorizations to participate in or exclusion from government reimbursement programs, such as the Medicare and Medicaid programs; loss of licensure; or significant fines or monetary penalties, and could adversely affect the continued operation of Caremark's or CVS' business. The regulations to which Caremark and CVS are subject include, but are not limited to: federal, state and local registration and regulation of pharmacies, pharmacy benefit managers and healthcare insurance companies; applicable Medicare and Medicaid regulations; the Health Insurance Portability and Accountability Act, or HIPAA; 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 substances; regulations of the U.S. Food and Drug Administration, the U.S. Federal Trade Commission, the Drug Enforcement Administration, and the Consumer Product Safety Commission, as well as state regulatory authorities, governing the sale, advertisement and promotion of products that Caremark or CVS sells; anti-kickback laws; false claims laws; and federal and state laws governing the practice of the profession of pharmacy. Furthermore, the frequency and rate of FDA approval of new brand name and generic prescription drugs or of additional existing prescription drugs for over-the-counter sales could have an impact on CVS' or Caremark's business and results of operations.

The combined company's business 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;
- approval by the U.S. Food and Drug Administration, which is referred to as the FDA, of over-the-counter status for brand name drugs;
- FDA regulation affecting the retail or PBM industry;
- rules and regulations issued pursuant to the Health Insurance Portability and Accountability Act of 1996, which is referred to as HIPAA; and other federal and state laws affecting the use, disclosure and transmission of health 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 Centers for Medicare and Medicaid Services rulemaking and interpretation;
- government regulation of the development, administration, review and updating of formularies and drug lists;
- state laws and regulations establishing or changing prompt payment requirements for payments to retail pharmacies;

- impact of network access (any willing provider) legislation on ability to manage pharmacy networks;
- managed care reform and plan design legislation;

- insurance licensing and other insurance regulatory requirements applicable to offering a prescription drug plan in connection with the Medicare Drug Benefit; and
- direct regulation of pharmacies or PBMs by regulatory and quasi-regulatory bodies.

Uncertainty regarding the impact of Medicare Part D may adversely impact the combined company's business and financial results.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003, or the MMA, created a new, voluntary prescription drug benefit for Medicare beneficiaries entitled to Medicare benefits under Part A or enrolled in Medicare Part B. The Medicare Drug Benefit became effective on January 1, 2006. Since its inception the program has resulted in increased utilization and decreased pharmacy gross margin rates as higher margin business (such as cash and state Medicaid customers) migrated to the new Medicare Part D coverage. The full impact on the combined company's sales and gross margin rates cannot yet be determined and could have different effects on different segments of the combined company's business.

Caremark and PharmaCare participate in the administration of the Medicare Drug Benefit through the provision of PBM services to their health plan clients and other clients that have qualified as a Medicare Part D prescription drug plan. Caremark also participates (1) through the offering of Medicare Part D pharmacy benefits by its subsidiary, SilverScript Insurance Company, which has been approved by the Centers for Medicare and Medicaid Services, or CMS, as a prescription drug plan sponsor under Medicare Part D in all regions of the country, and (2) 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 for them in order to obtain the subsidy. In addition, PharmaCare, through a joint venture with Universal American Insurance Corp, also participates in the offering of Medicare Part D pharmacy benefits by affiliated entities of Universal American. Caremark's, PharmaCare's or after the consummation of the merger, the combined company's, clients could decide to discontinue providing prescription drug benefits to their Medicare-eligible members. If this occurs, the adverse effects of the Medicare Drug Benefit may outweigh any opportunities for new business generated by the new benefit. Caremark and CVS are not yet able to assess the impact that Medicare Part D will have on clients' decisions to continue to offer a prescription drug benefit to their Medicare-eligible members. In addition, if the cost and complexity of the Medicare Drug Benefit exceed management's expectations or prevent effective program implementation or administration; if the government alters or reduces funding of Medicare programs because of the higher-than-anticipated cost to taxpayers of the MMA or for other reasons; if the combined company fails to design and maintain programs that are attractive to Medicare participants; or if the combined company is not successful in retaining enrollees, or winning contract renewals or new contracts under the MMA's competitive bidding process, Caremark's and CVS' Medicare business and the ability to expand the combined company's Medicare operations could be materially and adversely affected, and the combined company's business and results of operations may be adversely affected. Finally, the MMA mandated risk corridors (in which the federal government shares in the drug cost risk borne by Part D plans) are scheduled to change in 2008. Both the risk corridor thresholds and the level of risk-sharing will change with the result that Medicare Drug Benefit sponsors will assume an increased level of drug cost risk starting in 2008. Therefore, to the extent that SilverScript Insurance Company's actual drug costs are higher or lower than those estimated by it in its bid in 2008 onwards, the federal government will share a smaller portion of the losses or gains respectively than it otherwise would have prior to 2008.

Efforts to reduce reimbursement levels and alter health care financing practices could adversely affect the combined company's businesses.

The continued efforts of health maintenance organizations, managed care organizations, other pharmacy benefit management companies, government entities, and other third party payors to reduce prescription drug costs and pharmacy reimbursement rates may impact the profitability of the combined company. During the past several years, the U.S. healthcare industry has been subject to an increase in governmental regulation at both the federal and state levels. Efforts to control healthcare 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 combined company's business could be materially adversely affected.

On February 8, 2006, the President signed into law the Deficit Reduction Act of 2005, which is referred to as the DRA. This Act seeks to reduce federal spending by \$3.6 billion over a five-year period by altering the Medicaid reimbursement formula for multi-source (i.e., generic) drugs. According to the Congressional Budget Office, retail pharmacies are expected to negotiate with individual states for higher dispensing fees to mitigate the adverse effect of these changes. These changes are expected to take effect during the first quarter of 2007 and to result in reduced Medicaid reimbursement rates for retail pharmacies. The extent of these reductions and the impact on the combined company cannot be determined at this time.

In addition, Congress periodically considers proposals to reform the U.S. health care system. These proposals may increase government involvement in health care and regulation of PBM or pharmacy services, or otherwise change the way the combined 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 combined company would provide. CVS and Caremark cannot predict what effect, if any, these proposals may have on the combined company's business. Other legislative or market-driven changes in the health care system that CVS and Caremark cannot anticipate could also materially adversely affect the combined company's consolidated results of operations, consolidated financial position and/or consolidated cash flow from operations.

CVS and Caremark face litigation risks and are the subject of various legal proceedings.

CVS and Caremark are subject to litigation risks. The material legal proceedings affecting CVS are described in detail in Part II, Item 1, "Legal Proceedings" of CVS' quarterly report on Form 10-Q for the period ended September 30, 2006 and Part I, Item 3, "Legal Proceedings" of CVS' annual report on Form 10-K for the period ended December 31, 2005. The material legal proceedings affecting Caremark are described in detail in Part II, Item 1, "Legal Proceedings", of Caremark's quarterly report on Form 10-Q for the period ended September 30, 2006 and Part I, Item 3, "Legal Proceedings" of Caremark's annual report on Form 10-K for the period ended December 31, 2005. If any of these or new proceedings are determined adversely for Caremark, CVS or the combined company, it could have a material adverse effect on the combined company's business and results of operations.

In November 2006, the Iron Workers of Western Pennsylvania Pension Plan filed a purported class action lawsuit purportedly on behalf of Caremark stockholders in the United States District Court for the Middle District of Tennessee against Caremark and its directors. The complaint alleged, among other things, that the directors breached their fiduciary duties by entering into the proposed merger with CVS. The plaintiff sought, among other things, preliminary and permanent injunctive relief to prevent the proposed merger, to direct the defendants to obtain a transaction which is in the best interests of Caremark stockholders, and to impose a constructive trust upon any benefits improperly received by the defendants. In December 2006, the plaintiff moved for a temporary restraining order enjoining certain provisions of the merger agreement, expediting discovery, and an order to show cause why the proposed merger should not be preliminary enjoined. On December 22, 2006, the court denied the plaintiff's motion for a temporary restraining order. In January 2007, the defendants moved to stay the lawsuit. On January 5, 2007, the court stayed the lawsuit, denied the plaintiff's motion to expedite discovery and for an order to show cause, and administratively closed the case. The Sheetmetal Workers Local 28 Pension Fund also filed a purported class action lawsuit in the Chancery Court of Davidson County, Tennessee against Caremark and its directors. The complaint alleges, among other things, that the directors breached their fiduciary duties in approving the proposed merger. The plaintiff seeks, among other things, a declaration that the directors breached their fiduciary duties and injunctive relief preventing the proposed merger. In December 2006, the plaintiff sought to transfer the case to the Circuit Court for Davidson County, Tennessee and to consolidate it with the pending *In Re: Caremark Rx, Inc. Stock Option Litigation*, as described below. The defendants opposed the proposed transfer and consolidation. On January 12, 2007, the Circuit Court denied the proposed transfer and consolidation.

In December 2006, Laurence M. Silverstein filed a purported class action lawsuit purportedly on behalf of Caremark stockholders relating to the proposed merger between Caremark and CVS in the United States District Court for the Middle District of Tennessee. The suit is brought against Caremark, its directors, CVS, and CVS' chief executive officer. The complaint alleges, among other things, that the Caremark directors breached their fiduciary duties by entering into the proposed merger with CVS and that the CVS defendants aided and abetted such breaches of duty. The plaintiff seeks, among other things, preliminary and permanent injunctive relief to prevent the proposed

merger, to direct the defendants to obtain a transaction which is in the best interests of Caremark, and to impose a constructive trust upon any benefits improperly received by the defendants. In January 2007, the plaintiff filed an amended class action complaint and moved for expedited discovery and preliminary injunctive relief. The amended class action complaint adds allegations that the joint proxy statement/prospectus filed on December 19, 2006 omits certain material information. On January 8, 2007, the court stayed the lawsuit and administratively closed the case. On January 10, 2007, the plaintiff moved to vacate the stay order. That motion, which is opposed, is pending.

The Louisiana Municipal Police Employees' Retirement System also filed a purported class action lawsuit purportedly on behalf of Caremark stockholders in the Delaware Court of Chancery against Caremark's directors and CVS. The complaint alleges, among other things, that the directors breached their fiduciary duties by entering into the proposed merger with CVS. The complaint also alleges that the joint proxy statement/prospectus filed on December 19, 2006 omits certain material information. The plaintiff seeks, among other things, preliminary and permanent injunctive relief to prevent the proposed merger. The lawsuit was amended in January 2007 to add the R.W. Grand Lodge of Free & Accepted Masons of Pennsylvania as a plaintiff and to add Caremark Rx, Inc. as a defendant. A hearing on the plaintiffs' request for preliminary injunctive relief is currently scheduled for February 16, 2007, with the understanding that the plaintiffs may seek an earlier hearing date in the event that the Caremark stockholder meeting is scheduled before February 20, 2007.

In January 2007, Express Scripts, Inc., which is referred to as Express Scripts, and Skadden, Arps, Slate, Meagher & Flom LLP, which is referred to as Skadden, filed a lawsuit in the Delaware Court of Chancery against Caremark, its directors, CVS, and AdvancePCS. The complaint alleges, among other things, that the directors breached their fiduciary duties by entering into the proposed transaction with CVS. The plaintiffs seek, among other things, declaratory relief and preliminary and permanent injunctive relief to prevent the proposed merger. The plaintiffs also seek declaratory relief holding that Skadden's representation of Express Scripts does not violate Skadden's professional, ethical, or contractual obligations. The plaintiffs have moved to have their lawsuit coordinated with the earlier filed lawsuit in the Delaware Court of Chancery as described in the preceding paragraph. That motion is pending.

In addition to these recently filed lawsuits, a purported second amended shareholder derivative and class action complaint purportedly on behalf of Caremark stockholders was filed in November 2006 by the plaintiffs in the pending In Re: Caremark Rx, Inc. Stock Option Litigation in the Circuit Court for Davidson County, Tennessee. The purported second amended complaint includes purported class action allegations challenging the proposed merger and adds CVS as a defendant. Among other things, the purported second amended complaint alleges that the Caremark directors approved the merger agreement to avoid personal liability in the pending derivative litigation relating to the alleged backdating of stock options. The purported second amended complaint also alleges that CVS aided and abetted the alleged wrongdoing by the directors of Caremark. The plaintiffs seek, among other things, a declaration that the directors breached their fiduciary duties, injunctive relief preventing the defendants from completing the proposed merger, imposition of a constructive trust upon any illegal profits received by the defendants, and punitive damages. In December 2006, the plaintiffs moved for leave to file a third amended shareholder derivative and class action complaint and moved for expedited discovery. In January 2007, the defendants moved to stay the litigation of claims relating to the proposed merger, which the court granted on January 12, 2007. The plaintiffs will be permitted to file an amended complaint addressing only their alleged stock options claims and will not be permitted to seek relief with respect to the proposed merger.

In November 2006, the plaintiffs in the pending In Re: Caremark Rx, Inc. Derivative Litigation in the United States District Court for the Middle District of Tennessee moved for leave to file a first amended shareholder derivative and class action complaint to add class action allegations challenging the proposed merger. Among other things, the proposed first amended complaint alleges that the Caremark directors approved the merger agreement to avoid personal liability in the pending derivative litigation relating to the alleged backdating of stock options. In the proposed first amended complaint, the plaintiffs seek, among other things, a declaration that the proposed merger is unfair to the plaintiffs, injunctive relief preventing the defendants from completing the proposed merger, and imposition of a constructive trust upon any illegal profits received by the defendants. The plaintiffs' motion for leave to amend, which is opposed, is pending.

Caremark believes the claims made in these stockholder lawsuits lack merit and intends to defend them vigorously. CVS believes the allegations pertaining to CVS in the stockholder lawsuits are void of merit and intends to defend them vigorously.

**CAUTIONARY STATEMENT REGARDING
FORWARD-LOOKING STATEMENTS**

This document contains certain forward-looking information about CVS, Caremark and the combined company that is intended to be covered by the safe harbor for "forward-looking statements" provided by the Private Securities Litigation Reform Act of 1995. These statements may be made directly in this document or may be incorporated into this document by reference to other documents and may include statements for the period following the completion of the merger. Representatives of CVS and Caremark may also make forward-looking statements. Forward-looking statements are statements that are not historical facts. Words such as "expect," "believe," "will," "may," "anticipate," "plan," "estimate," "intend," "should," "can," "likely," "could" and similar expressions are intended to identify forward-looking statements. These statements include, but are not limited to statements about the expected benefits of the merger, information about the combined company, including expected synergies and projected revenues and cash flows, combined operating and financial data, including future financial and operating results, the combined company's objectives, plans and expectations, the likelihood of satisfaction of certain conditions to the completion of the merger and whether and when the merger will be consummated. These statements are subject to risks and uncertainties, including the risks described in this document under the section "Risk Factors", and those that are incorporated by reference into this document that could cause actual results to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements.

Forward-looking statements are not guarantees of performance. These statements are based upon the current beliefs and expectations of management of CVS and Caremark and are subject to a number of factors that could cause actual outcomes and results to be materially different from those projected or anticipated. These forward-looking statements are subject to numerous risks and uncertainties. The following factors, among other things, could cause actual results to differ from the forward-looking statements in this document or those made by representatives of CVS and Caremark:

1. risks and uncertainties discussed and identified in public filings with the SEC made by CVS and Caremark;
2. CVS and Caremark may be unable to obtain stockholder or regulatory approvals in a timely manner, if at all;
3. the businesses of CVS and Caremark may not be integrated successfully or as quickly as expected;
4. the revenues and synergies and other benefits from the merger may not be realized or may take longer to realize than expected;
5. the merger may involve unexpected costs;
6. limitations that may be imposed on the combined company's operations that may be necessary to obtain governmental approvals required for the merger;
7. the businesses and results of operations of CVS and Caremark may suffer as a result of uncertainty surrounding the merger;
8. the strength of the economy in general or in the markets served by CVS and Caremark, including changes in consumer purchasing power and spending patterns;
9. risks relating to compliance with, or changes in, government regulation and legislation, including, but not limited to, pharmacy licensing requirements and healthcare reform legislation;
10. risks relating to identification of, and competition for, growth and expansion opportunities;

11. risks related to CVS's and Caremark's ability to attract new customers and retain existing customers;
12. risks relating to exposure to liabilities in excess of insurance;

13. risks relating to adverse developments in the healthcare or pharmaceutical industry generally, including, but not limited to, developments in any investigation related to the pharmaceutical industry that may be conducted by governmental authorities;
14. risks relating to adverse resolution of existing or future lawsuits or investigations or regulatory developments;
15. other unknown or unpredictable factors also could have material adverse effects on future results, performance or achievements of the combined company; and
16. those factors listed in [Risk Factors] beginning on page 27.

In light of these risks, uncertainties, assumptions and factors, the forward-looking events discussed in this document or made by representatives of CVS or Caremark may not occur. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof or, in the case of statements incorporated by reference, on the date of the document incorporated by reference, or, in the case of statements made by representatives of CVS or Caremark, on the date those statements are made. All subsequent written and oral forward-looking statements concerning the merger or the combined company or other matters addressed in this document and attributable to CVS or Caremark or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable law or regulation, neither CVS nor Caremark undertakes any obligation to update or publish revised forward-looking statements to reflect events or circumstances after the date hereof or the date of the forward-looking statements or to reflect the occurrence of unanticipated events.

THE MERGER

The following discussion contains important information relating to the merger. You are urged to read this discussion together with the merger agreement and related documents attached as annexes to this document before voting on the merger or the amendment to CVS's charter and issuance of CVS/Caremark common stock.

Structure of the Merger

The merger agreement provides for the merger of Caremark with and into Twain MergerSub LLC, a wholly owned subsidiary of CVS that was formed for the purpose of the merger, with Twain MergerSub LLC surviving the merger and remaining a wholly owned subsidiary of CVS. Immediately following the merger, CVS Corporation will be renamed "CVS/Caremark Corporation" and Twain MergerSub LLC will be renamed "Caremark Rx, L.L.C."

Merger Consideration

At the effective time of the merger, each issued and outstanding share of Caremark common stock will be converted into the right to receive 1.670 shares of CVS/Caremark common stock. Caremark stockholders will receive cash in lieu of any fractional shares of CVS/Caremark common stock that would have otherwise been received in the merger. See "The Merger Agreement" Fractional Shares beginning on page 107. CVS and Caremark expect that, upon completion of the merger, the Caremark stockholders immediately prior to the merger will own approximately 45.5% of the outstanding common stock of the combined company on a fully diluted basis, and the CVS stockholders immediately prior to the merger will own approximately 54.5% of the outstanding common stock of the combined company on a fully diluted basis. See "The Merger Agreement" Merger Consideration beginning on page 106.

Caremark Special Cash Dividend

On the date of Amendment No. 1 to the merger agreement, CVS separately granted a waiver to Caremark from the restrictions set forth in Section 6.01(b) of the merger agreement to permit Caremark to pay a one-time, special cash dividend to holders of record of Caremark common stock (on a record date to be set by the Caremark board of directors) in the amount of \$2.00 per share of Caremark common stock held by each such holder on such record date, which dividend shall, under the terms of the CVS waiver, be declared prior to the Caremark special meeting, but shall only become payable upon or after the effective time of the merger, and such payment shall be conditioned upon occurrence of the effective time of the merger.

Accelerated Share Repurchase Transaction

The parties have agreed that as promptly as practicable after the closing of the merger, CVS/Caremark will execute an accelerated share repurchase transaction on customary terms, whereby CVS/Caremark will retire 150 million shares of its common stock (approximately 9.8% of the combined company's pro-forma outstanding shares after giving effect to the merger). To implement this transaction, CVS/Caremark will enter into an agreement with one or more financial institutions to purchase shares of common stock from each of them and pay each of them for the shares to be retired. The effect of this transaction and the related borrowing by the combined company to finance the transaction will be the immediate reduction of shares outstanding by 150 million shares and an increase in the combined company's funded debt by approximately \$4.8 billion. CVS has received commitments for such financing. It is anticipated that the agreement with the financial institutions will provide for a purchase price adjustment mechanism customary for such a transaction. The purchase price adjustment under such agreement may be subject to limits on the amounts that may be owed by CVS/Caremark or the financial institutions or both.

Background of the Merger

On October 7, 2005, Thomas M. Ryan, chairman, president and chief executive officer of CVS, and E. Mac Crawford, chairman, president and chief executive officer of Caremark, spoke by telephone to arrange a subsequent meeting.

On October 20, 2005, Mr. Ryan and Mr. Crawford met in Providence, Rhode Island. During this initial meeting, Mr. Ryan and Mr. Crawford discussed the potential strategic fit of the two organizations and the complementary nature of the services provided by each company. Mr. Ryan and Mr. Crawford agreed to evaluate the possible synergies that might be derived from a potential strategic transaction between the parties.

In late October 2005, Evercore was requested to act as a financial advisor to CVS in connection with a potential strategic transaction with Caremark.

On November 2, 2005, the CVS board of directors met and, at the meeting, Mr. Ryan apprised the CVS board of directors of his meeting with Mr. Crawford and the possibility of exploring a strategic transaction with Caremark.

On November 9, 2005, the Caremark board of directors met and discussed possible strategic opportunities for Caremark.

In mid-November 2005, UBS was requested to act as a financial advisor to Caremark in connection with a potential strategic transaction with CVS.

On November 22, 2005, Mr. Ryan and Mr. Crawford met at the Westin Hotel in Providence, Rhode Island to discuss potential growth opportunities for a combined company.

On December 5, 2005, representatives of Evercore, as a financial advisor to CVS, and UBS, as a financial advisor to Caremark, also met to discuss potential financial terms of a potential business combination between CVS and Caremark.

On January 4, 2006, the CVS board of directors met and received an update from Mr. Ryan on the status of discussions with Mr. Crawford regarding a possible strategic transaction with Caremark. At this meeting, Mr. Ryan discussed the strategic rationale for such a combination as well as certain governance and organizational issues.

On January 30, 2006, a meeting between representatives of CVS and representatives of Caremark took place at the Ritz-Carlton Hotel in Atlanta, Georgia. During this meeting, the parties discussed a potential business combination between CVS and Caremark and agreed to use a third party consultant to calculate possible synergies that might result from such a transaction. The parties also entered into a non-disclosure agreement.

On February 2, 2006, CVS and Caremark jointly retained through legal counsel an outside consultant to assist with the calculation of potential synergies, and on February 6, 2006, representatives of CVS and representatives of Caremark participated in a conference call with representatives from this firm to commence this process. During February and March 2006, CVS and Caremark provided data to the synergy consultant. The third party consultant's activities were limited to the performance of mathematical calculations based on the data provided by CVS and Caremark to the third party consultant. The substantive aspects of the analyses were performed by management of CVS and Caremark.

On March 1, 2006, the CVS board of directors met and received an update from Mr. Ryan on the status of discussions with Caremark.

On March 7, 2006, the synergy consultant participated in a conference call with representatives of CVS and representatives of Caremark to discuss their preliminary findings with respect to potential synergies that may arise from a combination.

On March 14, 2006, Mr. Ryan and Mr. Crawford met at the St. Regis Hotel in New York, New York to discuss the possible financial and strategic implications of a business combination between the two parties. Mr. Ryan and Mr. Crawford also discussed potential organizational and governance matters, including board composition of the

combined company as well as the effect of a potential business combination on employees, clients, payors and customers of both CVS and Caremark.

In late March 2006, Mr. Ryan called Mr. Crawford, and the parties agreed to terminate any further preliminary discussions of a potential business combination between CVS and Caremark until CVS had completed the then pending acquisition of the Osco/Sav-on stand-alone drugstores.

On April 5, 2006, the Caremark board of directors met telephonically and received an update from Mr. Crawford on the status of discussions with CVS and other strategic opportunities.

On May 11, 2006, the CVS board of directors met and received a presentation by certain members of CVS management on the PBM industry landscape and the strategic rationale and benefits of a business combination with a pharmacy benefit management company.

On May 11, 2006, the Caremark board of directors also met and received a presentation from Caremark's senior management on potential strategic opportunities for Caremark.

On June 2, 2006, CVS completed the Osco/Sav-on stand-alone drugstore acquisition from Albertson's.

On August 16, 2006, the Caremark board of directors met and received a presentation from Caremark's senior management on potential strategic opportunities for Caremark, including a discussion of a potential transaction with a retail pharmacy chain.

On August 22 and 23, 2006, Mr. Ryan and Mr. Crawford met in North Carolina, and the parties agreed to move forward with their discussions and evaluation of a business combination between CVS and Caremark. At this meeting, Mr. Ryan and Mr. Crawford further discussed the strategic rationale for the transaction as well as corporate governance and organizational matters.

On August 30, 2006, Mr. Ryan met with David B. Snow, Jr., the chief executive officer of Medco Health Solutions, Inc., referred to as Medco, to discuss the existing business relationship between the companies, as well as industry trends. At the meeting, Mr. Snow raised the subject of a strategic transaction but specifics were not discussed nor were these discussions further pursued.

On September 13, 2006, Mr. Ryan met with George E. Paz, the chief executive officer of Express Scripts, Inc., to discuss existing business arrangements between the companies, as well as industry trends especially in light of the trend towards consumerism in the healthcare industry. No specific transactions between the parties were discussed.

On September 20, 2006, the CVS board of directors met and received a presentation from members of management on strategic considerations relating to the PBM business generally and the strategic rationale and benefits of a business combination with Caremark, as well as potential strategic alternatives. In addition, Evercore provided a preliminary financial overview of a potential combination of CVS and Caremark for the CVS board of directors at this meeting. At the conclusion of the meeting, the CVS board authorized management to begin due diligence on Caremark and to engage in negotiations on a potential combination.

On September 25, 2006, the Caremark board of directors met telephonically and received an update from Mr. Crawford on the status of discussions with CVS. The Caremark board of directors discussed the potential business combination with CVS, other strategic growth opportunities and the industry generally.

On September 26, 2006, Mr. Ryan and Mr. Crawford met at the Hyatt Hotel in Dulles, Virginia to discuss further the strategic rationale for, and benefits expected to be derived from, a business combination between the parties. Mr. Ryan and Mr. Crawford also discussed possible governance structures for the combined company and other management issues.

In September 2006, Lehman Brothers was requested to act as a financial advisor to CVS in connection with a potential strategic transaction with Caremark.

In late September 2006, JPMorgan was requested to act as a financial advisor to Caremark in connection with a potential strategic transaction with CVS.

On October 3, 2006, the Caremark board of directors met telephonically and reviewed with UBS and JPMorgan financial aspects of a possible business combination of CVS and Caremark. In addition, the Caremark board of directors discussed potential structures of a transaction with CVS, the potential business combination with CVS in the context of the industry and the potential benefits of such a transaction for Caremark stockholders. The Caremark board authorized Mr. Crawford and his management team to proceed with a due diligence review of CVS and to continue to explore a possible business combination with CVS.

On October 5, 2006, the parties' financial advisors met to discuss the exchange ratio for the potential transaction and the due diligence and transaction process to be followed. A subsequent meeting among representatives of CVS and representatives of Caremark and their respective legal and financial advisors also took place at the offices of CVS' legal counsel, Davis Polk & Wardwell, in New York, New York. The parties discussed the proposed due diligence process to be followed, regulatory matters raised by a business combination and the parties' respective approaches with respect to these issues, the synergies analysis being completed by the outside consulting firm, timing for negotiation and completion of a definitive agreement and process for moving forward with the parties' consideration and negotiation of a possible business combination between CVS and Caremark.

On October 6, 2006, CVS and Caremark executed a revised non-disclosure agreement. In addition, on October 6, 2006, each party commenced a due diligence review of the other's operations. Members of CVS senior management and members of Caremark senior management and their internal and external legal, accounting and financial advisors conducted certain due diligence reviews from an operational, financial, accounting, tax and legal perspective, including discussions with the other party's management. The bulk of the due diligence continued through October 20, with additional follow-up due diligence taking place between October 20 and October 31, 2006.

On October 9, 2006, representatives of CVS and representatives of Caremark and each of their regulatory legal counsel, Mintz Levin Cohn Ferris Glovsky and Popeo, which is referred to as Mintz Levin, and Jones Day, respectively, met to discuss a joint communications strategy in connection with the proposed business combination.

On October 9, 2006, CVS' legal counsel, Davis Polk & Wardwell, distributed an initial draft merger agreement to Caremark and its advisors. During the month of October, negotiations on the merger agreement continued.

On October 9, 2006, Mr. Crawford met with David B. Snow, Jr., chief executive officer of Medco, to discuss, among other things, the possibility of a business combination between the parties. Caremark and Medco subsequently entered into a confidentiality agreement with each other dated October 23, 2006 and on October 26, 2006, members of Caremark's management participated in a telephone call with members of Medco's management. No confidential business information was exchanged between the parties, and no proposals for a potential business combination were made or discussed by either party, including in respect of price or other terms. No further discussions occurred between the parties.

On October 10, 2006, regulatory legal counsel to CVS and regulatory counsel to Caremark met with the outside consulting firm to discuss the synergy analysis. In addition, on October 10, 2006, representatives of CVS and representatives of Caremark and each of their respective legal counsel arranged a conference call to further discuss the overall due diligence process.

On October 12, 2006, representatives of CVS and representatives of Caremark and each of their respective legal counsel and financial advisors met at the New York City offices of King & Spalding, Caremark's counsel, to discuss current and pending litigation, regulatory and investigation matters facing the companies.

On October 18, 2006, representatives of CVS and representatives of Caremark and each of their respective legal counsel and financial advisors met at the Hyatt Hotel in Dulles, Virginia for presentations by management of each party about their respective businesses.

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On October 20, 2006, the Caremark board of directors met telephonically during which Caremark's senior management, legal counsel and financial advisors reviewed with the Caremark board of directors the status of discussions with CVS regarding the possible transaction. At the meeting, Caremark's legal counsel reviewed with the Caremark board of directors the draft merger agreement and the Caremark board of directors discussed with

Caremark's senior management, legal counsel and financial advisors the issues raised by the draft agreement, matters identified to date by the due diligence review, corporate governance matters and risks associated with the potential transaction and transaction timing. The Caremark board of directors also discussed synergies expected to be derived from a business combination between CVS and Caremark, the potential transaction in the context of the industry and possible reactions of the market.

On October 23, 2006, the CVS board of directors met to discuss various matters relating to a possible business combination of CVS and Caremark. Prior to this meeting, the board members had received a variety of background materials for their review. Mr. Ryan opened this meeting with a brief overview of the possible transaction and the status of the negotiations. Thereafter, CVS's financial advisors, Evercore and Lehman Brothers, gave their respective financial overview of the transaction and other strategic alternatives. They also presented their respective views as to the strategic benefits and value-creating potential of the combination. Mr. David B. Rickard, CVS's chief financial officer, thereafter, presented on the financial due diligence conducted on Caremark up to that time. Thereafter, a Davis Polk & Wardwell partner summarized and analyzed for the CVS board of directors the terms of the merger agreement as they stood at that time and the material open issues that remained to be resolved in negotiations. He also reviewed the fiduciary duties of the CVS board of directors in its consideration of the transaction, and reported on legal due diligence conducted on Caremark. Finally, a Mintz Levin partner and CVS's chief legal officer, Douglas A. Sgarro, presented to the CVS board of directors on certain litigation and regulatory matters reviewed during the course of legal due diligence on Caremark, as well as on the regulatory process applicable to the transaction. At the conclusion of these various management and advisor presentations, the CVS board of directors discussed the transaction in detail, including the risks (including any regulatory risks) and strategic benefits and synergies expected to be derived from the transaction and the directors' financial analysis of the proposed transaction. At the end of this discussion, the CVS board of directors authorized CVS to continue to negotiate and explore the possible transaction.

On October 24, 2006, representatives of CVS and representatives of Caremark and each of their respective legal counsel and financial advisors met at the Hyatt Hotel in Dulles, Virginia to discuss financial due diligence matters, preliminary results of the synergies analysis conducted by the outside consulting firm and a joint communications strategy in connection with the proposed transaction. The parties also further negotiated open issues in the merger agreement.

On October 24 and October 30, 2006, the parties' financial advisors discussed Caremark's and CVS's views on the exchange ratio for the potential transaction.

On October 25, 2006, the Caremark board of directors met telephonically. At this meeting Caremark's management and King & Spalding LLP, legal counsel to Caremark, updated the Caremark board of directors regarding the status of the negotiation of the merger agreement. King & Spalding LLP and Caremark's management discussed with the Caremark board of directors a number of provisions in the current draft of the merger agreement, including the definition of material adverse effect, the obligations of the parties to obtain clearance for the merger from the Department of Justice and U.S. Federal Trade Commission from an antitrust perspective, the circumstances under which Caremark would be permitted to enter into discussions and share non-public information with a third party, the Caremark board of directors' ability to recommend another transaction to the Caremark stockholders, each party's termination rights and the circumstances under which a break up fee would be payable. The Caremark board of directors also discussed the fact that these provisions were reciprocal and applied equally to CVS as well as to Caremark. King & Spalding LLP reviewed with the Caremark board of directors deal protection provisions contained in precedent merger of equals transactions, and Caremark's management, legal counsel and financial advisors also discussed with the Caremark board of directors the amount of the proposed break up fee in the merger and the amount of break up fees in selected precedent merger of equals transactions. After a thorough discussion, the Caremark board of directors authorized Caremark's management to continue to negotiate the merger agreement, including the deal protection provisions described above. The Caremark board of directors also discussed with Caremark's senior management, legal counsel (including antitrust counsel) and financial advisors other issues raised by the revised draft agreement, the due diligence process, risks associated with the potential transaction and a regulatory analysis of the transaction. The Caremark board of directors also discussed the potential management team of the combined company and synergies expected to be derived from a business combination between the

parties. In addition, the Caremark board of directors received an update on the discussions of the parties' financial advisors regarding the exchange ratio for the potential transaction.

On October 30, 2006, the Caremark board of directors met telephonically to evaluate the possible business combination with CVS. Prior to the meeting, the Caremark board of directors received various materials, including a draft of the merger agreement. At the meeting, Caremark's legal counsel reviewed with the Caremark board of directors its legal duties and responsibilities in connection with the possible transaction and reviewed the material terms and conditions of the merger agreement and open points in the merger agreement that were still subject to negotiation. Caremark's senior management reviewed with the Caremark board of directors the strategic benefits of the possible transaction, the results of the due diligence review of CVS and the risks associated with the possible transaction. Caremark's financial advisors updated the board of directors on their discussions with CVS' financial advisors regarding the exchange ratio. A thorough discussion took place among the members of the Caremark board of directors concerning the possible transaction, including a discussion of the risks of the transaction, the expected strategic benefits of the transaction, possible regulatory considerations in connection with the transaction, synergies expected to be derived from the business combination, the interests of directors and officers in the merger and financial aspects of the proposed transaction. At the conclusion of the meeting, the Caremark board of directors authorized management to continue negotiations with CVS to seek to resolve the remaining outstanding issues and to continue due diligence with respect to the potential transaction.

On October 31, 2006, representatives of CVS and representatives of Caremark and each of their respective legal counsel and financial advisors participated in a conference call to resolve the remaining open points in the merger agreement. Between approximately noon on October 31, 2006 and 7:30 a.m., Eastern Time, on November 1, 2006, senior management of CVS and senior management of Caremark and their respective legal and financial advisors finalized the merger agreement and other proposed definitive documentation.

At approximately 8:30 a.m., Eastern Time, on November 1, 2006, the Caremark board of directors met at JPMorgan's offices in New York, New York to consider and act upon the proposed business combination between CVS and Caremark. Prior to this meeting, the Caremark board of directors received various materials, including a substantially final draft of the merger agreement. During this meeting, Caremark's legal counsel reviewed with the Caremark board of directors the legal duties and responsibilities of the Caremark board of directors in connection with the proposed transaction and provided an update on the material terms and provisions of the merger agreement and changes to the merger agreement that had been negotiated since the last meeting of the Caremark board of directors.

King & Spalding LLP reviewed with the Caremark board of directors the provisions of the draft merger agreement and discussed, among other things, the definition of material adverse effect, the obligations of the parties to obtain clearance for the merger from the Department of Justice and U.S. Federal Trade Commission from an antitrust perspective, the Caremark board of directors' fiduciary duties under Delaware law, the provisions of the merger agreement relating to the circumstances under which Caremark may engage in discussions and share non-public information with a third party, the Caremark board of directors' ability to recommend another transaction to the Caremark stockholders, each party's termination rights and the circumstances under which a break up fee would be payable. King & Spalding LLP also reviewed with the Caremark board of directors revisions made to the merger agreement to address points raised by the Caremark board of directors. In approving the negotiated deal protection provisions contained in the merger agreement, the Caremark board of directors considered, in particular, the following:

- The fact that the deal protection provisions contained in the merger agreement regarding the circumstances under which the Caremark board of directors could enter into discussions and share non-public information with a third party and change its recommendation permitted the Caremark board of directors to properly exercise its fiduciary duties to Caremark stockholders under Delaware law.
- The resolution that led to the reduction in the amount of the break up fee and the circumstances under which the break up fee is payable;

- That revisions were made to the merger agreement in response to the Caremark board of directors' concerns that Caremark could be responsible for paying the break up fee, but Caremark would not simultaneously be able to enter into a binding agreement with a third party with respect to an acquisition proposal to cover the break up fee, including the revision that, even though Caremark must still submit the merger to the Caremark stockholders for a vote even if the Caremark board of directors no longer supports the merger and changes its recommendation, Caremark is permitted to enter into a binding letter agreement with a third party making a superior proposal, and this letter agreement may (1) provide that the third party is obligated, on behalf of Caremark, to pay any termination fee payable by Caremark in connection with the merger agreement and (2) attach as an exhibit a fully negotiated and executed merger agreement relating to the superior proposal so long as the effectiveness of such agreement and plan of merger is conditioned upon the termination of the merger agreement and the payment of the termination fee by Caremark to CVS in connection with the merger agreement;
- A survey of the deal protection provisions contained in precedent transactions of similar size and type as the merger;
- That the deal protection provisions are reciprocal and are customary for strategic business transactions of this type; and
- That the deal protection provisions are the product of extensive negotiations between the parties.

Each of the foregoing factors, among others, was considered by the Caremark board of directors in approving the merger agreement.

Members of Caremark's senior management then updated the Caremark board of directors on the results of due diligence, the risks associated with the transaction and the strategic benefits of the transaction and related transaction matters. In addition, UBS and JPMorgan reviewed with the Caremark board of directors their joint financial analysis of the exchange ratio and each delivered to the Caremark board of directors an oral opinion, each of which was confirmed by delivery of a written opinion dated November 1, 2006, to the effect that, as of that date and based on and subject to various assumptions, matters considered and limitations described in such opinion, the exchange ratio was fair, from a financial point of view, to holders of Caremark common stock. Following a thorough discussion of the proposed transaction, the Caremark board of directors unanimously voted to approve the merger and the merger agreement and authorized management of Caremark to take certain actions designed to accomplish the transactions contemplated by the merger agreement.

Following the approval of the merger and the merger agreement, Mr. Ryan was introduced to the Caremark board of directors.

At approximately 9:00 a.m., Eastern Time, on November 1, 2006, the CVS board of directors met telephonically or in person in New York, New York at the offices of Davis Polk & Wardwell. Before the CVS board of directors convened, directors received a package of materials relating to their review of the proposed transaction. Mr. Ryan opened this meeting by summarizing the then current status of deal negotiations and developments since the board had last met. At the conclusion of Mr. Ryan's summary, Evercore and Lehman Brothers each gave its own presentation as to the financial analyses performed by it relating to the merger. At the conclusion of each of their respective presentations, each of Evercore and Lehman Brothers rendered their respective opinions orally (each of which opinions was later followed up in writing) to the effect that, as of that date and based on and subject to the assumptions made, procedures followed, matters considered and qualifications and limitations described in each such opinion, the exchange ratio was fair, from a financial point of view, to CVS. After these opinions were rendered, a Davis Polk & Wardwell partner summarized the principal deal terms for the members of the CVS board of directors focusing, in particular, on changes to those terms since the CVS board of directors October 23 meeting including as to the resolution of the deal protection provisions. Thereafter, senior CVS executives reviewed again for the members of the CVS board of directors the strategic rationale for, and benefits expected to be derived from, the transaction. A discussion of the transaction followed

this review. At the conclusion of this discussion, the CVS board of directors unanimously approved the merger and the merger

agreement, resolved to recommend these and related matters to CVS's stockholders for their approval and authorized CVS management to take certain actions to bring the transaction negotiations to a successful conclusion.

Following the meetings of the CVS board of directors and the Caremark board of directors, CVS and Caremark executed the merger agreement and thereafter issued a joint press release on November 1, 2006 announcing the transaction.

On December 18, 2006, Caremark received an unsolicited offer from Express Scripts, Inc., referred to as Express Scripts, pursuant to which Express Scripts offered to acquire all of the outstanding shares of Caremark common stock for \$29.25 in cash and 0.426 shares of Express Scripts common stock for each share of Caremark common stock. The receipt of Express Scripts common stock by Caremark stockholders would be tax free, and the cash portion received by Caremark stockholders would be taxable to Caremark stockholders. Express Scripts' offer was made subject to, among other things, completion of a confirmatory due diligence review of Caremark, termination of the merger agreement with CVS and negotiation and execution of a merger agreement with Express Scripts. The cash portion of the consideration would be financed by Express Scripts and Express Scripts stated that it had commitment letters from Citigroup Corporate and Investment Banking and Credit Suisse to provide the requisite financing to complete the transaction. Caremark did not receive copies of these commitment letters from Express Scripts nor did it receive a conditional merger agreement from Express Scripts.

On that same day, Caremark issued a press release announcing that the Caremark board of directors would review the terms of the proposal submitted by Express Scripts in a manner consistent with its obligations under the merger agreement with CVS and applicable Delaware law. CVS also issued a press release reaffirming its support of the merger with Caremark and its confidence in the long-term strategic value of the combination as well as the benefit to the stockholders of both Caremark and CVS.

Also on that day, the Caremark board of directors met telephonically to discuss Express Scripts' proposal. King & Spalding LLP, legal counsel to Caremark, gave a presentation to the Caremark board of directors regarding the directors' fiduciary duties under Delaware law and reviewed with the Caremark board of directors the requirements of the merger agreement with CVS in connection with receipt and analysis of Express Scripts' proposal. Caremark's financial advisors also participated in the meeting.

On December 20, 2006, the initial waiting period for the merger with CVS required by the HSR Act expired without a Request for Additional Information (commonly referred to as a "second request") from the U.S. Federal Trade Commission.

On December 22, 2006, the Caremark board of directors met in Nashville, Tennessee to discuss Express Scripts' proposal. During this meeting, King & Spalding LLP and Wachtell, Lipton, Rosen & Katz, special counsel, reviewed with the Caremark board of directors the legal standards under Delaware law and related legal considerations applicable to the Caremark board of directors' review of Express Scripts' proposal, including a thorough analysis of the applicable requirements of the merger agreement with CVS. Jones Day, Caremark's antitrust counsel, reviewed possible antitrust implications of the Express Scripts proposal with the Caremark board of directors. Caremark's financial advisors reviewed with the Caremark board of directors financial aspects of Express Scripts' proposal as compared to those of the merger with CVS. Management of Caremark gave a presentation to the Caremark board of directors regarding strategic and business considerations of a possible business combination with Express Scripts as compared to the merger with CVS. The Caremark board of directors then met in an executive session.

On December 22, 2006, the CVS board of directors met telephonically. At the commencement of the meeting, Mr. Ryan provided a general update to the CVS board of directors regarding developments with respect to Express Scripts. Davis Polk & Wardwell thereafter summarized Express Scripts' proposal. Following that summary, representatives of CVS's financial advisors, Evercore and Lehman Brothers, discussed Express Scripts' proposal from a financial and market perspective. Davis Polk & Wardwell then summarized potential next steps. Thereafter, the CVS board of directors met in executive session.

On December 23, 2006, Mr. Crawford telephoned Mr. Ryan to discuss CVS's possible response to Express Scripts' proposal. Mr. Ryan stated that CVS will have an upcoming board meeting and indicated to Mr. Crawford that CVS remains fully committed to the pending merger with Caremark and will move forward promptly to present the pending merger to the respective stockholders of Caremark and CVS for their respective approvals as contemplated under the merger agreement with CVS.

On December 27, 2006, the Caremark board of directors met telephonically to discuss Express Scripts' proposal further. King & Spalding LLP also participated in the meeting. The Caremark board of directors determined to reconvene on January 5, 2007 for further review and discussion of the proposal.

On January 2, 2007, Caremark retained Banc of America Securities LLC to act as an additional financial advisor to Caremark.

On January 3, 2007, the Caremark board of directors met telephonically and was updated on events concerning the Express Scripts proposal.

On January 5, 2007, Morgan Stanley & Co. Incorporated was retained to act as a financial advisor to CVS in connection with the merger.

On January 5, 2007, the Caremark board of directors met in Nashville, Tennessee to further review the Express Scripts proposal. During this meeting King & Spalding LLP and Wachtell, Lipton, Rosen & Katz reviewed with the Caremark board of directors the legal standards under Delaware law and related legal considerations applicable to the Caremark board of directors' review of Express Scripts' proposal, including a thorough analysis of the applicable requirements of the merger agreement with CVS. Jones Day, Caremark's antitrust counsel, reviewed possible antitrust implications of the Express Scripts proposal with the Caremark board of directors. UBS and JPMorgan reviewed with the Caremark board of directors financial aspects of Express Scripts' proposal as compared to those of the merger with CVS including, among other things, an overview of the Express Scripts proposal and an overview of the CVS transaction, the impact of the relative synergies attributable to each transaction and implied transaction values of the Express Scripts proposal and the CVS transaction. Management of Caremark gave a presentation to the Caremark board of directors regarding strategic and business considerations of a possible business combination with Express Scripts as compared to the merger with CVS. After thoroughly reviewing the Express Scripts proposal as set forth in its December 18th letter and after consulting with its outside legal and financial advisors and upon consideration of a variety of factors, the Caremark board of directors unanimously determined that the Express Scripts proposal does not constitute, and is not reasonably likely to lead to, a "Superior Proposal" as defined in the merger agreement with CVS. As a result, the Caremark board of directors unanimously concluded that, consistent with its fiduciary duties under Delaware law, the Express Scripts proposal does not meet the requisite standards established under the merger agreement for permitting Caremark to engage in discussions with Express Scripts and that engaging in discussions with Express Scripts is not in the best interests of Caremark and its stockholders. The Caremark board of directors has therefore determined not to enter into discussions with Express Scripts or to provide Express Scripts with access to confidential information concerning Caremark consistent with the board of directors' obligations under the merger agreement with CVS.

The Caremark board of directors considered a number of factors in connection with its evaluation of Express Scripts' proposal, as described in more detail below. In view of the number of factors and complexity of these matters, the Caremark board of directors did not find it practicable to, nor did it attempt to, quantify, rank or otherwise assign relative weight to the specific factors it considered.

Lacks Strategic Rationale. There is no logical or compelling strategic rationale for a combination of Express Scripts and Caremark. Simply creating a larger pharmacy benefits manager does not address evolving market dynamics, including an increasingly consumer-centric healthcare environment, and greater demand for access to information, personalized pharmaceutical and disease management services, and the ability to better manage costs.

In contrast to the merger with CVS, Express Scripts' proposal would not provide Caremark with any unique services, programs or tools that could serve to address emerging healthcare trends, improve clinical outcomes, or help consumers manage costs and improve their health.

Creates the Risk of Significant Customer Attrition and Destruction of Stockholder Value. Express Scripts' proposal creates substantial business risks and potential near- and long-term destruction of stockholder value resulting from the likely loss of existing and prospective customers. Given that the Caremark stockholders would own 57% of the combined company under the Express Scripts' proposal, they would bear the majority of these adverse consequences. Customers, including some of Caremark's largest customers, have voiced strong opposition towards an Express Scripts/Caremark combination. These unsolicited comments to Caremark are in stark contrast to the extremely favorable response customers have had to the CVS/Caremark merger.

Caremark believes that uncertainties created by pursuing Express Scripts' proposal would disrupt and adversely impact at a minimum the 2007 selling season, which extends through the first three quarters of the year. Caremark also believes that the uncertainties presented by the Express Scripts' proposal would virtually eliminate new business opportunities and make it difficult to renew existing contracts.

Express Scripts' recently reported financial results have raised questions about its ability to effectively integrate recent acquisitions. Additionally, all of Express Scripts' past acquisitions have been significantly smaller than those completed by Caremark and CVS, and Express Scripts has no experience integrating a business the size of Caremark. In contrast, Caremark and CVS have an established track record of successfully integrating large-scale acquisitions, and these strong management teams are committed to remaining in place to integrate and manage the combined company.

Intended to Derail the Strategic and Compelling CVS/Caremark Merger and Is a Defensive Move by Express Scripts. Unlike Caremark's and CVS' decision to enter into a merger from positions of strength and provide plan sponsors and consumers with the products and services they desire, Express Scripts' proposal is reactionary and defensive. Caremark believes that Express Scripts' interference with the CVS/Caremark merger reflects Express Scripts' concerns about the enhanced competition due to the innovative services created by a CVS/Caremark combination and the change in industry landscape that would result. Several of Caremark's clients have notified Caremark that Express Scripts has contacted them in an effort to disrupt Caremark's relationship with the client. Also, Express Scripts has lost approximately \$1 billion in net business to Caremark over the last three years. Clearly, Express Scripts fears a greater loss in business when facing an even stronger combined CVS/Caremark.

Questionable Assumptions Regarding the Calculation of Synergies. Caremark has substantial doubts regarding the reliability of the synergy estimates espoused by Express Scripts, based on Caremark's own knowledge and experience in developing synergy estimates. Express Scripts' synergy analysis also fails to address the substantial potential negative synergies which could arise from a combination of Express Scripts and Caremark. In addition to the potential loss of business, factors such as the two companies' vastly different formularies, contracting practices, and adjudication engines and systems create both integration risk and potential for additional negative synergies.

Faces Significant, if Not Insurmountable, Antitrust Risks and Timing Delays. Express Scripts' proposal carries significant antitrust risk that could substantially delay closing, could prevent closing altogether, or could result in the imposition of conditions that could adversely impact the business, projected synergies, Express Scripts' ability to obtain financing for such a transaction, and the terms of such financing. Potential remedies that could be sought by antitrust regulators would be difficult to execute in the pharmacy benefits management business given its service orientation and could negatively affect any potential benefits projected by Express Scripts.

Caremark's merger with CVS has received antitrust clearance without a second request and is expected to close in the first quarter of 2007, while Express Scripts has just begun the antitrust approval process and Express Scripts does not expect to close its proposed transaction until the third quarter of 2007 at the earliest.

Highly Leveraged and Weakened Business with Diminished Financial Strength and Flexibility. Express Scripts' proposal would create one of the most leveraged public companies in the healthcare services industry. With Express Scripts' free cash flow dedicated to debt reduction for several years, the combined company would be severely restricted in its ability to invest in its business, pursue other strategic opportunities, react to changing market dynamics, or engage in value creating financial transactions beneficial to stockholders such as share repurchases and dividends. The concern over leverage associated with Express Scripts' proposal is further

evidenced by S&P's recent decision to place Express Scripts on negative watch, a measure that is in contrast to the

positive watch that CVS received following the merger announcement with Caremark. Negative synergies associated with lost customer accounts or antitrust remedies would only further increase these risks and concerns.

A combined CVS/Caremark will have significant free cash flow, an investment grade credit rating, and considerable borrowing power, giving it substantial financial flexibility to invest in its business and pursue opportunities to enhance stockholder value, including through a continuation of dividend payments and potential future share buybacks.

Other Factors. The Caremark board of directors also considered certain other factors relating to the merger agreement with CVS and the Express Scripts proposal including:

Express Scripts did not disclose its financing and any conditions to the financing that may exist, such as a material adverse effect condition.

Express Scripts has expressly conditioned its willingness to enter into any binding agreement with Caremark on the prior termination of the merger agreement with CVS, as opposed to offering to execute a conditional merger agreement, as permitted by Section 8.07(g) of the merger agreement with CVS. Because there is no conditional merger agreement, which is typical in competing merger proposals, Express Scripts has failed to offer to advance the break-up fee that could become payable to CVS. Accordingly, the risk of the break-up fee under the CVS merger agreement (\$675 million) would be borne by Caremark without any guarantee that Express Scripts would even carry on with its proposal, much less any guarantee that the transaction would be approved by regulators and stockholders. Thus, the Caremark board cannot envision any scenario where it would be willing to trigger the imposition of a \$675 million break up fee without having a competing party obligated to fund that payment.

On January 5, 2007, following the Caremark board of directors' meeting, Mr. Crawford called Mr. Ryan to advise him of the Caremark board of directors' determination.

On January 7, 2007, Caremark issued a press release announcing that the Caremark board of directors, after thorough consideration and consultation with its legal and financial advisors, has determined that the Express Scripts proposal does not constitute, and is not reasonably likely to lead to, a superior proposal under the terms of the merger agreement. Caremark further announced that the Caremark board of directors unanimously has concluded that pursuing discussions with Express Scripts is not in the best financial or strategic interests of Caremark and its stockholders.

On January 8, 2007, Express Scripts gave notice to Caremark that Kew Corp, a wholly owned subsidiary of Express Scripts, has purchased shares of Caremark common stock and, as a stockholder of Caremark, intends to nominate four candidates for election to the Caremark board of directors at Caremark's 2007 annual meeting of stockholders, if it is held.

On January 10, 2007, Express Scripts filed a preliminary proxy statement with the SEC for the solicitation of proxies in opposition to the merger between CVS and Caremark.

On January 10, 2007, at a regularly scheduled meeting of the CVS board of directors, CVS' management and its financial and legal advisors updated the CVS board of directors on the transaction generally as well as on recent developments with respect to Express Scripts.

On January 13, 2007, Mr. Ryan called Mr. Crawford and proposed that Caremark effect a special cash dividend in an amount equal to \$2.00 per outstanding share of Caremark common stock and that such special cash dividend be declared by Caremark prior to the effective time of the merger and be paid at or immediately following the effective time of the merger. Payment of this special cash dividend would be conditioned on the completion of the merger. Mr. Ryan also proposed that the parties agree that, after the completion of the merger, the combined company will effect an accelerated share repurchase transaction whereby CVS/Caremark will retire

approximately 150 million shares of common stock of the combined company. Mr. Ryan's proposal is referred to collectively as the CVS proposal.

On January 13, 2007, CVS and Caremark's respective tax counsel discussed the CVS proposal and determined that, in order to implement the CVS proposal in a tax efficient manner, the parties should consider changing the structure of the merger from a reverse triangular merger to a forward triangular merger. Therefore, if the merger structure were changed, Caremark would be merged with and into a limited liability company wholly owned by CVS, with the limited liability company surviving the merger as a wholly owned subsidiary of CVS. On this same day, CVS legal counsel distributed an initial draft of an amendment to the merger agreement to reflect a forward merger structure and an initial draft of a letter agreement to reflect the parties' agreement with respect to the special cash dividend and the accelerated share repurchase transaction. The terms of these documents were negotiated on January 14 and 15.

On January 15, 2007, the Caremark board of directors met telephonically to discuss the CVS proposal and Caremark's management and legal counsel reviewed with the Caremark board of directors the CVS proposal. UBS and JPMorgan reviewed with the Caremark board of directors financial aspects of the Caremark/CVS merger as amended by the CVS proposal as compared to those of the proposal submitted by Express Scripts on December 18, 2006. UBS and JPMorgan each separately informed the Caremark board of directors that its view as to the fairness from a financial point of view and as of the date of its opinion of the exchange ratio provided for in the CVS transaction had not changed. Caremark's management and legal counsel then discussed with the Caremark board of directors that, for tax purposes, to implement the CVS proposal in a tax efficient manner the structure of the merger should be changed from a reverse triangular merger to a forward triangular merger, which would mean that Caremark would merge with and into a wholly owned subsidiary of CVS, with the CVS subsidiary surviving the merger. Caremark's legal counsel also reviewed with the Caremark board of directors a draft amendment to the merger agreement to effect the change in merger structure and a draft letter agreement which would reflect Caremark's and CVS' agreement with respect to the special cash dividend and the accelerated share repurchase transaction. The Caremark board of directors thoroughly discussed the CVS proposal, including the special cash dividend, the accelerated share repurchase transaction and the resulting change in the merger structure. The Caremark board of directors unanimously determined that the CVS proposal is advisable and in the best interests of Caremark and the Caremark stockholders and authorized Caremark's management to proceed with the CVS proposal. The Caremark board of directors also stated its intention to declare the special cash dividend on a date to be determined by the Caremark board of directors prior to the completion of the merger and that such special cash dividend will be conditioned on the completion of the merger and will be paid at or immediately following the effective time of the merger. The Caremark board of directors also acknowledged that its compensation committee will need to make adjustments prior to the effective time of the merger to Caremark's outstanding stock options to reflect the special cash dividend. The actions taken by the Caremark board of directors at this meeting were subject in all respects to the approval of the CVS proposal in its entirety at the CVS board meeting scheduled for January 16, 2007.

On January 16, 2007, Express Scripts announced that it is commencing an exchange offer for all of the outstanding shares of Caremark common stock. The offer is based on the same cash and stock proposal set forth in Express Scripts' letter, dated December 18, 2006. In accordance with applicable law, on or before January 30, 2007, Caremark intends to provide its stockholders a statement of its position with respect to the exchange offer.

On January 16, 2007, the CVS board of directors met telephonically. Mr. Ryan opened this meeting by summarizing developments since the board had last met and gave an overview of two proposed enhancements to the merger transaction, namely a proposed special cash dividend by Caremark to its stockholders conditioned on completion of the merger and a proposed accelerated share repurchase transaction to be effected by the combined company promptly after the merger. Morgan Stanley then gave a presentation covering the terms and structure of the special cash dividend and the accelerated share repurchase transaction. Thereafter, Evercore and Lehman Brothers each gave its own presentation as to the financial analyses performed by it relating to the merger, taking

into account the Caremark special cash dividend and the accelerated share repurchase transaction. At the conclusion of each of their respective presentations, each of Evercore and Lehman Brothers delivered to the CVS board of directors separate oral opinions, which opinions were confirmed by delivery of separate written opinions dated January 16, 2007, to the effect that, as of that date and based on and subject to various assumptions made, procedures followed, matters considered and qualifications and limitations on the review undertaken described in each such opinion, the exchange ratio provided for in the merger was fair, from a financial point of view, to CVS. After these opinions were rendered, Mr. Rickard, Mr. Sgarro and a Davis Polk & Wardwell partner answered questions from CVS board members regarding the transaction. A discussion of these matters then ensued. At the conclusion of this discussion, the CVS board of directors unanimously approved Amendment No. 1 to the merger agreement and a waiver agreement with respect to the Merger Agreement relating to the Caremark special cash dividend and the accelerated share repurchase transaction.

Rationale for the Merger

CVS and Caremark each have a long history of being managed with a goal of enhancing stockholder value. While CVS and Caremark both believe that they have strong growth prospects for the near- and long-term as stand-alone entities, both companies believe that a combination of their companies represents the next logical and timely step in the evolution of the pharmacy services industry. The merger is expected to yield significant benefits for employer and health plan customers through more effective cost-management solutions and innovative programs and for consumers through expanded choice, unparalleled access and more personalized services. It is also expected to drive substantial value for stockholders of both companies by achieving significant anticipated benefits to be derived from the merger and the creation of a compelling platform from which to accelerate growth.

CVS and Caremark anticipate that the combined company will be positioned to deliver these benefits and enhance stockholder value as a result of the following:

- Strategic Benefits;
- Enhanced Customer Service/Improved Outcomes and Cost Controls;
- Operating Synergies;
- Financial Benefits; and
- Compatible Cultures and Record of Successful Transactions.

Strategic Benefits. There are a number of reasons that CVS and Caremark believe the merger represents the logical evolution of the pharmacy services industry, including the fact that it combines Caremark's expertise in serving employers and health plans as a leading pharmacy benefit manager and mail order pharmacy with CVS' expertise in serving consumers as the nation's largest retail pharmacy chain based on store count.

Caremark, one of the nation's leading pharmaceutical services companies, provides comprehensive prescription benefit management services to over 2,000 health plans, including corporations, managed care organizations, insurance companies, unions and government entities. Caremark is also a sponsor of SilverScript prescription drug plans, one of the top ten prescription drug plans (based on enrolled members) offered to Medicare Part D beneficiaries. Caremark operates a national retail pharmacy network with over 60,000 participating pharmacies and owns and operates seven mail order pharmacies and nine call centers. Through its Accordant disease management offering, Caremark also provides disease management programs for 27 conditions. Twenty-one of these programs are accredited by the National Committee for Quality Assurance.

CVS operates the nation's largest retail pharmacy chain based on store count, with approximately 6,200 stores across 43 states and the District of Columbia as well as PharmaCare, a wholly owned pharmacy benefit management and specialty pharmacy subsidiary which is expected to generate approximately \$3 billion in

revenues during its 2006 fiscal year. PharmaCare operates four mail order facilities and more than 50 specialty retail pharmacies. Through a joint venture arrangement with Universal American Financial Corp., PharmaCare retains an equity interest in Prescription Pathways, one of the top ten Medicare Part D prescription drug plans in the country (based

on members enrolled). CVS also provides healthcare services through its MinuteClinic subsidiary, which as of September 30, 2006 operates over 99 healthcare clinics, 82 of which are located in CVS stores. MinuteClinic was the first and as of the date hereof remains the only retail-based clinic company to receive accreditation from JCAHO.

Based on September 30, 2006 data, the combined company will be:

- #1 in retail pharmacy sales;
- #1 in PBM lives managed;
- #1 in pharmacy claims processed;
- #1 in specialty pharmacy sales;
- #2 in mail order pharmacy sales; and
- #1 in retail-based clinics.

Consequently, the combined company will offer to employers, health plans and consumers fully integrated end to end pharmacy services, from pharmacy plan design analysis to claims processing to retail or mail order prescription fulfillment. The merger will also enable the combined company to offer employers and health plan customers and consumers new and innovative programs, greater choice, unparalleled access and more personalized services. In that regard, the combined company will employ more than 180,000 people, including more than approximately 21,000 pharmacists and nurse practitioners.

In addition, the merger will combine PharmaCare's specialty operations with Caremark's specialty operations thereby creating a premier specialty pharmacy provider, with more than 70 specialty retail and mail pharmacies. Specialty pharmacy focuses on supporting individuals that require complex and expensive drug therapies to treat chronic or genetic-based conditions such as organ transplants, HIV/AIDS, rheumatoid arthritis, hepatitis C, hemophilia, infertility, multiple sclerosis and certain cancers. As a result of the merger, the combined company will put together CVS and Caremark's complementary specialty pharmacy offerings to achieve a more comprehensive specialty pharmacy business in terms of diseases covered and will offer expanded distribution capability and patient access through its retail and mail services pharmacies. CVS and Caremark both believe that the combined company will afford employers, health care plans and consumers with significantly enhanced specialty pharmacy services and capabilities by combining the companies' complementary specialty businesses, providing them with better alternatives and the combined company with greater opportunities to improve its business than would be available to either company individually.

Enhanced Customer Service/Improved Outcomes and Cost Controls. CVS and Caremark believe the merger addresses the rapidly changing dynamics of today's healthcare delivery system. Healthcare is becoming more consumer-centric as the U.S. healthcare system strains to manage growing costs and employers shift more responsibility for managing costs to employees. An aging population, increasing incidence of chronic disease and increasing utilization attributable to the Medicare prescription benefit is fueling demand for prescriptions and pharmacy services. Generic drugs are becoming more widely available and new drug therapies to treat unmet healthcare needs and reduce hospital stays are being introduced. Consumers require medication management programs and better information to help them navigate these trends. CVS and Caremark believe the merger will position the combined company to provide solutions that address these trends and result in an enhanced pharmacy services experience for consumers.

The combined company will seek to drive value for pharmacy services customers through an enhanced ability to assist and provide actionable information to plan participants and more effectively manage pharmacy cost trends. CVS and Caremark expect the combined company to improve clinical outcomes by providing an integrated information network, improving formulary compliance and appropriate utilization of drug therapy. The

combined company intends to utilize CVS's retail presence and over approximately 21,000 pharmacists and nurse practitioners and Caremark's systems and clinical programs and services to accomplish this goal. CVS and Caremark believe this

will result in better control over healthcare costs for employers and health plans. The combined company will also be better positioned to offer new and broader disease management and wellness services to help consumers manage and protect against potential health risks and mitigate future healthcare costs.

Cost Savings. CVS and Caremark believe the combined company can be operated more efficiently than either company on its own. First, the combined company is now expected to achieve in excess of \$500 million in pre-tax benefits from purchasing scale and operating synergies. Operating synergies refers to decreases in overhead expense, increases in productivity and efficiencies, decreases in prescription dispensing costs, and other benefits made possible by combining complementary operations. The estimated \$400 million in synergies was updated to in excess of \$500 million as a result of the additional integration work completed since receiving antitrust clearance on December 20, 2006.

- Significant cost savings are expected to come from lower costs for purchased items (such as generic pharmaceuticals) that CVS and Caremark believe will be possible because of the combined company's buying efficiencies.
- A portion of cost savings is also expected to come from reduced selling and administrative expenses. These reduced expenses would include eliminating duplicative facilities and/or activities in the two companies, resulting in lower support costs such as occupancy expense, telephone, travel and computer costs. CVS and Caremark also anticipate that the combined company will be able to reduce fees for duplicate activities, such as auditing, SEC reporting and other public company costs.

Information regarding the uncertainties associated with realizing these anticipated cost savings is described under the heading "Risk Factors" The combined company may be unable to successfully integrate CVS and Caremark's operations or to realize the anticipated cost savings and other benefits of the merger. As a result, the value of CVS/Caremark common stock may be adversely affected. beginning on page 28 and "Risk Factors" The combined company will incur significant transaction and merger-related costs in connection with the merger. beginning on page 30.

Financial. Combined pro forma revenues for CVS and Caremark would have been approximately \$72 billion based on the year ended December 31, 2005. Thus, CVS and Caremark believe the combined company will have the size and financial stability to capitalize on anticipated growth opportunities. The merger is expected to further strengthen the mix of revenue sources, providing improved financial flexibility and strong cash-flows.

Compatible Cultures and Record of Successful Transactions. CVS and Caremark share a number of important long-term corporate values, including a commitment to enhancing stockholder value, an emphasis on efficiency, investment discipline and asset productivity, a focus on customer service and satisfaction, and a commitment to compliance, safety and health. Both companies also benefit from talented and dedicated employees with a track record of successfully integrating companies in various business combination transactions that CVS and Caremark each believe have enhanced stockholder value for each company. CVS and Caremark believe that the shared values and experience of our management teams will facilitate an integration of the two companies, and that this business combination will provide further opportunities to enhance stockholder value.

CVS Reasons for the Merger

In approving the transaction and making these recommendations, the CVS board of directors consulted with CVS management, as well as its outside legal counsel and CVS financial advisors, and it carefully considered the following factors:

- all the reasons described above under "Rationale for the Merger" beginning on page 51 including the strategic benefits, the near- and longer-term synergies and purchasing scale and growth opportunities expected to be available to the combined company;
- information concerning the business, assets, capital structure, financial performance and condition and prospects of CVS and Caremark, focusing in particular on the quality of Caremark's assets, the

compatibility of the two companies' operations and opportunities for revenue growth;

- current and historical prices and trading information with respect to each of Caremark's and CVS's common stock, which assisted the CVS board of directors in its conclusion that the merger was fairly priced;
- the possibility, as alternatives to the merger, of pursuing an acquisition of or a business combination or joint venture with an entity other than Caremark or a joint venture with Caremark, and the CVS board of directors' conclusion that a merger with Caremark is more feasible, and is expected to yield greater benefits, than the likely alternatives. The CVS board of directors reached this conclusion for reasons including Caremark's interest in pursuing a transaction with CVS, CVS's view that the transaction could be acceptably completed from a timing and regulatory standpoint, and CVS management's assessment of the alternatives and the expected benefits of the merger and compatibility of the companies, as described under "Rationale for the Merger" beginning on page 51;
- the value of the exchange ratio provided for in the merger agreement relative to the then-current market prices and historical trading prices of CVS and Caremark common stock over the past one year period and relative to the consideration paid in business combinations of comparable size, as discussed in our financial advisors' comparable transaction analysis;
- current industry, economic and market conditions, including the dynamic pace of change in the U.S. healthcare industry, the increasing trend towards consumer demands for access, convenience and flexibility, and the growing convergence of employer and retail customer interests in mitigating healthcare cost, improving outcomes and benefits and plan design;
- the likelihood of the enhancement of the strategic position of the combined company, which combines CVS's and Caremark's complementary businesses, and creates a broader company with enhanced operational and financial flexibility and increased opportunity for growth;
- the terms and conditions of the merger agreement, which include restrictions on the conduct of CVS's and Caremark's respective businesses pending closing but which permit each of CVS and Caremark generally to conduct its business in the ordinary course during that period (see "The Merger Agreement" beginning on 106);
- the potential effect of the terms of the merger agreement with respect to possible third party proposals to acquire CVS after execution of the merger agreement, including that if any third party made a superior proposal (as described under "The Merger Agreement" Termination" beginning on page 115), the CVS board of directors could provide information to and engage in negotiations with such third party, subject to the terms and conditions of the merger agreement;
- that while the termination payment provisions of the merger agreement could have the effect of discouraging alternative proposals for a business combination with CVS, these provisions would not preclude bona fide alternative proposals, and that the size of the termination fee was reasonable in light of the size and benefits of the transaction and not preclusive of a superior transaction, if one were to emerge;
- the fact that CVS stockholders would hold approximately 54.5% of the outstanding shares of the combined company after the merger;
- the analyses and presentations prepared by each of Evercore and Lehman Brothers and their respective opinions, dated as of November 1, 2006 and January 16, 2007, that, as of those dates based upon the assumptions made, procedures followed, matters considered and qualifications and limitations on the review set forth in their respective opinions, as of those dates the exchange ratio provided for in the merger was fair from a financial point of view to CVS. Each of Evercore's and Lehman Brothers' opinions dated January 16, 2007 is described in detail below under the heading "Opinions of Financial Advisors to the CVS Board of Directors" beginning on page 56;

- the challenges of combining the businesses of two corporations of this size and the attendant risks of not achieving the expected strategic benefits, cost savings, other financial and operating benefits or

improvement in earnings, and of diverting management focus and resources from other strategic opportunities and from operational matters for an extended period of time;

- that, while the merger is likely to be completed, there are risks associated with obtaining necessary approvals on terms that satisfy closing conditions to the respective parties' obligations to complete the merger, and, as a result of certain conditions to the completion of the merger, it is possible that the merger may not be completed even if approved by stockholders (see "The Merger Agreement" Conditions to Completion of the Merger" beginning on page 114);
- that, upon completion of the merger, Thomas M. Ryan, the current chairman, president and chief executive officer of CVS, will become the chief executive officer of the combined company and is expected to remain in that position until at least January 2010, and David B. Rickard, current chief financial officer and chief administrative officer of CVS, will be the chief financial officer of the combined company, and that, upon completion of the merger, E. Mac Crawford, the current chairman, president and chief executive officer of Caremark, will become the chairman of the board of directors of the combined company, and Howard A. McLure, Caremark's current senior executive vice president and chief operating officer, will run the combined company's pharmacy services business;
- regulatory and litigation risks associated with the transaction or combining the two companies; and
- the ability to complete the merger as a tax-free reorganization for U.S. federal income tax purposes.

In view of the number and wide variety of factors considered in connection with its evaluation of the merger and the complexity of these matters, the CVS board of directors did not find it practicable to, nor did it attempt to, quantify, rank or otherwise assign relative weights to the specific factors that it considered. In addition, the CVS board of directors did not undertake to make any specific determination as to whether any particular factor was favorable or unfavorable to the CVS board of directors' ultimate determination or assign any particular weight to any factor, but conducted an overall analysis of the factors described above, including through discussions with and questioning of CVS' management and management's analysis of the proposed merger based on information received from CVS' legal, financial and accounting advisors. In considering the factors described above, individual members of the CVS board of directors may have given different weight to different factors.

In considering the recommendation of the CVS board of directors with respect to the proposals to amend the CVS charter and issue shares of CVS/Caremark common stock in the merger, you should be aware that certain CVS directors and officers have arrangements that cause them to have interests in the transaction that are different from, or are in addition to, the interests of CVS stockholders generally. See "Interests of CVS Executive Officers and Directors in the Merger" beginning on page 74.

The CVS board of directors considered all these factors together and, on the whole, thought them to be favorable to, and to support, its determination to recommend approval by CVS stockholders of the proposals necessary to complete the merger.

Recommendations of the CVS Board of Directors

At its November 1, 2006 meeting, after due consideration with CVS management and CVS' legal and financial advisors, the CVS board of directors unanimously determined that the merger agreement, and the transactions contemplated therein, including the issuance of CVS/Caremark common stock in the merger and the amendments to the CVS charter, are advisable and in the best interests of CVS and the CVS stockholders. Accordingly, the CVS board of directors unanimously recommends to its stockholders that they vote **"FOR"** the proposal to amend the CVS charter to increase the number of authorized shares of CVS common stock and change the name of CVS Corporation to CVS/Caremark Corporation, **"FOR"** the proposal to issue shares of CVS/Caremark common stock to Caremark stockholders in the merger and **"FOR"** the adjournment or postponement of the CVS special meeting, including if necessary, to solicit additional proxies in favor of the amendments and issuance.

CVS Projections

In connection with the review of the merger, certain financial projections prepared by management of CVS concerning CVS on a stand-alone, pre-merger basis, were exchanged with Caremark.

The projections are "forward-looking statements" and CVS' actual results may differ materially from those set forth in the projections. See "Cautionary Statement Regarding Forward-Looking Statements" beginning on page 38 for a discussion of the risks you should consider in reviewing the projections set forth in this joint proxy statement/prospectus.

The material portions of the financial projections prepared by management of CVS can be summarized as follows:

CVS

	<u>2006E</u>	<u>2007E</u>
Net Revenue (<i>in millions</i>)	\$ 43,852	\$ 49,621
Earnings Per Share	\$ 1.54	\$ 1.89

These projections were not prepared with a view to public disclosure or compliance with published guidelines established by the SEC or the American Institute of Certified Public Accountants regarding projections. None of CVS, Caremark or their respective affiliates or CVS' or Caremark's independent registered public accounting firm assumes any responsibility if future results differ from these projections. The projections are subjective in many respects and thus susceptible to interpretation and periodic revision based on actual experience and recent developments. While presented with numeric specificity, the projections reflect numerous assumptions made by the management of CVS with respect to industry performance and competition, general business, economic, market and financial conditions and other matters, all of which are difficult to predict and many of which are beyond the control of CVS. For these reasons, the inclusion of the projections in this document should not be regarded as an indication that CVS, Caremark, any recipient of the projections or their respective affiliates or representatives considered or consider the projections to be necessarily predictive of actual future events, and the projections should not be relied upon as such. Actual results may be higher or lower than those estimated. CVS and Caremark do not generally publish their respective business plans and strategies or make external disclosures of their respective anticipated financial position or results of operations. Accordingly, CVS and Caremark do not intend to, and specifically decline any obligation to, update or otherwise revise the prospective financial information to reflect circumstances existing since their preparation or to reflect the occurrence of unanticipated events, even if any or all the underlying assumptions are shown to be in error. Also, CVS and Caremark do not intend to, and specifically decline any obligation to, update or revise the prospective financial information to reflect changes in general economic or industry conditions. Neither CVS' auditors nor Caremark's auditors, nor any other independent registered public accounting firm, have compiled, examined or performed any procedures with respect to these projections, nor have they expressed any opinion or any other form of assurance on this information or its achievability, and assume no responsibility for, and disclaim any association with, this prospective financial information.

Opinions of Financial Advisors to the CVS Board of Directors

CVS retained Evercore and Lehman Brothers as financial advisors to the CVS board of directors in connection with the merger.

On November 1, 2006, at a meeting of the CVS board of directors held to evaluate the proposed merger, Evercore and Lehman Brothers delivered to the CVS board of directors separate oral opinions, which opinions were confirmed by delivery of separate written opinions dated November 1, 2006, to the effect that, as of that date and based on and subject to various assumptions made, procedures followed, matters considered and

qualifications and limitations on the review undertaken described in each such opinion, the exchange ratio provided for in the merger was fair, from a financial point of view, to CVS.

On January 16, 2007, at a meeting of the CVS board of directors held to evaluate the proposed amendment to the merger agreement and the proposed waiver agreement, Evercore and Lehman Brothers delivered to the CVS board of directors separate oral

opinions, which opinions were confirmed by delivery of separate written opinions dated January 16, 2007, to the effect that, as of that date and based on and subject to various assumptions made, procedures followed, matters considered and qualifications and limitations on the review undertaken described in each such opinion, the exchange ratio provided for in the merger was fair, from a financial point of view, to CVS, after giving effect to the payment of the Caremark special cash dividend.

Evercore's and Lehman Brothers' opinions dated January 16, 2007, the full texts of which describe the assumptions made, procedures followed, matters considered and qualifications and limitations on the review undertaken by Evercore and Lehman Brothers, are attached as Annex D and Annex E, respectively, and are incorporated into this document by reference. Evercore's and Lehman Brothers' opinions were directed only to the fairness to CVS, from a financial point of view, of the exchange ratio provided for in the merger and do not address any other aspect of the merger. The opinions do not address the relative merits of the merger as compared to other business strategies or transactions that might be available with respect to CVS or CVS' underlying business decision to effect the merger. The opinions do not constitute a recommendation to any stockholder as to how such stockholder should vote or act with respect to any matters relating to the merger. Holders of CVS common stock are encouraged to read the opinions carefully in their entirety. The summaries of Evercore's and Lehman Brothers' opinions described below are qualified in their entirety by reference to the full texts of the opinions.

Opinion of Evercore Group L.L.C.

Evercore has acted as one of CVS' financial advisors in connection with the merger. Evercore was requested to act as a financial advisor to CVS in late October 2005 to explore a potential transaction with Caremark and was formally engaged pursuant to a letter agreement dated April 21, 2006. In connection with Evercore's engagement, the CVS board of directors requested that Evercore render an opinion to the CVS board of directors as to the fairness, from a financial point of view, of the exchange ratio to CVS. At the meeting of the CVS board of directors on January 16, 2007, Evercore rendered its oral opinion, which was subsequently confirmed in writing dated as of the same date, that, as of such date and based upon and subject to the assumptions made, procedures followed, matters considered, and qualifications and limitations set forth in its written opinion, which are described below, the exchange ratio was fair, from a financial point of view, to CVS.

The full text of Evercore's written opinion, dated January 16, 2007, which sets forth, among other things, the assumptions made, procedures followed, matters considered, and qualifications and limitations on the review undertaken in connection with its opinion, is attached as Annex D to this document and is incorporated by reference into this document. The summary of Evercore's fairness opinion set forth in this document is qualified in its entirety by reference to the full text of the opinion. Stockholders should read the opinion carefully and in its entirety.

Evercore's opinion is addressed to the board of directors of CVS, and addresses only the fairness, from a financial point of view, of the exchange ratio to CVS. Evercore's opinion does not address the underlying decision by CVS to engage in the merger and does not constitute a recommendation to any stockholder of CVS, Caremark or any other person as to how such person should vote or act on any matter relating to the proposed merger.

Summary of Evercore's January 16, 2007 Fairness Opinion

The following is a summary of Evercore's January 16, 2007 opinion and the methodology that Evercore used to render its opinion. This summary is qualified in its entirety by reference to the full text of the opinion.

In arriving at its opinion, Evercore, among other things:

- analyzed certain publicly available financial statements and other publicly available business information including Wall Street research analyst reports relating to CVS and Caremark that Evercore deemed relevant to its analysis;

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- analyzed certain internal non-public financial and operating data concerning CVS and Caremark prepared and furnished to Evercore by the management of each of CVS and Caremark, respectively;
- analyzed certain financial projections concerning Caremark for 2006 and 2007 furnished to Evercore by the management of Caremark and certain financial projections concerning CVS for 2006 and 2007 furnished to Evercore by the management of CVS;

- reviewed the amount and timing of the synergies expected to result from the merger as well as the transaction expenses and one-time cash costs arising from the proposed transaction (which Evercore refers to as "integration costs"), both as estimated by the management of CVS and furnished to Evercore by CVS;
- discussed the past and current operations and financial condition and the prospects of CVS and Caremark with the management of each of CVS and Caremark, respectively;
- reviewed the reported prices and trading activity of the Caremark common stock and the CVS common stock;
- compared the financial performance of Caremark and the prices and trading activity of the Caremark common stock with that of selected publicly traded companies and their securities;
- compared the financial performance of CVS and the prices and trading activity of CVS common stock with that of selected publicly traded companies and their securities;
- compared the proposed financial terms of the merger with publicly available financial terms of certain transactions that Evercore deemed reasonably comparable to the merger;
- considered the potential financial impact of CVS's contemplated accelerated share repurchase program expected to be effected as promptly as practicable after the effective time of the merger as described in the CVS waiver agreement;
- considered the potential pro forma impact of the merger on CVS, based on inputs and analysis provided by CVS management;
- reviewed the merger agreement and a draft of Amendment No. 1 to the merger agreement dated January 15, 2007, which Evercore assumed was in substantially final form and would not vary in any respect material to its analysis;
- reviewed a draft dated January 15, 2007 of the CVS waiver agreement which Evercore assumed was in substantially final form and would not vary in any respect material to its analysis; and
- performed such other analyses and examinations and considered such other factors as Evercore in its sole judgment deemed appropriate for purposes of its opinion.

For purposes of its analyses and opinion, Evercore relied upon and assumed, without assuming any responsibility for independently verifying, the accuracy and completeness of all the financial and other information that was publicly available or was furnished to Evercore by Caremark or CVS or otherwise discussed with or reviewed by or for Evercore, and it has not assumed any liability therefor. Evercore further relied upon the assurances of the management of CVS and Caremark, respectively, that they were not aware of any facts that would make such information inaccurate or misleading. Evercore did not make nor assume any responsibility for making any valuation or appraisal of any assets or liabilities of CVS or Caremark, nor were any such valuations or appraisals provided to Evercore.

With respect to the CVS projections provided to Evercore by CVS management and the Caremark projections provided to Evercore by Caremark management, Evercore assumed that such projections were reasonably prepared on a basis reflecting the best currently available estimates and judgments of each of the management of CVS and Caremark, respectively, as to future financial performance. With the consent of the management of CVS, Evercore relied on certain publicly available Wall Street research analyst projections for forecasted financial results for CVS and Caremark in both 2008 and 2009. With respect to the synergies expected to result from the merger and integration costs estimated by the management of CVS to result from the merger, Evercore assumed that the timing and amounts of such synergies and integration costs were reasonable. Evercore expressed no

view as to such financial analyses and forecasts, the synergies and the integration costs or the assumptions on which they were based. Evercore also assumed that the merger would qualify as a tax-free reorganization for United States federal income tax purposes, and that the merger and the other transactions contemplated by the merger agreement would be consummated as described in the merger agreement and without any waiver, amendment or modification of any terms or conditions that would have been material to Evercore's opinion. Evercore further assumed that all required governmental, regulatory or other consents and approvals necessary for the consummation of the merger have been

and would be obtained without any of the changes described in Section 8.01(a) of the merger agreement. Evercore has also assumed that the Caremark special cash dividend would be paid upon the occurrence of the effective time of the merger.

Evercore's opinion was necessarily based on economic, market and other conditions as in effect on, and the information made available to Evercore as of, January 16, 2007. It should be understood that subsequent developments may affect Evercore's opinion and that Evercore does not have any obligation to update, revise, or reaffirm its opinion. Evercore's opinion was limited to the fairness, from a financial point of view, to CVS of the exchange ratio. Evercore expressed no opinion as to the price at which CVS common stock would trade at any future time.

CVS engaged Evercore to act as a financial advisor based on its qualifications, experience and reputation and its knowledge of the business of CVS. Evercore is an internationally recognized investment banking firm and is regularly engaged in the valuation of businesses in connection with mergers and acquisitions, leveraged buyouts, competitive biddings, private placements and valuations for corporate and other purposes.

Evercore acted as financial advisor to CVS with respect to the proposed merger pursuant to a letter agreement dated April 21, 2006 and will receive a fee from CVS for its services, the principal portion of which is contingent upon consummation of the merger. CVS has agreed to reimburse Evercore's expenses and to indemnify Evercore against certain liabilities arising out of its engagement, including certain liabilities under the federal securities laws. In addition, Evercore advised CVS on its purchase of Albertson's standalone drugstores in 2006 and advised CVS on its purchase of selected Eckerd assets in 2004 and received customary fees for its services. In the ordinary course of business, the affiliates of Evercore Group L.L.C. may actively trade the debt and equity securities, or options on securities, of CVS or Caremark, for its own account and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities.

Financial Analysis

The following is a summary of the material financial analyses performed by Evercore in connection with the preparation of its opinion delivered to the CVS board of directors on January 16, 2007. **The financial analyses summarized below include information presented in tabular format. In order to fully understand the financial analyses used by Evercore, the tables must be read together with the text of each summary. Considering any portion of such analyses and of the factors considered, without considering all analyses and factors, could create a misleading or incomplete view of the process underlying Evercore's opinion.**

Historical Share Price Analysis

Evercore considered historical data with regard to the trading prices of CVS and Caremark common stock for the one-year period prior to and including October 31, 2006, the last trading day prior to announcement of the transaction. During this period, the closing stock price of CVS common stock ranged from a low of \$23.89 to a high of \$36.14 per share, and the closing price of Caremark ranged from a low of \$42.40 to a high of \$59.89 per share. The foregoing historical share price analysis was presented to the CVS board of directors to provide it with background information and perspective with respect to the relative historical share prices of CVS and Caremark common stock.

Historical Exchange Ratio Analysis

Evercore compared the historical per share prices of CVS common stock and Caremark common stock for different periods during the three years prior to and including October 31, 2006, the last trading day prior to announcement of the transaction, in order to determine the average implied exchange ratio that existed for those periods. The following table indicates the average exchange ratio (after giving effect to the payment of the Caremark special cash dividend), of CVS common stock for Caremark common stock for the periods indicated:

**Implied Exchange
Ratio**

January 12, 2007
Unaffected Period

1.717x

	Implied Exchange Ratio
	<hr/>
October 31, 2006	1.505x
1 Month average	1.596x
2 Month average	1.617x
3 Month average	1.612x
6 Month average	1.587x
1 Year average	1.647x
2 Year average	1.588x
3 Year average	1.541x
<i>Equity Research Analysis</i>	

Evercore compared recent publicly available research analyst price targets from firms that published price targets for CVS or Caremark as of October 31, 2006, the last trading day prior to the announcement of the transaction.

Evercore calculated the mean and median target price for each of the CVS common stock and the Caremark common stock based on the analysts' price targets. The analysis yielded mean and median share price targets for CVS of \$39.47 and \$40.00, respectively. Similar analysis for Caremark yielded mean and median share price targets of \$63.96 and \$62.00, respectively.

Peer Group Trading Analysis

In order to assess how the public market values shares of similar publicly traded companies, Evercore reviewed and compared specific financial and operating data relating to each of CVS and Caremark with selected companies that Evercore deemed to have certain characteristics that are similar to those of CVS and Caremark, respectively. As part of its peer group trading analysis, Evercore calculated and analyzed the ratio of current stock price to estimated 2007 earnings per share (commonly referred to as a price earnings ratio, or P/E) for CVS and Caremark, respectively, and each member of its respective peer group. Evercore also calculated and analyzed the ratio of enterprise value to estimated 2007 earnings before interest, taxes, depreciation and amortization (or, EBITDA) for CVS and Caremark, respectively, and each member of its respective peer group. The enterprise value of each company was obtained by adding its short and long term debt, to the sum of the market value of its common equity, and the book value of any minority interest, and subtracting its cash and cash equivalents and market value of unconsolidated investments. All of these calculations were performed based on closing prices as of October 31, 2006, (the last trading day prior to announcement of the transaction) and as of January 12, 2007 (the last trading date prior to the delivery of Evercore's opinion).

CVS

The companies that Evercore deemed to have certain characteristics that are similar to those of CVS were Walgreens, Shoppers Drug Mart, Jean Coutu Group, Rite Aid and Longs Drug Stores.

The analysis of current stock price to earnings as of October 31, 2006 indicated that, for the selected peer group, the ratio of current stock price to estimated 2007 earnings per share ranged from 19.6x to 20.9x. This compared to a current stock price as a multiple of estimated 2007 earnings per share ratio of 16.6x for CVS, based on publicly available research estimates as of October 31, 2006.

The analysis of financial multiples as of October 31, 2006 indicated that, for the selected peer group, enterprise value as a multiple of estimated 2007 EBITDA ranged from 7.3x to 11.7x. This compared to enterprise value as a multiple of estimated 2007 EBITDA of 8.7x for CVS, based on publicly available research estimates as of October 31, 2006.

The analysis of current stock price to earnings as of January 12, 2007 indicated that, for the selected peer group, the ratio of current stock price to estimated 2007 earnings per share ranged from 20.0x to 23.2x. This compared to a

current stock price as a multiple of estimated 2007 earnings per share ratio of 17.0x for CVS, based on publicly available research estimates as of January 12, 2007.

The analysis of financial multiples as of January 12, 2007 indicated that, for the selected peer group, enterprise value as a multiple of estimated 2007 EBITDA ranged from 7.8x to 13.3x. This compared to enterprise value as a multiple of estimated 2007 EBITDA of 9.0x for CVS, based on publicly available research estimates as of January 12, 2007.

Using a selected multiple range of 17.0x to 20.0x estimated 2007 earnings per share, the peer group trading analysis of CVS yielded an implied valuation range for the CVS common stock of \$31.89 to \$37.52 per share. Using selected multiples of 8.5x to 9.5x estimated 2007 EBITDA, the peer group trading analysis yielded an implied valuation range for CVS common stock of \$29.94 to \$34.29 per share.

Caremark

The companies that Evercore deemed to have certain characteristics that are similar to those of Caremark were Medco Health Solutions and Express Scripts.

The analysis of current stock price to earnings as of October 31, 2006 indicated that, for the selected peer group, the ratio of current stock price to estimated 2007 earnings per share ranged from 16.6x to 17.1x. This compared to a current stock price as a multiple of estimated 2007 earnings per share ratio of 17.4x for Caremark, based on publicly available IBES research estimates as of October 31, 2006.

The analysis of financial multiples as of October 31, 2006 indicated that, for the selected peer group, enterprise value as a multiple of estimated 2007 EBITDA ranged from 9.4x to 10.1x. This compared to enterprise value as a multiple of estimated 2007 EBITDA of 9.7x for Caremark, based on publicly available research estimates as of October 31, 2006.

The analysis of current stock price to earnings as of January 12, 2007 indicated that, for the selected peer group, the ratio of current stock price to estimated 2007 earnings per share ranged from 16.4x to 18.6x. This compared to a current stock price as a multiple of estimated 2007 earnings per share ratio of 20.1x for Caremark, based on publicly available IBES research estimates as of January 12, 2007.

The analysis of financial multiples as of January 12, 2007 indicated that, for the selected peer group, enterprise value as a multiple of estimated 2007 EBITDA was 10.2x for both selected peers. This compared to enterprise value as a multiple of estimated 2007 EBITDA of 11.3x for Caremark, based on publicly available research estimates as of January 12, 2007.

Using a selected multiple range of 17.0x to 20.0x estimated 2007 earnings per share, the peer group trading analysis of Caremark yielded an implied valuation range for the Caremark common stock of \$48.16 to \$56.66 per share. Using selected multiples of 9.5x to 10.5x estimated 2007 EBITDA, the peer group trading analysis of Caremark yielded an implied valuation range for Caremark common stock of \$48.23 to \$53.09 per share.

Evercore calculated implied exchange ratios by taking the minimum Caremark implied share price over the average CVS implied share price, and the maximum Caremark implied share price over the average CVS implied share price. Based on the peer group trading analysis for both CVS and Caremark, Evercore calculated implied exchange ratios after giving effect to the payment of the Caremark special cash dividend ranging from 1.383x to 1.583x.

Evercore selected the peer groups above because their businesses and operating profiles are reasonably similar to that of CVS and Caremark, as applicable. However, because of the inherent differences between the businesses, operations and prospects of CVS and Caremark, on the one hand, and the businesses, operations and prospects of the selected peer groups on the other, no company is exactly the same as CVS or Caremark. Therefore, Evercore believed that it was inappropriate to, and therefore did not, rely solely on the quantitative

results of the peer group trading analysis. Accordingly, Evercore also made qualitative judgments concerning differences between the financial and operating characteristics and prospects of CVS and Caremark and the companies included in the peer

group trading analysis that would affect the public trading values of each company in order to provide a context in which to consider the results of the quantitative analysis. These qualitative judgments related primarily to the differing sizes, growth prospects, profitability levels and degree of operational risk between CVS and Caremark, on the one hand, and the companies included in the peer group trading analysis.

Contribution Analysis

Evercore analyzed the respective contributions of CVS and Caremark to estimated 2007 and 2008 EBITDA and Net Income of the combined company based on projections prepared by CVS management and Caremark management for 2007 and certain publicly available Wall Street research estimates for 2008. The analysis excludes the effect of expected synergies, integration costs and other financial effects of the transaction. Evercore also analyzed the respective contributions based on the market value of each of CVS and Caremark as of October 31, 2006, the last trading day prior to announcement of the transaction. Evercore used the contributions to calculate an implied exchange ratio. In doing this for EBITDA contributions, Evercore made certain adjustments to reflect the capital structures of CVS and Caremark. The contribution analysis indicated the following relative contributions of CVS and Caremark and the following implied exchange ratios after giving effect to the payment of the Caremark special cash dividend:

Metric	Contribution		
	10/31/06	2007E	2008E
EBITDA			
CVS		63.5%	63.6%
Caremark		36.5%	36.4%
Implied exchange ratio		1.391x	1.384x
Net Income			
CVS		56.6%	57.0%
Caremark		43.4%	43.0%
Implied exchange ratio		1.459x	1.496x
Market Capitalization			
Unaffected Market Value -- as of 10/31/06			
CVS		55.9%	
Caremark		44.1%	
Implied exchange ratio		1.505x	

Precedent Transaction Analysis

Using publicly available information, Evercore reviewed and compared the purchase prices and financial multiples paid in acquisitions of companies that Evercore, based on its experience with merger and acquisition transactions, deemed relevant to arriving at its opinion. Evercore performed the analysis for both CVS and Caremark. Evercore chose the transactions used in the precedent transaction analysis based on the similarity of the target companies in the transactions to CVS and Caremark, as applicable. However, no precedent transaction is identical to the merger. As a result, these analyses are not purely mathematical, but also take into account differences in financial and operating characteristics of the subject companies and other factors that could affect the transactions to which the merger is being compared.

Evercore reviewed the following transactions in the precedent transaction analysis for CVS:

Date Announced	Target	Acquirer
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08/24/06	Brooks and Eckerd Albertson's Stand-alone Drug	Rite Aid
01/23/06	Business	CVS
04/05/04	Eckerd	CVS
04/05/04	Eckerd	Jean Coutu Group
12/23/03	Duane Reade	Oak Hill Capital Partners

Date Announced	Target	Acquirer
11/18/99	Shoppers Drug Mart	Kohlberg Kravis Roberts
11/24/98	Genovese Drug Stores	JC Penney
08/03/98	American Stores	Albertson's
02/09/98	Arbor Drugs	CVS
06/18/97	Duane Reade	DLJ Merchant Bkg Partners II
02/07/97	Revco	CVS
11/04/96	Eckerd	JC Penney
10/28/96	Big B	Revco
10/14/96	Thrifty Payless Holdings	Rite Aid
08/06/96	Fay's	JC Penney
10/23/95	Big V Pharmacies	Shoppers Drug Mart (Imasco)
08/28/95	Medicine Shoppe International	Cardinal Health

Evercore reviewed the following transactions in the precedent transaction analysis for Caremark:

Date Announced	Target	Acquirer
07/21/05	Priority Healthcare	Express Scripts
02/23/05	Accredo Health	Medco Health Solutions
09/02/03	AdvancePCS	Caremark Rx
02/06/02	Nat'l Prescript. Administrators	Express Scripts
07/12/00	PCS Health Systems	Advance Paradigm
05/04/00	ProVantage Health Services	Merck-Medco
02/09/99	Diversified Pharmaceutical Group	Express Scripts
11/17/98	PCS Health Systems	Rite Aid
02/20/98	ValueRx	Express Scripts
01/15/97	Value Health	Columbia/HCA Healthcare
05/14/96	Caremark International	MedPartners
03/27/95	Diagnostek	Value Health
07/10/94	PCS Health Systems	Eli Lilly
07/27/93	Medco Containment Services	Merck

Using a selected multiple range of 8.0x to 11.0x estimated 2006 EBITDA, the precedent transaction analysis of CVS yielded an implied valuation range for the CVS common stock of \$21.81 to \$32.64 per share. CVS estimated 2006 EBITDA does not reflect the full year pro forma results for the Albertson's purchase. Therefore, Evercore also performed precedent transaction analysis for CVS using estimated 2007 EBITDA (which includes a full year impact of the Albertson's transaction) and discounted the resulting share price for one year at an assumed cost of equity of 11% resulting in an implied valuation range for the CVS common stock of \$27.42 to \$40.35 per share.

Using a selected multiple range of 10.0x to 14.0x estimated 2006 EBITDA, the precedent transaction analysis of Caremark yielded an implied valuation range for Caremark common stock of \$44.81 to \$61.93 per share. Evercore calculated implied exchange ratios by taking the minimum Caremark implied share price over the average CVS implied share price, and the maximum Caremark implied share price over the average CVS implied share price.

Evercore calculated implied exchange ratios after giving effect to the payment of the Caremark special cash dividend based on the precedent transaction analysis ranging from 1.401x to 1.962x.

Premia Paid Analysis

Evercore reviewed the premia paid in all all-stock transactions valued at greater than \$10 billion during the period from October 31, 2001 to January 12, 2007. Evercore calculated the premium per share paid by the acquirer compared to the share price of the target company prevailing one day, one week and four weeks prior to the announcement of the transaction, producing mean premia of 12.7%, 13.7% and 16.6%, respectively, and median premia of 11.0%, 14.2% and 17.2%, respectively.

Evercore also reviewed the premia paid in all all-stock transactions valued at greater than \$1 billion with pro forma acquirer ownership between 40%-60% since January 1, 2000. Evercore calculated the premium per share paid by the acquirer compared to the share price of the target company prevailing one day, one week and four weeks prior to the announcement of the transaction. All transactions since January 1, 2000 result in mean premia of 20.8%, 22.2% and 21.0% respectively, and median premia of 13.9%, 16.8% and 10.4%, respectively. To evaluate a more recent trend of transaction premia paid, a separate analysis of transactions since January 1, 2001 was considered. All transactions since January 1, 2001 produce mean premia of 6.7%, 5.5% and 7.2%, respectively, and median premia of 7.5%, 6.9% and 8.9%, respectively.

Based on the assumptions set forth above, the premia paid analysis using a premia paid range of 0% to 20% yielded implied exchange ratios after giving effect to the payment of the Caremark special cash dividend ranging from 1.505x to 1.806x.

Discounted Cash Flow Analysis

Evercore performed a discounted cash flow analysis for each of CVS and Caremark by adding (1) the present value of such company's projected after-tax unlevered free cash flows for fiscal year 2007 based on such company's management estimates, and for fiscal years 2008 through 2009 based on certain publicly available Wall Street research estimates and (2) the present value of the "terminal value" of such company as of December 31, 2009. "Terminal value" refers to the estimated value of all future cash flows from an asset at a particular point in time.

A discounted cash flow analysis is a traditional valuation methodology used to derive a valuation of an asset by calculating the "present value" of estimated future cash flows of the asset. "Present value" refers to the current value of future cash flows or amounts and is obtained by discounting those future cash flows or amounts by a discount rate that takes into account macro-economic assumptions and estimates of risk, the opportunity cost of capital, expected returns and other appropriate factors. Evercore analyzed cash flows over a three year period due to the availability of one year of management estimates and the limited availability of Wall Street research estimates following such three year period. Based on Evercore's judgment and expertise in performing such analysis, Evercore deemed a three year period to be a reasonable period in this context.

Evercore estimated a range of CVS terminal values in 2009 based on certain publicly available Wall Street research estimates for EBITDA and selected trailing EBITDA exit multiples of 9.5x to 10.5x. Evercore estimated a range of Caremark terminal values in 2009 based on certain publicly available Wall Street research estimates for EBITDA and selected trailing EBITDA multiples from 11.0x to 12.0x. For each of CVS and Caremark, Evercore discounted the unlevered free cash flow streams and the estimated terminal value to a present value at discount rates ranging from 9.0% to 11.0%. The discount rates utilized in this analysis were chosen by Evercore based on the industry and also on an analysis of the weighted average cost of capital of CVS and Caremark, as applicable, and other companies in such company's peer group. Evercore calculated per share equity values by first determining a range of enterprise values of CVS and Caremark, as applicable, by adding the present values of the after-tax unlevered free cash flows and terminal values for each EBITDA terminal multiple and discount rate scenario, and then subtracting from the enterprise values the net debt (which is total debt minus cash) of such company, and dividing those amounts by the number of fully diluted shares of such company.

Based on the projections and assumptions set forth above, the discounted cash flow analysis of CVS yielded an implied valuation range for CVS common stock of \$37.19 to \$43.61 per share, and the discounted cash flow analysis of Caremark yielded an implied valuation range for Caremark common stock of \$62.46 to \$70.50 per share.

Evercore calculated implied exchange ratios by taking the minimum Caremark implied share price over the average CVS implied share price, and the maximum Caremark implied share price over the average CVS implied share price. Based on the discounted cash flow analysis for both CVS and Caremark Evercore calculated implied exchange ratios (after giving effect to the payment of the Caremark special cash dividend) ranging from 1.497x to 1.695x, assuming the allocation of any synergies or integration costs is proportionate to the respective of the CVS and Caremark pro forma ownership of the combined company.

Pro Forma Analysis

In order to evaluate the estimated ongoing impact of the merger, Evercore analyzed the pro forma earnings impact of the merger from the perspective of CVS stockholders assuming the merger closes March 31, 2007. For the purposes of this analysis, Evercore assumed (1) a \$55.34 per share price for Caremark common stock acquired pursuant to the 1.670 exchange ratio (after giving effect to the payment of the Caremark special cash dividend) and the merger, (2) a \$31.94 per share price for CVS common stock (the closing market price per share on January 12, 2007), (3) a transaction structure with 100% stock consideration, (4) financial forecasts for each company from each management for 2007 and certain publicly available Wall Street research estimates for 2008, and (5) synergy, integration costs and purchase accounting adjustments in accordance with CVS management estimates, and (6) accelerated share repurchase of 150 million shares effected by the pro forma combined company after closing. Evercore estimated that, based on the assumptions described above, the pro forma impact of the transaction on the earnings per share of CVS would be dilutive to 2007 earnings per share, and accretive to 2008 earnings per share. The financial forecasts that underlie this analysis are subject to substantial uncertainty and, therefore, actual results may be substantially different.

General

In connection with the review of the merger by the CVS board of directors, Evercore performed a variety of financial and comparative analyses for purposes of rendering its opinion. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. In arriving at its opinion, Evercore considered the results of all of its analyses as a whole and did not attribute any particular weight to any analysis or factor considered by it. Furthermore, Evercore believes that the summary provided and the analyses described above must be considered as a whole and that selecting any portion of its analyses, without considering all of them, would create an incomplete view of the process underlying its analyses and opinion.

In performing its analyses, Evercore made numerous assumptions with respect to risks associated with industry performance, general business and economic conditions and other matters, many of which are beyond the control of CVS or Caremark. Any estimates contained in these analyses are not necessarily indicative of future results or actual values, which may be significantly more or less favorable than those suggested by such estimates. No limitations were imposed by CVS on the scope of Evercore's investigations or the procedures followed by Evercore in rendering its opinion.

Opinion of Lehman Brothers Inc.

In September 2006, Lehman Brothers began assisting the CVS board of directors as its financial advisor with respect to pursuing a strategic combination with Caremark, and on November 1, 2006, the CVS board of directors entered into a written engagement agreement with Lehman Brothers. On November 1, 2006, Lehman Brothers rendered its oral opinion (subsequently confirmed in writing) to the CVS board of directors that as of such date and, based upon and subject to the matters stated in its opinion, from a financial point of view, the exchange ratio to be paid in the merger was fair to CVS. Thereafter, at the request of the CVS board of directors, in connection with the board of directors' review of the amended terms of the transaction, on January 16, 2007, Lehman Brothers rendered its oral opinion (subsequently confirmed in writing) to the CVS board of directors that as of such date and, based upon and subject to the matters stated in its opinion, from a financial point of view, the exchange ratio to be paid in the merger was fair to CVS, after giving effect to the payment of the Caremark special cash dividend.

The full text of Lehman Brothers' written opinion, dated January 16, 2007, is attached as Annex E to this joint proxy statement-prospectus. Stockholders are encouraged to read Lehman Brothers' opinion carefully in its entirety for a description of the assumptions made, procedures followed, factors considered and limitations upon the review undertaken by Lehman Brothers in rendering its opinion.

Lehman Brothers' advisory services and opinion were provided for the information and assistance of the CVS board of directors in connection with its consideration of the merger and Amendment No. 1 to the merger.

agreement. Lehman Brothers' opinion is not intended to be and does not constitute a recommendation to any stockholder of CVS as to how such stockholder should vote in connection with the merger. Lehman Brothers was

not requested to opine as to, and Lehman Brothers' opinion does not address, CVS' underlying business decision to proceed with or effect the merger.

The following is a summary of Lehman Brothers' January 16, 2007 opinion and the methodology that Lehman Brothers used to render its opinion. This summary is qualified in its entirety by reference to the full text of the opinion.

In arriving at its opinion, Lehman Brothers reviewed and analyzed, among other things:

- the merger agreement, as amended, and the specific terms of the merger;

- publicly available information concerning CVS that Lehman Brothers believed to be relevant to its analysis, including CVS' Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and CVS' Quarterly Report on Form 10-Q for the quarters ended April 1, 2006, July 1, 2006 and September 30, 2006;

- publicly available information concerning Caremark that Lehman Brothers believed to be relevant to its analysis, including Caremark's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and Caremark's Quarterly Report on Form 10-Q for the quarters ended March 31, 2006, June 30, 2006 and September 30, 2006;

- financial and operating information with respect to the business, operations and prospects of CVS furnished to Lehman Brothers by CVS, including (i) financial projections for CVS prepared by CVS' management through December 31, 2007 and (ii) updated estimates of the amounts and timing of the cost savings, operating synergies (the "Updated Estimated Synergies") and other strategic benefits expected by the management of CVS to result from a combination of the businesses of CVS and Caremark, including to reflect the Caremark special cash dividend and accelerated share repurchase;

- financial and operating information with respect to the business, operations and prospects of Caremark furnished to Lehman Brothers by Caremark, including financial projections for Caremark prepared by Caremark's management through December 31, 2007;

- the trading histories of CVS Common Stock and Caremark Common Stock from October 31, 2006 to January 12, 2007, and a comparison of those trading histories with each other and with those of other companies that Lehman Brothers deemed relevant;

- a comparison of the historical financial results and present financial condition of CVS and Caremark with each other and with those of other companies that Lehman Brothers deemed relevant;

- published estimates of independent equity research analysts with respect to the future financial performance of CVS and Caremark, adjusted to reflect the payment of the Caremark special cash dividend;
- the relative contributions of CVS and Caremark to the historical and future financial performance of the combined company on a pro forma basis, reflecting the payment of the Caremark special cash dividend;
- a comparison of the financial terms of the proposed transaction with the financial terms of certain other transactions that Lehman Brothers deemed relevant, and
- the potential pro forma impact of the proposed transaction on the future financial condition and performance of CVS, including the Updated Estimated Synergies and the accelerated share repurchase transaction and the effect on CVS's pro forma earnings per share.

In addition, Lehman Brothers had discussions with the managements of CVS and Caremark concerning their respective businesses, operations, assets, financial conditions and prospects and undertook such other studies, analyses and investigations as Lehman Brothers deemed appropriate.

In arriving at its opinion, Lehman Brothers assumed and relied upon the accuracy and completeness of the financial and other information used by Lehman Brothers without assuming any responsibility for independent verification of such information. Lehman Brothers further relied upon the assurances of the managements of CVS and Caremark that they were not aware of any facts or circumstances that would make such information inaccurate or misleading. With respect to the financial projections of CVS and Caremark, upon advice of CVS and Caremark, Lehman Brothers assumed that such projections were reasonably prepared on a basis reflecting the best currently available estimates and judgments of the managements of CVS and Caremark as to their respective future financial performance and that they would perform substantially in accordance with such projections. With respect to the Updated Estimated Synergies, Lehman has assumed that the amount and timing of Updated Estimated Synergies are reasonable and, upon the advice of CVS, Lehman also has assumed that the Updated Estimated Synergies will be realized substantially in accordance with such estimates. In arriving at its opinion, Lehman Brothers did not conduct or obtain any evaluations or appraisals of the assets or liabilities of CVS or Caremark, nor did it conduct a physical inspection of the properties and facilities of CVS and Caremark. Lehman Brothers' opinion was necessarily based upon market, economic and other conditions as they existed on, and could be evaluated as of, January 16, 2007.

The following is a summary of the material financial analyses used by Lehman Brothers in connection with providing its January 16, 2007 opinion to the CVS board of directors. The financial analyses summarized below include information presented in tabular format. In order to fully understand the financial analyses used by Lehman Brothers, the tables must be read together with the text of each summary. Considering any portion of such analyses and of the factors considered, without considering all analyses and factors, could create a misleading or incomplete view of the process underlying Lehman Brothers' opinion.

Historical Share Price Analysis

Lehman Brothers considered historical data with regard to the trading prices of CVS and Caremark common stock for the period from January 12, 2004 to January 12, 2007. Lehman Brothers also considered the relative stock price performances during the period from January 12, 2006 to January 12, 2007 of (1) CVS, (2) Caremark, (3) an index of drugstore equities (the "Drugstore Index") comprised of the common stocks of Longs Drugs, Rite Aid, Shoppers Drug Mart and Walgreens and (4) an index of pharmacy benefit managers equities (the "PBM Index") comprised of the common stocks of Express Scripts and Medco.

Lehman Brothers noted that during this one-year period, the share price of CVS common stock increased 18.3%, which outperformed the Drugstore Index, and the common stock of Caremark increased 10.5%, which outperformed the PBM Index.

Historical Exchange Ratio Analysis

Lehman Brothers also compared the historical per share prices of CVS and Caremark during different calendar periods during the one-year period prior to January 12, 2007 in order to determine the implied average exchange ratio that existed for those calendar periods (excluding the Caremark special cash dividend). The following table indicates the average exchange ratio of CVS common stock for Caremark common stock for the calendar periods indicated:

Calendar Period	Average Exchange Ratio
January 12, 2007	1.717x
10-day period	1.734x

20-day period	1.747x
30-day period	1.739x
60-day period	1.656x
90-day period	1.621x
180-day period	1.619x
One-year period	1.608x

Research Analyst Stock Price Targets

Lehman Brothers reviewed publicly available research reports published by various firms with respect to CVS and Caremark and observed that the range of analyst share price targets, which represent future share price targets over the next 12 months, was \$38.00 to \$41.00 for CVS, and \$56.00 to \$64.00 for Caremark, which reflects the payment of the Caremark special cash dividend. Lehman Brothers further observed that (1) CVS's per share price as of January 12, 2007, represented a discount of (A) 15.9% to the analyst low price target of CVS and (B) 22.1% to the analyst high price target of CVS and (2) Caremark's per share price, which reflects the payment of the Caremark special cash dividend, as of January 12, 2007, represented a discount of (A) 2.1% to the analyst low price target of Caremark and (B) 14.3% to the analyst high price target of Caremark.

Comparable Company Analysis

CVS

In order to assess how the public market values shares of similar publicly traded companies, Lehman Brothers, based on its experience with companies in the drugstore industry, reviewed and compared specific financial and operating data relating to CVS with the following selected companies that Lehman Brothers deemed comparable to CVS, including:

- Longs Drugs;
- Rite Aid
- Shoppers Drug Mart; and
- Walgreens.

As part of its comparable company analysis, Lehman Brothers calculated and analyzed CVS's and each comparable company's ratio of current stock price to its projected earnings per share (commonly referred to as a price earnings ratio, or P/E). Lehman Brothers also calculated and analyzed various financial multiples, including CVS's and each comparable company's enterprise value to certain projected financial criteria (such as EBITDA). The enterprise value of each company was obtained by adding its short- and long-term debt to the sum of the market value of its common equity and subtracting its cash and cash equivalents. All of these calculations were performed, and based on publicly available financial data (including First Call and Wall Street research estimates) and closing prices, as of January 12, 2007, the last trading date prior to the delivery of Lehman Brothers's January 16, 2007 opinion. Using a selected multiple range of 18.0x to 20.0x 2007 estimated earnings per share and selected multiples of 9.5x to 11.5x 2006 estimated EBITDA, the peer group trading analysis of CVS yielded an implied valuation range for CVS common stock of \$27.54 to \$37.77 per share. The following presents the results of this analysis:

	<u>2006E</u>	<u>2007E</u>
<u>Enterprise Value/EBITDA</u>		
<u>(excluding CVS, unless where noted)</u>		
High	14.9x	13.9x

Low	8.5x	7.6x
Mean	12.9x	11.5x
CVS	10.8x	8.9x
<u>P/E (excluding CVS, unless where noted)</u>		
High	25.3x	21.7x
Low	NM	NM
Mean	23.9x	20.8x
CVS	20.6x	16.9x
Caremark		

In order to assess how the public market values shares of similar publicly traded companies, Lehman Brothers, based on its experience with companies in the pharmacy benefit management industry, reviewed and compared specific financial and operating data relating to Caremark with the following selected companies that Lehman Brothers deemed comparable to Caremark, including:

- Express Scripts; and
- Medco

As part of its comparable company analysis, Lehman Brothers calculated and analyzed Caremark's and each comparable company's P/E ratio. Lehman Brothers also calculated and analyzed various financial multiples, including Caremark's and each comparable company's enterprise value to certain projected financial criteria such as EBITDA. All of these calculations were performed, and based on publicly available financial data (including First Call and Wall Street research estimates) and closing prices, as of January 12, 2007, the last trading date prior to the delivery of Lehman Brothers' January 16, 2007 opinion. Using a selected multiple range of 16.0x to 20.0x 2007 estimated earnings per share and selected multiples of 10.5x to 11.5x 2006 estimated EBITDA, and after taking into account the payment of the Caremark special cash dividend, the peer group trading analysis of Caremark yielded an implied valuation range for Caremark common stock of \$44.53 to \$56.16. The following presents the results of this analysis:

	<u>2006E</u>	<u>2007E</u>
<u>Enterprise Value/EBITDA (excluding Caremark, unless where noted)</u>		
High	11.6x	10.2x
Low	11.3x	10.1x
Mean	11.5x	10.1x
Caremark	12.2x	10.7x
<u>P/E (excluding Caremark, unless where noted)</u>		
High	25.3x	21.1x
Low	19.9x	16.4x
Mean	22.6x	18.7x
Caremark	22.7x	19.4x

Lehman Brothers selected the comparable companies above because their businesses and operating profiles are reasonably similar to that of CVS and Caremark, respectively. However, because of the inherent differences between the business, operations and prospects of CVS and Caremark and the businesses, operations and prospects of the selected comparable companies, no comparable company is exactly the same as CVS or Caremark, respectively. Therefore, Lehman Brothers believed that it was inappropriate to, and therefore did not, rely solely on the quantitative results of the comparable company analyses. Accordingly, Lehman Brothers also made qualitative judgments concerning differences between the financial and operating characteristics and prospects of CVS and Caremark and the companies included in the comparable company analyses that would affect the public trading values of each in order to provide a context in which to consider the results of the quantitative analyses. These qualitative judgments related primarily to the differing sizes, growth prospects, profitability levels and degree of operational risk between CVS and Caremark and the companies included in the comparable company analyses.

Comparable Transaction Analysis

Selected Drugstore Transactions

Using publicly available information, Lehman Brothers reviewed and compared the purchase prices and financial multiples paid in ten acquisitions that took place within the drugstore industry, of companies that Lehman Brothers, based on its experience with merger and acquisition transactions, deemed relevant to arriving at its opinion. Lehman Brothers chose the transactions used in this analysis based on the similarity of the target companies in the transactions to CVS in the size, mix, margins and other characteristics of their businesses. Lehman Brothers reviewed the following transactions:

Announcement Date	Acquiror	Target
8/24/06	Rite Aid	Eckerd/Brooks
1/23/06	CVS	Osco/Sav-on (Albertson's)
6/30/04	Oak Hill Capital Partners	Duane Reade
4/05/04	CVS	Eckerd
4/05/04	Jean Coutu Group	Eckerd
11/24/98	J.C. Penney	Genovese
8/03/98	Albertson's	American Stores
2/01/98	CVS	Arbor Drug
2/07/97	CVS	Revco
11/01/96	J.C. Penney	Eckerd

Based on publicly available information, Lehman Brothers considered, among other things, the enterprise value of each target company; the enterprise value of each target company as a multiple of the EBITDA of the target company in each case for the latest 12 months, which is referred to as LTM, prior to the date that the transaction was announced, and the premium to the one-day stock price offered in the transaction. Using the drugstore transactions selected, the mean of 11.1x LTM EBITDA yielded an implied valuation for CVS common stock of \$33.28 per share. The following table sets forth the results of this analysis:

Enterprise Value (in millions)

(excluding CVS, unless where noted)

High	\$ 11,833
Low	\$ 491
Mean	\$ 3,345
CVS	\$ 31,822

Enterprise Value/EBITDA

(excluding CVS, unless where noted)

High	18.9x
Low	7.4x
Mean	11.1x
CVS	9.6x

One Day Premium%

(excluding CVS, unless where noted)

High	30.5%
Low	NA
Mean	11.6%
CVS	NA

Selected Pharmacy Benefit Manager Transactions

Using publicly available information, Lehman Brothers reviewed and compared the purchase prices and financial multiples paid in nine acquisitions that took place within the pharmacy benefit manager industry, of companies that Lehman Brothers, based on its experience with merger and acquisition transactions, deemed relevant to arriving at its opinion. Lehman Brothers chose the transactions used in the comparable transaction analysis based on the similarity of the target companies in the transactions to Caremark in the size, mix, margins and other characteristics of their businesses. Lehman Brothers reviewed the following transactions:

Announcement Date	Acquiror	Target
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