

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

- Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2018
OR
 Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____
Commission file number 001-01011



CVS HEALTH CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)
One CVS Drive, Woonsocket, Rhode Island
(Address of principal executive offices)

05-0494040
(I.R.S. Employer Identification No.)
02895
(Zip Code)

(401) 765-1500

(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$0.01 per share
Title of each class

New York Stock Exchange
Name of each exchange on which registered

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the registrant's common stock held by non-affiliates was approximately \$65,262,991,789 as of June 30, 2018, based on the closing price of the common stock on the New York Stock Exchange. For purposes of this calculation, only executive officers and directors are deemed to be the affiliates of the registrant.

As of February 19, 2019, the registrant had 1,297,082,165 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The following materials are incorporated by reference into this Form 10-K:

Portions of the Annual Report to Stockholders for the fiscal year ended December 31, 2018 (the "Annual Report") are incorporated by reference in response to Items 1, 1A, 2 and 3 of Part I and Items 5, 6, 7, 7A, 8 and 9A of Part II, in each case to the extent described therein.

Information contained in the definitive proxy statement for CVS Health Corporation's 2019 Annual Meeting of Stockholders, to be filed on or about April 5, 2019 (the "Proxy Statement"), is incorporated by reference in response to Items 10 through 14 of Part III to the extent described therein.

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PART I

Item 1. Business

Overview

CVS Health Corporation, together with its subsidiaries (collectively, “CVS Health,” the “Company,” “we,” “our” or “us”), is the nation’s premier health innovation company helping people on their path to better health. Whether in one of its pharmacies or through its health services and plans, CVS Health is pioneering a bold new approach to total health by making quality care more affordable, accessible, simple and seamless. CVS Health is community-based and locally focused, engaging consumers with the care they need when and where they need it. The Company has more than 9,900 retail locations, approximately 1,100 walk-in medical clinics, a leading pharmacy benefits manager with approximately 92 million plan members, a dedicated senior pharmacy care business serving more than one million patients per year, expanding specialty pharmacy services, and a leading stand-alone Medicare Part D prescription drug plan. CVS Health also serves an estimated 38 million people through traditional, voluntary and consumer-directed health insurance products and related services, including rapidly expanding Medicare Advantage offerings. The Company believes its innovative health care model increases access to quality care, delivers better health outcomes and lowers overall health care costs.

On November 28, 2018 (the “Aetna Acquisition Date”), the Company acquired Aetna Inc. (“Aetna”) for a combination of cash and CVS Health stock (the “Aetna Acquisition”). The Company acquired Aetna to help improve the consumer health care experience by combining Aetna’s health care benefits products and services with CVS Health’s more than 9,900 retail locations, approximately 1,100 walk-in medical clinics and integrated pharmacy capabilities with the goal of becoming the new, trusted front door to health care. Under the terms of the merger agreement, Aetna shareholders received \$145.00 in cash and 0.8378 CVS Health shares for each Aetna share. The transaction valued Aetna at approximately \$212 per share or approximately \$70 billion. Including the assumption of Aetna’s debt, the total value of the transaction was approximately \$78 billion. The Company financed the cash portion of the purchase price through a combination of cash on hand and by issuing approximately \$45.0 billion of new debt, including senior notes and term loans. For additional information, see Note 2 “Acquisition of Aetna” contained in the “Notes to Consolidated Financial Statements” in the Annual Report, which is incorporated by reference herein.

On October 10, 2018, the Company and Aetna entered into a consent decree with the United States Department of Justice (the “DOJ”) that allowed the Company’s proposed acquisition of Aetna to proceed, provided Aetna agreed to sell its individual standalone Medicare Part D prescription drug plans. As part of the agreement reached with the DOJ, Aetna entered into a purchase agreement with a subsidiary of WellCare Health Plans, Inc. (“WellCare”) for the divestiture of Aetna’s standalone Medicare Part D prescription drug plans effective December 31, 2018. On November 30, 2018, Aetna completed the sale of its standalone Medicare Part D prescription drug plans. Aetna’s standalone Medicare Part D prescription drug plans had an aggregate of approximately 2.3 million members as of December 31, 2018. Aetna will provide administrative services to, and will retain the financial results of, the divested plans through 2019.

As a result of the Aetna Acquisition, the Company added the Health Care Benefits segment, which is the equivalent of the former Aetna Health Care segment. Certain aspects of Aetna’s operations, including products for which the Company no longer solicits or accepts new customers, such as large case pensions and long-term care insurance products, are included in the Company’s Corporate/Other segment. The Company now has four reportable segments: Pharmacy Services, Retail/LTC, Health Care Benefits and Corporate/Other.

Business Strategy

The combined company expects to transform the consumer health care experience and build healthier communities through a new innovative health care model that is local, easier to use, less expensive and puts consumers at the center of their care. The Company believes that improving the consumer’s health care experience will improve consumer engagement with their health which will lead to improved health outcomes and lower total health care costs. The Company believes there are three imperatives to accomplishing this transformation: be local, make it simple and improve health. These imperatives also guide the Company’s five key strategies for delivering medical cost savings for its customers: improve common chronic disease management, reduce unnecessary hospital readmissions, improve the efficiency of the sites at which medical members receive care, optimize primary care delivery and improve the Company’s complex chronic disease management capabilities.

Pharmacy Services Segment

The Pharmacy Services segment provides a full range of pharmacy benefit management (“PBM”) solutions, including plan design offerings and administration, formulary management, retail pharmacy network management services, mail order pharmacy, specialty pharmacy and infusion services, Medicare Part D services, clinical services, disease management services and medical spend management. The Pharmacy Services segment’s clients are primarily employers, insurance companies, unions, government employee groups, health plans, Medicare Part D prescription drug plans (“PDPs”), Medicaid managed care (“Managed Medicaid”) plans, plans offered on public health insurance exchanges (“Public Exchanges”) and private health insurance exchanges (“Private Exchanges” and together with Public Exchanges, “Insurance Exchanges”), other sponsors of health benefit plans and individuals throughout the United States. In addition, the Company is a national provider of drug benefits to eligible beneficiaries under the Medicare Part D prescription drug program. The Pharmacy Services segment operates retail specialty pharmacy stores, specialty mail order pharmacies, mail order dispensing pharmacies, compounding pharmacies and branches for infusion and enteral nutrition services. During the year ended December 31, 2018, the Company’s PBM filled or managed approximately 1.9 billion prescriptions on a 30-day equivalent basis.

PBM Services

The Company dispenses prescription drugs directly through its mail order dispensing and specialty mail order pharmacies and through pharmacies in its retail network. All prescriptions processed by the Company are analyzed, processed and documented by the Company’s proprietary prescription management systems. These systems provide essential features and functionality to allow a plan member to utilize their prescription drug benefits. These systems also streamline the process by which prescriptions are processed by staff and network pharmacists by enhancing review of various items through automation, including plan eligibility, early refills, duplicate dispensing, appropriateness of dosage, drug interactions or allergies, over-utilization and potential fraud.

Plan Design Offerings and Administration

The Company administers pharmacy benefit plans for clients who contract with it to facilitate prescription drug coverage and claims processing for their eligible plan members. The Company assists its PBM clients in designing pharmacy benefit plans that help improve health outcomes while minimizing the costs to the client. The Company also assists PBM clients in monitoring the effectiveness of their plans through frequent, informal communications, the use of proprietary software, as well as through formal annual, quarterly and sometimes monthly performance reviews.

The Company makes recommendations to help PBM clients design benefit plans that promote the use of lower cost, clinically appropriate drugs and helps its PBM clients control costs by recommending plan designs that encourage the use of generic equivalents of brand name drugs when such equivalents are available. Clients also have the option, through plan design, to further lower their pharmacy benefit plan costs by setting different member payment levels for different products on their drug lists or “formularies,” which helps guide members to choose lower cost alternatives through appropriate financial incentives.

Formulary Management

The Company utilizes an independent panel of doctors, pharmacists and other medical experts, referred to as the CVS Caremark National Pharmacy and Therapeutics Committee, to review and approve the selection of drugs that meet the Company’s standards of safety and efficacy for inclusion on one of the Company’s template formularies. The Company’s formularies provide recommended products in numerous drug classes to help ensure member access to clinically appropriate drugs with alternatives within a class under the client’s pharmacy benefit plan, while helping to drive the lowest net cost for clients that select one of the Company’s formularies. To help improve clinical outcomes for members and clients, the Company conducts ongoing, independent reviews of all drugs, including, but not limited to, those appearing on the formularies and generic equivalent products. Many of the Company’s clients choose to adopt a template formulary offering as part of their plan design. Beginning in 2018, clients had new capabilities to offer real time benefits information for a member’s specific plan design, provided digitally at the point of prescribing, at the pharmacy and directly to members.

Retail Pharmacy Network Management Services

The Company maintains a national network of more than 68,000 retail pharmacies, consisting of approximately 41,000 chain pharmacies (which includes CVS Pharmacy locations) and 27,000 independent pharmacies, in the United States, including Puerto Rico, the District of Columbia, Guam and the United States Virgin Islands. When a customer fills a prescription in a retail pharmacy, the pharmacy sends prescription data electronically to the Company from the point-of-sale. This data interfaces with the Company’s proprietary prescription management systems, which verify relevant plan member data and eligibility, while also performing a drug utilization review to help evaluate clinical appropriateness and safety and confirming that the pharmacy will receive payment for the prescription. The Company is also able to build client-specific pharmacy networks and

managed pharmacy network solutions to further drive savings for clients. These include a performance-based pharmacy network with approximately 30,000 stores that is anchored by CVS Pharmacy and Walgreens, along with up to 10,000 independent pharmacies across the United States. The performance-based network is designed to deliver unit cost savings and to improve clinical outcomes in order to help to lower overall health care costs for participating payors and their members.

Mail Order Pharmacy Services

The Pharmacy Services segment operates mail order dispensing pharmacies in the United States. Plan members or their prescribers submit prescriptions or refill requests, primarily for maintenance medications, to these pharmacies via mail, telephone, fax, e-prescribing or the Internet, and staff pharmacists review these prescriptions and refill requests with the assistance of the Company's prescription management systems. This review may involve communications with the prescriber and, with the prescriber's approval when required, can result in generic substitution, therapeutic interchange or other actions designed to help reduce cost and/or improve quality of treatment. The Company's mail order dispensing pharmacies have been awarded Mail Order Pharmacy accreditation from Utilization Review Accreditation Commission ("URAC"), a health care accrediting organization that establishes quality standards for the health care industry.

Specialty Pharmacy and Infusion Services

The Pharmacy Services segment operates specialty mail order pharmacies, retail specialty pharmacy stores and branches for infusion and enteral nutrition services in the United States. These specialty mail order pharmacies are used for delivery of advanced medications to individuals with chronic or genetic diseases and disorders. The Company's specialty mail order pharmacies also have been awarded Specialty Pharmacy accreditation from URAC. Substantially all of the Company's mail service specialty mail order pharmacies also have been accredited by the Joint Commission, which is an independent, not-for-profit organization that accredits and certifies health care programs and organizations in the United States.

Medicare Part D Services

The Company participates in the administration of the Medicare Part D prescription drug program through the provision of PBM services to those health plan clients and other clients that have qualified as a PDP or as a Medicare Advantage prescription drug plan and by offering Medicare Part D pharmacy benefits through its SilverScript subsidiary that is a PDP that has contracted with the United States Centers for Medicare & Medicaid Services ("CMS"). The Company also assists employer, union and other health plan clients that qualify for the retiree drug subsidy made available under Medicare Part D by collecting and submitting eligibility and/or drug cost data to CMS in order for such clients to obtain the subsidy and offers Medicare Part D pharmacy benefits to such clients' retirees through Employer Group Waiver Plans ("EGWPs") sponsored by SilverScript.

Clinical Services

The Company offers multiple clinical programs and services to help clients manage overall pharmacy and health care costs in a clinically appropriate manner. These programs are primarily designed to promote better health outcomes, and to help target inappropriate medication utilization and non-adherence to medication, each of which may result in adverse medical events that negatively affect member health and client pharmacy and medical spend. These programs include utilization management ("UM"), medication management, quality assurance, adherence and counseling programs to complement the client's plan design and clinical strategies. To help address the opioid epidemic, the Company introduced an industry-leading UM approach that limits to seven days the supply of opioids dispensed for certain acute prescriptions for patients who are new to therapy; limits the daily dosage of opioids dispensed based on the strength of the opioid; and requires the use of immediate-release formulations of opioids before extended-release opioids are dispensed. The Company's Pharmacy Advisor program facilitates pharmacist counseling, both face-to-face and over the telephone, to help participating plan members with certain chronic diseases, such as diabetes and cardiovascular conditions, to identify gaps in care, adhere to their prescribed medications and manage their health conditions. The Company also has digital connectivity that helps to lower drug costs for patients by providing expanded visibility to lower cost alternatives through enhanced analytics and data sharing.

Disease Management Programs

The Company's clinical programs and services utilize advanced protocols and offer clients convenience in working with health care providers ("providers") and other third parties. The Company's integrated disease management programs cover diseases such as rheumatoid arthritis, Parkinson's disease, seizure disorders and multiple sclerosis. The majority of these integrated programs are accredited by the National Committee for Quality Assurance ("NCQA"), a private, not-for-profit organization that evaluates, accredits and certifies a wide range of health care organizations.

Medical Benefit Management

The Company's NovoLogix[®] online preauthorization tool helps identify and capture cost savings opportunities for specialty drugs billed under the medical benefit by identifying outliers to appropriate dosages and costs, and helps to ensure clinically appropriate use of specialty drugs.

Pharmacy Services Information Systems

The majority of the Pharmacy Services segment's clients have migrated to a single claim adjudication platform. This platform incorporates architecture that centralizes the data generated from filling mail order prescriptions, adjudicating retail pharmacy claims and delivering other solutions to PBM clients. The Health Engagement Engine[®] technology and proprietary clinical algorithms help connect the various parts of the enterprise and serve an essential role in cost management and health improvement. This capability transforms pharmacy data into actionable interventions at key points of care such as mail and specialty pharmacists to help provide quality care.

Pharmacy Services Clients

The Company's Pharmacy Services clients are primarily employers, insurance companies, unions, government employee groups, health plans, Medicare Part D plans, Managed Medicaid plans and plans offered on public and private health insurance exchanges, other sponsors of health benefit plans and individuals located throughout the United States. Pharmaceuticals are provided to eligible members in benefit plans maintained by clients and utilize the Company's information systems, among other things, to help perform safety checks, drug interaction screening and identify opportunities for generic substitution. Substantially all of the Pharmacy Services segment's revenue is generated from dispensing and managing prescription drugs to eligible members in benefit plans maintained by clients. In 2018, 2017 and 2016, revenues from Aetna accounted for approximately 9.8%, 12.3% and 11.7%, respectively, of the Company's consolidated total revenues. On the Aetna Acquisition Date, Aetna became a wholly-owned subsidiary of CVS Health. Subsequent to the Aetna Acquisition Date, revenues from Aetna will continue to be reported in the Pharmacy Services segment; however, these revenues are eliminated in the consolidated financial statements.

Pharmacy Services Seasonality

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

Pharmacy Services Competition

The Company believes the primary competitive factors in the pharmacy services industry include: (i) the ability to negotiate favorable discounts from drug manufacturers as well as to negotiate favorable discounts from, and access to, retail pharmacy networks; (ii) the ability to identify and apply effective cost management programs utilizing clinical strategies, including the development and utilization of preferred formularies; (iii) the ability to market PBM products and services; (iv) the commitment to provide flexible, clinically-oriented services to clients and be responsive to clients' needs; (v) the quality, scope and costs of products and services offered to clients and their members; and (vi) operational excellence in delivering services. The Pharmacy Services segment has a significant number of competitors (e.g., the Express Scripts business of Cigna Corporation, OptumRx, Prime Therapeutics, MedImpact and Humana) offering PBM services, including large, national PBM companies, PBMs owned by large national health plans and smaller standalone PBMs. References to competitors and other companies throughout this Annual Report on Form 10-K, including the information incorporated by reference herein, are for illustrative or comparison purposes only and do not indicate that these companies are the Company's or any segment's only competitors or closest competitors.

Retail/LTC Segment

The Retail/LTC segment sells prescription drugs and a wide assortment of general merchandise, including over-the-counter drugs, beauty products, cosmetics and personal care products, provides health care services through its MinuteClinic[®] walk-in medical clinics and conducts long-term care ("LTC") pharmacy operations, which distribute prescription drugs and provide related pharmacy consulting and other ancillary services to chronic care facilities and other care settings. Prior to January 2, 2018, the Retail/LTC segment also provided commercialization services under the name RxCrossroads[®]. The Company divested its RxCrossroads subsidiary on January 2, 2018. As of December 31, 2018, the Retail/LTC segment operated more than 9,900 retail locations, over 1,100 MinuteClinic[®] locations as well as online retail pharmacy websites, LTC pharmacies and onsite pharmacies. During the year ended December 31, 2018, the Retail/LTC segment filled approximately 1.3 billion prescriptions

on a 30-day equivalent basis. In December 2018, the Company held approximately 26% of the United States retail pharmacy market.

Retail/LTC Products and Services

A typical retail store sells prescription drugs and a wide assortment of high-quality, nationally advertised brand name and proprietary brand merchandise. Front store categories include over-the-counter drugs, beauty products, cosmetics and personal care products. LTC operations include distribution of prescription drugs and related consulting and ancillary services. The Company purchases merchandise from numerous manufacturers and distributors. The Company believes that competitive sources are readily available for substantially all of the products carried in its retail stores and the loss of any one supplier would not likely have a material effect on the Retail/LTC segment. The Company’s MinuteClinics offer a variety of health care services.

Retail/LTC revenues by major product group are as follows:

	Percentage of Revenues		
	2018	2017	2016
Pharmacy ⁽¹⁾	76.4%	75.0%	75.0%
Front store and other ⁽²⁾	23.6%	25.0%	25.0%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

(1) Pharmacy includes LTC sales and sales in pharmacies within Target Corporation stores.

(2) “Other” represents less than 5% of the “Front store and other” revenue category.

Pharmacy

Pharmacy revenues represented approximately three-fourths of Retail/LTC segment revenues in each of 2018 , 2017 and 2016 . The Company believes that retail pharmacy operations will continue to represent a critical part of the Company’s business due to industry demographics, e.g., an aging American population consuming a greater number of prescription drugs, prescription drugs being used more often as the first line of defense for managing illness, the introduction of new pharmaceutical products, and Medicare Part D growth. The Company believes the retail pharmacy business benefits from investment in both people and technology, as well as innovative collaborations with health plans, PBMs and providers. Given the nature of prescriptions, consumers want their prescriptions filled accurately by professional pharmacists using the latest tools and technology, and ready when promised. Consumers also need medication management programs and better information to help them get the most out of their health care dollars. To assist consumers with these needs, the Company has introduced integrated pharmacy health care services that provide an earlier, easier and more effective approach to engaging consumers in behaviors that can help lower costs, improve health and save lives.

Front Store

Front store revenues reflect the Company’s strategy of innovating with new and unique products and services, using innovative personalized marketing and adjusting the mix of merchandise to match customers’ needs and preferences. A key component of the front store strategy is the ExtraCare[®] card program, which is one of the largest and most successful retail loyalty programs in the United States. The ExtraCare program allows the Company to balance marketing efforts so it can reward its best customers by providing them with automatic sale prices, customized coupons, ExtraBucks[®] rewards and other benefits. The Company continues to launch and enhance new and exclusive brands to create unmatched offerings in beauty products and deliver other unique product offerings, including a full range of high-quality CVS Health and other proprietary brand products that are only available through CVS stores. The Company currently carries approximately 7,000 CVS Health and proprietary brand products, which accounted for approximately 23% of front store revenues during 2018 .

MinuteClinic

As of December 31, 2018 , the Company operated approximately 1,100 MinuteClinic[®] locations in the United States. The clinics are staffed by nurse practitioners and physician assistants who utilize nationally established guidelines to deliver a variety of health care services. Payors value these clinics because they provide convenient, high-quality, cost-effective care, in many cases offering an attractive alternative to more expensive sites of care. As a result, visits paid for by employers, health insurers or other third parties accounted for approximately 91% of MinuteClinic’s total revenues in 2018 . MinuteClinic is collaborating with the Pharmacy Services and Health Care Benefits segments to help meet the needs of CVS Caremark’s client plan members and the Company’s health plan members by offering programs that can improve member health and lower costs.

MinuteClinic is now affiliated with more than 75 major health systems and continues to build a platform that supports primary care.

Long-term Care Pharmacy Operations

The Retail/LTC segment provides LTC pharmacy services through the Omnicare business. Omnicare's customers consist of skilled nursing facilities, assisted living facilities, independent living communities, hospitals, correctional facilities, and other health care service providers. The Company provides pharmacy consulting, including monthly patient drug therapy evaluations, to assist in compliance with state and federal regulations and provide proprietary clinical and health management programs. It also provides pharmaceutical case management services for retirees, employees and dependents who have drug benefits under corporate-sponsored health care programs.

Onsite Pharmacies

The Company also operates a limited number of pharmacies located at client sites, which provide certain health plan members and customers with a convenient alternative for filling their prescriptions.

Retail Store Development

The addition of new retail locations has played, and will continue to play, a key role in the Company's continued growth and success. The Company's store development program focuses on three areas: entering new markets, adding stores within existing markets and relocating stores to more convenient sites. During 2018, the Company opened 145 new retail locations, relocated approximately 35 stores and closed approximately 30 locations. During the last five years, the Company opened approximately 900 new and relocated locations, and acquired approximately 1,825 locations, including the pharmacies acquired from Target Corporation ("Target") in 2015. The Company believes that continuing to grow its store base appropriately and locate retail stores in more accessible markets are essential components of competing effectively in the current health care environment. As a result, the Company believes that its store development program is an integral part of its ability to meet the needs of customers and maintain its leadership position in the retail pharmacy market given the changing health care landscape.

Retail/LTC Information Systems

The Company has continued to invest in information systems to enable it to deliver exceptional customer service, enhance safety and quality, and expand patient care services while lowering operating costs. The proprietary WeCARE Workflow supports pharmacy teams by prioritizing work to meet customer expectations, facilitating prescriber outreach, and seamlessly integrating clinical programs. This solution delivers improved efficiency and enhances the customer experience, as well as providing a framework to accommodate the evolution of pharmacy practice and the expansion of clinical programs. The Health Engagement Engine technology and proprietary clinical algorithms enable the Company to help identify opportunities for pharmacists to deliver face-to-face counseling regarding patient health and safety matters, including adherence issues, gaps in care and management of certain chronic health conditions. The Company's digital strategy is to empower the consumer to navigate their pharmacy experience and manage their condition through integrated online and mobile solutions that offer utility and convenience. The Company's LTC digital technology suite, Omniview[®], improves the efficiency of customers' operations with tools that include executive dashboards, pre-admission pricing, electronic ordering of prescription refills, proof-of-delivery tracking, access to patient profiles, receipt and management of facility bills, and real-time validation of Medicare Part D coverage, among other capabilities.

Retail/LTC Customers

The success of the Retail/LTC segment's businesses is dependent upon the Company's ability to establish and maintain contractual relationships with pharmacy benefit managers and other payors on acceptable terms. Pharmacy benefit managers, managed care organizations, government funded health care programs, commercial employers and other third party payors accounted for 99.5% of the Retail/LTC segment's pharmacy revenues. No single Retail/LTC payor accounted for 10% or more of the Company's consolidated total revenues in 2018, 2017 or 2016.

Retail/LTC Seasonality

The majority of Retail/LTC segment revenues, particularly pharmacy revenues, generally are not seasonal in nature. However, front store revenues tend to be higher during the December holiday season. In addition, both pharmacy and front store revenues are affected by the timing and severity of the cough, cold and flu season. Uncharacteristic or extreme weather conditions also can adversely affect consumer shopping patterns and Retail/LTC revenues, expenses and results of operations.

Retail/LTC Competition

The retail drugstore business is highly competitive. The Company believes that it competes principally on the basis of: (i) store location and convenience, (ii) customer service and satisfaction, (iii) product selection and variety, and (iv) price. In the markets it serves, the Company competes with other drugstore chains (e.g., Walgreens and Rite Aid), supermarkets, discount retailers (e.g., Wal-Mart), independent pharmacies, restrictive pharmacy networks, membership clubs, Internet companies, and retail health clinics (including urgent care centers), as well as mail order dispersing pharmacies.

LTC pharmacy services are highly regional or local in nature, and within a given geographic area of operation, highly competitive. The Company's largest LTC pharmacy competitor nationally is PharMerica. The Company also competes with numerous local and regional institutional pharmacies, pharmacies owned by long-term care facilities and local retail pharmacies. Some states have enacted "freedom of choice" or "any willing provider" requirements as part of their state Medicaid programs or in separate legislation, which may increase the competition that the Company faces in providing services to long-term care facility residents in these states.

References to competitors and other companies throughout this Annual Report on Form 10-K, including the information incorporated by reference herein, are for illustrative or comparison purposes only and do not indicate that these companies are the Company's or any segment's only competitors or closest competitors.

Health Care Benefits Segment

The Health Care Benefits segment is one of the nation's leading diversified health care benefits providers, serving an estimated 38 million people as of December 31, 2018. The Health Care Benefits segment has the information and resources to help members, in consultation with their health care professionals, make better informed decisions about their health care. The Health Care Benefits segment offers a broad range of traditional, voluntary and consumer-directed health insurance products and related services, including medical, pharmacy, dental, behavioral health, medical management capabilities, Medicare Advantage and Medicare Supplement plans, PDPs, Medicaid health care management services, workers' compensation administrative services and health information technology ("HIT") products and services. The Health Care Benefits segment's customers include employer groups, individuals, college students, part-time and hourly workers, health plans, health care providers, governmental units, government-sponsored plans, labor groups and expatriates.

Health Care Benefits Products and Services

The Company refers to insurance products (where it assumes all or a majority of the risk for medical and dental care costs) as "Insured" and administrative services contract products (where the plan sponsor assumes all or a majority of the risk of medical and dental care costs) as "ASC." Health Care Benefits products and services consist of the following:

- *Commercial Medical* : The Health Care Benefits segment offers point-of-service ("POS"), preferred provider organization ("PPO"), health maintenance organization ("HMO") and indemnity benefit ("Indemnity") plans. Commercial medical products also include health savings accounts ("HSAs") and consumer-directed health plans that combine traditional POS or PPO and/or dental coverage, subject to a deductible, with an accumulating benefit account (which may be funded by the plan sponsor and/or the member in the case of HSAs). Principal products and services are targeted specifically to large multi-site national, mid-sized and small employers, individual insureds and expatriates. The Company offers medical stop loss insurance coverage for certain employers who elect to self-insure their health benefits. Under this product, the Company assumes risk for costs associated with large individual claims and/or aggregate loss experience within an employer's plan above a pre-set annual threshold.
- *Government Medical* : In select geographies, the Health Care Benefits segment offers Medicare Advantage plans, Medicare Supplement plans and prescription drug coverage for Medicare beneficiaries; participates in Medicaid and subsidized Children's Health Insurance Programs ("CHIP"); and participates in demonstration projects for members who are eligible for both Medicare and Medicaid ("Duals"). These Government Medical products are further described below:
 - *Medicare Advantage and PDP*: Through annual contracts with CMS, the Company offers HMO and PPO products for eligible individuals in certain geographic areas through the Medicare Advantage program. Members typically receive enhanced benefits over traditional fee-for-service Medicare coverage ("Original Medicare"), including reduced cost-sharing for preventive care, vision and other services. The Company offered network-based HMO and/or PPO plans in 1,317 counties in 40 states and Washington, D.C. in 2018. The Company has expanded to 1,416 counties in 45 states and Washington, D.C. for 2019. The Company is a national provider of drug benefits under the Medicare Part D prescription drug program to both individuals and EGWPs. All Medicare eligible individuals are eligible to participate in this voluntary prescription drug plan. Members typically receive

coverage for certain prescription drugs, usually subject to a deductible, co-insurance and/or co-payment. On November 30, 2018, Aetna completed the sale of all of its standalone Medicare Part D prescription drug plans to WellCare effective on December 31, 2018. Aetna will provide administrative services to, and retain the financial results of, the divested plans through 2019. For certain qualifying employer groups, the Company offers Medicare PPO products nationally. When combined with the Company's PDP product, these national PPO plans form an integrated national Insured Medicare product for employers that provides medical and pharmacy benefits.

- *Medicare Supplement*: For certain Medicare eligible members, the Company offers supplemental coverage for certain health care costs not covered by Original Medicare. The products included in the Medicare Supplement portfolio help to cover some of the gaps in Original Medicare, and include coverage for Medicare deductibles and coinsurance amounts. The Company offered a wide selection of Medicare Supplement products in 49 states and Washington, D.C. in 2018 .
- *Medicaid and CHIP*: The Company offers health care management services to individuals eligible for Medicaid and CHIP under multi-year contracts with government agencies in various states that are subject to annual appropriations. CHIP are state-subsidized insurance programs that provide benefits for families with uninsured children. The Company offered these services on an Insured or ASC basis in 16 states in 2018 .
- *Duals*: The Company provides health coverage to beneficiaries who are dually eligible for both Medicare and Medicaid coverage. These members must meet certain income and resource requirements in order to qualify for this coverage. The Company coordinates 100% of the care for these members and may provide them with additional services in order to manage their health care costs. During 2018 , the Company offered services on an Insured basis to Duals in four states under demonstration projects.
- *Pharmacy* : The Company offers PBM services and specialty and home delivery pharmacy services. The Company also performs various PBM services for Aetna pharmacy customers consisting of: product development, Commercial formulary management, pharmacy rebate contracting and administration, sales and account management and precertification programs. The Pharmacy Services segment performs the administration of selected functions for retail pharmacy network contracting and claims administration; home delivery and specialty pharmacy order fulfillment and inventory purchasing and management; and certain administrative services. Other suppliers also provide certain PBM services.
- *Specialty* : The Health Care Benefits segment has a portfolio of additional health products and services that complement its medical products such as dental plans, behavioral health and employee assistance products, provider network access and vision products and workers' compensation administrative services.
- *Consumer Health Products and Services* : The Company has a portfolio of products and services aimed at creating a holistic and integrated approach to individual health and wellness. These products and services complement the Commercial Medical and Government Medical products and enable enhanced delivery to and experience for customers.

Health Care Benefits Provider Networks

The Company contracts with physicians, hospitals and other providers for services they provide to members. The Company uses a variety of techniques designed to help encourage appropriate utilization of medical services ("utilization") and maintain affordability of quality coverage. In addition to contracts with providers for negotiated rates of reimbursement, these techniques include creating risk sharing arrangements that align economic incentives with providers, the development and implementation of guidelines for the appropriate utilization of medical services and the provision of data to providers to enable them to improve health care quality. At December 31, 2018 , the Company's underlying nationwide provider network had approximately 1.3 million participating providers, including over 697 thousand primary care and specialist physicians and approximately 5,700 hospitals. Other providers in the Company's provider networks also include laboratory, imaging, urgent care and other freestanding health facilities.

Health Care Benefits Quality Assessment

CMS uses a 5-star rating system to monitor Medicare health care and drug plans and ensure that they meet CMS's quality standards. CMS uses this rating system to provide Medicare beneficiaries with a tool that they can use to compare the overall quality of care and level of customer service of companies that provide Medicare health care and drug plans. The rating system considers a variety of measures adopted by CMS, including quality of preventative services, chronic illness management and overall customer satisfaction. See "Health Care Benefits Pricing" below in this Item 1 for further discussion of star ratings. The Company seeks Health Plan accreditation for Aetna HMO plans from the NCQA. Health care plans seeking accreditation must pass a rigorous, comprehensive review and must annually report on their performance.

Aetna Life Insurance Company (“ALIC”), a wholly-owned subsidiary of the Company, has received nationwide NCQA PPO Health Plan accreditation. As of December 31, 2018, all of the Company’s Commercial HMO and all of ALIC’s PPO members who were eligible participated in HMOs or PPOs that are accredited by the NCQA.

The Company’s provider selection and credentialing/re-credentialing policies and procedures are consistent with NCQA and URAC, as well as state and federal requirements. In addition, the Company is certified under the NCQA Credentials Verification Organization (“CVO”) certification program for all certification options and has URAC CVO accreditation.

Quality assessment programs for contracted providers who participate in the Company’s networks begin with the initial review of health care practitioners. Practitioners’ licenses and education are verified, and their work history is collected by the Company or in some cases by the practitioner’s affiliated group or organization. The Company generally requires participating hospitals to be certified by CMS or accredited by the Joint Commission, the American Osteopathic Association, or Det Norske Veritas Healthcare.

The Company also offers quality and outcome measurement programs, quality improvement programs, and health care data analysis systems to providers and purchasers of health care services.

Health Care Benefits Information Systems

The Health Care Benefits segment currently operates and supports an end to end suite of information technology platforms to support member engagement, enrollment, health benefit administration, care management, service operations, financial reporting and analytics. The multiple platforms are supported by an integration layer to facilitate the transfer of real-time data. There is continued focus and investment in digital products to offer innovative solutions and a seamless experience to the Company’s members through mobile and web channels. Capabilities available to members include digital wallet, provider search, cost transparency and behavioral monitoring. The Health Care Benefits segment care management solution supports the Company’s clinicians with data and recommendations. The Company continues to scale its clinical platform and its local personalized care model. The Company aims to build an integrated 360 degree view of the member to ensure that it can guide them through their healthcare journey and provide them a high level of service. Through its analytics platform the Company is beginning to harness the power of data to help drive healthier outcomes and proactive care and enable consumers to take the next best action for their health.

Health Care Benefits Customers

Medical membership is dispersed throughout the United States, and the Company also serves medical members in certain countries outside the United States. See Note 17 “Segment Reporting” contained in the “Notes to Consolidated Financial Statements” in the Annual Report, which is incorporated by reference herein, for additional information on foreign customers. The Company offers a broad range of traditional, voluntary and consumer-directed health insurance products and related services, many of which are available nationwide. Depending on the product, the Company markets to a range of customers including employer groups, individuals, college students, part-time and hourly workers, health plans, providers, governmental units, government-sponsored plans, labor groups and expatriates.

The following table presents total medical membership by United States and other geographic region and funding arrangement at December 31, 2018 :

<i>In thousands</i>	Insured	ASC	Total
Northeast	1,961	3,232	5,193
Southeast	1,752	2,886	4,638
Mid-America	1,632	2,530	4,162
West	1,618	4,510	6,128
Other	587	1,393	1,980
Total medical membership	7,550	14,551	22,101

For additional information on medical membership, see the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Health Care Benefits Segment” in the Annual Report, which section is incorporated by reference herein.

The Company markets both Commercial Insured and ASC products and services primarily to employers that sponsor the Company's products for the benefit of their employees and their employees' dependents. Frequently, larger employers offer employees a choice among coverage options, from which the employee makes his or her selection during a designated annual open enrollment period. Typically, employers pay all of the monthly premiums to the Company and, through payroll deductions, obtain reimbursement from employees for a percentage of the premiums that is determined by each employer. Some Health Care Benefits products are sold directly to employees of employer groups on a fully employee-funded basis. In some cases, the Company bills the covered individual directly.

The Company offers Insured Medicare coverage on an individual basis as well as through employer groups to their retirees. Medicaid and CHIP members are enrolled on an individual basis. The Company also offers Insured health care coverage to members who are dually-eligible for both Medicare and Medicaid.

Health Care Benefits products are sold through the Company's sales personnel; through independent brokers, agents and consultants who assist in the production and servicing of business; and Private Exchanges. For large plan sponsors, independent consultants and brokers are frequently involved in employer health plan selection decisions and sales. In some instances, the Company may pay commissions, fees and other amounts to brokers, agents, consultants and sales representatives who place business with the Company. In certain cases, the customer pays the broker for services rendered, and the Company may facilitate that arrangement by collecting the funds from the customer and transmitting them to the broker. The Company supports marketing and sales efforts with an advertising program that may include television, radio, billboards, print media and social media, supplemented by market research and direct marketing efforts.

The United States federal government is a significant customer of the Health Care Benefits segment through contracts with CMS for coverage of Medicare-eligible individuals, federal employee-related benefit programs and Medicaid products and services. Other than the contracts with CMS, the Health Care Benefits segment is not dependent upon a single customer or a few customers the loss of which would have a significant effect on the earnings of the segment. The loss of business from any one, or a few, independent brokers or agents would not have a material adverse effect on the earnings of the Health Care Benefits segment. For additional information, see Note 17 "Segment Reporting" contained in the "Notes to Consolidated Financial Statements" in the Annual Report, which is incorporated by reference herein.

Health Care Benefits Pricing

For Commercial Insured plans, contracts containing the pricing and other terms of the relationship are generally established in advance of the policy period and typically have a duration of one year. Fees under ASC plans are generally fixed for a period of one year.

Generally, a fixed premium rate is determined at the beginning of the policy period for Commercial Insured plans. The Company typically cannot recover unanticipated increases in health care and other benefit costs in the current policy period; however, it may consider prior experience for a product in the aggregate or for a specific customer, among other factors, in determining premium rates for future policy periods. Where required by state laws, premium rates are filed and approved by state regulators prior to contract inception. Future results of operations could be adversely affected if the premium rates requested are not approved or are adjusted downward or their approval is delayed by state or federal regulators.

The Company has Medicare Advantage and PDP contracts with CMS to provide HMO, PPO and prescription drug coverage to Medicare beneficiaries in certain geographic areas. Under these annual contracts, CMS pays the Company a fixed capitation payment and/or a portion of the premium, both of which are based on membership and adjusted for demographic and health risk factors. CMS also considers inflation, changes in utilization patterns and average per capita fee-for-service Medicare costs in the calculation of the fixed capitation payment or premium. PDP contracts also provide a risk-sharing arrangement with CMS to limit the Company's exposure to unfavorable expenses or benefit from favorable expenses. Amounts payable to the Company under the Medicare arrangements are subject to annual revision by CMS, and the Company elects to participate in each Medicare service area or region on an annual basis. Premiums paid to the Company for Medicare products are subject to federal government reviews and audits, which can result, and have resulted, in retroactive and prospective premium adjustments and refunds to the government and/or members. In addition to payments received from CMS, some of Medicare Advantage products and all PDP products require a supplemental premium to be paid by the member or sponsoring employer. In some cases these supplemental premiums are adjusted based on the member's income and asset levels. Compared to Commercial Medical products, Medicare contracts generate higher per member per month revenues and health care and other benefit costs.

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, the "ACA") ties a portion of each Medicare Advantage plan's reimbursement to the plan's "star ratings." Since 2015, plans must have a star rating of four or higher (out of five) to qualify for a quality bonus in their basic premium rates. CMS released 2019

star ratings in October 2018. The 2019 star ratings will be used to determine which Medicare Advantage plans have ratings of four stars or higher and qualify for bonus payments in 2020. Based on membership at December 31, 2018, 79% of the Company's Medicare Advantage members were in plans with 2019 star ratings of at least 4.0 stars.

Rates for Medicare Supplement products are regulated at the state level and vary by state and plan.

Under Insured Medicaid contracts, state government agencies pay the Company fixed monthly rates per member that vary by state, line of business and demographics; and the Company arranges, pays for and manages the health care services provided to Medicaid beneficiaries. These rates are subject to change by each state, and, in some instances, provide for adjustment for health risk factors. CMS requires these rates to be actuarially sound. The Company also receives fees from customers where it provides services under ASC Medicaid contracts. ASC Medicaid contracts generally are for periods of more than one year, and certain of them contain performance incentives and limited financial risk sharing with respect to certain medical, financial and operational metrics. Under these arrangements, performance is evaluated annually, with associated financial incentive opportunities, and financial risk share obligations are typically limited to a percentage of the fees otherwise payable to the Company. Payments to the Company under Medicaid contracts are subject to the annual appropriation process in the applicable state.

Under Duals contracts, the rate setting process is generally established by CMS in partnership with the state government agency participating in the demonstration project. Both CMS and the state government agency may seek premium and other refunds under certain circumstances, including if the Company fails to comply with CMS regulations or other contractual requirements.

The Company offers HMO and consumer-directed medical and dental plans to federal employees under the Federal Employees Health Benefits ("FEHB") Program and the Federal Employees Dental and Vision Insurance Program. Premium rates and fees for those plans are subject to federal government review and audit, which can result, and have resulted, in retroactive and prospective premium and fee adjustments and refunds to the government and/or members.

Beginning in 2014, the ACA imposed significant new industry-wide fees, assessments and taxes, including an annual levy called the Health Insurer Fee (the "HIF"). In December 2015, the Consolidated Appropriation Act was enacted, which included a one year suspension of the HIF for 2017. In January 2018, the HIF was suspended for 2019. For additional information on the ACA fees, assessments and taxes, see Note 1 "Significant Accounting Policies" contained in the "Notes to Consolidated Financial Statements" in the Annual Report, which is incorporated by reference herein. The Company's goal is to collect in premiums and fees where possible, or solve for all of these ACA-related fees, assessments and taxes.

Health Care Benefits Seasonality

The majority of Health Care Benefits segment revenues are not seasonal in nature. However, the Health Care Benefits segment's quarterly operating income progression is impacted by (i) the seasonality of benefit costs which generally increase during the year as Insured members progress through their annual deductibles and out-of-pocket expense limits and (ii) the seasonality of operating expenses which are generally the highest during the fourth quarter due to increased marketing spending associated with Medicare annual enrollment. As a result, the Health Care Benefits segment's operating income generally is the highest in the first quarter of the year and lowest in the fourth quarter of the year.

Health Care Benefits Competition

The health care benefits industry is highly competitive, primarily due to a large number of for-profit and not-for-profit competitors, competitors' marketing and pricing and a proliferation of competing products, including new products that are continually being introduced into the marketplace. New entrants into the marketplace, as well as consolidation within the industry, have contributed to and are expected to intensify the competitive environment. In addition, the rapid pace of change as the industry evolves towards a consumer-focused retail marketplace, including Public and Private Exchanges, and the increased use of technology to interact with members, providers and customers, increase the risks currently faced from new entrants and disruptive actions by existing competitors compared to prior periods. References to competitors and other companies throughout this Annual Report on Form 10-K, including the information incorporated by reference herein, are for illustrative or comparison purposes only and do not indicate that these companies are the Company's or any segment's only competitors or closest competitors.

The Company believes that the significant factors that distinguish competing health plans include the perceived overall quality (including accreditation status), quality of service, comprehensiveness of coverage, cost (including premium rates, provider discounts and member out-of-pocket costs), product design, financial stability and ratings, breadth and quality of

provider networks, ability to offer different provider network options, providers available in such networks, and quality of member support and care management programs. The Company believes that it is competitive on each of these factors. The Company's ability to increase the number of persons covered by its health plans or to increase Health Care Benefits segment revenues is affected by its ability to differentiate itself from its competitors on these factors. Competition may also affect the availability of services from health care providers, including primary care physicians, specialists and hospitals.

Insured products compete with local and regional health care benefits plans, health care benefits and other plans sponsored by other large commercial health care benefit insurance companies, health system owned health plans, new entrants into the marketplace and numerous for-profit and not-for-profit organizations operating under licenses from the Blue Cross and Blue Shield Association. The largest competitor in Medicare products is Original Medicare. Additional Health Care Benefits segment competitors include other types of medical and dental provider organizations, various specialty service providers (including PBM services providers), health care consultants, financial services companies, integrated health care delivery organizations (networks of providers who also coordinate administrative services for and assume insurance risk of their members), third party administrators ("TPAs"), HIT companies and, for certain plans, programs sponsored by the federal or state governments. Emerging competitors include start up health care benefits plans, technology companies, provider-owned health plans, new joint ventures (including not-for-profit joint ventures among firms from multiple industries), technology firms, financial services firms that are distributing competing products on their proprietary Private Exchanges, and consulting firms that are distributing competing products on their proprietary Private Exchanges, as well as non-traditional distributors such as retail companies. The Company's ability to increase the number of persons enrolled in Insured Commercial Medical products also is affected by the desire and ability of employers to self-fund their health coverage.

The Health Care Benefits segment's ASC plans compete primarily with other large commercial health care benefit companies, numerous for-profit and not-for-profit organizations operating under licenses from the Blue Cross and Blue Shield Association and TPAs.

The Health Care Benefits segment's international products compete with local, global and United States based health plans and commercial health care benefit insurance companies, many of whom have a longer operating history and better brand recognition and greater marketplace presence in one or more geographies.

The provider solutions and HIT marketplaces and products are evolving rapidly. The Company competes for provider solutions and HIT business with other large health plans and commercial health care benefit insurance companies as well as information technology companies and companies that specialize in provider solutions and HIT. Many information technology product competitors have longer operating histories, better brand recognition, greater marketplace presence and more experience in developing innovative products.

In addition to competitive pressures affecting the Company's ability to obtain new customers or retain existing customers, the Health Care Benefits segment's medical membership has been and may continue to be adversely affected by adverse and/or uncertain economic conditions and reductions in workforce by existing customers due to adverse and/or uncertain general economic conditions, especially in the United States and industries where such membership is concentrated.

Health Care Benefits Reinsurance

The Company currently has several reinsurance agreements with non-affiliated insurers that relate to Health Care Benefits insurance policies. The Company entered into these contracts to reduce the risk of catastrophic losses which in turn reduces capital and surplus requirements. The Company frequently evaluates reinsurance opportunities and refines its reinsurance and risk management strategies on a regular basis.

Corporate/Other Segment

The Company presents the remainder of its financial results in the Corporate/Other segment, which consists of:

- Management and administrative expenses to support the overall operations of the Company, which include certain aspects of executive management and the corporate relations, legal, compliance, human resources, information technology and finance departments; and
- Products for which the Company no longer solicits or accepts new customers such as large case pensions and long-term care insurance products.

Generic Sourcing Venture

The Company and Cardinal Health, Inc. (“Cardinal”) each have a 50% ownership in Red Oak Sourcing, LLC (“Red Oak”), a generic pharmaceutical sourcing entity. Under this arrangement, the Company and Cardinal contributed their sourcing and supply chain expertise to Red Oak and agreed to source and negotiate generic pharmaceutical supply contracts for both companies through Red Oak. Red Oak does not own or hold inventory on behalf of either company.

Working Capital Practices

The Company funds the growth of its businesses through a combination of cash flow from operations, commercial paper and other short-term borrowings, proceeds from sale-leaseback transactions and long-term borrowings. For additional information on the Company’s working capital practices, see the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources” in the Annual Report, which section is incorporated by reference herein. The majority of the Retail/LTC segment non-pharmacy revenues are paid in cash, or with debit or credit cards. Managed care organizations, pharmacy benefit managers, government funded health care programs, commercial employers and other third party insurance programs, which represent the vast majority of the Company’s consolidated pharmacy revenues, typically settle in less than 30 days. With the exception of the Medicare Part D services, described further below, the remainder of the Company’s consolidated pharmacy revenues are paid in cash, or with debit or credit cards. Employer groups, individuals, college students, part-time and hourly workers, health plans, providers, governmental units, government-sponsored plans (with the exception of Medicare Part D services, which are described below), labor groups and expatriates, which represent the vast majority of Health Care Benefits segment revenues, typically settle in less than 30 days. As a provider of Medicare Part D services, the Company contracts annually with CMS. Utilization of services each plan year results in the accumulation of either a receivable from or a payable to CMS. The timing of settlement of the receivable or payable with CMS takes several quarters which impacts working capital from year to year.

Colleague Development

As of December 31, 2018, the Company employed approximately 295,000 colleagues in 50 states, the District of Columbia, Puerto Rico and a number of countries outside the United States. To deliver the highest levels of service to customers, the Company devotes considerable time and attention to its people and service standards. The Company emphasizes attracting and training knowledgeable, friendly and helpful associates to work in the organization.

Intellectual Property

The Company has registered and/or applied to register a variety of trademarks and service marks used throughout its businesses, as well as domain names, and relies on a combination of copyright, patent, trademark and trade secret laws, in addition to contractual restrictions, to establish and protect the Company’s proprietary rights. The Company regards its intellectual property as having significant value in the Pharmacy Services, Retail/LTC and Health Care Benefits segments. The Company is not aware of any facts that could materially impact the continuing use of any of its intellectual property.

Government Regulation

Overview

The Company’s operations are subject to comprehensive federal, state and local laws and regulations and comparable multiple levels of international regulation in the jurisdictions in which it does business. There also continues to be a heightened level of review and/or audit by federal, state and international regulators of the health and related benefits industry’s business and reporting practices. In addition, many of the Company’s PBM clients and the Company’s payors in the Retail/LTC Segment, including insurers, Medicare Part D plans, Managed Medicaid plans and managed care organizations (“MCOs”), are themselves subject to extensive regulations that affect the design and implementation of prescription drug benefit plans that they sponsor. Similarly, the Company’s LTC clients, such as skilled nursing facilities, are subject to government regulations, including many of the same government regulations to which the Company is subject.

The laws and rules governing the Company’s businesses and interpretations of those laws and rules continue to expand and become more restrictive each year and are subject to frequent change. The application of these complex legal and regulatory requirements to the detailed operation of the Company’s businesses creates areas of uncertainty. Further, there are numerous proposed health care laws and regulations at the federal, state and international levels, some of which could adversely affect the Company’s businesses if they are enacted. The Company cannot predict whether pending or future federal or state legislation or

court proceedings, including future United States Congressional appropriations, will change various aspects of the industries in which it operates or the health care industry generally or the impact those changes will have on the Company's businesses, results of operations and/or cash flows, but the effects could be materially adverse. Any failure or alleged failure to comply with applicable laws and regulations as summarized below, or any adverse applications or interpretations of, or changes in, the laws and regulations affecting the Company and/or its businesses, could have a material adverse effect on the Company's results of operations, financial condition and/or cash flows. See Item 3, "Legal Proceedings" for further information.

The Company cannot give any assurances that its businesses, financial condition, results of operations and/or cash flows will not be materially adversely affected, or that it will not be required to materially change its business practices, based on: (i) future enactment of new health care or other laws or regulations; (ii) the interpretation or application of existing laws or regulations, including the laws and regulations described in this Government Regulation section, as they may relate to one or more of the Company's businesses, one or more of the industries in which it operates and/or the health care industry generally; (iii) pending or future federal or state governmental investigations of one or more of the Company's businesses, one or more of the industries in which it operates and/or the health care industry generally; (iv) pending or future government audits, investigations or enforcement actions against the Company; (v) adverse developments in any pending *qui tam* lawsuit against the Company, whether sealed or unsealed, or in any future *qui tam* lawsuit that may be filed against the Company; or (vi) adverse developments in other pending or future legal proceedings against the Company or affecting one or more of the industries in which it operates and/or the health care industry generally.

Laws and Regulations Related to Multiple Segments of the Company's Business

Laws Related to Reimbursement by Government Programs - The Company is subject to various federal and state laws concerning its submission of claims for reimbursement by Medicare, Medicaid and other federal and state government-sponsored health care programs. Potential sanctions for violating these laws include recoupment or reduction of government reimbursement amounts, civil penalties, treble damages, and exclusion from participation in government health care programs. Such laws include the federal False Claims Act (the "False Claims Act"), the federal anti-kickback statute, state false claims acts and anti-kickback statutes in most states, the federal "Stark Law" and related state laws. In particular, the False Claims Act prohibits intentionally submitting, conspiring to submit, or causing to be submitted, false claims, records, or statements to the federal government, or intentionally failing to return overpayments, in connection with reimbursement by federal government programs. In addition, any claim for government reimbursement also violates the False Claims Act where it results from a violation of the federal anti-kickback statute.

Both federal and state false claims laws permit private individuals to file *qui tam* or "whistleblower" lawsuits on behalf of the federal or state government. Participants in the health and related benefits industry, including the Company, frequently are subject to actions under the False Claims Act or similar state laws. The federal Stark Law generally prohibits physicians from referring Medicare or Medicaid beneficiaries for certain services, including outpatient prescription drugs, to any entity with which the physician, or an immediate family member of the physician, has a financial relationship. The Stark Law further prohibits the entity receiving a prohibited referral from presenting a claim for reimbursement by Medicare or Medicaid for services furnished pursuant to the prohibited referral. Various states have enacted similar laws.

The ACA - The ACA made broad-based changes to the United States health care system. If the ACA is not further amended, repealed or replaced, certain of its components will continue to be phased in until 2022. While the Company anticipates continued efforts in 2019 and beyond to invalidate, modify, repeal or replace the ACA, the Company expects aspects of the ACA to continue to significantly impact its business operations and results of operations, including pricing, medical benefit ratios ("MBRs") and the geographies in which the Company's products are available.

While most of the significant aspects of the ACA became effective during or prior to 2014, parts of the ACA continue to evolve through the promulgation of executive orders, regulations and guidance as well as ongoing litigation. Additional changes to the ACA and those regulations and guidance at the federal and/or state level are likely, and those changes are likely to be significant. Growing federal and state budgetary pressures make it more likely that any changes, including changes at the state level in response to changes to, or invalidation, repeal or replacement of, the ACA and/or changes in the funding levels and/or payment mechanisms of federally supported benefit programs, will be adverse to us. For example, if any elements of the ACA are invalidated or repealed at the federal level, the Company expects that some states would seek to enact similar requirements, such as prohibiting pre-existing condition exclusions, prohibiting rescission of insurance coverage, requiring coverage for dependents up to age 26, requiring guaranteed renewability of insurance coverage and prohibiting lifetime limits on insurance coverage.

The expansion of health care coverage contemplated by the ACA is being funded in part by reductions to the reimbursements the Company and other health plans are paid by the federal government for Medicare members, among other sources. While not all-inclusive, the following are some of the key provisions of the ACA (assuming it continues to be implemented in its current form) that become effective on or after January 1, 2019. The Company continues to evaluate these provisions and the related regulations and regulatory guidance to determine the impact that they will have on its business operations and results of operations:

- The imposition on the Company and other health insurers, health plans and other market participants of significant fees, assessments and taxes, including an annual non-tax deductible industry-wide HIF that was \$14.3 billion for 2018 and has been suspended for 2019. As currently enacted, the HIF will apply for 2020, be higher for 2020 than for 2018 and increase in 2021 and annually thereafter.
- A non-tax deductible 40% excise tax on employer-sponsored health care benefits above a certain threshold beginning in 2022.
- Reduced funding for Medicaid expansion, which began in 2017.

The ACA also specifies minimum medical loss ratios (“MLRs”) for Commercial and Medicare Insured products, specifies features required to be included in Commercial benefit designs, limits Commercial individual and small group rating and pricing practices, encourages additional competition (including potential incentives for new market entrants) and significantly increases federal and state oversight of health plans, including regulations and processes that could delay or limit the Company’s ability to appropriately increase its health plan premium rates. This in turn could adversely affect the Company’s ability to continue to participate in certain product lines and/or geographies that it serves today.

Potential repeal of the ACA, ongoing legislative, regulatory and administrative policy changes to the ACA, the results of congressional and state level elections, the December 2018 U.S. District Court decision invalidating the ACA and other pending litigation challenging aspects of the law or funding for the law and federal budget negotiations continue to create uncertainty about the ultimate impact of the ACA. The pending litigation challenging the ACA includes challenges by various states of the federal government’s decision to curtail payments related to the Cost-Sharing Subsidy Program. The time frame for conclusion and final outcome and ultimate impact of this litigation are uncertain. Given the inherent difficulty of foreseeing the nature and scope of future changes to the ACA and how states, businesses and individuals will respond to those changes, the Company cannot predict the impact on it of future changes to the ACA. It is reasonably possible that invalidation, repeal or replacement of or other changes to the ACA and/or states’ responses to such changes, in the aggregate, could have a significant adverse effect on the Company’s businesses, results of operations and cash flows.

Medicare Regulation - The Company’s Medicare Advantage products compete directly with Original Medicare and Medicare Advantage products offered by other Medicare Advantage organizations and Medicare Supplement products offered by other insurers. The Company’s Medicare PDP and Medicare Supplement products are products that Medicare beneficiaries who are enrolled in Original Medicare purchase to enhance their Original Medicare coverage.

The Company continues to expand the number of counties in which it offers Medicare products. The Company expects to further expand its Medicare service area and products in 2019 and is seeking to substantially grow its Medicare membership, revenue and results of operations over the next several years, including through growth in Medicare Supplement products. The anticipated organic expansion of the Medicare service area and Medicare products offered and the Medicare-related provisions of the ACA significantly increase the Company’s exposure to funding and regulation of, and changes in government policy with respect to and/or funding or regulation of, the various Medicare programs in which the Company participates, including changes in the amounts payable to us under those programs and/or new reforms or surcharges on existing programs. For example, since the 2014 contract year, the ACA has required minimum MLRs for Medicare Advantage and Medicare Part D plans of 85%. If a Medicare Advantage or Medicare Part D contract pays minimum MLR rebates for three consecutive years, it will become ineligible to enroll new members. If a Medicare Advantage contract pays rebates for five consecutive years, it will be terminated by CMS.

The Company’s Medicare Advantage and PDP products are heavily regulated by CMS. The regulations and contractual requirements applicable to the Company and other private participants in Medicare programs are complex, expensive to comply with and subject to change. For example, in the second quarter of 2014, CMS issued a final rule implementing the ACA requirements that Medicare Advantage and PDP plans report and refund to CMS overpayments that those plans receive from CMS. The precise interpretation, impact and legality of this rule are not clear and are subject to pending litigation. Payments the Company receives from CMS for its Medicare Advantage and Part D businesses also are subject to risk adjustment based on the health status of the individuals enrolled. Elements of that risk adjustment mechanism continue to be challenged by the DOJ, the Office of Inspector General (“OIG”) and CMS itself. Substantial changes in the risk adjustment mechanism, including changes

that result from enforcement or audit actions, could materially affect the fairness of the Company's Medicare reimbursement, require the Company to raise prices or reduce the benefits offered to Medicare beneficiaries, and potentially limit the Company's (and the industry's) participation in the Medicare program.

The Company has invested significant resources to comply with Medicare standards, and its Medicare compliance efforts will continue to require significant resources. CMS may seek premium and other refunds, prohibit the Company from continuing to market and/or enroll members in or refuse to passively enroll members in one or more of the Company's Medicare or Medicare-Medicaid demonstration (historically known as "dual eligible") plans, exclude us from participating in one or more Medicare, dual eligible or dual eligible special needs plan programs and/or institute other sanctions and/or civil monetary penalties against the Company if it fails to comply with CMS regulations or its Medicare contractual requirements. The Company's Medicare Supplement products are regulated at the state level.

CMS regularly audits the Company's performance to determine its compliance with CMS's regulations and its contracts with CMS and to assess the quality of services it provides to Medicare Advantage and PDP beneficiaries. For example, CMS currently conducts risk adjustment data validation ("RADV") audits of a subset of Medicare Advantage contracts for each contract year. Since 2013, CMS has selected certain of the Company's Medicare Advantage contracts for various years for RADV audit. The OIG also is auditing the Company's risk adjustment data and that of other companies, and the Company expects CMS and the OIG to continue auditing risk adjustment data. The Company also has received Civil Investigative Demands ("CIDs") from, and provided documents and information to, the Civil Division of the DOJ in connection with a current investigation of its patient chart review processes in connection with risk adjustment data submissions under Parts C and D of the Medicare program.

On October 26, 2018, CMS issued proposed rules related to, among other things, changes to the RADV audit methodology established by CMS in 2012, CMS projects that the changes to the RADV audit methodology would increase its recoveries from Medicare Advantage plans as a result of RADV audits. CMS has requested comments on the proposed rules, including whether the proposed RADV rule change should apply retroactively to audits of Medicare Advantage plans for contract year 2011 and forward. The Company is evaluating the potential adverse effect, which could be material, on the Company's results of operations, financial condition, and cash flows if the proposed RADV rule change were adopted as proposed. CMS also has announced its intent to use third party auditors to attain its ultimate goal of subjecting all Medicare Advantage contracts to either a comprehensive or a targeted RADV audit for each contract year.

A portion of each Medicare Advantage plan's reimbursement is tied to the plan's "star ratings." The star rating system considers a variety of measures adopted by CMS, including quality of preventative services, chronic illness management, compliance and overall customer satisfaction. Only Medicare Advantage plans with an overall star rating of four or more stars (out of five stars) are eligible for a quality bonus in their basic premium rates. As a result, the Company's Medicare Advantage plans' results of operations in 2019 and going forward will be significantly affected by their star ratings. The Company's star ratings and past performance scores are adversely affected by the compliance issues that arise each year in its Medicare operations. CMS released the Company's 2019 star ratings in October 2018. The Company's 2019 star ratings will be used to determine which of its Medicare Advantage plans have ratings of four stars or higher and qualify for bonus payments in 2020. Based on the Company's membership at December 31, 2018, 79% of its Medicare Advantage members were in plans with 2019 star ratings of at least 4.0 stars. CMS will release updated stars ratings in October 2019 that will be used to determine which Medicare Advantage plans have ratings of four stars or higher and qualify for bonus payments in 2021. CMS also gives PDPs star ratings which affect PDP's enrollment and result in contract termination if the PDP is rated less than three stars for three consecutive years. CMS continues to revise its star ratings system to make it harder to achieve four stars or more. Despite the Company's success in maintaining high star ratings and other quality measures for 2019 and the continuation of its improvement efforts, there can be no assurances that it will be successful in maintaining or improving its star ratings in future years. Accordingly, the Company's Medicare Advantage plans may not be eligible for full level quality bonuses, which could adversely affect the benefits such plans can offer, reduce membership and/or reduce profit margins.

Overall, the Company projects the benchmark payment rates in CMS's April 2018 final notice detailing final Medicare Advantage benchmark payment rates for 2019 (the "Final Notice") will increase funding for the Company's Medicare Advantage business, excluding the impact of coding trend, by approximately 2.5 percent in 2019 compared to 2018. This 2019 rate increase only partially offsets the challenge the Company faces from the impact of the increasing cost of medical care (including prescription medications) and CMS local and national coverage decisions that require the Company to pay for services and supplies that are not factored into the Company's bids. The federal government may seek to impose restrictions on the configuration of pharmacy or other provider networks for Medicare Advantage and/or PDP plans, or otherwise restrict the ability of these plans to alter benefits, negotiate prices or establish other terms to improve affordability or maintain viability of products. The Company currently believes that the payments received and will receive in the near term are adequate to justify

the Company's continued participation in the Medicare Advantage and PDP programs, although there are economic and political pressures to continue to reduce spending on the program, and this outlook could change.

Going forward, the Company expects CMS, the OIG, the DOJ, other federal agencies and the United States Congress to continue to scrutinize closely each component of the Medicare program (including Medicare Advantage, PDP, demonstration projects such as Medicare-Medicaid plans and provider network access and adequacy), modify the terms and requirements of the program and possibly seek to recast or limit private insurers' role. It is not possible to predict the outcome of this Congressional or regulatory activity, any of which could adversely affect the Company.

Anti-Remuneration Laws - Federal law prohibits, among other things, an entity from knowingly and willfully offering, paying, soliciting or receiving, subject to certain exceptions and "safe harbors," any remuneration to induce the referral of individuals or the purchase, lease or order of items or services for which payment may be made under Medicare, Medicaid or certain other federal and state health care programs. A number of states have similar laws, some of which are not limited to services paid for with government funds. Sanctions for violating these federal and state anti-remuneration laws may include imprisonment, criminal and civil fines, and exclusion from participation in Medicare, Medicaid and other federal and state government-sponsored health care programs. Companies involved in public health care programs such as Medicare and/or Medicaid are required to maintain compliance programs to detect and deter fraud, waste and abuse, and are often the subject of fraud, waste and abuse investigations and audits. The Company has invested significant resources to comply with Medicare and Medicaid program standards. Ongoing vigorous law enforcement and the highly technical regulatory scheme mean that the Company's compliance efforts in this area will continue to require significant resources.

Antitrust and Unfair Competition - The Federal Trade Commission ("FTC") investigates and prosecutes practices that are "unfair trade practices" or "unfair methods of competition." Numerous lawsuits have been filed throughout the United States against pharmaceutical manufacturers, retail pharmacies and/or PBMs under various federal and state antitrust and unfair competition laws challenging, among other things: (i) brand name drug pricing and rebate practices of pharmaceutical manufacturers, (ii) the maintenance of retail or specialty pharmacy networks by PBMs, and (iii) various other business practices of PBMs and retail pharmacies. To the extent that the Company appears to have actual or potential market power in a relevant market or CVS Pharmacy, CVS Specialty or MinuteClinic plays a unique or expanded role in a PBM or Health Care Benefits segment product offering, the Company's business arrangements and uses of confidential information may be subject to heightened scrutiny from an anti-competitive perspective and possible challenge by state or federal regulators or private parties.

Privacy and Confidentiality Requirements - Many of the Company's activities involve the receipt, use and disclosure by the Company of personally identifiable information ("PII") as permitted in accordance with applicable federal and state privacy and data security laws, which require organizations to provide appropriate privacy and security safeguards for such information. In addition to PII, the Company uses and discloses de-identified data for analytical and other purposes when permitted. Additionally, there are industry standards for handling credit card data known as the Payment Card Industry Data Security Standard, which are a set of requirements designed to help ensure that entities that process, store or transmit credit card information maintain a secure environment. Certain states have incorporated these requirements into state laws or enacted other requirements relating to the use and/or disclosure of PII.

The federal Health Insurance Portability and Accountability Act of 1996 and the regulations issued thereunder (collectively, "HIPAA"), as further modified by the American Recovery and Reinvestment Act of 2009 ("ARRA") impose extensive requirements on the way in which health plans, health care providers, health care clearinghouses (known as "covered entities") and their business associates use, disclose and safeguard protected health information ("PHI"). Further, ARRA requires us and other covered entities to report any breaches of PHI to impacted individuals and to the United States Department of Health and Human Services ("HHS") and to notify the media in any states where 500 or more people are impacted by the unauthorized release or use of or access to PHI. Criminal penalties and civil sanctions may be imposed for failing to comply with HIPAA standards. The Health Information Technology for Economic and Clinical Health Act (the "HITECH Act"), enacted as part of ARRA, amended HIPAA to impose additional restrictions on third-party funded communications using PHI and the receipt of remuneration in exchange for PHI. The HITECH Act also extended HIPAA privacy and security requirements and penalties directly to business associates. HHS has begun to audit health plans, providers and other parties to enforce HIPAA compliance, including with respect to data security.

In addition to HIPAA, state health privacy laws apply to the extent they are more protective of individual privacy than is HIPAA, including laws that place stricter controls on the release of information relating to specific diseases or conditions and requirements to notify members of unauthorized release or use of or access to PHI. States also have adopted regulations to implement provisions of the Financial Modernization Act of 1999 (also known as the Gramm-Leach-Bliley Act ("GLBA")) which generally require insurers, including health insurers, to provide customers with notice regarding how their non-public

personal health and financial information is used and the opportunity to “opt out” of certain disclosures before the insurer shares such information with a non-affiliated third party. Like HIPAA, GLBA sets a “floor” standard, allowing states to adopt more stringent requirements governing privacy protection. Complying with additional state requirements requires us to make additional investments beyond those the Company has made to comply with HIPAA and GLBA.

The Cybersecurity Information Sharing Act of 2015 encourages organizations to share cyber threat indicators with the federal government and, among other things, directs HHS to develop a set of voluntary cybersecurity best practices for organizations in the health care industry. In addition, states have begun to enact more comprehensive privacy laws and regulations addressing consumer rights to data protection or transparency. States also are starting to issue regulations and proposed regulations specifically related to cybersecurity, such as the regulations issued by the New York Department of Financial Services. Complying with conflicting cybersecurity regulations, which may differ from state to state, requires significant resources. In addition, differing approaches to state privacy and/or cyber-security regulation and varying enforcement philosophies may materially and adversely affect the Company’s ability to standardize its products and services across state lines. Widely-reported large scale commercial data breaches in the United States and abroad increase the likelihood that additional data security legislation will be considered by additional states. These legislative and regulatory developments will impact the design and operation of the Company’s businesses, its privacy and security strategy and its web-based and mobile assets.

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

Consumer Protection Laws - The federal government has many consumer protection laws, such as the Federal Trade Commission Act, the Federal Postal Service Act, the Consumer Product Safety Act and the FTC’s Telemarketing Sales Rule. Most states also have similar consumer protection laws. In addition, the federal government and most states have adopted laws and/or regulations requiring places of public accommodation, health care services and other goods and services to be accessible to people with disabilities. These consumer protection and accessibility laws and regulations have been the basis for investigations, lawsuits and multistate settlements relating to, among other matters, the marketing of loyalty programs, and health care products and services, pricing accuracy, expired front store products, financial incentives provided by drug manufacturers to pharmacies in connection with therapeutic interchange programs, disclosures related to how personal data is used and protected and the accessibility of goods and services to people with disabilities. As a result of the Company’s direct-to-consumer activities, including mobile and web-based solutions offered to members and to other consumers, the Company also is subject to federal and state regulations applicable to electronic communications and to other general consumer protection laws and regulations. For example, the California Consumer Privacy Act will become effective in 2020, and the Company expects additional federal and state regulation of consumer privacy protection to be enacted in 2019. The Company expects these new laws and regulations to impact the design of its products and services and the management and operation of its businesses and to increase its compliance costs.

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

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

basis, can impose substantial fines and penalties, and may revoke the license, registration or program enrollment of a facility or professional.

State Insurance, HMO and Insurance Holding Company Regulation - A number of states regulate affiliated groups of insurers and HMOs such as the Company under holding company statutes. These laws may, among other things, require prior regulatory approval of dividends and material intercompany transfers of assets and transactions between the regulated companies and their affiliates, including their parent holding companies. The Company expects the states in which its insurance and HMO subsidiaries are licensed to continue to expand their regulation of the corporate governance and internal control activities of its insurance companies and HMOs. Changes to state insurance, HMO and/or insurance holding company laws or regulations or changes to the interpretation of those laws or regulations, including due to regulators' increasing concerns regarding insurance company and/or HMO solvency due, among other things, to recent and expected payor insolvencies, could negatively affect the Company's businesses in various ways, including through increases in solvency fund assessments, requirements that the Company hold greater levels of capital and/or delays in approving dividends from regulated subsidiaries.

PBM offerings of prescription drug coverage under certain risk arrangements may be subject to laws and regulations in various states. Such laws may require that the party at risk become licensed as an insurer, establish reserves or otherwise demonstrate financial viability. Laws that may apply in such cases include insurance laws and laws governing MCOs and limited prepaid health service plans.

The states of domicile of the Company's regulated subsidiaries have statutory risk-based capital, or "RBC", requirements for health and other insurance companies and HMOs based on the RBC Model Act. These RBC requirements are intended to assess the capital adequacy of life and health insurers and HMOs, taking into account the risk characteristics of a company's investments and products. The RBC Model Act sets forth the formula for calculating RBC requirements, which are designed to take into account asset risks, insurance risks, interest rate risks and other relevant risks with respect to an individual company's business. In general, under these laws, an insurance company or HMO must submit a report of its RBC level to the insurance department or insurance commissioner of its state of domicile for each calendar year. At December 31, 2018, the RBC level of each of the Company's insurance and HMO subsidiaries was above the level that would require regulatory action.

For information regarding restrictions on certain payments of dividends or other distributions by the Company's HMO and insurance company subsidiaries, see Note 12 "Shareholders' Equity" contained in the "Notes to Consolidated Financial Statements" in the Annual Report, which is incorporated by reference herein.

The holding company laws for the states of domicile of certain of the Company's subsidiaries also restrict the ability of any person to obtain control of an insurance company or HMO without prior regulatory approval. Under those statutes, without such approval (or an exemption), no person may acquire any voting security of an insurance holding company (such as the Company's parent company, CVS Health Corporation) that controls an insurance company or HMO, or merge with such a holding company, if as a result of such transaction such person would control the insurance holding company. Control is generally defined as the direct or indirect power to direct or cause the direction of the management and policies of a person and is presumed to exist if a person directly or indirectly owns or controls 10% or more of the voting securities of another person.

Certain states have laws that prohibit submitting a false claim or making a false record or statement in order to secure reimbursement from an insurance company. These state laws vary, and violation of them may lead to the imposition of civil or criminal penalties.

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

Environmental and Safety Regulation - The Company's businesses are subject to various federal, state and local laws, regulations and other requirements pertaining to protection of the environment, public health and employee safety, including, for example, regulations governing the management of hazardous substances, the cleaning up of contaminated sites, and the maintenance of safe working conditions in the Company's stores, distribution centers and other facilities. Governmental agencies at the federal, state and local levels continue to focus on the retail and health care sectors' compliance with such laws

and regulations, and have at times pursued enforcement activities. Any failure to comply with these regulations could result in fines or other sanctions by government authorities.

ERISA Regulation - The Employee Retirement Income Security Act of 1974 (“ERISA”), provides for comprehensive federal regulation of certain employee pension and benefit plans, including private employer and union sponsored health plans and certain other plans that contract with us to provide PBM services. In general, the Company assists plan sponsors in the administration of their health benefit plans, including the prescription drug benefit portion of those plans, in accordance with the plan designs adopted by the plan sponsors. In addition, the Company may have fiduciary duties where it has specifically contracted with a plan sponsor to accept limited fiduciary responsibility, such as for the adjudication of initial prescription drug benefit claims and/or the appeals of denied claims under a plan. In addition to its fiduciary provisions, ERISA imposes civil and criminal liability on service providers to health plans and certain other persons if certain forms of illegal remuneration are made or received. These provisions of ERISA are broadly written and their application to specific business practices is often uncertain.

Some of the Company’s health and related benefits and large case pensions products and services and related fees also are subject to potential issues raised by judicial interpretations relating to ERISA. Under those interpretations, together with United States Department of Labor (“DOL”) regulations, the Company may have ERISA fiduciary duties with respect to PBM members and/or certain general account assets held under contracts that are not guaranteed benefit policies. As a result, certain transactions related to those general account assets are subject to conflict of interest and other restrictions, and the Company must provide certain disclosures to policyholders annually. The Company must comply with these restrictions or face substantial penalties.

In addition, ERISA generally preempts all state and local laws that relate to employee benefit plans, but the extent of the pre-emption continues to be reviewed by courts.

Other Legislative Initiatives and Regulatory Initiatives - The United States federal and state governments, as well as governments in other countries where the Company does business, continue to enact and seriously consider many broad-based legislative and regulatory proposals that have had a material impact on or could materially impact various aspects of the health care and related benefits system and the Company’s businesses. For example:

- Under the Budget Control Act of 2011 and the American Taxpayer Relief Act of 2012 significant, automatic across-the-board budget cuts (known as sequestration) began in March 2013, including Medicare spending cuts of not more than 2% of total program costs per year through 2024. Significant uncertainty remains as to whether and how the United States Congress will proceed with actions that create additional federal revenue and/or with entitlement reform. The Company cannot predict future federal Medicare or federal or state Medicaid funding levels or the impact that future federal or state budget actions or entitlement program reform, if it occurs, will have on the Company’s businesses, operations or results of operations, but the effects could be materially adverse, particularly on the Company’s Medicare and/or Medicaid revenues, MBRs and results of operations.
- The European Union’s (“EU’s”) General Data Protection Regulation (“GDPR”) began to apply across the EU during 2018.
- Other significant legislative and/or regulatory measures which are or recently have been under consideration include the following:
 - Elimination of the payment of manufacturer’s rebates on prescription drugs to PBMs, PDPs and Managed Medicaid organizations in connection with federally funded health care programs. In January 2019, HHS proposed regulations that would exclude such rebates from the safe harbor that currently is available for such payments under the federal anti-kickback statute.
 - Imposing requirements and restrictions on the design and/or administration of pharmacy benefits plans offered by the Company’s and its clients’ health plans and/or its PBM clients and/or the services the Company provides to those clients, including restricting or eliminating the use of formularies for prescription drugs; restricting the Company’s ability to require members to obtain drugs through a home delivery or specialty pharmacy; restricting the Company’s ability to place certain specialty or other drugs in the higher cost tiers of its pharmacy formularies; restricting the Company’s ability to make changes to drug formularies and/or clinical programs; limiting or eliminating rebates on pharmaceuticals; requiring the use of up front purchase price discounts on pharmaceuticals in lieu of rebates; restricting the Company’s ability to configure its health plan and retail pharmacy networks; and restricting or eliminating the use of certain drug pricing methodologies.
 - Increased federal or state government regulation of, or involvement in, the pricing and/or purchasing of drugs.

- Restricting the Company's ability to limit providers' participation in its networks and/or remove providers from its networks by imposing network adequacy requirements or otherwise (including in its Medicare and Commercial Health Care Benefits products).
- Imposing assessments on (or to be collected by) health plans or health carriers, which may or may not be passed onto their customers. These assessments may include assessments for insolvency, the uninsured, uncompensated care, Medicaid funding or defraying health care provider medical malpractice insurance costs.
- Mandating coverage by the Company and its clients' health plans for additional conditions and/or specified procedures, drugs or devices (for example, high cost pharmaceuticals, experimental pharmaceuticals and oral chemotherapy regimens).
- Regulating electronic connectivity.
- Mandating or regulating the disclosure of provider fee schedules and other data about the Company's payments to providers.
- Mandating or regulating disclosure of provider outcome and/or efficiency information.
- Prescribing or limiting members' financial responsibility for health care or other covered services they utilize.
- Assessing the medical device status of HIT products and/or solutions, mobile consumer wellness tools and clinical decision support tools, which may require compliance with FDA requirements in relation to some of these products, solutions and/or tools.
- Imposing payment levels for services rendered to the Company's members by providers who do not have contracts with the Company.
- Restricting the ability of employers and/or health plans to establish or impose member financial responsibility.
- Amending or supplementing ERISA to impose greater requirements on PBMs, the administration of employer-funded benefit plans or limit the scope of current ERISA pre-emption, which would among other things expose us and other health plans to expanded liability for punitive and other extra-contractual damages and additional state regulation.

It is uncertain whether the Company can counter the potential adverse effects of such potential legislation or regulation on its results of operations or cash flows, including whether it can recoup, through higher premium rates, expanded membership or other measures, the increased costs of mandated coverage or benefits, assessments, fees, taxes or other increased costs, including the cost of modifying its systems to implement any enacted legislation or regulations.

The Company's businesses also may be affected by other legislation and regulations. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Financial Reform Act") creates incentives for whistleblowers to speak directly to the government rather than utilizing internal compliance programs and reduces the burden of proof under the Foreign Corrupt Practices Act of 1977 (the "FCPA"). There also are laws and regulations that set standards for the escheatment of funds to states.

Health savings accounts, health reimbursement arrangements and flexible spending accounts and certain of the tax, fee and subsidy provisions of the ACA also are regulated by the United States Department of the Treasury and the Internal Revenue Service.

The Company also may be adversely affected by court and regulatory decisions that expand or revise the interpretations of existing statutes and regulations or impose medical malpractice or bad faith liability. Federal and state courts continue to consider cases, and federal and state regulators continue to issue regulations and interpretations, addressing bad faith liability for denial of medical claims, the scope of ERISA's fiduciary duty requirements, the scope of the False Claims Act and the pre-emptive effect of ERISA on state laws.

Contract Audits - The Company is subject to audits of many of its contracts, including its PBM client contracts, its PBM rebate contracts, its PBM network contracts, its contracts relating to Medicare Advantage, and/or Medicare Part D, the agreements the Company's pharmacies enter into with other payors, its Medicaid contracts and its customer contracts. Because some of the Company's contracts are with state or federal governments or with entities contracted with state or federal agencies, audits of these agreements are often regulated by the federal or state agencies responsible for administering federal or state benefits programs, including those which operate Medicaid fee for service plans, Managed Medicaid plans, Medicare Part D plans or Medicare Advantage organizations.

Federal Employee Health Benefits Program - The Company's subsidiaries contract with the Office of Personnel Management (the "OPM") to provide managed health care services under the FEHB program in their service areas. These contracts with the

OPM and applicable government regulations establish premium rating arrangements for this program. OPM regulations require that community-rated FEHB plans meet a FEHB program-specific MLR by plan code and market. Managing to these rules is complicated by the simultaneous application of the minimum MLR standards and associated premium rebate requirements of the ACA. The Company also has a contractual arrangement with carriers for the FEHB program, such as the BlueCross BlueShield Association, to provide pharmacy services to federal employees, postal workers, annuitants, and their dependents under the Government-wide Service Benefit Plan, as authorized by the FEHB Act and as part of the FEHB program. Additionally, the Company manages certain FEHB plans on a “cost-plus” basis. These arrangements subject the Company to certain aspects of FEHB Act, and other federal regulations, such as the FEHB Acquisition Regulation, that otherwise would not be applicable to the Company. The OPM also is auditing the Company and its other contractors to, among other things, verify that plans meet their applicable FEHB program-specific MLR and the premiums established under the OPM’s Insured contracts and costs allocated pursuant to the OPM’s cost-based contracts are in compliance with the requirements of the applicable FEHB program. The OPM may seek premium refunds or institute other sanctions against the Company if it fails to comply with the FEHB program requirements.

Disease Management Services Regulation - The Company provides disease management programs to health plan and PBM plan members for complex medical conditions and arranges for those members to receive disease management programs for common medical conditions. State laws regulate the practice of medicine, the practice of pharmacy and the practice of nursing. Clinicians engaged in a professional practice in connection with the provision of disease management services must satisfy applicable state licensing requirements and must act within their scope of practice.

Third Party Administration and Other State Licensure Laws - Many states have licensure or registration laws governing certain types of administrative organizations, such as PPOs, TPAs and companies that provide utilization review services. Several states also have licensure or registration laws governing the organizations that provide or administer consumer card programs (also known as cash card or discount card programs).

International Regulation - The Company currently has insurance licenses in several foreign jurisdictions and does business directly or through local affiliations in numerous countries around the world. The Company is taking steps to be able to continue to serve customers in the European Economic Area following the United Kingdom’s pending exit from the EU (“Brexit”). However, the impact of Brexit on the Company’s international business and results of operations is uncertain.

The Company’s international operations are subject to different, and sometimes more stringent, legal and regulatory requirements, which vary widely by jurisdiction, including anti-corruption laws; economic sanctions laws; various privacy, insurance, tax, tariff and trade laws and regulations; corporate governance, privacy, data protection (including the EU’s General Data Protection Regulation which began to apply across the EU during 2018), data mining, data transfer, labor and employment, intellectual property, consumer protection and investment laws and regulations; discriminatory licensing procedures; compulsory cessions of reinsurance; required localization of records and funds; higher premium and income taxes; limitations on dividends and repatriation of capital; and requirements for local participation in an insurer’s ownership. In addition, the expansion of the Company’s operations into foreign countries increases the Company’s exposure to the anti-bribery, anti-corruption and anti-money laundering provisions of United States law, including the FCPA, and corresponding foreign laws, including the U.K. Bribery Act 2010 (the “UK Bribery Act”).

Anti-Corruption Laws - The FCPA prohibits offering, promising or authorizing others to give anything of value to a foreign government official to obtain or retain business or otherwise secure a business advantage. The Company also is subject to applicable anti-corruption laws of the jurisdictions in which it operates. In many countries outside the United States, health care professionals are employed by the government. Therefore, the Company’s dealings with them are subject to regulation under the FCPA. Violations of the FCPA and other anti-corruption laws may result in severe criminal and civil sanctions as well as other penalties, and the United States Securities and Exchange Commission (the “SEC”) and the DOJ have increased their enforcement activities with respect to the FCPA. The UK Bribery Act is an anti-corruption law that is broader in scope than the FCPA and applies to all companies with a nexus to the United Kingdom. Disclosures of FCPA violations may be shared with the UK authorities, thus potentially exposing companies to liability and potential penalties in multiple jurisdictions. The Company has internal control policies and procedures and conducts training and compliance programs for its employees to deter prohibited practices. However, if the Company’s employees or agents fail to comply with applicable laws governing its international operations, it may face investigations, prosecutions and other legal proceedings and actions which could result in civil penalties, administrative remedies and criminal sanctions.

Anti-Money Laundering Regulations - Certain lines of the Company’s businesses are subject to Treasury anti-money laundering regulations. Those lines of business have implemented anti-money laundering policies designed to insure their

compliance with the regulations. The Company also may be subject to anti-money laundering laws in non-U.S. jurisdictions where it operates.

Office of Foreign Assets Control - The Company also is subject to regulation by OFAC. OFAC administers and enforces economic and trade sanctions based on United States foreign policy and national security goals against targeted foreign countries and regimes, terrorists, international narcotics traffickers, those engaged in activities related to the proliferation of weapons of mass destruction, and other threats to the national security, foreign policy or economy of the United States. In addition, the Company may be subject to similar regulations in the non-U.S. jurisdictions in which it operates.

Laws and Regulations Related to the Pharmacy Services Segment

In addition to the laws and regulations discussed above that may affect multiple segments of the Company's business, the Company is subject to federal, state and local statutes and regulations governing the operation of its Pharmacy Services segment specifically. Among these are the following:

PBM Laws and Regulation - Legislation seeking to regulate PBM activities in a comprehensive manner has been introduced or enacted in a number of states. This legislation could adversely affect the Company's ability to conduct business on commercially reasonable terms in states where the legislation is in effect. In addition, certain quasi-regulatory organizations, including the National Association of Boards of Pharmacy and the National Association of Insurance Commissioners ("NAIC") and the National Council of Insurance Legislators, have issued model regulations or may propose future regulations concerning PBMs and/or PBM activities. Similarly, credentialing organizations such as NCQA and URAC may establish voluntary standards regarding PBM, mail or specialty pharmacy activities. While the actions of these quasi-regulatory or standard-setting organizations do not have the force of law, they may influence states to adopt their requirements or recommendations and influence client requirements for PBM or specialty pharmacy services. Moreover, any standards established by these organizations could also impact the Company's health plan clients and/or the services provided to them and/or the Company's health plans.

The Company's PBM activities also are regulated directly and indirectly at the federal and state levels, including being subject to the False Claims Act and state false claims acts and federal and state anti-kickback laws. These laws and regulations govern, and proposed legislation and regulations may govern and/or further restrict, critical PBM practices, including disclosure, receipt and retention of rebates and other payments received from pharmaceutical manufacturers; use of, administration of and/or changes to drug formularies, maximum allowable cost ("MAC") list pricing, average wholesale prices ("AWPs") and/or clinical programs; the offering to plan sponsors of pricing that includes retail network "differential" or "spread" (i.e., a difference between the drug price charged to the plan sponsor by a PBM and the price paid by the PBM to the dispensing provider); disclosure of data to third parties; drug utilization management practices; the level of duty a PBM owes its customers; configuration of pharmacy networks; the operations of the Company's pharmacies (including audits of its pharmacies); disclosure of negotiated provider reimbursement rates; disclosure of fees associated with administrative service agreements and patient care programs that are attributable to members' drug utilization; and registration or licensing of PBMs. Failure by the Company or one of its PBM services suppliers to comply with these laws or regulations could result in material fines and/or sanctions and could have a material adverse effect on the Company's results of operations and/or cash flows.

PDPs and the Company's PBM service contracts, including those in which the Company assumes certain risks under performance guarantees or similar arrangements, are generally not subject to insurance regulation by the states. However, state departments of insurance are increasing their oversight of PBM activities due to legislation passing in several states requiring PBMs to register or obtain a license with the department. Rulemaking is either underway or has already taken place in a few states with the areas of focus on licensure requirements, pharmacy reimbursement for generics (MAC reimbursement) and pharmacy audits - most of which fall under the state insurance code.

Pharmacy Network Access Legislation - Medicare Part D and a majority of states now have some form of legislation affecting the Company's (and its health plans' and its health plan clients') ability to limit access to a pharmacy provider network or remove network providers. For example, certain "any willing provider" legislation may require the Company or its clients to admit a nonparticipating pharmacy if such pharmacy is willing and able to meet the plan's price and other applicable terms and conditions for network participation. These laws could negatively affect the services and economic benefits achievable through a limited pharmacy provider network. Also, a majority of states now have some form of legislation affecting the Company's ability (and the Company's and its client health plans' ability) to conduct audits of network pharmacies regarding claims submitted to the Company for payment. These laws could negatively affect the Company's ability to recover overpayments of claims submitted by network pharmacies that the Company identifies through pharmacy audits.

Pharmacy Pricing Legislation - Several states have passed legislation regulating the Company's ability to manage and establish MACs for generic prescription drugs. MAC methodology is a common cost management practice used by private and public payors (including CMS) to pay pharmacies for dispensing generic prescription drugs. MAC prices specify the allowable reimbursement by a PBM for a particular strength and dosage of a generic drug that is available from multiple manufacturers but sold at different prices. State legislation can regulate the disclosure of MAC prices and MAC price methodologies, the kinds of drugs that a PBM can pay for at a MAC price, and the rights of pharmacies to appeal a MAC price established by a PBM. These laws could negatively affect the Company's ability to establish MAC prices for generic drugs.

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

FDA Regulation - The FDA regulates the Company's compounding pharmacy and clinical research operations.

Laws and Regulations Related to the Retail/LTC Segment

In addition to the laws and regulations discussed above that may affect multiple segments of the Company's business, the Company is subject to federal, state and local statutes and regulations governing the operation of its Retail/LTC segment specifically. Among these are the following:

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

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

Other Laws - Other federal, state and local laws and regulations also impact the Company's retail operations, including laws and regulations governing the practice of optometry, the practice of audiology, the provision of dietician services and the sale of durable medical equipment, contact lenses, eyeglasses, hearing aids and alcohol.

Laws and Regulations Related to the Health Care Benefits Segment

Overview - Differing approaches to state insurance regulation and varying enforcement philosophies may materially and adversely affect the Company's ability to standardize its Health Care Benefits products and services across state lines. These laws and regulations, including the ACA, restrict how the Company conducts its business and result in additional burdens and costs to the Company. Significant areas of governmental regulation include premium rates and rating methodologies, underwriting rules and procedures, required benefits, sales and marketing activities, provider rates of payment, restrictions on health plans' ability to limit providers' participation in their networks and/or remove providers from their networks and financial condition (including reserves and minimum capital or risk based capital requirements). These laws and regulations are different in each jurisdiction and vary from product to product.

Each health insurer and HMO must file periodic financial and operating reports with the states in which it does business. In addition, health insurers and HMOs are subject to state examination and periodic license renewal. Applicable laws also restrict the ability of the Company's regulated subsidiaries to pay dividends, and certain dividends require prior regulatory approval. In

addition, some of the Company's businesses and related activities may be subject to PPO, managed care organization, utilization review or TPA-related licensure requirements and regulations. These licensure requirements and regulations differ from state to state, but may contain provider network, contracting, product and rate, financial and reporting requirements. There also are laws and regulations that set specific standards for the Company's delivery of services, payment of claims, fraud prevention, protection of consumer health information, and payment for covered benefits and services.

Required Regulatory Approvals - The Company must obtain and maintain regulatory approvals to price, market and administer many of its Health Care Benefits products. Supervisory agencies, including CMS, the Center for Consumer Information and Insurance Oversight and the DOL, as well as state health, insurance, managed care and Medicaid agencies and state boards of pharmacy have broad authority to take one or more of the following actions:

- Grant, suspend and revoke the Company's licenses to transact business;
- Suspend or exclude the Company from participation in government programs;
- Suspend or limit the Company's authority to market products;
- Regulate many aspects of the products and services the Company offers, including the pricing and underwriting of many of its products and services;
- Assess damages, fines and/or penalties;
- Terminate the Company's contract with the government agency and/or withhold payments from the government agency to the Company;
- Impose retroactive adjustments to premiums and require the Company to pay refunds to the government, customers and/or members;
- Restrict the Company's ability to conduct acquisitions or dispositions;
- Require the Company to maintain minimum capital levels in its subsidiaries and monitor its solvency and reserve adequacy;
- Regulate the Company's investment activities on the basis of quality, diversification and other quantitative criteria; and/or
- Exclude the Company's plans from participating in Public Exchanges if they are deemed to have a history of "unreasonable" premium rate increases or fail to meet other criteria set by HHS or the applicable state.

The Company's operations, current and past business practices, current and past contracts, and accounts and other books and records are subject to routine, regular and special investigations, audits, examinations and reviews by, and from time to time the Company receives subpoenas and other requests for information from, federal, state and international supervisory and enforcement agencies, attorneys general and other state, federal and international governmental authorities and legislators.

Commercial Product Pricing and Underwriting Restrictions - Pricing and underwriting regulation by states limits the Company's underwriting and rating practices and those of other health insurers, particularly for small employer groups, and varies by state. In general, these limitations apply to certain customer segments and limit the Company's ability to set prices for new or renewing groups, or both, based on specific characteristics of the group or the group's prior claim experience. In some states, these laws and regulations restrict the Company's ability to price for the risk it assumes and/or reflect reasonable costs in the Company's pricing.

The ACA expanded the premium rate review process by, among other things, requiring the Company's Commercial Insured rates to be reviewed for "reasonableness" at either the state or the federal level. HHS established a federal premium rate review process that generally applies to proposed premium rate increases equal to or exceeding a federally (or lower state) specified threshold. HHS's rate review process imposes additional public disclosure requirements as well as additional review on filings requesting premium rate increases equal to or exceeding this "reasonableness" threshold. These combined state and federal review requirements may prevent, further delay or otherwise affect the Company's ability to price for the risk it assumes, which could adversely affect its MBRs and results of operations, particularly during periods of increased utilization of medical services and/or medical cost trend or when such utilization and/or trend exceeds the Company's projections.

The ACA also specifies minimum MLRs of 85% for large group Commercial products and 80% for individual and small group Commercial products. Because the ACA minimum MLRs are structured as "floors" for many of their requirements, states have the latitude to enact more stringent rules governing its various restrictions. For Commercial products, states have and may adopt higher minimum MLR requirements, use more stringent definitions of "medical loss ratio," incorporate minimum MLR requirements into prospective premium rate filings, require prior approval of premium rates or impose other requirements related to minimum MLR. Minimum MLR requirements and similar actions further limit the level of margin the Company can

earn in its Insured Commercial business while leaving the Company exposed to medical costs that are higher than those reflected in its pricing. The Company also may be subject to significant fines, penalties, premium refunds and litigation if it fails to comply with minimum MLR laws and regulations.

In addition, the Company requested significant increases in its premium rates in its Commercial small group Health Care Benefits business for 2019 and expects to continue to request significant increases in those rates for 2020 and beyond in order to adequately price for projected medical cost trends, required expansions of coverage and significant assessments, fees and taxes imposed by the federal and state governments, including the ACA. The Company's rates also must be adequate to reflect adverse selection in its products, particularly in small group Commercial products, which the Company expects to continue and potentially worsen in 2019. These significant rate increases heighten the risks of adverse public and regulatory action and adverse selection and the likelihood that the Company's requested premium rate increases will be denied, reduced or delayed, which could lead to operating margin compression.

Many of the laws and regulations governing the Company's pricing and underwriting practices also limit the differentials in premium rates insurers and other carriers may charge between new and renewal business, and/or between groups based on differing characteristics. They may also require that carriers disclose to customers the basis on which the carrier establishes new business and renewal premium rates and limit the ability of a carrier to terminate customers' coverage. In addition, HHS' rules on rates impose additional public disclosure requirements on any rate filings that exceed the "reasonableness" threshold and require additional review of those rates.

Medicaid Regulation - The Company is seeking to substantially grow its Medicaid, dual eligible and dual eligible special needs plan businesses over the next several years. As a result, the Company also is increasing its exposure to changes in government policy with respect to and/or regulation of the various Medicaid, dual eligible and dual eligible special needs plan programs in which the Company participates, including changes in the amounts payable to the Company under those programs.

Since 2017, Managed Medicaid products, including those the Company offers, are subject to a minimum MLR of 85%. A Medicaid managed care quality rating system and provider network adequacy requirements also apply to Medicaid products. Because the minimum MLR is structured as a "floor", states have the latitude to enact more stringent rules governing these various restrictions. For Managed Medicaid products, states may adopt higher minimum MLR requirements, use more stringent definitions of "medical loss ratio" or impose other requirements related to minimum MLR. Minimum MLR requirements and similar actions further limit the level of margin the Company can earn in its Insured Medicaid products while leaving the Company exposed to medical costs that are higher than those reflected in its pricing. The Company also may be subject to significant fines, penalties, premium refunds and litigation if it fails to comply with minimum MLR laws and regulations.

The impact of Medicaid expansion under the ACA is uncertain. The future of the ACA is uncertain, and states may opt out of the elements of the ACA requiring expansion of Medicaid coverage without losing their current federal Medicaid funding. To date, a number of states and the District of Columbia have expanded Medicaid coverage to the higher eligibility levels contemplated by the ACA. In addition, the election of new governors and/or state legislatures may impact states' previous decisions regarding Medicaid expansion. Proposals for substantial changes to federal funding of state Medicaid programs are likely to be considered in 2019 and beyond, including the possibility of converting federal Medicaid support to block grants and per capita caps on federal funding. Uncertainty regarding federal funding is causing and will continue to cause states to re-evaluate their Medicaid expansions and consider new assessments, fees and/or taxes on health plans. That re-evaluation may adversely affect Medicaid payment rates, the Company's revenues and its Medicaid membership in those states.

The economic aspects of the Medicaid, dual eligible and dual eligible special needs plan business vary from state to state and are subject to frequent change. Medicaid premiums are paid by each state and differ from state to state. The federal government and certain states also are considering proposals and legislation for Medicaid and dual eligible program reforms or redesigns, including restrictions on the collection of manufacturer's rebates on pharmaceuticals by Medicaid MCOs and their contracted PBMs, further program, population and/or geographic expansions of risk-based managed care, increasing beneficiary cost-sharing or payment levels, and changes to benefits, reimbursement, eligibility criteria, provider network adequacy requirements (including requiring the inclusion of specified high cost providers in the Company's networks) and program structure. In some states, current Medicaid and dual eligible funding and premium revenue may not be adequate for the Company to continue program participation. The Company's Medicaid and dual eligible contracts with states (or sponsors of Medicaid managed care plans) are subject to cancellation by the state (or the sponsors of the managed care plans) after a short notice period without cause (for example, when a state discontinues a managed care program) or in the event of insufficient state funding.

The Company's Medicaid, dual eligible and dual eligible special needs plan products also are heavily regulated by CMS and state Medicaid agencies, which have the right to audit the Company's performance to determine compliance with CMS

contracts and regulations. The Company's Medicaid products, dual eligible products and CHIP contracts also are subject to complex federal and state regulations and oversight by state Medicaid agencies regarding the services provided to Medicaid enrollees, payment for those services, network requirements (including mandatory inclusion of specified high-cost providers), and other aspects of these programs, and by external review organizations which audit Medicaid plans on behalf of the state Medicaid agencies. The laws, regulations and contractual requirements applicable to the Company and other participants in Medicaid and dual eligible programs, including requirements that the Company submit encounter data to the applicable state agency, are extensive, complex and subject to change. The Company has invested significant resources to comply with these standards, and its Medicaid and dual eligible program compliance efforts will continue to require significant resources. CMS and/or state Medicaid agencies may fine the Company, withhold payments to the Company, seek premium and other refunds, terminate the Company's existing contracts, elect not to award the Company new contracts or not to renew the Company's existing contracts, prohibit the Company from continuing to market and/or enroll members in or refuse to automatically assign members to one or more of the Company's Medicaid or dual eligible products, exclude the Company from participating in one or more Medicaid or dual eligible programs and/or institute other sanctions and/or civil monetary penalties against the Company if it fails to comply with CMS or state regulations or contractual requirements.

The Company cannot predict whether pending or future federal or state legislation or court proceedings will change various aspects of the Medicaid program, nor can it predict the impact those changes will have on its business operations or results of operations, but the effects could be materially adverse.

State Workers' Compensation Laws - The Company's workers' compensation business includes the comparison of medical claims data against the applicable state's fee schedule pricing, including applicable regulations and clinical guidelines. State fee schedules, which typically represent the maximum reimbursement for medical services provided to the injured worker, differ by state and change as state laws and regulations are passed and/or amended. The Company's workers' compensation business also includes PBM and care management services, both of which are regulated at the state level. The Company's workers' compensation customers include insurance carriers and TPAs who also are regulated at the state level. The laws and regulations applicable to the Company and other participants in the workers' compensation business are extensive, complex and subject to change. The Company has invested significant resources to comply with these standards, and its workers' compensation compliance efforts will continue to require significant resources. The Company may be subject to significant fines, penalties and litigation if it fails to comply with those laws and regulations.

Federal and State Reporting - The Company is subject to extensive financial and business reporting requirements, including penalties for inaccuracies and/or omissions, at both the federal and state level. The Company's ability to comply with certain of these requirements depends on receipt of information from third parties that may not be readily available or reliably provided in all instances. The Company is and will continue to be required to modify its information systems, dedicate significant resources and incur significant expenses to comply with these requirements. However, the Company cannot eliminate the risks of unavailability of or errors in its reports.

Product Design and Administration and Sales Practices - State and/or federal regulatory scrutiny of health care benefit product design and administration and marketing and advertising practices, including the filing of insurance policy forms, the adequacy of provider networks, the accuracy of provider directories, and the adequacy of disclosure regarding products and their administration, is increasing as are the penalties being imposed for inappropriate practices. Medicare, Medicaid and dual eligible products and products offering more limited benefits in particular continue to attract increased regulatory scrutiny.

Guaranty Fund Assessments/Solvency Protection - Under guaranty fund laws existing in all states, insurers doing business in those states can be assessed (in most states up to prescribed limits) for certain obligations of insolvent insurance companies to policyholders and claimants. The life and health insurance guaranty associations in which the Company participates that operate under these laws respond to insolvencies of long-term care insurers as well as health insurers. The Company's assessments generally are based on a formula relating to its health care premiums in the state compared to the premiums of other insurers. Certain states allow assessments to be recovered over time as offsets to premium taxes. Some states have similar laws relating to HMOs and/or other payors such as not-for-profit consumer governed health plans established under the ACA. While historically the Company has ultimately recovered more than half of guaranty fund assessments through statutorily permitted premium tax offsets, significant increases in assessments could lead to legislative and/or regulatory actions that may limit future offsets.

Available Information

CVS Health Corporation was incorporated in Delaware in 1996. The corporate office is located at One CVS Drive, Woonsocket, Rhode Island 02895, telephone (401) 765-1500. The Company's common stock is listed on the New York Stock

Exchange under the trading symbol “CVS.” General information about CVS Health is available through the Company’s website at <http://www.cvshealth.com>. The Company’s financial press releases and filings with the SEC are available free of charge within the Investors section of the Company’s website at <http://www.cvshealth.com/investors>. In addition, the SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers, such as the Company, that file electronically with the SEC. The address of that website is <http://www.sec.gov>. The information on or linked to the Company’s website is neither a part of nor incorporated by reference in this Annual Report on Form 10-K or any of the Company’s other SEC filings.

In accordance with guidance provided by the SEC regarding use by a company of its websites and social media channels as a means to disclose material information to investors and to comply with its disclosure obligations under Regulation FD, CVS Health Corporation (the “Registrant”) hereby notifies investors, the media and other interested parties that it intends to continue to use its media and investor relations website (<http://investors.cvshealth.com/>) and its Twitter feed (@CVSHealthIR) to publish important information about the Registrant, including information that may be deemed material to investors. The list of social media channels that the Registrant uses may be updated on its media and investor relations website from time to time. The Registrant encourages investors, the media, and other interested parties to review the information the Registrant posts on its website and social media channels as described above, in addition to information announced by the Registrant through its SEC filings, press releases and public conference calls and webcasts.

Item 1A. Risk Factors

You should carefully consider each of the following risks and uncertainties and all of the other information set forth in this Annual Report on Form 10-K. These risks and uncertainties and other factors may affect forward-looking statements, including those we make in this Annual Report on Form 10-K or elsewhere, such as in news releases or investor or analyst calls, meetings or presentations. The risks and uncertainties described below are not the only ones we face. There can be no assurance that we have identified all the risks that affect us. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial also may adversely affect our businesses. Any of these risks or uncertainties could cause our actual results to differ materially from our expectations and the expected results discussed in our forward-looking statements. You should not consider past results to be an indication of future performance.

If any of the following risks or uncertainties develops into actual events or if the circumstances described in the risks or uncertainties occur or continue to occur, these events or circumstances could have a material adverse effect on our businesses, results of operations, cash flows and/or financial condition. In that case, our stock price could decline materially, among other effects on us. You should read the following section in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (which includes our “Cautionary Statement Concerning Forward-Looking Statements” at the end of such section) in the Annual Report, which is incorporated by reference herein, and our consolidated financial statements and the related notes.

Overarching Risks

Risks to our brand and reputation, the Aetna Acquisition, data governance risks, effectiveness of our talent management and alignment of talent to our business needs, and potential changes in public policy, laws and regulations present overarching risks to our enterprise in 2019 and beyond.

We expect to face significant business challenges and uncertainties in 2019. Risks to our brand and reputation, the Aetna Acquisition, data governance risks, effectiveness of our talent management and alignment of talent to our business needs, and potential changes in public policy, laws and regulations present overarching risks to our enterprise in 2019 and beyond. There can be no assurance regarding our ability to avoid harm to our brand and reputation, our ability to manage the risks inherent in the Aetna Acquisition or our data governance risks, our ability to manage and align our talent to our business needs or our ability to manage the risks presented by changes in public policy, laws or regulations. In addition, there can be no assurance that the Aetna Acquisition, United States government fiscal policy, changes to the United States health care system (including changes to the ACA, to drug reimbursement and/or drug pricing laws and regulations and/or to laws and regulations governing PBMs’ interactions with government funded health care programs) or other unanticipated risks will not require us to revise the ways in which we conduct business, put us at risk of loss of business or materially adversely affect our businesses, cash flows, financial condition or results of operations.

Our brand and reputation are two of our most important assets; negative public perception of the industries in which we operate, or of our industries' or our practices, can adversely affect our businesses, results of operations, cash flows and prospects.

Reputational risk is inherent in many of the risks we face. The industries in which we operate regularly are negatively perceived by the public and subject to negative publicity, including as a result of adverse media coverage, litigation against us and other industry participants, the ongoing public debates over drug pricing, government involvement in drug pricing and purchasing, PBMs and the future of the ACA, governmental hearings and/or investigations and actual or perceived shortfalls regarding our industries' or our own products and/or business practices (including PBM operations, drug pricing, insurance coverage determinations and social media and other media relations activities). This risk may be increased as the federal government continues to consider increased involvement in drug reimbursement, pricing and/or purchasing and changes to the laws and regulations governing PBMs', PDPs' and/or Managed Medicaid organizations' interactions with government funded health care programs, and as states seek to maintain, replace or repeal elements of the ACA such as Public Exchanges and Medicaid expansion within increasingly challenging budget constraints. This risk also may be increased as we continue to offer products and services that make greater use of data and as our business model becomes more focused on delivering health care to consumers. Significant reductions or interruptions in funding for government health programs we serve also may lead us to reduce our exposure to these programs, which could adversely affect our brand and reputation.

Negative public perception and/or publicity of our industries in general, or of us or our key vendors, brokers or product distribution networks in particular, can further increase our costs of doing business and adversely affect our results of operations and our stock price by:

- Adversely affecting our brand and reputation;
- Adversely affecting our ability to market and sell our products and/or services and/or retain our existing customers and members;
- Requiring us to change our products and/or services;
- Reducing or restricting the compensation we can receive for our products and/or services; and/or
- Increasing or significantly changing the regulatory and legislative requirements with which we must comply.

Data governance failures can adversely affect our reputation, businesses and prospects. Our use and disclosure of members', customers' and other constituents' sensitive information is subject to complex regulations at multiple levels. We would be adversely affected if we or our business associates or other vendors fail to adequately protect members', customers' or other constituents' sensitive information.

Our information systems are critical to the operation of our businesses. We collect, process, maintain, retain, evaluate, utilize and distribute large amounts of personal health and financial information and other confidential and sensitive data about our customers, members and other constituents in the ordinary course of our businesses. Some of our information systems rely upon third party systems to accomplish these tasks. The use and disclosure of such information is regulated at the federal, state and international levels, and these laws, rules and regulations are subject to change and increased enforcement activity, such as the EU's GDPR which began to apply across the EU during 2018 and the audit program implemented by HHS under HIPAA. In some cases, such laws, rules and regulations also apply to our vendors and/or may hold us liable for any violations by our vendors. International laws, rules and regulations governing the use and disclosure of such information are generally more stringent than in the United States, and they vary from jurisdiction to jurisdiction. Noncompliance with any privacy or security laws or regulations, or any security breach, cyber-attack or cybersecurity breach, and any incident involving the theft, misappropriation, loss or other unauthorized disclosure of, or access to, sensitive or confidential member, customer or other constituent information, whether by us, by one of our vendors or by another third party, could require us to expend significant resources to remediate any damage, interrupt our operations and damage our brand and reputation, and could also result in investigations, regulatory enforcement actions, material fines and penalties, loss of customers, litigation or other actions which could have a material adverse effect on our brand, reputation, businesses, results of operations and cash flows.

Our businesses depend on our customers' and members' willingness to entrust us with their health related and other sensitive personal information. Events that adversely affect that trust, including inadequate disclosure to our members or customers of our uses of their information, failing to keep our information technology systems and our members', customers' and other constituents' sensitive information secure from significant attack, theft, damage, loss or unauthorized disclosure or access, whether as a result of our action or inaction or that of our business associates, vendors or other third parties, could adversely affect our brand and reputation, membership and results of operations and also can and/or has exposed us to mandatory disclosure to the media, litigation (including class action litigation), governmental investigations and enforcement proceedings,

material fines, penalties and/or remediation costs, and compensatory, special, punitive and statutory damages, consent orders, adverse actions against our licenses to do business and/or injunctive relief, any of which could adversely affect our businesses, cash flows, results of operations or financial condition. Large scale data breaches at other entities increase the challenge we and our vendors face in maintaining the security of our information technology systems and of our customers', members' and other constituents' sensitive information. There can be no assurance that additional such failures will not occur, or if any do occur, that we will detect them or that they can be sufficiently remediated.

We face significant competition in attracting and retaining talented employees. Further, managing succession for, and retention of, key executives is critical to our success, and our failure to do so could adversely affect our future performance.

Our ability to attract and retain qualified and experienced employees is essential to meet our current and future goals and objectives. There is no guarantee we will be able to attract and retain such employees or that competition among potential employers will not result in increased salaries or other benefits. If we are unable to retain existing employees or attract additional employees, or we experience an unexpected loss of leadership, we could experience a material adverse effect on our businesses and results of operations.

In addition, our failure to adequately plan for succession of senior management and other key management roles or the failure of key employees to successfully transition into new roles could have a material adverse effect on our businesses and results of operations. The succession plans we have in place and our employment arrangements with certain key executives do not guarantee the services of these executives will continue to be available to us.

We are subject to potential changes in public policy, laws and regulations, including reform of the United States health care system, that can adversely affect the markets for our products and services and our businesses, operations, results of operations, cash flows and prospects.

The political environment in which we operate remains uncertain. It is reasonably possible that our business operations and results of operations could be materially adversely affected by legislative, regulatory and public policy changes at the federal or state level, increased government involvement in drug reimbursement, pricing and/or purchasing, increased regulation of PBMs, changes to Medicare, Medicaid or the regulatory environment for health care benefits, including the ACA, changes to drug reimbursement and/or pricing laws and regulations, changes to the laws and regulations governing PBMs', PDPs' and/or Managed Medicaid organizations' interactions with government funded health care programs, changes to immigration policies and/or many other public policy initiatives. For example, in January 2019, HHS proposed regulations that would exclude from the current safe harbor under the federal anti-kickback statute manufacturer's rebates on prescription drugs paid to PBMs, PDPs and Managed Medicaid organizations in connection with federally funded health care programs. It is not possible to predict whether or when any such changes will occur or what form any such changes may take (including through the use of United States Presidential Executive Orders). Other significant changes to health care system legislation or regulation as well as changes with respect to tax and trade policies, tariffs and other government regulations affecting trade between the United States and other countries are also possible and could adversely affect us. If we fail to respond adequately to such changes, including by implementing strategic and operational initiatives, or do not do so as effectively as our competitors, our businesses, operations and results of operations may be materially adversely affected.

In addition to efforts to amend, repeal or replace the ACA and related regulations, we expect the federal and state governments to continue to enact and seriously consider many broad-based legislative and regulatory proposals that will or could materially impact various aspects of the health care and related benefits system and our businesses. Potential modification to the ACA, including changes in enforcement and/or funding that further destabilize the Public Exchanges, as well as significant changes to Medicaid funding could impact the number of Americans with health insurance and, consequently, prescription drug coverage. Further changes to federal health care laws, including the ACA, drug reimbursement and pricing laws and/or laws governing PBMs', PDPs' and/or Managed Medicaid organizations' interactions with government funded health care programs, are probable. We cannot predict the effect, if any, that new health care legislation, future changes to the ACA or the implementation or failure to implement the outstanding provisions of ACA, may have on our retail pharmacy, LTC pharmacy, specialty pharmacy, pharmacy services and/or Health Care Benefits operations and/or results of operations. The federal and many state governments also are considering changes in the interpretation, enforcement and/or application of existing programs, laws and regulations, including changes to payments under and funding of Medicare and Medicaid programs.

In addition, much of the branded and generic drug product that we sell in our retail, mail and specialty pharmacies, and much of the other merchandise we sell, is manufactured in whole or in substantial part outside of the United States. In most cases, the products or merchandise are imported by others and sold to us. As a result, significant changes in tax or trade policies, tariffs or trade relations between the United States and other countries, such as the imposition of unilateral tariffs on imported products, could result in significant increases in our costs, restrict our access to suppliers, depress economic activity, and have a material

adverse effect on our businesses, cash flows and results of operations. In addition, other countries may change their business and trade policies and such changes, as well as any negative sentiments towards the United States in response to increased import tariffs and other changes in United States trade regulations, could adversely affect our businesses.

We cannot predict the enactment or content of new legislation and regulations or changes to existing laws or regulations or their enforcement, interpretation or application, or the effect they will have on our business operations or results of operations, which could be materially adverse. Even if we could predict such matters, it is not possible to eliminate the adverse impact of public policy changes that would fundamentally change the dynamics of one or more of the industries in which we operate. Examples of such change include: the federal or one or more state governments fundamentally restructuring or reducing the funding available for Medicare, Medicaid, dual eligible or dual eligible special needs plan programs, increasing its involvement in drug reimbursement, pricing and/or purchasing, changing the laws and regulations governing PBMs', PDPs' and/or Managed Medicaid organizations' interactions with government funded health care programs, changing the tax treatment of health or related benefits, or repealing or otherwise significantly altering the ACA. The likelihood of adverse changes remains high due to state and federal budgetary pressures, and our businesses and results of operations could be materially and adversely affected by such changes, even if we correctly predict their occurrence. For more information on these matters, see "Government Regulation" included in Item 1 of this Annual Report on Form 10-K.

Our enterprise strategy may not be an effective response to the changing dynamics in the industries in which we operate, or we may not be able to implement our strategy and related strategic projects.

Our strategy includes effectively investing our capital and human resources in appropriate strategic projects, current operations and acquisitions to transform our businesses in response to the changing dynamics in the industries in which we operate. Our strategic projects include, among other things: integrating the Aetna Acquisition; significant investments in human and technology resources to expand our consumer-oriented products and services; optimizing our business platforms; managing certain significant technology projects; further improving relations with manufacturers, suppliers and health care providers; negotiating contract changes with customers, manufacturers, suppliers and health care providers and implementing other business process improvements. Implementing our strategic initiatives will require significant investments of capital and human resources. Among other things, we will need to simultaneously acquire and develop new personnel, products and systems to serve existing and new customers with existing and new products and to enhance our existing customer service, information technology, control and compliance processes and systems. The future performance of our businesses will depend in large part on our ability to design and implement our strategic initiatives, some of which will occur over several years. If these initiatives do not achieve their objectives, our results of operations could be adversely affected.

Our enterprise strategy may not be an effective response to the changing dynamics in the industries in which we operate, and we may fail to recognize and position ourselves to capitalize upon market opportunities. We may not have sufficient advance notice and resources to develop and effectively implement an alternative strategy. If our existing competitors and/or new entrants (whether vertical, horizontal or online/digital/e-commerce) into one or more of our businesses create new disruptive business models and/or develop new offerings that customers, members and/or health care providers prefer to our offerings, we may lose customers, members and/or providers, and our results of operations, cash flows and/or prospects may be adversely affected. In addition, our results of operations, cash flows and/or prospects may be adversely affected by consolidation among the participants in the industries in which we operate and/or our customer base. Our businesses and results of operations could be materially and adversely affected by such changes, even if we correctly predict their occurrence.

Risks Related to Our Businesses

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

The continued efforts of HMOs, MCOs, PBMs, government entities, and other third party payors to reduce prescription drug costs and pharmacy reimbursement rates, as well as litigation and other legal proceedings relating to how drugs are priced, may adversely affect our profitability. In particular, increased utilization of generic drugs (which normally yield a higher gross profit rate than equivalent brand named drugs) has resulted in pressure to decrease reimbursement payments to retail, specialty, LTC and mail order pharmacies for generic drugs, causing a reduction in our margins on sales of generic drugs. Historically, the effect of this trend on generic profitability has been mitigated by the introduction of new multi-source generic drugs as well as inflation on brand name drugs and by our efforts to negotiate reduced acquisition costs of generic drugs with manufacturers. However, in recent years, there has been significant consolidation within the generic manufacturing industry and in 2019 we expect fewer new multi-source generic drugs to be introduced and lower brand name drug inflation than in recent prior years, and it is possible that these and other external factors may enhance the ability of manufacturers to sustain or increase pricing of generic drugs and diminish our ability to negotiate reduced acquisition costs. Any inability to offset increased brand name or

generic prescription drug costs or to modify our activities to lessen the financial impact of such increased costs could have a significant adverse effect on our results of operations.

In addition, during the past several years, the United States health care industry has been subject to an increase in governmental regulation and audits at both the federal and state levels. Efforts to control health care costs, including prescription drug costs, are continuing at the federal and state government levels. Changing political, economic and regulatory influences may significantly affect health care financing and reimbursement practices. For example, we anticipate that federal and state governments will continue to review and assess alternative health care delivery systems, payment methodologies and operational requirements for health care providers, including LTC facilities and pharmacies, and participants in government funded health care programs. A change in the composition of pharmacy prescription volume toward programs offering lower reimbursement rates could adversely affect our profitability. Any action taken to repeal or replace all or significant parts of ACA also could adversely affect our profitability, though it is unclear at this time what the full effects of any such changes would be.

The ACA made several significant changes to Medicaid rebates and to reimbursement rates. One of these changes was to revise the definition of the Average Manufacturer Price, a pricing element common to most payment formulas, and the reimbursement formula for generic drugs. This change has adversely affected the reimbursements we receive when we dispense prescription drugs to Medicaid recipients. In addition, the ACA made other changes that affect the coverage and plan designs that are or will be provided by many of our health plan clients, including the requirement for health insurers to meet a minimum MLR to avoid having to pay rebates to enrollees. These ACA changes may not affect our businesses directly, but they could indirectly impact our services, business practices and/or results of operations.

Gross margins in the industries in which we operate may decline.

The PBM industry has been experiencing margin pressure as a result of competitive pressures and increased client demands for lower prices, increased revenue sharing, enhanced service offerings and/or higher service levels. In that regard, we maintain contractual relationships with generic drug manufacturers and brand name drug manufacturers that provide for purchase discounts and/or rebates on drugs dispensed by pharmacies in our retail network and by our specialty and mail order pharmacies (all or a portion of which may be passed on to clients). Manufacturer's rebates often depend on a PBM's ability to meet contractual market share or other requirements, including in some cases the placement of a manufacturer's products on the PBM's formularies. If we lose our relationship with one or more drug manufacturers, or if the discounts or rebates provided by drug manufacturers decline, our businesses and results of operations could be adversely affected. Further, competitive pressures in the PBM industry have resulted in our clients sharing in a larger portion of rebates and/or discounts received from drug manufacturers. Marketplace dynamics and regulatory changes also have impacted our ability to offer plan sponsors pricing that includes the use of retail "differential" or "spread", which could adversely affect our future profitability, and we expect these trends to continue. Further, changes in existing federal or state laws or regulations or the adoption of new laws or regulations relating to additional regulation of PBMs, drug pricing or purchasing, patent term extensions, purchase discount and/or rebate arrangements with drug manufacturers, or additional regulation of PBMs, formulary management or other PBM services could also reduce the discounts or rebates we receive. In addition, changes in federal or state laws or regulations or the adoption of new laws or regulations relating to claims processing and billing, including our ability to use MAC lists and collect transmission fees, could adversely affect our profitability.

Our retail pharmacy, specialty pharmacy and LTC pharmacy operations also have been affected by the margin pressures described above, including client demands for lower prices, generic pricing and network reimbursement pressure. In addition, as competition increases in the geographies in which we operate, including competition from new entrants, a significant increase in general pricing pressures could occur, and this could require us to reevaluate our pricing structures to remain competitive. A shift in the mix of our pharmacy prescription volume towards programs offering lower reimbursement rates could adversely affect our margins, including the ongoing shift in pharmacy mix towards 90-day prescriptions at retail and the ongoing shift in pharmacy mix towards Medicare Part D prescriptions. Finally, the margins of our LTC business are further affected by the increased efforts of health care payors to negotiate reduced or capitated pricing arrangements. These actions could also adversely affect the margins of our LTC business.

Our results of operations are affected by the health of the economy in general and in the geographies we serve.

Our businesses are affected by the United States economy and consumer confidence in general and in the geographies we serve, including various economic factors, inflation and changes in consumer purchasing power, preferences and/or spending patterns. It is possible that an unfavorable, uncertain or volatile economic environment will cause a decline in drug utilization, an increase in health care utilization and dampen demand for PBM services as well as consumer demand for products sold in our retail stores. Further, economic conditions including interest rate fluctuations, changes in capital market conditions and

regulatory changes may affect our ability to obtain necessary financing on acceptable terms, our ability to secure suitable store locations under acceptable terms and our ability to execute sale-leaseback transactions under acceptable terms. Adverse changes in the United States economy, consumer confidence and economic conditions could have an adverse effect on our businesses and financial results. This adverse effect could be further exacerbated by the increasing prevalence of high deductible health plans and health plan designs favoring co-insurance over co-payments as members and other consumers may decide to postpone, or not to seek, medical treatment which may lead them to incur more expensive medical treatment in the future and/or decrease our prescription volumes.

In addition, our Health Care Benefits membership remains concentrated in certain geographic areas in the United States and in certain industries. Unfavorable changes in health care or other benefit costs or reimbursement rates or increased competition in those geographic areas where our membership is concentrated could therefore have a disproportionately adverse effect on our Health Care Benefits results of operations. Our Health Care Benefits membership has been and may continue to be affected by workforce reductions by our customers due to adverse and/or uncertain general economic conditions, especially in the United States geographies and industries where our membership is concentrated. As a result, we may not be able to profitably grow and diversify our Health Care Benefits membership geographically, by product type or by customer industry, and our revenue and results of operations may be disproportionately affected by adverse changes affecting our customers.

We operate in a highly competitive business environment. Competitive and economic pressures may limit our ability to increase pricing to reflect higher costs or may force us to accept lower margins. If customers elect to self-insure, reduce benefits or adversely renegotiate or amend their agreements with us, our revenues and results of operations will be adversely affected. We may not be able to obtain appropriate pricing on new or renewal business.

Each of our businesses currently operates in a highly competitive and evolving business environment. We must compete successfully with existing competitors and new entrants, including strategic alliances and online, digital and e-commerce companies.

The competitive success of our retail pharmacy business, as well as our specialty pharmacy operations with third-party payors, is dependent on our ability to establish and maintain contractual relationships with PBMs and other payors on acceptable terms in an environment where some PBM clients are considering adopting narrow or restricted retail pharmacy networks. As a pharmacy retail business, we compete with other drugstore chains, supermarkets, online and other discount retailers, independent pharmacies, membership clubs, convenience stores and mass merchants, some of which are aggressively expanding into markets we serve. We also face competition from other retail health care clinics, as well as other mail order pharmacies and PBMs. Disruptive innovation by existing or new competitors could alter the competitive landscape in the future and require us to accurately identify and assess such changes and make timely and effective changes to our strategies and business model to compete effectively. Competition may also come from other sources in the future. Changes in market dynamics or the actions of competitors or manufacturers, including industry consolidation, the emergence of new competitors and strategic alliances, and decisions to exclude us from new narrow or restricted retail pharmacy networks, could materially and adversely affect our businesses, results of operations, cash flows and prospects.

We also could be adversely affected if we fail to identify or effectively respond to changes in market dynamics. For example, specialty pharmacy represents a significant and growing proportion of prescription drug spending in the United States, a significant portion of which is dispensed outside of traditional retail pharmacies. Because our specialty pharmacy operations focus on complex and high-cost medications that serve a relatively limited universe of patients, the future growth of this business depends to a significant extent upon expanding our ability to access key drugs and successfully penetrate key treatment categories.

The competitive success of our LTC pharmacy operations is dependent upon our ability to compete in each geographic region where we have operations. In the geographic regions we serve, we compete with PharMerica, our largest LTC pharmacy competitor, as well as with numerous local and regional institutional pharmacies, pharmacies owned by long-term care facilities and local retail pharmacies. Our LTC pharmacy customers consist of skilled nursing facilities, assisted living facilities, independent living communities, hospitals, correctional facilities, and other health care service providers. One of our growth opportunities is to increase our penetration rate in the assisted living segment, where residents can choose which pharmacy will provide them with prescription drugs. The ability of a resident of an assisted living facility to select the pharmacy that supplies him or her with prescription drugs could adversely affect our business, financial condition and results of operations because there can be no assurance that such resident will select us.

The competitive success of our pharmacy services business is impacted by its ability to establish and maintain contractual relationships with network pharmacies in an environment where some PBM clients are considering adopting narrow or restricted retail pharmacy networks. Competitors in the PBM industry (e.g., the Express Scripts business of Cigna Corporation,

OptumRx, Prime Therapeutics, MedImpact and Humana), include large, national PBM companies, PBMs owned by large national health plans and smaller standalone PBMs. Competition also may come from other sources in the future. In addition, changes in the overall composition of our pharmacy networks, or reduced pharmacy access under our networks, could adversely affect our claims volume and/or our competitiveness generally.

Customer contracts in our Health Care Benefits segment are generally for a period of one year, and our customers have considerable flexibility in moving between us and our competitors. One of the key factors on which we compete for customers, especially in uncertain economic environments, is overall cost. We are therefore under pressure to contain premium price increases despite being faced with increasing health care and other benefit costs and increasing operating costs. If we are unable to increase our prices to reflect increasing costs, our profitability will be adversely affected. If we are unable to limit our price increases, we may lose members to competitors with more favorable pricing, adversely affecting our revenues and results of operations. In response to rising prices, our customers may elect to self-insure or to reduce benefits in order to limit increases in their benefit costs. Alternatively, our customers may purchase different types of products from us that are less profitable. Such elections may result in reduced membership in our more profitable Insured products and/or lower premiums for our Insured products, which may adversely affect our revenues and results of operations, although such elections also may reduce our health care and other benefit costs. In addition, our Medicare, Medicaid and CHIP products are subject to termination without cause, periodic re-bid, rate adjustment and program redesign, as customers seek to contain their benefit costs, particularly in an uncertain economy. These actions may adversely affect our membership, revenues and results of operations.

Competitors in each of our businesses may offer services and pricing terms that we may not be willing or able to offer. For example, strong competition in the PBM marketplace has generated greater client demand for lower pricing, increased revenue sharing and enhanced product and service offerings. Unless we can demonstrate enhanced value to our clients through innovative product and service offerings, particularly in a rapidly changing health care industry, we may be unable to remain competitive.

We may lose clients and/or fail to win new business. If we fail to compete effectively in the geographies and product areas in which we operate, including maintaining or increasing membership in our Health Care Benefits segment, our results of operations, financial condition and cash flows could be materially and adversely affected.

Our PBM business generates revenues primarily by contracting with clients to provide prescription drugs and related health care services to plan members. PBM client contracts often have terms of approximately three years in duration, so approximately one third of a PBM's client base typically is subject to renewal each year. In some cases, however, PBM clients may negotiate a shorter or longer contract term or may require early or periodic renegotiation of pricing prior to expiration of a contract. Our clients are generally well informed and organized, can move between our competitors and often seek competing bids prior to expiration of their contracts. In addition, the reputational impact of a service-related incident could adversely affect our businesses. These factors, together with the impact of competitive pressures, could make it difficult for us to attract new clients, retain existing clients and cross-sell additional products and/or services. Further, the PBM industry has been affected by consolidation activity that may continue in the future. If one or more of our PBM clients is acquired by an entity that is not also our client, we may be unable to retain all or a portion of the acquired client's business. These circumstances, either individually or in the aggregate, could result in an adverse effect on our businesses and financial results. Therefore, we continually face challenges in competing for new PBM business and retaining or renewing our existing PBM business. With respect to our LTC pharmacy business, reimbursement from skilled nursing facilities for prescriptions we dispense is determined pursuant to our agreements with those skilled nursing facilities. The termination of these agreements generally terminates our ability to provide services to any of the residents of that facility, resulting in the loss of revenue from any source for those residents. There can be no assurance that we will be able to win new business or secure renewal business on terms as favorable to us as the present terms.

Additionally, with respect to our retail and LTC pharmacy businesses, reimbursement under Medicare Part D, as well as reimbursement from certain private third-party payors, is determined pursuant to agreements that we negotiate with those payors or their PBM representatives. The loss of those agreements, or a material change in the terms of those agreements, could adversely affect our results of operations and cash flows. In addition, restricted networks that exclude our retail or specialty pharmacies adversely affect those businesses.

The health care and related benefits industry is highly competitive, primarily due to a large number of for-profit and not-for-profit competitors, our competitors' marketing and pricing, and a proliferation of competing products, including new products that are continually being introduced into the marketplace. Our Health Care Benefits segment faces significant competition in all of the geographies and product areas in which it operates. New entrants into the marketplace, as well as consolidation within the industry, have contributed to and are expected to intensify the competitive environment. In addition, the rapid pace of change as the industry evolves towards a consumer-focused retail marketplace, including Insurance Exchanges, and the

increased use of technology to interact with members, providers and customers, increase the risks we currently face from new entrants and disruptive actions by existing competitors compared to prior periods.

Our Health Care Benefits segment competes on the basis of many factors, including perceived overall quality, quality of service, comprehensiveness of coverage, cost (including premium, provider discounts and member out-of-pocket costs), product design, financial stability and ratings, breadth and quality of provider networks, providers available in such networks, and quality of member support and care management programs. Our Health Care Benefits segment's competitors include, among others, UnitedHealth Group Incorporated, Anthem, Inc., Humana Inc., Cigna Corporation, WellCare Health Plans, Inc., Centene Corporation, Molina Healthcare, Inc., Kaiser Permanente, health system owned health plans and new entrants into the marketplace, and numerous for-profit and not-for-profit organizations operating under licenses from the Blue Cross and Blue Shield Association. The Health Care Benefits segment's largest competitor in its Medicare products is Original Medicare. Additional competitors in this segment's businesses include other types of medical and dental provider organizations, various specialty service providers (including PBM services providers), health care consultants, financial services companies, integrated health care delivery organizations (networks of providers who also coordinate administrative services for and assume insurance risk of their members), TPAs, HIT companies and, for certain plans, programs sponsored by the federal or state governments. Emerging competitors include start up health care benefit plans, provider-owned health plans, new joint ventures (including for-profit and not-for-profit joint ventures among firms from multiple industries), technology firms, financial services firms that are distributing competing products on their proprietary Private Exchanges, consulting firms that are distributing competing products on their proprietary Private Exchanges, as well as non-traditional distributors such as retail companies. In particular geographies, competitors may have greater capabilities, resources or membership; a more established reputation; superior supplier or health care professional pricing and contract terms; better business relationships; or other factors that give such competitors a competitive advantage. The Health Care Benefits segment competes for sales on Insurance Exchanges and is developing and expanding its Consumer Health Products and Services product and service offerings, where we face additional risks from existing and new competitors (including our vendors) who have lower cost structures, greater experience marketing to consumers and/or who target the higher margin portions of our business. Among the Health Care Benefits segment's international and HIT competitors, many have longer operating histories, better brand recognition and greater market presence in many of the areas in which the segment is seeking to expand and more experience at rapidly innovating products.

There can be no assurance that the Aetna Acquisition will not adversely affect any of our segments' respective abilities to attract new clients or retain existing clients or our ability to cross-sell additional products and/or services within any segment or between segments. If we do not compete effectively in the geographies and product areas in which we operate, our businesses, results of operations, financial condition and cash flows could be materially and adversely affected.

We are exposed to risks relating to the solvency of our customers and of other insurers.

If our customers' operating and financial performance deteriorates, or they are unable to make scheduled payments or obtain adequate financing, our customers may not be able to pay timely, or may delay payment of, amounts owed to us. Any inability of our customers to pay us for our products and services may adversely affect our businesses, financial condition and results of operations. In addition, both state and federal government sponsored payers, as a result of budget deficits or reductions, may suspend payments or seek to reduce their healthcare expenditures resulting in our customers delaying payments to us or renegotiating their contracts with us. Any delay or reduction in payments by such government sponsored payers may adversely affect our businesses, financial condition and results of operations.

We are subject to assessments under guaranty fund laws for obligations of insolvent insurance companies (such as the discounted estimated liability expense of \$231 million pretax for our estimated share of future assessments for Penn Treaty Network America Insurance Company and one of its subsidiaries that Aetna recorded in the first quarter of 2017), HMOs, ACA co-ops and other payors to policyholders and claimants.

We face risks relating to the market availability, pricing, suppliers and safety profiles of prescription drugs that we purchase and sell.

We dispense significant volumes of brand-name and generic drugs from our retail, LTC, specialty and mail order pharmacies and through our PBM's network of retail pharmacies. When increased safety risk profiles or manufacturing or other supply issues of specific drugs or classes of drugs occur, or drugs become subject to greater restrictions as controlled substances, physicians may cease writing prescriptions for these drugs or the utilization of these drugs may be otherwise reduced.

Additionally, adverse publicity regarding drugs with higher safety risk profiles may result in reduced consumer demand for such drugs. On occasion, products are withdrawn by their manufacturers or transition to over-the-counter products, which can

result in lower prescription utilization. In addition, future FDA rulings could restrict the supply or increase the cost of products sold to our customers. Our results of operations and cash flows may decline as a result of such regulatory rulings or market changes.

Further, we acquire a substantial amount of our mail and specialty pharmacies' prescription drug supply from a limited number of suppliers. Our agreements with these suppliers are often short-term and easily cancelable by either party without cause. In addition, these agreements may limit our ability to provide services for competing drugs during the term of the agreement and may allow the supplier to distribute through channels other than us. Certain of these agreements also allow pricing and other terms to be adjusted periodically for changing market conditions or required service levels. A termination or modification to any of these relationships could have a material adverse effect on our businesses, financial condition and results of operations. Moreover, many products distributed by our specialty pharmacy business are manufactured with ingredients that are susceptible to supply shortages. In some cases, we depend upon a single source of supply. Any such supply shortages or loss of any such single source of supply could adversely affect our results of operations and cash flows.

In addition, our suppliers are independent entities subject to their own operational and financial risks that are outside our control. If our current suppliers were to stop selling prescription drugs to us or delay delivery, including as a result of supply shortages, supplier production disruptions, supplier quality issues, closing or bankruptcies of our suppliers, or for other reasons, we may be unable to procure alternatives from other suppliers in a timely and efficient manner and on acceptable terms, or at all.

A disruption in our business operations could occur as a result of contamination of drugs, a failure to maintain necessary shipment and storage conditions, errors in mail order processing, the unavailability of prescription drugs provided by suppliers, labor disruptions or other unanticipated disruptions at our mail order dispensing pharmacy facilities, specialty pharmacy facilities, call centers, data centers or corporate facilities, among other factors. Such disruption could reduce our ability to process and dispense prescriptions and provide products and services to our customers.

If any products we distribute are in limited supply for significant periods of time, our financial condition and results of operations could be materially and adversely affected.

We face risks related to the frequency and rate of the introduction and pricing of generic drugs and brand name prescription drug products.

The profitability of our Retail/LTC and Pharmacy Services segments is dependent upon the utilization of prescription drug products. Utilization trends are affected by, among other factors, the introduction of new and successful prescription drugs as well as lower-priced generic alternatives to existing brand name products because we generally earn higher gross margins on the sale of generic alternatives than on brand name equivalents. In addition, inflation in the price of brand name drugs can affect utilization, particularly given the increase in high deductible health plans. Accordingly, our businesses and results of operations could be adversely affected by a slowdown or delay in the number or magnitude of new and successful prescription drugs and/or generic alternatives, as well as inflation in the price of brand name drugs. For example, we project that the operating income of our Pharmacy Services and Retail/LTC segments may be reduced in 2019 compared to 2018 due in part to fewer new multi-source generic drugs being introduced and lower brand name drug price inflation in 2019 than 2018.

Possible changes in industry pricing benchmarks and drug pricing generally can adversely affect our PBM business.

It is possible that the pharmaceutical industry or regulators may evaluate and/or develop an alternative pricing reference to replace AWP or Wholesale Acquisition Cost ("WAC"), which are the pricing references used for many of our PBM and LTC client contracts, drug purchase agreements, retail network contracts, specialty payor agreements and other contracts with third party payors in connection with the reimbursement of drug payments. In addition, many state Medicaid fee-for-service programs ("FFS Medicaid") have established pharmacy network payments on the basis of Actual Acquisition Cost ("AAC"). The use of an AAC basis in FFS Medicaid could have an impact on reimbursement practices in other commercial and government products. Future changes to the use of AWP, WAC or to other published pricing benchmarks used to establish drug pricing, including changes in the basis for calculating reimbursement by federal and state health programs and/or other payors, could impact the reimbursement we receive from Medicare and Medicaid programs, the reimbursement we receive from our PBM clients and other payors and/or our ability to negotiate rebates and/or discounts with drug manufacturers, wholesalers, PBMs and retail pharmacies. A failure or inability to fully offset any increased prices or costs or to modify our operations to mitigate the impact of such increases could have a material adverse effect on our results of operations. Additionally, any future changes in drug prices could be significantly different than our projections. The effect of these possible changes on our businesses cannot be predicted at this time.

Product liability, product recall or personal injury issues could damage our reputation.

The products that we sell could become subject to contamination, product tampering, mislabeling, recall or other damage. In addition, errors in the dispensing and packaging of drugs and consuming drugs in a manner that is not prescribed could lead to serious injury or death. Product liability or personal injury claims may be asserted against us with respect to any of the drugs or other products we sell or services we provide. For example, we are a defendant in litigation proceedings relating to opioids and the sale of products containing talc. Our businesses involve the provision of professional services, including by pharmacists, physician assistants, nurses and nurse practitioners, that exposes us to professional liability claims. Should a product or other liability issue arise, the coverage limits under our insurance programs and the indemnification amounts available to us may not be adequate to protect us against claims. We also may not be able to maintain our existing levels of insurance on acceptable terms in the future. Damage to our reputation in the event of a product liability or personal injury issue or judgment against us or a product recall could have a significant adverse effect on our businesses, financial condition and results of operations.

We face challenges in growing our Medicare Advantage and Medicare Part D membership.

We are seeking to substantially grow our Medicare Advantage and Medicare Part D membership, revenue and results of operations in 2019 and over the next several years, including by significantly expanding our Medicare Advantage service area. The organic expansion of our Medicare Advantage service area is subject to the ability of CMS to process our requests for service area expansions and our ability to build cost competitive provider networks in the expanded service areas that meet applicable network adequacy requirements. CMS' decisions on our requests for service area expansions also may be affected adversely by compliance issues that arise each year in our Medicare operations. If we are not successful in expanding our Medicare Advantage service area, we may not be able to achieve our Medicare Advantage growth goals.

We face challenges in growing our Medicaid membership, and expanding our Medicaid membership exposes us to additional risks.

We are seeking to substantially grow our Medicaid, dual eligible and dual eligible special needs plan membership over the next several years. In many instances, to acquire and retain our government customers' business, we must bid against our competitors in a highly competitive environment. Winning bids often are challenged successfully by unsuccessful bidders. Our ability to maintain and grow membership, revenues and results of operations in our Medicaid products is dependent on our remaining competitive on price, performance and preparing successful bids. In cases where a successful bid is challenged, we incur defense costs and may incur unreimbursed implementation and other costs to meet contractual deadlines even if we ultimately lose the challenge.

If we are successful in expanding our Medicaid membership, we may increase our exposure to states that face budgetary pressures, hospitals and other providers that face revenue challenges associated with uncompensated care and pressures on our operating margins driven by the projected rapid growth in the size of and cost of care for the Medicaid eligible population.

A change in our Health Care Benefits product mix may adversely affect our profit margins.

Our Insured Health Care Benefits products that involve greater potential risk generally tend to be more profitable than our ASC products. Historically, smaller employer groups have been more likely to purchase Insured Health Care Benefits products because such purchasers are generally unable or unwilling to bear greater liability for health care expenditures, although recently even relatively small employers have moved to ASC products. We also serve government-sponsored programs, including Medicare and Medicaid, that are subject to competitive bids and regulatory requirements and have lower profit margins than the Insured Commercial products in our Health Care Benefits segment. Although our Health Care Benefits membership is projected to continue to shift towards Government products in 2019, the profitability of each of those products differs and may be less than the profitability of an Insured Commercial product. A shift of enrollees from more profitable products to less profitable products could have a material adverse effect on our results of operations.

We may not be able to accurately forecast health care and other benefit costs, which could adversely affect our Health Care Benefits segment's results of operations. There can be no assurance that the future health care and other benefit costs of our Insured Health Care Benefits products will not exceed our projections.

Premiums for our Insured Health Care Benefits products, which comprised 87% of our Health Care Benefits revenues for 2018, are priced in advance based on our forecasts of health care and other benefit costs during a fixed premium period, which is generally one year. These forecasts are typically developed several months before the fixed premium period begins, are influenced by historical data (and recent historical data in particular), are dependent on our ability to anticipate and detect medical cost trends and changes in our members' behavior and healthcare utilization patterns and require a significant degree of

judgment. For example, our revenue on Medicare policies is based on bids submitted in June of the year before the contract year. Cost increases in excess of our projections cannot be recovered in the fixed premium period through higher premiums. As a result, our profits are particularly sensitive to the accuracy of our forecasts and our ability to anticipate and detect medical cost trends. Even relatively small differences between predicted and actual health care and other benefit costs as a percentage of premium revenues can result in significant adverse changes in our results of operations.

Our health care and other benefit costs can be affected by external events that we cannot forecast or anticipate and over which we have little or no control, such as emerging changes in the economy and/or public policy, additional government mandated benefits or other regulatory changes, changes in our members' behavior and healthcare utilization patterns, changes in health care practices, new technologies, increases in the cost of prescription drugs, influenza related health care costs (which may be substantial and were higher than Aetna projected in 2017-2018), direct-to-consumer marketing by drug manufacturers, clusters of high cost cases, epidemics, pandemics, terrorist attacks or other man-made disasters, natural disasters or other events that materially increase utilization of medical and/or other covered services, including prescription drugs, as well as changes in provider billing practices. Our health care and other benefit costs also can be affected by changes in our business mix, product designs, contracts with providers, medical management, underwriting, rating and/or claims processing methods and processes, and our medical management initiatives may not deliver the reduction in utilization and/or medical cost trend that we project.

It is particularly difficult to accurately anticipate, detect, price, forecast, manage and reserve for medical cost trends and utilization of medical and/or other covered services during and following periods when such utilization and/or trends are below recent historical levels, during periods of changing economic conditions and employment levels and for products with substantial membership growth and/or turnover. For example, as of December 31, 2018, we held a premium deficiency reserve of \$16 million for the 2019 coverage year related to our Medicaid products. We expect utilization to increase in 2019 when compared to 2018.

If health care and other benefit costs are higher than the levels reflected in our pricing or if we are not able to obtain appropriate pricing on new or renewal business, our prices will not reflect the risk we assume, and our results of operations will be adversely affected. If health care and other benefit costs are lower than we predict, our prices may be higher than those of our competitors, which may cause us to lose Health Care Benefits membership.

A number of factors, many of which are beyond our control, contribute to rising health care and other benefit costs. If we are unable to satisfactorily manage our health care and other benefit costs, our Health Care Benefits segment's results of operations and competitiveness will be adversely affected.

A number of factors contribute to rising health care and other benefit costs, including previously uninsured members entering the health care system, changes in members' behavior and healthcare utilization patterns, turnover in our membership, additional government mandated benefits or other regulatory changes, changes in the health status of our members, the aging of the population and other changing demographic characteristics, advances in medical technology, increases in the number and cost of prescription drugs (including specialty pharmacy drugs), direct-to-consumer marketing by drug manufacturers, the increasing influence of social media on our members' utilization and other behavior, changes in health care practices and inflation. In addition, government-imposed limitations on Medicare and Medicaid reimbursements to health plans and providers have caused the private sector to bear a greater share of increasing health care and other benefits costs over time, and future amendments or repeal or replacement of the ACA that increase the uninsured population may exacerbate this problem. Other factors that affect our health care and other benefit costs include changes as a result of the ACA, changes to the ACA and other changes in the regulatory environment, the evolution toward a consumer driven business model, changes in health care practices, general economic conditions (such as inflation and employment levels), new technologies, influenza related health care costs (which may be substantial and were higher than Aetna projected in 2017-2018), clusters of high-cost cases, epidemics or pandemics, health care provider and member fraud, and numerous other factors that are or may be beyond our control.

Our Health Care Benefits segment's results of operations and competitiveness depend in large part on our ability to appropriately manage future health care and other benefit costs through underwriting criteria, product design, provider network configuration, negotiation of favorable provider contracts and medical management programs. Our medical cost management programs may not be successful and may have a smaller impact on health care and benefit costs than we expect. The factors described above may adversely affect our ability to predict and manage health care and other benefit costs, which can adversely affect our competitiveness and results of operations.

The reserves we hold for expected claims in our Insured Health Care Benefits products are based on estimates that involve an extensive degree of judgment and are inherently variable. Any reserve, including a premium deficiency reserve, may be

insufficient. If actual claims exceed our estimates, our results of operations could be materially adversely affected, and our ability to take timely corrective actions to limit future costs may be limited.

A large portion of health care claims are not submitted to us until after the end of the quarter in which services are rendered by providers to our members. Our reported health care costs payable for any particular period reflect our estimates of the ultimate cost of such claims as well as claims that have been reported to us but not yet paid. We also must estimate the amount of rebates payable under the ACA's, CMS's and OPM's minimum MLR rules and the amounts payable by us to, and receivable by us from, the United States federal government under the ACA's remaining premium stabilization program.

Our estimates of health care costs payable are based on a number of factors, including those derived from historical claim experience, but this estimation process also makes use of extensive judgment. Considerable variability is inherent in such estimates, and the accuracy of the estimates is highly sensitive to changes in medical claims submission and processing patterns and/or procedures, turnover and other changes in membership, changes in product mix, changes in the utilization of medical and/or other covered services, including prescription drugs, changes in medical cost trends, changes in our medical management practices and the introduction of new benefits and products. We estimate health care costs payable periodically, and any resulting adjustments, including premium deficiency reserves, are reflected in current-period results of operations within benefit costs. For example, as of December 31, 2018, we held a premium deficiency reserve of \$16 million for the 2019 coverage year related to our Medicaid products. A worsening (or improvement) of health care cost trend rates or changes in claim payment patterns from those that we assumed in estimating health care costs payable as of December 31, 2018 would cause these estimates to change in the near term, and such a change could be material.

Furthermore, if we are not able to accurately and promptly anticipate and detect medical cost trends or accurately estimate the cost of incurred but not yet reported claims or reported claims that have not been paid, our ability to take timely corrective actions to limit future costs and reflect our current benefit cost experience in our pricing process may be limited, which would further exacerbate the extent of any adverse impact on our results of operations. These risks are particularly acute during and following periods when utilization of medical and/or other covered services and/or medical cost trends are below recent historical levels and in products where there is significant turnover in our membership each year, and such risks are further magnified by the ACA and other legislation and regulations that limit our ability to price for our projected and/or experienced increases in utilization and/or medical cost trends.

Extreme events, or the threat of extreme events, could materially increase our health care (including behavioral health) costs. We cannot predict whether or when any such events will occur.

Nuclear, biological or other attacks, whether as a result of war or terrorism, other man-made disasters, natural disasters, epidemics, pandemics and other extreme events can affect the United States economy in general, our industries and us specifically. In particular, such extreme events or the threat of such extreme events could result in significant health care (including behavioral health) costs, which would also be affected by the government's actions and the responsiveness of public health agencies and other insurers. In addition, our employees and those of our vendors are concentrated in certain large, metropolitan areas which may be particularly exposed to these events. Such events could adversely affect our businesses, cash flows and results of operations, and, in the event of extreme circumstances, our financial condition or viability, particularly if our responses to such events are less adequate than those of our competitors.

Changes in Public Policy and Other Legal and Regulatory Risks

Legislative and regulatory changes could create significant challenges to our Medicare Advantage and Medicare Part D revenues and results of operations, and proposed changes to these programs could create significant additional challenges. Entitlement program reform, if it occurs, could have a material adverse effect on our businesses, operations and/or results of operations.

Medicare Advantage payment rates to health plans have been cut over the last several years, with additional reductions to be phased in through 2019. CMS issued the Final Notice in April 2018. Overall, we project the benchmark rates in the Final Notice will increase funding for our Medicare Advantage business, excluding the impact of coding trend, by approximately 2.5 percent in 2019 compared to 2018. This 2019 rate increase only slightly offsets the challenge we face from the impact of the increasing cost of medical care (including prescription medications), the HIF and CMS local and national coverage decisions that require us to pay for services and supplies that are not factored into our bids and creates continued pressure on the Medicare Advantage program and our Medicare Advantage results of operations. We cannot predict future Medicare funding levels, the impact of future federal budget actions or ensure that such changes or actions will not have an adverse effect on our Medicare results of operations.

In addition, the “star ratings” from CMS for our Medicare Advantage plans will continue to have a significant effect on our plans’ results of operations. Since 2015, only Medicare Advantage plans with a star rating of four or higher (out of five) are eligible for a quality bonus in their basic premium rates. CMS continues to change its rating system to make achieving and maintaining a four or higher star rating more difficult. Our star ratings and past performance scores are adversely affected by the compliance issues that arise each year in our Medicare operations. If our star ratings fall below 4 for a significant portion of our Medicare Advantage membership or do not match the performance of our competitors or the star rating quality bonuses are reduced or eliminated, our revenues and results of operations may be significantly adversely affected.

Payments we receive from CMS for our Medicare Advantage and Part D businesses also are subject to risk adjustment based on the health status of the individuals we enroll. Elements of that risk adjustment mechanism continue to be challenged by the DOJ, the OIG and CMS itself. Substantial changes in the risk adjustment mechanism, including changes that result from enforcement or audit actions, could materially affect the fairness of our Medicare reimbursement, require us to raise prices or reduce the benefits we offer to Medicare beneficiaries, and potentially limit our (and the industry’s) participation in the Medicare program.

Medicare Part D has resulted in increased utilization of prescription medications and puts pressure on our pharmacy gross margin rates due to regulatory and competitive pressures. Further, as a result of the ACA and changes to the retiree drug subsidy rules, clients of our PBM could decide to discontinue providing prescription drug benefits to their Medicare-eligible members. To the extent this phenomenon occurs, the adverse effects of increasing customer migration into Medicare Part D may outweigh the benefits we realize from growth of our Medicare Part D business. In addition, if the cost and complexity of Medicare Part D exceed management’s expectations or prevent effective program implementation or administration; if changes to the regulations regarding how drug costs are reported for Medicare Part D are implemented in a manner that adversely affects the profitability of our Medicare Part D business; if changes to the applicable regulations impact our ability to retain fees from third parties including network pharmacies; if the government alters Medicare Part D program requirements or reduces funding because of the higher-than-anticipated cost to taxpayers of Medicare Part D or for other reasons; if the government mandates the use of point-of-sale manufacturer’s rebates or up front drug pricing discounts, makes drug manufacturer’s rebates illegal, or makes changes to how pharmacy pay-for-performance is calculated; or if reinsurance thresholds are reduced below their current levels, our Medicare Part D results of operations and our ability to expand our Medicare Part D business could be adversely affected.

More generally, our Medicare results of operations and our ability to expand our Medicare membership and revenues also could be adversely affected if we fail to design and maintain programs that are attractive to Medicare Advantage or Part D participants; if CMS imposes restrictions on our Medicare business as a result of audits or other regulatory actions; if we fail to successfully implement corrective actions or other remedial measures sufficient to prevent or remove any applicable restrictions that may be imposed by CMS; or if we are not successful in retaining enrollees, or winning contract renewals or new contracts under Medicare’s competitive bidding process.

Federal funding for expanded Medicaid coverage began to decrease in 2017. This reduction is causing states to re-evaluate funding for their Medicaid expansions. That re-evaluation may adversely affect Medicaid payment rates, our Medicaid membership in those states, our revenues, our MBRs and our results of operations.

We may not be able to obtain adequate premium rate increases in our Insured Health Care Benefits products, which would have an adverse effect on our revenues, MBRs and results of operations and could magnify the adverse impact of increases in health care and other benefit costs and of ACA assessments, fees and taxes.

Premium rates for our Insured Health Care Benefits products generally must be filed with state insurance regulators and are subject to their approval, which creates risk for us in the current political and regulatory environment. The ACA generally requires a review by HHS in conjunction with state regulators of premium rate increases that exceed a federally specified threshold (or lower state-specific thresholds set by states determined by HHS to have adequate processes). Rate reviews can magnify the adverse impact on our operating margins and results of operations of increases in health care and other benefit costs, increased utilization of covered services, and ACA assessments, fees and taxes, by restricting our ability to reflect these increases and/or these assessments, fees and taxes in our pricing. The risk of increases in utilization of medical and/or other covered services and/or in health care and other benefit costs is particularly acute during and following periods when utilization has been below recent historical levels, during periods of changing economic conditions and/or employment levels and in products where there is significant turnover in our membership each year. Further, our ability to reflect ACA assessments, fees and taxes in our Medicare rates is limited. Similarly, our ability to reflect them in our Medicaid and/or CHIP premium rates is limited due, among other things, to the budgetary pressures currently facing many state governments. This could magnify the adverse impact on our operating margins and results of operations of increases in utilization of medical and other covered services, health care and other benefit costs and/or medical cost trends that exceed our projections.

Since 2013, HHS has issued determinations to health plans that their rate increases were “unreasonable,” and we continue to experience challenges to appropriate premium rate increases in certain states. Regulators or legislatures in a number of states have implemented or are considering limits on premium rate increases, either by enforcing existing legal requirements more stringently or proposing different regulatory standards. Regulators or legislatures in a number of states also have conducted hearings on proposed premium rate increases, which can result, in some instances have resulted, in substantial delays in implementing proposed rate increases even if they ultimately are approved. Our plans can be excluded from participating in small group Public Exchanges if they are deemed to have a history of “unreasonable” rate increases. We requested significant increases in our premium rates in our small group Commercial Health Care Benefits products for 2019 and expect to continue to request significant increases in those rates for 2020 and beyond in order to adequately price for projected medical cost trends, required expansions of coverage and significant assessments, fees and taxes imposed by the federal and state governments, including the ACA. Our rates also must be adequate to reflect the risk that our products will be selected by people with a higher risk profile or utilization rate than the pool of participants we anticipated when we established the pricing for the applicable products (also known as “adverse selection”) in our products, particularly in small group products, which we expect to continue and potentially worsen in 2019 following the expiration of the ACA’s risk corridor and reinsurance programs at the end of 2016. These significant rate increases heighten the risks of adverse public and regulatory reaction and adverse selection and the likelihood that our requested premium rate increases will be denied, reduced or delayed, which could lead to operating margin compression.

We anticipate continued regulatory and legislative action to increase regulation of premium rates in our Insured Health Care Benefits products. We may not be able to obtain rates that are actuarially justified or that are sufficient to make our policies profitable in any product line or geography. If we are unable to obtain adequate rates and/or rate increases, it could materially and adversely affect our operating margins and our ability to earn adequate returns on Insured Health Care Benefits business in one or more states or cause us to withdraw from certain geographies and/or products.

Minimum MLR rebate requirements limit the level of margin we can earn in our Insured Health Care Benefits products while leaving us exposed to higher than expected medical costs. Challenges to our minimum MLR rebate methodology and/or reports could adversely affect our results of operations.

The ACA requires us to pay minimum MLR rebates each year with respect to prior years. The ACA’s minimum MLR rebate requirements limit the level of margin we can earn in our Commercial Insured and Medicare Insured businesses. CMS minimum MLR rebate regulations limit the level of margin we can earn in our Medicaid Insured business. Certain portions of our Health Care Benefits Medicaid and FEHB program business also are subject to minimum MLR rebate requirements in addition to but separate from those imposed by the ACA. Minimum MLR rebate requirements leave us exposed to medical costs that are higher than those reflected in our pricing. The process supporting the management and determination of the amount of MLR rebates payable is complex and requires judgment, and the minimum MLR reporting requirements are detailed. Federal and state auditors are challenging our Commercial Health Care Benefits business’ compliance with the ACA’s minimum MLR requirements as well as our FEHB plans’ compliance with the OPM’s FEHB program-specific minimum MLR requirements. Our Medicare and Medicaid contracts also are subject to minimum MLR audits. If a Medicare Advantage or Medicare Part D contract pays minimum MLR rebates for three consecutive years, it will become ineligible to enroll new members. If a Medicare Advantage or Medicare Part D contract pays such rebates for five consecutive years, it will be terminated by CMS. Additional challenges to our methodology and/or reports relating to minimum MLR and related rebates by federal and state regulators and private litigants are reasonably possible. The outcome of these audits and additional challenges could adversely affect our results of operations.

Our business activities are highly regulated. Our Pharmacy Services, Medicare Advantage, Medicare Part D, Medicaid, dual eligible, dual eligible special needs plan, small group and certain other products are subject to particularly extensive and complex regulations. If we fail to comply with applicable laws and regulations, we could be subject to significant adverse regulatory actions or suffer brand and reputational harm which may have a material adverse effect on our businesses. Compliance with existing and future laws, regulations and/or judicial decisions may reduce our profitability and limit our growth.

Our businesses are subject to extensive regulation and oversight by state, federal and international governmental authorities. The laws and regulations governing our operations and interpretations of those laws and regulations are increasing in number and complexity, change frequently and can be inconsistent or conflicting. In general, these laws and regulations are designed to benefit and protect customers, members and providers rather than us or our investors. In addition, the governmental authorities that regulate our businesses have broad latitude to make, interpret and enforce the laws and regulations that govern us and continue to interpret and enforce those laws and regulations more strictly and more aggressively each year. In connection with the Aetna Acquisition, we also agreed to undertakings with certain state regulators that place various restrictions on certain of our businesses and the payment of dividends by certain of our subsidiaries.

Our Pharmacy Services products are subject to:

- The clinical quality, patient safety and other risks inherent in the dispensing, packaging and distribution of drugs and other health care products and services, including claims related to purported dispensing and other operational errors (any failure by us to adhere to the laws and regulations applicable to the dispensing of drugs could subject our Pharmacy Services businesses to civil and criminal penalties).
- Federal and state anti-kickback and other laws that govern our relationship with drug manufacturers, customers and consumers.
- Compliance requirements under ERISA, including fiduciary obligations in connection with the development and implementation of items such as drug formularies and preferred drug listings.
- Federal and state legislative proposals and/or regulatory activity that could adversely affect pharmacy benefit industry practices.

Our Health Care Benefits products are highly regulated, particularly those that serve Medicare, Medicaid, dual eligible, dual eligible special needs and small group Commercial customers and members. The laws and regulations governing participation in Medicare Advantage, Medicare Part D, Medicaid, dual eligible and dual eligible special needs plan programs are complex, are subject to interpretation and can expose us to penalties for non-compliance, including penalties under the False Claims Act and state false claims acts. In addition, the ACA may have expanded the jurisdiction of, and our exposure to, the False Claims Act to products that are sold on Public Exchanges or otherwise subject to the ACA. The scope of the practices and activities that are prohibited by federal and state false claims acts is the subject of pending litigation. Claims under federal and state false claims acts can be brought by the government or by private individuals on behalf of the government through a *qui tam* or “whistleblower” suit, and we are a defendant in a number of such proceedings. If we are convicted of fraud or other criminal conduct in the performance of a health program or if there is an adverse decision against us under the False Claims Act, we may be temporarily or permanently suspended from participating in government health care programs, including Medicare Advantage, Medicare Part D, Medicaid, dual eligible and dual eligible special needs plan programs, and we also may be required to pay significant fines and/or other monetary penalties.

If we fail to comply with laws and regulations that apply to government programs, we could be subject to criminal fines, civil penalties, premium refunds, prohibitions on marketing or active or passive enrollment of members, corrective actions, termination of our contracts or other sanctions which could have a material adverse effect on our ability to participate in Medicare Advantage, Medicare Part D, Medicaid, dual eligible, dual eligible special needs plan and other programs, cash flows, financial condition and results of operations.

Our businesses, profitability and growth also may be adversely affected by (i) judicial and regulatory decisions that change and/or expand the interpretations of existing statutes and regulations, impose medical or bad faith liability, increase our responsibilities under ERISA or the remedies available under ERISA, or reduce the scope of ERISA pre-emption of state law claims or (ii) other legislation and regulations.

If our compliance or other systems and processes fail or are deemed inadequate, we may suffer brand and reputational harm and become subject to regulatory actions or litigation which could adversely affect our businesses, results of operations, cash flows and/or financial condition.

Our businesses are subject to extensive and complex regulations, and many of our contracts with customers include detailed requirements. In order to be eligible to offer certain products or bid on certain contracts, we must demonstrate that we have robust systems in place to ensure that we comply with all applicable legal, regulatory and contractual requirements. These systems frequently are reviewed and audited by our customers and regulators. If our systems and processes designed to maintain compliance with applicable legal and contractual requirements, and to prevent and detect instances of, or the potential for, non-compliance fail or are deemed inadequate, we may suffer brand and reputational harm and be subject to regulatory actions, litigation and other proceedings which may result in damages, fines, suspension or loss of licensure, suspension or exclusion from participation in government programs and/or other penalties, any of which could adversely affect our businesses, cash flows, results of operations or financial condition.

Our litigation and regulatory risk profile are changing as a result of the Aetna Acquisition and as we offer new products and services and expand in business areas beyond our historical core businesses of Retail/LTC and Pharmacy Services.

Historically, we focused primarily on providing Retail/LTC and Pharmacy Services products and services. As a result of the Aetna Acquisition, we have significantly expanded our presence in Health Care Benefits products and services (including

products and services offered in multiple countries outside of the United States), which present a different litigation and regulatory risk profile than the products and services that we historically have offered.

The increased volume of business in areas beyond our historical core business and new products and services subject us to litigation and regulatory risks that are different from the risks of providing Retail/LTC and Pharmacy Services products and services and increase significantly our exposure to other risks.

We routinely are subject to litigation and other adverse legal proceedings, including class actions and qui tam actions. Many of these proceedings seek substantial damages which may not be covered by insurance. These proceedings may be costly to defend, result in changes in our business practices, harm our brand and reputation and adversely affect our businesses and results of operations.

Pharmacy services, retail pharmacy, LTC pharmacy and health care benefits are highly regulated and litigious industries. We are currently subject to various litigation matters, investigations, regulatory audits, inspections, government inquiries, and regulatory and other legal proceedings. Litigation, and particularly securities, collective or class action and *qui tam* litigation, is often expensive and disruptive. Certain of the lawsuits against us are or are purported to be class actions or *qui tam* actions. Litigation related to our provision of professional services in our pharmacies, specialty pharmacies, medical clinics and LTC facilities also has increased as we expand our services along the continuum of health care.

The majority of these proceedings relate to the conduct of our Retail/LTC, Pharmacy Services and Health Care Benefits operations and allege various violations of law. In addition, we operate in jurisdictions outside the United States, where contractual rights, tax positions and applicable regulations may be subject to interpretation or uncertainty to a greater degree than in the United States, and are therefore more likely to be subject to dispute by customers, members, governmental authorities and others. We are incurring expenses to resolve these proceedings. The outcome of litigation and other adverse legal proceedings is always uncertain, and outcomes that are not justifiable by the evidence or existing law or regulation can and do occur.

Litigation has been and may be brought against us by private individuals on behalf of the government through a *qui tam* or “whistleblower” suit. Under the provisions of the federal and various state false claims acts, private citizens may bring lawsuits alleging that a violation of the federal anti-kickback statute or similar laws has resulted in the submission of “false” claims to federal and/or state health care programs, including Medicare and Medicaid, and we are a defendant in a number of such proceedings. When a private individual brings a whistleblower suit, the defendant often will not be made aware of the suit for many months or even years, until the government commences its own investigation or determines whether it will intervene. Whistleblower suits have resulted in significant settlements between governmental agencies and health care companies. The significant incentives and protections provided under the Financial Reform Act increase the risk of whistleblower suits.

Many of the legal proceedings against us seek substantial damages (including non-economic or punitive damages and treble damages), and certain of these proceedings also seek changes in our business practices. While we currently have insurance coverage for some potential liabilities, other potential liabilities may not be covered by insurance, insurers may dispute coverage, or the amount of our insurance may not be enough to cover the damages awarded or costs incurred. In addition, some types of damages, like punitive damages, may not be covered by insurance, and in some jurisdictions the coverage of punitive damages is prohibited. Insurance coverage for all or some forms of liability may become unavailable or prohibitively expensive in the future.

We cannot predict the outcome of any of these matters, and the costs incurred may be substantial regardless of outcome. Litigation and other adverse legal proceedings could materially adversely affect our businesses or results of operations because of brand and reputational harm to us caused by such proceedings, the costs of defending such proceedings, the costs of settlement or judgments against us, or the changes in our operations that could result from such proceedings. See Item 3 of this Annual Report on Form 10-K for additional information.

We frequently are subject to regular and special governmental audits, investigations and reviews that could result in changes to our business practices and also could result in material refunds, fines, penalties, civil liabilities, criminal liabilities and other sanctions.

As one of the largest national retail and LTC pharmacy, pharmacy services and health care benefits providers, we frequently are subject to regular and special governmental market conduct and other audits, investigations and reviews by, and we receive subpoenas and other requests for information from, various federal and state agencies, regulatory authorities, attorneys general, committees, subcommittees and members of the United States Congress and other state, federal and international governmental authorities. For example, we have received CIDs from, and provided documents and information to, the Civil Division of the

DOJ in cooperation with a current investigation of our patient chart review processes in connection with risk adjustment data submissions under Parts C and D of the Medicare program. Several such audits, investigations and reviews currently are pending, some of which may be resolved in 2019, and the results of which may be adverse to us.

Federal and state governments have made investigating and prosecuting health care and other insurance fraud, waste and abuse a priority. Fraud, waste and abuse prohibitions encompass a wide range of activities, including kickbacks for referral of members, billing for unnecessary medical and/or other covered services, improper marketing and violations of patient privacy rights. The regulations and contractual requirements applicable to us and other industry participants are complex and subject to change, making it necessary for us to invest significant resources in complying with our regulatory and contractual requirements. Ongoing vigorous law enforcement and the highly technical regulatory scheme mean that our compliance efforts in this area will continue to require significant resources. In addition, our medical costs and the medical expenses of our Health Care Benefits ASC customers may be adversely affected if we do not prevent or detect fraudulent activity by providers and/or members.

Regular and special governmental audits, investigations and reviews by federal, state and international regulators could result in changes to our business practices, and also could result in significant or material premium refunds, fines, penalties, civil liabilities, criminal liabilities or other sanctions, including suspension or exclusion from participation in government programs and suspension or loss of licensure. Any of these audits, investigations or reviews could have a material adverse effect on our financial condition, results of operations or businesses or result in significant liabilities and negative publicity for our company. For example, since 2013, CMS has selected certain of the Company's Medicare Advantage contracts for various years for RADV audit. In addition, federal and state auditors are challenging our Commercial Health Care Benefits business' compliance with the ACA's minimum MLR requirements as well as our FEHB plans' compliance with OPM's FEHB program-specific minimum MLR requirements. Our Medicare and Medicaid contracts also are subject to minimum MLR audits. If a Medicare Advantage or Medicare Part D contract pays minimum MLR rebates for three consecutive years, it will become ineligible to enroll new members. If a Medicare Advantage or Medicare Part D contract pays such rebates for five consecutive years, it will be terminated by CMS.

We are subject to retroactive adjustments to and/or withholding of certain premiums and fees, including as a result of CMS RADV audits. We generally rely on health care providers to appropriately code claim submissions and document their medical records. If these records do not appropriately support our risk adjusted premiums, we may be required to refund premium payments to CMS and/or pay fines and penalties under the False Claims Act.

Premiums and/or fees for Medicare members, certain federal government employee groups and Medicaid beneficiaries are subject to retroactive adjustments and/or withholding by the federal and applicable state governments. Our business that is subject to the ACA, including amounts payable to us or payable by us under the ACA's premium stabilization programs and our risk adjustment and reinsurance data, also is subject to audit by governmental authorities. CMS regularly audits our performance to determine our compliance with CMS's regulations and our contracts with CMS and to assess the quality of the services we provide to our Medicare members.

CMS uses various payment mechanisms to allocate and adjust premium payments to our and other companies' Medicare plans by considering the applicable health status of Medicare members as supported by information prepared, maintained and provided by health care providers. We collect claim and encounter data from providers and generally rely on providers to appropriately code their submissions to us and document their medical records, including the diagnosis data submitted to us with claims. CMS pays increased premiums to Medicare Advantage plans and PDPs for members who have certain medical conditions identified with specific diagnosis codes.

Federal regulators review and audit the providers' medical records to determine whether those records support the related diagnosis codes that determine the members' health status and the resulting risk-adjusted premium payments to us. In that regard, CMS has instituted RADV audits of a subset of Medicare Advantage plans for various contract years, including certain of our plans for various contract years, to validate coding practices and supporting medical record documentation maintained by health care providers and the resulting risk adjusted premium payments to the plans. CMS may require us to refund premium payments if our risk adjusted premiums are not properly supported by medical record data. The OIG also is auditing our risk adjustment data and that of other companies, and we expect CMS and the OIG to continue auditing risk adjustment data. We also have received CIDs from, and provided documents and information to, the Civil Division of the DOJ in connection with a current investigation of our patient chart review processes in connection with risk adjustment data submissions under Parts C and D of the Medicare program.

In 2012, CMS revised its audit methodology for RADV audits to determine refunds payable by Medicare Advantage plans for contract year 2011 and forward. Under the revised methodology, among other things, CMS will project the error rate identified

in the audit sample of approximately 200 members to all risk adjusted premium payments made under the contract being audited. For contract years prior to 2011, CMS did not project sample error rates to the entire contract. As a result, the revised methodology may increase our exposure to premium refunds to CMS based on incomplete medical records maintained by providers. On October 26, 2018, CMS issued proposed rules related to, among other things, changes to the RADV audit methodology established by CMS in 2012. CMS projects that the changes to the RADV audit methodology would increase its recoveries from Medicare Advantage plans as a result of RADV audits. CMS has requested comments on the proposed rules, including whether the proposed RADV rule change should apply retroactively to audits of Medicare Advantage plans for contract year 2011 and forward. We are evaluating the potential adverse effect, which could be material, on our results of operations, financial condition and cash flows if the proposed RADV rule change were adopted as proposed. CMS also has announced its intent to use third party auditors to attain its ultimate goal of subjecting all Medicare Advantage contracts to either a comprehensive or a targeted RADV audit for each contract year. We are currently unable to predict which of our Medicare Advantage contracts will be selected for future audit, the amounts of any retroactive refunds of, or prospective adjustments to, Medicare Advantage premium payments made to us, the effect of any such refunds or adjustments on the actuarial soundness of our Medicare Advantage bids, or whether any RADV audit findings would require us to change our method of estimating future premium revenue in future bid submissions to CMS or compromise premium assumptions made in our bids for prior contract years, the current contract year or future contract years.

If we fail to report and correct errors discovered through our own auditing procedures or during a CMS audit or otherwise fail to comply with the applicable laws and regulations, we could be subject to fines, civil monetary penalties or other sanctions, including fines and penalties under the False Claims Act, which could have a material adverse effect on our ability to participate in Medicare Advantage, Part D or other government programs, and on our financial condition, cash flows and results of operations.

CMS has issued a final rule implementing ACA requirements that Medicare Advantage and PDP plans report and refund to CMS overpayments that those plans receive from CMS. However, CMS's statements in formalized guidance regarding "overpayments" to Medicare Advantage plans appear to be inconsistent with CMS's prior RADV audit guidance. These statements appear to equate each Medicare Advantage risk adjustment data error with an "overpayment" without reconciliation to the principles underlying the fee for service adjustment comparison contemplated by CMS's RADV audit methodology. The precise interpretation, impact and legality of the final rule are not clear and are subject to pending litigation. If Medicare Advantage plans were not paid based on payment model principles that align with the requirements of the Social Security Act or such payments were not implemented correctly, it could have a material adverse effect on our results of operations, financial condition and/or cash flows.

Certain of our Medicaid contracts require the submission of complete and correct encounter data. The accurate and timely reporting of encounter data is increasingly important to the success of our Medicaid programs because more states are using encounter data to determine compliance with performance standards and, in part, to set premium rates. We have expended and may continue to expend additional effort and incur significant additional costs to collect accurate, or to correct inaccurate or incomplete, encounter data and have been and could be exposed to premium withholding, operating sanctions and financial fines and penalties for noncompliance. We have experienced challenges in obtaining complete and accurate encounter data due to difficulties with providers and third-party vendors submitting claims in a timely fashion in the proper format, and with state agencies in coordinating such submissions. As states increase their reliance on encounter data, these difficulties could affect the Medicaid premium rates we receive and how Medicaid membership is assigned to us, which could have a material adverse effect on our Medicaid results of operations and cash flows and/or our ability to bid for, and continue to participate in, certain Medicaid programs.

Any premium or fee refunds, adjustments or withholding or civil or criminal fines or penalties, or other sanctions, including restrictions on or changes in the way we do business, loss of licensure or exclusion from participation in government programs, resulting from regulatory audits or investigations, whether as a result of RADV, Public Exchange related, recovery audit program or other audits or investigations by CMS, the OIG, HHS, the DOJ or otherwise, including audits of our minimum MLR rebates, methodology and/or reports, could be material and could adversely affect our results of operations, financial condition and cash flows.

Programs funded in whole or in part by the U.S. federal government account for a significant portion of our revenues. The U.S. federal government and our other government customers may reduce funding for health care or other programs, cancel or decline to renew contracts with us, or make changes that adversely affect the number of persons eligible for certain programs, the services provided to enrollees in such programs, our premiums and our administrative and health care and other benefit costs, any of which could have a material adverse effect on our businesses, results of operations and cash flows. In addition, an extended federal government shutdown or a delay by Congress in raising the federal government's debt ceiling could lead to a delay, reduction, suspension or cancellation of federal government spending and a

significant increase in interest rates that could, in turn, have a material adverse effect on our businesses, results of operations and cash flows.

Programs funded in whole or in part by the United States federal government account for a significant portion of our revenue, and we expect that percentage to increase. As our government funded businesses grow, our exposure to changes in federal and state government policy with respect to and/or regulation of the various government funded programs in which we participate also increases.

Our revenues from government funded programs, including our Medicare, Medicaid, dual eligible and dual eligible special needs plan businesses and our government customers in our Commercial business, are dependent on annual funding by the federal government and/or applicable state or local governments. Federal, state and local governments have the right to cancel or not to renew their contracts with us on short notice without cause or if funds are not available. Funding for these programs is dependent on many factors outside our control, including general economic conditions, continuing government efforts to contain health care costs and budgetary constraints at the federal or applicable state or local level and general political issues and priorities.

For example, CMS is transitioning the process of calculating Medicare members' risk scores from using diagnoses data from the Risk Adjustment Processing System, or RAPS, to using diagnoses data from the Encounter Data System, or EDS. The RAPS process requires Medicare Advantage plans to apply a filter logic based on CMS guidelines and only submit claims that satisfy those guidelines. For submissions through EDS, CMS requires Medicare Advantage plans to submit all encounter data, and CMS applies the risk adjustment filtering logic to determine the risk scores. For 2019, 25% of the risk score will be calculated from claims data submitted through EDS, up from 15% in 2018. For 2020, the EDS percentage will increase to 50%. The transition from RAPS to EDS could result in different risk scores from each dataset as a result of plan processing issues, CMS processing issues or filtering logic differences between RAPS and EDS and could have a material adverse effect on our results of operations, financial condition and/or cash flows.

In addition, while the ACA provided substantial federal funding for the expansion of the number of people who qualify to enroll in Medicaid beginning in 2014, that funding began to decrease in 2017, and the future of that funding is uncertain. As a result, in 2019, states are preparing for the adverse impact on their budgets and programs by seeking to reduce their Medicaid expenditures and/or changing the design of their Medicaid programs. These changes could have a material adverse effect on the revenues, medical benefit ratios and results operations of our Medicaid contracts and/or our ability to grow our Medicaid membership, revenues and results of operations.

Our government customers also determine the eligibility criteria, premium levels and other aspects of Medicare, Medicaid, dual eligible and dual eligible special needs plan programs that affect the number of persons enrolled in these programs, the services provided to enrollees under these programs, the conditions for participating in these programs and our administrative and health care and other benefit costs under these programs. For example, states may require participation on their Public Exchange as a condition to participating in their Medicaid or state employee health benefit programs and/or take program design actions that shift provider costs from state employee plans to Commercial and Medicare plans. In the past, determinations of this type have at times adversely affected our results of operations from and willingness to participate in such programs, and they may do so again in the future. If a government customer reduces premium levels or increases premiums by less than the increase in our costs (such as by not allowing us to recover ACA and other applicable fees, taxes and assessments), and we cannot offset the adverse impact of these actions with supplemental premiums and/or changes in benefit plans, then our businesses and results of operations could be adversely affected. In addition, if states allow certain programs to expire, reduce the number of firms with which they contract for Managed Medicaid services or choose to opt out of Medicaid expansion, we could experience reduced Medicaid enrollment or reduced Medicaid enrollment growth, which would adversely affect our businesses, revenues and results of operations.

The federal government's "debt ceiling", or the amount of debt the federal government is permitted to borrow to meet its legal obligations (including, among other things, interest on the national debt, Medicare and Medicaid premiums and contributions to the FEHB program), is limited by statute and can only be raised by an act of Congress.

During a federal government shutdown or if Congress does not raise the debt ceiling before the federal government's current obligations approach or exceed its cash on hand and incoming receipts, federal government spending may be subject to delay, reduction, suspension or cancellation, which may be prolonged. Over 30% of our Health Care Benefits segment's revenues are derived from health care coverage programs that are funded in whole or in part by the federal government, including the Medicare, Medicaid, dual eligible and dual eligible special needs plan programs, CHIP and the FEHB program. When federal spending is delayed, suspended or curtailed, we continue to receive claims from providers providing services to beneficiaries of these programs, and we remain liable for, and are required to fund, such claims. A federal government shutdown or a failure to

timely raise the debt ceiling could have a material adverse effect on our businesses, results of operations, cash flows, brand and reputation and, in the case of a prolonged shutdown or failure to raise the debt ceiling, our financial condition.

If the United States defaults on its obligations due to a failure to timely raise the debt ceiling or otherwise, or its credit rating is downgraded by any of the credit rating agencies, interest rates could rise, financial markets could become volatile and/or the availability of credit (and short-term credit in particular) could be adversely affected, thereby increasing our borrowing costs, adversely affecting the value of our investment portfolio, and/or adversely affecting our ability to access the capital markets, which could have a material adverse effect on our results of operations, financial condition and cash flows and could adversely affect our liquidity.

Our results of operations may be adversely affected by changes in laws and policies governing employers and by union organizing activity.

The federal and certain state legislatures continue to consider and pass legislation that increases our costs of doing business, including increased minimum wages and requiring employers to provide paid sick leave. In addition, our employee related operating costs may be increased by union organizing activity. If we are unable to reflect these increased expenses in our pricing or otherwise modify our operations to mitigate the effects of such increases, our results of operations will be adversely affected.

Risks Related to Customer Perceptions of our Products and Services

We must develop and maintain a relevant omni-channel experience for our retail customers.

Our business has evolved from a retail store experience to interaction with customers across numerous channels, including in-store, online, mobile and social media, among others. Omni-channel retailing is rapidly evolving and we must keep pace with changing customer expectations and new developments by our competitors. Our customers are increasingly using mobile phones, tablets, computers and other devices to comparison shop, determine product availability and complete purchases through mobile commerce applications. As a result, the portion of total consumer expenditures with all retailers occurring online and through mobile commerce applications is increasing and the pace of this increase could accelerate. We must compete by offering a consistent and convenient shopping experience for our customers regardless of the ultimate sales channel and by investing in, providing and maintaining mobile commerce applications for our customers that have the right features and are reliable and easy to use. If we are unable to make, improve or develop relevant customer-facing technology in a timely manner that keeps pace with technological developments and dynamic customer expectations, our ability to compete and our results of operations could be materially and adversely affected. In addition, if our online activities or our other customer-facing technology systems do not function as designed, we may experience a loss of customer confidence, data security breaches, lost sales, or be exposed to fraudulent purchases, any of which could materially and adversely affect our business operations, reputation and results of operations.

We must maintain and improve our relationships with our retail and specialty pharmacy customers and increase the demand for our products and services, including proprietary brands. If we fail to develop new products, differentiate our products from those of our competitors or demonstrate the value of our products to our customers and members, our ability to retain or grow our customer base may be adversely affected.

The success of our businesses depends in part on customer loyalty, superior customer service and our ability to persuade customers to frequent our retail stores and online sites and to purchase products in additional categories and our proprietary brands. Failure to timely identify or effectively respond to changing consumer preferences and spending patterns, and evolving demographic mixes in our markets, an inability to expand the products being purchased by our clients and customers, or the failure or inability to obtain or offer particular categories of products could adversely affect our relationship with our customers and clients and the demand for our products and services and could result in excess inventories of products.

We offer our retail customers proprietary brand products that are available exclusively at our retail stores and through our online retail sites. The sale of proprietary products subjects us to unique risks including potential product liability risks, mandatory or voluntary product recalls, potential supply chain and distribution chain disruptions for raw materials and finished products, our ability to successfully protect our intellectual property rights and the rights of applicable third parties, and other risks generally encountered by entities that source, market and sell private-label products. Any failure to adequately address some or all of these risks could have an adverse effect on our retail business, results of operations and financial condition. Additionally, an increase in the sales of our proprietary brands may adversely affect our sales of products owned by our suppliers which, consequently, could adversely impact certain of our supplier relationships. Our ability to locate qualified, economically stable suppliers who satisfy our requirements, and to acquire sufficient products in a timely and effective manner,

is critical to ensuring, among other things, that customer confidence is not diminished. Any failure to develop sourcing relationships with a broad and deep supplier base could adversely affect our financial performance and erode customer loyalty.

Our specialty pharmacy business focuses on complex and high-cost medications, many of which are made available by manufacturers to a limited number of pharmacies (so-called limited distribution drugs), that serve a relatively limited universe of patients. As a result, the future growth of our specialty pharmacy business is dependent largely upon expanding our base of drugs or penetration in certain treatment categories. Any contraction of our base of patients or reduction in demand for the prescriptions we currently dispense could have an adverse effect on our specialty pharmacy business, results of operations and cash flows.

We operate in rapidly evolving industries. Our customers generally, and our larger customers in particular, are well-informed and organized and, along with our individual customers, can easily move between us and our competitors. These factors require us to differentiate our products and solutions, anticipate changes in customer and consumer preferences, anticipate and effectively compete with the products and solutions of new and existing competitors and innovate and deliver new and existing products and solutions that demonstrate value to our customers and members, particularly in response to marketplace changes from public policy. Any failure to do so may adversely affect our ability to retain or grow customers and/or profitable medical membership, which can adversely affect our results of operations.

In order to be competitive in the increasingly consumer-oriented marketplace for our health care products and services, we will need to develop and deploy consumer-friendly products and services and make investments in consumer engagement, reduce our cost structure and compete successfully with new entrants into our businesses. If we are unsuccessful, our future growth and profitability may be adversely affected.

Historically, employers have been the most significant customers driving purchases of our Pharmacy Services and Health Care Benefits segments. However, decisions to buy our Pharmacy Services and Health Care Benefits products and services increasingly are made or influenced by consumers, either through direct purchasing (for example, Medicare Advantage plans and PDPs) or through Insurance Exchanges that allow individual choice. Similarly, consumers increasingly seek to access health care products and services locally and through other direct channels such as mobile devices and our websites. In response to this demand, we are expanding our consumer focus. To compete effectively in the consumer-driven marketplace, we will be required to develop or acquire new capabilities, attract new talent and develop new service and distribution relationships that respond to consumer needs and preferences.

We also will have to respond to pricing and other actions taken by existing competitors as well as potentially disruptive new entrants. Regulatory and participation requirements for Insurance Exchange-based plans tend to emphasize price and make competitive differentiation of our Health Care Benefits products and services based on other attributes more difficult. Price competition from existing and potentially new disruptive competitors in the industries in which each of our segments compete also continues to increase. Accordingly, we face competitive pricing pressures from existing and new competitors (including our vendors and others who may have lower cost structures than we do), and these pressures may reduce our operating margins or limit sales of our products and services. Our competitors may bring their consumer-oriented products and services to market more quickly, have greater experience marketing to consumers and/or may be targeting the higher margin portions of our businesses. These risks may be enhanced if employers shift to defined contribution health care benefits plans and make greater utilization of Private Exchanges or encourage their employees to purchase health insurance on the Public Exchanges. We can provide no assurance that we will be able to develop or operate successful or profitable consumer-oriented products and services, or that our Health Care Benefits segment will be able to compete successfully or profitably on Public Exchanges or Private Exchanges or benefit from any opportunities presented by Public Exchanges or Private Exchanges, or that we will be able to benefit from opportunities available to any of our segments in the industries in which we operate. If we do not develop and expand competitive and profitable consumer products, are not competitive in the industries in which we operate, or are unsuccessful in reducing our cost structure, our future growth and profitability may be adversely affected.

Risks Related to Our Relationships with Manufacturers, Providers, Suppliers and Vendors

Our results of operations may be adversely affected if we are unable to contract with manufacturers, providers, suppliers and vendors on competitive terms and develop and maintain attractive networks with high quality providers.

Our PBM business generates revenues primarily by contracting with clients to provide prescription drugs and related health care services to plan members. As a result, we are dependent on our relationships with prescription drug manufacturers and suppliers. We acquire a substantial amount of our mail order and specialty pharmacies' prescription drug supply from a limited number of suppliers. Our agreements with these suppliers often are short-term and easily cancelable by either party without cause. In addition, these agreements may limit our ability to provide services for competing drugs during the term of the

agreement and may allow the supplier to distribute through channels other than the Company. A termination or modification to any of these relationships could have a material adverse effect on our businesses, financial condition and results of operations.

We are seeking to enhance our health care provider networks by entering into joint ventures and other collaborative risk-sharing arrangements with health care providers. Providers' willingness to enter these arrangements with us depends upon, among other things, our ability to provide them with up to date quality of care data to support these value-based contracts. These arrangements are designed to give providers incentives to engage in population health management and optimize delivery of health care to our members. These arrangements also may allow us to expand into new geographies, target new customer groups, increase membership and reduce medical costs and, if we provide technology or other services to the relevant health system or provider organization, may contribute to our revenue and earnings from alternative sources. If such arrangements do not result in the lower medical costs that we project or if we fail to attract health care providers to such arrangements, or are less successful at implementing such arrangements than our competitors, our medical costs may not be competitive and may be higher than we project, our attractiveness to customers may be reduced, we may lose or be unable to grow membership, and our ability to profitably grow our business and/or our results of operations may be adversely affected.

While we believe joint ventures, ACOs and other non-traditional health care provider organizational structures present opportunities for us, the implementation of our joint ventures and other non-traditional structure strategies may not achieve the intended results, which could adversely affect our results of operations and cash flows. Among other things, joint ventures require us to maintain collaborative relationships with our counterparties, continue to gain access to provider rates that make the joint ventures economically sustainable and devote significant management time to the operation and management of the joint venture. We may not be able to achieve these objectives in one or more of our joint ventures, which could adversely affect our results of operations and cash flows.

If our service providers fail to meet their contractual obligations to us or to comply with applicable laws or regulations, we may be exposed to brand and reputational harm, litigation or regulatory action. This risk is particularly high in our Medicare, Medicaid, dual eligible and dual eligible special needs plan programs.

We contract with various third parties to perform certain functions and services and provide us with certain information technology systems. Our arrangements with these third parties may expose us to public scrutiny, adversely affect our brand and reputation, expose us to litigation or regulatory action, and otherwise make our operations vulnerable if we fail to adequately oversee, monitor and regulate their performance or if they fail to meet their contractual obligations to us or to comply with applicable laws or regulations. For example, certain of our vendors have been responsible for releases of sensitive information of our members and employees, which has caused us to incur additional expenses and given rise to litigation against us.

These risks are particularly high in our Medicare, Medicaid, dual eligible and dual eligible special needs plan programs, where third parties perform PBM, medical management and other member related services for us. Any failure of our or these third parties' prevention, detection or control systems related to regulatory compliance, compliance with our internal policies, data security and/or cybersecurity or any incident involving the theft, misappropriation, loss or other unauthorized disclosure of, or access to, members', customers' or other constituents' sensitive information could require us to expend significant resources to remediate any damage, interrupt our operations and adversely affect our brand and reputation and also expose us to whistleblower, class action and other litigation, other proceedings, prohibitions on marketing or active or passive enrollment of members, corrective actions, fines, sanctions and/or penalties, any of which could adversely affect our businesses, cash flows, results of operations and/or financial condition.

Continuing consolidation and integration among providers and other suppliers may increase our medical and other covered benefits costs, make it difficult for us to compete in certain geographies and create new competitors.

Hospitals and other providers and health systems continue to consolidate across the health care industry. While this consolidation could increase efficiency and has the potential to improve the delivery of health care services, it also reduces competition and the number of potential contracting parties in certain geographies. These health systems also are increasingly forming and considering forming health plans to directly offer health insurance in competition with us, a process that has been accelerated by the ACA. In addition, ACOs (including commercial and Medicaid-only ACOs developed as a result of state Medicaid laws), practice management companies, consolidation among and by integrated health systems and other changes in the organizational structures that physicians, hospitals and other health care providers adopt continues to change the way these providers interact with us and the competitive landscape in which we operate. These changes may increase our medical and other covered benefits costs, may affect the way we price our products and services and estimate our medical and other covered benefits costs and may require us to change our operations, including by withdrawing from certain geographies where we do not have a significant presence across our businesses or are unable to collaborate or contract with providers on acceptable terms. Each of these changes may adversely affect our businesses and results of operations.

We may experience increased medical and other benefit costs, litigation risk and customer and member dissatisfaction when providers that do not have contracts with us render services to our Health Care Benefits members.

Some providers that render services to our Health Care Benefits members do not have contracts with us. In those cases, we do not have a pre-established understanding with these providers as to the amount of compensation that is due to them for services rendered to our members. In some states, the amount of compensation due to these nonparticipating providers is defined by law or regulation, but in most instances it is either not defined or it is established by a standard that is not clearly translatable into dollar terms. In such instances providers may believe that they are underpaid for their services and may either litigate or arbitrate their dispute with us or try to recover the difference between what we have paid them and the amount they charged us from our members, which may result in customer and member dissatisfaction. For example, on October 15, 2018, an arbitrator awarded certain claimant hospitals approximately \$150 million in a proceeding relating to Aetna's out-of-network benefit payment and administration practices. Such disputes may cause us to pay higher medical or other benefit costs than we projected.

Risks Related to Our Operations

Customers, particularly large sophisticated customers, expect us to implement their contracts and onboard their employees and members efficiently and effectively. Failure to do so could adversely affect our reputation, businesses, results of operations, cash flows and prospects. If we or our vendors fail to provide our customers with quality service that meets their expectations, our ability to retain and grow our membership and customer base will be adversely affected.

Our ability to attract and retain customers and members is dependent upon providing cost effective, quality customer service operations (such as call center operations, PBM functions, retail pharmacy and LTC services, home delivery pharmacy prescription delivery, specialty pharmacy prescription delivery, claims processing, customer case installation and online access and tools) that meet or exceed our customers' and members' expectations. As we seek to reduce general and administrative expenses, we must balance the potential impact of cost-saving measures on our customer and other service and performance. If we misjudge the effects of such measures, customer and other service may be adversely affected. We depend on third parties for certain of our customer service, PBM and prescription delivery operations. If we or our vendors fail to provide service that meets our customers' and members' expectations, we may have difficulty retaining or profitably growing our customer base and/or membership, which can adversely affect our results of operations. For example, noncompliance with any privacy or security laws or regulations or any security breach involving one of our third party vendors could have a material adverse effect on our businesses, results of operations, brand and reputation.

We are subject to payment-related risks that could increase our operating costs, expose us to fraud or theft, subject us to potential liability and disrupt our business operations.

We accept payments using a variety of methods, including cash, checks, credit cards, debit cards, gift cards, mobile payments and potentially other technologies in the future. Acceptance of these payment methods subjects us to rules, regulations, contractual obligations and compliance requirements, including payment network rules and operating guidelines, data security standards and certification requirements, and rules governing electronic funds transfers. These requirements may change in the future, which could make compliance more difficult or costly. For certain payment options, including credit and debit cards, we pay interchange and other fees, which could increase periodically thereby raising our operating costs. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards, and various other forms of electronic payment. If these vendors are unable to provide these services to us, or if their systems are compromised, our operations could be disrupted. The payment methods that we offer also expose us to potential fraud and theft by persons seeking to obtain unauthorized access to, or exploit any weaknesses in, the payment systems we use. If we fail to abide by applicable rules or requirements, or if data relating to our payment systems is compromised due to a breach or misuse, we may be responsible for any costs incurred by payment card issuing banks and other third parties or subject to fines and higher transaction fees. In addition, our reputation and ability to accept certain types of payments could each be harmed resulting in reduced sales and adverse effects on our results of operations.

Our and our vendors' operations are subject to a variety of business continuity hazards and risks, any of which could interrupt our operations or otherwise adversely affect our performance and results of operations.

We and our vendors are subject to business continuity hazards and other risks, including natural disasters, utility and other mechanical failures, acts of war or terrorism, disruption of communications, data security and preservation, disruption of supply or distribution, safety regulation and labor difficulties. The occurrence of any of these or other events to the Company or our vendors might disrupt or shut down our operations or otherwise adversely affect our operations. We may also be subject to certain liability claims in the event of an injury or loss of life, or damage to property, resulting from such events. Although we

have developed procedures for crisis management and disaster recovery and business continuity plans and maintain insurance policies that we believe are customary and adequate for our size and industry, our insurance policies include limits and, as such, our coverage may be insufficient to protect against all potential hazards and risks incident to our businesses. In addition, our crisis management and disaster recovery procedures and business continuity plans may not be effective. Should any such hazards or risks occur, or should our insurance coverage be inadequate or unavailable, our businesses, financial condition and results of operations could be adversely affected.

We and our vendors have experienced cyber attacks. We can provide no assurance that we or our vendors will be able to detect, prevent or contain the effects of such attacks or other information security (including cybersecurity) risks or threats in the future.

We and our vendors have experienced and continue to experience a variety of cyber attacks, and we and our vendors expect to continue to experience cyber attacks going forward. Among other things, we and our vendors have experienced automated attempts to gain access to our public facing networks, brute force, SYN flood and distributed denial of service attacks, attempted malware infections, vulnerability scanning, ransomware attacks, spear-phishing campaigns, mass reconnaissance attempts, injection attempts, phishing, PHP injection and cross-site scripting. We also have seen an increase in attacks designed to obtain access to consumers' accounts using illegally obtained demographic information. Although the impact of such attacks has not been material to our operations or results of operations through December 31, 2018, we can provide no assurance that we or our vendors will be able to detect, prevent or contain the effects of such attacks or other information security (including cybersecurity) risks or threats in the future. As we expand our consumer-oriented products and services, increase the amount and types of data we acquire, generate and use, increase the amount of information we make available to members, consumers and providers on mobile devices, expand our use of vendors, expand internationally and expand our use of social media, our exposure to these data security and related cybersecurity risks, including the risk of undetected attacks, damage, loss or unauthorized disclosure or access to and/or disruption of our systems and the customer, member, provider, employee, ACO, joint venture, vendor and other third party information they contain, increases, and the cost of attempting to protect against these risks also increases.

Although we deploy a layered approach to address information security (including cybersecurity) threats and vulnerabilities that is designed to protect confidential information against data security breaches, a compromise of our information security controls or of those businesses with whom we interact, which results in confidential information being accessed, obtained, damaged, or used by unauthorized or improper persons, could harm our reputation and expose us to regulatory actions and claims from customers and clients, financial institutions, payment card associations and other persons, any of which could adversely affect our businesses, financial condition, and results of operations. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may not immediately produce signs of intrusion, we may be unable to anticipate these techniques or to implement adequate preventative measures. Moreover, a data security breach could require that we expend significant resources related to our information systems and infrastructure, and could distract management and other key personnel from performing their primary operational duties. We also could be adversely affected by any significant disruption in the systems of third parties we interact with, including key payors and vendors.

The costs of attempting to protect against the foregoing risks and the costs of responding to a cyber-incident are significant. Large scale data breaches at other entities increase the challenge we and our vendors face in maintaining the security of our information technology systems and proprietary information and of our members' and customers' sensitive information. Following a cyber-incident, our and/or our vendors' remediation efforts may not be successful, and a cyber-incident could result in interruptions, delays or cessation of service, and loss of existing or potential customers and members. In addition, breaches of our and/or our vendors' security measures and the unauthorized dissemination of sensitive personal information or proprietary information or confidential information about us, our customers, our members or other third-parties, could expose our customers' and members' private information and our customers and members to the risk of financial or medical identity theft, or expose us or other third parties to a risk of loss or misuse of this information, and result in investigations, regulatory enforcement actions, material fines and penalties, loss of customers, litigation or other actions which could have a material adverse effect on our businesses, brand, reputation, cash flows and results of operations.

The failure or disruption of our information technology systems or the failure of our information technology infrastructure to support our businesses could adversely affect our reputation, businesses, results of operations and cash flows.

Our information systems are subject to damage or interruption from power outages, facility damage, computer and telecommunications failures, computer viruses, security breaches (including credit card or personally identifiable information breaches), cyber attacks, vandalism, catastrophic events and human error. If our information systems are damaged, fail to work properly or otherwise become unavailable, or if we are unable to successfully complete our planned consolidation of our PBM

claims adjudication platforms, we may incur substantial costs to repair or replace them, and may experience reputational damage, loss of critical information, customer disruption and interruptions or delays in our ability to perform essential functions and implement new and innovative services. In addition, compliance with changes in United States and foreign privacy and information security laws and standards may result in considerable expense due to increased investment in technology and the development of new operational processes.

Our business success and results of operations depend in part on effective information technology systems and on continuing to develop and implement improvements in technology. Pursuing multiple initiatives simultaneously could make this continued development and implementation significantly more challenging.

Many aspects of our operations are dependent on our information systems and the information collected, processed, stored, and handled by these systems. We rely heavily on our computer systems to manage our ordering, pricing, point-of-sale, pharmacy fulfillment, inventory replenishment, claims processing, ExtraCare customer loyalty program, finance and other processes. Throughout our operations, we receive, retain and transmit certain confidential information, including PII and PHI, that our customers and clients provide to purchase products or services, enroll in programs or services, register on our websites, interact with our personnel, or otherwise communicate with us. In addition, for these operations, we depend in part on the secure transmission of confidential information over public networks.

We have many different information and other technology systems supporting our businesses (including as a result of our acquisitions). Our businesses depend in large part on these systems to adequately price our products and services; accurately establish reserves, process claims and report results of operations; and interact with providers, employer plan sponsors, members and vendors in an efficient and uninterrupted fashion. In addition, recent trends toward greater consumer engagement in health care require new and enhanced technologies, including more sophisticated applications for mobile devices. Certain of our technology systems (including software) are older, legacy systems that are less flexible, less efficient and require a significant ongoing commitment of capital and human resources to maintain, protect and enhance them and to integrate them with our other systems. We must re-engineer and reduce the number of these systems to meet changing consumer and vendor preferences and needs, improve our productivity and reduce our operating expenses. We also need to develop or acquire new technology systems, contract with new vendors or modify certain of our existing systems to support the consumer-oriented products and services we are developing, operating and expanding and/or to meet current and developing industry and regulatory standards, including to keep pace with continuing changes in information processing technology and emerging cybersecurity risks and threats. If we fail to achieve these objectives, our ability to profitably grow our business and/or our results of operations may be adversely affected.

Our business strategy involves providing customers with differentiated, easy to use, secure products and solutions that use information to meet customer needs. The types of technology and levels of service that are acceptable to customers and members today will not necessarily be acceptable in the future, requiring us to anticipate and meet marketplace demands for technology. Our success therefore is dependent in large part on our ability, within the context of a limited budget of human resources and capital and our existing and future business relationships, to timely secure, integrate, develop, redesign and enhance our (or contract with vendors to provide) technology systems that support our business strategy initiatives and processes in a compliant, secure, and cost and resource efficient manner. Integration of our acquisitions increases these challenges, and we may not be successful in integrating various systems in a timely or cost-effective manner.

Information technology projects frequently are long-term in nature and may take longer to complete and cost more than we expect and may not deliver the benefits we project once they are complete. If we do not effectively and efficiently secure, manage, integrate and enhance our technology portfolio (including vendor sourced systems), we could, among other things, have problems determining health care and other benefit cost estimates and/or establishing appropriate pricing, meeting the needs of customers, providers and members, developing and expanding our consumer-oriented products and services or keeping pace with industry and regulatory standards, and our results of operations may be adversely affected.

Sales of our products and services are dependent on our ability to attract and motivate internal sales personnel and independent third-party brokers, consultants and agents. New distribution channels create new disintermediation risk. We may be subject to penalties or other regulatory actions as a result of the marketing practices of brokers and agents selling our products.

Our products are sold primarily through our sales personnel, who frequently work with independent brokers, consultants and agents who assist in the production and servicing of business. The independent brokers, consultants and agents generally are not dedicated to us exclusively and may frequently recommend and/or market health care benefits products of our competitors. Accordingly, we must compete intensely for their services and allegiance. Our sales could be adversely affected if we are unable to attract, retain or motivate sales personnel and third-party brokers, consultants and agents, or if we do not adequately

provide support, training and education to this sales network regarding our complex product portfolio, or if our sales strategy is not appropriately aligned across distribution channels. This risk is heightened as we develop, operate and expand our Consumer Health Products and Services products and services and our business model evolves to include a greater focus on consumers and direct-to-consumer sales, such as competing for sales on Insurance Exchanges.

New distribution channels for our products and services continue to emerge, including Private Exchanges operated by health care consultants and technology companies. These channels may make it more difficult for us to directly engage consumers and other customers in the selection and management of their health care benefits, in health care utilization and in the effective navigation of the health care system. We also may be challenged by new technologies and marketplace entrants that could interfere with our existing relationships with customers and health plan members in these areas.

In addition, there have been a number of investigations regarding the marketing practices of brokers and agents selling health care and other insurance products and the payments they receive. These investigations have resulted in enforcement actions against companies in our industry and brokers and agents marketing and selling those companies' products. For example, CMS and state departments of insurance have increased their scrutiny of the marketing practices of brokers and agents who market Medicare products. These investigations and enforcement actions could result in penalties and the imposition of corrective action plans and/or changes to industry practices, which could adversely affect our ability to market our products.

We also face other risks that could adversely affect our businesses, results of operations, financial condition and/or cash flows, which include:

- Failure of our corporate governance policies or procedures, for example significant financial decisions being made at an inappropriate level in our organization;
- Inappropriate application of accounting principles or a significant failure of internal control over financial reporting, which could lead to a restatement of our results of operations and/or a deterioration in the soundness and accuracy of our reported results of operations; and
- Failure to adequately manage our run-off businesses and/or our regulatory and financial exposure to businesses we have sold, including Aetna's divested standalone Medicare Part D, domestic group life insurance, group disability insurance and absence management businesses.

Financial Risks

Goodwill and other intangible assets could, in the future, become impaired.

As of December 31, 2018, we had \$115.2 billion of goodwill and other intangible assets. During the year ended December 31, 2018, we took \$6.1 billion of goodwill impairment charges related to our LTC reporting unit. Goodwill and indefinitely-lived intangible assets are subject to annual impairment reviews, or more frequent reviews if events or circumstances indicate that the carrying value may not be recoverable. When evaluating goodwill for potential impairment, we compare the fair value of our reporting units to their respective carrying amounts. We estimate the fair value of our reporting units using a combination of a discounted cash flow method and a market multiple method. If the carrying amount of a reporting unit exceeds its estimated fair value, a goodwill impairment loss is recognized in an amount equal to the excess to the extent of the goodwill balance. Estimated fair values could change if, for example, there are changes in the business climate, changes in the competitive environment, adverse legal or regulatory actions or developments, changes in capital structure, cost of debt, interest rates, capital expenditure levels, operating cash flows or market capitalization. Because of the significance of our goodwill and intangible assets, any future impairment of these assets could require material noncash charges to our results of operations, which could have a material adverse effect on our financial condition and results of operations.

We would be adversely affected if we do not effectively deploy our capital. Downgrades or potential downgrades in our credit ratings, should they occur, could adversely affect our brand and reputation, businesses, cash flows, financial condition and results of operations.

Our operations generate significant capital, and we have the ability to raise additional capital. The manner in which we deploy our capital, including investments in our businesses, our operations (such as information technology and other strategic and capital projects), dividends, acquisitions, share and/or debt repurchases, repayment of debt, reinsurance or other capital uses, impacts our financial strength, claims paying ability and credit ratings issued by recognized rating organizations. Credit ratings issued by nationally-recognized organizations are broadly distributed and generally used throughout our industries. Our ratings reflect each rating organization's opinion of our financial strength, operating performance and ability to meet our debt obligations or obligations to our insureds. We believe our credit ratings and the financial strength and claims paying ability of

our principal insurance and HMO subsidiaries are important factors in marketing our Health Care Benefits products to certain of our customers.

Each of the ratings organizations reviews our ratings periodically, and there can be no assurance that our current ratings will be maintained in the future. In connection with the completion of the Aetna Acquisition, each of Standard & Poor's, Moody's and Fitch downgraded certain of our debt, financial strength and/or other credit ratings. Downgrades in our ratings could adversely affect our businesses, cash flows, financial condition and results of operations.

Adverse conditions in the U.S. and global capital markets can significantly and adversely affect the value of our investments in debt and equity securities, mortgage loans, alternative investments and other investments, our results of operations and/or our financial condition.

The global capital markets, including credit markets, continue to experience volatility and uncertainty. As an insurer, we have a substantial investment portfolio that supports our policy liabilities and surplus and is comprised largely of debt securities of issuers located in the United States. As a result, the income we earn from our investment portfolio is largely driven by the level of interest rates in the United States, and to a lesser extent the international financial markets; and volatility, uncertainty and/or disruptions in the global capital markets, particularly the United States credit markets, and governments' monetary policy, particularly United States monetary policy, can significantly and adversely affect the value of our investment portfolio, our results of operations and/or our financial condition by:

- Significantly reducing the value and/or liquidity of the debt securities we hold in our investment portfolio and creating realized capital losses that reduce our results of operations and/or unrealized capital losses that reduce our shareholders' equity;
- Keeping interest rates low on high-quality short-term or medium-term debt securities (such as we have experienced during recent years) and thereby materially reducing our net investment income and results of operations as the proceeds from securities in our investment portfolio that mature or are otherwise disposed of continue to be reinvested in lower yielding securities;
- Reducing the fair values of our investments if interest rates rise;
- Causing non-performance or defaults on their obligations to us by third parties, including customers, issuers of securities in our investment portfolio, mortgage borrowers and/or reinsurance and/or derivatives counterparties;
- Making it more difficult to value certain of our investment securities, for example if trading becomes less frequent, which could lead to significant period-to-period changes in our estimates of the fair values of those securities and cause period-to-period volatility in our net income and shareholders' equity;
- Reducing our ability to issue short-term debt securities at attractive interest rates, thereby increasing our interest expense and decreasing our results of operations; and
- Reducing our ability to issue other securities.

Although we seek, within guidelines we deem appropriate, to match the duration of our assets and liabilities and to manage our credit and counterparty exposures, a failure adequately to do so could adversely affect our net income and our financial condition and, in extreme circumstances, our cash flows.

Risks Relating to Our Acquisition of Aetna

We have limited experience in the insurance and managed health care industry, which may hinder our ability to achieve our objectives as a combined company.

We have limited experience operating an insurance and managed health care business, and are relying in large part on the existing management of Aetna to continue to manage our Health Care Benefits business. However, there is no assurance that we will be able to continue to retain the services of such management. If we fail to retain the existing management of Aetna, our ability to realize the anticipated benefits of the transaction may be adversely affected.

The Aetna Acquisition may not be accretive, and may be dilutive, to our earnings per share, which may adversely affect our stock price.

Although we currently project that the Aetna Acquisition will result in a number of benefits, including that it will be accretive to our earnings per share, changes in the estimates we use for these projections and the impact of future events and conditions, some of which we do not control, could cause actual results to be lower than these projections. In addition, future events and

conditions could decrease or delay the accretion that is currently projected or could result in dilution. These events and conditions include adverse changes in market conditions, changes in the regulatory environment, additional transaction and integration-related costs and other factors such as the failure to realize some or all of the anticipated benefits of the Aetna Acquisition. Any dilution of, decrease in or delay of any accretion to, our earnings per share could cause our stock price to decline or grow at a reduced rate.

We may fail to successfully combine the businesses and operations of CVS Health and Aetna to realize the anticipated benefits and cost savings of the Aetna Acquisition within the anticipated timeframe or at all, which could adversely affect our stock price.

The success of the Aetna Acquisition will depend, in part, on our ability to realize the anticipated benefits and cost savings from combining the businesses of CVS Health and Aetna. Our ability to realize these anticipated benefits and cost savings is subject to certain risks, including:

- Our ability to successfully combine the businesses of CVS Health and Aetna;
- whether the combined businesses will perform as expected;
- the possibility that we paid more for Aetna than the value we will derive from the acquisition;
- the reduction of our cash available for operations and other uses and the incurrence of indebtedness to finance the acquisition; and
- the assumption of known and unknown liabilities of Aetna.

If we are not able to successfully combine the businesses of CVS Health and Aetna within the anticipated time frame, the anticipated cost savings and other benefits of the Aetna Acquisition may not be realized fully or may take longer to realize than expected, the combined businesses may not perform as expected, and our stock price may be adversely affected.

Until the completion of the Aetna Acquisition, we and Aetna operated independently, and there can be no assurances that our respective businesses can be integrated successfully. It is possible that the integration process could result in the loss of key CVS Health or Aetna employees, the disruption of either company's or both companies' ongoing businesses or in unexpected integration issues, higher than expected integration costs and an overall post-completion integration process that takes longer than originally anticipated. Specifically, issues that must be addressed in integrating the operations of CVS Health and Aetna in order to realize the anticipated benefits of the Aetna Acquisition so the combined business performs as expected include, among other things:

- combining the companies' separate operational, financial, reporting and corporate functions;
- integrating the companies' technologies, products and services;
- identifying and eliminating redundant and underperforming operations and assets;
- harmonizing the companies' operating practices, employee development, compensation and benefit programs, internal controls and other policies, procedures and processes;
- addressing possible differences in business backgrounds, corporate cultures and management philosophies;
- consolidating the companies' corporate, administrative and information technology infrastructure;
- coordinating sales, distribution and marketing efforts;
- managing the movement of certain businesses and positions to different locations;
- maintaining existing agreements with customers, providers and vendors and avoiding delays in entering into new agreements with prospective customers, providers and vendors;
- operating in industry sectors in which we and our current management may have little or no experience;
- coordinating geographically dispersed organizations;
- consolidating offices of CVS Health and Aetna that are currently in or near the same location; and
- effecting the actions that are required by regulatory approvals we obtained in connection with completing the Aetna Acquisition.

In addition, at times, the attention of certain members of our management and our resources will be focused on the integration of the businesses of the two companies and diverted from day-to-day business operations, which may adversely affect our businesses.

Our future results may be adversely impacted if we do not effectively manage our expanded operations following completion of the Aetna Acquisition.

Following completion of the Aetna Acquisition our business is significantly larger than the size of either CVS Health's or Aetna's respective pre-transaction businesses. The combined company's ability to successfully manage this expanded business will depend, in part, upon management's ability to implement an effective integration of the two companies and its ability to manage a combined business with significantly larger size and scope with the associated increased costs and complexity. There can be no assurances that the management of the combined company will be successful or that the combined company will realize the expected operating efficiencies, cost savings and other benefits currently anticipated from the Aetna Acquisition. If we are not able to fully realize the expected operating efficiencies, cost savings and other benefits anticipated from the Aetna Acquisition, or such benefits take longer to realize than expected, our combined businesses may not perform as expected and our stock price may be adversely affected.

We may have difficulty attracting, motivating and retaining executives and other key employees following completion of the Aetna Acquisition.

Our future success will depend in part on our ability to retain key executives and other employees of Aetna. Uncertainty about the effect of the Aetna Acquisition on CVS Health and Aetna employees may have an adverse effect on the combined company and consequently the combined business. This uncertainty may impair our ability to attract, retain and motivate key personnel. Employee retention may be particularly challenging during the integration process, as employees of CVS Health and Aetna may experience uncertainty about their future roles in the combined business.

Furthermore, if key employees of CVS Health or Aetna depart or are at risk of departing, including because of issues relating to the uncertainty and difficulty of integration, financial security or a desire not to remain as employees of the combined business, we may have to incur significant costs in retaining such individuals or in identifying, hiring and retaining replacements for departing employees and may lose significant expertise and talent relating to the business of Aetna, and our ability to realize the anticipated benefits of the Aetna Acquisition may be materially and adversely affected. Accordingly, no assurance can be given that we will be able to attract or retain key employees of Aetna to the same extent that Aetna was able to attract or retain employees in the past.

The Aetna integration process could disrupt our ongoing businesses and/or operations.

Parties with which we do business may experience uncertainty associated with the Aetna Acquisition and/or the post-closing integration process, including with respect to current or future business relationships with the combined business. Our business relationships (including business relationships of our Health Care Benefits segment) may be subject to disruption as customers, members, manufacturers, providers, vendors and others may attempt to negotiate changes in existing business relationships or consider entering into business relationships with parties other than the combined business. These disruptions could have a material adverse effect on the businesses, financial condition, results of operations or prospects of one or more of the combined company's businesses, including a material adverse effect on our ability to realize the anticipated benefits of the Aetna Acquisition.

Our indebtedness following completion of the Aetna Acquisition is substantially greater than our indebtedness on a stand-alone basis and greater than the combined indebtedness of CVS Health and Aetna existing prior to the announcement of the transaction. This increased level of indebtedness could adversely affect our business flexibility and increase our borrowing costs.

In order to complete the Aetna Acquisition, we incurred acquisition-related debt financing of approximately \$45.0 billion and assumed Aetna's existing indebtedness with a fair value of approximately \$8.1 billion. Our substantially increased indebtedness and higher debt-to-equity ratio following completion of the Aetna Acquisition in comparison to that of CVS Health prior to the Aetna Acquisition has the effect, among other things, of reducing our flexibility to respond to changing business and economic conditions and increases our interest expense compared to pre Aetna Acquisition periods. In addition, the amount of cash required to service our increased indebtedness levels and thus the demands on our cash resources are greater than the amount of cash flows required to service the indebtedness of CVS Health or Aetna individually prior to the Aetna Acquisition. The increased levels of indebtedness could also reduce funds available to fund our efforts to combine our business with Aetna and realize expected benefits of the Aetna Acquisition and/or engage in investments in product development, capital expenditures, dividend payments, share repurchases and other activities and may create competitive disadvantages for us relative to other companies with lower debt levels.

We will continue to incur significant integration-related costs in connection with the Aetna Acquisition.

We expect to continue to incur significant non-recurring costs associated with combining the operations of CVS Health and Aetna. We expect to continue to incur significant integration-related costs related to formulating and implementing integration plans, including facilities and systems consolidation costs and employment-related costs. We continue to assess the magnitude of these costs, and additional unanticipated costs may be incurred in the integration of the two companies' businesses. We may not achieve the net benefit of such expenditures that we project associated with the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of our businesses in the near term, or at all. If we fail to realize the expected expense and other efficiencies we project, our results of operations, cash flows and stock price may be adversely affected.

Risks Related to Our Acquisitions, Joint Ventures and International Operations

We expect to continue to pursue acquisitions, joint ventures, strategic alliances and other inorganic growth opportunities, which may be unsuccessful, cause us to assume unanticipated liabilities, disrupt our existing businesses, be dilutive or lead us to assume significant debt, among other things.

We expect to continue to pursue acquisitions, joint ventures, strategic alliances and other inorganic growth opportunities as part of our growth strategy. In addition to integration risks, some other risks we face with respect to acquisitions and other inorganic growth strategies include:

- We frequently compete with other firms, some of which may have greater financial and other resources and a greater tolerance for risk, to acquire attractive companies;
- The acquired, alliance and/or joint venture businesses may not perform as projected;
- The goodwill or other intangible assets established as a result of our acquisitions may be incorrectly valued or may become non-recoverable;
- We may assume unanticipated liabilities, including those that were not disclosed to us or which we underestimated;
- The acquired businesses, or the pursuit of other inorganic growth strategies, could disrupt or compete with our existing businesses, distract management, result in the loss of key employees, divert resources, result in tax costs or inefficiencies and make it difficult to maintain our current business standards, controls, information technology systems, policies, procedures and performance;
- We may finance future acquisitions and other inorganic growth strategies by issuing common stock for some or all of the purchase price, which would dilute the ownership interests of our shareholders;
- We may incur significant debt in connection with acquisitions (whether to finance acquisitions or by assuming debt from the businesses we acquire);
- We may not have the expertise to manage and profitably grow the businesses we acquire, and we may need to rely on the retention of key personnel and other suppliers of businesses we acquire, which may be difficult or impossible to accomplish;
- We may enter into merger or purchase agreements but, due to reasons within or outside our control, fail to complete the related transactions, which could result in termination fees or other penalties that could be material, material disruptions to our businesses and operations and adversely affect our brand and reputation;
- In order to complete a proposed acquisition, we may be required to divest certain portions of our business;
- We may be involved in litigation related to mergers or acquisitions, including for matters which occurred prior to the applicable closing, which may be costly to defend and may result in adverse rulings against us that could be material; and
- The integration into our businesses of the businesses and entities we acquire may affect the way in which existing laws and regulations apply to us, including subjecting us to laws and regulations that did not previously apply to us.

We expect joint ventures to be an important part of our business model transformation and inorganic growth strategies. Joint ventures present risks that are different from acquisitions, including selection of appropriate joint venture parties, initial and ongoing governance of the joint venture, joint venture compliance activities (including compliance with applicable CMS requirements), growing the joint venture's business in a manner acceptable to all the parties, including other providers in the networks that include joint ventures, maintaining positive relationships among the joint venture parties and the customers, and member and business disruption that may occur upon joint venture termination.

We may be unable to successfully integrate companies we acquire.

Upon the closing of any acquisition we complete, we will need to successfully integrate the products, services and related assets, as well as internal controls into our business operations. If an acquisition is consummated, the integration of the acquired business, its products, services and related assets into our company may also be complex and time-consuming and, if the integration is not fully successful, we may not achieve the anticipated benefits, operating and cost synergies or growth opportunities of an acquisition. Potential difficulties that may be encountered in the integration process include the following:

- Integrating personnel, operations and systems (including internal control environments and compliance policies), while maintaining focus on producing and delivering consistent, high quality products and services;
- Coordinating geographically dispersed organizations;
- Disruption of management's attention from our ongoing business operations;
- Retaining existing customers and attracting new customers; and
- Managing inefficiencies associated with integrating our operations.

An inability to realize the full extent of the anticipated benefits, operating and cost synergies, innovations and operations efficiencies or growth opportunities of an acquisition, as well as any delays or additional expenses encountered in the integration process, could have a material adverse effect on our businesses and results of operations. Furthermore, acquisitions, even if successfully integrated, may fail to further our business strategy as anticipated, expose us to increased competition or challenges with respect to our products, services or geographic markets, and expose us to additional liabilities associated with an acquired business including risks and liabilities associated with litigation involving the acquired business. Any one of these challenges or risks could impair our ability to realize any benefit from our acquisitions after we have expended resources on them.

As a result of our expanded international operations, we face political, legal and compliance, operational, regulatory, economic and other risks that we do not face or are more significant than in our domestic operations.

We significantly expanded our international operations as a result of the closing of the Aetna Acquisition in November 2018. As a result of our expanded international operations, we face political, legal, compliance, operational, regulatory, economic and other risks that we do not face or that are more significant than in our domestic operations. These risks vary widely by country and include varying regional and geopolitical business conditions and demands, government intervention and censorship, discriminatory regulation, nationalization or expropriation of assets and pricing constraints. Our international products need to meet country-specific customer and member preferences as well as country-specific legal requirements, including those related to licensing, privacy, data storage, location, protection and security.

Our international operations increase our exposure to, and require us to devote significant management resources to implement controls and systems to comply with, the privacy and data protection laws of non-U.S. jurisdictions and the anti-bribery, anti-corruption and anti-money laundering laws of the United States (including the FCPA) and the United Kingdom (including the UK Bribery Act) and similar laws in other jurisdictions. Implementing our compliance policies, internal controls and other systems upon our expansion into new countries and geographies may require the investment of considerable management time and management, financial and other resources over a number of years before any significant revenues or profits are generated. Violations of these laws and regulations could result in fines, criminal sanctions against us, our officers or employees, restrictions or outright prohibitions on the conduct of our business, and significant brand and reputational harm. We must regularly reassess the size, capability and location of our global infrastructure and make appropriate changes, and must have effective change management processes and internal controls in place to address changes in our businesses and operations. Our success depends, in part, on our ability to anticipate these risks and manage these difficulties, and the failure to do so could have a material adverse effect on our businesses, results of operations, financial condition, brand, reputation and/or long-term growth.

Our international operations require us to overcome logistical and other challenges based on differing languages, cultures, legal and regulatory schemes and time zones. Our international operations encounter labor laws, standards and customs that can be difficult and make employee relationships less flexible than in our domestic operations and expensive to modify or terminate. In some countries we are required to, or choose to, operate with local business associates, which requires us to manage our relationships with these third parties and may reduce our operational flexibility and ability to quickly respond to business challenges.

In some countries we may be exposed to currency exchange controls or other restrictions that prevent us from transferring funds internationally or converting local currencies into U.S. dollars or other currencies. Fluctuations in foreign currency exchange rates may adversely affect our revenues, results of operations and cash flows from our international operations. Some of our operations are, and are increasingly likely to be, in emerging markets where these risks are heightened. Any measures we may implement to reduce the effect of volatile currencies and other risks on our international operations may not be effective.

Item 1B. Unresolved Staff Comments

There are no unresolved SEC Staff Comments.

Item 2. Properties

The Company's principal office is an owned building complex located in Woonsocket, Rhode Island, which totals approximately one million square feet. In addition, the Company leases corporate offices in Arizona, Illinois, Ohio, Pennsylvania, Texas, and Brazil.

Pharmacy Services Segment

As of December 31, 2018, the Pharmacy Services segment had the following properties:

- An owned mail service dispensing pharmacy located in Texas;
- Leased mail order dispensing pharmacies located in Hawaii, Illinois and Pennsylvania;
- Leased call centers located in California, Missouri, Pennsylvania, Tennessee and Texas;
- Approximately 40 leased on-site pharmacy stores, approximately 25 leased retail specialty pharmacy stores, approximately 20 specialty mail order pharmacies and approximately 90 branches for infusion and enteral services.

Retail/LTC Segment

As of December 31, 2018, the Retail/LTC segment had the following properties:

- Approximately 8,200 retail stores, of which approximately 4% were owned. Net selling space for retail stores was approximately 80.5 million square feet as of December 31, 2018. Approximately 25% of the store base was opened or significantly remodeled within the last five years;
- Approximately 1,700 retail pharmacies and approximately 80 clinics in Target stores;
- Nine owned distribution centers located in eight states and 13 leased distribution facilities located in twelve additional states and Brazil. The 22 distribution centers totaled approximately 10.4 million square feet as of December 31, 2018; and
- Six owned LTC pharmacies, approximately 150 leased LTC pharmacies in 46 states and one owned LTC repackaging facility.

In connection with certain business dispositions completed between 1991 and 1997, the Company continues to guarantee lease obligations for approximately 85 former stores. The Company is indemnified for these guarantee obligations by the respective purchasers. These guarantees generally remain in effect for the initial lease term and any extension thereof pursuant to a renewal option provided for in the lease prior to the time of the disposition. For additional information on these guarantees, see "Lease Guarantees" in Note 16 "Commitments and Contingencies" contained in the "Notes to Consolidated Financial Statements" in the Annual Report, which is incorporated by reference herein.

Health Care Benefits Segment

The Health Care Benefits segment's principal office is an owned building complex that is approximately 1.7 million square feet in size and is located in Hartford, Connecticut. The Health Care Benefits segment also owns or leases other space in the greater Hartford area, Maryland, Pennsylvania, and various field locations in the United States and several other countries.

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

alternative space. For additional information on the amount of rental obligations for the Company's leases, see Note 6 "Leases" contained in the "Notes to Consolidated Financial Statements" in the Annual Report, which is incorporated by reference herein.

Item 3. Legal Proceedings

I. Legal Proceedings

The information contained in Note 16 "Commitments and Contingencies" of the "Notes to Consolidated Financial Statements" in the Annual Report is incorporated by reference herein.

II. Environmental Matters

Item 103 of SEC Regulation S-K requires disclosure of environmental legal proceedings with a governmental authority if management reasonably believes that the proceedings involve potential monetary sanctions of \$100,000 or more. The Company is in the process of negotiating with the New York State Department of Environmental Conservation to resolve claims of alleged historical noncompliance with hazardous waste regulations in connection with LTC pharmacies in the State of New York. These proceedings are not material to the Company's business or financial condition.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Market information

The Company's common stock is listed on the New York Stock Exchange under the symbol "CVS."

Holders of common stock

The information under the heading "Holders of Common Stock" in the Annual Report is incorporated by reference herein.

Dividends

The quarterly cash dividend declared by the Company's Board of Directors (the "Board") was \$0.50 per share in 2018 and 2017.

CVS Health has paid cash dividends every quarter since becoming a public company. Future dividends will depend on the Company's earnings, capital requirements, financial condition and other factors considered relevant by the Board.

Issuer purchases of equity securities

The following share repurchase programs were authorized by the Board:

<i><u>In billions</u></i>			
<u>Authorization Date</u>	<u>Authorized</u>		<u>Remaining as of December 31, 2018</u>
November 2, 2016 ("2016 Repurchase Program")	\$ 15.0	\$	13.9
December 15, 2014 ("2014 Repurchase Program")	10.0		—

The share Repurchase Programs, each of which was effective immediately, permit the Company to effect repurchases from time to time through a combination of open market repurchases, privately negotiated transactions, accelerated share repurchase transactions, and/or other derivative transactions. The 2016 Repurchase Program can be modified or terminated by the Board at any time. During the three months ended December 31, 2018 the Company did not repurchase any shares of common stock.

See Note 12 "Shareholders' Equity" of the "Notes to Consolidated Financial Statements" in the Annual Report, which is incorporated by reference herein, for additional information regarding the Company's share repurchases.

Item 6. Selected Financial Data

The selected consolidated financial data of CVS Health Corporation as of and for the periods indicated in the five-year period ended December 31, 2018, have been derived from the consolidated financial statements of CVS Health Corporation and is incorporated herein by reference to the information contained in the Annual Report under the heading “Five-Year Financial Summary.” The selected consolidated financial data should be read in conjunction with the consolidated financial statements and the audit reports of Ernst & Young LLP, which are incorporated by reference elsewhere in this Annual Report on Form 10-K.

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

The information contained in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Annual Report, which includes the “Cautionary Statement Concerning Forward-Looking Statements” at the end of such section, is incorporated by reference herein.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information contained in “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Quantitative and Qualitative Disclosures About Market Risk” in the Annual Report is incorporated by reference herein.

Item 8. Financial Statements and Supplementary Data

The information contained in “Consolidated Statements of Operations,” “Consolidated Statements of Comprehensive Income (Loss),” “Consolidated Balance Sheets,” “Consolidated Statements of Shareholders’ Equity,” “Consolidated Statements of Cash Flows,” “Notes to Consolidated Financial Statements,” and “Report of Independent Registered Public Accounting Firm” in the Annual Report, is incorporated by reference herein.

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

None.

Item 9A. Controls and Procedures**Evaluation of disclosure controls and procedures**

The Company’s Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rules 13a-15 (f) and 15d-15(f) under the Securities Exchange Act of 1934) as of December 31, 2018, have concluded that as of such date the Company’s disclosure controls and procedures were adequate and effective at a reasonable assurance level and designed to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to such officers on a timely basis.

Internal control over financial reporting

The “Management’s Report on Internal Control Over Financial Reporting” and “Report of Independent Registered Public Accounting Firm” sections of the Annual Report are incorporated by reference herein. These sections contain management’s report on the Company’s internal control over financial reporting and the Independent Registered Public Accounting Firm’s report with respect to the effectiveness the Company’s internal control over financial reporting.

Changes in internal control over financial reporting

On November 28, 2018, the Company completed its acquisition of Aetna. In conducting its assessment of the effectiveness of the Company’s internal control over financial reporting as of December 31, 2018, management has elected to exclude Aetna from that assessment, as permitted under SEC rules. The Company is in the process of integrating the historical internal control over financial reporting of Aetna with the rest of the Company. Aetna’s operations are included in the Company’s 2018 consolidated financial statements for the period from November 28, 2018 to December 31, 2018 and represented 21% of the Company’s consolidated total assets as of December 31, 2018 and 3% of the Company’s consolidated total revenues for the year ended December 31, 2018.

Other than the foregoing, there has been no change in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 that occurred during the fourth quarter ended December 31, 2018 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

No events have occurred during the fourth quarter ended December 31, 2018 that would require disclosure under this item.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The sections of the Proxy Statement under the captions "Committees of the Board," "Code of Conduct," "Audit Committee Report," "Biographies of our Incumbent Board Nominees," and "Section 16(a) Beneficial Ownership Reporting Compliance" are incorporated by reference herein.

Executive Officers of the Registrant

The following sets forth the name, age and biographical information for each of the Registrant's executive officers as of February 28, 2019. In each case the officer's term of office extends to the date of the board of directors meeting following the next annual meeting of stockholders of the Company. Previous positions and responsibilities held by each of the executive officers over the past five years or more are indicated below:

Lisa G. Bisaccia, age 62, Executive Vice President of CVS Health Corporation since March 2016 and Chief Human Resources Officer of CVS Health Corporation since January 2010; Senior Vice President of CVS Health Corporation from January 2010 through February 2016; Vice President, Human Resources of CVS Pharmacy, Inc. from September 2004 through December 2009. Ms. Bisaccia is also a member of the board of directors of Aramark, a leading global provider of food, facilities and uniform services.

Eva C. Boratto, age 52, Executive Vice President and Chief Financial Officer of CVS Health Corporation since November 2018; Executive Vice President - Controller and Chief Accounting Officer of CVS Health Corporation from March 2017 through November 2018; Senior Vice President - Controller and Chief Accounting Officer of CVS Health Corporation from July 2013 through February 2017; Senior Vice President of PBM Finance from July 2010 through June 2013.

Troyen A. Brennan, M.D., age 64, Executive Vice President and Chief Medical Officer of CVS Health Corporation since November 2008; Executive Vice President and Chief Medical Officer of Aetna Inc. from February 2006 through November 2008.

James D. Clark, age 54, Senior Vice President - Controller and Chief Accounting Officer of CVS Health Corporation since November 2018; Vice President - Finance and Accounting of CVS Pharmacy, Inc. from September 2009 through October 2018.

Joshua M. Flum, age 49, Executive Vice President, Enterprise Strategy and Digital since November 2018; Executive Vice President, Corporate Strategy and Business Development of CVS Pharmacy, Inc. from June 2016 through October 2018; Executive Vice President - Pharmacy Services of CVS Pharmacy, Inc. from March 2015 through May 2016; Senior Vice President of Retail Pharmacy of CVS Pharmacy, Inc. from December 2010 through February 2015. Mr. Flum is a member of the board of directors of CreditRiskMonitor.com, Inc., a company that facilitates the analysis of corporate financial risk, mostly in the context of the extension of trade credit from one business to another.

Kevin P. Hourican, age 45, Executive Vice President of CVS Health Corporation and President of CVS Pharmacy since April 2018; Executive Vice President - Retail Pharmacy and Supply Chain of CVS Pharmacy, Inc. from June 2016 through March 2018; Senior Vice President, Field Operations and Supply Chain of CVS Pharmacy, Inc. from June 2014 through May 2016; Senior Vice President, Field Operations of CVS Pharmacy, Inc. from June 2012 through May 2014.

Alan M. Lotvin, M.D., age 57, Executive Vice President - Transformation of CVS Health Corporation since June 2018; Executive Vice President - Specialty Pharmacy, CVS Caremark from November 2012 through May 2018.

Karen S. Lynch, age 56, Executive Vice President of CVS Health Corporation and President of Aetna since November 2018; President of Aetna from January 2015 to the present; Executive Vice President, Local and Regional Businesses of Aetna from February 2013 through December 2014; Executive Vice President, Head of Specialty Products of Aetna from July 2012 through January 2013. Ms. Lynch is a member of the board of directors of U.S. Bancorp, a banking and financial services company.

Larry J. Merlo, age 63, President and Chief Executive Officer of CVS Health Corporation since March 2011; President and Chief Operating Officer of CVS Health Corporation from May 2010 through March 2011; President of CVS Pharmacy from January 2007 through August 2011; Executive Vice President of CVS Health Corporation from January 2007 through May 2010; also a director of CVS Health Corporation since May 2010.

Thomas M. Moriarty, age 55, Executive Vice President and General Counsel of CVS Health Corporation since October 2012 and Chief Policy and External Affairs Officer since March 2017; Chief Strategy Officer from March 2014 through February 2017.

Derica W. Rice, age 54, Executive Vice President of CVS Health Corporation and President of CVS Caremark since March 2018; Executive Vice President of Global Services and Chief Financial Officer of Eli Lilly & Co. from May 2006 through December 2017. Mr. Rice was formerly a director of Target Corporation from September 2007 until January 2018, and is a candidate for election to the board of directors of The Walt Disney Company in March 2019.

Jonathan C. Roberts, age 63, Executive Vice President and Chief Operating Officer of CVS Health Corporation since March 2017; Executive Vice President of CVS Health Corporation and President of CVS Caremark from September 2012 through February 2017; Executive Vice President of CVS Health Corporation and Chief Operating Officer of CVS Caremark from October 2010 through August 2011.

Item 11. Executive Compensation

The sections of the Proxy Statement under the captions “Non-Employee Director Compensation” and “Executive Compensation and Related Matters,” including “Compensation Discussion and Analysis,” “Letter from the Management Planning and Development Committee,” “Compensation Committee Report” and “Executive Compensation Tables” are incorporated by reference herein.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The sections of the Proxy Statement under the captions “Share Ownership of Directors and Certain Executive Officers” and “Share Ownership of Principal Stockholders” are incorporated by reference herein. Those sections contain information concerning security ownership of certain beneficial owners and management and related stockholder matters.

The following table summarizes information about the Company’s common stock that may be issued upon the exercise of options, warrants and rights under all of equity compensation plans as of December 31, 2018 .

	Number of securities to be issued upon exercise of outstanding options, warrants and rights ⁽¹⁾⁽²⁾	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column) ⁽¹⁾
	(a)	(b)	(c)
Equity compensation plans approved by stockholders ⁽³⁾	27,102	\$ 77.51	25,927
Equity compensation plans not approved by stockholders ⁽⁴⁾⁽⁵⁾	5,136	43.01	31,633
Total	32,238	\$ 75.04	57,560

(1) Shares in thousands.

(2) Consists of: (i) 18,597 shares of common stock underlying outstanding options, (ii) 1,435 shares of common stock issuable upon the exercise of outstanding stock appreciation rights (“SARs”) and (iii) 12,206 shares of common stock issuable on the vesting of outstanding restricted stock units, deferred stock units and performance stock units, assuming target level performance in the case of performance stock units. The number of shares included with respect to

outstanding SARs is the number of shares of the Company's common stock that would have been issued had the SARs been exercised based on the closing price per share of the Company's common stock on December 31, 2018, as reported on the NYSE, which was \$65.52.

(3) Consists of the CVS Health 2017 Incentive Compensation Plan.

(4) Consists of the Amended Aetna Inc. 2010 Stock Incentive Plan (the "Aetna Stock Plan").

(5) Amount in column (c) consists of the maximum number of shares of the Company's common stock available for future issuance under the Aetna Stock Plan as of December 31, 2018.

The Aetna Stock Plan was last approved by Aetna's shareholders at Aetna's 2017 Annual Meeting on May 19, 2017. The Company elected to continue to grant awards under the Aetna Stock Plan to employees of Aetna and its subsidiaries following the completion of the Aetna Acquisition. The Aetna Stock Plan is designed to promote the Company's interests and those of its stockholders and to further align the interests of stockholders and employees by tying awards to total return to stockholders, enabling plan participants to acquire additional equity interests in the Company and providing compensation opportunities dependent upon the Company's performance. The Aetna Stock Plan has not been submitted to the Company's stockholders and will expire on May 21, 2020.

Under the Aetna Stock Plan, eligible participants can be granted stock options to purchase shares of the Company's common stock, SARs, time vesting and/or performance vesting incentive stock or incentive units and other stock based awards. As of December 31, 2018, the maximum number of shares of the Company's common stock that may be issued under the awards outstanding under the Aetna Stock Plan was 5.1 million shares, subject to adjustment for corporate transactions and 31.6 million shares remained available for future awards. If an award under the Aetna Stock Plan is paid solely in cash, no shares are deducted from the number of shares available for issuance under the Aetna Stock Plan.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The sections of the Proxy Statement under the captions "Independence Determinations for Directors" and "Related Person Transaction Policy" are incorporated by reference herein.

Item 14. Principal Accounting Fees and Services

The section of the Proxy Statement under the caption "Item 2: Ratification of Appointment of Independent Registered Public Accounting Firm" is incorporated by reference herein.

PART IV

Item 15. Exhibits, Financial Statement Schedules

The following documents are filed as part of this Annual Report on Form 10-K:

1. Financial Statements. The following financial statements, related notes and report are incorporated by reference from the Annual Report in Item 8 hereof:
Consolidated Statements of Operations for the Years Ended December 31, 2018, 2017 and 2016
Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2018, 2017 and 2016
Consolidated Balance Sheets as of December 31, 2018 and 2017
Consolidated Statements of Cash Flows for the Years Ended December 31, 2018, 2017 and 2016
Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2018, 2017 and 2016
Notes to Consolidated Financial Statements
Report of Independent Registered Public Accounting Firm
2. Financial Statement Schedules. All financial statement schedules are omitted because they are not applicable, not required under the instructions, or the information is included in the consolidated financial statements or related notes.
3. Exhibits. The exhibits listed in the "Index to Exhibits" in this Item 15 are filed or incorporated by reference as part of this Annual Report on Form 10-K. Exhibits marked with an asterisk (*) are management contracts or compensatory plans or arrangements. Exhibits other than those listed are omitted because they are not required to be listed or are not applicable. Pursuant to Item 601(b)(4)(iii) of Regulation S-K, the Registrant hereby agrees to furnish to the Securities and Exchange Commission a copy of any omitted instrument that is not required to be listed.

INDEX TO EXHIBITS

Exhibit	Description
2	Plan of acquisition, reorganization, arrangement, liquidation or succession
2.1	Agreement and Plan of Merger, dated as of May 20, 2015, among CVS Pharmacy, Inc., Tree Merger Sub, Inc. and Omnicare, Inc. (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed May 21, 2015; Commission File No. 001-01011).
2.2	Agreement and Plan of Merger, dated as of December 3, 2017, among CVS Health Corporation, Hudson Merger Sub Corp. and Aetna Inc. (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed December 5, 2017; Commission File No. 001-01011).
2.3	Master Transaction Agreement by and between Aetna Inc. and Hartford Life and Accident Insurance Company dated as of October 22, 2017.
3	Articles of Incorporation and Bylaws
3.1	Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1C of Registrant's Current Report on Form 8-K filed June 5, 2018; Commission File No. 001-01011).
3.2	By-laws of the Registrant, as amended and restated (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed June 5, 2018; Commission File No. 001-01011).
4	Instruments defining the rights of security holders, including indentures
4.1	Specimen common stock certificate (incorporated by reference to Exhibit 4.1 to the Registration Statement of the Registrant ((then known as CVS Corporation) as successor to Melville Corporation) on Form 8-B filed November 4, 1996; Commission File No. 001-01011).
4.2	Senior Indenture dated August 15, 2006, between the Registrant and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed August 15, 2006; Commission File No. 001-01011).
4.3	Form of the Registrant's 2020 Floating Rate Note (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed March 12, 2018; Commission File No. 001-01011).
4.4	Form of the Registrant's 2021 Floating Rate Note (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed March 12, 2018; Commission File No. 001-01011).

- 4.5 [Form of the Registrant's 2020 Note \(incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K filed March 12, 2018; Commission File No. 001-01011\).](#)
- 4.6 [Form of the Registrant's 2021 Note \(incorporated by reference to Exhibit 4.4 to the Registrant's Current Report on Form 8-K filed March 12, 2018; Commission File No. 001-01011\).](#)
- 4.7 [Form of the Registrant's 2023 Note \(incorporated by reference to Exhibit 4.5 to the Registrant's Current Report on Form 8-K filed March 12, 2018; Commission File No. 001-01011\).](#)
- 4.8 [Form of the Registrant's 2025 Note \(incorporated by reference to Exhibit 4.6 to the Registrant's Current Report on Form 8-K filed March 12, 2018; Commission File No. 001-01011\).](#)
- 4.9 [Form of the Registrant's 2028 Note \(incorporated by reference to Exhibit 4.7 to the Registrant's Current Report on Form 8-K filed March 12, 2018; Commission File No. 001-01011\).](#)
- 4.10 [Form of the Registrant's 2038 Note \(incorporated by reference to Exhibit 4.8 to the Registrant's Current Report on Form 8-K filed March 12, 2018; Commission File No. 001-01011\).](#)
- 4.11 [Form of the Registrant's 2048 Note \(incorporated by reference to Exhibit 4.9 to the Registrant's Current Report on Form 8-K filed March 12, 2018; Commission File No. 001-01011\).](#)

10 **Material Contracts**

- 10.1 [Credit Agreement dated as of July 1, 2015, by and among the Registrant, the lenders party thereto and The Bank of New York Mellon, as Administrative Agent \(incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2015 \(Commission File No. 001-01011\).](#)
- 10.2 [Amendment No. 1 to Credit Agreement dated as of December 15, 2017, to the Credit Agreement dated as of July 1, 2015, by and among the Registrant, the lenders party thereto and The Bank of New York Mellon, as Administrative Agent \(incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed December 19, 2017; Commission File No. 001-01-011\).](#)
- 10.3 [Amendment No. 2 to Credit Agreement dated as of May 17, 2018, to the Credit Agreement dated as of July 1, 2015, by and among the Registrant, the lenders party thereto and The Bank of New York Mellon, as Administrative Agent \(incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2018; Commission File No. 001-01-011\).](#)
- 10.4 [Five Year Credit Agreement, dated as of May 18, 2017, by and among the Registrant, the lenders party thereto and The Bank of New York Mellon, as Administrative Agent \(incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2017; Commission File No. 001-01011\).](#)
- 10.5 [Amendment No. 1 to Five Year Credit Agreement dated as of December 15, 2017, to the Five Year Credit Agreement dated as of May 18, 2017, by and among the Registrant, the lenders party thereto and The Bank of New York Mellon, as Administrative Agent \(incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed December 19, 2017; Commission File No. 001-01011\).](#)
- 10.6 [Amendment No. 2 to Five Year Credit Agreement dated as of May 17, 2018, to the Five Year Credit Agreement dated as of May 18, 2017, by and among the Registrant, the lenders party thereto and The Bank of New York Mellon, as Administrative Agent \(incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2018; Commission File No. 001-01011\).](#)
- 10.7 [Term Loan Agreement dated as of December 15, 2017, by and among the Registrant, the lenders party thereto and Barclays Bank PLC, as administrative agent \(incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed December 19, 2017; Commission File No. 001-01011\).](#)
- 10.8 [Amendment No. 1 to Term Loan Agreement dated as of May 17, 2018, to the Term Loan Agreement dated as of December 15, 2017, by and among the Registrant, the lenders party thereto and Barclays Bank PLC, as Administrative Agent \(incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2018; Commission File No. 001-01011\).](#)
- 10.9 [364-Day Credit Agreement dated as of May 17, 2018, by and among the Registrant, the lenders party thereto and The Bank of New York Mellon, as Administrative Agent \(incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2018; Commission File No. 001-01011\).](#)
- 10.10 [Five Year Credit Agreement dated as of May 17, 2018, by and among the Registrant, the lenders party thereto and The Bank of New York Mellon, as Administrative Agent \(incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2018; Commission File No. 001-01011\).](#)
- 10.11 [Bridge Facility Commitment Letter dated December 3, 2017, by and among the Registrant, Barclays Bank PLC, Goldman Sachs Bank USA, Goldman Sachs Lending Partners LLC, Bank of America, N.A., and Merrill Lynch, Pierce Fenner & Smith Incorporated \(incorporated by reference to Exhibit 2.2 to the Registrant's Current Report on Form 8-K filed December 5, 2017; Commission File No. 001-01011\).](#)

- 10.12 [Joinder to Bridge Facility Commitment Letter dated as of December 15, 2017, by and among the Registrant, Barclays Bank PLC, Goldman Sachs Bank USA, Goldman Sachs Lending Partners LLC, Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated, and each of the Additional Commitment Parties party thereto \(incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed December 19, 2017; Commission File No. 001-01011\).](#)
- 10.13 [364-Day Bridge Term Loan Agreement, dated October 26, 2018, by and among the Registrant, the lenders party thereto and Barclays Bank PLC, as Administrative Agent \(incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed October 26, 2018; Commission File No. 001-010011\).](#)
- 10.14* [The Registrant's 1996 Directors Stock Plan, as amended and restated November 5, 2002 \(incorporated by reference to Exhibit 10.18 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 28, 2002; Commission File No. 001-01011\).](#)
- 10.15* [Caremark Rx, Inc. 2004 Incentive Stock Plan \(incorporated by reference to Exhibit 99.2 of the Registrant's Registration Statement No. 333-141481 on Form S-8 filed March 22, 2007; Commission File No. 011-01011\).](#)
- 10.16* [The Registrant's Supplemental Retirement Plan I for Select Senior Management, as amended and restated as of December 31, 2008 \(incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2009; Commission File No. 011-01011\).](#)
- 10.17* [The Registrant's 1997 Incentive Compensation Plan, as amended through December 31, 2008 \(incorporated by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2009; Commission File No. 011-01011\).](#)
- 10.18* [Form of Enterprise Non-Competition, Non-Disclosure and Developments Agreement between the Registrant and certain of the Registrant's executive officers \(incorporated by reference to Exhibit 10.25 of the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2013; Commission File No. 001-01011\).](#)
- 10.19* [The Registrant's 2010 Incentive Compensation Plan, as amended through January 15, 2013 \(incorporated by reference to Exhibit A to the Registrant's Definitive Proxy Statement on Form 14A filed March 27, 2015; Commission File No. 001-01011\).](#)
- 10.20* [The Registrant's Deferred Stock Compensation Plan, as amended \(incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015; Commission File No. 001-01011\).](#)
- 10.21* [The Registrant's 2007 Employee Stock Purchase Plan, as amended \(incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015; Commission File No. 001-01011\).](#)
- 10.22* [Universal 409A Definition Document, as amended \(incorporated by reference to Exhibit 10.28 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015; Commission File No. 001-01011\).](#)
- 10.23* [The Registrant's Deferred Compensation Plan, as amended \(incorporated by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016; Commission File No. 001-01011\).](#)
- 10.24* [The Registrant's Partnership Equity Program, as amended \(incorporated by reference to Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016; Commission File No. 001-01011\).](#)
- 10.25* [The Registrant's Performance-Based Restricted Stock Unit Plan, as amended \(incorporated by reference to Exhibit 10.27 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016; Commission File No. 001-01011\).](#)
- 10.26* [The Registrant's 2017 Incentive Compensation Plan \(incorporated by reference to Exhibit A to the Registrant's Definitive Proxy Statement on Form 14A filed March 31, 2017; Commission File No. 001-01011\).](#)
- 10.27* [The Registrant's Executive Incentive Plan, as amended \(incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2017; Commission File No. 001-01011\).](#)
- 10.28* [The Registrant's Long-Term Incentive Plan, as amended \(incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2017; Commission File No. 001-01011\).](#)
- 10.29* [Form of Non-Qualified Stock Option Agreement between the Registrant and selected employees of the Registrant \(incorporated by reference to Exhibit 10.29 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011\).](#)
- 10.30* [Form of Restricted Stock Unit Agreement - Annual Grant - between the Registrant and selected employees of the Registrant \(incorporated by reference to Exhibit 10.30 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011\).](#)

- 10.31* [Form of Performance-Based Restricted Stock Unit Agreement between the Registrant and selected employees of the Registrant \(incorporated by reference to Exhibit 10.31 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011\).](#)
- 10.32* [Form of Partnership Equity Program Participant Purchased RSUs, Company Matching RSUs and Company Matching Options Agreement \(Pre-Tax\) \(incorporated by reference to Exhibit 10.32 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011\).](#)
- 10.33* [Form of Partnership Equity Program Participant Purchased RSUs, Company Matching RSUs and Company Matching Options Agreement \(Post-Tax\) \(incorporated by reference to Exhibit 10.33 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011\).](#)
- 10.34* [Form of Performance Stock Unit Agreement - Annual Grant between the Registrant and selected employees of the Registrant \(incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2018; Commission File No. 001-01011\).](#)
- 10.35* [Form of Performance Stock Unit Agreement \(LTIP\) - Annual Grant between the Registrant and selected employees of the Registrant \(incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2018; Commission File No. 001-01011\).](#)
- 10.36* [The Registrant's 2018 Management Incentive Plan.](#)
- 10.37* [The Registrant's Severance Plan for Non-Store Employees amended as of November 28, 2018.](#)
- 10.38* [The Registrant's Performance-Based Restricted Stock Unit Program, as amended.](#)
- 10.39* [Form of Non-Qualified Stock Option Agreement between the Registrant and selected employees of the Registrant.](#)
- 10.40* [Form of Restricted Stock Unit Agreement - Annual Grant - between the Registrant and selected employees of the Registrant.](#)
- 10.41* [Form of Performance-Based Restricted Stock Unit Agreement between the Registrant and selected employees of the Registrant.](#)
- 10.42* [Form of Partnership Equity Program Participant Purchased RSUs, Company Matching RSUs and Company Matching Options Agreement \(Pre-Tax\).](#)
- 10.43* [Form of Partnership Equity Program Participant Purchased RSUs, Company Matching RSUs and Company Matching Options Agreement \(Post-Tax\) \(incorporated by reference to Exhibit 10.31 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2013; Commission File No. 001-01011\).](#)
- 10.44* [Amended Aetna Inc. 2010 Stock Incentive Plan, as amended May 19, 2017 \(incorporated by reference to Exhibit 99.1 to the Registrant's Registration Statement on Form S-8 filed November 30, 2018; Commission File No. 001-01011\).](#)
- 10.45* [Form of Aetna Inc. 2010 Stock Incentive Plan - Market Stock Unit Terms of Award.](#)
- 10.46* [Form of Aetna Inc. 2010 Stock Incentive Plan - Performance Stock Unit Terms of Award \(2015\).](#)
- 10.47* [Form of Aetna Inc. 2010 Stock Incentive Plan - Executive Restricted Stock Unit Terms of Award \(2015\).](#)
- 10.48* [Form of Aetna Inc. 2010 Stock Incentive Plan - Stock Appreciation Right Terms of Award \(2015\).](#)
- 10.49* [Amended and Restated Employment Agreement dated as of December 21, 2012 between the Registrant and Larry Merlo \(incorporated by reference to Exhibit 10.31 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012; Commission File No. 001-01011\).](#)
- 10.50* [Form of Non-Qualified Stock Option Agreement - Annual Grant between the Registrant and Larry Merlo \(incorporated by reference to Exhibit 10.37 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016; Commission File No. 001-01011\).](#)
- 10.51* [Form of Restricted Stock Unit Agreement - Annual Grant between the Registrant and Larry Merlo \(incorporated by reference to Exhibit 10.38 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016; Commission File No. 001-01011\).](#)
- 10.52* [Amendment dated January 22, 2015 to Nonqualified Stock Option Agreements between the Registrant and Larry Merlo \(incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed January 23, 2015; Commission File No. 001-01011\).](#)
- 10.53* [Change in Control Agreement dated December 22, 2008 between the Registrant and David Denton \(incorporated by reference to Exhibit 10.39 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010; Commission File No. 001-01011\).](#)
- 10.54* [Amendment dated as of December 31, 2012 to the Change in Control Agreement dated December 22, 2008 between the Registrant and David Denton \(incorporated by reference to Exhibit 10.32 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012; Commission File No. 001-01011\).](#)
- 10.55* [Confidential Separation Agreement effective as of June 25, 2018, between the Registrant and David Denton \(incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2018; Commission File No. 001-01011\).](#)

- 10.56* [Change in Control Agreement dated December 22, 2008 between the Registrant and Jonathan Roberts \(incorporated by reference to Exhibit 10.33 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012; Commission File No. 001-01011\).](#)
- 10.57* [Amendment dated as of December 31, 2012 to the Change in Control Agreement dated December 22, 2008 between the Registrant and Jonathan Roberts \(incorporated by reference to Exhibit 10.34 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012; Commission File No. 001-01011\).](#)
- 10.58* [Restricted Stock Unit Agreement - Annual Grant dated April 1, 2016 between the Registrant and Jonathan C. Roberts \(incorporated by reference to Exhibit 10.44 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016; Commission File No. 001-01011\).](#)
- 10.59* [Restrictive Covenant Agreement dated May 20, 2016 between the Registrant and Jonathan C. Roberts \(incorporated by reference to Exhibit 10.45 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016; Commission File No. 001-01011\).](#)
- 10.60* [Change in Control Agreement dated December 22, 2008 between the Registrant and Helena Foulkes \(incorporated by reference to Exhibit 10.43 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011\).](#)
- 10.61* [Amendment dated as of December 31, 2012 to the Change in Control Agreement between the Registrant and Helena Foulkes \(incorporated by reference to Exhibit 10.44 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011\).](#)
- 10.62* [Change in Control Agreement dated October 1, 2012 between the Registrant and Thomas Moriarity \(incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2015; Commission File No. 001-01011\).](#)
- 10.63* [Restrictive Covenant Agreement dated June 1, 2014 between the Registrant and Thomas Moriarity \(incorporated by reference to Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2015; Commission File No. 001-01011\).](#)
- 13 Annual Report to security holders, Form 10-Q or quarterly report to security holders**
- 13.1 [Portions of the 2018 Annual Report to Stockholders of CVS Health Corporation, which are specifically designated in this Annual Report on Form 10-K as being incorporated by reference.](#)
- 21 Subsidiaries of the registrant**
- 21.1 [Subsidiaries of CVS Health Corporation.](#)
- 23 Consents of experts and counsel**
- 23.1 [Consent of Ernst & Young LLP.](#)
- 31 Rule 13a-14(a)/15d-14(a) Certifications**
- 31.1 [Certification by the Chief Executive Officer.](#)
- 31.2 [Certification by the Chief Financial Officer.](#)
- 32 Section 1350 Certifications**
- 32.1 [Certification by the Chief Executive Officer.](#)
- 32.2 [Certification by the Chief Financial Officer.](#)
- 101 Interactive Data File**
- 101 The following materials from the CVS Health Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2018 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Shareholders' Equity and (vi) the related Notes to Consolidated Financial Statements.

Item 16. Form 10-K Summary

None.

MASTER TRANSACTION AGREEMENT

by and between

AETNA INC.

and

HARTFORD LIFE AND ACCIDENT INSURANCE COMPANY

Dated as of October 22, 2017

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Exhibit B	Form of Reinsurance Agreement
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Exhibit D	Form of Administrative Services Agreement
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MASTER TRANSACTION AGREEMENT

This Master Transaction Agreement (this “Agreement”), dated as of October 22, 2017, is entered into by and between Aetna Inc., a Pennsylvania corporation (“Seller”), and Hartford Life and Accident Insurance Company, a Connecticut insurance company (“Purchaser”).

WITNESSETH:

WHEREAS, Seller owns 100% of the issued and outstanding shares of capital stock of Aetna Life Insurance Company, an insurance company organized under the laws of the State of Connecticut (the “Ceding Company”);

WHEREAS, Seller and its Affiliates (as hereinafter defined), including the Ceding Company and Aetna Health and Life Insurance Company, an insurance company organized under the laws of the State of Connecticut (“AHLIC”), are engaged, among other things, in the operation of the Business (as hereinafter defined) in the United States; and

WHEREAS, the parties hereto desire to enter into this Agreement pursuant to which, on the terms and subject to the conditions set forth herein, at the Closing (as hereinafter defined), among other things:

(a) the Ceding Company will enter into a commutation agreement with AHLIC substantially in the form attached hereto as Exhibit A (the “Commutation Agreement”), pursuant to which, on the terms and subject to the conditions set forth therein, the Ceding Company will recapture the portion of the Business reinsured by AHLIC effective as of immediately prior to the effectiveness of the Reinsurance Agreement (as defined below) (the “Pre-Closing Commutation”);

(b) the Ceding Company will enter into a reinsurance agreement with Purchaser substantially in the form attached hereto as Exhibit B (the “Reinsurance Agreement”), pursuant to which, on the terms and subject to the conditions set forth therein, the Ceding Company shall cede to Purchaser, and Purchaser shall reinsure, all “Policy Liabilities” (as such term is defined in such attached form of the Reinsurance Agreement, the “Reinsured Liabilities”), on a 100% coinsurance basis;

(c) the Ceding Company and Purchaser will enter into a trust agreement with the Trustee (as hereinafter defined) substantially in the form attached hereto as Exhibit C (the “Trust Agreement”), pursuant to which, on the terms and subject to the conditions set forth therein, Purchaser will establish and maintain a trust account (the “Trust Account”) with the Trustee for the benefit of the Ceding Company to secure Purchaser’s obligations to the Ceding Company under the Reinsurance Agreement;

(d) the Ceding Company will enter into an administrative services agreement with Purchaser substantially in the form attached hereto as Exhibit D (the “Administrative Services Agreement”), pursuant to which, on the terms and subject to the conditions set forth therein, Purchaser will provide to the Ceding Company administrative services with respect to the Business reinsured under the Reinsurance Agreement;

(e) the Ceding Company and Purchaser will enter into a transition services agreement substantially in the form attached hereto as Exhibit E (the “Transition Services Agreement”), pursuant to which, on the terms and subject to the conditions set forth therein, the Ceding Company will, or will cause its Affiliates or third party service providers to, perform certain transition services with respect to the Business for Purchaser or its designated Affiliates;

(f) Seller and Purchaser will enter into an intellectual property assignment and license agreement substantially in the form attached hereto as Exhibit F (the “Intellectual Property Agreement”), pursuant to which Seller and the Ceding Company will, on the terms and subject to the conditions set forth therein, transfer, assign and license the Transferred Intellectual Property to Purchaser, and Purchaser will license certain Transferred Intellectual Property back to Seller;

(g) the Ceding Company, Carefree Insurance Services, Inc., a company organized under the laws of Florida and a Subsidiary of Seller, Purchaser and one or more Affiliates of Purchaser will enter into a distribution agreement substantially in the form attached hereto as Exhibit G (the “Distribution Agreement”), pursuant to which, on the terms and subject to the conditions set forth therein, the parties thereto will market and sell insurance policies to each other’s customers and joint customers;

(h) subject to obtaining relevant third party consents, Purchaser and Seller or their applicable Affiliates will enter into a lease assignment agreement substantially in the form attached hereto as Exhibit J (the “Portland Location Assignment Agreement”), pursuant to which Purchaser or its applicable Affiliate(s) will accept assignment of the Assigned Lease on the terms and subject to the conditions set forth herein and therein;

(i) subject to obtaining relevant third party consents, Purchaser and Seller or their applicable Affiliates will enter into sublease agreements substantially in the form attached hereto as Exhibit K, pursuant to which Seller or its applicable Affiliate(s) will sublease certain real property to Purchaser or its applicable Affiliate(s), on the terms and subject to the conditions set forth herein and therein; and

(j) Seller and its applicable Affiliates will sell to Purchaser, and Purchaser will purchase from Seller and its Affiliates, the Transferred Assets (as hereinafter defined), and Seller and its applicable Affiliates will assign to Purchaser, and Purchaser will assume from Seller and its applicable Affiliates, the Assumed Liabilities and the Assigned Contracts (as hereinafter defined).

NOW, THEREFORE, in consideration of the representations, warranties, covenants and agreements set forth herein, the parties hereto hereby agree as follows:

ARTICLE I.

DEFINITIONS

Section 1.01. Definitions. For purposes of this Agreement, the following terms have the respective meanings set forth below:

“Accounting Date” has the meaning given to such term in Section 2.06.

“Accounting Value” means, with respect to any Investment Asset as of any date of determination, the sum of: (i) the Book Value of such Investment Asset as of the applicable date of determination; plus (ii) all accrued but unpaid interest on such Investment Asset through the applicable date of determination.

“Action” means any civil, criminal, administrative or other claim, action, suit, litigation, arbitration hearing, charge, complaint, demand, notice or other similar proceeding, in each case by or before any Governmental Authority or arbitral body.

“Actuarial Report” has the meaning given to such term in Section 3.21.

“Adjusted Required Asset Value” means, as of any applicable date of determination, an amount equal to (i) the Required Asset Value as of such date, plus (if positive) or minus (if negative) (ii) the sum of all Capital Gain or Loss Adjustments required with respect to the period from the Reference Date through the applicable date of determination, plus (if positive) or minus (if negative) (iii) the sum of all Reallocated Asset Value Adjustments required with respect to the period from the Reference Date through the applicable date of determination. The Capital Gain or Loss Adjustments and Reallocated Asset Value Adjustments required with respect to the period from the Reference Date to the date hereof are required to be set forth on Section 3.19(b) of the Seller Disclosure Schedule. All Capital Gain or Loss Adjustments and Reallocated Asset Value Adjustments required with respect to the period beginning on the date hereof and ending at the Closing will be determined in accordance with Section 5.11.

“Administrative Services Agreement” has the meaning given to such term in the Recitals.

“Affiliate” means, with respect to any Person at the time in question, any other Person controlling, controlled by or under common control with such Person. For purposes of the foregoing, “control,” including the terms “controlling,” “controlled by” and “under common control with,” means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. Notwithstanding anything to the contrary contained in this Agreement, none of the following nor any of their respective Subsidiaries shall be deemed to be an Affiliate of Seller or any of its Subsidiaries for purposes of this Agreement: (i) bswift LLC, a Delaware limited liability company, or Prodigy Health Group, Inc., a Delaware corporation; and (ii) (x) any joint venture, accountable care organization or similar arrangement for the establishment, management or operation of a provider collaboration, network or group in which Seller and its Affiliates collectively own 50% or less of the outstanding equity securities or

economic interest and (y) any other joint venture entity formed with health systems or health care providers to the extent such joint venture entity owns or operates a health plan.

“Agreement” has the meaning given to such term in the Preamble.

“AHLIC” has the meaning given to such term in the Recitals.

“Allocable Amount” has the meaning given to such term in Section 7.01.

“Applicable Law” means all laws, common law, rules, regulations, ordinances, codes, statutes, judgments, injunctions, Governmental Orders and decrees of all Governmental Authorities applicable to the Person, place and situation in question.

“ASO Contracts” means: (i) the contracts pursuant to which the Ceding Company provides to plan sponsors of self-funded groups administrative or related services for the management of disability benefits prior to the Effective Time; and (ii) the contracts pursuant to which the Ceding Company provides to employers administrative services or software for the management of leaves of absence by employees and related rights and benefits under Applicable Law (including the Family and Medical Leave Act of 1993, as amended, the Americans with Disabilities Act of 1990, as amended, and similar U.S. state and municipal laws, and including as a result of long-term or short-term disability) and internal policies and practices of such employers, in each case of (i) and (ii) in connection with the Business.

“Asset Consideration” has the meaning given to such term in Section 2.07(a)(ii).

“Assigned Contracts” means: (i) those contracts and other agreements to which Seller or an Affiliate of Seller is a party and which are listed on Schedule I; (ii) any renewals or replacement of those contracts and other agreements to which Seller or an Affiliate of Seller is a party that are listed on Schedule I, to the extent such agreements or divisible sub-agreements thereof are entered into prior to the Closing in the ordinary course of business and in accordance with this Agreement; (iii) any vendor contracts and other vendor agreements to which Seller or an Affiliate of Seller is a party, to the extent such agreements or divisible sub-agreements thereof relate primarily or exclusively to the Business and are entered into between the date hereof and the Closing, in the ordinary course of business and in accordance with this Agreement; and (iv) each Business Employee Benefit Plan.

“Assigned Lease” has the meaning given to such term in Section 2.01.

“Assumed Liabilities” has the meaning given to such term in Section 2.04.

“Bill of Sale and Assumption and Assignment Agreement” means a bill of sale and assumption and assignment agreement, substantially in the form attached hereto as Exhibit H, to be entered into by Seller and its applicable Affiliates, on the one hand, and Purchaser, on the other hand, at the Closing.

“Board Materials” has the meaning given to such term in the definition of “Books and Records.”

“Books and Records” means all records (including computer generated, recorded or stored records) relating directly and primarily to the Business that are in the possession or control of Seller, or any of its Affiliates; provided, however, that “Books and Records” excludes (the following, collectively, the “Excluded Books and Records”): (1) Tax Returns, Tax records and all other data and information with respect to Taxes of Seller and its Affiliates (other than Tax records of individual insureds under Group Contracts); (2) files, records, data and information with respect to the employees of Seller or its Affiliates, any Employee or any Employee Benefit Plan (except data and information provided pursuant to this Agreement or the Employee Leasing Agreement, in either case, with respect to any Business Employee Benefit Plan and Employee, unless prohibited by Applicable Law); (3) any materials prepared for the boards of directors or similar governing bodies of Seller or any of its Affiliates (“Board Materials”); (4) any corporate minute books, stock records or similar corporate records of Seller or any of its Affiliates; (5) any materials that are legally privileged, it being understood that Seller shall use commercially reasonable efforts to obtain waivers or make other arrangements (including redacting information or entering into joint defense agreements) that would enable such item to be transferred to or shared with Purchaser without destroying such privilege; (6) any information the disclosure or transfer of which is prohibited or restricted by Applicable Law, including antitrust, Privacy and Data Security Laws or pursuant to a contract (it being understood that Seller shall identify the records that are prohibited or restricted to be disclosed or transferred under Applicable Law and the basis for such prohibition or restriction, and shall use commercially reasonable efforts to obtain waivers or make other arrangements (including redacting information) that would enable such item to be transferred to Purchaser without so contravening any such Applicable Law or obligation under contract) (7) any internal drafts, opinions, valuations, correspondence, documents or other materials produced by, or provided between or among, Seller, its Affiliates or their respective Representatives in connection with the sale of the Business (including the negotiation, evaluation and consummation of the transactions contemplated by this Agreement and the other Transaction Agreements) or the terms of engagement of Representatives with respect thereto; and (8) consolidated financial records (including general ledgers) of Seller or its Affiliates, consolidated regulatory filings made by Seller or its Affiliates and any related correspondence with Governmental Authorities, except to the extent the information contained therein specifically or separately identifies the Business and is not otherwise included in a Book and Record. For purposes of this definition, the term “primarily” means records that relate to the Business more than any other business area of Seller or any of its Affiliates.

“Book Value” means, with respect to any Investment Asset as of any date of determination, the statutory book value thereof determined in accordance with SAP; provided that, until the Closing has occurred, the statutory book value of any asset that is transferred from AHLIC to the Ceding Company in connection with the Pre-Closing Commutation will be its statutory book value prior to such transfer.

“Burdensome Condition” has the meaning given to such term in Section 5.06(c).

“Business” means: (i) the Ceding Company’s business of issuing, underwriting, reinsuring, selling, entering into, distributing, marketing, delivering, pricing, servicing, canceling, terminating and administering, as applicable, Group Contracts in the United States; and (ii) prior to the Closing, AHLIC’s business of reinsuring certain Group Insurance Contracts

from the Ceding Company; provided, however, that the Business does not include any insurance business or administrative services sold by (a) the Ceding Company's "Strategic Resource Company" business unit to (x) plan sponsors seeking coverage primarily for part-time, temporary, seasonal, interim, hourly or transient employees, or (y) plan sponsors seeking coverage to meet requirements under the Davis-Bacon Act of 1931, as amended, for governmental contractors; or (b) the Ceding Company's "International" business unit to (x) plan sponsors located in Canada to cover fewer than 750 employees and beneficiaries located in the U.S., (y) plan sponsors (whether located in the United States or outside the United States) where the number of employees and beneficiaries located in the United States is fewer than (A) 25% of the total number of employees and beneficiaries on cover, or (B) 100 lives.

"Business Day" means any day other than a Saturday, Sunday or a day on which banking institutions in New York, New York or Hartford, Connecticut are permitted or obligated by Applicable Law to be closed.

"Business Employee" means each employee of Seller or any of its Affiliates who, to the Knowledge of Seller, provides, as of the Reference Date, 60 percent or more of his or her services to the Business; whose names are set forth on Section 6.01(a)(ii) of the Seller Disclosure Schedule, as such section of the Seller Disclosure Schedule may be updated in accordance with Section 6.01(a). For the avoidance of doubt, such section of the Seller Disclosure Schedule shall include such employees who as of the date hereof are actively employed as well as such employees who are on (i) a leave of absence (including temporary leave for purposes of jury or military duty, maternity or paternity leave, leave under the Family Medical Leave Act of 1993, approved personal leave or disability or medical leave) or (ii) vacation or paid time off).

"Business Employee Benefit Plan" means each plan, program or agreement set forth on Section 3.10(b) of the Seller Disclosure Schedule.

"Capital Gain or Loss Adjustment" has the meaning given to such term in Section 5.11(b)(ii).

"Ceded Reinsurance Contracts" has the meaning given to such term in Section 3.16(a).

"Ceding Commission" has the meaning given to such term in Section 2.07(a)(i).

"Ceding Company" has the meaning given to such term in the Recitals.

"Closing" has the meaning given to such term in Section 2.06.

"Closing Date" has the meaning given to such term in Section 2.06.

"Closing Required Asset Value" means the Adjusted Required Asset Value as of the Accounting Date calculated after taking into account all Capital Gain or Loss Adjustments and all Reallocated Asset Value Adjustments required pursuant to Section 5.11 or Section 3.19(b) from the Reference Date through the Closing.

“Closing Statement” means, as of any date of determination, a statement as of such date prepared in the same format as the Reference Closing Statement (assuming, for this purpose, the Closing occurred, and that the Reinsurance Agreement became effective, as of the end of the day on such date) and in accordance with the Transaction Accounting Principles.

“COBRA” means Part 6 of Subtitle B of Title I of ERISA, Section 4980B of the Code and any similar state law.

“Code” means the Internal Revenue Code of 1986.

“Commutation Agreement” has the meaning given to such term in the Recitals.

“Competing Businesses” has the meaning given to such term in Section 5.13.

“Competing Person” has the meaning given to such term in Section 5.13(e).

“Condition Satisfaction” has the meaning given to such term in Section 2.06.

“Confidentiality Agreement” has the meaning given to such term in Section 5.04(a).

“Data Input Inaccuracies” means inaccuracies or omissions to the extent arising from (i) the inputting of factual data relating to the Group Contracts or (ii) the coding, compilation or aggregation of such factual data in connection with such inputting.

“Deductible” has the meaning given to such term in Section 10.03(a).

“Discretionary Turnover Allowance” has the meaning given to such term in Section 5.11(b)(i)(B).

“Distribution Agreement” has the meaning given to such term in the Recitals.

“Effective Time” means 12:00:01 a.m. on the first calendar day of the month in which the Closing occurs.

“Employee” means each employee of Seller or any of its Affiliates whose name is set forth on Section 6.01(a)(i) of the Seller Disclosure Schedule, as such section of the Seller Disclosure Schedule may be updated in accordance with Section 6.01(a). For the avoidance of doubt, such section of the Seller Disclosure Schedule shall include such employees who as of the Closing Date are actively employed as well as such employees who are (i) on a leave of absence (including temporary leave for purposes of jury or military duty, maternity or paternity leave, leave under the Family Medical Leave Act of 1993, approved personal leave or disability or medical leave), (ii) on a vacation or paid time off or (iii) hired by Seller or any of its Affiliates in accordance with the terms and conditions of the Employee Leasing Agreement.

“Employee Benefit Plan” means each written or unwritten plan, policy, program, agreement and arrangement, other than a Business Employee Benefit Plan, whether covering a single individual or a group of individuals, that is (a) an “employee benefit plan” within the

meaning of Section 3(3) of ERISA, (b) a stock bonus, stock purchase, stock option, restricted stock, stock appreciation right, incentive stock or similar equity-based plan or (c) any other employment, severance, deferred-compensation, retention, change in control, retirement, welfare benefit, bonus, incentive or fringe benefit plan, policy, program, agreement or arrangement, in each case, which is maintained, sponsored or contributed to by Seller or any of its Affiliates and in which any Employee participates or is eligible to participate or with respect to which Seller or any of its Affiliates has any liability with respect to any Employee.

“Employee Leasing Agreement” has the meaning given to such term in Section 2.08(a)(xv).

“Employee Lease Term” has the meaning given to such term in the Employee Leasing Agreement.

“Enforceability Exceptions” has the meaning given to such term in Section 3.02.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

“Estimated Asset Value Statement” has the meaning given to such term in Section 2.07(d)(iii).

“Estimated Closing Required Asset Value” has the meaning given to such term in Section 2.07(d)(i).

“Estimated Closing Statement” has the meaning given to such term in Section 2.07(c)(iii).

“Estimated Required Balance” has the meaning given to such term in Section 2.07(d)(iii).

“Excluded Assets” has the meaning given to such term in Section 2.02.

“Excluded Benefits Liabilities” means any Liabilities in respect of the Employee Benefit Plans and any other benefit plans, programs, policies, arrangement or agreements maintained or contributed to by, or with respect to which Seller or its Affiliates may have any liability, other than the Business Employee Benefit Plans or as set forth in Section 6.01(i).

“Excluded Books and Records” has the meaning given to such term in the definition of “Books and Records.”

“Excluded Liabilities” has the meaning given to such term in Section 2.05.

“Excluded Taxes” has the meaning given to such term in Section 2.05(c).

“Fair Market Value” means: (i) in the case of cash and cash equivalents, the face amount thereof; (ii) in the case of securities listed on an exchange or in an over-the-counter market (other than securities that constitute cash equivalents as described in clause (i) above), the final bid price on such exchange or market (provided that such bid price includes all accrued and

unpaid interest on such security through the date of determination; otherwise the amount of such accrued and unpaid interest shall be added to such bid price); and (iii) in the case of any other asset, the fair market value or valuation thereof (including accrued but unpaid interest), as determined in accordance with GAAP; provided that (a) the Fair Market Value of any Investment Asset for which a price is available through Bloomberg’s “BVAL” valuation service shall be the sum of (x) the 4:00 p.m. Eastern Time bid price set for that Investment Asset by such valuation service on the applicable date of determination plus (y) all accrued and unpaid interest on such asset through the applicable date of determination, and (b) the Fair Market Value of any Investment Asset for which a price is not available through Bloomberg’s “BVAL” valuation service but is available through IDC’s valuation service shall be the sum of (x) the 4:00 p.m. Eastern Time bid price set for that Investment Asset by IDC’s valuation service on the applicable date of determination plus (y) all accrued and unpaid interest on such asset through the applicable date of determination. Notwithstanding the foregoing, the Fair Market Value of any Investment Asset that is sold by the Ceding Company or AHLIC to a third party during the Interim Period for a price that differs from the amount determined pursuant to the prior sentence shall be the gross proceeds received by the Ceding Company or AHLIC, as applicable, in such sale, including, for the avoidance of doubt, the amount of such gross proceeds that is attributable to accrued but unpaid interest on such Investment Asset.

“Final Allocation” has the meaning given to such term in Section 7.01.

“Final Asset Value Statement” has the meaning given to such term in Section 2.09(f).

“Final Closing Required Asset Value” has the meaning given to such term in Section 2.09(f).

“Final Closing Required Asset Value Statement” has the meaning given to such term in Section 2.09(f).

“Final Closing Statement” has the meaning given to such term in Section 2.09(f).

“FMV Ex-Accrued” means, with respect to any Investment Asset as of any date of determination, the Fair Market Value thereof as of such date, excluding the amount of all accrued but unpaid interest on such Investment Asset through such date; provided that, notwithstanding the foregoing, (a) the FMV Ex-Accrued of any Investment Asset for which a price is available through Bloomberg’s “BVAL” valuation service shall be the 4:00 p.m. Eastern Time bid price set for that Investment Asset by such valuation service on the applicable date of determination, and (b) the FMV Ex-Accrued of any Investment Asset for which a price is not available through Bloomberg’s “BVAL” valuation service but is available through IDC’s valuation service shall be the 4:00 p.m. Eastern Time bid price set for that Investment Asset by IDC’s valuation service on the applicable date of determination. Notwithstanding the foregoing, the FMV Ex-Accrued of any Investment Asset that is sold by the Ceding Company or AHLIC to a third party in the period from the Reference Date through the Closing Date for a price (excluding accrued but unpaid interest) that differs from the amount determined pursuant to the prior sentence shall be the gross proceeds received by the Ceding Company or AHLIC, as

applicable, in such sale, less the amount of such gross proceeds that is attributable to accrued but unpaid interest on such Investment Asset.

“GAAP” means generally accepted accounting principles in the United States.

“Governmental Approval” has the meaning given to such term in Section 3.05.

“Governmental Authority” means any governmental, legislative, judicial, administrative or regulatory authority, agency, commission, board, body, court, self-regulatory body or entity or any instrumentality thereof, including any Tax Authority, whether United States federal, state, local or non-U.S.

“Governmental Order” means any order, writ, judgment, injunction, decree, stipulation, determination or award entered by or with any Governmental Authority.

“Group Contracts” means the Group Insurance Contracts and the ASO Contracts.

“Group Insurance Contracts” means (i) the contracts, policies, certificates, binders, slips, covers or other agreements of employer and employee paid (a) group life insurance, including group term life insurance, voluntary spouse and dependent term life insurance, group universal life insurance, supplemental life insurance and accidental death and dismemberment insurance, (b) group disability insurance, including long-term and short-term disability insurance and statutory disability insurance and New York Paid Family Leave, and (c) individual or group life insurance issued or established as a result of the exercise of any conversion or other portability option or feature under any of the contracts, policies, certificates, binders, slips, covers or other agreements described in clause (i)(a) above, (ii) all funding or premium deposit agreements used to fund the group long-term disability or group life insurance contracts described in clause (i) above, (iii) all reserve buy out agreements for disability insurance and life insurance and (iv) all retained asset accounts relating to the agreements described in clause (i) above, in each case of clause (i) through (iv) that are issued or assumed by the Ceding Company prior to the Effective Time in connection with the Business and including all supplements, riders, endorsements and ancillary agreements issued or written in connection therewith and extensions thereto.

“Hannover Consent” means the consent and waiver, dated as of October 11, 2017, by Hannover Life Reassurance Company of America of Section 13.1 of that certain Yearly Renewable Term Reinsurance Agreement by and between the Ceding Company and Hannover Life Reassurance Company of America, effective January 1, 2017.

“Hartford License Agreement” has the meaning given to such term in Section 2.08(a)(xiv).

“Hartford Fire” means Hartford Fire Insurance Company, an insurance company organized under the laws of the State of Connecticut.

“HCERA” has the meaning given to such term in Section 3.10(g).

“Health Plan” has the meaning given to such term in Section 3.10(g).

“IMR” means interest maintenance reserve, calculated in accordance with SAP.

“Indemnifiable Losses” has the meaning given to such term in Section 10.04(iii).

“Indemnitee” has the meaning given to such term in Section 10.04(i).

“Indemnitor” has the meaning given to such term in Section 10.04(ii).

“Indemnity Payment” has the meaning given to such term in Section 10.04(iv).

“Independent Accountant” has the meaning given to such term in Section 2.09(e).

“Initial Asset Value Statement” has the meaning given to such term in Section 2.09(a).

“Initial Closing Required Asset Value Statement” has the meaning give to such term in Section 2.09(a).

“Initial Closing Statement” has the meaning given to such term in Section 2.09(a).

“Insurance Regulator” means, with respect to any jurisdiction, the Governmental Authority charged with the supervision of insurance companies in such jurisdiction.

“Intellectual Property” means, in any and all jurisdictions, any: (i) Trademarks; (ii) copyrights, rights in copyrightable subject matter in published and unpublished works of authorship and database rights, (iii) registrations and applications to register or renew the registration of any of the foregoing, (iv) patents and patent applications, including all reissues, divisionals, renewals, extensions, provisionals, continuations and continuations-in-part thereof, (v) rights in Trade Secrets, and (vi) intellectual property rights embodied in Software.

“Investment Assets” means any interest in any bonds, notes, debentures, mortgage loans, real estate, instruments of indebtedness, stocks, joint venture or partnership interests, and all other equity interests, certificates issued by or interests in trusts, derivatives or other assets acquired or held for investment purposes, including without limitation, any assignment instruments relating thereto.

“Investment Guidelines” means the investment policies and guidelines applicable to the investment activities of the Ceding Company (in respect of the Business) as in effect as of the date hereof, a true and complete copy of which is set forth in Section 1.01(a) of the Seller Disclosure Schedule.

“Intellectual Property Agreement” has the meaning given to such term in the Recitals.

“IT Systems” means the hardware, Software, data, databases, data communication lines, network and telecommunications equipment, Internet-related information technology infrastructure, wide area network and other information technology equipment, owned, leased or licensed by Seller or any of its Affiliates and used in the Business.

“Knowledge” means, unless otherwise expressly provided herein, the actual knowledge, after reasonable inquiry of direct reports, of those individuals listed (a) with respect to Seller, on Section 1.01(b) of the Seller Disclosure Schedule, and (b) with respect to Purchaser, on Section 1.01(b) of the Purchaser Disclosure Schedule.

“Leases” has the meaning given to such term in Section 3.15.

“Lease Consents” has the meaning given to such term in Section 5.12(b).

“Leave Recipient” has the meaning given to such term in Section 6.01(b).

“Legal Hold” means any requirement to preserve documents and records in connection with any pending or reasonably contemplated litigation or arbitration (or other form of dispute resolution), nonparty subpoena, regulatory inquiry or investigation by a Governmental Authority or other legal process or proceedings (i) for which Seller provides notice to Purchaser or (ii) arising out of, relating to or in respect of any Indemnifiable Loss for which a Purchaser Indemnified Person seeks indemnification pursuant to Article X. For purposes of this definition, the term “documents” is defined as synonymous with the term “documents or electronically stored information” in Federal Rule of Civil Procedure 34(a)(1)(A).

“Liabilities” means, with respect to any Person, any liability or obligation of such Person of any kind, character or description, whether known or unknown, absolute or contingent, accrued or unaccrued, disputed or undisputed, liquidated or unliquidated, secured or unsecured, joint or several, due or to become due, vested or unvested, executory, determined, determinable or otherwise.

“Lien” means any pledge, security interest, mortgage, lien, attachment, right of first refusal, or option, including any restriction on receipt of income or exercise of any other attribute of ownership, except such restrictions as may be contained in any Applicable Law relating to insurance.

“Listed Sales Employee” has the meaning given to such term in Section 6.01(c).

“Material Adverse Effect” means a material adverse effect on (A) the financial condition, business, assets (when compared to liabilities) or results of operations of the Business, but excluding any such effect to the extent resulting from or arising out of: (i) changes occurring after the date of this Agreement in general political, economic or securities, currency, capital, credit or financial market conditions (including changes in interest rates and changes in equity prices in general); (ii) any occurrence or condition generally affecting participants in any jurisdiction or geographic area in any segment of the industries or markets in which the Business is operated; (iii) any change or proposed change in GAAP, SAP or Applicable Law, or the interpretation or enforcement thereof; (iv) natural or man-made catastrophe events, hostilities, acts of war or terrorism, or any escalation or worsening thereof; (v) any pandemic or similar outbreak; (vi) the negotiation, execution and delivery of, or compliance with the terms of, or the taking of any action required by, this Agreement or the other Transaction Agreements, the failure to take any action prohibited by this Agreement or the other Transaction Agreements, or the public announcement of, or consummation of, any of the transactions contemplated hereby or thereby (including the effect thereof on the relationships (contractual or otherwise) of the Ceding

Company and its Affiliates with policyholders, clients, customers, employees, suppliers, vendors, service providers, members or Governmental Authorities); (vii) the identity of or facts related to Purchaser or its Affiliates or the effect of any action taken by Purchaser or its Affiliates, or taken by Seller or any of its Affiliates at the request of Purchaser or with Purchaser's prior consent (including the effect thereof on the relationships (contractual or otherwise) of the Ceding Company and its Affiliates with policyholders, clients, customers, employees, suppliers, vendors, service providers, members or Governmental Authorities); (viii) any downgrade or threatened downgrade in the rating assigned to Seller or any of its Affiliates by any rating agency (provided, that this clause (viii) shall not by itself exclude the underlying cause of any such downgrade or threatened downgrade); (ix) the fair market value of, or any change or development in the fair market value of, any of the Investment Assets of the Ceding Company or any of the Investment Assets that are to be transferred to Purchaser or the Trust Account pursuant to the terms of any Transaction Agreement; or (x) any failure of the Business to meet any financial projections or targets (provided, that this clause (x) shall not by itself exclude the underlying causes of any such failure); except, in the cases of clauses (i) through (iii), to the extent such effect disproportionately affects the Business relative to other Persons engaged in businesses similar to the Business; or (B) the ability of Seller or any of its Affiliates to perform any of their respective material obligations under this Agreement or any of the other Transaction Agreements or to consummate the material transactions contemplated by this Agreement and the other Transaction Agreements (including the ability to consummate the Closing prior to the Outside Date).

"Material Contract" has the meaning given to such term in Section 3.06(a).

"Milliman" has the meaning given to such term in Section 3.21.

"Monthly Asset Value Statement" has the meaning given to such term in Section 5.11(a)(i).

"Munich Consent" means the consent and waiver, dated as of October 21, 2017, by Munich American Reassurance Company of Section 17.4 of that certain Yearly Renewal Term Reinsurance Agreement by and between the Ceding Company and Munich American Reassurance Company, effective January 1, 2017.

"New Award" has the meaning given to such term in Section 6.01(m).

"Non-Assignable Asset" has the meaning given to such term in Section 2.03.

"Non-Assigned Leases" has the meaning given to such term in Section 3.15.

"Non-Occupied Properties" has the meaning given to such term in Section 5.12(a).

"Notice of Disagreement" has the meaning given to such term in Section 2.09(c).

"Occupied Properties" has the meaning given to such term in Section 5.12(a).

"Omaha Sublease" has the meaning given to such term in Section 2.08(a)(xiii).

“One Common Solution” means the comprehensive vendor integration Software platform for the Business.

“Open Source Software” means all Software that is distributed as “free software,” “open source software,” or under a similar licensing or distribution model, including the GNU General Public License, GNU Lesser General Public License, Mozilla Public License, BSD Licenses, the Artistic License, the Netscape Public License, the Sun Community Source License, the Sun Industry Standards License, the Apache License, and any license identified as an open source license by the Open Source Initiative (www.opensource.org).

“Operating Permits” has the meaning given to such term in Section 3.11.

“Outside Date” has the meaning given to such term in Section 9.01(b).

“PPACA” has the meaning given to such term in Section 3.10(g).

“Permit” means any license, permit, order, approval, consent, registration, membership, authorization or qualification under any Applicable Law or with any Governmental Authority or under any industry or non-governmental self-regulatory organization.

“Permitted Liens” means: (a) materialmen’s, mechanics’, construction, carriers’, workmen’s and repairmen’s liens and other similar liens arising in the ordinary course of business; (b) Liens for Taxes, assessments and governmental charges or levies which are not yet due or delinquent, which are being contested in good faith and for which appropriate reserves are maintained in accordance with GAAP or SAP, as applicable; (c) easements, rights-of-way, encroachments, restrictions, conditions and other similar Liens which, individually or in the aggregate, do not materially impair the use or value of the applicable real property or materially interfere with the ordinary conduct of the Business; (d) statutory landlords’ liens and liens granted to landlords under any lease; (e) Liens contemplated by this Agreement or any Transaction Agreement, and any custodian or similar liens contemplated or permitted thereunder; (f) in the case of the Assigned Lease, Liens affecting the interest of the lessor; (g) licenses of Intellectual Property made in the ordinary course of business (excluding any source code escrow agreements or any other agreement requiring the deposit of source code or related materials for any such Developed Software); (h) Liens incurred or pledges or deposits made in compliance with workers’ compensation, unemployment insurance or other social security laws or regulations; and (i) any other Liens that do not materially impair the value of or interfere with or prohibit the current use or operation of the relevant asset in the Business.

“Person” means any individual, corporation, partnership, firm, joint venture, association, limited liability company, limited liability partnership, joint-stock company, trust, unincorporated organization, governmental, judicial or regulatory body, business unit, division or other entity.

“Personal Data” has the same meaning as the term “personal data,” “personal information,” or the equivalent under the applicable Privacy and Data Security Law.

“Plantation Sublease” has the meaning given to such term in Section 2.08(a)(xi).

“Portland Location” has the meaning given to such term in Section 3.15.

“Portland Location Assignment Agreement” has the meaning given to such term in the Recitals.

“Pre-Closing Commutation” has the meaning given to such term in the Recitals.

“Pre-Closing Investment Guidelines” means the investment policies and guidelines applicable to the investment activities of the Ceding Company and AHLIC with respect to the Specified Portfolio as set forth on Schedule IV.

“Pre-Closing Period” means a Tax period (or portion thereof) that ends on or before the Closing Date

“Primary Contract” has the meaning given to such term in Section 3.06(vi).

“Privacy and Data Security Law” means any Applicable Laws relating to data privacy, data security, cybersecurity, or data protection, including with respect to the collection, storage, transmission, transfer (including cross-border transfers), processing, breach notification, unauthorized access, encryption, security, safeguarding, loss, disclosure and use of Personal Data.

“Producer” means any producer, broker, agent, general agent, managing general agent, master broker agency, broker general agency, financial specialist or other Person responsible for marketing or producing Group Insurance Contracts prior to the Closing Date.

“Pro Forma Financial Statements” has the meaning given to such term in Section 3.18(b).

“Properties” has the meaning given to such term in Section 5.12.

“Purchase Price” has the meaning given to such term in Section 2.07(a).

“Purchaser” has the meaning given to such term in the Preamble.

“Purchaser 401(k) Plan” has the meaning given to such term in Section 6.01(f).

“Purchaser Disclosure Schedule” has the meaning given to such term in Article IV.

“Purchaser FSA” has the meaning given to such term in Section 6.01(k).

“Purchaser Indemnified Persons” has the meaning given to such term in Section 10.02(a).

“Purchaser Material Adverse Effect” means a material adverse effect on the ability of Purchaser or any of its Affiliates to perform its respective obligations under this Agreement or any Transaction Agreement or to consummate the material transactions contemplated by this Agreement or any of the other Transaction Agreements. For the avoidance

of doubt and without limiting the foregoing, “Purchaser Material Adverse Effect” includes a material impairment on the ability of Purchaser to obtain any Governmental Approval required to be obtained by Purchaser in connection with the consummation of the transactions contemplated by the Transaction Agreements, notwithstanding the compliance by Purchaser with the terms of this Agreement (including Section 5.06).

“Purchaser Permits” has the meaning given to such term in Section 4.08(a).

“Purchaser Specified Representations” means the representations and warranties made in Section 4.01, Section 4.02, Section 4.07(a) and Section 4.09.

“Reallocated Asset Value Adjustment” has the meaning given to such term in Section 5.11(c).

“Reallocated Investment Asset” means any Investment Asset or portion thereof that is designated for inclusion in the Specified Portfolio during the period from the Reference Date through the Closing Date pursuant to terms of Section 5.11 or Section 3.19(b) and was, immediately prior to such designation, held by the Ceding Company or AHLIC but not allocated to the Specified Portfolio.

“Reference Closing Statement” means the pro forma balance sheet of the Business as of the Reference Date set forth, for illustrative purposes, in Section 2.07(c)(i) of the Seller Disclosure Schedule (assuming, for this purpose, the Closing occurred, and that the Reinsurance Agreement became effective, as of the Reference Date).

“Reference Date” means June 30, 2017.

“Registered” means issued by, registered or filed with, renewed by or the subject of a pending application before, any Governmental Authority, social media service provider or Internet domain name registrar.

“Reinsurance Agreement” has the meaning given to such term in the Recitals.

“Reinsured Liabilities” has the meaning given to such term in the Recitals.

“Representative” means, with respect to any Person, such Person’s Affiliates and the officers, directors, employees, agents, investment bankers, attorneys, financial advisers, accountants, actuaries or other representatives of such Person or any of its Affiliates.

“Required Asset Value” means, as of any date of determination, the amount that would be required to be set forth on the line item labeled “Investments, cash, cash equivalents & accrued inv. Income” in the column labeled “Target Unit Items to be transferred” on a Closing Statement prepared as of such date. For the avoidance of doubt, “Required Asset Value” shall not include any assets required to support any new interest maintenance reserve that will be required to be established upon the transfer of Investment Assets from AHLIC to the Ceding Company in connection with the Pre-Closing Commutation.

“Restricted Entities” has the meaning given to such term in Section 5.13.

“Restricted Period” has the meaning given to such term in Section 5.13.

“Retained Books and Records” has the meaning given to such term in Section 5.05(a).

“Review Period” has the meaning given to such term in Section 2.09(b).

“SAP” means, as to any regulated insurance company, the statutory accounting practices prescribed or permitted by the Governmental Authority responsible for the regulation of insurance companies in the jurisdiction in which such company is domiciled.

“Section 409A” has the meaning given to such term in Section 3.10(e).

“Selection Waterfall” has the meaning given to such term in Section 5.11(a)(iii).

“Seller” has the meaning given to such term in the Preamble.

“Seller 401(k) Plan” has the meaning given to such term in Section 6.01(g).

“Seller Confidentiality Agreement” has the meaning given to such term in Section 5.04(d).

“Seller Disclosure Schedule” has the meaning given to such term in Article III.

“Seller Forfeited Equity Award” has the meaning given to such term in Section 6.01(m).

“Seller FSA” has the meaning given to such term in Section 6.01(k).

“Seller Indemnified Persons” has the meaning given to such term in Section 10.02(b).

“Seller Retention Bonus Liabilities” has the meaning given to such term in Section 6.01(q).

“Seller Specified Representations” means the representations and warranties made in Section 3.01, Section 3.02 and Section 3.20.

“Seller Trademarks” has the meaning given to such term in Section 5.10(b).

“Shared Service Functions and Assets” means the shared service functions and assets listed on Section 1.01(c) of the Seller Disclosure Schedule.

“Software” means all computer software, including but not limited to application software, system software, firmware, middleware, mobile digital applications, assemblers, applets, compilers and binary libraries, including all source code and object code versions of any and all of the foregoing, in any and all forms and media, and all related documentation.

“South Portland Sublease” has the meaning given to such term in Section 2.08(a)(xii).

“Specified Portfolio” has the meaning given to such term in Section 2.07(c)(ii).

“Statutory Statements” has the meaning given to such term in Section 3.18(a).

“Straddle Period” means a Tax period that begins on or before the Closing Date and ends after the Closing Date, provided that in the case of any Straddle Period, Taxes allocable to the Pre-Closing Period shall equal: (i) in the case of Taxes imposed on a periodic basis (such as real or personal property Taxes), the product of the amount of such Taxes for the Straddle Period and a fraction, the numerator of which is the number of calendar days in the Straddle Period that elapsed through the date hereof and the denominator of which is the number of calendar days in the entire Straddle Period, and (ii) in the case of Taxes not described in clause (i), the amount computed as if such taxable period ended as of the close of business on the date hereof.

“Subleases” means the South Portland Sublease, the Plantation Sublease and the Omaha Sublease.

“Subsidiary” of any Person at the time in question means another Person (other than a joint venture formed with health care providers) more than 50% of the total combined voting power of all classes of capital stock or other voting interests of which, or more than 50% of the equity securities of which, is at such time owned directly or indirectly by such first Person.

“Tax” or “Taxes” means any and all federal, state, provincial, foreign or local income, gross receipts, premium, capital stock, franchise, profits, withholding, social security, Medicare, unemployment, disability, real property, ad valorem/personal property, stamp, goods and services, harmonized sales, excise, occupation, sales, use, transfer, value added, alternative minimum, estimated or other tax, fee, duty, levy, custom, tariff, impost, assessment or charge of the same or of a similar nature to any of the foregoing, including any interest, penalty or addition thereto.

“Tax Authority” means, with respect to any Tax, any government or political subdivision thereof that imposes such Tax, and any agency charged with the collection, assessment, determination or administration of such Tax for such government or subdivision.

“Tax Contest” has the meaning given to such term in Section 7.03.

“Tax Return” means any return, report, declaration, claim for refund or other return or statement, including any schedule or attachment thereto, and any amendment thereof, required to be filed or furnished in connection with the determination, assessment or collection of any Tax.

“Third Party Claim” has the meaning given to such term in Section 10.04(v).

“Threshold Amount” has the meaning given to such term in Section 10.03(a).

“Trademark License Agreement” has the meaning given to such term in Section 5.10(a).

“Trademarks” means trademarks, service marks, Internet domain names, trade dress, trade names, logos, slogans, social media identifiers, handles and tags, and any other indicia of origin, registrations and applications with respect to the foregoing, and the goodwill associated therewith and symbolized thereby.

“Trade Secrets” means all confidential information deriving economic value from not being generally known or readily ascertainable, and that is the subject of reasonable efforts to maintain confidentiality, including, as applicable, inventions, processes, designs, formulae, models, tools, algorithms, Software architectures, trade secrets, know-how, ideas, research and development, data and databases and confidential information.

“Transaction Accounting Principles” means the methodologies, procedures, judgments, practices, principles and estimates used to compute and prepare the Reference Closing Statement and described in Schedule V.

“Transaction Agreements” means this Agreement, the Reinsurance Agreement, the Trust Agreement, the Administrative Services Agreement, the Transition Services Agreement, the Bill of Sale and Assignment and Assumption Agreement, the Intellectual Property Agreement, the Distribution Agreement, the Trademark License Agreement, the Commutation Agreement, the Portland Location Assignment Agreement, the Plantation Sublease, the South Portland Sublease, the Omaha Sublease, the Employee Leasing Agreement and the Data Processing Side Letter.

“Transfer Date” has the meaning given to such term in Section 6.01(c).

“Transfer Offers” has the meaning given to such term in Section 6.01(a).

“Transfer Taxes” has the meaning given to such term in Section 7.02.

“Transferred Assets” has the meaning given to such term in Section 2.01.

“Transferred Employee” has the meaning given to such term in Section 6.01(c).

“Transferred Intellectual Property” has the meaning given to such term in Section 2.01.

“Transferred Portfolio” has the meaning give to such term in Section 2.07(d)(ii).

“Transition Services Agreement” has the meaning given to such term in the Recitals.

“Triggering Event” has the meaning given to such term in the form of the Reinsurance Agreement attached hereto as

Exhibit B.

“True-Up Amount” means an amount (which may be positive or negative) equal to (i) the final Accounting Value of the Transferred Portfolio as set forth in the Final Asset Value Statement minus (ii) the Final Closing Required Asset Value.

“Trust Account” has the meaning given to such term in the Recitals.

“Trust Agreement” has the meaning given to such term in the Recitals.

“Trustee” means a U.S. bank or other financial institution or another Person mutually agreed upon by Seller and Purchaser.

“WARN Act” has the meaning given to such term in Section 6.01(e).

“Workability” means the integrated leave, disability and premium life waiver administration Software platform for the Business that includes One Common Solution, as well as the following functionality: (a) absence management, (b) web portal, (c) mobile and claims payment systems, (d) tax reporting, and (e) data analytics.

ARTICLE II.

TRANSFER AND ACQUISITION OF ASSETS

Section 2.01. Purchase and Sale of the Transferred Assets. Upon the terms and subject to the conditions set forth in this Agreement, at the Closing (except with respect to the Business Employee Benefit Plans and the Assigned Lease (subject to the terms of Section 2.08(d)), at the date of termination of the Employee Lease Term), Seller shall, and shall cause its Affiliates to, sell, convey, assign, transfer and deliver to Purchaser, free and clear of all Liens other than Permitted Liens, and Purchaser shall purchase, acquire, assume and accept from Seller and its Affiliates, pursuant to agreements, notifications, or other instruments in such form, reasonably satisfactory to Purchaser, all of Seller’s and each such Affiliate’s right, title and interest in and to the following assets, properties, rights and contracts (other than the Excluded Assets and excluding, for the avoidance of doubt, any cash or Investment Assets that are transferred to Purchaser or to the Trust Account in connection with the transactions contemplated by the Reinsurance Agreement or pursuant to the terms of Sections 2.07, 2.09 and 2.10), in each case that exist as of the Closing Date (such assets, properties, rights and contracts to be purchased, acquired, assumed and accepted by Purchaser being referred to herein as the “Transferred Assets”):

(a) the Assigned Contracts;

(b) (i) the Intellectual Property (other than intellectual property rights embodied in Software, and the Trademarks and domain names licensed to Purchaser pursuant to the Trademark License Agreement) owned by Seller or any of its Affiliates and primarily used in the Business, including the Intellectual Property listed on Schedule II(b);

(ii) Workability, including the Intellectual Property embodied therein, other than Software that is generally commercially available and set forth on Section 2.01(b)(ii) of the Seller Disclosure Schedule; and

(iii) all other Software that is necessary to operate Workability, in each case other than (A) Software that is generally commercially available, (B) Open Source Software, and (C) the Seller Software licensed to Purchaser pursuant to the Intellectual Property Agreement ((i), (ii) and (iii) collectively, the “Transferred Intellectual Property”);

(c) all furniture, fixtures, equipment (including computer hardware), supplies and other tangible personal property of the Business, in each case to the extent listed on Schedule II(c);

(d) the Books and Records, the transfer of which shall be subject to Section 5.05;

(e) all advertising, marketing, sales and promotional materials relating directly and primarily to the Business;

(f) all rights and claims under any and all warranties extended by suppliers, vendors, contractors, manufacturers and licensors to the extent in relation to any of the Transferred Intellectual Property and hardware assets included in the Transferred Assets;

(g) subject to the terms of Section 2.08(d), the real estate lease listed on Schedule II(g) (the “Assigned Lease”) and all installations, fixtures, improvements and benefits in connection therewith;

(h) the phone numbers listed on Schedule II(h); and

(i) all other assets of the Business listed on Schedule II(i).

Section 2.02. Excluded Assets. Notwithstanding anything contained in this Agreement (including Section 2.01) to the contrary and except to the extent of rights expressly provided in certain Transaction Agreements, neither Seller nor any of its Affiliates is selling, transferring, conveying or delivering (or causing to be sold, transferred, conveyed or delivered), and Purchaser is not purchasing, assuming or accepting any assets, properties, rights and contracts of Seller or any of its Affiliates, or any interests therein, other than the Transferred Assets (all such assets, properties, rights and contracts of Seller or any of its Affiliates, or any interests therein, other than the Transferred Assets being referred to herein as the “Excluded Assets”). Without limiting the generality of the foregoing, all of the following shall constitute Excluded Assets:

(a) all cash and cash equivalents, including checking accounts, bank accounts, certificates of deposit and securities, of Seller or any of its Affiliates;

(b) all intercompany receivables and other amounts due from Seller or its Affiliates;

(c) all contracts to which Seller or any Affiliate thereof is a party or is otherwise bound other than the Assigned Contracts;

(d) any real estate leases, real estate title, or any installations, fixtures, and other improvements at Seller’s or any of its Affiliates’ leased real estate, whether or not used for the benefit of the Business, in each case other than the Assigned Lease or as contemplated by Section 2.01(g);

- (e) all furniture, fixtures, equipment (including computer hardware), machinery and other tangible personal property of Seller or any of its Affiliates that are not listed on Schedule II(c);
- (f) all Permits of Seller or its Affiliates;
- (g) Seller's or any of its Affiliates' rights under any policies of insurance or any benefits, proceeds, or premium refunds payable or paid thereunder or with respect thereto;
- (h) all rights of Seller or any of its Affiliates to file for or receive any refunds, credits or similar benefits for Taxes levied and imposed upon, or in connection with, the Transferred Assets or the conduct or operation of the Business allocable to any Pre-Closing Period or to the portion of the Straddle Period ending on the Closing Date;
- (i) the Excluded Books and Records;
- (j) all rights of Seller or any of its Affiliates under the Transaction Agreements;
- (k) all rights of Seller or any of its Affiliates to indemnification from any Person with respect to any of the Excluded Liabilities;
- (l) all prepaid Taxes allocable to taxable periods or portions thereof ending on or before the Closing Date;
- (m) all Intellectual Property owned by Seller or any of its Affiliates (including all rights in and to the Seller Trademarks), other than the Transferred Intellectual Property;
- (n) all Intellectual Property licensed to Seller or any of its Affiliates, other than Intellectual Property licensed pursuant to an Assigned Contract;
- (o) all of Seller's or any of its Affiliates' e-mail addresses, URLs, websites, website content, and telephone numbers, other than as contemplated by Section 2.01(h);
- (p) all bank accounts and lockboxes used in the Business;
- (q) all assets in respect of any Employee Benefit Plan;
- (r) any assets arising out of, and any associated claims arising out of, the Excluded Liabilities;
- (s) any legal or beneficial interest in the capital stock and other equity interests of Seller or its Affiliates;
- (t) the accounts and notes receivable not included in the Transferred Assets;
- (u) any assets transferred or otherwise disposed of by Seller or any of its Affiliates (other than any intercompany transfers or sales) in compliance with Section 5.01(a) prior to the Closing;

(v) all accounting systems owned or used by Seller or any of its Affiliates, whether or not used in connection with the operation of the Business, including those that comprise the Shared Service Functions and Assets;

(w) any assets utilized by Seller or any of its Affiliates in connection with businesses other than the Business, including those that comprise the Shared Service Functions and Assets; and

(x) the Shared Service Functions and Assets.

Section 2.03. Procedures for Assets Not Transferrable.

(a) Notwithstanding anything to the contrary contained in this Agreement, if any asset, property, right or contract intended to be included in the Transferred Assets (other than with respect to the Assigned Lease, which is addressed in Section 5.12) is not assignable, transferable or able to be subleased or licensed (as applicable) (each a “Non-Assignable Asset”) to Purchaser without the consent or waiver of any Person (other than Seller, Purchaser or any of their respective Affiliates or Governmental Authority), and such consent or waiver has not been obtained on or prior to the Closing Date, this Agreement and the other Transaction Agreements shall not constitute an assignment, transfer, sublease or license (as applicable) thereof unless and until such consent is obtained; provided, that this Section 2.03(a) shall not affect whether any such asset, property, right or contract will be deemed a “Transferred Asset” or “Assigned Contract” under this Agreement. In each such case, Seller shall, and shall cause its Affiliates to, use commercially reasonable efforts to obtain, prior to the Closing, any consent or waiver from any third party (other than a Governmental Authority) that is required for Seller or its applicable Affiliates to sell, transfer, assign, convey and deliver the Transferred Assets and Assigned Contracts to Purchaser or to provide the services to be provided under the Transition Services Agreement. Purchaser shall, and shall cause each of its Affiliates to, cooperate with Seller and its Affiliates at Seller’s request to assist Seller and its Affiliates in obtaining such consents or waivers. Each of Seller and Purchaser shall bear its own and its Affiliates’ internal costs to obtain such consents and waivers, and the costs payable to third parties for obtaining such consents and waivers (which, for the avoidance of doubt, shall not include any increased fees under the terms of any Assigned Contract from and after the Closing) shall be borne equally by Seller and Purchaser.

(b) If any such consent or waiver referred to in Section 2.03(a) cannot be obtained prior to the Closing, then, to the extent permitted by Applicable Law and the terms of any relevant contracts with third parties, Seller shall, and shall cause its applicable Affiliates to, until the earlier of (i) the time at which such consent or waiver is obtained, and (ii) the expiration or termination of the term or duration of any such Non-Assignable Asset (the length of such term or duration being as it exists as of the Closing): (A) hold the Non-Assignable Assets, from and after the Closing, in trust for the benefit of Purchaser, and all benefits and obligations existing thereunder shall be for Purchaser’s account; and (B) take or cause to be taken such actions in its name or otherwise as Purchaser may reasonably request so as to provide Purchaser with the benefits of such Non-Assignable Assets, to enforce (for the benefit of Purchaser or one its Affiliates and to the extent it is commercially reasonable to do so) any of Seller’s or Seller’s Affiliates’ respective rights relating to such Non-Assignable Assets and to effect the collection of

money or other consideration that becomes due and payable under such Non-Assignable Asset, and shall promptly pay over to Purchaser all money or other consideration received by it in respect of such Non-Assignable Asset, provided that Purchaser shall indemnify Seller and Seller's Affiliates for any Liabilities arising out of any action or omission by Purchaser relating to such Non-Assignable Asset (other than any such action or omission by Purchaser at the request or direction of Seller). Purchaser shall timely pay, perform or otherwise discharge (in accordance with the respective terms and subject to the respective conditions thereof, and in the name of Seller or its applicable Affiliate) all of the covenants and obligations of Seller or its applicable Affiliate incurred after the Closing with respect to such Non-Assignable Asset (including, for the avoidance of doubt, any increases in fees, costs or expenses required to be paid by Seller under the terms thereof), provided that Seller shall indemnify Purchaser for any Liabilities arising out of any action or omission by Seller relating to such Non-Assignable Asset (other than any such action or omission by Seller at the request or direction of Purchaser). Purchaser and Seller shall mutually cooperate to provide any other reasonable alternative arrangements as may be reasonably required to implement the purpose and intent of this Agreement and the other Transaction Agreements so that Purchaser and its Affiliates will have access to the rights and benefits contemplated by such Non-Assignable Asset from and after the Closing. Upon obtaining the requisite consent of any applicable Person, any previously Non-Assignable Asset and any Leases that were not assigned, transferred, subleased or licensed (as applicable) at the Closing (in accordance with the first sentence of this Section 2.03(a)) shall be promptly transferred, assigned, subleased or licensed (as applicable) by the Seller or its applicable Affiliate(s) to Purchaser for no additional consideration.

Section 2.04. Assumption of the Assumed Liabilities. Upon the terms and subject to the conditions set forth in this Agreement, at the Closing, Seller shall, and shall cause its Affiliates to, assign to Purchaser, and Purchaser shall assume, satisfy and discharge when due, any and all Liabilities of Seller or any of its Affiliates relating to the Transferred Assets (other than the Excluded Liabilities and excluding, for the avoidance of doubt, (i) all Reinsured Liabilities reinsured by Purchaser under and pursuant to the Reinsurance Agreement, which will be governed by the terms of the Reinsurance Agreement, to the extent arising on or after the Closing Date, (ii) any Liabilities that result from a breach by Seller or its Affiliates of any Assigned Contract arising out of an action or omission occurring prior to the Closing) (all such Liabilities to be so assumed, satisfied or discharged being referred to herein as the "Assumed Liabilities"), including the following: (a) all Liabilities arising under the Assigned Contracts; (b) all Liabilities for Taxes relating to the Transferred Assets other than Excluded Taxes; (c) all Liabilities assumed by Purchaser pursuant to Articles VI and VII; and (d) all Liabilities listed on Schedule III. Notwithstanding the foregoing, the Liabilities of Seller or any of its Affiliates relating to the Business Employee Benefit Plans and the Assigned Lease shall not be assumed or assigned to Purchaser until the termination of the Employee Lease Term, after which time Purchaser shall (with respect to the Assigned Lease, subject to the terms of Section 2.08(d)) assume, satisfy and discharge when due, any and all Liabilities of Seller or any of its Affiliates thereunder.

Section 2.05. Excluded Liabilities. Notwithstanding anything to the contrary contained in this Agreement, Purchaser will not assume or be liable for, and Seller and its applicable Affiliates will retain and remain responsible for, all of Seller's and such Affiliates' Liabilities (fixed or contingent, known or unknown) (other than the Assumed Liabilities and excluding, for

the avoidance of doubt, all Reinsured Liabilities reinsured by Purchaser under and pursuant to the Reinsurance Agreement, which will be governed by the terms of the Reinsurance Agreement), regardless of when asserted (collectively, the “Excluded Liabilities”). Without limiting the foregoing, the Excluded Liabilities include the following:

(a) all of Seller’s and its Affiliates’ Liabilities under the Transaction Agreements;

(b) the Excluded Benefits Liabilities;

(c) any Liability for or in respect of the payment of all Taxes of Seller or any of its Affiliates, and of any Taxes arising out of or relating to the ownership or use of the Transferred Assets or the conduct of the Business for a Pre-Closing Period, other than as provided in Section 7.02 and Taxes arising out of or relating to actions that Purchaser requests Seller to take prior to Closing (the “Excluded Taxes”);

(d) all Liabilities arising out of, in connection with or under contracts to which Seller or any of its Affiliates is a party other than Liabilities relating to periods (or portions thereof) beginning from or after the Closing under the Assigned Contracts, the Assigned Lease and any other contracts included in the Transferred Assets (which such Liabilities shall be Assumed Liabilities);

(e) Seller Retention Bonus Liabilities; and

(f) Liabilities of Seller or any of its Affiliates related to any Permitted Liens on the Transferred Assets.

Section 2.06. Place and Date of Closing. Unless another date, time or place is agreed to in writing by the parties hereto, the closing of the transactions contemplated by this Agreement (the “Closing”) shall take place at the offices of Willkie Farr & Gallagher LLP, 787 Seventh Avenue, New York, New York 10019, at 10:00 a.m., New York City time, on the third Business Day after the date on which the last of the conditions set forth in Article VIII to be satisfied or waived (other than those conditions that by their terms are to be satisfied at the Closing, but subject to the satisfaction or waiver of such conditions at the Closing) shall have been so satisfied or waived in accordance with this Agreement (the “Condition Satisfaction”); provided, however, that if the Condition Satisfaction occurs less than ten Business Days prior to the first Business Day of the next calendar month, then the Closing shall take place on the first Business Day of the calendar month immediately following the calendar month in which the Condition Satisfaction occurs. The Closing shall be deemed effective as of the Effective Time. For purposes of preparing the Estimated Closing Statement, Estimated Asset Value Statement, Initial Closing Statement, Initial Asset Value Statement, Final Closing Statement and Final Asset Value Statement and calculating any amounts required to be calculated therefrom, such statements shall be prepared as of the close of the last calendar day of the month immediately preceding the month in which the Closing occurs (the “Accounting Date”). The actual date and time at which the Closing occurs is referred to herein as the “Closing Date.”

Section 2.07. Consideration.

(a) The consideration with respect to the transactions contemplated by this Agreement will be an aggregate amount in cash equal to \$1,450,000,000 (the “Purchase Price”), comprised of:

- (i) \$1,382,000,000, constituting the ceding commission to be paid to the Ceding Company in connection with the Reinsurance Agreement (the “Ceding Commission”), which amount shall constitute consideration for the reinsurance arrangements contemplated by the Reinsurance Agreement; and
- (ii) \$68,000,000 (the “Asset Consideration”) representing the aggregate purchase price for the Transferred Assets.

(b) At the Closing, Purchaser shall pay to Seller or an Affiliate of Seller (as designated by Seller), by wire transfer of immediately available funds to such account or accounts of Seller or its Affiliates as Seller may designate in writing at least two Business Days prior to the Closing Date, an amount equal to the Asset Consideration.

(c) Reference and Estimated Closing Statement; Specified Portfolio.

- (i) Section 2.07(c)(i) of the Seller Disclosure Schedule contains, for illustrative purposes, a pro forma Closing Statement assuming, for this purpose, that the Closing occurred, and the Reinsurance Agreement became effective, as of the Reference Date (the “Reference Closing Statement”).
- (ii) Section 2.07(c)(ii) of the Seller Disclosure Schedule contains a schedule of cash and Investment Assets held by the Ceding Company or AHLIC in respect of the Business as of the Reference Date (such portfolio, as it may have been or will be adjusted or changed between the Reference Date and the Closing Date in accordance with Sections 3.19 and 5.11, the “Specified Portfolio”), which portfolio had an aggregate Accounting Value as of the Reference Date equal to the Required Asset Value as of the Reference Date.
- (iii) Not less than five Business Days prior to the anticipated Closing Date, Seller shall prepare and deliver to Purchaser an estimated Closing Statement as of the anticipated Accounting Date (the “Estimated Closing Statement”). The Estimated Closing Statement shall be prepared in accordance with the Transaction Accounting Principles applied in a manner consistent with the preparation of the Reference Closing Statement and be in the same format as the Reference Closing Statement.

(d) Determination of Transferred Portfolio.

- (i) Not less than two Business Days prior to the anticipated Closing Date, Seller shall prepare and deliver to Purchaser a calculation of the Closing Required Asset Value, which calculation will be based on the Required Asset Value reflected in the Estimated Closing Statement and will take into account all Capital Gain or Loss Adjustments and all Reallocated Asset Value Adjustments required pursuant to Section 5.11 or Section 3.19(b) through the Closing Date (the “Estimated Closing Required Asset Value”).

- (ii) The “Transferred Portfolio” will be determined as follows:
 - (A) if the Accounting Value of the Specified Portfolio as of the Closing Date equals the Closing Required Asset Value, the Transferred Portfolio will comprise all, and only, the cash and Investment Assets in the Specified Portfolio as of immediately prior to the Closing;

 - (B) if the Accounting Value of the Specified Portfolio as of the Closing Date is less than the Closing Required Asset Value, the Transferred Portfolio will comprise (x) all of the cash and Investment Assets in the Specified Portfolio as of immediately prior to the Closing and (y) cash or other Investment Assets selected by Seller in accordance with the Pre-Closing Investment Guidelines that have an aggregate Fair Market Value equal to the amount of such shortfall; and

 - (C) if the Accounting Value of the Specified Portfolio as of the Closing Date is greater than the Closing Required Asset Value, Seller will select for removal from the Specified Portfolio cash or Investment Assets that have an aggregate Accounting Value equal to such excess in accordance with the Selection Waterfall. The cash and Investment Assets remaining in the Specified Portfolio after such removal will be the Transferred Portfolio.

- (iii) Concurrently with the delivery by Seller to Purchaser of the calculation of the Estimated Closing Required Asset Value pursuant to clause (i) of this Section 2.07(d) , Seller will also deliver to Purchaser (A) a schedule showing the cash and Investment Assets in the Transferred Portfolio and its estimated calculation of the aggregate Accounting Value of the cash and Investment Assets in the Transferred Portfolio as of immediately prior to the Closing (the “Estimated Asset Value Statement”), and (B) a calculation of Seller’s estimate of the Required Balance (as defined in the Reinsurance Agreement) as of the Closing Date based on amounts set forth on the Estimated Closing Statement and calculated using the aggregate FMV-Ex Accrued and the aggregate Book Value of the Transferred Portfolio (the “Estimated Required Balance”).

(e) Payment of Ceding Commissions and Initial Transfer Amounts. At the Closing, upon the terms set forth in this Agreement and the Reinsurance Agreement:

- (i) in addition to the payment Purchaser is required to make to Seller pursuant to Section 2.07(b) above, Purchaser shall pay to Seller, by wire transfer of immediately available funds to an account or accounts designated in writing to Purchaser by Seller at least two Business Days prior to the Closing Date, an amount equal to the Ceding Commission; and
- (ii) Seller shall cause the Ceding Company (or AHLIC on behalf of the Ceding Company) to deposit into the Trust Account, on behalf of Purchaser, the cash and Investment Assets in the Transferred Portfolio; provided that:
 - (A) if on the Closing Date the aggregate Fair Market Value of the cash and Investment Assets in the Transferred Portfolio exceeds the Estimated Required Balance, then Seller shall cause the Ceding Company (or AHLIC on behalf of the Ceding Company) to transfer to Purchaser cash or Investment Assets from the Transferred Portfolio selected by Purchaser with a Fair Market Value equal to such excess and shall cause the Ceding Company (or AHLIC on behalf of the Ceding Company) to transfer the remainder of the cash and Investment Assets in the Transferred Portfolio to the Trust Account; and
 - (B) if on the Closing Date the aggregate Fair Market Value of the cash and Investment Assets in the Transferred Portfolio is less than the Estimated Required Balance, Purchaser shall, at the Closing, transfer to the Trust Account Authorized Investments (as defined in the Trust Agreement) having a Fair Market Value as of the Closing Date equal to such shortfall.

Section 2.08. Closing Deliveries.

(a) Upon the terms and subject to the conditions set forth in this Agreement, at the Closing, in addition to the payments contemplated by Section 2.07 above, Seller shall, and shall cause its applicable Affiliates to, enter into and deliver to Purchaser:

- (i) a copy of the Commutation Agreement duly executed by the Ceding Company and AHLIC;
- (ii) a counterpart to the Reinsurance Agreement duly executed by the Ceding Company;
- (iii) a counterpart to the Trust Agreement duly executed by the Ceding Company;

- (iv) a counterpart to the Administrative Services Agreement duly executed by the Ceding Company;
- (v) a counterpart to the Transition Services Agreement duly executed by the Ceding Company;
- (vi) a counterpart to the Intellectual Property Agreement duly executed by Seller and the Ceding Company;
- (vii) a counterpart to the Distribution Agreement duly executed by each of the Ceding Company and Carefree Insurance Services, Inc.;
- (viii) a counterpart to the Bill of Sale and Assignment and Assumption Agreement duly executed by Seller and the Ceding Company;
- (ix) a counterpart to the Trademark License Agreement duly executed by Seller and the Ceding Company;
- (x) a counterpart to the Portland Location Assignment Agreement, duly executed by the Ceding Company;
- (xi) a counterpart to the sublease in the form attached hereto as Exhibit K-1 (the “Plantation Sublease”), duly executed by the Ceding Company;
- (xii) a counterpart to the sublease in the form attached hereto as Exhibit K-2 (the “South Portland Sublease”), duly executed by the Ceding Company;
- (xiii) a counterpart to the sublease in the form attached hereto as Exhibit K-3 (the “Omaha Sublease”), duly executed by Aetna Health Management, LLC;
- (xiv) a counterpart to the license agreement in the form attached hereto as Exhibit L (the “Hartford License Agreement”), duly executed by the Ceding Company;
- (xv) a counterpart to the Employee Leasing Agreement in the form attached hereto as Exhibit M (the “Employee Leasing Agreement”), duly executed by Seller;
- (xvi) a counterpart to the Data Processing Side Letter duly executed by the Ceding Company;
- (xvii) a certificate of Seller duly executed by an authorized officer of Seller, dated as of the Closing Date, certifying as to Seller’s compliance with the conditions set forth in Section 8.02(a) and Section 8.02(b); and

(xviii) such other agreements, instruments and documents as are contemplated by this Agreement or the other Transaction Agreements to be executed and delivered by Seller or any of its Affiliates on the Closing Date.

(b) Upon the terms and subject to the conditions set forth in this Agreement, at the Closing, in addition to the payments contemplated by Section 2.07 above, Purchaser shall, and shall cause its applicable Affiliates to, enter into and deliver to Seller:

- (i) a counterpart to the Reinsurance Agreement duly executed by Purchaser;
- (ii) a counterpart to the Trust Agreement duly executed by Purchaser;
- (iii) a counterpart to the Administrative Services Agreement duly executed by Purchaser;
- (iv) a counterpart to the Transition Services Agreement duly executed by Purchaser;
- (v) a counterpart to the Intellectual Property Agreement duly executed by Hartford Fire;
- (vi) a counterpart to the Distribution Agreement duly executed by Purchaser;
- (vii) a counterpart to the Bill of Sale and Assignment and Assumption Agreement duly executed Purchaser;
- (viii) a counterpart to the Trademark License Agreement duly executed by Hartford Fire;
- (ix) a counterpart to a side letter in the form attached hereto as Exhibit N (the “Data Processing Side Letter”), duly executed by Purchaser, acknowledging that the Ceding Company, its Affiliates (as defined in the Transition Services Agreement) and their respective subcontractors have processed, and will continue to process, data relating to the Business in Alaska, Hawaii, India and the Philippines;
- (x) a counterpart to the Portland Location Assignment Agreement, duly executed by Hartford Fire;
- (xi) a counterpart to the Plantation Sublease, duly executed by Hartford Fire;
- (xii) a counterpart to the South Portland Sublease, duly executed by Hartford Fire;
- (xiii) a counterpart to the Omaha Sublease, duly executed by Hartford Fire;
- (xiv) a counterpart to the Hartford License Agreement, duly executed by Hartford Fire;

- (xv) a counterpart to the Employee Leasing Agreement, duly executed by Purchaser;
- (xvi) a certificate of Purchaser duly executed by an authorized officer of Purchaser, dated as of the Closing Date, certifying as to Purchaser's compliance with the conditions set forth in Section 8.03(a), Section 8.03(b) and 8.03(c); and
- (xvii) such other agreements, instruments and documents as are contemplated by this Agreement or the other Transaction Agreements to be executed and delivered by Seller or any of its Affiliates on the Closing Date.

(c) Purchaser and Seller shall each use their reasonable best efforts to obtain, at or prior to the Closing, a counterpart to the Trust Agreement duly executed by the Trustee.

(d) Notwithstanding the delivery by Seller or Purchaser of any counterpart to the Portland Location Assignment Agreement or any Sublease pursuant to Section 2.08(a) or Section 2.08(b), as applicable, such counterparts shall not be effective at the Closing but shall instead be held in escrow and not become effective with respect to such agreement unless and until, and shall become effective with respect to such agreement only if (i) the applicable Lease Consent is obtained on or prior to December 31, 2017 and (ii) the Employee Lease Term has expired or been terminated. If the foregoing conditions to the effectiveness of the counterparts to the Portland Location Assignment Agreement or any such Sublease are not satisfied, then, upon the expiration or termination of the Employee Lease Term, the applicable agreement to which such counterparts relate shall be deemed not to have been executed by the parties thereto and shall be void and have no force or effect. If the Portland Location Assignment Agreement is deemed not to have been executed in accordance with the prior sentence, then: (i) the Assigned Lease shall be deemed not to be a Transferred Asset or Assigned Contract hereunder; (ii) Seller shall have no Liability to any Purchaser Indemnified Person by virtue of the fact that the Assigned Lease is not a Transferred Asset or Assigned Contract hereunder; and (iii) the Liabilities of Seller and its Affiliates under the Assigned Lease shall not be Assumed Liabilities hereunder; provided, that the foregoing shall not affect either party's obligations under Article V, including Section 5.12, or any rights to indemnification under Article X arising out of any breach by the other party of its obligations under Article V.

Section 2.09. Adjustment to Initial Transfer Amount after Closing.

(a) Within 90 days following the Closing Date, Seller shall prepare and deliver to Purchaser: (i) a Closing Statement as of the Accounting Date (the "Initial Closing Statement"), which shall be prepared in accordance with the Transaction Accounting Principles applied consistently with their application in connection with the preparation of the Reference Closing Statement and be in the same format as the Reference Closing Statement; (ii) Seller's determination of the Accounting Value of the Transferred Portfolio as of the Accounting Date (the "Initial Asset Value Statement"); and (iii) Seller's calculation of the Closing Required Asset Value based on the amounts set forth on the Initial Closing Statement and the Initial Asset Value Statement and taking into account all Capital Gain or Loss Adjustments and all Reallocated Asset Value Adjustments required from the Reference Date through the Closing Date (the

“Initial Closing Required Asset Value Statement”). Each of the Initial Closing Statement, Initial Asset Value Statement and the Initial Closing Required Asset Value Statement will be accompanied by reasonably detailed supporting documentation relating to the amounts and calculations therein. Each of the amounts set forth on the Estimated Closing Statement, the Initial Closing Statement and the Final Closing Statement shall not include any interest maintenance reserve related to the transfer of Investment Assets from AHLIC to the Ceding Company in connection with the Pre-Closing Commutation; provided, that the foregoing shall not affect the inclusion of such amounts in the calculation of the “Closing Date IMR Amount” under the Reinsurance Agreement.

(b) During the 60 days immediately following Purchaser’s receipt of the Initial Closing Statement, the Initial Asset Value Statement and the Initial Closing Required Asset Value Statement (the “Review Period”), Purchaser and its Representatives shall be permitted to review Sellers’s working papers and any working papers of Seller’s independent accountants directly relating to the preparation of the Initial Closing Statement, the Initial Asset Value Statement and the Initial Closing Required Asset Value Statement, as well as all of the Books and Records and other relevant information or documents relating to the operations and finances of the Business with respect to the period up to and including the Closing Date, and Seller shall make available the individuals in its or its Affiliates’ employ who are responsible for and knowledgeable about the information used in, and the preparation or calculation (as applicable) of, the Initial Closing Statement, the Initial Asset Value Statement and the Initial Closing Required Asset Value Statement in order to respond to the inquiries of Purchaser; provided, however, that the independent accountants of Seller shall not be obligated to make any working papers available to Purchaser unless and until Purchaser has signed a customary confidentiality and hold harmless agreement relating to such access to working papers in form and substance reasonably acceptable to such independent accountants.

(c) If Purchaser disagrees with the Initial Closing Statement, the Initial Asset Value Statement or the Initial Closing Required Asset Value Statement (including any amount or computation set forth therein) in any respect and on any basis (including that the representations and warranties in Section 3.18(d) or the covenants in Section 5.11 were breached), Purchaser may, on or prior to the last day of the Review Period, deliver a notice to Seller setting forth, in reasonable detail, each disputed item or amount and the basis for Purchaser’s disagreement therewith (the “Notice of Disagreement”). The Notice of Disagreement shall set forth, with respect to each disputed item, Purchaser’s position as to the correct amount or computation that should have been included in the Initial Closing Statement, the Initial Asset Value Statement or the Initial Closing Required Asset Value Statement. If Purchaser does not deliver a Notice of Disagreement with respect to the Initial Closing Statement, the Initial Asset Value Statement or the Initial Closing Required Asset Value Statement to Seller by the end of the Review Period, the Initial Closing Statement, the Initial Asset Value Statement or the Initial Closing Required Asset Value Statement, as applicable, shall become final and binding on the parties.

(d) During the 20 Business Days immediately following the delivery of a Notice of Disagreement, Seller and Purchaser shall seek in good faith to resolve any disagreement that they may have with respect to the matters specified in the Notice of Disagreement.

(e) If, at the end of such 20 Business Day period, Seller and Purchaser have been unable to resolve all disagreements that they may have with respect to the matters specified in the Notice of Disagreement, then Seller and Purchaser shall submit all matters that remain in dispute with respect to the Notice of Disagreement (along with a copy of the applicable Initial Closing Statement, the Initial Asset Value Statement and the Initial Closing Required Asset Value Statement marked to indicate those line items that are in dispute) to PricewaterhouseCoopers LLP or, if PricewaterhouseCoopers LLP is unwilling or unable to serve, another independent certified public accounting firm in the United States of international recognition mutually agreeable to Seller and Purchaser and that is not the auditor or independent accounting firm of any of the parties (the “Independent Accountant”), to make a determination with respect to all matters in dispute.

(f) Seller and Purchaser shall use commercially reasonable efforts to cause the Independent Accountant to render a determination within 30 days after the submission of such matters to the Independent Accountant or as soon as practicable thereafter. Seller, on the one hand, and Purchaser, on the other hand, shall promptly (and in any event within five Business Days) after the Independent Accountant’s engagement, each submit to the Independent Accountant their respective computations of the disputed items identified in the Notice of Disagreement and information, arguments and support for their respective positions, and shall concurrently deliver a copy of such materials to the other party. Each party shall then be given an opportunity to supplement the information, arguments and support included in its initial submission with one additional submission to respond to any arguments or positions taken by the other party in such other party’s initial submission, which supplemental information shall be submitted to the Independent Accountant (with a copy thereof to the other party) within 10 Business Days after the first date on which both parties have submitted their respective initial submissions to the Independent Accountant. The Independent Accountant shall thereafter be permitted to request additional or clarifying information from the parties, and each of the parties shall cooperate and shall cause their Representatives to cooperate with such requests of the Independent Accountant. The Independent Accountant shall determine, based solely on the materials so presented by the parties and upon information received in response to such requests for additional or clarifying information and not by independent review, only those issues in dispute specifically set forth in the Notice of Disagreement and shall render a written report to Seller and Purchaser in which the Independent Accountant shall, after considering all matters set forth in the Notice of Disagreement, determine what adjustments, if any, should be made to the amounts and computations set forth in the Initial Closing Statement, Initial Asset Value Statement and the Initial Closing Required Asset Value Statement solely as to the disputed items. Such written report shall set forth, in reasonable detail, the determination of the Independent Accountant with respect to each of the disputed line items specified in the Notice of Disagreement and the revisions, if any, to be made to the Initial Closing Statement, the Initial Asset Value Statement or the Initial Closing Required Asset Value Statement resulting therefrom, together with supporting calculations. With respect to each disputed line item, such determination shall be made in accordance with the Transaction Accounting Principles and the terms of this Agreement and, if not in accordance with the position of either Seller or Purchaser, shall not be in excess of the highest amount proposed by either party, nor less than the lowest amount proposed by either party, in the Notice of Disagreement, the Initial Closing Statement, the Initial Asset Value Statement or the Initial Closing Required Asset Value Statement with respect to such disputed line item. For the avoidance of doubt, the Independent Accountant shall

not review any line items or make any determination with respect to any matter other than those matters in the Notice of Disagreement that remain in dispute. The Independent Accountant's final written determination shall, absent fraud or manifest error, be conclusive and binding upon Seller and Purchaser, shall not be subject to review by a court or other tribunal and shall have the same force and effect as an arbitration award governed by the Federal Arbitration Act, 9 U.S.C. §1 et. seq. The "Final Closing Statement" means the Initial Closing Statement as made final and binding either pursuant to Section 2.09(c) or after it has been modified to reflect any revisions thereto made through the mutual agreement of Purchaser and Seller or through the determination of the Independent Accountant pursuant to this Section 2.09(f). The "Final Asset Value Statement" means the Initial Asset Value Statement as made final and binding either pursuant to Section 2.09(c) or after it has been modified to reflect any revisions thereto made through the mutual agreement of Purchaser and Seller or through the determination of the Independent Accountant pursuant to this Section 2.09(f). The "Final Closing Required Asset Value Statement" means the Initial Closing Required Asset Value Statement as made final and binding either pursuant to Section 2.09(c) or after it has been modified to reflect any revisions thereto made through mutual agreement of Purchaser and Seller or through the determination of the Independent Accountant pursuant to this Section 2.09(f), and the "Final Closing Required Asset Value" is the Closing Required Asset Value as set forth on the Final Closing Required Asset Value Statement.

(g) The cost of the Independent Accountant's review and determination shall be shared equally by Seller and Purchaser. During the review by the Independent Accountant, Seller and Purchaser shall each make available to the Independent Accountant such individuals and such information, books, records and work papers, as may be reasonably required by the Independent Accountant to fulfill its obligations under Sections 2.09(e) and 2.09(f); provided, however, that the independent accountants of Seller or Purchaser shall not be obligated to make any working papers available to the Independent Accountant unless and until the Independent Accountant has signed a customary confidentiality and hold harmless agreement relating to such access to working papers in form and substance reasonably acceptable to such independent accountants. In acting under this Agreement, the Independent Accountant shall be entitled to the privileges and immunities of an arbitrator. Notwithstanding anything to the contrary contained in this Agreement, the provisions of this Section 2.09 represent the sole and exclusive method for determining the Final Closing Statement, the Final Asset Value Statement, the Final Closing Required Asset Value Statement and the Final Closing Required Asset Value.

(h) Seller shall, following the Closing through the date that the Final Closing Statement, the Final Asset Value Statement and the Final Closing Required Asset Value Statement become final and binding on the parties in accordance with the last three sentences of Section 2.09(f), take all actions necessary to maintain and preserve all accounting books, records, policies and procedures on which the Initial Closing Statement, Initial Asset Value Statement and Initial Closing Required Asset Value Statement are based or on which the Final Closing Statement, Final Asset Value Statement or Final Closing Required Asset Value Statement are to be based so as not to impede or delay the final determination of the amounts set forth therein.

Section 2.10. Post-Closing Adjustments.

(a) The following adjustments will be made based on the amounts set forth on the Final Closing Statement, Final Asset Value Statement and Final Closing Required Asset Value Statement:

- (i) Purchaser shall pay to the Ceding Company the True-Up Amount, if positive; or
- (ii) Seller shall cause the Ceding Company to pay into the Trust Account the absolute value of the True-Up Amount, if negative.

(b) Payment of any amounts due under Section 2.10(a) shall be made within five Business Days after the date on which all three of the Final Closing Statement, the Final Asset Value Statement and Final Closing Required Asset Value Statement have become such in accordance with the last three sentences of Section 2.09(f) by wire transfer of immediately available funds.

ARTICLE III.

REPRESENTATIONS AND WARRANTIES OF SELLER

Except as set forth in the corresponding sections or subsections of the disclosure schedule delivered to Purchaser by Seller concurrently with the execution and delivery of this Agreement (the “Seller Disclosure Schedule”) (it being understood and agreed by the parties hereto that disclosure of any item in any section or subsection of the Seller Disclosure Schedule shall be deemed disclosure with respect to any other section or subsection of the Seller Disclosure Schedule to which the relevance of such item is reasonably apparent, notwithstanding the omission of a reference or cross-reference thereto), Seller hereby makes the following representations and warranties to Purchaser, as of the date hereof and as of the Closing Date, as follows:

Section 3.01. Organization; Standing and Authority.

(a) Seller is a corporation duly incorporated, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania. The Ceding Company is an insurance company duly organized, validly existing and in good standing under the laws of the State of Connecticut. AHLIC is an insurance company duly organized, validly existing and in good standing under the laws of the State of Connecticut.

(b) Each of Seller, the Ceding Company and AHLIC (i) have all corporate or other applicable organizational power and authority to carry on the activities it currently conducts in connection with the Business as it is now being conducted and to own, lease and operate its properties and assets and (ii) is duly qualified to do business as a foreign or alien corporation or other legal entity, as the case may be, in good standing in each jurisdiction in which the conduct of the Business makes such qualification necessary, except, in the case of clause (ii), where the failure to be so qualified, would not, individually or in the aggregate, reasonably be expected to

have a Material Adverse Effect. This Section 3.01(b) does not relate to Permits from Insurance Regulators and Operating Permits, which are addressed in Section 3.11.

Section 3.02. Authorization. Seller or the applicable Affiliate of Seller (as applicable) has all requisite corporate or other applicable organizational power to enter into, consummate the transactions contemplated by and carry out its obligations under, each of the Transaction Agreements to which it is or is contemplated to become a party. The execution and delivery by Seller or the applicable Affiliate of Seller (as applicable) of each of the Transaction Agreements to which it is or is contemplated to become a party, and the consummation by Seller or the applicable Affiliate of Seller (as applicable) of the transactions contemplated by each of the Transaction Agreements to which it is or is contemplated to become a party, have been duly authorized by all requisite corporate or other similar organizational action on the part of Seller or the applicable Affiliate of Seller (as applicable). Each of the Transaction Agreements to which Seller or the applicable Affiliate of Seller (as applicable) is or is contemplated to become a party has been, or upon execution and delivery thereof will be, duly executed and delivered by Seller or the applicable Affiliate of Seller (as applicable). Assuming due authorization, execution and delivery by the other parties hereto or thereto, each of the Transaction Agreements to which Seller or the applicable Affiliate of Seller (as applicable) is or is contemplated to become a party constitutes, or upon execution and delivery thereof will constitute, the legal, valid and binding obligation of Seller or the applicable Affiliate of Seller (as applicable), enforceable against it in accordance with its terms, subject in each case to the effect of any applicable bankruptcy, reorganization, insolvency, moratorium, rehabilitation, liquidation, fraudulent conveyance, preferential transfer or similar laws now or hereafter in effect relating to or affecting creditors' rights and remedies generally and subject, as to enforceability, to the effect of general equitable principles (regardless of whether enforcement is sought in a proceeding in equity or at law) (the "Enforceability Exceptions").

Section 3.03. Sufficiency of Assets. Except as set forth in Section 3.03 of the Seller Disclosure Schedule and subject to the receipt of all Governmental Approvals, the assets, rights, properties, Employees, Intellectual Property and services transferred or made available to Purchaser and its Affiliates pursuant to this Agreement, the other Transaction Agreements and the Assigned Contracts will, as of the Closing, comprise assets, rights, properties, Employees, Intellectual Property and services that are sufficient to permit Purchaser to operate the Business immediately following the Closing Date in substantially the same manner as the Business is being operated as of the date hereof. This Section 3.03 does not address any Permit needed for the Purchaser to write new or renewal insurance policies with respect to the Business after the Closing Date.

Section 3.04. No Conflict or Violation. Provided that all consents, approvals, authorizations and other actions described in Section 3.05 of the Seller Disclosure Schedule have been obtained or taken, the execution and delivery by Seller or the applicable Affiliate of Seller (as applicable) of, and the consummation by Seller or the applicable Affiliate of Seller (as applicable) of the transactions contemplated by, the Transaction Agreements to which Seller or the applicable Affiliate of Seller (as applicable) is or is contemplated to become a party do not and will not (a) violate or conflict with the organizational documents of Seller or the applicable Affiliate of Seller (as applicable), (b) subject to the Governmental Approvals referred to in Section 3.05, conflict with or violate any Applicable Law or Governmental Order applicable to

Seller or the applicable Affiliate of Seller (as applicable) or by which any of them or any of their respective properties, assets or rights is bound or subject, (c) result in any breach of, or constitute a default (or event which, with the giving of notice or lapse of time or both, would constitute a default) under, or give to any Person any rights of termination, acceleration or cancellation of, or result in the creation of any Lien (other than Permitted Liens) on any of the assets, properties or rights of Seller or the applicable Affiliate of Seller (as applicable) pursuant to, any contract, or any note, bond, loan or credit agreement, mortgage or indenture to which Seller or such applicable Affiliate of Seller is a party or by which any of them or any of their respective properties, assets or rights is bound or subject or (d) result in a breach or violation of any of the terms or conditions of, result in a default under, or otherwise cause an impairment or revocation of, any material Permit used in the Business, except, in the case of clauses (b), (c) and (d) of this Section 3.04, for any such conflicts, violations, breaches, defaults, terminations, accelerations, cancellations or creations that, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect.

Section 3.05. Consents and Approvals. Except in connection, or in compliance, with the approvals, filings and notifications required by Applicable Laws that are set forth in Section 3.05 of the Seller Disclosure Schedule, the execution and delivery by Seller or the applicable Affiliate of Seller (as applicable) of the Transaction Agreements to which it is or is contemplated to become a party do not and will not, and the consummation by Seller or the applicable Affiliate of Seller (as applicable) of the transactions contemplated by the Transaction Agreements to which it is or is contemplated to become a party will not, require any consent, approval, license, permit, order, qualification or authorization of, or registration with or other action by, or any filing with or notification to, any Governmental Authority (each, a “Governmental Approval”) to be obtained or made by or with respect to Seller or such applicable Affiliate of Seller (as applicable), except for any Governmental Approvals the failure to obtain or make which, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect.

Section 3.06. Certain Contracts.

(a) Section 3.06(a) of the Seller Disclosure Schedule lists each Material Contract to which Seller or any of its Affiliates is a party or by which it is bound as of the date hereof. The term “Material Contract” means all of the following types of contracts (other than any Ceded Reinsurance Contract or any Group Contract) in effect on the date hereof:

- (i) the Assigned Contracts;
- (ii) any contract that (A) contains a restriction on the ability of the Business to solicit specified customers or prospective customers for the purchase, renewal, lapse or amendment of any Group Contract or (B) limits in any way the ability of the Business to compete or engage in the conduct of the Business or in the marketing, selling and administration of any Group Contract, in each case, that would be legally binding on Purchaser or any of its Affiliates following the consummation of the transactions contemplated hereby;

- (iii) mortgages, indentures, loan or credit agreements, security agreements and other agreements and instruments relating to the borrowing of money or extension of credit directly by or to Seller or an Affiliate thereof in respect of the Business or the direct or indirect guarantee by Seller or an Affiliate thereof for the benefit of the Business of any obligation for borrowed money of any other Person, in each case other than Investment Assets held in the ordinary course of business consistent with the Investment Guidelines;
- (iv) any retention agreements providing for payments to any Employee;
- (v) any contract restricting or granting rights to use or practice rights under the Transferred Intellectual Property;
- (vi) any contract that is primarily related to the Business but is not an Assigned Contract (each, a “Primary Contract”) pursuant to which any third Person provides support, maintenance or other services for IT Systems;
- (vii) any Primary Contract pursuant to which any material operational function of the Business is outsourced to or otherwise performed by a third Person;
- (viii) any Primary Contract pursuant to which one or more independent contractors provides services to the Business;
- (ix) any contract that relates to the acquisition or disposition of any business or operation included in the Business, or any other contract that includes an ongoing material indemnification obligation or guarantee of the Ceding Company in respect of the Business, but in either case only where any such contract contains any material obligation of Seller or any of its Affiliates that remains unperformed (other than any obligation to indemnify the buyer thereunder for breaches of provisions that have expired or which are not subject to any survival period); or
- (x) any other Primary Contract.

(b) Section 3.06(b) of the Seller Disclosure Schedule lists each vendor with which, as of the date hereof, there is a direct contractual or other relationship to provide rights, services, functions or goods, as applicable, directly to the Business or which charge the Business directly for such rights, services, functions or goods, as applicable (each such vendor, a “Vendor”). For the avoidance of doubt, Section 3.06(b) of the Seller Disclosure Schedule does not list vendors for which the Business is allocated a share of the cost as part of a corporate or enterprise cost allocation.

(c) True and complete copies in all material respects of each of the Material Contracts, including in each case all amendments and addenda thereto, have been made available to Purchaser on the Project DeLorean Intralinks site or by email prior to the date hereof. Each of the Material Contracts is in full force and effect and is the valid and binding obligation of Seller and each Affiliate of Seller party thereto, and, to the Knowledge of Seller as of the date hereof,

each other party thereto, subject to the Enforceability Exceptions. None of Seller or any Affiliate of Seller that is party thereto, nor, to the Knowledge of Seller as of the date hereof, any other Person that is a party thereto, is (or, with the giving of notice or the lapse of time or both, will be), in any material respect, in violation or breach of or default under any of the Material Contracts. None of Seller or any Affiliate of Seller that is party thereto has received written or, to the Knowledge of Seller, oral notice of cancellation of any Material Contract.

Section 3.07. Title to Assets. Seller or one of its Affiliates is the record and beneficial owner of, and holder of good and valid title to, all of the Transferred Assets, free and clear of all Liens other than Permitted Liens. Purchaser will acquire good and valid title to the Transferred Assets, free and clear of Liens, except for Permitted Liens or any Liens arising from acts of Purchaser (other than entering into any Transaction Agreement), (a) in the case of Transferred Assets other than the Business Employee Benefit Plans and the Assigned Lease, at the Closing, and (b) in the case of the Business Employee Benefit Plans, upon the termination of the Employee Lease Term, and (c) in the case of the Assigned Lease, upon the termination of the Employee Lease Term and the effectiveness of the Portland Location Assignment Agreement.

Section 3.08. Absence of Litigation. Except as disclosed in Section 3.08 of the Seller Disclosure Schedule, as of the date hereof, there are no Actions relating to the Business (other than claims under or in connection with Group Contracts in the ordinary course of business) pending or, to the Knowledge of Seller, threatened in writing against (i) the Ceding Company or (ii) Seller or any of its other Affiliates with respect to the Business that, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

Section 3.09. Compliance With Laws.

(a) Except as disclosed in Section 3.09(a)(i) of the Seller Disclosure Schedule, Seller and its Affiliates (solely with respect to, and to the extent related to, the Business) are, and since December 31, 2014 have been, in compliance in all respects with all Applicable Laws, including Privacy and Data Security Laws, except for such instances of non-compliance that would not, individually or in the aggregate, have a material adverse impact on the Business. Except as set forth in Section 3.09(a)(ii) of the Seller Disclosure Schedule, as of the date hereof, since December 31, 2014, none of Seller or any of its Affiliates (solely with respect to, and to the extent related to, the Business) has received any written notice or other written or, to the Knowledge of Seller, oral communication from any Governmental Authority or has paid or incurred any penalty or fine imposed by a Governmental Authority, in each case, regarding any actual or alleged violation of, or failure to comply with, Applicable Law in connection with the Business (other than actual or alleged violations which have been resolved).

(b) Except as set forth in Section 3.09(b) of the Seller Disclosure Schedule, as of the date hereof, all material deficiencies or violations with respect to the Business in all reports of examinations of the affairs of the Ceding Company or AHLIC (including financial, market conduct and similar examinations) issued by any Insurance Regulator to the Ceding Company or AHLIC for any period ending on or after December 31, 2014, have been resolved to the reasonable satisfaction of the Insurance Regulator that noted such deficiencies or violations.

(c) Except as set forth in Section 3.09(c) of the Seller Disclosure Schedule, as of the date hereof, there are no Governmental Orders in effect against or involving Seller or any of its Affiliates under which Seller or any of its Affiliates has any continuing obligation relating to the Business and none of Seller or any of its Affiliates (solely with respect to, and to the extent related to, the Business) is a party to any material contract with any Governmental Authority (other than any Group Contract with respect to which a Governmental Authority is a policyholder or contractholder) in each case to the extent relating to the Business.

(d) Except as set forth in Section 3.09(d) of the Seller Disclosure Schedule, since December 31, 2014, Seller or an Affiliate thereof has filed all material reports, statements, documents, registrations, filings or submissions required to be filed with any Governmental Authority (solely with respect to, and to the extent related to, the Business). All such registrations, filings and submissions were in compliance in all material respects with Applicable Law when filed or as amended or supplemented, and, as of the date hereof, no material deficiencies have been asserted by any Governmental Authority with respect to such registrations, filings or submissions that have not been satisfied.

Section 3.10. Employee Matters.

(a) Section 3.10(a) of the Seller Disclosure Schedule sets forth a list of all material written Employee Benefit Plans as of the date hereof and a description of any material Employee Benefit Plan that is not in written form.

(b) Section 3.10(b) of the Seller Disclosure Schedule sets forth a list of all Business Employee Benefit Plans as of the date hereof. As of the date hereof, there are no material claims or disputes pending, or to the Knowledge of Seller, threatened with respect to any Business Employee Benefit Plan, other than routine claims for benefits in the ordinary course of business.

(c) No Business Employee Benefit Plan and, except as set forth on Section 3.10(c) of the Seller Disclosure Schedule, none of the Employee Benefit Plans is subject to Title IV of ERISA and no Employee participates or is eligible to participate in an Employee Benefit Plan or Business Employee Benefit Plan that is subject to Title IV of ERISA. None of the Employee Benefit Plans or Business Employee Benefit Plans is a “multiemployer plan” (as defined in section 3(37) of ERISA) and no Employee participates or is eligible to participate in an Employee Benefit Plan or Business Employee Benefit Plan that is a multiemployer plan. Purchaser shall have no Liabilities in respect of any Employee Benefit Plan, except as expressly set forth in Section 6.01(j) below.

(d) No Business Employee Benefit Plan and, except as disclosed in Section 3.10(d) of the Disclosure Schedule, no Employee Benefit Plan provides medical, dental, or life insurance coverage or any other welfare benefits after termination of employment.

(e) Each Employee Benefit Plan (i) complies in form in all material respects with all requirements of Applicable Laws and has been administered in all material respects in accordance with its terms and all Applicable Laws, and (ii) is otherwise in compliance in all material respects with all Applicable Laws. Each Business Employee Benefit Plan (i) complies in form in all material respects with all requirements of Applicable Laws and has been

administered in all material respects in accordance with its terms and all Applicable Laws, and (ii) is otherwise in compliance in all material respects with all Applicable Laws. With respect to each Employee Benefit Plan that is intended to be qualified under Section 401(a) of the Code, such plan, and its related trust, has received a determination letter (or opinion letters in the case of any prototype plans) from the IRS that it is so qualified and that its trust is exempt from tax under Section 501(a) of the Code and, to the Knowledge of the Seller, no event has occurred which will or could reasonably be expected to cause any such Employee Benefit Plan to fail to comply with such requirements. Each Employee Benefit Plan and Business Employee Benefit Plan is either (i) exempt from Section 409A of the Code (“Section 409A”) or (ii) has, in all material respects, been maintained and operated in documentary and operational compliance in accordance with Section 409A and the regulations and guidance issued thereunder.

(f) Except as set forth on Section 3.10(f) of the Seller Disclosure Schedule, neither consummation of the transactions contemplated by this Agreement nor this Agreement (whether separately or together with any other action) will accelerate the time of vesting or the time of payment, or increase the amount, of compensation due to any Employee. None of the payments contemplated by the Employee Benefit Plans or any Business Employee Benefit Plan to or with respect to Employees would, in the aggregate, constitute excess parachute payments (as defined in section 280G of the Code (without regard to subsection (b)(4) thereof)). As of the date hereof, each of Seller and its Affiliates is in compliance, in all material respects, with all Applicable Laws regarding employment, labor and wage and hour matters, disability, immigration, health and safety, harassment, non-discrimination in employment, workers’ compensation, and unemployment compensation (solely with respect to, and to the extent related to, the Business). To the Knowledge of the Seller, each independent contractor and consultant, in each case, providing personal services to the Seller and its Affiliates (solely with respect to, and to the extent related to, the Business) has been properly classified as an independent contractor for purposes of and consistent with good faith interpretations of, all Applicable Laws, including Applicable Laws with respect to employee benefits, and to the Knowledge of the Seller, each Employee has been properly classified consistent with good faith interpretations under the Fair Labor Standards Act (solely with respect to, and to the extent related to, the Employees). The Seller and its Affiliates are not a party to, bound by or in the process of negotiating any collective bargaining agreement or similar labor-related contract (solely with respect to, and to the extent related to, the Business). As of the date hereof, no labor organization or group of current Employees has made a pending demand (solely with respect to, and to the extent related to, the Business) for recognition or certification, and there are no representation or certification proceedings or petitions seeking a representation proceeding presently pending or, to the Knowledge of the Seller, threatened to be brought or filed with the National Labor Relations Board or any other labor relations tribunal or authority (in each case solely with respect to, and to the extent related to, the Business). To the Knowledge of the Seller, as of the date hereof, there are no material organizing activities, strikes, work stoppages, slowdowns, lockouts, arbitrations or grievances, or other material labor disputes, pending or threatened against or involving any Employees (solely with respect to, and to the extent related to, the Business).

(g) Each Employee Benefit Plan that is a “group health plan” as defined in Section 733(a)(1) of ERISA (a “Health Plan”) (i) is currently in compliance in all material respects with the Patient Protection and Affordable Care Act, Pub. L. No. 111-148 (“PPACA”), the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152 (“HCERA”), and the

regulations and guidance issued thereunder (collectively, with PPACA and HCERA, the “Healthcare Reform Laws”), and (ii) has been in compliance in all material respects with all applicable Healthcare Reform Laws since January 1, 2015.

(h) Neither Seller nor any of its Affiliates is a party to any employment agreement with any Employee, other than retention agreements that are listed in Section 3.06(a)(iv) of the Disclosure Schedule and offer letters.

(i) Section 3.10(i) of the Seller Disclosure Schedule sets forth a list of all individual independent contractors providing personal services to the Business as of the date hereof.

(j) Except as set forth on Section 3.10(j) of the Seller Disclosure Schedule, none of the Employees is a foreign national is in the United States pursuant to a United States H1-B visa or similar employer-sponsored work permit.

(k) Seller has performed a criminal background check on each Employee in a reasonable manner consistent with prudent hiring practices. Seller requires each Employee to annually complete an attestation regarding criminal conduct. To the Knowledge of Seller, none of the Employees are disqualified from performing services for the Business by reason of a criminal conviction.

Section 3.11. Permits.

(a) (i) The Ceding Company and AHLIC holds all Permits from all Insurance Regulators that are necessary for the current operation and conduct of the Business; and (ii) each of Seller and its Affiliates (solely with respect to, and to the extent related to, the Business) holds all other material Permits from all other Governmental Authorities that are necessary for the current operation and conduct of the Business and to own or use its assets and properties to the extent relating to the Business (collectively, the “Operating Permits”), except where the failure to hold an Operating Permit would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Except as would not be reasonably likely to have a Material Adverse Effect, all such Operating Permits are valid and in full force and effect in accordance with their terms. Each of the Ceding Company and AHLIC is, and since December 31, 2014 has been, in compliance in all material respects with all such Operating Permits.

(b) As of the date hereof, since December 31, 2014, Seller and its Affiliates have not received any written notice, or, to the Knowledge of Seller, oral communication from any Governmental Authority regarding any actual, alleged, or potential material violation of, or failure to comply with, the terms or requirements of any such Operating Permit (solely with respect to, and to the extent related to, the Business). As of the date hereof, none of Seller or any of its Affiliates is the subject of any pending or, to the Knowledge of Seller, threatened action seeking the revocation, withdrawal, suspension, termination, cancellation, nonrenewal, modification or impairment of any such Operating Permit (solely with respect to, and to the extent related to, the Business).

Section 3.12. Intellectual Property.

(a) Section 3.12(a) of the Seller Disclosure Schedule sets forth, as of the date hereof, a true, complete and correct list of (i) all Transferred Intellectual Property that is Registered, indicating for each item: (A) the current owner; (B) the jurisdiction where the application or registration is located; and (C) the application or registration number, and (ii) proprietary Software and material unregistered Trademarks that are Transferred Intellectual Property.

(b) Seller or an Affiliate thereof are the exclusive owners of the Transferred Intellectual Property free and clear of all Liens other than Permitted Liens. As of the Closing Date, Purchaser or its designee will be the exclusive owners of the Transferred Intellectual Property, free and clear of all Liens other than Permitted Liens.

(c) Except as set forth in Section 3.12(c) of the Seller Disclosure Schedule (i) to the Knowledge of Seller, the operation of the Business has not been and is not infringing, violating or misappropriating the Intellectual Property of any third party, (ii) no third party has asserted in a writing received by Seller or any of its Affiliates, or to the Knowledge of Seller asserted orally, that its conduct of the Business has infringed, violated or misappropriated the Intellectual Property of any third party and there are no such claims pending or, to the Knowledge of Seller, threatened, (iii) and, to the Knowledge of Seller, as of the date hereof, no third party has infringed, violated or misappropriated or is now infringing, violating or misappropriating any Transferred Intellectual Property. Notwithstanding anything to the contrary set forth in this Agreement, this Section 3.12(c) contains all of the representations and warranties provided by Seller with respect to the non-infringement, non-violation and non-misappropriation of Intellectual Property.

(d) Seller and its Affiliates have taken commercially reasonable actions to maintain the enforceability of the Transferred Intellectual Property under all Applicable Law (including (i) making and maintaining in full force and effect all necessary filings, registrations and issuances and (ii) maintaining the secrecy of all Trade Secrets).

(e) Seller has maintained and currently maintains complete source code for all current and the immediately prior (i.e., n-1) versions and releases of all Software developed by or for Seller and included within the Transferred Intellectual Property (“Developed Software”). All Developed Software is designed and documented in a reasonable manner, consistent with accepted industry practices. Except as would not be material to the Business, no Developed Software contains any viruses, worms, back doors, spyware, adware, malware, time-bombs or key-locks (as such terms are commonly understood in the software industry).

(f) Except as set forth on Section 3.12(f) of the Seller Disclosure Schedule, no Transferred Intellectual Property that is Software contains any Open Source Software, including any software governed by an “open source” license that may (i) require, as a condition to the use of such Software, that Seller disclose, license or distribute to third parties any of the source code for such Software, (ii) requires derivative works of such Software to be licensed under the same “open source” license as the original work or otherwise requires its licensing thereof for the purpose of making derivative works, (iii) imposes any restriction on the consideration to be charged for the distribution of such Software, or (iv) creates, or purports to create, obligations for

Seller with respect to the Intellectual Property rights owned by Seller or grants, or purports to grant, to any third party any rights or immunities under Intellectual Property rights owned by Seller.

Section 3.13. Insurance Business.

(a) Except as set forth in Section 3.13 of the Seller Disclosure Schedule, since December 31, 2014 any application, form of insurance policy, certificates of insurance, riders, endorsements, advertising material, rate, rule or producer compensation utilized by the Seller and its Affiliates (solely with respect to, and to the extent related to, the Business), the use or issuance of which requires filing or approval, has been appropriately filed, and, if required, approved by the Insurance Regulator of any state in which such application forms, forms of insurance policies, advertising materials and rates and rules are required to be filed and (as applicable) approved or not objected to by such authorities within the period provided for approval or objection, except for failures to effect such filings or secure such approvals, which would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. All such application forms, forms of insurance policies, advertising materials and rates or rules are utilized in compliance in all material respects with all Applicable Laws and within the scope of the approvals (if any) received with respect thereto. No material deficiencies have been asserted by any Governmental Authority with respect to any such filings or compliance with the filings or approvals issued by the Insurance Regulators which have not been cured or otherwise resolved.

(b) The underwriting standards and ratings applied by the Ceding Company since such date with respect to Group Contracts have conformed in all material respects to those contained in the underwriting manuals utilized by the Ceding Company, as in effect at the times such Group Contracts were underwritten.

(c) Since December 31, 2014, Seller and any applicable Affiliates have timely paid in all material respects all guaranty fund assessments that have been due, claimed or asserted by, or are the subject of any voluntary contribution commitment to, any state guaranty fund or association or any Insurance Regulator in any jurisdiction in which Seller or any applicable Affiliate operates the Business arising out of or resulting from such operation of the Business by Seller and its Affiliates. Except for regular periodic assessments in the ordinary course of business or assessments based on developments that are publicly known within the insurance industry, no material claim or assessment is pending or, to the Knowledge of Seller, threatened against Seller or any Affiliate with respect to the Business by any state insurance guaranty association in connection with such association's fund relating to insolvent insurers.

(d) The Business does not include (i) any policies issued to a plan sponsor located outside the United States and its territories, or (ii) any policies issued to plan sponsors located in the United States to cover primarily employees located outside the United States.

Section 3.14. Producers; Sale Practices.

(a) Except as set forth in Section 3.14(a) of the Seller Disclosure Schedule, to the Knowledge of Seller, from December 31, 2014 to the date hereof, each Producer, at any time that

it wrote, sold or produced Group Insurance Contracts for Seller or any of its Affiliates, was duly licensed, authorized and appointed (for the Group Insurance Contract written, sold or produced by such Producer) in the particular jurisdiction in which such Producer wrote, sold or produced such Group Insurance Contract and, to the Knowledge of Seller, from December 31, 2014 to the date hereof, no such Producer violated any term or provision of Applicable Law relating to the writing, sale or production of Group Insurance Contracts, in each case except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(b) Except as set forth in Section 3.14(b) of the Seller Disclosure Schedule, since December 31, 2014, none of Seller or the Ceding Company has received any written notice or communication from any Governmental Authority that a Producer is in material violation of any Applicable Law applicable to the writing, sale, production or marketing of any Group Insurance Contract.

Section 3.15. Real Property. The Transferred Assets do not include any real property other than the real property that is leased pursuant to the Assigned Lease. Section 3.15 of the Seller Disclosure Schedule lists, as of the date hereof, all real property, including the real property located at 222 SW Columbia Street, Portland, Oregon (the “Portland Location”), (a) which are owned by Seller or an Affiliate of Seller or (b) in which Seller or an Affiliate of Seller has a leasehold interest and, in each case, in which Seller intends will be occupied by Purchaser or an Affiliate thereof from and after the day immediately following the expiration or termination of the Employee Lease Term (such leases in subclause (b) of this Section 3.15 (but expressly excluding the Assigned Lease) are collectively referred to as the “Non-Assigned Leases”; together with the Assigned Lease, collectively, the “Leases”). True and complete copies in all material respects of each of the Leases, including in each case all amendments and addenda thereto, have been made available to Purchaser on the Project DeLorean Intralinks site or by email prior to the date hereof. Seller or an Affiliate thereof has a valid and enforceable leasehold interest under the Leases, subject to Permitted Liens and to the Enforceability Exceptions and neither Seller nor any such Affiliate has received any written notice of any default under the Leases, and, to the Knowledge of Seller, no event has occurred and no condition exists that, with notice or lapse of time or both, would constitute a default by Seller or any such Affiliate under the Leases, except, in each case, for such invalidity, unenforceability or defaults that, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect.

Section 3.16. Ceded Reinsurance Contracts.

(a) Section 3.16(a) of the Seller Disclosure Schedule lists each reinsurance agreement to which the Ceding Company or AHLIC is a party and under which the Ceding Company or AHLIC reinsured or retroceded risk under any of the Group Insurance Contracts that were in effect as of the date hereof (the “Ceded Reinsurance Contracts”).

(b) Each of the Ceded Reinsurance Contracts constitutes a valid and binding obligation of the Ceding Company or AHLIC and, to the Knowledge of Seller, each other party thereto, enforceable against the Ceding Company or AHLIC and, to the Knowledge of Seller, each other party thereto in accordance with its terms, subject to the Enforceability Exceptions. Except as set forth in Section 3.16(b) of the Seller Disclosure Schedule, as of the date hereof,

neither the Ceding Company nor AHLIC has delivered notice or received written or, to the Knowledge of Seller, oral notice of early termination of any such Ceded Reinsurance Contract. There exists no material breach or event of default with respect to any Ceded Reinsurance Contract on the part of the Ceding Company or AHLIC or, to the Knowledge of Seller, as of the date hereof, any other party thereto, in each case that would, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(c) Since December 31, 2014, there has not been any dispute with respect to any material amounts recoverable or payable by the Ceding Company pursuant to any Ceded Reinsurance Contract. All amounts owed under any Ceded Reinsurance Contracts have been timely paid in accordance with their terms.

Section 3.17. Tax.

(a) There are no outstanding audits or other administrative or judicial actions by any Governmental Authority with regard to, or related to, the Tax treatment of the Business or the Transferred Assets, nor to the Knowledge of Seller, as of the date hereof, is any such audit or other administrative or judicial action pending or threatened.

(b) Seller and its Affiliates have timely paid all material Taxes which will have been required to be paid on or prior to the date hereof in respect of the Business or the ownership of the Transferred Assets.

(c) All material Taxes required to have been withheld, collected or remitted with respect to the Business or the Transferred Assets have been withheld, collected or remitted, as applicable, to the applicable Governmental Authority in accordance with Applicable Law.

(d) Seller and its Affiliates have materially complied with all Tax reporting, withholding, and disclosure requirements applicable to the Ceded Insurance Contracts under the Code, Treasury Regulations, and forms issued by the Internal Revenue Service and under any corresponding or similar provision of state or local law.

(e) Seller and its Affiliates have duly and timely (including any applicable extensions) filed all material Tax Returns required to have been filed by them in respect of the Business or the ownership of the Transferred Assets, and all such Tax Returns are accurate and complete in all material respects as they relate to the Business or the Transferred Assets.

(f) All material deficiencies asserted in writing or assessments made in writing with respect to the Business or the ownership of the Transferred Assets by a Tax authority have been paid in full, except to the extent they are being contested in good faith through appropriate proceedings.

(g) There are no material Liens for Taxes (other than Permitted Liens) upon the Transferred Assets.

(h) Seller and each of its Affiliates are not and have not been a party to any “reportable transaction” within the meaning of Treasury Regulation Section 1.6011-4 with respect to the Business or the Transferred Assets.

(i) There is no written claim pending from any Tax authority in any jurisdiction where the Seller does not file Tax Returns in respect of the Business that the Business is or may be subject to taxation by that jurisdiction.

(j) The reserves reflected with respect to the Ceded Insurance Contracts on the consolidated federal income Tax Return filed by the affiliated group of which Seller is a member for the year ending December 31, 2014, and since such date, have been determined in all material respects in the manner required by the Code and other Applicable Law, and to the extent relevant to the determination and maintenance thereof, have been determined and maintained in all material respects in accordance with SAP.

(k) The Tax treatment of each Ceded Insurance Contract is not, and, since the time of issuance, has not been, materially less favorable to the purchaser, policyholder or intended beneficiaries thereof, than the Tax treatment and purported to qualify for at the time of issuance.

Section 3.18. Financial Statements; Books and Records.

(a) Seller has previously delivered to Purchaser true, correct and complete copies of (i) the audited annual statutory financial statements of each of the Ceding Company and AHLIC, together with the report of each such company's independent auditors thereon, as of and for the years ended December 31, 2015 and December 31, 2016 and (ii) the unaudited statutory financial statements of each of the Ceding Company and AHLIC as of and for the quarter ended June 30, 2017 (collectively, the "Statutory Statements"), in each case, as filed with the Insurance Regulator of such entity's jurisdiction of domicile. The Statutory Statements were prepared in accordance with applicable SAP consistently applied throughout all such periods and, except as set forth in Section 3.18(a) of the Seller Disclosure Schedule, fairly present in all material respects the financial position, admitted assets, liabilities, capital, and surplus of the Ceding Company and AHLIC (as applicable) at December 31, 2015, December 31, 2016 and June 30, 2017, and the results of operations, changes in surplus, and cash flows of the Ceding Company and AHLIC (as applicable) for the periods covered thereby, subject, in the case of the quarterly Statutory Statements as of and for the quarter ended June 30, 2017, to normal yearend adjustments and the absence of full footnote disclosures and other presentation items. Section 3.18(a) of the Seller Disclosure Schedule sets forth a complete list of all permitted practices used by each such company in the preparation of the Statutory Statements.

(b) The reserves, including incurred but not reported (IBNR), for payment of benefits, losses, claims, expenses, and other similar purposes (including claims litigation) with respect to the Group Contracts reflected in the Statutory Statements, the Reference Closing Statement, and the Pro Forma Financial Statements, as of their respective dates: (a) were computed in all material respects in accordance with generally accepted actuarial standards, consistently applied and developed by the Ceding Company applying consistent practices, assumptions and methodologies used as of their respective dates; (b) met the requirements of SAP and other Applicable Law; and (c) were based on actuarial information and data and inventories and policies and contracts that were accurate in all material respects; provided that this Section 3.18(b) shall not be deemed to be a representation or warranty of Seller that the reserves of the Ceding Company or AHLIC (to the extent relating to the Business) are or will be adequate or sufficient for the purposes for which they were established.

(c) Seller has previously delivered to Purchaser a true, correct and complete copy of the unaudited pro forma balance sheets of the Business as of December 31, 2015 and December 31, 2016 and an unaudited pro forma statement of profits and losses for the annual period ended December 31, 2016 (“Pro Forma Financial Statements”). The Pro Forma Financial Statements were prepared in good faith from the Books and Records using methodologies, estimates and adjustments to give effect to assumptions that provide a reasonable basis for presenting the financial position, direct profits and direct losses of the Business in accordance with GAAP, applied consistently with the historical practices of Seller, as of December 31, 2015 and December 31, 2016.

(d) The Reference Closing Statement was prepared in accordance with the Transaction Accounting Principles and fairly presents, in all material respects in accordance with the Transaction Accounting Principles, the assets and liabilities of the Business as of the Reference Date.

(e) The Books and Records (i) have been maintained in all material respects in accordance with Applicable Law and (ii) are in material compliance with any and all record keeping maintenance requirements in applicable Group Contracts. No Board Materials relating to the Business exist except those certain Board Materials identified and made available by Seller for inspection and review by Purchaser prior to the date hereof.

(f) Seller and the Ceding Company maintain a system of internal control over financial reporting sufficient to provide reasonable assurance regarding the reliability of the financial reporting of the Ceding Company with respect to the Business and the preparation of financial statements for external purposes in accordance with GAAP, applied consistently with the historical practices of Seller, or SAP, as applicable. There are no material weaknesses or significant deficiencies in the internal controls over financial reporting of Seller or the Ceding Company with respect to the Business.

Section 3.19. Specified Portfolio.

(a) During the period from the Reference Date to the date hereof, (i) no Investment Assets that were in the Specified Portfolio as of the Reference Date have been sold except: (A) sales of Investment Assets that were determined by Seller (in accordance with SAP and Seller’s and its Affiliates’ past practices), to have become, or to be reasonably likely to become, impaired, all of which sales are set forth on Section 3.19(a)(i)(A) of the Seller Disclosure Schedule; and (B) sales of Investment Assets set forth in Section 3.19(a)(i)(B) of the Seller Disclosure Schedule, which collectively did not exceed the Discretionary Turnover Allowance; and (ii) all additions to the Specified Portfolio were made in accordance with the Pre-Closing Investment Guidelines.

(b) Section 3.19(b)(i) of the Seller Disclosure Schedule sets forth, as of the date hereof, the Capital Gain or Loss Adjustments for each of the sales of Investment Assets set forth in Section 3.19(a)(i)(B) of the Seller Disclosure Schedule. Section 3.19(b)(ii) of the Seller Disclosure Schedule sets forth a list of each of the Reallocated Investment Assets that were added to the Specified Portfolio between the Reference Date and the date of this Agreement, and the Reallocated Asset Value Adjustments, if any, that were required with respect to such

Reallocated Investment Assets during such period. The representations and warranties in this Section 3.19 have been made assuming, for this purpose, that the terms of Section 5.11 (other than the definition of “Selection Waterfall” included therein) applied with respect to the period between the Reference Date and the date of this Agreement.

Section 3.20. No Undisclosed Liabilities. The Business has no Liabilities required to be disclosed or reserved for on a balance sheet of the Ceding Company prepared in accordance with applicable SAP, except (i) Liabilities set forth in Section 3.20 of the Seller Disclosure Schedule, (ii) Liabilities disclosed or reserved for in the Statutory Statements and (iii) Liabilities that (x) were incurred after December 31, 2016 in the ordinary course of business consistent with past practice and (y) have not had and would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 3.21. Actuarial Report. Seller has delivered to Purchaser true, complete and correct copies of the actuarial report, dated as of June 7, 2017 (as adjusted by a memorandum dated August 28, 2017) prepared by Milliman Inc. (“Milliman”) with respect to the Business as of December 16, 2016 (the “Actuarial Report”). The information and factual data furnished by Seller and its Affiliates in writing to Milliman with respect to the Business in connection with the preparation of the Actuarial Report (and any supplements or addenda thereto) were (a) obtained from the Books and Records, (b) generated from the same underlying sources and systems that were utilized by Seller or its applicable Affiliates to prepare the Pro Forma Statements to the extent applicable and (c) to the Knowledge of Seller, did not include any material Data Input Inaccuracies. As of the date hereof, Milliman has not issued to Seller or its Affiliates any new or revised report with respect to the Business or any errata with respect to the Actuarial Report nor has it notified Seller or any of its Affiliates that the Actuarial Report is inaccurate in any material respect.

Section 3.22. Absence of Certain Changes or Events. Except as expressly contemplated or required by this Agreement or as set forth in Section 3.22 of the Seller Disclosure Schedule, since December 31, 2016 (a) Seller and its Affiliates have operated and conducted the Business in all material respects in the ordinary course of business; (b) there has not been any event, occurrence, condition or change that has had, or would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect; and (c) neither Seller nor any of its Affiliates has taken any action or failed to take any action that, if taken or failed to have been taken after the date hereof, would violate Section 5.01.

Section 3.23. Brokers and Finders. Except for Barclays Capital Inc. and one or more of its Affiliates, whose fees will be paid by Seller, no broker, investment banker, financial adviser or other person is entitled to any broker’s, finder’s, financial adviser’s or other similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Seller or any of its Affiliates.

Section 3.24. Data Protection and Privacy; IT Systems.

(a) Since December 31, 2014, Seller and its Affiliates with respect to the Business have been and are in compliance in all material respects with any and all contractual requirements, including applicable terms of use and privacy policies, pertaining to the protection,

privacy, security, collection, storage, use, disclosure, disposal, maintenance and transmission of Personal Data.

(b) Since December 31, 2014, to the Knowledge of Seller, none of Seller and its Affiliates, or any third Person working on behalf of any of them, has experienced an incident of unauthorized access, disclosure, use, destruction or loss of any Personal Data that Seller or its Affiliates (or a third Person on behalf of any of them) collects, stores, uses or transmits in the conduct of the Business that required the delivery of notice to affected individuals pursuant to Privacy and Data Security Laws.

(c) Section 3.24(c) of the Seller Disclosure Schedule identifies (i) all IT Systems that are included in the Transferred Assets and (ii) all Vendors that provide “cloud”, support, hosting, servicing, interfacing, connectivity, security, and redundancy services to the Business. All IT Systems that are included in the Transferred Assets or access to which will be provided pursuant to the Transition Services Agreement (x) are in good repair and operating condition and in all material respects adequate and suitable for the purposes for which they are being used or held for use, and (y) have not, since December 31, 2014, experienced bugs, failures, breakdowns, unauthorized access or use, or substandard performance, malfunction or failure of any unplanned downtime that caused any material disruption or interruption in or to the operation of the Business, and (z) to the Knowledge of Seller, do not contain any “malware” that would reasonably be expected to interfere with the ability of the Purchaser to conduct the Business. Seller and its Affiliates have implemented, currently maintain, and comply with commercially reasonable business continuity and backup and disaster recovery plans and procedures with respect to the IT Systems that are included in the Transferred Assets or access to which will be provided pursuant to the Transition Services Agreement.

Section 3.25. Distribution of Group Insurance Contracts.

(a) Seller hereby represents and warrants that (a) the Service Standards which are attached to the Distribution Agreement as Exhibit A are based upon and are consistent in all material respect with the Ceding Company’s service standards generally applicable on an individual plan basis to specified services provided to plans in connection with large Group Insurance Contracts, except (i) as modified to reflect that the Service Standards are applicable to specified categories of Group Insurance Contracts in the aggregate, rather than on an individual plan basis; or (ii) as expressly agreed by the Parties to apply solely to Group Insurance Contracts administered on Purchaser’s systems; and (b) since December 31, 2015 all Group Insurance Contracts issued by Seller or its Affiliates, in the aggregate, have been administered in material compliance with the service standards upon which such Service Standards are based.

(b) Seller hereby represents and warrants that Seller and its Affiliates calculated the compensation payable by Seller or its Affiliates to the Sales Force (as such term is defined in the Form of Distribution Agreement) in respect of the distribution of Group Insurance Contracts during the calendar year 2017 in a manner consistent with the terms of Exhibit D to the attached Form of Distribution Agreement, except in such instances as would not, individually or in the aggregate, have a material adverse impact on the Business.

Section 3.26. Administration of the Subject Contracts. The Service Standards that are attached to the form of Administrative Services Agreement as Exhibit II are based upon and are consistent in all material respects with the Ceding Company's service standards generally applicable on an individual plan basis to specified services provided to plans in connection with the Subject Contracts (as such term is defined in the form of Administrative Services Agreement attached hereto as Exhibit D). Since December 31, 2015, Seller and its Affiliates in the aggregate have administered the Subject Contracts in material compliance with the service standards upon which such Service Standards are based. In addition, since December 31, 2015, Seller and its Affiliates have administered the Subject Contracts in material compliance with all agreements with customers who purchased the Subject Contracts, including requirements to maintain the administration of the Subject Contracts in the United States.

ARTICLE IV.

REPRESENTATIONS AND WARRANTIES OF PURCHASER

Except as set forth in the corresponding sections or subsections of the disclosure schedule delivered to Seller by Purchaser concurrently with the execution and delivery of this Agreement (the "Purchaser Disclosure Schedule") (it being understood and agreed by the parties hereto that disclosure of any item in any section or subsection of the Purchaser Disclosure Schedule shall be deemed disclosure with respect to any other section or subsection of the Purchaser Disclosure Schedule to which the relevance of such item is reasonably apparent, notwithstanding the omission of a reference or cross-reference thereto), Purchaser hereby makes the following representations and warranties to Seller, as of the date hereof and as of the Closing Date as follows:

Section 4.01. Organization, Standing. Purchaser is an insurance company duly incorporated, validly existing and in good standing under the laws of Connecticut.

Section 4.02. Authorization. Purchaser or the applicable Affiliate of Purchaser (as applicable) has all requisite corporate or other applicable organizational power to enter into, consummate the transactions contemplated by and carry out its obligations under, each of the Transaction Agreements to which it is or is contemplated to become a party. The execution and delivery by Purchaser or the applicable Affiliate of Purchaser (as applicable) of each of the Transaction Agreements to which it is or is contemplated to become a party and the consummation by Purchaser or the applicable Affiliate of Purchaser (as applicable) of the transactions contemplated by each of the Transaction Agreements to which it is or is contemplated to become a party have been duly authorized by all requisite corporate or other similar organizational action on the part of Purchaser or the applicable Affiliate of Purchaser (as applicable). Each of the Transaction Agreements to which Purchaser or the applicable Affiliate of Purchaser (as applicable) is or is contemplated to become a party has been, or upon execution and delivery thereof will be, duly executed and delivered by Purchaser or the applicable Affiliate of Purchaser (as applicable). Assuming due authorization, execution and delivery by the other parties hereto or thereto, each of the Transaction Agreements to which Purchaser or the applicable Affiliate of Purchaser (as applicable) is or is contemplated to become a party constitutes, or upon execution and delivery thereof will constitute, the legal, valid and binding

obligation of Purchaser or the applicable Affiliate of Purchaser (as applicable), enforceable against it in accordance with its terms, subject in each case to the Enforceability Exceptions.

Section 4.03. No Conflict or Violation. Provided that all consents, approvals, authorizations and other actions described in Section 4.04 have been obtained or taken, the execution and delivery by Purchaser or the applicable Affiliate of Purchaser (as applicable) of, and the consummation by Purchaser or the applicable Affiliate of Purchaser (as applicable) of the transactions contemplated by, the Transaction Agreements to which Purchaser or the applicable Affiliate of Purchaser (as applicable) is or is contemplated to become a party do not and will not (a) violate or conflict with the organizational documents of Purchaser or the applicable Affiliate of Purchaser (as applicable), (b) subject to the Governmental Approvals referred to in Section 4.04, conflict with or violate any Applicable Law or Governmental Order applicable to Purchaser or the applicable Affiliate of Purchaser (as applicable) or by which any of them or any of their respective properties, assets or rights is bound or subject to, (c) result in any breach of, or constitute a default (or event which, with the giving of notice or lapse of time or both, would constitute a default) under, or give to any Person any rights of termination, acceleration or cancellation of or result in the creation of any Lien (other than Permitted Liens) on any of the assets, properties or rights of Purchaser or any of its Affiliates pursuant to, any contract or any note, bond, loan or credit agreement, mortgage or indenture to which Purchaser or any of its Affiliates is a party or by which any of them or any of their respective properties or assets is bound or subject, or (d) result in a breach or violation of any of the terms or conditions of, result in a default under, or otherwise cause an impairment or revocation of, any material Permit of Purchaser or its Affiliates; except, in the case of clauses (b), (c) and (d) of this Section 4.03, for any such conflicts, violations, breaches, defaults, terminations, accelerations, cancellations or creations that, individually or in the aggregate, would not reasonably be expected to have a Purchaser Material Adverse Effect.

Section 4.04. Consents and Approvals. The execution and delivery by Purchaser or the applicable Affiliate of Purchaser (as applicable) of the Transaction Agreements to which it is or is contemplated to become a party do not, and the consummation by Purchaser or the applicable Affiliate of Purchaser (as applicable) of the transactions contemplated by the Transaction Agreements to which it is or is contemplated to become a party will not, require any Governmental Approval to be obtained or made by or with respect to Purchaser or the applicable Affiliate of Purchaser (as applicable), except for any Governmental Approvals the failure to obtain or make which, individually or in the aggregate, would not reasonably be expected to have a Purchaser Material Adverse Effect.

Section 4.05. Absence of Litigation. There are no Actions pending or, to the Knowledge of Purchaser, threatened in writing against Purchaser or any of its Affiliates or any of their respective assets, properties or businesses that (i) question the legality of the transactions contemplated by any of the Transaction Agreements or (ii) as of the date hereof, individually or in the aggregate, would reasonably be expected to have a Purchaser Material Adverse Effect.

Section 4.06. Compliance With Laws.

(a) Purchaser and its Affiliates are not in violation of any Applicable Laws (including any Applicable Laws regulating the insurance business) or Governmental Orders applicable to

them or their respective assets, properties or businesses, except for violations that, individually or in the aggregate, would not reasonably be expected to have a Purchaser Material Adverse Effect.

(b) All material deficiencies or violations with respect to the respective insurance businesses of Purchaser and its Affiliates that are party to any Transaction Agreement in all reports of examinations of the affairs of Purchaser or any such Affiliate with respect to such businesses (including financial, market conduct and similar examinations) issued by any Insurance Regulator for any period ending on a date on or after December 31, 2014, have been resolved to the reasonable satisfaction of the Insurance Regulator that noted such deficiencies or violations, except as would not reasonably be expected to have a Purchaser Material Adverse Effect.

(c) Neither Purchaser nor its Affiliates, nor any of their respective properties, assets or rights, is a party to, or bound by, any Governmental Order, except for those Governmental Orders that, individually or in the aggregate, would not reasonably be expected to have a Purchaser Material Adverse Effect.

(d) Purchaser and each Affiliate of Purchaser that is party to a Transaction Agreement has filed all reports, statements, documents, registrations, filings or submissions required to be filed by Purchaser or such Affiliate with any Governmental Authority to the extent they relate to their respective insurance businesses, except for any failures to file that, individually or in the aggregate, would not reasonably be expected to have a Purchaser Material Adverse Effect. All such registrations, filings and submissions were in compliance in all material respects with Applicable Law when filed or as amended or supplemented, and no deficiencies have been asserted by any Governmental Authority with respect to such registrations, filings or submissions that have not been satisfied, except for any non-compliance or failures to file that, individually or in the aggregate, would not reasonably be expected to have a Purchaser Material Adverse Effect.

Section 4.07. Financial Ability.

(a) Purchaser has, and will have at the Closing, all funds necessary to: (i) pay all amounts required to be paid or deposited by Purchaser and its Affiliates pursuant to Article II; and (ii) consummate the transactions contemplated by this Agreement and the other Transaction Agreements.

(b) Purchaser has previously delivered to Seller copies of (i) the audited annual statutory financial statements of Purchaser as of and for the years ended December 31, 2015 and December 31, 2016 and (ii) the unaudited interim statutory financial statements of the Purchaser as of and for the six-month period ending June 30, 2017. The foregoing statutory financial statements were prepared in all material respects in accordance with SAP and fairly present, in all material respects in accordance therewith, the admitted assets, liabilities and capital and surplus of Purchaser at their respective dates and the results of operations, changes in surplus and cash flows of Purchaser at and for the periods indicated, subject, in the case of the financial statements referenced in clause (ii) above, to normal year-end adjustments.

Section 4.08. Permits.

(a) Purchaser and each of its Affiliates executing any Transaction Agreement holds, or as of the Closing Date will hold, all registrations, filings, licenses, permits, approvals or authorizations issued or granted by Governmental Authorities that are necessary to consummate the transactions contemplated by the Reinsurance Agreement, for the current operation and conduct of the Business and to own or use its assets and properties to the extent relating to the Business (collectively, the “Purchaser Permits”) except for such failure to hold Purchaser Permits as would not reasonably be expected to have, individually or in the aggregate, a Purchaser Material Adverse Effect.

(b) Since December 31, 2014, none of Purchaser or any of its Affiliates executing any Transaction Agreement has received any written notice or communication from any Governmental Authority regarding any actual, alleged, or potential violation of, or failure to comply with, the terms or requirements of any such Purchaser Permit, except as would not reasonably be expected to have, individually or in the aggregate, a Purchaser Material Adverse Effect. As of the date hereof, none of Purchaser or any of its Affiliates executing any Transaction Agreement is the subject of any pending or, to the Knowledge of Purchaser, threatened action seeking the revocation, withdrawal, suspension, termination, cancellation, nonrenewal, modification or impairment of any such Purchaser Permit except as would not reasonably be expected to have, individually or in the aggregate, a Purchaser Material Adverse Effect.

Section 4.09. Brokers and Finders. Except for Merrill Lynch, Pierce, Fenner & Smith Inc., whose fees will be paid by Purchaser, no broker, investment banker, financial adviser or other person is entitled to any broker’s, finder’s, financial adviser’s or other similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Purchaser or any of its Affiliates.

Section 4.10. Absence of Triggering Event. As of the date hereof and assuming, for this purpose, that the Reinsurance Agreement became effective immediately prior to the date hereof, to the Knowledge of Purchaser, no Triggering Event (as defined in the Reinsurance Agreement) shall have occurred thereunder.

ARTICLE V.

COVENANTS

Section 5.01. Conduct of Business. Between the date hereof and the Closing Date, and, with respect to Section 5.01(c)-(h), between the date hereof and the end of the Employee Lease Term, subject to the terms of the Employee Leasing Agreement, except (a) as required under any Applicable Law, (b) as otherwise contemplated by or necessary to effectuate the Transaction Agreements (including compliance with Sections 5.06(a) and 5.11), (c) for matters identified in Section 5.01 of the Seller Disclosure Schedule or (d) with the consent of Purchaser (which consent may not be unreasonably withheld, delayed or conditioned), Seller shall, and shall cause its Affiliates to, in each case solely with respect to, and to the extent relating to, the Business, use commercially reasonable efforts to (x) conduct the Business in the ordinary course of business,

(y) maintain current significant business relationships and goodwill with policyholders, customers, suppliers and service providers of and to the Business, and with the Governmental Authorities with jurisdiction over the Business, and (z) not do any of the following:

(a) other than in the ordinary course of business and other than with respect to Investment Assets, sell, voluntarily terminate, transfer, assign, lease, sublease, license or otherwise dispose of any Transferred Assets;

(b) sell, terminate, transfer or otherwise dispose of any of the cash or Investment Assets in the Specified Portfolio other than as contemplated by Section 5.11;

(c) increase the base salary (or wages), target cash incentive compensation opportunity, benefits (including severance benefits) paid or payable to any Employee, except for annual salary or wage adjustment increases in the ordinary course of business and consistent with increases applicable to similarly situated employees of the Seller and its Affiliates or as required by the terms of any Employee Benefit Plan in existence as of the date hereof;

(d) (A) establish or adopt, enter into, change, terminate, or amend in any material respect any Employee Benefit Plan or any retention or severance agreement with respect to any Employee, (B) take any action to accelerate any material rights or benefits under any Employee Benefit Plan with respect to any Employee (except to the extent required as of the date hereof by any such plan), or (C) grant any new equity or equity-based awards to any Employee;

(e) establish, adopt, enter into, change or amend any Business Employee Benefit Plan or take any action to accelerate any material rights or benefits under any Business Employee Benefit Plan;

(f) hire or engage any Employee or independent contractor providing personal services with respect to the Business, in each case, who will earn annual base salary in excess of \$150,000;

(g) terminate, other than for cause, the employment or engagement of any Employee or independent contractor providing personal services with respect to the Business;

(h) transfer or reallocate, or permit the transfer or reallocation of, the employment or services of any employee or independent contractor providing personal services to Seller or its Affiliates into or out of the Business;

(i) enter into, amend in any material respect, waive any rights under, or assign or transfer any Assigned Contract or Material Contract;

(j) make any material change in the accounting, actuarial, investment, reserving, underwriting or claims administration policies, practices, or principles of (and solely to the extent relating to) the Business, except as may be required by GAAP, SAP, Applicable Law or internal accounting policies existing as at December 31, 2016;

(k) make or change any material Tax election in respect of the Business, adopt or materially change any accounting method in respect of the Business, file any material amended

Tax Return in respect of the Business, or materially modify the method by which Seller and its Affiliates determine reserves with respect to the Ceded Insurance Contracts;

(l) voluntarily grant any Lien (other than Permitted Liens) on any Transferred Assets;

(m) abandon, modify, waive, terminate or allow to lapse any material Permit of Seller or the Ceding Company to the extent relating to the Business; or

(n) enter into a binding agreement to take any of the foregoing actions.

Section 5.02. Pre-Closing Access to Information.

(a) Between the date of this Agreement and the Closing Date, subject to Applicable Law and subject to the rules applicable to visitors at Seller's offices generally, Seller shall afford to Purchaser and its Representatives reasonable access, upon reasonable advance notice and during normal business hours, to such contracts, documents and information of or relating to the assets, liabilities, business, operations and other aspects of the Business as Purchaser may reasonably request; provided, however, that Seller shall not be obligated to provide such access or information if Seller determines, in its reasonable judgment, that doing so would violate Applicable Law or a contract, agreement or obligation of confidentiality owing to a third party, jeopardize the protection of an attorney-client privilege, or expose Seller or any of its Affiliates to risk of liability for disclosure of sensitive or personal information; provided, further, that Seller shall not be obligated to provide such access to its offices if Seller determines, in its reasonable judgment, that such contracts, documents and information can be provided electronically or in another reasonably accessible location. Purchaser agrees that it will hold, and will cause its Representatives to hold, any information so obtained in confidence to the extent required by, and in accordance with, the provisions of the Confidentiality Agreement and Section 5.04. Notwithstanding anything to the contrary set forth herein, none of Seller, its Affiliates or their respective Representatives shall be required to disclose or provide access to Excluded Books and Records to Purchaser or, prior to the Closing Date, any of its Representatives or any information that Seller reasonably determines to be competitively sensitive.

(b) Without limiting the foregoing, from the date hereof until the Closing, Seller shall deliver to Purchaser complete copies of the audited or unaudited statutory financial statements of the Ceding Company, together with any notes, exhibits or schedules thereto, that are filed with the Insurance Regulator for the applicable company's jurisdiction of domicile between the date hereof and the Closing, as promptly as practicable after the filing of such statements with such Insurance Regulator.

Section 5.03. Post-Closing Access to Information.

(a) For a period of five years following the Closing Date, Seller shall: (i) allow Purchaser, upon reasonable prior notice and during normal business hours, through its Representatives, the right, at Purchaser's expense, to examine and make copies of any Excluded Books and Records which were retained by Seller or its Affiliates pursuant to this Section 5.03; and (ii) allow Purchaser to interview Seller's and its Affiliates' Representatives for any reasonable business purpose relating to the Business, including in connection with Seller's pre-

Closing employment of the Transferred Employees or Purchaser's preparation or examination of regulatory and statutory filings and financial statements and the conduct of any litigation relating to the Business (other than any litigation or dispute between Seller or its Affiliates, on the one hand, and Purchaser or its Affiliates, on the other hand), or the conduct of any regulatory authority, policyholder, reinsurer or other dispute resolution or any other Third Party Claim (whether or not such Third Party Claim is the subject of an indemnification claim by a Purchaser Indemnified Person or Seller Indemnified Person), whether pending or threatened; provided, however, that Seller shall not be obligated to provide such access to its offices if Seller determines, in its reasonable judgment, that such Excluded Books and Records can be provided electronically or in another reasonably accessible location. Access to such Representatives and Excluded Books and Records shall be at Purchaser's expense and shall not unreasonably interfere with Seller's or its Affiliates' or any of their respective successor companies' business operations.

(b) For a period of five years following the Closing Date, Purchaser shall: (i) allow Seller, upon reasonable prior notice and during normal business hours, through its Representatives, the right, at Seller's expense, to examine and make copies, at Seller's expense, of any Books and Records which were transferred to Purchaser or its Affiliates at or after the Closing and of which neither Seller nor any of its Affiliates retained a copy; and (ii) allow Seller to interview Purchaser's Representatives, upon reasonable prior notice and during normal business hours, for any reasonable business purpose relating to the Business, including in connection with Seller's preparation or examination of regulatory and statutory filings and financial statements, and the conduct of any litigation relating to the Business (other than any litigation or dispute between Seller or its Affiliates, on the one hand, and Purchaser or its Affiliates, on the other hand), or the conduct of any regulatory, contract holder, reinsurer or other dispute resolution or any other Third Party Claim (whether or not such Third Party Claim is the subject of an indemnification claim by a Purchaser Indemnified Person or Seller Indemnified Person), whether pending or threatened; provided, however, that Purchaser shall not be obligated to provide such access to its offices if Purchaser determines, in its reasonable judgment, that such Books and Records can be provided electronically or in another reasonably accessible location. Access to such Representatives and Books and Records shall be at Seller's expense and shall not unreasonably interfere with the business operations of Purchaser or its Affiliates.

(c) Except as otherwise prohibited by Applicable Law and subject to clause (d) and (e) below, Purchaser shall, with respect to the Books and Records, and Seller and its Affiliates shall, with respect to the Excluded Books and Records and the Retained Books and Records, in each case, to which the other party is entitled to access pursuant to the foregoing provisions of this Section 5.03(a) and (b) and Section 5.05: (i) comply in all material respects with all Applicable Laws relating to the preservation and retention of records; (ii) apply preservation and retention policies that are no less stringent than those generally applied by such party; and (iii) without limitation to the foregoing, for at least five years after the Closing Date, preserve and retain all original Books and Records, Retained Books and Records, and Excluded Books and Records, as the case may be, and thereafter dispose of such originals only after it shall have given the other party 90 days' prior written notice of such disposition and the opportunity (at such other party's expense) to remove and retain such information.

(d) Notwithstanding any other provision of this Agreement, a party hereto shall not be obligated to provide such access to any Books and Records, Retained Books and Records, or Excluded Books and Records or information if such party determines, in its reasonable judgment, that doing so would violate Applicable Law (except that copies thereof shall be furnished to the requesting party or its Representatives to the extent permitted under Applicable Law) or a contract, agreement or obligation of confidentiality owing to a third party, or jeopardize the protection of an attorney-client privilege; provided, that the party contemplated to provide access shall use commercially reasonable efforts to obtain waivers or make other arrangements (including redacting information or entering into joint defense agreements) that would enable otherwise required disclosure to the other party or its Representatives to occur without so jeopardizing privilege or contravening such Applicable Law, contract or obligation of confidentiality.

(e) Notwithstanding any other provision of this Agreement to the contrary, Purchaser shall, and shall cause its Affiliates to, retain and preserve all Books and Records (in whatever form maintained) transferred to Purchaser that are subject to a Legal Hold in effect as of the Closing, until such time as Seller notifies Purchaser in writing that such Books and Records may be destroyed. Seller shall use commercially reasonable efforts to notify Purchaser within 30 days of the termination of any applicable Legal Hold. Purchaser shall provide Seller and its Affiliates with access to any Books and Records subject to this Section 5.03(e); provided that access to Books and Records subject to Legal Holds shall be limited in time only by the terms of the applicable Legal Hold; provided, however, that Purchaser shall not be obligated to provide access to its offices for such purposes if Purchaser determines, in its reasonable judgment, that such Books and Records can be provided electronically or in another reasonably accessible location.

Section 5.04. Confidentiality.

(a) The terms of the confidentiality agreement, dated June 12, 2017 (the “Confidentiality Agreement”), between Seller and The Hartford Financial Services Group Inc. shall continue in full force and effect until the Closing, at which time the confidentiality obligations under the Confidentiality Agreement shall terminate.

(b) Notwithstanding the foregoing, nothing in the Confidentiality Agreement shall restrict, prohibit or delay the ability of Seller or Purchaser to exercise its rights or perform its obligations under the Transaction Agreements. If, for any reason, the transactions contemplated by this Agreement are not consummated, the Confidentiality Agreement shall nonetheless continue in full force and effect in accordance with its terms.

(c) From and after the Closing: (i) Seller shall, and shall cause its Representatives to, maintain in confidence any written, oral or other information to the extent relating to the Business obtained by virtue of Seller’s ownership of the Business prior to the Closing, including the Retained Books and Records; and (ii) Purchaser shall, and shall cause its Representatives to, maintain in confidence any written, oral or other information of or relating to Seller or its Affiliates (other than information relating to the Business) obtained by virtue of its ownership of the Business from and after the Closing, except, in each case, to the extent that the applicable party is required to disclose such information by judicial or administrative process or pursuant to

Applicable Law (provided that, except in connection with any required disclosure pursuant to any Applicable Law relating to Taxes and any filings required by the applicable securities laws, such party has given the other party written notice of such potential disclosure and, to the extent reasonably requested by such other party, cooperated with such other party in seeking an appropriate order or other remedy protecting such information from disclosure) or such information can be shown to have been in the public domain through no fault of the applicable party.

(d) Effective as of the Closing, Seller shall (i) enforce, on behalf of and at the request of Purchaser, Seller's rights, powers and privileges under any in-force confidentiality agreements with third Persons other than Purchaser regarding the potential sale of the Business executed prior to the date hereof (each, a "Seller Confidentiality Agreement") in connection with any material breach thereof by such third persons, provided that Purchaser shall reimburse Seller for its costs and expenses (including reasonable legal fees and expenses) incurred in connection with such enforcement, and (ii) submit written requests to all third Persons who executed a Seller Confidentiality Agreement that such other Persons promptly deliver to Purchaser or otherwise destroy all proprietary or confidential material furnished to such Person by or on behalf of Seller or its Affiliates in accordance with the terms of such Seller Confidentiality Agreement.

Section 5.05. Maintenance and Transfer of Books and Records.

(a) Through the Closing Date, Seller shall, and shall cause its Affiliates to, maintain the Books and Records in all material respects in the same manner and with the same care that the Books and Records have been maintained for the 12-month period prior to the execution of this Agreement. Books and Records of the type identified in Section 5.05(a) of the Seller Disclosure Schedule, including, for the avoidance of doubt, Books and Records that (i) are necessary for Seller to provide services under the Transition Services Agreement (to the extent that such Books and Records cannot reasonably be duplicated and a copy retained by Seller or its applicable Affiliate(s)); or (ii) are not permitted to be disclosed or transferred under applicable Law (such Books and Records, the "Retained Books and Records"), shall not be transferred at the Closing but will instead be made available by Seller to Purchaser, at Seller's expense, from and after the Closing in accordance with the guidelines set forth in Section 5.05(a) of the Seller Disclosure Schedule. Notwithstanding anything to the contrary in this Agreement, Seller and its Affiliates shall not be required to transfer the Retained Books and Records at the Closing or on the Closing Date, and Seller and its Affiliates shall be entitled to retain copies of any Books and Records transferred to Purchaser at the Closing or on the Closing Date. Seller shall, and shall cause its Affiliates to, provide Purchaser and its Representatives reasonable access to such Retained Books and Records, and once any Retained Books and Records are no longer necessary for the provision of services under the Transition Services Agreement or are permitted to be transferred, as applicable, Seller shall cause such Retained Books and Records to be delivered to Purchaser (or a Person designated by Purchaser) or, at Purchaser's option, to be destroyed.

(b) At the Closing, Seller shall cause all Books and Records (except the Retained Books and Records) in the possession or control of Seller or any of its Affiliates to be delivered to Purchaser (or a Person designated by Purchaser) in accordance with the requirements and guidelines set forth in Section 5.05(b) of the Seller Disclosure Schedule.

Section 5.06. Consents, Approvals and Filings.

(a) Subject to the terms and conditions hereof, Seller and Purchaser shall each use their reasonable best efforts, and shall cooperate fully with each other, (i) to comply as promptly as practicable with all requirements of Governmental Authorities applicable to the transactions contemplated by the Transaction Agreements and (ii) to obtain as promptly as practicable all Governmental Approvals necessary in connection with the consummation of the transactions contemplated by the Transaction Agreements; provided that, Purchaser shall be responsible for the costs (including any license or other fees and expenses) associated with Seller, Purchaser or any of their respective Affiliates obtaining any such Governmental Approvals. In connection therewith, Seller and Purchaser shall make and cause their respective Affiliates to make all legally required filings as promptly as practicable in order to facilitate prompt consummation of the transactions contemplated by the Transaction Agreements, shall provide and shall cause their respective Affiliates to provide such information and communications to Governmental Authorities as such Governmental Authorities may request, shall take and shall cause their respective Affiliates to take all steps that are necessary, proper, or advisable to avoid any Action by any Governmental Authority with respect to the transactions contemplated by the Transaction Agreements, shall defend or contest in good faith any Action by any third party (including any Governmental Authority), whether judicial or administrative, challenging any of the Transaction Agreements or the transactions contemplated thereby, or that could otherwise prevent, impede, interfere with, hinder, or delay in any material respect the consummation of the transactions contemplated thereby, including by using their reasonable best efforts to have vacated or reversed any stay or temporary restraining order entered with respect to the transactions contemplated by any of the Transaction Agreements by any Governmental Authority, and shall consent to and comply with any condition imposed by any Governmental Authority on its grant of any such permit, order, consent, approval, or authorization, other than any Burdensome Condition. Each of the parties shall provide to the other party copies of all applications or other communications to Governmental Authorities in connection with this Agreement in advance of the filing or submission thereof.

(b) Without limiting the generality of the foregoing, as promptly as practicable after the date hereof, each of Purchaser and Seller shall file with all applicable Insurance Regulators all required requests for approval of the transactions contemplated by the Transaction Agreements, which requests shall include all required exhibits. A reasonable time prior to furnishing any written materials to any Insurance Regulator in connection with the transactions contemplated by the Transaction Agreements, the furnishing party shall provide the other party with a copy thereof, and the other party shall have a reasonable opportunity to provide comments thereon, which comments shall be considered by the furnishing party in good faith. Each party shall give to the other party prompt written notice if it receives any notice or other communication from any Insurance Regulator or other Governmental Authority in connection with the transactions contemplated by the Transaction Agreements and, in the case of any such notice or communication that is in writing, shall promptly furnish the other party with a copy thereof. If any Governmental Authority requires that a hearing be held in connection with any such approval, each party shall use its reasonable best efforts to arrange for such hearing to be held promptly after the notice that such hearing is required has been received by such party. Each party shall give to the other party reasonable prior written notice of the time and place when any meetings, telephone calls, or other conferences may be held by it with any

Governmental Authority in connection with the transactions contemplated by the Transaction Agreements, and the other party shall have the right to have a representative or representatives attend or otherwise participate in any such meeting, telephone call, or other conference unless prohibited by Applicable Law.

(c) Notwithstanding anything herein to the contrary, neither Purchaser nor Seller shall be obligated to take or refrain from taking or to agree to it, its Affiliates or any of their respective Representatives taking or refraining from taking any action or to permit or suffer to exist any restriction, condition, limitation or requirement which, individually or together with all other such actions, restrictions, conditions, limitations or requirements, would constitute a Burdensome Condition. As used in this Agreement, “Burdensome Condition” means any arrangement, condition or restriction (i) in the case of Purchaser, (A) to sell or hold separate or agree to sell, divest or discontinue, before or after the Closing Date, any properties, assets, businesses or licenses of Purchaser or its Affiliates that are material to Purchaser and its Affiliates, taken as a whole, or to the Business, as applicable, or (B) that otherwise is reasonably likely to have a Material Adverse Effect or a material adverse effect on the business, financial condition, operations or results of operations of Purchaser and its Affiliates, taken as a whole; and (ii) in the case of Seller, would require Seller or any of its Affiliates to provide any guarantee or incur any liability with respect to the Business or the Transferred Assets after the Closing Date, or restrict the ability of Seller or any of its Affiliates to conduct their respective businesses after the Closing Date.

Section 5.07. Further Assurances.

(a) Subject to the terms and conditions herein provided, including Section 5.06, each of the parties hereto shall, and shall cause its Affiliates to, execute such documents and other papers and perform such further acts as may be reasonably required to carry out the provisions hereof and the transactions contemplated hereby and by the other Transaction Agreements. Each such party shall, at or prior to the Closing Date, use its reasonable best efforts to fulfill or obtain the fulfillment of the conditions precedent to the consummation of the transactions contemplated hereby and by the other Transaction Agreements, including the execution and delivery of any documents, certificates, instruments or other papers and the taking of any other actions that are reasonably necessary for the consummation of the transactions contemplated hereby and by the other Transaction Agreements.

(b) Subject to the terms and conditions of this Agreement, on and after the Closing Date, Seller and Purchaser shall, and shall cause their respective Affiliates to, take all reasonable actions and execute any additional documents, instruments or conveyances of any kind which may be reasonably necessary to put Purchaser and its Affiliates in full possession and operating control of the Business and to effect fully the separation of the Business from Seller and its Affiliates.

Section 5.08. Privacy and Data Security Compliance: Use of Information. Notwithstanding any other provision of this Agreement or any Transaction Agreement to the contrary, none of Seller, Purchaser or any of their respective Affiliates shall be required to take any action that would violate or conflict with, and each such Person shall comply with, all Privacy and Data Security Laws. Notwithstanding any other provision of this Agreement, Seller

and Purchaser shall use their respective reasonable best efforts to ensure that all Personal Data about individual insureds and employees on leaves of absence under Group Contracts or other individuals is used, shared, accessed, stored, transmitted, disclosed, or otherwise processed in a manner (including the scope of information) that complies with, and facilitates each party's compliance with, Privacy and Data Security Laws. For the avoidance of doubt, any Personal Data relating to individual insureds and employees on leaves of absence under Group Contracts accessed by or disclosed to Purchaser or any of its Affiliates pursuant to this Agreement shall be subject to Purchaser's confidentiality obligations under Section 5.04 and under the Administrative Services Agreement.

Section 5.09. Non-Solicitation of Employees.

(a) For a period of 24 months following the Closing Date, without the prior written consent of Purchaser, neither Seller nor any of its Affiliates shall, whether directly or indirectly, solicit for employment or employ any Transferred Employee or any employee of the Purchaser whose name is set forth on Section 5.09(a) of the Purchaser Disclosure Schedule; provided, that nothing in this Section 5.09(a) shall prohibit Seller or any of its Affiliates from engaging in general solicitations not directed at such Persons (including general media advertisements and the use of a search firm not directed to target Transferred Employees) or from soliciting or employing any such Person whose employment with or engagement by Purchaser or any of its Affiliates has been terminated by Purchaser or its applicable Affiliate at least three months prior to the first such solicitation or employment.

(b) For a period of 24 months following the Closing Date, without the prior written consent of Seller, neither Purchaser nor any of its Affiliates shall, whether directly or indirectly, solicit for employment or employ any employee of the Seller whose name is set forth on Section 5.09(b) of the Seller Disclosure Schedule; provided, that nothing in this Section 5.09(b) shall prohibit Purchaser or any of its Affiliates from engaging in general solicitations not directed at such Persons (including general media advertisements and the use of a search firm not directed to target such Persons) or from soliciting or employing any such Person whose employment with or engagement by Seller or any of its Affiliates has been terminated by Seller or its applicable Affiliate at least three months prior to the first such solicitation or employment.

(c) For a period of 24 months following the Closing Date (including during the Employee Lease Term), without the prior written consent of Purchaser, neither Seller nor any of its Affiliates shall, whether directly or indirectly, interfere with Purchaser's obligations under Section 6.01(a) or attempt to retain for employment or rehire any Employee set forth on Section 6.01(a)(i) of the Seller Disclosure Schedule who does not become a Transferred Employee; provided, that nothing in this Section 5.09(c) shall prohibit Seller or any of its Affiliates from engaging in general solicitations not directed at such Persons (including general media advertisements and the use of a search firm not directed to target such Persons).

Section 5.10. Use of Names.

(a) At the Closing, Seller shall enter into a royalty-free license agreement with Purchaser substantially in the form attached hereto as Exhibit I (the "Trademark License Agreement"), among other things, permitting Purchaser to use the "Aetna" name and related

Trademarks on a transitional basis in connection with the operation of the Business in the United States in accordance with the terms thereof.

(b) Except as otherwise contemplated by the Administrative Services Agreement, the Distribution Agreement, the Transition Services Agreement and the Trademark License Agreement in accordance with the terms thereof: (i) following the Closing Date (including in connection with the operation of the Business and the Transferred Assets), Purchaser shall not, and shall cause its Affiliates not to, use any of the names or Trademarks set forth in Section 5.10 of the Seller Disclosure Schedule, any other Trademarks of Seller's Affiliates that include the name "Aetna," or any name, Trademark, or acronym that is confusingly similar to, or is based on or incorporates, any of such names or Trademarks (collectively, the "Seller Trademarks") whether or not in combination with other words, symbols, or other distinctive or non-distinctive elements, and all trade, corporate or business names, trademarks, tag-lines, identifying logos, trade dress, monograms, slogans, service marks, domain names, brand names, and other name or source identifiers that are derivations, translations, adaptations, combinations or variations of the Seller Trademarks or Trademarks of Seller's Affiliates, or embodying any of the foregoing, whether or not in combination with other words, symbols, or other distinctive or non-distinctive elements; and (ii) Purchaser, for itself and its Affiliates, agrees that any and all rights arising out of the Transferred Assets to the Seller Trademarks or Trademarks of Seller's Affiliates, whether written or oral, with Seller or its Affiliates, shall terminate on the Closing Date without recourse by Purchaser or any of its Affiliates. Neither Purchaser nor any of its Affiliates shall seek to register in any jurisdiction any trade, corporate, or business name, trademark, tag-line, identifying logo, trade dress, monogram, slogan, service mark, domain name, brand name, or other name or source identifier that is a derivation, translation, adaptation, combination, or variation of the Seller Trademarks or Trademarks of Seller's Affiliates.

Section 5.11. Pre-Closing Management of Specified Portfolio.

(a) Monthly Asset Value Statements and Related Adjustments.

- (i) After the end of each calendar month that occurs between the date hereof and the Closing Date, Seller shall estimate in good faith the Adjusted Required Asset Value and the Accounting Value of the Specified Portfolio as of the end of such month and deliver to Purchaser a statement (each, a "Monthly Asset Value Statement") specifying such Adjusted Required Asset Value and Accounting Value as of the end of such month, provided that no such Monthly Asset Value Statement shall be so prepared or delivered with respect to the month preceding the month in which the Closing occurs.
- (ii) If the Accounting Value of the Specified Portfolio set forth in a Monthly Asset Value Statement is less than the Adjusted Required Asset Value set forth in such Monthly Asset Value Statement, Seller shall (or shall cause the Ceding Company or AHLIC to), promptly following the delivery of such Monthly Asset Value Statement to Purchaser pursuant to Section 5.11(a)(i), acquire or, subject to Section 5.11(c) below, designate for

inclusion in the Specified Portfolio additional cash or Investment Assets with an aggregate Fair Market Value equal to the amount of such shortfall.

- (iii) If the Accounting Value of the Specified Portfolio set forth in a Monthly Asset Value Statement is greater than the Adjusted Required Asset Value set forth in such Monthly Asset Value Statement, Seller may, at its option and in its sole discretion, select for removal from the Specified Portfolio cash or Investment Assets that have an aggregate Accounting Value equal to such excess as follows (clauses (A) and (B) below, the “Selection Waterfall”):
 - (A) cash and cash equivalents in the Specified Portfolio will be selected first; and
 - (B) otherwise, Investment Assets will be selected in an order of shortest stated maturity to longest stated maturity, determined in each case in good faith by Seller.
- (iv) Notwithstanding anything to the contrary in this Agreement, Seller may (and may cause the Ceding Company or AHLIC to) sell any Investment Asset in the Specified Portfolio if Seller determines in good faith that such Investment Asset has become, or is reasonably likely to become, impaired. In the event of any such sale of an impaired asset, Seller shall (or shall cause the Ceding Company or AHLIC to), as promptly as practicable following such sale (with a target of within one Business Day), acquire or designate for inclusion in the Specified Portfolio cash or replacement Investment Assets with an aggregate Fair Market Value equal to the Accounting Value of the Investment Asset sold in such sale, determined prior to any adjustment as a result of the impairment. For the avoidance of doubt, the Capital Gain or Loss Adjustment (as defined in clause (b) below) does not apply to sales of Investment Asset pursuant to this Section 5.11(a)(iv) , but the Reallocated Asset Value Adjustment (as defined in Section 5.11(c) below) does apply to any Reallocated Investment Asset that replaces such an Investment Asset.
- (v) Any changes to the Specified Portfolio contemplated by this Section 5.11(a) will be effected in accordance with Pre-Closing Investment Guidelines.

(b) Discretionary Turnover Allowance.

- (i) Between the date hereof and the Closing Date, Seller may, at its option and in its sole discretion, sell:
 - (A) any bond in the Specified Portfolio that has an option adjusted duration of 3.00 years or less as of the close of business on the Business Day immediately prior to the date on which it is sold, determined in accordance with the OAD model provided by

Bloomberg L.P.'s Portfolio & Risk Analytics solution (PORT); and

- (B) an additional (x) 5% of the aggregate Specified Portfolio (where such percentage is determined by reference to the Accounting Value of the Specified Portfolio as of the Reference Date and sales are measured by Accounting Value of the sold Investment Assets as of the applicable sale dates) during the period between the Reference Date through December 31, 2017; and (y) if the Closing has not occurred on or prior to December 31, 2017, 1% of the Specified Portfolio (where such percentage is determined by reference to the Accounting Value of the Specified Portfolio as of the beginning of each applicable month and sales are measured by Accounting Value of the sold Investment Assets as of the applicable sale dates) during each calendar month, or portion thereof, that between December 31, 2017 and the Closing (this Section 5.11(b)(i) collectively, the “Discretionary Turnover Allowance”);

provided, however, that the sales described in (A) and (B) above may not, in the aggregate, exceed 10% of the Specified Portfolio through November 30, 2017, plus 2% of the Specified Portfolio for every calendar month after November 2017.

- (ii) On the date that any Investment Asset in the Specified Portfolio is sold pursuant to this Section 5.11(b), the Adjusted Required Asset Value as of such date will, in addition to any adjustment to the Required Asset Value required under the Transaction Accounting Principles to account for any change in the interest maintenance reserve of the Ceding Company or AHLIC, as applicable, resulting from such sale, be adjusted as set forth below (each of the adjustments described in (A) and (B) below, a “Capital Gain or Loss Adjustment”):
 - (A) if the sale of the Investment Asset generates a (statutory basis) capital gain (calculated as the excess, if any, of the FMV Ex-Accrued of such Investment Asset as of the applicable date of sale over the Book Value of such Investment Asset as of such date), the Adjusted Required Asset Value as of such date will be increased by the amount of such capital gain, less the amount of any interest maintenance reserve of the Ceding Company or AHLIC, as applicable, generated by the sale of such asset in accordance with the Transaction Accounting Principles; and
 - (B) if the sale of the Investment Asset generates a (statutory basis) capital loss (calculated as the excess, if any, of the Book Value of such Investment Asset as of the applicable date of sale over the FMV Ex-Accrued of such Investment Asset as of such date), the

Adjusted Required Asset Value as of such date will be decreased by an amount equal to (A) the absolute value of such capital loss minus (B) the absolute value of any decrease in interest maintenance reserve of the Ceding Company or AHLIC, as applicable, resulting from the sale of such asset in accordance with the Transaction Accounting Principles.

- (iii) In the event that Seller elects to sell any Investment Asset pursuant to this Section 5.11(b), Seller shall, as promptly as reasonably practicable (with a target of within one Business Day) reinvest the gross proceeds it receives from such sale (less the amount of such gross proceeds that is attributable to accrued but unpaid interest on such Investment Asset) in the Specified Portfolio by either acquiring one or more new Investment Assets or, subject to Section 5.11(c) below, selecting for inclusion in the Specified Portfolio one or more Reallocated Investment Assets, in each case that have an aggregate FMV Ex-Accrued equal to the amount of such gross proceeds (less the amount of such gross proceeds that is attributable to accrued but unpaid interest on such Investment Asset).
- (iv) Any changes to the Specified Portfolio contemplated by this Section 5.11(b) will be effected in accordance with the Pre-Closing Investment Guidelines.

(c) Reallocated Investment Assets. If, between the date of this Agreement and the Closing Date, any Reallocated Investment Asset is designated for inclusion in the Specified Portfolio pursuant to Section 5.11(a) or Section 5.11(b), then the following adjustment shall be made to the Adjusted Required Asset Value as of the date of such designation (each of the adjustments described in (i) and (ii) below, a “Reallocated Asset Value Adjustment”):

- (i) if the FMV Ex-Accrued of the Reallocated Investment Asset as of such date exceeds the Book Value of such Reallocated Investment Assets as of such date, the Adjusted Required Asset Value shall be decreased by the amount of such excess; and
- (ii) if the FMV Ex-Accrued of the Reallocated Investment Asset as of such date is less than the Book Value of such Reallocated Investment Asset as of such date, the Adjusted Required Asset Value shall be increased by the amount of such shortfall.

Section 5.12. Properties.

(a) Schedule VI hereto sets forth all real property at which Employees of the Business use space for the current operation and conduct of the Business (collectively, the “Properties”). The Properties are separated on Schedule VI into the following two (2) categories: (1) the Properties that Seller intends, and agrees to cooperate as required in Section 5.12(b) to enable, Purchaser and such Employees to have the right to occupy or use (in the case of the Subleases, on a co-location basis with Seller, its Affiliates and their respective employees)

from and after the day immediately following the expiration or termination of the Employee Lease Term pursuant to the Portland Location Assignment Agreement, the Subleases and the Hartford License Agreement (collectively, the “Occupied Properties”); and (2) the Properties that Purchaser and such Employees will not have the right to occupy or use from and after the day immediately following the expiration of the Employee Lease Term (collectively, the “Non-Occupied Properties”). Purchaser acknowledges and agrees that all Employees at the Non-Occupied Properties shall vacate the Non-Occupied Properties from and after the day immediately following the expiration of the Employee Lease Term and Purchaser shall cause such Employees’ job location to either be a home-office or an alternative real estate solution other than the Non-Occupied Properties. The Employees’ job location between the Closing Date and the expiration of the Employee Lease Term shall remain at the Properties pursuant to the Employee Leasing Agreement.

(b) Seller and Purchaser shall, and shall cause their respective Affiliates to, use commercially reasonable efforts to obtain, on or prior to December 31, 2017, the required consent of (i) the landlord of the Portland Location to the assignment of the Assigned Lease pursuant to the Portland Location Assignment Agreement and (ii) the respective landlords of the other Occupied Properties to the subleasing of such locations to Purchaser pursuant to the Subleases, in each case, on the terms and subject to the conditions set forth herein and therein (collectively, the “Lease Consents”). Seller and Purchaser shall cooperate with each other as may be reasonably required to obtain the Lease Consents.

(c) If any such Lease Consent is not obtained on or prior to December 31, 2017, then, (i) the Portland Location Assignment Agreement and/or any applicable Sublease to which such Lease Consent was not obtained shall not become effective as of the expiration or termination of the Employee Lease Term and (ii) Purchaser shall, and shall cause its Affiliates to, obtain alternative office space, at its sole cost and expense, and vacate the applicable Occupied Properties for which a Lease Consent has not been obtained prior to the expiration of the Employee Lease Term for such applicable Occupied Properties as provided for in this Section 5.12(c).

Section 5.13. Non-Competition. During the period beginning on the Closing Date and ending on the date that is three years and six months after the Closing Date (the “Restricted Period”), Seller shall not, and shall cause its Affiliates (together with Seller, the “Restricted Entities”) not to, directly or indirectly, issue or sell in any state or jurisdiction within the United States, any products or services of a type that comprises part of the Business as of the date hereof and that was underwritten, issued, sold, renewed or serviced as part of the Business during the two years prior to the date hereof (the “Competing Businesses”); provided, however, that this Section 5.13 shall not prohibit or in any way prevent or restrict:

(a) any Restricted Entity from operating any business other than the Business (including the business described in the proviso included in the definition of “Business”) or from operating the Business from and after the time at which the Business or any portion thereof is recaptured under any coinsurance agreement;

(b) any Restricted Entity from providing (i) provider network access or network management services; (ii) medical management, case management, or cost containment services;

or (iii) administrative services for short-term disability plans that are provided in conjunction with a self-funded plan sponsor's medical benefits coverage or plan that is administered or serviced by a Restricted Entity.

(c) any Restricted Entity from performing any act or conducting any business expressly required by this Agreement or any other Transaction Agreement;

(d) any Restricted Entity from entering into a reinsurance agreement or similar arrangement primarily reinsuring the Competing Business of a ceding company that is not a Restricted Entity, so long as none of the Restricted Entities engages in the issuing, underwriting, selling, distributing, marketing, delivering, cancelling or administering of such underlying reinsured business;

(e) any Restricted Entity from (A) making any investment or providing advisory services (or activities related thereto) in a fiduciary or agency capacity and carried out on behalf of clients or other third party beneficiaries in the ordinary course of business, or (B) making passive investments for general insurance accounts or investment management, proprietary investing or trading activities in the ordinary course of its businesses; provided that in no event shall the aggregate ownership interest held by Restricted Entities in any Person engaged in a Competing Business, whether directly or indirectly, equal or exceed 20% of the aggregate voting power or issued and outstanding equity securities of such Person, subject to Sections 5.13(f) and (g) below;

(f) the ownership of, any affiliation with, or the conduct of any other activity with respect to, a Person that conducts, either directly or indirectly, a Competing Business (any such person, together with all of its Affiliates, a "Competing Person") that is the result of (A) the merger, consolidation, share exchange, sale or purchase of assets, scheme of arrangement or similar business combination involving any Restricted Entity with any Competing Person or (B) the acquisition of 20% or more of the voting power or outstanding equity interests in any Competing Person by any Restricted Entity, if, in the case of either (A) or (B), at least 66 2/3% of the total consolidated revenues of such Competing Person in the calendar year prior to such ownership or affiliation was derived from activities that do not constitute Competing Business; provided, however, that such Restricted Entity may proceed with such acquisition of a Competing Person that derived in excess of 33 1/3% of its total consolidated revenues in its most recent fiscal year from activities that constitute Competing Business only if such Restricted Entity divests, within 24 months of its acquisition, a sufficient portion of such Competing Person such that the total consolidated revenues from activities that constitute Competing Business that remain with any such Competing Person after such divestment over the last four full fiscal quarters prior to such acquisition are not greater than 33 1/3% of its consolidated revenues for such period; or

(g) subject to the foregoing clause (f), any Restricted Entity from foreclosing on collateral of or acquiring any of the outstanding capital stock or other interests in any person that has outstanding indebtedness to any Restricted Entity, or engaging in any activities otherwise prohibited by this Section 5.13 in connection with any such Person as a result of the acquisition of such capital stock or other interests in connection with a debt previously contracted.

ARTICLE VI.

EMPLOYEE MATTERS

Section 6.01. Employee Matters.

(a) Except as set forth in Section 6.01(b), Purchaser or its Affiliate shall, not more than 30 Business Days following the Closing Date, extend offers of employment (“Transfer Offers”) to all then-current Employees. Section 6.01(a)(i) of the Seller Disclosure Schedule sets forth, as of the date hereof, a list of then-current Employees, together with such Employees’ (i) current base salary (or wages), (ii) current target incentive compensation opportunities by component, including (1) target annual cash bonus opportunity, (2) commission opportunity, and (3) target long-term incentive opportunity, (iii) recognized years of service, (iv) current work address, (v) remote work arrangement, if any, (vi) exempt or non-exempt status, (vii) hourly or salaried status, (viii) annual paid time off accrual rate, (ix) paid time off carryover amount, (x) current job title and career level, (xi) date of hire, (xii) valid work email address, and (xiii) status as active or on leave. Seller shall promptly update Section 6.01(a)(i) of the Seller Disclosure Schedule between the date hereof and the expiration of the Employee Lease Term to reflect any new hires, transfers, resignations and other employment additions and terminations of Employees which may have occurred subsequent to the date hereof in the ordinary course of business of the Business and shall deliver to Purchaser (A) a Closing version of Section 6.01(a)(i) of the Seller Disclosure Schedule no later than two days prior to the Closing Date, and (B) a final version of Section 6.01(a)(i) of the Seller Disclosure Schedule no later than 10 Business Days prior to the expiration of the Employee Lease Term. Notwithstanding anything to the contrary herein, to the extent an individual is hired or otherwise retained at the direction of Purchaser and added to Section 6.01(a)(i) of the Seller Disclosure Schedule after the date hereof, Purchaser or its Affiliate shall extend a Transfer Offer to such Employee as soon as reasonably practicable following such addition, but not more than the later to occur of (x) 30 Business Days following the Closing Date, and (y) ten Business Days following such addition. Section 6.01(a)(ii) of the Seller Disclosure Schedule sets forth, as of the date hereof, a list of then current Business Employees on a no-name basis by each Business Employee’s current job title.

(b) With respect to any Employee identified on Section 6.01(a) of the Seller Disclosure Schedule hereto who is not actively at work upon the expiration of the Employee Lease Term as a result of a leave of absence (including temporary leave for purposes of jury or military duty, maternity or paternity leave, leave under the Family Medical Leave Act of 1993, approved personal leave or disability or medical leave) (each, a “Leave Recipient”), Purchaser shall make an offer of employment in the manner required by this Section 6.01, contingent on such Leave Recipient’s return to active status within six months following the expiration of the Employee Lease Term or such longer period as required by Applicable Law; provided that, notwithstanding anything in this Agreement to the contrary, Purchaser shall not be required to make an offer of employment to any such Employee (and shall have no obligation of any nature to hire or employ any such Employee) who is receiving long-term disability benefits. When a Leave Recipient who has accepted the offer returns to active status pursuant to the terms hereof and commences active employment with Purchaser or its Affiliates, such Leave Recipient shall be considered a Transferred Employee. Purchaser shall take, or cause its Affiliates to take, all reasonably necessary steps to sponsor or transfer sponsorship of, the work permits for all

Employees who are foreign nationals listed in Section 3.10(j) of the Seller Disclosure Schedule on or after the expiration of the Employee Lease Term. Seller shall cooperate as reasonably necessary to effect Purchaser's or its Affiliates' sponsorship or transfer of sponsorship of all such foreign national Employees, in each case, to the extent permitted by Applicable Law. Each such foreign national Employee who accepted an offer of employment from Purchaser or an Affiliate pursuant to the terms hereof shall be considered a Transferred Employee on the later of the Transfer Date or the date such Employee obtains the necessary authorization to work for Purchaser and its Affiliates and commences active employment with Purchaser and its Affiliates.

(c) Purchaser or its Affiliate shall set forth in the Transfer Offers the proposed terms of employment (or service) for the Employees and, as of the expiration of the Employee Lease Term and for a period of 12 months immediately following the expiration of the Employee Lease Term (or such earlier date on which such Employee's employment with Purchaser or its Affiliate terminates), Purchaser or its Affiliate shall provide each Transferred Employee with the following terms of employment (or service): (i) base salary (or wages) no less than the base salary (or wages) provided to such Employee by Seller or its Affiliates immediately prior to the Closing Date, or, if later, as of the Employee's date of hire; (ii) annual incentive opportunities no less than those provided by Seller or its Affiliates immediately prior to the Closing Date, or, if later, as of the Employee's date of hire, (iii) a long-term incentive compensation opportunity (whether paid in cash or equity) at a similar range and participation rate to that provided to such Employee by Seller or its Affiliates immediately prior to the Closing Date or, if later, as of the Employee's date of hire; (iv) commission opportunities that are no less than those provided to such Employee by Seller or its Affiliates immediately prior to the Closing Date or, if later, as of the Employee's date of hire, including, with respect to each individual set forth on Section 6.01(c) of the Seller Disclosure Schedule (each, a "Listed Sales Employee"), guaranteed commission opportunities consistent with the terms of the retention letter with each such Listed Sales Employee set forth on Section 3.10(a) of the Seller Disclosure Schedule, but in each case to be paid consistent with Purchaser's or its Affiliate's standard payroll cycle; (iii) employee retirement and welfare (including paid time off) benefits, in each case, substantially similar to those provided to similarly-situated employees of Purchaser or its Affiliate; and (iv) with respect to Employees whose job location is a home-office as of the Closing Date, the ability to continue to work from such home-office, and with respect to all other Employees, a job location that does not increase such Employee's commute by more than 30 miles when compared to the commute from such Employee's residence to the job location to which such Employee reports immediately prior to the expiration of the Closing Date, or if later, as of the Employee's date of hire, or provide the Employee the ability to work from a home-office. Without limiting the foregoing, Purchaser hereby acknowledges and agrees that if the Employee Lease Term extends past Lessee's regularly scheduled long-term incentive grant date in the first quarter of calendar year 2018, Purchaser shall, during the first "open window" trading period following the expiration of the Employee Lease Term, grant an award to each Transferred Employee who is eligible to earn a long-term incentive award for calendar year 2018. Employment or service, as applicable, pursuant to a Transfer Offer shall be contingent upon such Employee (i) being employed by (or providing on-going services with) Seller or any of its Subsidiaries immediately prior to the expiration of the Employee Lease Term, (ii) satisfying required professional licensure requirements (to the extent applicable), (iii) successfully completing a background check, I-9 form/eVerify process, and all applicable Purchaser new hire documentation and (iv) with respect to Employees who are foreign nationals, obtaining the necessary authorization to work for

Purchaser or its Affiliates within six (6) months of the expiration of the Employee Lease Term. All employment offers shall be for employment at-will and nothing in this Article VI shall require Purchaser or any of its Affiliates to continue to employ any Transferred Employee for any specified period of time following the expiration of the Employee Lease Term. Except as set forth in Section 6.01(b), each Employee who accepts Purchaser's Transfer Offer shall be a "Transferred Employee" at 12:00:01 a.m. on the first day following the expiration of the Employee Lease Term. Effective as of the date they become Transferred Employees (the "Transfer Date"), such Transferred Employees shall cease to be employees of Seller and its Affiliates and shall cease any further participation in (and shall cease to accrue benefits under) Employee Benefit Plans, subject to the terms and conditions of the Employee Benefit Plans and Applicable Law.

(d) As of the expiration of the Employee Lease Term, in no event shall any Employee be entitled to accrue any benefits under the Employee Benefit Plans with respect to services rendered or compensation paid on or after the expiration of the Employee Lease Term, subject to the terms and conditions of the Employee Benefit Plans and Applicable Law.

(e) Notwithstanding anything in this Agreement to the contrary, any Transferred Employee who incurs a termination of employment during the 12-month period immediately following the expiration of the Employee Lease Term shall be entitled to receive severance payments and benefits that are no less favorable than the severance payments and benefits provided to similarly-situated employees of Purchaser or its Affiliates under the Purchaser severance plan as in effect immediately prior to the date hereof and set forth on Section 6.01(e) of the Seller Disclosure Schedule; provided, however, that in lieu of the thirty (30) day paid notice period applicable to similarly-situated employees of Purchaser, Transferred Employees will be entitled to a nine (9) week paid non-working period with benefits continuation during such period.

(f) Notwithstanding anything in this Agreement to the contrary, Purchaser or its Affiliate shall be solely responsible for all Liabilities arising from, related to or based upon the termination of any Employee who is terminated by Seller or its respective Affiliates on or after the expiration of the Employee Lease Term in the event such employee is not offered employment or service with Purchaser in accordance with the provisions of this Section 6.01. Purchaser or its Affiliate shall be solely responsible for providing all notices required under the Worker Adjustment and Retraining Notification Act, 29 U.S.C. § 2109 *et seq.*, or the regulations promulgated thereunder (the "WARN Act") (including comparable state, local or other Applicable Laws) and for taking all remedial measures, including, without limitation, the payment of all amounts, penalties, liabilities, costs and expenses if such notices are not provided, with respect to any obligations under the WARN Act (including comparable state, local or other Applicable Laws) arising out of or resulting from any termination of employment of any Transferred Employees by Purchaser and its Affiliates on or after the expiration of the Employee Lease Term.

(g) Purchaser shall cause its Affiliate to: (i) permit each Transferred Employee participating in each Employee Benefit Plan that is a defined contribution plan with a qualified cash or deferred arrangement within the meaning of Section 401(k) of the Code (the "Seller 401(k) Plan") to effect, and (ii) cause its defined contribution plan that includes a qualified cash

or deferred arrangement within the meaning of Section 401(k) of the Code (the “Purchaser 401(k) Plan”) to accept, in accordance with Applicable Law, a “direct rollover” (within the meaning of Section 401(a)(31) of the Code) of his or her account balances (including earnings thereon through the date of transfer) under the Seller 401(k) Plan if such rollover to the Purchaser 401(k) Plan is elected in accordance with Applicable Law by such Transferred Employee.

(h) Subject to any reimbursement or other obligations of Purchaser or its Affiliates agreed upon pursuant to the Employee Leasing Agreement, Seller shall retain responsibility for all liabilities under and with respect to, and claims incurred under, the Employee Benefit Plans (including those relating to Transferred Employees and their covered dependents). Purchaser or its Affiliate shall be responsible for all liabilities under and with respect to, and claims incurred under, any employee benefit plans, programs, policies and arrangements maintained by Purchaser or its Affiliates (including those relating to Transferred Employees and their covered dependents).

(i) Unless Seller or one of its Affiliates is required under Applicable Law to make a payment in settlement of accrued paid time off of a Transferred Employee, (i) Purchaser or its Affiliate shall assume, recognize and provide each Transferred Employee up to forty (40) hours of the Transferred Employee’s earned but unused paid time-off as of the expiration of the Employee Lease Term as determined under Seller’s policy in effect as of the expiration of the Employee Lease Term and (ii) Seller or one of its Affiliates shall make a payment in settlement of accrued paid time off of any such Transferred Employee in excess of forty (40) hours in accordance with Seller’s paid time off policy and Applicable Law.

(j) Purchaser or its Affiliate shall assume and pay, the accrued but unpaid annual cash bonuses with respect to performance in the calendar year ending December 31, 2017. In respect thereof, the following shall be accrued on the Initial Closing Statement: (i) accruals for ten-twelfths (10/12) of such annual cash bonuses, assuming maximum (140%) performance, and (ii) accruals representing the matching contribution that would have been made under Seller 401(k) Plan with respect to the bonus amounts accrued pursuant to Section 6.01(j)(i). In no event shall the amount of such payment by Purchaser to the Transferred Employees in the aggregate be less than the aggregate amount set forth with respect to such bonuses in the Initial Closing Statement as described in Section 6.01(j)(i).

(k) Purchaser shall, or shall cause one of its Affiliates to, make available to the Transferred Employees a flex spending account plan for medical and dependent care expenses under a new or existing plan established or maintained under Section 125 and Section 129 of the Code (the “Purchaser FSA”), effective as of the expiration of the Employee Lease Term and in accordance with this Section 6.01(k). If the Employee Lease Term ends after December 31, 2017, Purchaser, or one of its Affiliates, shall credit the applicable account under the Purchaser FSA of each Transferred Employee participating in the Seller Employee Benefit Plan maintained pursuant to Section 125 and Section 129 of the Code (the “Seller FSA”) with an amount equal to the balance of such Transferred Employee’s account under the Seller FSA immediately prior to the expiration of the Employee Lease Term, in accordance with the following:

- (i) If the aggregate amount withheld from Transferred Employees' compensation under the Seller FSA for 2018 exceeds the aggregate amount of reimbursements paid to Transferred Employees prior to the expiration of the Employee Lease Term under the Seller FSA for claims incurred in 2018, Seller shall transfer (or cause to be transferred) to Purchaser within 30 days after the expiration of the Employee Lease Term a cash payment equal to such excess, if any.
- (ii) If the aggregate amount of reimbursements paid to Transferred Employees prior to the expiration of the Employee Lease Term under the Seller FSA for claims incurred in 2018 exceeds the aggregate amount withheld from Transferred Employees' compensation under the Seller FSA for 2018 prior to the expiration of the Employee Lease Term, Purchaser shall transfer (or cause to be transferred) to Seller within 30 days after the expiration of the Employee Lease Term a cash payment equal to such excess, if any.
- (iii) In each case, Purchaser shall assume and be solely responsible for all claims for reimbursement by Transferred Employees for 2018 that have not been paid in full as of the expiration of the Employee Lease Term, which claims shall be paid pursuant to and under the terms of the Purchaser FSA, and Purchaser shall indemnify and hold harmless Seller and its Affiliates from any and all claims by or with respect to Transferred Employees for reimbursement under the Seller FSA that have not been paid in full as of the expiration of the Employee Lease Term; provided, however, that the foregoing indemnification shall not apply to any claims that were adjudicated under the terms of the Seller FSA on or prior to the expiration of the Employee Lease Term. Purchaser agrees to cause the Purchaser FSA to honor through the end of the calendar year in which the Employee Lease Term expires the elections made by each Transferred Employee under the Seller FSA in respect of the flexible spending reimbursement accounts under the Purchaser FSA that are in effect immediately prior to the expiration of the Employee Lease Term, subject to each Transferred Employee's ability to adjust such elections pursuant to the terms of the Purchaser FSA. For the avoidance of doubt, except as provided herein, (A) in no event shall Seller or any of its Affiliates have any liability or obligation under the Purchaser FSA, and (B) any Transferred Employee who elects coverage under a high deductible health plan may be ineligible to make continuing elections under the Purchaser health care FSA pursuant to the terms of such plans.

For the avoidance of doubt, if the Employee Lease Term ends on December 31, 2017, Purchaser shall have no obligation to provide credits as described in this Section 6.01(k).

(l) In respect of each Employee who becomes a Transferred Employee, Seller and Purchaser shall adopt the "standard procedure" for preparing and filing IRS Forms W-2 (Wage

and Tax Statements), as described in Revenue Procedure 2004-53. Under this procedure, Purchaser, as successor employer, shall provide, as applicable, all required Forms W-2 to all Employees who become Transferred Employees reflecting only wages paid and Taxes withheld by Purchaser and its Affiliates as the successor employer. In addition, Seller and Purchaser shall adopt the “standard procedure” of Revenue Procedure 2004-53 for purposes of filing IRS Forms W-4 (Employee’s Withholding Allowance Certificate) and W-5 (Earned Income Credit Advance Payment Certificate).

(m) Purchaser or one of its Affiliates shall grant during the first “open window” trading period following the expiration of the Employee Lease Term new awards, payable in cash or in stock (each, a “New Award”), vesting over two (2) years, to each Transferred Employee who, as a result of the transactions contemplated by this Agreement, forfeits restricted share units, performance share units or stock appreciation rights that were granted pursuant to any Employee Benefit Plan prior to the date hereof and are not vested as of the expiration of the Employee Lease Term (each, a “Seller Forfeited Equity Award”). The value of the New Awards will be no less than the value of the Seller Forfeited Equity Awards, both individually and in the aggregate. Seller shall provide Purchaser with a schedule of the value of each Seller Forfeited Equity Award as soon as practicable following the termination of the Employee Lease Term.

(n) Purchaser agrees to cause its Affiliate to (i) provide coverage for the Transferred Employees under its employee benefit plans as of the applicable Transfer Date, (ii) waive any preexisting conditions, waiting periods and actively at work requirements under such plans and (iii) cause such plans to honor any expenses incurred by the Transferred Employees and their beneficiaries under similar Employee Benefit Plans during the portion of the calendar year in which the Transfer Date occurs for purposes of satisfying applicable deductible, co-insurance and maximum out-of-pocket expenses. Transferred Employees shall be given credit under each employee benefit plan, program, policy or arrangement of Purchaser in which the Transferred Employees are eligible to participate for all service with Seller (to the extent such credit was given by the applicable Employee Benefit Plan) for all purposes (except that no benefit accrual will be provided under any defined benefit pension plans), except to the extent it would result in a duplication of benefits.

(o) The parties hereto shall coordinate with each other prior to the Closing Date as to the form and content of any material, broad based communication from Purchaser or any of its Affiliates to the Employees. Seller acknowledges, understands and agrees, on behalf of itself and its Affiliates, that Purchaser shall, from the date hereof, be allowed to approach and meet with all Employees. Seller and its Affiliates shall permit Purchaser reasonable access to all Employees; provided, that such access shall not interfere with the operations of the Business, and that when on Seller premises, Purchaser shall abide by any Seller security protocols. In no event shall Purchaser or any of its employees have access to the systems of Seller.

(p) Seller, Purchaser and their respective Affiliates shall promptly take all steps necessary to fulfill their obligations, and to cause their applicable employee benefit plans to fulfill the obligations that Seller and Purchaser have agreed to pursuant to this Section 6.01. All transfers of information required by this Section 6.01 shall be made at the time and in the manner (including applicable file format) as reasonably requested by Purchaser or its applicable vendor.

In furtherance thereof, Seller shall provide to Purchaser a complete employee data file, in the format and with the elements prescribed by Purchaser, no later than October 23, 2017.

(q) Seller shall be solely responsible for and shall discharge all retention bonuses under Business Employee Benefit Plans that become vested at or prior to the termination of the Employee Lease Term (“Seller Retention Bonus Liabilities”).

Section 6.02. No Third Party Beneficiaries. Notwithstanding the provisions of this Article VI, this Article VI is not intended to and shall not (a) create any third party rights, (b) amend any Employee Benefit Plan or Business Employee Benefit Plan, (iii) require Purchaser or any of its Affiliates to continue any Business Employee Benefit Plan beyond the time when it otherwise lawfully could be terminated or modified, or (d) require Purchaser or any of its Affiliates to continue to employ any Transferred Employee for any specified period, or (e) provide any Transferred Employee with any rights to continued employment, severance pay or similar benefits following any termination of employment.

ARTICLE VII.

TAX MATTERS

Section 7.01. Allocation of Consideration. In addition to the allocation of the Purchase Price contemplated by Article II, Seller and Purchaser shall further allocate the Purchase Price, as finally determined pursuant to Article II, and any other applicable consideration (the “Allocable Amount”) in accordance with the requirements of Section 1060 of the Code (and the regulations promulgated thereunder) for all Tax purposes; provided that such allocation for Tax purposes shall be consistent with the allocation of the Purchase Price as contemplated by Article II. As soon as practicable following the date on which the Final Closing Statement becomes final and binding on the parties pursuant to Section 2.09(f), Seller shall prepare a schedule reflecting the allocation of the Allocable Amount and shall submit such allocation to Purchaser for review. Purchaser and Seller shall use commercially reasonable efforts to agree on the amount and proper allocation of the Allocable Amount in accordance with Section 1060 of the Code. If Seller and Purchaser have not agreed on the allocation within 90 calendar days after the date on which the Final Closing Statement become final and binding on the parties pursuant to Section 2.09(f), then Purchaser and Seller shall each have the right to deliver notice to the other party of its intent to refer the matter for resolution to the Independent Accountant. Purchaser and Seller will each deliver to the other and to the Independent Accountant a notice setting forth in reasonable detail their proposed allocations. Within 30 days after receipt thereof, the Independent Accountant will deliver the allocation schedule and provide a written description of the basis for its determination of the allocations therein (such allocations, whether agreed to by Purchaser and Seller or determined by the Independent Accountant (the “Final Allocation”) shall be final, binding and conclusive on Purchaser and Seller and the parties will report, and will cause their respective Affiliates to report, the federal, state, local and other Tax consequences of the transactions, including the filing of Internal Revenue Service Form 8594, in a manner consistent with such Final Allocation). One-half of all fees, costs and expenses of retaining the Independent Accountant shall be borne by Seller and one-half of such fees, costs and expenses of retaining the Independent Accountant shall be borne by Purchaser. Each party will bear the costs of its own counsel, witnesses (if any) and employees.

Section 7.02. Transfer Taxes. Any Transfer Taxes shall be borne fifty percent (50%) by Seller and fifty percent (50%) by Purchaser. Seller and Purchaser shall cooperate in (a) determining the amount of Transfer Taxes, (b) obtaining any relief, exemption or refund of any such Transfer Tax, (c) preparing and timely filing any and all required Tax Returns for or with respect to such Transfer Taxes with any and all appropriate Tax authorities, (d) promptly providing the other party with evidence that such Transfer Taxes have been paid, and (e) promptly reimbursing the other party for fifty percent (50%) of such Transfer Taxes, as applicable. “Transfer Taxes” means any and all sales, use, stamp, documentary, filing, recording, transfer, goods and services, provincial sales, harmonized sales, excise, real estate, stock transfer, intangible property transfer, personal property transfer, gross receipts, registration, securities transactions, conveyance and notarial Taxes, and similar fees, Taxes and governmental charges (together with any interest, penalty, addition to Tax, and additional amount imposed in respect thereof) arising out of or in connection with the transactions contemplated by this Agreement.

Section 7.03. Cooperation and Exchange of Information. Seller and Purchaser shall provide each other with such cooperation and information as either of them or their respective Affiliates may reasonably request of the other in filing any Tax Return, amended Tax Return or claim for Tax refund, determining a liability for Taxes or a right to a Tax refund, or participating in or conducting any contest in respect of Taxes (a “Tax Contest”). Such cooperation and information shall include providing copies of relevant Tax Returns or portions thereof, together with accompanying schedules, related work papers and documents relating to rulings or other determinations by Tax Authorities. Each party and its Affiliates shall make its employees available on a basis mutually convenient to both parties to provide explanations of any documents or information provided hereunder. Each of Seller and Purchaser shall retain all Tax Returns, schedules and work papers, records and other documents in its possession relating to Tax matters of the Business for each Tax period first ending after the Closing Date and for all prior Tax periods until the later of (i) the expiration of the statute of limitations of the Tax period to which such Tax Returns and other documents relate, without regard to extensions except to the extent notified in writing of such extensions for the respective Tax periods, and (ii) three years following the due date (without extension) for such Tax Returns. Any information obtained under this Section 7.03 shall be kept confidential except as otherwise may be necessary in connection with the filing of Tax Returns or claims for Tax refunds or in conducting a contest or as otherwise may be required by Applicable Law or the rules of any stock exchange. Seller shall promptly notify Purchaser if, as a result of the amendment of any Tax Return, any claim or assessment by any Tax authority or any other cause, the Tax reserves in respect of the Ceded Insurance Contracts no longer accurately reflect the reserves maintained by Seller, the Ceding Company of any of its Affiliates as of the Closing Date (immediately prior to the Closing) with respect to the Ceded Insurance Contracts, and shall provide Purchaser updated information of such reserves. Upon receipt of such information, Purchaser shall provide Seller with a revised Purchase Price allocation in accordance with the principles of Section 7.01.

Section 7.04. Miscellaneous. Seller and Purchaser agree to treat all payments (other than interest on a payment) made by either of them to or for the benefit of the other or the other’s Affiliates under this Article VII and under other indemnity provisions of this Agreement as adjustments to the Purchase Price for Tax purposes and that such treatment shall govern for purposes hereof to the extent permissible under Applicable Law.

ARTICLE VIII.

CONDITIONS TO CLOSING

Section 8.01. Conditions to Obligations of Each Party.

The respective obligations of each party hereto to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment or waiver, at or prior to the Closing, of each of the following conditions:

(a) Governmental Consents and Approvals. All consents, approvals, or authorizations of, declarations or filings with, or notices to, any Governmental Authority in connection with the transactions contemplated hereby that are set forth in Section 8.01(a) of the Seller Disclosure Schedule shall have been obtained or made and shall be in full force and effect, and all waiting periods required under Applicable Law with respect thereto shall have expired or been terminated, in each case without the imposition of a Burdensome Condition with respect to the party asserting the failure of this condition.

(b) No Injunction or Illegality. There shall be no law or Governmental Order in existence that prohibits the consummation of the transactions contemplated by this Agreement.

(c) Reinsurance Consents. Seller shall have received the Munich Consent and the Hannover Consent.

Section 8.02. Conditions to Obligations of Purchaser.

The obligations of Purchaser under this Agreement are subject to the satisfaction on or prior to the Closing Date of the following conditions, any one or more of which may be waived by Purchaser to the extent permitted by Applicable Law:

(a) Representations and Warranties. (i) Each of the Seller Specified Representations that are qualified by materiality or Material Adverse Effect shall be true and correct in all respects, and each of the other Seller Specified Representations that are not so qualified shall be true and correct in all material respects and (ii) each of the representations and warranties of Seller contained in Article III of this Agreement (other than those referenced in subclause (i) above) shall be true and correct in all respects (without regard to materiality or Material Adverse Effect qualifiers), in each case as of the Closing Date with the same force and effect as though made on and as of the Closing Date (except to the extent that any such representations and warranties are given as of a particular date and relate solely to a particular date or period, which representations and warranties shall be true and correct as of such date or period), except in the case of clause (ii) above where the failure to be true and correct would not have, individually or in the aggregate, a Material Adverse Effect.

(b) Covenants. Seller and its Affiliates shall have performed and complied in all material respects with all covenants and agreements required by this Agreement to be performed or complied with by Seller and its Affiliates on or prior to the Closing Date.

(c) Closing Deliverables. Seller shall have delivered or caused to be delivered to Purchaser each of the documents required to be delivered by Seller pursuant to Section 2.08(a).

Section 8.03. Conditions to Obligations of Seller. The obligations of Seller under this Agreement are subject to the satisfaction on or prior to the Closing Date of the following conditions, any one or more of which may be waived by Seller to the extent permitted by Applicable Law:

(a) Representations and Warranties. (i) Each of the Purchaser Specified Representations that are qualified by materiality or Purchaser Material Adverse Effect shall be true and correct in all respects, and each of the other Purchaser Specified Representations that are not so qualified shall be true and correct in all material respects and (ii) each of the representations and warranties of Purchaser contained in Article IV of this Agreement (other than those referenced in subclause (i) above) shall be true and correct in all respects (without regard to materiality or Purchaser Material Adverse Effect qualifiers), in each case as of the Closing Date with the same force and effect as though made on and as of the Closing Date (except to the extent that any such representations and warranties are given as of a particular date and relate solely to a particular date or period, which representations and warranties shall be true and correct as of such date or period), except in the case of clause (ii) above where the failure to be true and correct would not have, individually or in the aggregate, a Purchaser Material Adverse Effect.

(b) Covenants. Purchaser shall have performed and complied in all material respects with all covenants and agreements required by this Agreement to be performed or complied with by Purchaser on or prior to the Closing Date.

(c) Triggering Event. Assuming for the purposes of this Section 8.03(c) that the Reinsurance Agreement is in full force and effect at all applicable times prior to the Closing, there shall not have been a Triggering Event (as defined in the Reinsurance Agreement) under the Reinsurance Agreement.

(d) Closing Deliverables. Purchaser shall have delivered or caused to be delivered to Seller each of the documents required to be delivered by Purchaser pursuant to Section 2.08(b).

ARTICLE IX.

TERMINATION PRIOR TO CLOSING

Section 9.01. Termination of Agreement. This Agreement may be terminated at any time prior to the Closing:

(a) by Seller or Purchaser in writing, if there shall be any order, injunction or decree of any Governmental Authority which prohibits or restrains the parties from consummating the transactions contemplated hereby, and such order, injunction or decree shall have become final and nonappealable; provided that prior to termination under this Section 9.01(a), the party seeking to terminate this Agreement shall have used best efforts to have such order, injunction or decree vacated;

(b) by either Seller or Purchaser in writing, if the Closing has not occurred on or before February 1, 2018 (as it may be extended as contemplated below or by Section 11.14, the “Outside Date”), unless the failure of the Closing to occur is the result of a breach of this Agreement by the party seeking to terminate this Agreement; provided that, if on the Outside Date the condition set forth in Section 8.01(a) has not been satisfied then, upon the written notice of Seller to Purchaser, the Outside Date shall be extended to a date and time that is not later than 5:00 p.m., New York City time, on March 31, 2018;

(c) by either Seller or Purchaser (but only so long as Seller or Purchaser, as applicable, is not in material breach of its obligations under this Agreement) in writing, if a material breach of any provision of this Agreement that has been committed by the other party would cause the failure of any mutual condition to Closing or any condition to Closing for the benefit of the non-breaching party and such breach is not subsequently waived by the non-breaching party or capable of being cured or is not cured within 20 Business Days after the breaching party receives written notice from the non-breaching party that the non-breaching party intends to terminate this Agreement pursuant to this Section 9.01(c);

(d) by Seller if, (i) except for the condition in Section 8.03(c), all of the conditions set forth in Section 8.01, Section 8.02 and Section 8.03 have been satisfied or waived (other than those conditions that by their terms are to be satisfied at the Closing, so long as such conditions are capable of being satisfied at the Closing) and (ii) the Closing has not occurred at the then most recent date on which it was otherwise required to occur pursuant to Section 2.06 because the condition set forth in Section 8.03(c) has not been satisfied; or

(e) at any time on or prior to the Closing Date, by mutual written consent of Seller and Purchaser.

Section 9.02. Termination Procedure. In the event of termination by Purchaser or Seller pursuant to Section 9.01, written notice thereof shall forthwith be given to the other party and the transactions contemplated by this Agreement shall be terminated, without further action by any party. If the transactions contemplated by this Agreement are terminated as provided herein:

(a) Each party shall, and shall cause its Representatives to, return all documents and other material received from the other party and its Affiliates relating to the transactions contemplated hereby, whether so obtained before or after the execution hereof, to the other party; and

(b) all information received by Purchaser or any of its Representatives with respect to the Business shall be treated in accordance with the Confidentiality Agreement and Section 5.04.

Section 9.03. Survival. In the event of the termination of this Agreement as provided in Section 9.01, this Agreement shall thereafter become null and void as to all parties, and no party hereto shall have any liability to any other party hereto or their respective Representatives, except as set forth in Section 5.04, this Article IX and Article XI, which shall survive the termination hereof pursuant to this Article IX; provided, however, that nothing in this Agreement shall relieve any party hereto from liability for (x) any willful and material breach of this Agreement prior to such termination or (y) fraud in the event that such party is finally

determined by a court of competent jurisdiction to have willfully and knowingly committed a fraud, with specific intent to deceive and mislead any other party, regarding such party's representations, warranties, covenants or other agreements set forth in this Agreement; provided, further, that any claim for fraud may only be brought against the party that committed such fraud. For purposes hereof, "willful and material breach" means a material breach by a party of the applicable provision of this Agreement as a result of an action or failure to act by such Person that it actually knew would result in a breach of this Agreement.

ARTICLE X.

INDEMNIFICATION

Section 10.01. Survival.

(a) The representations and warranties of Seller and Purchaser contained in this Agreement shall survive the Closing solely for purposes of this Article X and shall terminate and expire on the date that is 18 months following the Closing Date; provided, that the Seller Specified Representations and the Purchaser Specified Representations and the representations and warranties of Seller set forth in Section 3.17 shall survive until the date that is 60 days following the expiration of the applicable statute of limitations and the representations and warranties of Seller set forth in Section 3.18(d) or Section 3.19 will terminate and be of no further force and effect from and after the Closing. Any claim for indemnification in respect of any representation or warranty that is not asserted by notice given as required herein prior to the expiration of the specified period of survival shall not be valid and any right to indemnification is hereby irrevocably waived after the expiration of such period of survival. Any claim properly made for an Indemnifiable Loss in respect of such a breach asserted within such period of survival as herein provided will be timely made for purposes hereof.

(b) To the extent that it is to be performed after the Closing, each covenant in this Agreement will, for purposes of this Article X, survive and remain in effect in accordance with its terms plus a period of six months thereafter, after which no claim for indemnification with respect thereto may be brought hereunder. All covenants in this Agreement that by their terms are required to be fully performed prior to the Closing will, for purposes of this Article X, survive and remain in effect until the date that is 18 months following the Closing Date, after which time no claim for indemnification with respect thereto may be brought hereunder; provided, however, that the covenants set forth in Section 5.11 will terminate and be of no further force and effect from and after the Closing.

Section 10.02. Indemnification.

(a) Seller shall indemnify, defend and hold harmless Purchaser, its Affiliates and their respective directors, officers and employees, successors and, in connection with a sale of all or substantially all of the group benefits business of Purchaser and its Affiliates, assignees (provided, that in the case of any such sale during the 18-month period after the Closing, Seller shall have provided its consent to such assignment) (collectively, the "Purchaser Indemnified Persons") from and against any and all Indemnifiable Losses asserted against, imposed upon or incurred or suffered by any Purchaser Indemnified Person resulting from or arising out of:

- (i) any inaccuracy in or breach of any representation or warranty of Seller made in this Agreement;
- (ii) any breach or non-fulfillment of any agreement or covenant of Seller under this Agreement; or
- (iii) any Excluded Liabilities including Excluded Taxes.

(b) Purchaser shall indemnify, defend and hold harmless Seller, its Affiliates and their respective directors, officers and employees (collectively, the “Seller Indemnified Persons”) from and against any and all Indemnifiable Losses asserted against, imposed upon or incurred or suffered by any Seller Indemnified Person resulting from or arising out of:

- (i) any inaccuracy in or breach of any representation or warranty of Purchaser made in this Agreement;
- (ii) any breach or non-fulfillment of any agreement or covenant of Purchaser under this Agreement;
- (iii) any Assumed Liability; or
- (iv) the operation of the Business from and after the Closing Date (except to the extent such Indemnifiable Loss is subject to indemnification by Seller of a Purchaser Indemnified Person pursuant to Section 10.02(a)).

(c) For purposes of determining whether any representation and warranty (other than the representations and warranties set forth in Section 3.06(a) and Section 3.22) has any inaccuracy or been breached and the amount of any Indemnifiable Losses under this Article X, each representation and warranty contained in this Agreement shall be read without regard to any materiality or Material Adverse Effect qualifier contained therein.

Section 10.03. Certain Limitations.

(a) Except with respect to Indemnifiable Losses resulting from Excluded Taxes or from any inaccuracy in or breach of a representation or warranty set forth in Section 3.17, no party shall be obligated to indemnify and hold harmless its respective Indemnitees under Section 10.02(a)(i) (in the case of Seller, and other than with respect to an inaccuracy in or breach of any Seller Specified Representation) or Section 10.02(b)(i) (in the case of Purchaser, and other than with respect to an inaccuracy in or breach of any Purchaser Specified Representation) (i) with respect to any claim or series of claims arising out of substantially similar facts and circumstances, unless such claim or series of claims involves Indemnifiable Losses in excess of \$100,000 (the “Threshold Amount”) (nor shall any claim that does not exceed the Threshold Amount be applied to or considered for purposes of calculating the amount of Indemnifiable Losses for which the Indemnitor is responsible under clause (ii) below) and (ii) unless and until the aggregate amount of all Indemnifiable Losses of the Indemnitees under Section 10.02(a)(i) or such Section 10.02(b)(i), as the case may be, exceeds \$14,500,000 for all Indemnifiable Losses (the “Deductible”), at which point such Indemnitor shall be liable to its respective Indemnitees for the value of the Indemnitee’s claims under Section 10.02(a)(i) (other than with respect to a

breach of any Seller Specified Representation) or Section 10.02(b)(i) (other than with respect to a breach of any Purchaser Specified Representation), as the case may be, that is in excess of the Deductible, subject to the limitations set forth in this Article X; provided, however, that any Indemnifiable Losses of the Purchaser Indemnified Persons resulting from or arising out of any inaccuracy in or breach of any representation or warranty set forth in Section 3.03 shall not be subject to the Deductible, and the Threshold Amount for such Indemnifiable Losses shall be \$50,000; provided further that, for the avoidance of doubt, any such Indemnifiable Losses shall be subject to the Threshold Amount and the maximum aggregate liability set forth in the following sentence prior to the proviso set forth therein. The maximum aggregate liability of Seller, on the one hand, and Purchaser on the other hand, to their respective Indemnitees for any and all Indemnifiable Losses under Section 10.02(a)(i), in the case of Seller (other than with respect to a breach of any Seller Specified Representation), or Sections 10.02(b)(i), in the case of Purchaser (other than with respect to a breach of any Purchaser Specified Representation), shall be \$174,000,000; provided, that the maximum aggregate liability of Seller to all Purchaser Indemnified Persons for any or all Indemnifiable Losses under this Agreement shall not exceed the Purchase Price. The limitations in this Section 10.03(a) shall not apply to claims made under Section 10.02(a)(iii), Section 10.02(b)(iii) or Section 10.02(b)(iv).

(b) Each Indemnitee shall use commercially reasonable efforts to mitigate all Indemnifiable Losses for which indemnification may be sought hereunder; provided that the costs and expenses of such mitigation shall constitute Indemnifiable Losses hereunder.

(c) Notwithstanding anything to the contrary herein, any Indemnifiable Losses resulting from or arising out of any breach of any representation or warranty of Seller made in this Agreement in respect of Taxes, including under Section 3.17, shall be limited to Taxes attributable to Pre-Closing Periods.

Section 10.04. Definitions. As used in this Agreement:

- (i) “Indemnitee” means any Person entitled to indemnification under this Agreement;
- (ii) “Indemnitor” means any Person required to provide indemnification under this Agreement;
- (iii) “Indemnifiable Losses” means any and all damages, losses, Liabilities, obligations, costs and expenses (including reasonable attorneys’ and other professional fees and expenses); provided, that any Indemnity Payment (x) shall in no event include any amounts constituting consequential or punitive damages, or any damages calculated based on a loss of future revenue, income or profits, relating to the breach or alleged breach of this Agreement; provided, however, that notwithstanding the foregoing or anything to the contrary contained in this Agreement, Indemnifiable Losses shall include recoveries for lost profits (including diminution in value used by a trier of fact in determining lost profits) if and only if (A) such damages for lost profits are recoverable under the laws of the State of New York; (B) the Indemnitee satisfies all elements necessary for proof of

such damages for lost profits under such laws; and (C) such lost profits can be demonstrated by reference to the Actuarial Report and, with respect to the reduction or elimination of any profits contemplated by the Actuarial Report, shall in no event exceed the present value ascribed to any such remaining profits contemplated by the Actuarial Report as of the date of the Indemnifiable Loss giving rise to the related claim, calculated based on the assumptions on which the Actuarial Report was prepared and discounted using a 9% discount rate; provided, further, that the Purchaser Indemnified Persons may recover lost profits only to the extent such lost profits are attributable to the Business; and (y) shall be net of any amounts actually recovered by the Indemnitee for the Indemnifiable Losses for which such Indemnity Payment is made under any insurance policy, reinsurance agreement, warranty or indemnity or otherwise from any Person other than a party hereto (net of any actual costs, expenses or increases in premiums incurred as a result of obtaining such proceeds), and the Indemnitee shall promptly reimburse the Indemnitor for any such amount that is received by it from any such other Person with respect to an Indemnifiable Losses after any indemnification with respect thereto has actually been paid pursuant to this Agreement;

- (iv) “Indemnity Payment” means any amount of Indemnifiable Losses required to be paid pursuant to this Agreement; and
- (v) “Third Party Claim” means any claim, action, suit, or proceeding made or brought by any Person that is not a party to this Agreement and not an Affiliate of such party to this Agreement.

Section 10.05. Procedures for Third Party Claims.

(a) If any Indemnitee receives notice of assertion or commencement of any Third Party Claim against such Indemnitee in respect of which an Indemnitor may be obligated to provide indemnification under this Agreement, the Indemnitee shall give such Indemnitor reasonably prompt written notice (but in no event later than 30 days after becoming aware of such Third Party Claim) thereof and such notice shall include a reasonable description of the claim based on the facts known at the time and any documents relating to the claim and an estimate of the Indemnifiable Loss and shall reference the specific sections of this Agreement that form the basis of such claim to the extent reasonably ascertainable; provided, that no delay on the part of the Indemnitee in notifying any Indemnitor shall relieve the Indemnitor from any obligation hereunder unless (and then solely to the extent that) the Indemnitor is actually prejudiced by such delay (except that the Indemnitor shall not be liable for any expenses incurred during the period in which the Indemnitee failed to give such notice). Thereafter, the Indemnitee shall deliver to the Indemnitor, within five Business Days after the Indemnitee’s receipt thereof, copies of all notices and documents (including court papers) received by the Indemnitee relating to the Third Party Claim.

(b) The Indemnitor shall be entitled to participate in the defense of any Third Party Claim and, if it so chooses, to assume the defense thereof with counsel selected by the

Indemnitor. Should the Indemnitor so elect to assume the defense of a Third Party Claim, the Indemnitor shall not as long as it conducts such defense be liable to the Indemnitee for legal expenses incurred by the Indemnitee in connection with the defense thereof subsequent to the Indemnitor notifying the Indemnitee in writing of its election to assume such defense. If the Indemnitor assumes such defense, the Indemnitee shall have the right to participate in the defense thereof and to employ counsel, at its own expense, separate from the counsel employed by the Indemnitor, it being understood that the Indemnitor shall control such defense. The Indemnitor shall be liable for the reasonable fees and expenses of counsel employed by the Indemnitee (A) for any period during which the Indemnitor has not assumed the defense thereof (other than during any period in which the Indemnitee shall have not yet given notice of the Third Party Claim as provided above) or (B) if the Third Party Claim involves conflicts of interest for the Indemnitee and the Indemnitor (in the reasonable opinion of counsel to the Indemnitee) that would make representation by the same counsel inappropriate, in which event the Indemnitor shall be responsible for only one counsel for the Indemnitee. If the Indemnitor chooses to defend any Third Party Claim, the other party hereto shall cooperate in the defense thereof. Such cooperation shall include the retention and (upon the Indemnitor's request) the provision to the Indemnitor of records and information that are relevant to such Third Party Claim, and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder; provided, in each case, that such other party shall not be obligated to provide such records, information or access to Indemnitor if doing so would violate Applicable Law or jeopardize the protection of an attorney-client privilege. Whether or not the Indemnitor shall have assumed the defense of a Third Party Claim, the Indemnitee shall not admit any liability with respect to, or pay, settle, compromise or discharge, such Third Party Claim without the Indemnitor's prior written consent (which consent shall not be unreasonably withheld, conditioned or delayed). If the Indemnitor has assumed the defense of a Third Party Claim, the Indemnitor may only pay, settle, compromise or discharge a Third Party Claim with the Indemnitee's prior written consent (which consent shall not be unreasonably withheld, conditioned or delayed); provided, that the Indemnitor may pay, settle, compromise or discharge such a Third Party Claim without the written consent of the Indemnitee if such settlement (i) includes a release of the Indemnitee from all Liability in respect of such Third Party Claim, (ii) does not subject the Indemnitee to any injunctive relief or other equitable remedy, (iii) does not include a statement or admission of fault, culpability or failure to act by or on behalf of the Indemnitee and (iv) does not impose any financial cost on the Indemnitee (other than by application of the limitations set forth in Section 10.03(a)). If the Indemnitor submits to the Indemnitee a bona fide settlement offer with respect to a Third Party Claim that has been accepted by all Persons bringing such Third Party Claim and otherwise satisfies the requirements set forth in the proviso of the immediately preceding sentence and the Indemnitee refuses to consent to such settlement, then thereafter the Indemnitor's liability to the Indemnitee with respect to such Third Party Claim shall not exceed the Indemnitor's portion of the settlement amount included in such settlement offer.

(c) Notwithstanding anything in this Agreement to the contrary, Seller shall have the sole right to represent the interests of the Business and settle all issues in its sole discretion, and to employ counsel of its choice at its expense, in any audit or other examination or administrative or court proceeding relating to Taxes for all taxable periods (or portions thereof) ending on or before the Closing Date; provided, that Seller shall not pay, discharge, settle, compromise, litigate or otherwise dispose of any item subject to such Tax proceedings in a manner that will

adversely affect Purchaser or any of its Affiliates without obtaining the prior written consent of Purchaser, which consent shall not be unreasonably withheld, conditioned or delayed. Notwithstanding the foregoing and subject to Seller's rights set forth in the immediately preceding sentence, Purchaser shall be entitled, at its expense, to participate in the conduct of any Tax audit and any judicial or administrative proceeding relating to any such Tax audit that may adversely affect Purchaser or any of its Affiliates.

Section 10.06. Direct Claims. The Indemnitor will have a period of 30 days within which to respond in writing to any claim by an Indemnitee on account of an Indemnifiable Loss that does not result from a Third Party Claim. If the Indemnitor does not so respond within such 30 day period, the Indemnitor will be deemed to have rejected such claim, in which event the Indemnitee will be entitled to pursue such remedies as may be available to the Indemnitee.

Section 10.07. Sole Remedy. The parties hereto acknowledge and agree that, except as (a) set forth in Section 11.14, (b) as expressly contemplated by Section 2.09, (c) for any remedy expressly contemplated by any other Transaction Agreement with respect to a claim made under such Transaction Agreement and (d) under the circumstances described in Section 9.03(y), if the Closing occurs, their sole and exclusive remedy following the Closing with respect to any and all claims arising out of or related to the transactions contemplated by this Agreement shall be pursuant to the provisions set forth in this Article X.

Section 10.08. Certain Other Matters.

(a) Upon making any Indemnity Payment, Indemnitor will, to the extent of such Indemnity Payment, be subrogated to all rights of Indemnitee against any third Person (other than any Tax Authority) in respect of the Indemnifiable Loss to which the Indemnity Payment related. Without limiting the generality or effect of any other provision hereof, each such Indemnitee and Indemnitor will duly execute upon request all instruments reasonably necessary to evidence and perfect the above-described subrogation rights.

(b) The rights and remedies of any party in respect of any inaccuracy or breach of any representation, warranty, covenant or agreement shall in no way be limited by the fact that the act, omission, occurrence or other state of facts or circumstances upon which any claim of any such inaccuracy or breach is based may also be the subject matter of any other representation, warranty, covenant or agreement as to which there is no inaccuracy or breach. The representations, warranties and covenants of Seller set forth herein (as such representations and warranties are qualified in accordance with the introductory paragraph of Article III), and the Purchaser Indemnified Persons' rights to indemnification with respect thereto, shall not be affected or deemed waived by reason of (and the Purchaser Indemnified Persons shall be deemed to have relied upon such representations and warranties notwithstanding) (i) any investigation made by or on behalf of any of the Purchaser Indemnified Persons (including by any of its Representatives) or by reason of the fact that any of the Purchaser Indemnified Persons or any of such Representatives knew or should have known that any such representation or warranty is, was or might be inaccurate, regardless of whether such investigation was made or such knowledge was obtained before or after the execution and delivery of this Agreement or (ii) Purchaser's waiver of any condition set forth in Article VIII. The representations, warranties and covenants of Purchaser set forth herein (as such representations and warranties are qualified

in accordance with the introductory paragraph of Article IV), and the Seller Indemnified Persons' rights to indemnification with respect thereto, shall not be affected or deemed waived by reason of (and the Seller Indemnified Persons shall be deemed to have relied upon such representations and warranties notwithstanding) (i) any investigation made by or on behalf of any of the Seller Indemnified Persons (including by any of its Representatives) or by reason of the fact that any of the Seller Indemnified Persons or any of such Representatives knew or should have known that any such representation or warranty is, was or might be inaccurate, regardless of whether such investigation was made or such knowledge was obtained before or after the execution and delivery of this Agreement or (ii) Seller's waiver of any condition set forth in Article VIII.

ARTICLE XI.

GENERAL PROVISIONS

Section 11.01. Publicity. Except as may otherwise be required by Applicable Law, regulation or obligation pursuant to any listing agreement with any national securities exchange, no press release or public announcement, including any presentation to the investment community (other than pro forma financial statements and dilution or accretion analyses included in shareholder presentations), concerning this Agreement or the transactions contemplated hereby shall be made by Seller, on the one hand, or Purchaser, on the other hand, prior to the Closing Date without advance approval thereof by the other party, such approval not to be unreasonably withheld. The parties hereto shall cooperate with each other in making any press release or public announcement concerning the Business on or prior to the Closing Date.

Section 11.02. Expenses. Regardless of whether any or all of the transactions contemplated by this Agreement are consummated, and except as otherwise expressly provided herein or in any Transaction Agreement, Purchaser and its Affiliates, on the one hand, and Seller and its Affiliates, on the other hand, shall each bear their respective direct and indirect fees, costs and expenses incurred in connection with the negotiation and preparation of this Agreement, the Transaction Agreements and the consummation of the transactions contemplated hereby or thereby, including all fees and expenses of their respective Representatives.

Section 11.03. Notices. All notices, requests, consents, claims, demands and other communications under this Agreement and the other Transaction Agreements shall be in writing and shall be given or made (and shall be deemed to have been duly given or made upon receipt) by delivery in person, by overnight courier service, by electronic mail (followed by delivery of an original via overnight courier service) or by registered or certified mail (postage prepaid, return receipt requested) to the respective parties hereto at the following respective addresses (or at such other address for a party hereto as shall be specified in a notice given in accordance with this Section 11.03):

(a) If to Purchaser:

Hartford Life and Accident Insurance Company
c/o The Hartford Financial Services Group, Inc.

One Hartford Plaza
Hartford, CT 06155

Attention: Chief Financial Officer, General Counsel
Facsimile: (855) 388-6397
Email address: beth.bombara@thehartford.com,
david.robinson@thehartford.com

With a concurrent copy (which shall not constitute notice) to:

Mayer Brown LLP
1221 Avenue of the Americas
New York, NY 10020

Attention: Stephen G. Rooney, David W. Alberts
Facsimile: (212) 849-5632; (212) 849-5611
Email address: srooney@mayerbrown.com;
dalberts@mayerbrown.com

(b)

If to Seller:

Aetna Inc.
151 Farmington Avenue
Hartford, CT 06156

Attention: General Counsel
Facsimile: (212) 457-0301

With a concurrent copy (which shall not constitute notice) to:

Willkie Farr & Gallagher LLP
787 Seventh Avenue
New York, NY 10019

Attention: Michael Groll
Rajab S. Abbassi
Facsimile: (212) 728-8111
Email address: mgroll@willkie.com
rabbassi@willkie.com

Any party may, by notice given in accordance with this Section 11.03 to the other parties, designate another address or person for receipt of notices hereunder, provided that notice of such a change shall be effective upon receipt.

Section 11.04. Entire Agreement. Except as otherwise expressly provided in the Transaction Agreements, this Agreement and the other Transaction Agreements constitute the entire agreement of the parties hereto with respect to the subject matter of the Transaction Agreements and supersede all prior agreements and undertakings, both written and oral, other than the Confidentiality Agreement to the extent not in conflict with this Agreement, between or on behalf of Seller and its Affiliates, on the one hand, and Purchaser and its Affiliates, on the other hand, with respect to the subject matter of the Transaction Agreements.

Section 11.05. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced under any Applicable Law or as a matter of public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated by this Agreement is not affected in any manner materially adverse to any party hereto. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties hereto as closely as possible in a mutually acceptable manner in order that the transactions contemplated by this Agreement be consummated as originally contemplated to the greatest extent possible. If any provision of this Agreement is determined by a court of competent jurisdiction to be so broad as to be unenforceable, that provision shall be interpreted to be only so broad as it is enforceable.

Section 11.06. Assignment. This Agreement may not be assigned, in whole or in part, by operation of law or otherwise without the prior written consent of the parties hereto. Any attempted assignment in violation of this Section 11.06 shall be void. This Agreement shall be binding upon, shall inure to the benefit of, and shall be enforceable by the parties hereto and their successors and permitted assigns.

Section 11.07. Waivers and Amendments. No provision of this Agreement or any other Transaction Agreements may be amended, supplemented or modified except by a written instrument signed by all of the parties thereto. No provision of this Agreement or any other Transaction Agreements may be waived except by a written instrument signed by the party against whom the waiver is to be effective.

Section 11.08. Disclosure Schedules. Matters reflected in any Section of this Agreement, including any section or subsection of the Seller Disclosure Schedule or Purchaser Disclosure Schedule, are not necessarily limited to matters required by this Agreement to be so reflected. Such additional matters are set forth for informational purposes and do not necessarily include other matters of a similar nature. No reference to or disclosure of any item or other matter in any Section or Schedule of this Agreement, including any section or subsection of the Seller Disclosure Schedule or Purchaser Disclosure Schedule, shall be construed as an admission or indication that such item or other matter is material or that such item or other matter is required to be referred to or disclosed in this Agreement, the Seller Disclosure Schedule or Purchaser Disclosure Schedule. Without limiting the foregoing, no such reference to or disclosure of a possible breach or violation of any contract, Applicable Law or Governmental Order shall be construed as an admission or indication that breach or violation exists or has actually occurred.

Section 11.09. Governing Law; Submission to Jurisdiction; Waiver of Jury Trial.

(a) THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO SUCH STATE'S PRINCIPLES OF CONFLICT OF LAW THAT COULD COMPEL THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION.

(b) Each party hereto irrevocably and unconditionally submits to the exclusive jurisdiction of any federal court located in New York County in the State of New York, over any

action, suit or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby; provided, however, that, if said court determines that it does not have subject matter jurisdiction, then said action, suit or proceeding may be brought in the Supreme Court of the State of New York for New York County. Each party hereto agrees that service of any process, summons, notice or document by U.S. registered mail addressed to such party shall be effective service of process for any action, suit or proceeding brought against such party in any such court. Purchaser hereby designates the individual listed in Section 11.03(a) to whom notice may be given on behalf of Purchaser as its true and lawful agent upon whom may be served any lawful process in any action, suit or proceeding instituted by or on behalf of Seller. Seller hereby designates the individual listed in Section 11.03(b) to whom notice may be given on behalf of Seller as its true and lawful agent upon whom may be served any lawful process in any action, suit or proceeding instituted by or on behalf of Purchaser. In the event either party decides to change its designation of agent, it shall provide written notice to the other party. Each party hereto irrevocably and unconditionally waives any objection to the laying of venue of any such action, suit or proceeding brought in any such court and any claim that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum. Each party hereto agrees that any final, nonappealable judgment in any such action, suit or proceeding brought in any such court shall be conclusive and binding upon such party and may be enforced in any other courts to whose jurisdiction such party may be subject, by suit upon such judgment.

(c) EACH OF THE PARTIES HERETO HEREBY WAIVES TO THE FULLEST EXTENT PERMITTED BY LAW ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY WITH RESPECT TO ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. EACH OF THE PARTIES HERETO HEREBY (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF THE OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, AND (B) ACKNOWLEDGES THAT IT HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT, AS APPLICABLE, BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 11.09.

Section 11.10. Rules of Construction. Interpretation of this Agreement and the other Transaction Agreements (except as specifically provided in any such other Transaction Agreements, in which case such specified rules of construction shall govern with respect to such other Transaction Agreements) shall be governed by the following rules of construction: (a) words in the singular shall be held to include the plural and vice versa, and words of one gender shall be held to include the other gender as the context requires; (b) references to the terms Preamble, Recitals, Article, Section, paragraph, Schedule and Exhibit are references to the Preamble, Recitals, Articles, Sections, paragraphs, Schedules and Exhibits to this Agreement unless otherwise specified; (c) references to "\$" mean, and all payments required to be made under this Agreement shall be required to be made in, U.S. dollars; (d) the word "including" and words of similar import means "including without limitation," unless otherwise specified; (e) the word "or" shall not be exclusive; (f) the words "herein," "hereof," "hereunder" or "hereby" and similar terms are to be deemed to refer to this Agreement as a whole and not to any specific Section; (g) the headings are for reference purposes only and shall not affect in any way the

meaning or interpretation of the Transaction Agreements; (h) the Transaction Agreements shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting or causing any instrument to be drafted; (i) if a word or phrase is defined, the other grammatical forms of such word or phrase have a corresponding meaning; (j) references to any statute, listing rule, rule, standard, regulation or other law include a reference to the corresponding rules and regulations; (k) references to any section of any statute, listing rule, rule, standard, regulation or other law include any successor or amendment to such section; (l) references to any Person include such Person's predecessors or successors, whether by merger, consolidation, amalgamation, reorganization or otherwise; and (m) references to any contract (including this Agreement) or organizational document are to the contract or organizational document as amended, modified, supplemented or replaced from time to time, unless otherwise stated.

Section 11.11. Certain Limitations.

(a) Notwithstanding anything to the contrary contained in this Agreement, the other Transaction Agreements, the Seller Disclosure Schedule or any of the Schedules or Exhibits hereto or thereto, Purchaser acknowledges and agrees that neither Seller nor any of its Representative makes or has made, and Purchaser has not relied on, any inducement or promise to Purchaser except as specifically made in this Agreement or any representation or warranty to Purchaser, oral or written, express or implied, other than as expressly set forth in Article III. Without limiting the generality of the foregoing, other than as expressly set forth in Article III, no Person has made any representation or warranty to Purchaser with respect to the Business, the Transferred Assets (including the Assigned Contracts), the Assumed Liabilities or any other matter, including with respect to (i) merchantability, suitability or fitness for any particular purpose, (ii) the operation of the Business by Purchaser after the Closing, (iii) the probable success or profitability of the Business after the Closing or (iv) any information, documents or material made available to Purchaser or its Representatives in any "data rooms," information memoranda, management presentations, functional "break-out" discussions or in any other form or forum in connection with the transactions contemplated by this Agreement, including any estimation, valuation, appraisal, projection or forecast with respect to the Business. With respect to any such estimation, valuation, appraisal, projection or forecast (including the confidential information memoranda prepared by or on behalf of Seller in connection with the transactions contemplated by this Agreement or the any actuarial reports provided to Purchaser), Purchaser acknowledges that: (i) there are uncertainties inherent in attempting to make such estimations, valuations, appraisals, projections and forecasts; (ii) it is familiar with such uncertainties; (iii) it is not acting and has not acted in reliance on any such estimation valuation, appraisal, projection or forecast delivered by or on behalf of Seller to Purchaser; (iv) such estimations, valuations, appraisals, projections and forecasts are not and shall not be deemed to be representations or warranties of Seller or any of its Affiliates and (v) it shall have no claim against any Person with respect to any such valuation, appraisal, projection or forecast.

(b) Seller makes no express or implied representation or warranty hereby or otherwise under this Agreement: (i) as to the future experience, success or profitability of the Business, whether or not conducted in a manner similar to the manner in which the Business was conducted prior to the Closing; (ii) that the reserves held by or on behalf of the Business or the assets supporting such reserves have been or will be adequate or sufficient for the purposes for

which they were established; (iii) that the reinsurance recoverables taken into account in determining the amount of such reserves will be collectible or whether such reserves were calculated, established or determined in accordance with any actuarial, statutory or other standard; or (iv) concerning any financial statement “line item” or asset, liability or equity amount that would be affected by any of the foregoing.

(c) Purchaser further acknowledges and agrees that it: (i) has made its own inquiry and investigation into and, based thereon, has formed an independent judgment concerning the Business, the Transferred Assets (including the Assigned Contracts) and the Assumed Liabilities; (ii) has been provided adequate access to such information as it has deemed necessary to enable it to form such independent judgment; (iii) has had such time as it deems necessary and appropriate fully and completely to review and analyze such information, documents and other materials; and (iv) has been provided an opportunity to ask questions of Seller with respect to such information, documents and other materials and has received answers to such questions that it considers satisfactory. Purchaser further acknowledges and agrees that neither Seller nor any of its Affiliates has made any representations or warranties, express or implied, as to the accuracy or completeness of, and that Purchaser and its Affiliates have made their investment decision with respect to the acquisition of the Transferred Assets without reliance upon, such information, documents and other materials other than the representations and warranties expressly set forth in this Agreement.

Section 11.12. No Third Party Beneficiaries. Nothing in this Agreement is intended or shall be construed to give any Person (including the employees of Seller or Purchaser or any Affiliate of Seller or Purchaser), other than the parties hereto, their successors and permitted assigns, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision contained herein.

Section 11.13. Execution in Counterparts. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument. Delivery of an executed counterpart of a signature page to any Transaction Agreement by facsimile or other means of electronic transmission utilizing reasonable image scan technology shall be as effective as delivery of a manually executed counterpart of any such Agreement.

Section 11.14. Equitable Remedies. The parties hereto agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that, without the necessity of posting bond or other undertaking, the parties hereto shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in accordance with this Agreement, this being in addition (subject to the terms of this Agreement) to any other remedy to which such party is entitled at law or in equity. In the event that any Action is brought in equity to enforce the provisions of this Agreement, no party hereto shall allege, and each party hereto hereby waives any defense or counterclaim, that there is an adequate remedy at law. If, prior to the Outside Date, any party hereto brings any Action in accordance with this Section 11.14 to enforce specifically the performance of the terms and provisions hereof by the other party, the Outside Date shall be automatically extended (i) for the period during which such action is pending, plus 10 Business Days or (ii) by such other time period established by the court presiding over such action, as the case may be.

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IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

AETNA INC.

By: /s/ Bjorn Thaler

Name: Bjorn Thaler

Title: Authorized Signatory

HARTFORD LIFE AND ACCIDENT INSURANCE
COMPANY

By: /s/ Michael Concannon

Name: Michael Concannon

Title: Authorized Signatory

[Signature Page to Master Transaction Agreement]



2018 Management Incentive Plan

I. Objectives and Summary

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

The MIP shall be administered by the Management Planning and Development Committee (the "Committee") of the Board of Directors (the "Board") under the provisions herein and of the 2017 Incentive Compensation Plan or any successor plan (the "ICP"), and the Committee may delegate to officers of CVS Health the authority to perform administrative functions of the MIP as the Committee may determine and may appoint officers and others to assist it in administering the MIP.

II. Plan Year

The MIP is a calendar year plan, which runs from January 1 to December 31, 2018 ("Plan Year"). All dates in this document occur during the current Plan Year unless otherwise stated.

III. Eligibility

A. Eligibility for Participation

The Chief Executive Officer of CVS Health Corporation ("CEO") or the CEO's designee determines those employees who are eligible to participate in the MIP except as set forth in Section III.B, below. In general, Eligible Participants include exempt employees who are not covered by any other incentive plans and who are employed on or before November 1 of the Plan Year.

The CEO may, for any reason and in his or her sole discretion, at any time during the Plan Year, determine an employee's eligibility for participation in the MIP except as set forth in Section III.B. Eligible Participants are subject to the terms and conditions relating to incentive awards set forth in the MIP.

B. Section 16 Officers

The Committee shall determine the eligibility of Section 16 Officers of CVS Health, whom will also be included in the term "Eligible Participants" unless otherwise noted. The Committee shall retain sole discretion to determine Section 16 Officer eligibility for an award, the target award, and the amount of the actual award.

C. Newly-Eligible Employees

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

D. Position Change

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

position to another MIP-eligible position during the Plan Year also may result in a prorata award as described below under Section V. (B).

E. Demotions

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

F. Terminations

Unless otherwise stated in Section VII of the MIP, if an Eligible Participant's employment terminates prior to March 1 following a Plan Year, he or she will not be eligible to receive an incentive award under the MIP for the most recently completed Plan Year.

G. Rehires

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

IV. MIP Funding

A. Consolidated Company Funding

MIP funding is based on consolidated Company performance, measured by Operating Profit, and modified by performance measurements set forth in Exhibit A, for a given Plan Year. Achievement of the Company's Operating Profit target and MIP modifiers will determine the total funding (the "Total Pool") as described below.

1. Operating Profit

Operating Profit may be adjusted by the financial adjustments as approved by the Committee prior to the end of the first fiscal quarter of the Plan Year (the "Financial Adjustments").

If Operating Profit is below the minimum performance threshold, no formulaic funding will be made available for incentive awards, regardless of MIP modifier metrics performance, and there shall be no incentive awards paid under the MIP.

B. Total Pool Funding

After the minimum threshold for Operating Profit has been achieved, performance of MIP modifiers against target will be calculated for the Plan Year. The Total Pool for all business units will be fully based (100%) on consolidated Company performance.

The CEO (or, as to Section 16 Eligible Participants, the Committee) may, for any reason and in his or her (or Its) sole discretion, adjust the funding of the Total Pool based on (a) input from senior Company executives regarding their assessment of the overall performance of the Company; and (b) assessment of the achievement of Plan Year performance goals. In no case, however, can the CEO or the Committee increase Total Pool funding due solely to the results of the MIP modifiers.

C. Individual Performance

The Total Pool will be available for award to Eligible Participants under the MIP, taking into account the individual contribution of each Eligible Participant. The amount, if any, of the incentive award for an Eligible Participant shall be determined in the sole discretion of the Company, which shall be final, binding and conclusive as to all parties having an interest therein. The amount, if any, of the incentive award for a Section 16 Eligible Participant shall be determined in the sole discretion of the Committee, which shall be final, binding and conclusive as to all parties having an interest therein.

V. Earnings, Proration, and Payout

A. Timing

Incentive awards will be paid to Eligible Participants, as soon as administratively feasible following the date the Total Pool is determined and approved, but no later than March 15 of the calendar year immediately following the Plan Year. Incentive payments under the MIP may be subject to garnishments and other state or federal requirements.

B. Calculations

Calculations for full and partial awards for each Eligible Participant will be based on “Eligible Earnings” (defined below) for the Plan Year while in a MIP-eligible position. Eligible Earnings will be multiplied by the individual target opportunity of the Eligible Participant. If the Eligible Participant has been employed in multiple MIP-eligible positions during the Plan Year, then the individual opportunity will be prorated based on the number of days worked in each position.

Eligible Earnings include reoccurring items such as pay earned for hours worked, paid time off (e.g. vacation, sick, holiday, funeral, jury duty, military) but will exclude one-time payments such as annual cash incentives, commissions and similar payments, and earnings associated with equity releases and stock option exercises.

For purposes of proration under the MIP and except as otherwise provided in Section VII of the MIP, calculations will be based on the number of days that the employee was an Eligible Participant in the MIP during the Plan Year.

C. Award Opportunity

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

D. Obligation to Pay Out Percentage of Total Pool

Eligible Participants, as a group, have a right to receive an amount at least equal to the Total Pool, but no individual Eligible Participant shall be entitled to receive an award or any specific amount of the Total Pool. In no event will the aggregate of the total awards paid from the MIP be less than 92.5% of the Total Pool. To discourage unmerited litigation, any party or class asserting a challenge or claim against the Company under any provision of the MIP, including this Section V, shall bear their own costs relating to such challenge or claim, and if the challenge or claim is unsuccessful, such party or class shall reimburse the Company for all reasonable costs incurred by the Company in responding to such challenge or claim.

VI. MIP Dispute Resolution

Any questions by an Eligible Participant regarding an incentive award granted under the MIP shall first be submitted by the Eligible Participant to his or her Human Resources Business Partner (“HRBP”) within 7 days of distribution of such incentive award, and the HRBP shall submit any correction that the HRBP deems appropriate to the Compensation Department by the first business day of April immediately following the distribution date.

In the event of a dispute regarding an incentive award under the MIP after the Eligible Participant has submitted his or her question to the HRBP and received a response, as provided above, the Eligible Participant may submit an appeal for resolution of such dispute to CVS Health’s Advice and Counsel in writing within 30 days of the distribution of the incentive award. Failure to follow these procedures or submit a question or dispute in a timely manner may result in a waiver of the Eligible Participant’s right to dispute the MIP provision or amount of the incentive award.

VII. Eligible Participant Status

A. Performance

The CEO or other designated executives have full discretion in determining the amount, if any, of an incentive awarded to an Eligible Participant, and the Participant's individual performance throughout the Plan Year will be considered by the Company in the final determination of the Eligible Participant's incentive award.

B. Leaves of Absence

An Eligible Participant on a Company-approved leave of absence at any time during the Plan Year who remains employed in an eligible position as of the last day of the Plan Year will earn a prorated incentive award based on the number of days actively worked (including time compensated as vacation, myTime or Paid Time Off ("PTO")) during the Plan Year, provided he or she meets all other eligibility criteria for an incentive award.

C. Reduction in Force, Retirement and Death

1. Reduction in Force

If an Eligible Participant is separated from employment by the Company during the Plan Year due to a reduction in force, he or she may be eligible, at the Company's discretion, to receive a prorated incentive award based on the calculation methodology described in Section V.(B) above, provided the Eligible Participant meets all other eligibility criteria for an incentive award.

2. Retirement

If an Eligible Participant is at least age 55 and has a minimum of 10 years of service with CVS Health or a predecessor company/subsidiary or is at least age 60 and has a minimum of 5 years of service with CVS Health or a predecessor company/subsidiary and the Eligible Participant retires during the Plan Year, he/she may be eligible to receive a prorated incentive award based on the calculation methodology described in Section V.(B) above, provided he/she meets all other eligibility criteria for an incentive award. Eligible Participants who do not meet the minimum retirement requirements under Section VII at the time of retirement will not be eligible for an incentive award for the Plan Year.

3. Death

In case of the death of an Eligible Participant, a prorated incentive award may be paid to the Eligible Participant's spouse, if living; otherwise, in equal shares to surviving children of the Eligible Participant. If there are no surviving children, the benefit shall be paid to the Eligible Participant's estate. The incentive award will be prorated based on the calculation methodology described in Section V.(B) above. The incentive award shall be paid as soon as administratively practicable, following the death of the Eligible Participant but no later than March 15 of the calendar year immediately following the Plan Year.

VIII. Miscellaneous

A. No Promise of Continued Employment

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

B. Rights are Non-Assignable

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

C. Compliance with Applicable Law

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

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

D. Change in Control

In the event of a change in control of CVS Health, as defined in the ICP, the MIP shall remain in force. Any amendments, modifications, termination or dissolution of the MIP by the acquiring entity may only occur prospectively and will not affect incentive targets or awards or eligibility in place immediately before the date of the change in control or such later date as it may be modified or dissolved by the acquiring entity.

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

E. Withholding

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

F. MIP Amendment/Modification/Termination

CVS Health retains the right to amend, modify, or terminate the MIP at any time on or before the last day of the Plan Year for any reason, with or without notice to Eligible Participants.

G. MIP Interpretation

CVS Health retains sole, full and final authority to prescribe rules and regulations for the administration of the Plan, construe and interpret the Plan and Award agreements and correct defects, supply omissions or reconcile inconsistencies therein and to make all other decisions and determinations as it may deem necessary or advisable for the administration of the Plan.

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

H. Recoupment of Incentive Awards

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

I. Section 409A of the Internal Revenue Code

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

benefits in connection with a termination of employment, references to an Eligible Person's "termination of employment" (and corollary terms) shall be construed to refer to the Eligible Person's "separation from service" with the Company as determined under Section 409A.

J. Restrictive Covenant Agreement

Any award pursuant to the MIP is expressly subject to and contingent upon the requirement that the Eligible Participant shall have fully executed and delivered to the Company a restrictive covenant agreement deemed appropriate by the Company; the Company may waive such requirement in its sole discretion. Any applicable agreement containing the restrictive covenants the Company requires in connection with this award is referred to herein as the "Restrictive Covenant Agreement".

If the Company requires an Eligible Participant to execute and deliver the Restrictive Covenant Agreement in connection with any MIP award, the Company shall provide such Restrictive Covenant Agreement to the Eligible Participant. The Eligible Participant must execute and deliver such agreement by the deadline set forth by the Company. The failure of an Eligible Participant to execute and return the Restrictive Covenant Agreement by the deadline set forth by the Company, if required, shall result in the immediate and irrevocable forfeiture of any MIP award.

This Section VIII (J) of the MIP shall not constitute the Company's exclusive remedy for Eligible Participant's violation of the Restrictive Covenant Agreement. The Company reserves all rights to seek all available legal or equitable remedies in the event of Eligible Participant's violation or threatened violation of the Restrictive Covenant Agreement, including injunctive relief.

**CVS HEALTH SEVERANCE PLAN FOR NON-STORE EMPLOYEES (Amended as
of November 28, 2018)**

**CVS HEALTH SEVERANCE PLAN
FOR NON-STORE EMPLOYEES
(Amended as of November 28, 2018)**

WHEREAS, CVS Health Corporation (the “Company”) has established the CVS Health Severance Plan for Non-Store Employees (the “Plan”) to provide financial assistance to employees in non- store positions who are involuntarily terminated and are eligible within the terms and conditions of the Plan;

WHEREAS, it is intended that the Plan constitute an employee welfare benefit plan within the scope of Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), that the Plan constitute a separation pay plan within the scope of Department of Labor (“DOL”) Regulation Section 2510.3-2(b), and that all payments made under the Plan be deductible by the Company under Section 162(a) of the Internal Revenue Code of 1986, as amended (the “Code”);

WHEREAS, the benefits provided under the Plan are intended to constitute separation pay within the meaning of Treasury Regulation Section 1.409A-1(b)(9)(iii);

WHEREAS, this document is the official plan document; and

WHEREAS, the Company wishes to make certain amendments to the Plan, effective as of November 28, 2018 (the “Effective Date”);

NOW, THEREFORE, as of the Effective Date, the Company does hereby amend the Plan to provide as follows:

**ARTICLE 1
DEFINITIONS**

For purposes of the Plan, the following terms, when used with an initial capital letter, shall have the meaning set forth below unless a different meaning is plainly required by the context.

1.1 “ Affiliate ” shall mean (a) any corporation which is required to be aggregated with the Company under Code Section 414(b), (c), (m), or (o) and (b) any other entity in which the Company has an ownership interest and which the Company designates as an Affiliate for purposes of the Plan.

1.2 “ Cause ” shall refer to a termination of an Eligible Employee’s employment because of the Eligible Employee’s (a) poor performance; (b) acts of unethical business activity, including but not limited to fraud, misappropriation, embezzlement, dishonesty, harassment, discrimination in violation of Employer policies, or willful or negligent destruction of property of an Employer or an Affiliate; (c) misconduct that is reasonably likely to cause material damage (monetary or otherwise) to the Employer, an Affiliate, or any personnel thereof; (d) conviction of or a plea of guilty or nolo contendere to any felony, whether or not any right to appeal has been or may be exercised; (e) negligence of duty; (f) insubordination; or (g) a violation of the Employer’s policy, procedure, or practice.

1.3 “ Code ” shall mean the Internal Revenue Code of 1986, as amended.

1.4 “ Eligible Employee ” shall mean an individual who is employed by the Employer on a regular basis in a non-store position and has been employed by the Employer in any position for a minimum of twelve (12) months prior to the individual’s separation of employment. For purposes of the Plan, distribution warehouse employees, field managers and employees employed by CVS ProCare, Inc. working at Company headquarters, shall be treated as working in a non-store location and therefore not subject to exclusion from eligibility. For purposes of the Plan, individuals in the following categories will not be considered Eligible Employees:

(a) individuals who are covered by a collective bargaining agreement, provided welfare benefits were the subject of good faith bargaining, unless the terms of the collective bargaining agreement provide for participation in the Plan;

(b) individuals who are seasonal employees, leased employees, independent contractors, temporary employees, or consultants;

(c) individuals who work for the Employer or an Affiliate in a store location of the Company or an Affiliate, or whose compensation is paid through or according to a store payroll, including but not limited to: pharmacists, store managers, assistant store managers, crew, and pharmacy staff;

(d) individuals employed by MinuteClinic, L.L.C. or by any practitioner-owned entity managed by MinuteClinic, L.L.C.;

(e) the President and CEO of CVS Health Corporation;

(f) individuals employed in Puerto Rico; and

(g) individuals employed outside the United States of America.

The decision of whether an individual falls into one of these categories and whether an individual is employed by an Employer on a regular basis in a non-store position for a minimum of 12 months shall be made by the Employer in its sole discretion. Any individual who is excluded from being considered an Eligible Employee under the Plan shall be excluded from the Plan regardless of the individual's reclassification by a government agency, including a reclassification by the Internal Revenue Service for tax withholding purposes.

1.5 “Employer” shall mean CVS Pharmacy, Inc. and Caremark Rx, L.L.C. and any current or future Affiliate thereof that does not maintain its own severance plan for employees of that Affiliate.

1.6 “ERISA” shall mean the Employee Retirement Income Security Act of 1974, as amended.

1.7 “Exempt Employee” shall mean an Eligible Employee who is paid on a salaried basis for payroll purposes and classified in the sole discretion of the Employer under its normal classification procedures as an exempt employee under the Fair Labor Standards Act.

1.8 “Involuntary Termination” shall mean an Eligible Employee's termination of employment with the Employer due to the unilateral action of the Employer, including but not limited to a termination as a result of the elimination of an Eligible Employee's position due to a reorganization or changes in responsibilities, a reduction in force, or a closing of the business unit in which the Eligible Employee works; provided, however, that such Involuntary Termination constitutes a separation from service under Treasury Regulation Section 1.409A-1(h). Notwithstanding the foregoing, an Eligible Employee will not have an Involuntary Termination if the Eligible Employee: (a) is terminated for Cause, as determined by the Employer in its sole discretion; (b) voluntarily terminates employment or resigns prior to an Involuntary Termination; (c) takes a leave of absence; (d) is administratively terminated for failure to return from a leave of absence upon expiration of his or her leave; (e) terminates employment due to his or her death; (f) transfers to an Affiliate; (g) transfers to a new employer in connection with the sale of an Employer facility; or (h) fails to accept an offer for a job with the Employer that is comparable to the job that he or she is performing for the Employer at the time of the offer. For purposes of Subsection (h) of this Section 1.8, whether a job is considered “comparable” shall be determined in the sole discretion of the Employer, taking into account whether the new job is located 50 or fewer miles from the Eligible Employee's job at the time of the offer, whether the compensation offered is materially less than the Eligible Employee's compensation at the time of the offer, and whether the new job will result in a substantial change of duties from the Eligible Employee's job at the time of the offer. The determination of whether an Eligible Employee's termination of employment is an Involuntary Termination shall be made in the sole discretion of the Employer. If an Employer deems an Eligible Employee's termination of employment to be an Involuntary Termination and, Employer later learns of facts and circumstances that, had

the Employer known such facts and circumstances at the time of termination, would have resulted in a termination of employment for Cause, the Eligible Employee's termination shall be deemed as of the date of termination to not have been an Involuntary Termination.

1.9 “Non-exempt Employee” shall mean an Eligible Employee who is paid on an hourly basis for time worked and classified in the sole discretion of the Employer under its normal classification procedures as a non-exempt employee under the Fair Labor Standards Act.

1.10 “Plan Administrator” shall mean the Senior Vice President of Human Resources of CVS Pharmacy, Inc., or such other person designated to act as the Plan Administrator.

1.11 “Rehire Date” shall mean the date an Eligible Employee accepts reemployment with any Employer.

1.12 “Severance Pay” shall mean the pay an Eligible Employee is eligible to receive under Subsection (b) of Section 2.1 of the Plan upon his or her Involuntary Termination.

1.13 “Severance Period” shall mean the period of time during which an Eligible Employee is eligible to receive Severance Pay.

1.14 “Transaction-Related Termination” shall mean an Involuntary Termination, of an Eligible Employee in a Corporate/Shared Services function, that is deemed by the Plan Administrator, in his or her sole discretion, after consultation with the Employer, to have resulted from the Company's acquisition of Aetna, Inc., at any time during the period beginning with the date the acquisition closes and ending on the second anniversary of such closing date. For this purpose, a Corporate/Shared Services function shall exclude all functions in MinuteClinic, MinuteClinic IT, Omnicare, Specialty/Coram, Retail Merchandising, Retail & Pharmacy Growth, Retail Supply Chain, Retail Pharmacy Operations, Retail Stores & Field and in any other business unit that may be determined by the Plan Administrator from time to time, regardless of which Employer employs the Eligible Employee.

1.15 “Weekly Rate” shall mean, (a) with respect to an Eligible Employee paid on a salaried basis, an Eligible Employee's annual base salary (as determined by the Employer), as of the date of the Eligible Employee's Involuntary Termination, expressed on a weekly basis (as determined in the sole discretion of the Employer), and (b) with respect to an Eligible Employee paid on an hourly basis, the hourly wage rate of the Eligible Employee as of the date of the Eligible Employee's Involuntary Termination multiplied by the Eligible Employee's regularly scheduled number of hours of service per week (as determined by the Employer), not in excess of 40 hours. Weekly Rate shall exclude any overtime, incentive, and bonus payments, unless otherwise required by law.

1.16 “Year of Service” shall mean each full year of service performed by the Eligible Employee for an Employer as reflected in the records of the Employer and as determined as of the Eligible Employee's date of termination of employment, based on the Employer's policies and procedures for determining periods of service, and the applicable law.

ARTICLE 2

SEVERANCE PAY AND ELIGIBLE EMPLOYEE BENEFITS

2.1 (a) Eligibility. Upon his or her Involuntary Termination, an Eligible Employee may, in the discretion of the Plan Administrator, be granted Severance Pay and benefits provided under Subsections (b), (c), and (d) of this Section 2.1, provided the conditions of Section 2.2 are satisfied. The determination of whether Severance Pay is payable under the Plan, and the form and amount of such pay, shall be made in the sole discretion of the Plan Administrator.

(b) Severance Pay. The Severance Pay payable to an Eligible Employee in the event of Involuntary Termination shall be determined by the Plan Administrator in its sole discretion, using the following guidelines

for the applicable Eligible Employee classification:

(i) For Eligible Employees who are Non-exempt Employees:

(A) the Eligible Employee's Weekly Rate multiplied by two (2), plus

(B) an amount equal to the Eligible Employee's Weekly Rate multiplied by the number of Years of Service completed by the Eligible Employee multiplied by two (2),

provided Severance Pay for Non-exempt employees should not exceed the Eligible Employee's Weekly Rate multiplied by thirteen (13);

(ii) For Eligible Exempt Employees in grades 105-108, 201-203, 301, 302, 405-408:

(A) the Eligible Employee's Weekly Rate multiplied by four (4), plus,

(B) an amount equal to the Eligible Employee's Weekly Rate multiplied by the number of Years of Service completed by the Eligible Employee multiplied by two (2),

provided Severance Pay for Exempt Employees should not exceed the Eligible Employee's Weekly Rate multiplied by twenty (20);

(iii) For Eligible Exempt Employees in grades 109-111, 204, 205, 303, 304, 409-411, the greater of

(A) the Eligible Employee's Weekly Rate multiplied by thirteen (13) or,

(B) the amount determined under the formula set forth in the immediately preceding Paragraph (ii), provided Severance Pay should not exceed the Eligible Employee's Weekly Rate multiplied by twenty (20);

(iv) For Eligible Exempt Employees in grades 112, 206, 305, 412, the Eligible Employee's Weekly Rate multiplied by twenty-six (26);

(v) For Eligible Exempt Employees in grades 36A-Z, the Eligible Employee's Weekly Rate multiplied by fifty-two (52); and

(vi) For Eligible Exempt Employees in grades 38A-Z and 39 A-Z, the Eligible Employee's Weekly Rate multiplied by fifty-two (52).

Notwithstanding the above guidelines, in the event of a Transaction-Related Termination of an Eligible Employee, Severance Pay shall be determined by the Plan Administrator in its sole discretion, using the following guidelines for the applicable Employee classification:

(1) For Eligible Employees who are Non-exempt Employees:

(A) the Eligible Employee's Weekly Rate multiplied by two (2), plus

(B) an amount equal to the Eligible Employee's Weekly Rate multiplied by the

number of Years of Service completed by the Eligible Employee multiplied by two (2),

provided Severance Pay for Non-exempt employees should not exceed the Eligible Employee's Weekly Rate multiplied by thirty-one (31);

(2) For Eligible Exempt Employees in grades 105-108, 201-203, 301, 302, 405-408:

(A) the Eligible Employee's Weekly Rate multiplied by four (4), plus

(B) an amount equal to the Eligible Employee's Weekly Rate multiplied by the number of Years of Service completed by the Eligible Employee multiplied by two (2),

provided Severance Pay for Exempt Employees should not exceed the Eligible Employee's Weekly Rate multiplied by thirty-one (31);

(3) For Eligible Exempt Employees in grades 109-111, 204, 205, 303, 304, 409-411, the greater of (A) the Eligible Employee's Weekly Rate multiplied by thirteen (13) or, (B) the amount determined under the formula set forth in the immediately preceding Paragraph (2), provided Severance Pay should not exceed the Eligible Employee's Weekly Rate multiplied by forty-four (44);

(4) For Eligible Exempt Employees in grades 112, 206, 305, 412:

(A) the Eligible Employee's Weekly Rate multiplied by twenty-six (26), plus

(B) an amount equal to the Eligible Employee's Weekly Rate multiplied by the number of Years of Service completed by the Eligible Employee multiplied by two (2),

provided Severance Pay for Exempt Employees should not exceed the Eligible Employee's Weekly Rate multiplied by ninety-six (96);

(5) For Eligible Exempt Employees in grades 36A-Z, who have completed at least five (5) Years of Service:

(A) the Eligible Employee's Weekly Rate multiplied by fifty-two (52), plus

(B) an amount equal to the Eligible Employee's Weekly Rate multiplied by the number of Years of Service completed in excess of four (4) Years of Service by the Eligible Employee multiplied by two (2),

provided Severance Pay for Exempt Employees should not exceed the Eligible Employee's Weekly Rate multiplied by ninety-six (96); and

(6) For Eligible Exempt Employees in grades 38A-Z and 39 A-Z:

(A) the Eligible Employee's Weekly Rate multiplied by seventy-eight (78), plus

(B) provided the Eligible Exempt Employee has completed at least five (5) Years of Service, an amount equal to the Eligible Employee's Weekly Rate multiplied by the number of Years of Service completed in excess of four (4) Years of Service by the Eligible Employee multiplied by two (2),

provided Severance Pay for Exempt Employees should not exceed the Eligible Employee's Weekly Rate multiplied by ninety-six (96).

Notwithstanding the above guidelines, the Plan Administrator may increase or decrease (including, to zero) the amount of Severance Pay with respect to any Eligible Employee for reasons it deems appropriate in its sole discretion (including, but not limited to, an increase to provide consideration for Eligible Employees who have outstanding employment agreements with an Employer or a decrease to take into account any debts owed to an Employer), at any time, whether before or after payments of Severance Pay have commenced.

(c) COBRA Assistance. In the event an Eligible Employee who has an Involuntary Termination (i) is eligible to elect continuation coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 as amended (“COBRA”) in accordance with the terms of the medical and prescription drug plan and/or dental plan of the Employer and (ii) properly and timely elects such continuation coverage, the Employer may pay for a portion of the cost of COBRA coverage equivalent to the contribution which the Employer makes on behalf of similarly situated active employees under such plan for the appropriate tier of coverage selected and in place immediately prior to the date of the Eligible Employee’s Involuntary Termination (e.g. , employee-only, family coverage), for a period determined in the sole discretion of the Plan Administrator, which generally shall be the Severance Period but in any event no longer than eighteen (18) months from the date of the Involuntary Termination. Any COBRA assistance provided under this Subsection (c) shall be paid by the Employer directly to the insurance carrier, if applicable. The portion of the COBRA premium not covered by the COBRA assistance specified in this Subsection (c) must be paid by the Eligible Employee directly to the insurance carrier or service provider that administers COBRA, as applicable, based on the standard rules under the respective plan for payment of COBRA premiums. This Subsection (c) does not provide COBRA assistance in the event the Eligible Employee fails to properly and timely elect COBRA continuation coverage, regardless of whether his or her covered dependents elect COBRA continuation coverage.

(d) Outplacement Services. Upon an Involuntary Termination, the outplacement services provided to an Eligible Employee shall be provided in the sole discretion of the Plan Administrator based on the guidelines contained in this Subsection (d).

(i) If an Eligible Employee so desires, he or she may be eligible for outplacement services for assistance in obtaining new employment, provided through a vendor selected by the Employer, with the Employer directly providing payment to such vendor. The provision of outplacement services is contingent upon the Eligible Employee’s cooperation with the outplacement service vendor, upon the active efforts of the Eligible Employee to locate a new position, and upon the Eligible Employee initiating outplacement services during the Severance Period.

(ii) Subject to the requirements of Paragraph (i) of this Subsection (d), outplacement services shall be offered for a period of time determined in the sole discretion of the Plan Administrator, based on guidelines that include:

(A) a virtual or group training session for Eligible Non-exempt Employees and Exempt Employees in grades 105-108, 201-203, 301, 302, 405-408;

(B) three (3) months of outplacement services for Eligible Exempt Employees in grades 109-112, 204-206, 303-305, 409-412; and

(C) six (6) months of outplacement services for Eligible Exempt Employees in grades 36A-Z, 38A-Z, and 39 A-Z;

provided, in no event shall such services extend beyond twelve (12) months following the Involuntary Termination of the Eligible Employee.

(e) Form and Timing of Payment. In the event an Eligible Employee is awarded Severance Pay

under the terms of Subsection (a) of this Section 2.1, such Severance Pay shall be paid following an Eligible Employee's Involuntary Termination (except as provided in Section 2.3, below), as follows: No Severance Pay shall commence (with respect to salary continuation payments) or be paid (with respect to a lump sum) (i) prior to the expiration of the later of a period that is identified in a separate agreement with the Eligible Employee during which he or she may consider the execution of the release of claims form (the "Consideration Period") or a period ending at least seven (7) days following the execution of the release of claims form (the "Revocation Period"), or (ii) later than sixty (60) days following the date of Eligible Employee's Involuntary Termination. Severance Pay that is paid in the form of salary continuation shall commence as soon as feasible following expiration of the later of the Consideration Period or the Revocation Period, which generally shall be the first regularly scheduled payroll date following the expiration of the Consideration Period or the Revocation Period, as the case may be, and shall thereafter be paid in substantially equal installments in accordance with the Employer's regular payroll practice, except as provided in Section 2.3 of the Plan. Further, in the Plan Administrator's sole discretion, Severance Pay may be paid to any Eligible Employees in a single lump sum, in which event Severance Pay shall be paid within the period that satisfies the 409A requirements for short-term deferrals under Section 409A of the Code.

(f) Withholding. Any payment of Severance Pay to an Eligible Employee shall be subject to normal withholding for state and federal income taxes and Social Security taxes.

(g) Death. Upon the death of the Eligible Employee who had an Involuntary Termination and who has not received all Severance Pay payable under the Plan, the Severance Pay otherwise payable under Section 2.1(b) of the Plan shall be paid in the form of a lump sum to the Eligible Employee's estate or beneficiary as soon as practicable, but in no event later than 60 days following death. Any other severance benefits provided under this Section 2.1 (COBRA assistance and outplacement services) shall cease upon the Eligible Employee's death.

2.2 Conditions on Payment of Severance Pay and Benefits. Payment of the Severance Pay and benefits provided in Section 2.1 of the Plan shall be subject to and conditioned upon the following:

(a) to the extent an Eligible Employee receives notice of a date selected by the Employer (in its sole discretion) on which the Eligible Employee's Involuntary Termination shall occur (a "Designated Termination Date"), the Eligible Employee must continue to work in a satisfactory manner until his or her Designated Termination Date;

(b) the Eligible Employee must cooperate in transitioning all of the Eligible Employee's work in consultation with the Eligible Employee's supervisor or other designated employee;

(c) the Eligible Employee must execute and deliver a release of claims form (in the form specified by the Employer from time to time which may include restrictive covenants and, if applicable, a waiver as described in Subsection (d) of this Section 2.2) within the time period specified under the terms of the applicable severance offer. Further, in no event will Severance Pay be paid with respect to an Eligible Employee in the event the release of claims form is revoked during the Revocation Period (described in Section 2.1(e) of the Plan); and

(d) the Eligible Employee must waive the right to receive any other severance payment relating to salary continuation or salary replacement the Eligible Employee may otherwise be eligible to receive upon termination of employment under any employment agreement, severance plan, practice, policy or program of the Employer or an Affiliate.

2.3 Maximum Severance Pay. Notwithstanding any other provisions to the contrary, benefits paid hereunder (a) shall not exceed two times the lesser of (i) the Eligible Employee's Compensation (as defined in this Section 2.3) during the calendar year immediately preceding the Eligible Employee's Involuntary Termination

or (ii) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Code for the calendar year in which the Eligible Employee's Involuntary Termination occurs and (b) shall be paid in full within twenty-four (24) months after the date the Eligible Employee's Involuntary Termination occurs. In the event that any Severance Pay payable to an Eligible Employee would exceed the twenty-four (24) month period provided in the foregoing sentence if the Severance Pay continued to be paid in accordance with the Employer's regular payroll practice, any Severance Pay that would otherwise exceed the twenty-four (24) month time period will be paid to the Eligible Employee in a lump sum on the last regular payroll date within the twenty-four (24) month period. For purposes of this Section 2.3, "Compensation" shall mean the Eligible Employee's total annualized compensation, based upon the annual rate of pay for services provided to the Employer for the calendar year preceding the calendar year in which the Eligible Employee's Involuntary Termination occurs, adjusted for any increase in such preceding calendar year that was expected to continue indefinitely if the Eligible Employee had not had an Involuntary Termination.

2.4 Cessation of Severance Pay Upon Reemployment. If an Eligible Employee who had an Involuntary Termination and who is receiving Severance Pay thereafter accepts reemployment with any Employer during the Severance Period, such Employee's Severance Pay shall cease on the Rehire Date and any remaining Severance Pay shall be forfeited.

2.5 Cessation of Severance Pay After Commencement of Payments. If an Eligible Employee is deemed to have an Involuntary Termination and begins to receive Severance Pay under the Plan and the Employer or the Plan Administrator becomes aware of facts and circumstances that, had the Employer known same at the time of the Eligible Employee's termination of employment, would have affected the Employer's determination as to whether such Employee's termination was an Involuntary Termination, the Plan Administrator may suspend any future Severance Pay payments to the Eligible Employee while the Employer investigates the facts and circumstances and finalizes such investigation, and, if the Employer determines that the Eligible Employee should have been terminated for Cause, such Eligible Employee's Severance Pay shall cease as of the suspension date, any remaining Severance Pay shall be forfeited and any Severance Pay that has been paid shall be subject to repayment by the Eligible Employee.

2.6 Impact of Debt on Severance Pay. In the event an Eligible Employee is indebted to the Company or Employer (determined in the sole discretion of the Company or Employer, as applicable), the Plan Administrator reserves the right to reduce, offset, withhold, and/or forfeit the Severance Pay otherwise payable under the Plan.

2.7 Employee Benefits. As of the date of an Eligible Employee's Involuntary Termination, the Eligible Employee's active participation in any benefit plan, program, or policy sponsored or subsidized by the Employer shall cease, unless otherwise continued pursuant to the terms of such plan, program or policy.

2.8 Awards. Any award or grant made to the Eligible Employee under any stock option, stock purchase, or stock appreciation rights plan of the Company or Employer shall be administered and interpreted in accordance with the terms of the applicable plan documents.

2.9 Paid Time Off. Any pay for accrued paid time off shall be determined under the terms of the Employer's applicable policies.

2.10 Benefits Not Vested. No one under any circumstance is automatically entitled to Severance Pay and benefits described in Section 2.1 of the Plan. Notwithstanding anything in the Plan to the contrary, the Plan Administrator reserves the right, at its sole discretion, to increase, decrease, or eliminate Severance Pay and benefits under the Plan.

2.11 Bonuses. Whether any bonuses are payable to an Eligible Employee shall be determined based on the terms of any applicable bonus program, plan, or policy.

ARTICLE 3
ADMINISTRATION OF THE PLAN

3.1 Control and Administration. Notwithstanding any other provision in the Plan, and to the full extent permitted under ERISA and the Internal Revenue Code, the Plan Administrator shall have the exclusive right, power and final authority, in its sole and absolute discretion, to administer, apply, construe and interpret the terms of the Plan and all related plan documents and all facts surrounding claims for benefits under the Plan and shall determine all questions arising in the administration, interpretation and application of the Plan, including, but not limited to, those concerning eligibility for benefits. Accordingly, benefits under the Plan shall be paid only if the Plan Administrator decides in its discretion that an Eligible Employee is entitled to benefits, and the Plan Administrator shall decide all questions regarding the form, amount and duration of benefits. The Plan Administrator may consult with attorneys, consultants and other persons for advice, counsel and reports to make determinations under the Plan, and the Plan Administrator may delegate its administrative duties and responsibilities to persons or entities of its choice, in all cases who may be employees of the Company. All determinations of the Plan Administrator shall be conclusive and binding on all parties. The Plan Administrator shall be the named fiduciary of the Plan for purposes of ERISA.

3.2 Claim Procedures.

(a) Procedure for Granting or Denying Claims. An Eligible Employee, or his or her duly authorized representative, may file a claim for payment of benefits under the Plan within 30 days after termination of employment. Such a claim must be made in writing and be delivered to the Plan Administrator, in person or by mail, postage paid. Within 90 days after receipt of such claim, the Plan Administrator shall notify the claimant of the granting or denying, in whole or in part, of such claim, unless special circumstances require an extension of time for processing the claim. In no event may the extension exceed 90 days from the end of the initial 90-day period. If such extension is necessary, the claimant will be given a written notice to this effect prior to the expiration of the initial 90-day period. The Plan Administrator shall have full discretion to deny or grant a claim in whole or in part.

(b) Requirement for Notice of Claim Denial. The Plan Administrator shall provide to every claimant who is denied a claim for benefits a written or electronic notice setting forth in a manner calculated to be understood by the claimant:

- (i) The specific reason or reasons for the denial;
- (ii) Specific reference to pertinent Plan provisions on which the denial is based;
- (iii) A description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material is necessary; and
- (iv) An explanation of the Plan's claim review procedures and the time limits applicable to such procedures, including a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse determination on review.

(c) Right to Appeal on Claim Denial. Within 60 days after receipt by the claimant of written or electronic notification of the denial (in whole or in part) of his or her claim, the claimant or his or her duly authorized representative may make a written application to the Plan Administrator, in person or by certified mail, postage prepaid, to be afforded a full and fair review of such denial. The claimant or his or her duly authorized representative may submit written comments, documents, records, and other information relating to the claim for benefits. Moreover, the claimant or his or her duly authorized representative shall be provided, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits.

(d) Disposition of Disputed Claims. Upon receipt of a request for review, the Plan Administrator shall make a decision on the claim. The review shall take into account all comments, documents, records, and other information submitted by the claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The decision on review shall be made not later than 60 days after the Plan Administrator's receipt of a request for a review, unless special circumstances require an extension of time for processing, in which case a decision shall be rendered not later than 120 days after receipt of the request for review. If an extension is necessary, the claimant shall be given written notice of the extension prior to the expiration of the initial 60-day period.

The Plan Administrator shall provide the claimant or his or her duly authorized representative with written or electronic notification of the Plan's determination on review. In the case of an adverse determination, the notification shall set forth, in a manner calculated to be understood by the claimant, the specific reason or reasons for the decision as well as specific references to the Plan provisions on which the decision was based. The decision shall also include a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits. Moreover, the decision shall contain a statement of the claimant's right to bring an action under Section 502(a) of ERISA.

3.3 Conditions to Legal Action. No legal action may be commenced or maintained against the Plan, the Company or any Employer prior to the claimant's exhaustion of the claims procedures set forth in Section 3.2 of the Plan. In addition, no legal action may be commenced against the Plan more than ninety (90) days after the Plan Administrator's final claim determination on review pursuant to Section 3.2(d) of the Plan. Any legal action must be conducted in the United States District Court for Rhode Island.

3.4 Named Fiduciary. The Plan Administrator of the Plan shall be the Named Fiduciary of the Plan for purposes of ERISA Section 402(a)(1).

ARTICLE 4 MISCELLANEOUS

4.1 Amendment or Termination. The Plan may be amended, terminated, withdrawn or suspended at any time in writing by the Management Planning and Development Committee of the Company or any individual designated by such Committee to take such actions.

4.2 Choice of Law. The validity, interpretation, construction and performance of the obligations created under the Plan shall be governed by ERISA, and to the extent not preempted by federal law, the laws of the State of Rhode Island without regard to its conflicts of law principles.

4.3 Validity. The invalidity or unenforceability of any provision of the Plan shall not affect the validity or enforceability of any other provision of the Plan, which shall remain in full force and effect.

4.4 Plan Exclusive Source of Rights. The Plan contains all of the terms and conditions with respect to the benefits provided hereunder, and no Eligible Employee or former Eligible Employee may rely on any other communication or representation, whether oral or written, of the Employer or any of its subsidiaries, or any officer or Eligible Employee thereof, as creating any right or obligation not expressly provided by the Plan.

4.5 Nonassignability. No benefit which shall be payable under the Plan to any Eligible Employee shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, or charge (except as required by law), and any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, or charge a benefit shall be null and void. No benefit shall in any manner be liable for, or subject to, the debts, contracts, liabilities, engagements, or torts of any Eligible Employee. No benefit shall be subject to legal attachment or legal process for, or against, the Eligible Employee and the same shall not be recognized under the Plan. Notwithstanding

the preceding sentence, the Employer retains the discretion, in accordance with federal and/or state laws, to reduce the amount of benefits payable under the Plan to any Eligible Employee to recover any amounts that the Eligible Employee owes to the Employer.

4.6 No Employment Rights. The Plan shall not give any Eligible Employee any right or claim except to the extent that the right is specifically provided under the terms of the Plan. The establishment of the Plan shall not be construed (a) to give any Eligible Employee a right to continue in the employ of the Employer or (b) to interfere with the right of the Employer to terminate the employment of any Eligible Employee at any time.

4.7 Headings. Article and section headings are for convenience only and the language of the Plan itself will be controlling.

4.8 Gender and Numbers. Masculine pronouns include the feminine as well as the neuter genders, and the singular shall include the plural, unless indicated otherwise by the context.

4.9 Code Section 409A. The benefits provided under the terms of the Plan are intended to fall within the short-term deferral exception, the separation pay exception or another exception to the application of Section 409A of the Code and the applicable guidance issued thereunder. In furtherance of this intent, the Plan shall be interpreted, operated and administered in a manner consistent with this intention. To the extent the benefits provided under the Plan become subject to Code Section 409A and applicable guidance issued thereunder, the Plan shall be construed, and benefits paid hereunder, as necessary to comply with Section 409A of the Code and such guidance. Further, to the extent that an Eligible Employee becomes entitled to receive Severance Pay under the terms of the Plan, and, at the time of the Eligible Employee's Involuntary Termination, he or she is a "specified employee" within the meaning of Treasury Regulation Section 1.409A- 1(i), any portion of Severance Pay payable to such Eligible Employee that is subject to Code Section 409A and applicable guidance thereunder shall be delayed until the date that is the earlier of (i) the Eligible Employee's death or (ii) six months following the date of the Eligible Employee's Involuntary Termination, at which time the payments that were delayed for such six month period shall be paid in a lump sum on the date of the next occurring regular payroll date of the Employer, and any remaining payments shall be paid according to the original schedule provided herein. In addition, each payment of a salary continuation stream of installment payments hereunder shall be a separate payment for purposes of Section 409A of the Code.

4.10 Funding. The Plan is not funded, and Severance Pay and benefits under the Plan are paid from the general assets of the Employer.

4.11 Plan Year. The Plan's records shall be maintained on the basis of the calendar year.

IN WITNESS WHEREOF, the Management Planning and Development Committee of the Company, or its duly authorized delegate, has amended the Plan as of the Effective Date pursuant to the execution hereof on its behalf by a duly authorized officer on .

CVS HEALTH CORPORATION

By: /s/ Lisa G. Bisaccia

Title: Executive Vice President and Chief Human Resources Officer, CVS Pharmacy, Inc.



CVS Health Corporation
Performance-Based Restricted Stock Unit Program

I. Objectives and Summary

The objective of the CVS Health Corporation (the “Company”) Performance-Based Restricted Stock Unit Plan (“PBRS Plan”) is to reward eligible participants for their role in achieving the Company’s Earnings before Interest and Taxes (“EBIT”) target and to encourage continued employment with the Company and its subsidiaries. PBRS Awards are generally delivered as restricted stock units (“RSUs”) and are based on actual results measured against pre-established targets.

II. Administration

The PBRS Plan shall be administered by the Management Planning and Development Committee (the “Committee”) of the Board of Directors, or its designee, under the provisions of the 2017 Incentive Compensation Plan or any successor plan (the “ICP”). The Committee shall have full and final authority, in each case, subject to and consistent with the provisions of the ICP and the PBRS Plan, to construe and interpret rules and regulations for the administration of the PBRS Plan, correct defects, supply omissions or reconcile inconsistencies therein, and to make all other decisions and determinations as the Committee may deem necessary or advisable for the administration of the PBRS Plan. Capitalized terms not otherwise defined herein shall have the meaning assigned to such terms in the ICP. In the event of a conflict between the ICP and the PBRS Plan, the provisions of the ICP shall control.

III. PBRS Plan Year

The “PBRS Plan Year” commences on January 1 and ends on December 31 of each year, unless otherwise approved by the Committee. All dates in this document occur during the current PBRS Plan Year unless otherwise stated.

IV. Eligibility

A. Eligible Employees

The Chief Executive Officer (the “CEO”) or the CEO’s designee determines those employees of the Company and its subsidiaries who are eligible to participate in the PBRS Plan (“Eligible Employees”). In general, Eligible Employees are those employees who are (i) officers of CVS Pharmacy, Inc. who are Vice Presidents or above, and (ii) senior officers of other subsidiaries who have been designated as Eligible Employees by the CEO or his or her designee. Generally, Business Planning Committee (“BPC”) members are not eligible to participate, unless otherwise named as an Eligible Employee by the Committee.

B. Newly-Hired Eligible Employees

A newly-hired employee satisfying the requirements set forth in Paragraph IV.A is an Eligible Employee and may receive a PBRS Award for the PBRS Plan Year in which he or she is hired provided he or she is hired on or before November 1 and remains in an Eligible Employee position through December 31 of the PBRS Plan Year.

C. Participants

Unless the Committee is required to make such determinations under applicable law or the ICP, the CEO or the CEO’s designee shall determine which Eligible Employees will receive an award under the PBRS Plan (a “PBRS Award”). All such determinations, whether by the CEO, the CEO’s designee, or the Committee, with respect to a PBRS (“Plan Year”) shall be made no later than the last business day of February immediately

following the PBRS Plan Year (the “PBRS Award Date”). Each Eligible Employee who receives a PBRS Award is a “Participant”. No Eligible Employee has any right to receive a PBRS Award, regardless of whether such Eligible Employee is employed on the last day of the PBRS Plan Year, and the determination of whether an Eligible Employee will be a Participant shall be made in the sole discretion of the CEO, the CEO’s designee or the Committee, as the case may be.

D. Status Changes

(i) **Promotions**. An employee who is promoted on or before November 1 of the PBRS Plan Year to a position satisfying the requirements set forth on Paragraph IV.A is an Eligible Employee and may receive a PBRS Award for the year in which the promotion occurs.

(ii) **Demotions**: An Eligible Employee who is demoted after November 1 of the PBRS Plan Year to a position not satisfying the requirements set forth on Paragraph IV.A will remain an Eligible Employee and may receive a PBRS Award provided such demotion is not the result of voluntarily transfer to a lower level position, is not related to unsatisfactory performance, and is not as a result of a violation of a Company policy or Code of Ethics.

(iii) **Termination of Employment**

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

b) **Death or Disability**. If an Eligible Employee dies or commences a long-term disability (as defined in the either Company's long-term disability plan or by the Social Security Administrator, as determined by the “Committee”) during a PBRS Plan Year, the Eligible Employee may receive a PBRS Award at the same time PBRS Awards are made to other Participants. Such PBRS Award will be pro-rated for the number of full months (a partial month will be counted as a full month) during which the Eligible Employee was an active employee based on a full calendar year and will (unless otherwise determined by the CEO or the Committee) be paid in cash based on the Eligible Earnings of the Eligible Employee as of the time of death or commencement of long-term disability. PBRS Awards with respect to deceased Eligible Employees shall be paid to the Eligible Employee’s Beneficiary.

The decision to pay a pro rata or full award to an Eligible Employee who terminates employment with the Company and its subsidiaries prior to the PBRS Award Date for any reason other than death or long-term disability, as defined above in this section, will be at the sole discretion of the CEO or the Committee (as the case may be).

V. PBRS Funding

A. Consolidated Company Funding

PBRS funding is based on consolidated Company performance, measured by Earnings before Interest and Taxes (EBIT), and modified by customer service and client satisfaction measurements. Achievement of the Company’s EBIT target and modifiers will determine the total funding (the “Total Pool”).

EBIT may be adjusted by the financial adjustments as approved by the Committee prior to the end of the first fiscal quarter of the Plan Year (the “Financial Adjustments”). If EBIT is below the minimum performance threshold, no formulaic funding will be made available for awards, regardless of PBRS modifier metrics performance, and there shall be no awards paid under the PBRS.

B. Total Pool Funding

After the minimum threshold for EBIT has been achieved, performance of PBRS modifiers to target will be calculated for the Plan Year. The Total Pool for all business units will be fully based (100%) on consolidated Company performance.

The CEO may, for any reason and in his or her sole discretion, adjust the funding of the Total Pool based on (a) input from senior Company executives regarding their assessment of the overall performance of the Company; and (b) assessment of the achievement of Plan Year performance goals. In no case, however, can the CEO or the Committee increase Total Pool funding due to the results of the PBRS modifiers.

C. Individual Performance

The Total Pool will be available for award to Eligible Employee's under the PBRS, taking into account the individual contribution of each Eligible Employee. The award, if any, for an Eligible Employee shall be determined in the sole discretion of the Company, which shall be final, binding and conclusive as to all parties having an interest therein.

VI. Plan Payout

A. Target PBRS Award

The target PBRS award for each Employee is 25% of "Eligible Earnings" (defined below) while in a PBRS Eligible position for the PBRS Plan Year. Eligible Earnings will be multiplied by the 25% target opportunity of the Eligible Participant.

Eligible Earnings include reoccurring items such as pay earned for hours worked, paid time off (e.g. vacation, sick, holiday, funeral, jury duty, military) but will exclude one-time payments such as annual cash incentives, commissions and similar payments, and earnings associated with equity releases and stock option exercises.

B. PBRS Award Determination and Vesting

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

The approved PBRS Award is generally payable in RSUs. The number of RSUs that the Participant will receive is equal to the PBRS Award divided by the closing price of Company common stock on the PBRS Award Date.

C. Vesting

The RSUs issued in respect of any PBRS Award will vest in accordance with and subject to the terms and conditions of the ICP and the applicable agreement for each PBRS Award. PBRS Awards unvested as of a Participant's termination of employment shall be governed by the terms and conditions of the applicable agreement for each PBRS Award and the PBRS Plan in effect at the time of grant of each award.

VII. Plan Administration

A. Employment Rights

The PBRS Plan does not create any express or implied contract of employment between the Company and an Eligible Employee or any other person. Both the Company and an Eligible Employee (whether or not a Participant) retain the right to terminate the employment relationship at any time and for any reason.

B. Rights are Non-Assignable

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

C. Change in Control

In the event of a Change in Control, the PBRS Plan shall remain in full force and effect. Any modifications to or dissolution of the PBRS Plan by the acquiring entity may only occur prospectively and will not affect entitlements, awards or eligibility before the date of the Change in Control.

D. Plan Amendment/Modification/Termination

The Company retains the right to amend, modify, or terminate the PBRS Plan for any reason and at any time on or before December 31 of the PBRS Plan Year, with or without notice to Eligible Employees or any other person. No representative of the Company or its subsidiaries has the authority to modify the terms of that PBRS Plan without written consent of the Chief Human Resources Officer or his or her designee.

E. Withholding

The Company may provide for the withholding from any benefits payable under the PBRS Plan all federal, state, city or other taxes as shall be required pursuant to any law or governmental regulation or ruling.

F. Section 409A of the Code

The Company intends that the PBRS Plan not violate any applicable provision of, or result in any additional tax or penalty under, Section 409A of the Internal Revenue Code of 1986 (the "Code"), as amended, and the regulations and guidance thereunder (collectively, "Section 409A") and that to the extent any provisions of the PBRS Plan do not comply with Section 409A the Company will make such changes as it deems reasonable in order to comply with Section 409A. In all events, the provisions of CVS Health Corporation's Universal 409A Definitions Document are hereby incorporated by reference and, notwithstanding any other provision of the Plan or any Award to the contrary, to the extent required to avoid a violation of the applicable rules under Section 409A by reason of Section 409A(a)(2)(B)(i) of the Code, payment of any amounts subject to Section 409A shall be delayed until the first business day of the seventh month immediately following the date of termination of employment. For purposes of any provision of the PBRS Plan providing for the payment of any amounts or benefits in connection with a termination of employment, references to an Eligible Employee's "termination of employment" (and corollary terms) shall be construed to refer to the Eligible Employee's "separation from service" with the Company as determined under Section 409A.

G. Request for Plan Interpretation

Any dispute or request for interpretation of any provision in the PBRS Plan must be submitted to the appropriate Human Resources Business Partner by the Eligible Employee or his or her manager in writing.

H. Compliance with Applicable Regulations

In order to be eligible to receive a PBRS Award under the PBRS Plan, a Participant must comply with all applicable state and federal regulations and Company policies.

I. Governing Law

The validity, construction and effect of the PBRS Plan, and any rules and regulations under the Plan shall be determined in accordance with Delaware law, without giving effect to principles of conflicts of laws, and applicable federal law.

J. Recoupment

Except as may be specifically provided in the PBRS Award, each PBRS Award under the PBRS Plan shall be subject to the terms of the Company's Recoupment Policy as it exists from time to time, which may require the Participant to immediately repay to the Company the value of any pre-tax economic benefit that he or she may derive under the PBRS Plan.



**CVS HEALTH CORPORATION
NONQUALIFIED STOCK OPTION AGREEMENT**

GRANT DATE: [_____]

1. GRANT OF AWARD. Pursuant and subject to the provisions of the 2017 Incentive Compensation Plan of CVS Health Corporation (the “**ICP**”), on the date set forth above (the “**Grant Date**”), CVS Health Corporation (the “**Company**”) has granted and hereby evidences the Grant to the person named below (the “**Participant**”), subject to the terms and conditions set forth or incorporated in this Nonqualified Stock Option Agreement (“**Agreement**”), the right, and option, to purchase from the Company the aggregate number of shares of Common Stock (\$.01 par value) of the Company (“**Shares**”) set forth below, at the purchase price indicated below (the “**Option**”), such Option to be exercised as hereinafter provided. The ICP is hereby made a part hereof and Participant agrees to be bound by all the provisions of the ICP. Capitalized terms not otherwise defined herein shall have the meaning assigned to such term(s) in the ICP. The Option is a nonqualified option as defined in the ICP.

Participant:	[_____]
Employee ID:	[_____]
Shares:	[_____]
Option Price:	[_____]

2. TERM OF OPTION. The term of this Option shall be for a period of seven (7) years from the Grant Date, subject to the earlier termination of the Option, as set forth in the ICP and in this Agreement. No portion of the Option shall be exercisable after the term of the Option.

3. EXERCISE OF OPTION. (a) The Option, subject to the provisions of the ICP, shall be exercised by submitting a request to exercise to the Company’s stock option administrator, in accordance with the Company’s current exercise policies and procedures, specifying the number of Shares to be purchased, which number may not be less than one hundred (100) Shares (unless the number of Shares purchased is the total balance which is then exercisable). An exercise by Participant of all or part of this Option shall be effected through the Company’s “cashless exercise” procedures. Otherwise, at the time of exercise, Participant shall tender to the Company cash or cash equivalent for the aggregate option price of the Shares Participant has elected to purchase or certificates for Shares of Common Stock of the Company owned by Participant for at least six (6) months with a fair market value at least equal to the aggregate option price of the Shares Participant has elected to purchase, or a combination of the foregoing.

(b) Prior to its expiration or termination and except as otherwise provided herein, the Option will become vested in accordance with the vesting schedule set forth below, each date on which vesting occurs a “**Vesting Date**”, and any vested Option will be exercisable by Participant prior to the expiration of its term so long as Participant has maintained continuous employment with the Company or a subsidiary of the Company from the Grant Date through the exercise date:

- (i) 25% of the Option shall vest on the 1st anniversary of the Grant Date.
 - (ii) 25% of the Option shall vest on the 2nd anniversary of the Grant Date.
 - (iii) 25% of the Option shall vest on the 3rd anniversary of the Grant Date.
 - (iv) 25% of the Option shall vest on the 4th anniversary of the Grant Date.
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4. **TAXES**. Upon a cashless exercise of the Option the Company shall withhold from the proceeds of the exercise of the Option any required taxes. If the Option is exercised other than through a cashless exercise Company shall have the right to require Participant to pay the amount of any withholding taxes immediately, upon notification from the Company, before the proceeds from the exercise of the Option are delivered to Participant. Furthermore, the Company may elect to deduct such taxes from any other amounts then payable to Participant in cash or in Shares or from any other amounts payable any time thereafter to Participant to the extent allowed under applicable law.
5. **NON-TRANSFERABILITY**. The Option shall not be transferable by Participant other than by will or by the laws of descent and distribution, and during Participant's lifetime shall be exercised only by the Participant during the continuance of Participant's employment with the Company and any of its subsidiaries.
6. **FORFEITURE OF OPTION UPON TERMINATION OF EMPLOYMENT**. Unless otherwise provided for in the ICP or in this Agreement, as of the date on which Participant's employment with the Company and its subsidiaries terminates, the Option, to the extent unexercised as of the employment termination date, shall be forfeited immediately in its entirety, provided that, if the Participant's employment with the Company and its subsidiaries terminates without Cause, the Option, to the extent vested and unexercised, shall be exercisable at any time on or before the ninetieth (90th) day immediately following the employment termination date and, to the extent unvested, shall be forfeited immediately.
7. **TERMINATION OF PARTICIPANT'S EMPLOYMENT WITHOUT CAUSE**. In the event that Participant's employment with the Company and its subsidiaries is terminated without Cause and Participant receives severance pay following Participant's employment pursuant to a written agreement, vesting of the Option shall continue through the end of the severance period set forth in the agreement providing for such severance pay. To the extent vested, the Option shall be exercisable at any time during the severance period and on or before the ninetieth (90th) day following the last day of the severance period, as long as no government regulations or rules are violated by such continued vesting or exercise period; provided, however, that in no event will the Option be exercisable beyond its original term. Any portion of the Option not vested as of the last day of the severance period shall be forfeited as of the last day of the severance period. In the event that Participant returns to employment with the Company or any subsidiary prior to the expiration of the severance period, Participant shall be treated as if his or her employment with the Company or any subsidiary of the Company had continued through the severance period for purposes of determining eligibility for continued vesting.
8. **RETIREMENT OF PARTICIPANT**. In the event Participant's employment with the Company and any subsidiary of the Company terminates by reason of a Qualified Retirement, Participant (a) shall continue to vest in the Option, to the extent unvested as of the retirement date, for a period of three (3) years following Participant's retirement date and (b) may exercise the Option, to the extent vested, at any time within the period of three (3) years following Participant's retirement date, but not beyond the original term of the Option, in both cases as long as no government regulations or rules are violated by such continued vesting or exercise period. To the extent unvested or unexercised at the end of the three (3) year period following Participant's retirement date, the Option shall be forfeited. In the event Participant's termination of employment qualifies as a Qualified Retirement and Participant also enters into a severance agreement with the Company, the terms of this Section 8 shall apply with respect to the vesting and exercise of the Option as of the Participant's employment termination date. "**Qualified Retirement**" shall mean termination of employment on or after attainment of age fifty-five (55) with at least ten (10) years of continuous service, or attainment of age sixty (60) with at least five (5) years of continuous service, provided that: (i) if Participant elects to terminate his or her employment voluntarily, Participant has provided the Company with at least twelve (12) months advance notice, in accordance with the provisions of Section 13 below, of his or her retirement date or such other term of advance notice as is determined by the Chief Human Resources Officer of the Company; or (ii) if the Company elects to terminate Participant's employment, such termination is without cause. A Participant shall also be deemed to have experienced a Qualified Retirement if the Company elects to terminate Participant's employment without Cause and Participant shall meet the age and service requirement set forth above during the severance period set forth in a severance agreement with the Company.
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- 9. DISABILITY OF PARTICIPANT.** In the event Participant's employment with the Company and any subsidiary of the Company terminates by reason of total and permanent disability (as defined in the Company's Long-Term Disability Plan, or, if not defined in such Plan, as defined by the Social Security Administration), the Option shall vest as of the employment termination date on a pro-rata basis as follows: the Option shall vest with respect to a total number of Shares as of the employment termination date (which is the last day that Participant is employed by the Company and any subsidiary of the Company) equal to (i) the number of Shares subject to the Option on the Grant Date *multiplied* by the following fraction: (A) the numerator shall be the whole number of months elapsed as of the employment termination date since the Grant Date and (B) the denominator shall be forty-eight (48), *minus* (ii) the number of Shares with respect to which the Option vested prior to the employment termination date (whether or not the Option was previously exercised). For purposes of this calculation, the number of months in the numerator in sub-section (A) above shall include any partial month in which Participant has worked. For example, if the time elapsed between the Grant Date and the employment termination date is eight months and five days, the numerator in sub-section (A) above shall be nine . The Option may be exercised to the extent vested at any time within one (1) year of Participant's employment termination date but not beyond the original term of the Option. The prorated Option shall vest on the Participant's employment termination date.
- 10. DEATH OF PARTICIPANT.** In the event of Participant's death while Participant is employed with the Company and any subsidiary of the Company, the Option shall immediately vest in full, and the Option shall remain exercisable for a period of one (1) year after Participant's death, or until the Option expiration date, whichever occurs first, by Participant's Beneficiary. At the end of said one (1)-year time period, all rights with respect to any Option that is unexercised shall terminate and the Option shall be cancelled.
- 11. TRANSFER OF EMPLOYMENT.** Transfer of Participant's employment from the Company to a subsidiary of the Company, among or between subsidiaries of the Company, or from a subsidiary of the Company to the Company shall not be treated as termination of employment.
- 12. REQUIRED ACCEPTANCE OF AWARD.** The Option may not be exercised unless and until the Company has received the Participant's acceptance of the terms and conditions set forth herein. Acceptance shall be submitted electronically as required by the Company.
- 13. NOTICE.** Any notice required to be given hereunder to the Company shall be in writing. If by regular mail, any required notice shall be addressed to: CVS Health Corporation, Attention: Senior Director, Executive Compensation, One CVS Drive, Woonsocket, RI 02895. If by electronic mail, any notice required shall be sent to: equityadministration@cvshealth.com, with "Retirement Notice" in the subject line. Any notice required to be given hereunder to Participant shall be addressed to Participant at his or her address as shown on the records of the Company, subject to the right of either party hereafter to designate in writing to the other some other address.
- 14. RECOUPMENT OF OPTION AWARD.** The Option subject to this Agreement under the ICP shall be subject to the terms of the Company's Recoupment Policy as it exists from time to time, which may require the Participant to immediately repay to the Company the value of any pre-tax economic benefit that he or she may derive from the Award. By accepting this Award, Participant acknowledges that a copy of the Company's Recoupment Policy has been made available for the Participant's reference.
- 15. COMMITTEE AUTHORITY.** The Committee shall have the authority, in its sole discretion, to make any interpretations, determinations, and/or take any administrative actions with respect to the ICP and this Agreement, including whether any post-termination payments to Participant shall be deemed severance pay, the duration of any severance period, and/or whether a termination was without cause.
- 16. GOVERNING LAW.** This Nonqualified Stock Option Agreement and the Option evidenced hereby shall be governed by the laws of Delaware, without giving effect to principles of conflict of laws.
- 17. ACKNOWLEDGEMENT.** This Agreement shall be fully effective only upon the Participant's formal acceptance of the terms and conditions set forth above as required by the Company.
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By: /s/ Lisa G. Bisaccia
Executive Vice President, Chief Human Resources Officer
CVS Health Corporation



**CVS HEALTH CORPORATION
RESTRICTED STOCK UNIT AGREEMENT - ANNUAL GRANT**

GRANT DATE : [_____]

1. Pursuant and subject to the provisions of the 2017 Incentive Compensation Plan of CVS Health Corporation (the “**ICP**”), on the date set forth above (the “**Grant Date**”), CVS Health Corporation (the “**Company**”) has awarded and hereby evidences the Restricted Stock Unit (“**RSU**”) award (the “**Award**”) to the person named below (the “**Participant**”), subject to the terms and conditions set forth and incorporated in this Restricted Stock Unit agreement (the “**Agreement**”). The ICP is hereby made a part hereof and Participant agrees to be bound by all the provisions of the ICP. Capitalized terms not otherwise defined herein shall have the meaning assigned to such term(s) in the ICP. On the Grant Date specified above, the Fair Market Value (the “**FMV**”), which is the Closing Price of the Company’s common stock on the Grant Date, of each RSU equals [_____] .

Participant: [_____]
Employee ID: [_____]
RSUs (#): [_____]

2. Each RSU represents a right to a future payment of one share (“**Share**”) of Common Stock (\$0.01 par value) of the Company, subject to required tax withholding.
3. (a) To the extent dividends are paid on Shares while the RSUs remain outstanding, subject to Section 5(b), a cash amount equivalent to the dividends paid (such cash amount, a “**Dividend Equivalent**”) with respect to the number of Shares covered by the RSUs shall accrue. Any accrued Dividend Equivalent shall be payable only upon vesting of the underlying RSUs. To the extent that the underlying RSUs do not vest hereunder, any related accrued Dividend Equivalent shall be forfeited.
- (b) Participant hereby agrees that the Company may withhold from the Dividend Equivalents, referred to in Paragraph 3(a) above, amounts sufficient to satisfy the applicable tax withholding in respect of such Dividend Equivalents.
4. Subject to the terms and conditions of the ICP and this Agreement and subject to Participant’s continued employment, Participant shall be entitled to receive (and the Company shall deliver to Participant) (a) the Shares on the Vesting Date set forth herein, or as soon as administratively practicable, but within 30 days thereafter, unless delivery of the Shares has been deferred in accordance with Section 5 below (the date of such delivery of the Shares being hereafter referred to as the “**Settlement Date**”) and (b) the Dividend Equivalents on the Vesting Date(s) set forth herein, or as soon as administratively practicable but within 30 days thereafter. The “**Vesting Date**,” except as otherwise provided in Section 7, shall be the fourth anniversary of the Grant Date.
5. (a) In accordance with rules promulgated by the Management Planning and Development Committee of the Board of Directors (the “**Committee**”), Participant, to the extent eligible under the CVS Health Deferred Stock Compensation Plan, may elect to defer delivery of Shares in settlement of RSUs covered by this Agreement. Any such deferred delivery date elected by Participant shall become the Settlement Date for purposes of this RSU Agreement.
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(b) Notwithstanding Section 3(a), to the extent dividends are paid on such deferred Shares following the Vesting Date and prior to the Settlement Date, Participant shall be entitled to receive a number of additional deferred Shares equal to: (x) the amount of dividend per Share as declared by the Company's Board of Directors on the Company's common stock multiplied by (y) the number of deferred Shares held by Participant on the record date of such dividend, divided by (z) the FMV of a Share on such dividend payment date.

6. On the Settlement Date the number of Shares to be delivered by the Company to Participant shall be reduced by the smallest number of Shares having a FMV at least equal to the dollar amount of federal, state and local tax withholding required to be withheld by the Company with respect to such RSUs on such date.

7. (a) Except as provided in Paragraphs 7 (b) - (f) below, if, for any reason, Participant's employment with the Company and any subsidiary of the Company terminates, all RSUs not then vested in accordance with Section 4 above shall be immediately forfeited.

(a) In the event Participant's employment with the Company and any subsidiary of the Company terminates by reason of death, RSUs not then vested in accordance with Section 4 will become immediately vested and the Vesting Date shall be the date of death.

(b) In the event Participant's employment with the Company and any subsidiary of the Company terminates by reason of a "Qualified Retirement", RSUs shall vest on a pro-rata basis as of the Participant's retirement date, which is the last day that the Participant is employed by the Company and any subsidiary of the Company, as follows: the total number of RSUs vesting as of the retirement date shall be equal to (i) the number of RSUs granted on the Grant Date multiplied by the following fraction: (A) the numerator shall be the whole number of months elapsed as of the retirement date since the Grant Date and (B) the denominator shall be forty-eight (48). For purposes of this calculation, the number of months in the numerator in sub-section (A) above shall include any partial month in which Participant has worked. For example, if the time elapsed between the Grant Date and the retirement date is eight months and five days, the numerator in sub-section (A) above shall be nine. "Qualified Retirement" shall mean termination of employment on or after attainment of age fifty-five (55) with at least ten (10) years of continuous service, or attainment of age sixty (60) with at least five (5) years of continuous service, provided that: (i) if Participant elects to terminate his or her employment voluntarily, Participant has provided the Company with at least twelve (12) months advance notice, in accordance with the provisions of Section 10 below, of his or her retirement date or such other term of advance notice as is determined by the Chief Human Resources Officer of the Company; or (ii) if the Company elects to terminate Participant's employment, such termination is without cause. A Participant shall also be deemed to have experienced a Qualified Retirement if the Company elects to terminate Participant's employment without Cause and Participant shall meet the age and service requirement set forth above during the severance period set forth in a severance agreement with the Company. In the event Participant's termination of employment qualifies as a Qualified Retirement and Participant also enters into a severance agreement with the Company, the terms of this Section 7(c) or the terms of Section 7(e), whichever provides for greater benefits to Participant, shall be applied with respect to the vesting of RSUs that are unvested as of the employment termination date. Any Shares represented by the pro-rated RSUs that vest under this section shall settle on the Settlement Date that would have applied under the original schedule set forth in Section 4 of this RSU Agreement.

(d) In the event Participant's employment with the Company and any subsidiary of the Company terminates by reason of total and permanent disability (as defined in the Company's Long-Term Disability Plan, or, if not defined in such Plan, as defined by the Social Security Administration), the RSUs shall vest as of the employment termination date on a pro rata basis as follows: the total number of RSUs vested as of the termination date, which is the last date that the Participant is employed by the Company and any subsidiary of the Company, shall be equal to the number of RSUs granted on the Grant Date multiplied by

the following fraction: (A) the numerator shall be the whole number of months elapsed as of Participant's termination date since the Grant Date and (B) the denominator shall be forty-eight (48). For purposes of this calculation, the number of months in the numerator in sub-section (A) above shall include any partial month in which Participant has worked. For example, if the time elapsed between the Grant Date and the termination date is eight months and five days, the numerator in sub-section (A) above shall be nine. Any Shares represented by RSUs that vest under this section shall settle on the Settlement Date that would have applied under the original schedule set forth in Section 4 of this RSU Agreement.

(e) In the event Participant's employment with the Company and any subsidiary of the Company terminates and Participant receives severance pay, RSUs not vested at the time of Participant's employment termination date but scheduled to vest during the severance period specified in the agreement providing for severance pay shall continue to vest during the severance period and settle in accordance with the original schedule set forth in Section 4 of this RSU Agreement. All RSUs not scheduled to vest during the specified severance period shall be forfeited as of the last day of the Participant's severance period. In the event that Participant returns to employment with the Company or any subsidiary prior to the expiration of the severance period specified in a severance agreement with the Company, Participant shall be treated as if his or her employment with the Company or any subsidiary of the Company had continued through the severance period for purposes of determining eligibility for continued vesting. In the event Participant's termination of employment qualifies as a Qualified Retirement the terms of this Section 7(e) or the terms of Section 7(c), whichever provides for greater benefits to Participant, shall be applied with respect to the vesting of RSUs that are unvested as of the employment termination date. During any severance period, Participant is eligible to accrue Dividend Equivalents on outstanding RSUs as described in Paragraph 3(a) above.

(f) Notwithstanding the above, (i) the provisions of Section 10 of the ICP shall apply in the event of a Change in Control (as defined in such Section 10) and (ii) the provisions of Section 7(e)(iv) of the ICP shall apply.

(g) For purposes of this Section 7, transfer of Participant's employment from the Company to a subsidiary of the Company, transfer among or between subsidiaries of the Company, or transfer from a subsidiary of the Company to the Company shall not be treated as a termination of employment.

(h) Participant will be responsible for any applicable withholding or other taxes that may become due as a result of RSUs that vest as of Participant's employment termination date or thereafter.

8. An RSU does not represent an equity interest in the Company and carries no voting rights. Participant shall have no rights of a shareholder with respect to the RSUs until the Shares have been delivered to Participant.
 9. Neither the execution and delivery hereof nor the granting of the Award evidenced hereby shall constitute or be evidence of any agreement or understanding, express or implied, on the part of the Company or its subsidiaries to employ Participant for any specific period.
 10. Any notice required to be given hereunder to the Company shall be in writing. If by regular mail, any required notice shall be addressed to: CVS Health Corporation, Attention: Senior Director, Executive Compensation, One CVS Drive, Woonsocket, RI 02895. If by electronic mail, any notice required shall be sent to: equityadministration@cvshealth.com, with "Retirement Notice" in the subject line. Any notice required to be given hereunder to Participant shall be addressed to such Participant at the address shown on the records of the Company, subject to the right of either party hereafter to designate, in writing, to the other, some other address.
 11. All decisions and interpretations made by the Board of Directors or the Committee with regard to any question arising hereunder or under the ICP shall be binding and conclusive on all persons. In the event of any inconsistency between the terms hereof and the provisions of the ICP, the ICP shall govern.
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12. The award of RSUs pursuant to this Agreement is expressly subject to and contingent upon the requirement that the Participant shall have fully executed and delivered to the Company the Restrictive Covenant Agreement, that may be required and provided by the Company. The applicable agreement containing the restrictive covenants that the Company may require in connection with this award is hereafter referred to as the “Restrictive Covenant Agreement”.

If the Company intends to require Participant to execute and deliver a new Restrictive Covenant Agreement in connection with the grant hereunder, the Company shall provide such new Restrictive Covenant Agreement to Participant and Participant agrees to execute and deliver such new Restrictive Covenant Agreement by the deadline set forth by the Company. If Participant is currently subject to a Restrictive Covenant Agreement and the Company does not require Participant to execute and deliver a new Restrictive Covenant Agreement, then by accepting the award of RSUs, pursuant to this Agreement, Participant affirms his or her Restrictive Covenant Agreement and intent to be bound by the restrictions in the Restrictive Covenant Agreement and to comply with all of its provisions.

Participant agrees that failure to execute and return the new Restrictive Covenant Agreement, if required, by the deadline set forth by the Company shall result in the immediate and irrevocable forfeiture of the RSU Award hereunder and any right to receive dividend equivalents or Shares with respect thereto. Further, if Participant violates any provision of the applicable Restrictive Covenant Agreement, any unvested RSUs will be immediately and irrevocably forfeited, and no payment of any kind, including Dividend Equivalents or Shares, shall be payable with respect thereto. This Section shall not constitute the Company’s exclusive remedy for Participant’s violation of the Restrictive Covenant Agreement. The Company reserves all rights to seek all available legal or equitable remedies in the event of Participant’s violation or threatened violation of the Restrictive Covenant Agreement, including injunctive relief.

13. By accepting this Award, Participant acknowledges that a copy of the ICP has been made available by the Company for Participant’s reference and agrees to be bound by the terms and conditions set forth in this Agreement and the ICP as in effect from time to time.
 14. By accepting this Award, Participant further acknowledges that the Federal securities laws and/or Company’s policies regarding trading in its securities may limit or restrict Participant’s right to trade Shares, including without limitation, sales of Shares acquired in connection with RSUs. Participant agrees to comply with such Federal securities law requirements and Company policies, as such laws and policies may be amended from time to time.
 15. The Company intends that this Agreement not violate any applicable provision of, or result in any additional tax or penalty under, Section 409A of the Internal Revenue Code of 1986 (the “Code”), as amended, and that to the extent any provisions of this Agreement do not comply with Code Section 409A the Company will make such changes in order to comply with Code Section 409A to the extent it considers reasonable. In all events, the provisions of CVS Health Corporation’s 409A Universal Definitions Document are hereby incorporated by reference and to the extent required to avoid a violation of the applicable rules under Section 409A by reason of Section 409A(a)(2)(B)(i) of the Code, payment of any amounts subject to Section 409A of the Code shall be delayed until the first business day of the seventh month immediately following the employment termination date. For purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment, references to the “termination of employment” (and corollary terms) shall be construed to refer to “separation from service” (within the meaning of Treas. Reg. Section 1.409A-1(h)). Notwithstanding the foregoing, the Company makes no representations as to the tax treatment or consequences of any payment made hereunder, and Participant, by accepting this Award, acknowledges that Participant shall be solely responsible for same.
 16. The Award subject to this RSU Agreement under the ICP shall be subject to the terms of the Company’s Recoupment Policy as it exists from time to time, which may require the Participant to immediately repay
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to the Company the value of any pre-tax economic benefit that he or she may derive from the Award. By accepting this Award, Participant acknowledges that the Company's Recoupment Policy has been made available for the Participant's reference.

17. This Agreement shall be governed by the laws of Delaware, without giving effect to its choice of law provisions.
18. This Agreement shall be fully effective only upon the Participant's formal acceptance of the terms and conditions set forth above as required by the Company.

By: /s/ Lisa G. Bisaccia
Executive Vice President, Chief Human Resources Officer
CVS Health Corporation



**CVS HEALTH CORPORATION
PERFORMANCE-BASED RESTRICTED STOCK UNIT AGREEMENT**

GRANT DATE : [_____]

1. Pursuant and subject to the provisions of the 2017 Incentive Compensation Plan of CVS Health Corporation (the “**ICP**”), on the date set forth above (the “**Grant Date**”), the CVS Health Corporation (the “**Company**”) has awarded and hereby evidences the Performance-Based Restricted Stock (“**PBRs**”) unit award (the “**Award**”) to the person named below (the “**Participant**”), subject to the terms and conditions set forth and incorporated in this PBRs Agreement (the “**PBRs Agreement**”), the Restricted Stock Units (“**RSUs**”) set forth below. The ICP is hereby made a part hereof and Participant agrees to be bound by all the provisions of the ICP. Capitalized terms not otherwise defined herein shall have the meaning assigned to such term(s) in the ICP. On the Grant Date specified above, the Fair Market Value (the “**FMV**”) of a share of Stock equals [_____], which is the closing price on such date.

Participant	[_____]
Employee Number	[_____]
RSUs (#)	[_____]

2. Each RSU represents a right to a future payment of one share (“**Share**”) of Common Stock (\$0.01 par value) of the Company, subject to required tax withholding.
3. (a) To the extent dividends are paid on Shares while the RSUs remain outstanding, subject to Paragraph 5(b), a cash amount equivalent to the dividends paid (such cash amount, a “Dividend Equivalent”) with respect to the number of Shares covered by the RSUs shall accrue. Any accrued Dividend Equivalent shall be payable only upon vesting of the underlying RSUs. To the extent that the underlying RSUs do not vest hereunder, any related accrued Dividend Equivalent shall be forfeited.
- (b) Participant hereby agrees that the Company may withhold from the Dividend Equivalents, referred to in Paragraph 3(a) above, amounts sufficient to satisfy the applicable tax withholding in respect of such Dividend Equivalents.
4. Subject to the terms and conditions of the ICP and this PBRs Agreement, and subject to Participant’s continued employment, Participant shall be entitled to receive (and the Company shall deliver to Participant) (a) the Shares on the Vesting Date(s) set forth herein, or as soon as administratively practicable thereafter, but within 30 days, thereafter unless delivery of the Shares has been deferred in accordance with Paragraph 5 below (the date of such delivery of the Shares being hereafter referred to as the “Settlement Date”) and (b) the Dividend Equivalents on the Vesting Date(s) set forth herein, or as soon as administratively practicable but within 30 days thereafter. Each “Vesting Date,” except as otherwise provided in Paragraph 7, shall be in accordance with the schedule set forth below:
- (a) one-third (1/3) of the RSUs on the first anniversary of the Grant Date;
- (a) one-third (1/3) of the RSUs on the second anniversary of the Grant Date; and
- (b) one-third (1/3) of the RSUs on the third anniversary of the Grant Date.
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5. (a) In accordance with rules promulgated by the Management Planning and Development Committee of the Board of Directors (the “**Committee**”), Participant, to the extent eligible under the CVS Health Deferred Stock Compensation Plan, may elect to defer delivery of Shares in settlement of RSUs covered by this PBRs Agreement. Any such deferred delivery date elected by Participant shall become the Settlement Date for purposes of this PBRs Agreement.
- (b) Notwithstanding Paragraph 3(a), to the extent dividends are paid on such deferred Shares following the Vesting Date and prior to the Settlement Date, Participant shall be entitled to receive a number of additional deferred Shares equal to: (x) the amount of dividend per Share as declared by the Company’s Board of Directors on the Company’s common stock multiplied by (y) the number of deferred Shares held by Participant on the record date of such dividend, divided by (z) the FMV of a Share on such dividend payment date.
6. On the Settlement Date the number of Shares to be delivered by the Company to Participant shall be reduced by the smallest number of Shares having a FMV at least equal to the dollar amount of Federal, state and local tax withholding required to be withheld by the Company with respect to such RSUs on such date.
7. (a) Except as provided in Paragraphs 7 (b) - (f) below, if, for any reason, Participant’s employment with the Company and any subsidiary of the Company terminates, all RSUs not then vested in accordance with Paragraph 4 above, shall be immediately forfeited.
- (a) In the event Participant’s employment with the Company and any subsidiary of the Company terminates by reason of death, RSUs not then vested in accordance with Paragraph 4 will become immediately vested and Vesting Date shall be the date of death.
- (c) In the event Participant’s employment with the Company and any subsidiary of the Company terminates by reason of a “Qualified Retirement”, RSUs will become immediately vested as of Participant’s retirement date, which is the last day that the Participant is employed by the Company and any subsidiary of the Company. The Vesting Date shall be the effective date of the Participant’s termination of employment. “**Qualified Retirement**” shall mean a Participant’s termination of employment on or after attainment of age fifty-five (55) with at least ten (10) years of continuous service, or attainment of age sixty (60) with at least five (5) years of continuous service, provided that: (i) if Participant elects to terminate his or her employment voluntarily, Participant has provided the Company with at least twelve (12) months advance notice, in accordance with the provisions of Section 9 below, of the date of his or her termination of employment or such other term of advance notice as is determined by the Chief Human Resources Officer of the Company; or (ii) if the Company elects to terminate Participant’s employment, such termination is without cause. A Participant shall also be deemed to have experienced a Qualified Retirement if the Company elects to terminate Participant’s employment without Cause and Participant shall meet the age and service requirement set forth above as of during the severance period set forth in a severance agreement with the Company. In the event Participant’s termination of employment qualifies as a Qualified Retirement and Participant also enters into a severance agreement with the Company, the terms of this Section 6(c) or the terms of Section 6(e), whichever provides for greater benefits to Participant, shall be applied with respect to the vesting of RSUs that are unvested as of the employment termination date. Any Shares represented by RSUs that vest under this section shall settle on the Settlement Date that would have applied under the original schedule set forth in Section 4 of this PBRs Agreement.
- (d) In the event Participant’s employment with the Company and any subsidiary of the Company terminates by reason of total and permanent disability (as defined in the Company’s Long-Term Disability Plan, or, if not defined in such Plan, as defined by the Social Security Administration), the RSUs shall vest as of the employment termination date on a pro rata basis as follows: the total number of RSUs vesting as of the termination date, which is the last day that the Participant is employed by the Company and any subsidiary of the Company shall be equal to (i) the number of RSUs granted on the Grant Date multiplied by the following fraction: (A) the numerator shall be the whole number of months elapsed as of the
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termination date since the Grant Date and (B) the denominator shall be thirty-six (36) *minus* (ii) the number of RSUs that had vested prior to the termination date. For purposes of this calculation, the number of months in the numerator in sub-section (A) above shall include any partial month in which Participant has worked. For example, if the time elapsed between the Grant Date and the termination date is eight months and five days, the numerator in sub-section (A) above shall be nine. The Vesting Date shall be the effective date of the Participant's termination of employment. Any Shares represented by RSUs that vest under this section shall settle on the Settlement Date that would have applied under the original schedule set forth in Section 4 of this PBRS Agreement.

(e) In the event Participant's employment with the Company and any subsidiary of the Company terminates and Participant receives severance pay, RSUs not vested at the time of Participant's employment termination date but scheduled to vest during the severance period specified in the agreement providing for severance pay shall continue to vest during the severance period and settle in accordance with the original schedule set forth in Section 4 of this PBRS Agreement. All RSUs not scheduled to vest during the specified severance period shall be forfeited as of the last day of the Participant's severance period. In the event that Participant returns to employment with the Company or any subsidiary prior to the expiration of the severance period specified in a severance agreement with the Company, Participant shall be treated as if his or her employment with the Company or any subsidiary of the Company had continued through the severance period for purposes of determining eligibility for continued vesting. In the event Participant's termination of employment qualifies as a Qualified Retirement the terms of this Section 6(e) or the terms of Section 6(c), whichever provides for greater benefits to Participant, shall be applied with respect to the vesting of RSUs that are unvested as of the employment termination date. During any severance period, Participant is eligible to accrue Dividend Equivalents on outstanding RSUs as described in Paragraph 3(a) above.

(f) Notwithstanding the above, (i) the provisions of Section 10 of the ICP shall apply in the event of a Change in Control (as defined in such Section 10) and (ii) the provisions of Section 7(e)(iv) of the ICP shall apply.

(g) For purposes of this Section 7, transfer of Participant's employment from the Company to a subsidiary of the Company, transfer among or between subsidiaries of the Company, or transfer from a subsidiary of the Company to the Company shall not be treated as termination of employment.

(h) Participant will be responsible for any applicable withholding or other taxes that become due as a result of RSUs that vest as of Participant's employment termination date or thereafter.

8. An RSU does not represent an equity interest in the Company and carries no voting rights. Participant shall have no rights of a shareholder with respect to the RSUs until the Shares have been delivered to Participant.
 9. Neither the execution and delivery hereof nor the granting of the award evidenced hereby shall constitute or be evidence of any agreement or understanding, express or implied, on the part of the Company or its subsidiaries to employ Participant for any specific period.
 10. Any notice required to be given hereunder to the Company shall be in writing. If by regular mail, any required notice shall be addressed to: CVS Health Corporation, Attention: Senior Director, Executive Compensation, One CVS Drive, Woonsocket, RI 02895. If by electronic mail, any notice required shall be sent to: equityadministration@cvshealth.com, with "Retirement Notice" in the subject line. Any notice required to be given hereunder to Participant shall be addressed to such Participant at the address shown on the records of the Company, subject to the right of either party hereafter to designate, in writing, to the other, some other address.
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11. All decisions and interpretations made by the Board of Directors or the Committee with regard to any question arising hereunder or under the ICP shall be binding and conclusive on all persons. In the event of any inconsistency between the terms hereof and the provisions of the ICP, the ICP shall govern.
12. By accepting this Award, Participant acknowledges that a copy of the ICP has been made available for the Participant's reference, and agrees to be bound by the terms and conditions set forth in this Agreement and the ICP as in effect from time to time.
13. By accepting this Award, Participant further acknowledges that the Federal securities laws and/or Company's policies regarding trading in its securities may limit or restrict Participant's right to buy or sell Shares, including without limitation, sales of Shares acquired in connection with RSUs. Participant agrees to comply with such Federal securities law requirements and Company policies as such laws and policies may be amended from time to time.
14. The company intends that this Agreement not violate any applicable provision of, or result in any additional tax or penalty under, Section 409A of the Internal Revenue Code of 1986 (the "Code"), as amended, and the regulations and guidance thereunder (collectively, "Section 409A") and that to the extent any provisions of this PBRS Agreement do not comply with Section 409A the Company will make such changes as it deems reasonable in order to comply with Section 409A. In all events, the provisions of CVS Health Corporation's 409A Universal Definitions Document are hereby incorporated by reference and, notwithstanding any other provision of the Plan or this PBRS Agreement to the contrary, to the extent required to avoid a violation of the applicable rules under Section 409A by reason of Section 409A(a)(2)(B)(i) of the Code, payment of any amounts subject to Section 409A shall be delayed until the first business day of the seventh month immediately following the date of termination of employment. For purposes of any provision of this PBRS Agreement providing for the payment of any amounts or benefits upon or following a termination of employment, references to the "termination of employment" (and corollary terms) shall be construed to refer to "separation from service" as determined under Section 409A.
15. The Award subject to this PBRS Agreement under the Plan and ICP shall be subject to the terms of the Company's Recoupment Policy as it exists from time to time, which may require the Participant to immediately repay to the Company the value of any pre-tax economic benefit that he or she may derive from the Award. By accepting this Award, Participant acknowledges that the Company's Recoupment Policy has been made available for Participant's reference.
16. This Agreement shall be governed by the laws of Delaware, without giving effect to its choice of law provisions.
17. This Agreement shall be fully effective only upon the Participant's formal acceptance of the terms and conditions set forth above as required by the Company.

By: /s/ Lisa G. Bisaccia
Executive Vice President, Chief Human Resources Officer
CVS Health Corporation



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

AGREEMENT, by and between CVS Health Corporation, a Delaware corporation (the “Company”), and _____ (“Participant”), effective on _____, herein after known as the “Grant Date” (this “Agreement”).

WHEREAS, Participant has been selected as an Eligible Participant to invest under the Company's Partnership Equity Program (the “PEP”) and has elected in the Participant’s Election Form to invest \$ _____ in the PEP, subject to the terms and conditions set forth in the PEP and in this Agreement;

WHEREAS, the Company desires to provide Participant with written evidence acknowledging Participant's investment under the PEP through Participant Purchased RSUs and the corresponding grant of Company Matching RSUs and a Company Matching Option under the PEP.

WHEREAS, the provisions of the PEP and the Company's 2017 Incentive Compensation Plan (the “ICP”) are hereby incorporated by reference and shall have the same force and effect as though fully set forth herein; Participant hereby acknowledges that a copy of the PEP and the ICP have been made available to Participant and agrees to be bound by such provisions (as presently in effect or hereafter amended); if any provision of this Agreement is inconsistent with a provision of the PEP or the ICP, the terms of the PEP and/or the ICP, or any successor thereto, shall control; capitalized terms used in this Agreement but not defined herein shall have the same meanings as in the PEP or the ICP, as the case may be; and on the Grant Date specified above, the Fair Market Value (the “FMV”) of a share of CVS Health Common Stock (“Stock”) equals \$ _____ which is the closing price on such date.

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

I. PARTICIPANT PURCHASED RSUs AND COMPANY MATCHING RSUs

(A) **Participant Purchased RSUs**. The Company has received from Participant a completed Participant Election Form authorizing the Company to apply designated compensation of \$ _____ to the purchase of _____ Participant Purchased RSUs on the Grant Date under the PEP, and the Company has accordingly credited Participant’s Account under the PEP with the Participant Purchased RSUs. Except as provided under Section III of this Agreement, the Participant Purchased RSUs (including any Participant Purchased RSUs credited to Participant pursuant to Section I(C)(ii)) shall be fully vested as of the Grant Date and shall settle on the fifth (5th) anniversary of the Grant Date.

(B) **Crediting of Company Matching RSUs**. As of the Grant Date, the Company hereby awards the Participant, subject to the terms and conditions set forth and incorporated in this Agreement and the PEP, _____ Company Matching RSUs.

(C) **Additional Transactions in Participant Accounts**.

- (i) Each Participant Purchased RSU and Company Matching RSU represents a right to a future payment of one share of Stock, subject to applicable tax withholding.
- (ii) To the extent that dividends are declared and paid on shares of Stock while the Participant Purchased RSUs and Company Matching RSUs remain outstanding and prior to a Settlement Date (as defined below), the Company shall credit to Participant’s Purchased RSU account and Company Matching RSU account (as applicable) an additional number of Participant Purchased RSUs and Company Matching RSUs calculated by multiplying (a) the amount of dividend per share of Stock approved by the Company’s Board of Directors by (b) the number of Participant Purchased RSUs and Company Matching RSUs held by Participant on the dividend record date, and dividing the product by (c) the FMV of a share of Stock on such dividend payment date.
- (iii) Provided, however, that if such dividend is paid prior to the Vesting Date of Participant Purchased RSUs and/or the Company Matching RSUs, as set forth in Section I (D) below, Participant shall not be entitled to any

- payment in respect of such dividend unless Participant is still employed by the Company on such dividend payment date.
- (iv) Participant hereby agrees that, prior to the Settlement Date, the Company may withhold from the dividend equivalent amounts described in Section I(C)(ii) amounts sufficient to satisfy the applicable tax withholding in respect of such dividend equivalent payments, as applicable.

(D) Vesting of Company Matching RSUs. Subject to the terms and conditions of the PEP and this Agreement, and to Participant's continued employment through such date, the Company Matching RSUs, and the dividend equivalent amounts attributed to same, shall vest on the fifth (5th) anniversary of the Grant Date.

(E) Settlement of Company Matching RSU.

- (i) A "Settlement Date" shall mean the date shares of Stock are delivered to Participant pursuant to the PEP and this Agreement.
- (ii) Within fifteen (15) days following the earliest of the fifth (5th) anniversary of the Grant Date, Participant's death, or termination of employment without Cause within the two-year period following a Change in Control, Participant shall be entitled to receive and the Company shall deliver to Participant the total number of shares of Stock (giving effect to Sections I(C)(ii) and I(C)(iv)) underlying the Company Matching RSUs on the Vesting Date set forth herein, or as soon as administratively practicable, but within 30 days thereafter, unless delivery of the Shares has been deferred in accordance with Section I(E)(iii) below (the date of such delivery of the Shares being hereafter referred to as the "**Settlement Date**"). Notwithstanding the foregoing, no shares of Stock shall be delivered upon termination of employment unless such termination of employment is considered a "separation from service" (within the meaning given of Treasury Regulation §1.409A-1(h) or successor guidance thereto).
- (iii) Subject to the rules promulgated by the Committee, the terms of the CVS Health Deferred Stock Compensation Plan and Section 409A, Participant may elect to defer settlement of Participant Purchased RSUs or Company Matching RSUs covered by this Agreement.

II. COMPANY MATCHING OPTION

(A) Grant of Option. The Company hereby awards and evidences the grant to Participant, subject to the terms and conditions incorporated in this Agreement, the right, and option, to purchase from the Company _____ shares of Stock, with an exercise price per share of Stock equal to the FMV of a share of Stock on the Grant Date, such Company Matching Option to be exercised as hereinafter provided. The Company Matching Option is a nonqualified option as defined in the ICP.

(B) Term of Company Matching Option. The term of this Company Matching Option shall be for a period of ten (10) years from the Grant Date, subject to the earlier termination of the Company Matching Option, as set forth in the ICP and in this Agreement.

(C) Vesting and Exercise of Company Matching Option

- (i) Prior to its expiration or termination, and except as otherwise provided herein, the Company Matching Option shall vest and may be exercised by Participant, provided Participant has maintained continuous employment with the Company or a subsidiary of the Company from the Grant Date until the applicable vesting date, within the following time limitations:
- On or after three (3) years from the Grant Date, the Company Matching Option shall be vested and may be exercised as to one-third (1/3) of the shares of Stock subject to the Company Matching Option;
 - On or after four (4) years from the Grant Date, the Company Matching Option shall be vested and may be exercised as to an aggregate of two-thirds (2/3) of the shares of Stock subject to the Company Matching Option; and
 - On or after five (5) years from the Grant Date, the Company Matching Option shall be vested and may be exercised as to all of the shares of Stock subject to the Company Matching Option.
- (ii) The Company Matching Option, subject to the provisions of the ICP, shall be exercised by submitting a request to exercise to the Company's stock option administrator, in accordance with the Company's current exercise policies and procedures, specifying the number of shares of Stock to be purchased, which number may not be less than one hundred (100) shares of Stock (unless the number of shares of Stock purchased is the total balance which is then exercisable). An exercise by Participant of all or part of this Company

Matching Option shall be effected through the Company's "cashless exercise" procedures. Otherwise, at the time of exercise, Participant shall tender to the Company cash or cash equivalent for the aggregate exercise price of the shares of Stock Participant has elected to purchase or certificates for shares of Stock of the Company already owned by Participant for at least six (6) months with an aggregate FMV at least equal to the aggregate exercise price of the shares of Stock Participant has elected to purchase, or a combination of the foregoing.

(D) Company Matching Option Expiration. The Company Matching Option shall be exercisable only as provided above and shall expire at the close of business on the tenth (10th) anniversary of its Grant Date or such earlier expiration date as described in Section III below.

III. TERMINATION OF EMPLOYMENT AND CHANGE IN CONTROL

(A)

- (i) If Participant's employment with the Company and its subsidiaries terminates within 24 months of the grant date as a result of the Participant's voluntary termination of employment or involuntary termination by the Company or any subsidiary for Cause, the Participant Purchased RSUs shall be immediately forfeited as of the termination date .
- (ii) Except as provided in Section III (B)-(F) below, if, for any reason, Participant's employment with the Company and any subsidiary of the Company terminates, all Company Matching RSUs and the Company Matching Option to the extent not vested as of the termination date in accordance with Sections I(D) and II(C)(i) above shall be immediately forfeited as of the termination date. To the extent vested and unexercised as of the termination date, the Company Matching Option shall be exercisable on or before the ninetieth (90th) day following the termination date, as long as no government regulations or rules are violated by such exercise period; provided, however, that the Company Matching Option shall not be exercisable beyond its original term.

(B) In the event Participant's employment with the Company and any subsidiary of the Company terminates by reason of death, Company Matching RSUs and the Company Matching Option not then vested in accordance with Section I(D) and Section II(C)(i), respectively, will become immediately vested and the Vesting Date will be the date of death. Participant Purchased RSUs and Company Matching RSU shall settle as of the date of death and the Company Matching Option shall be exercisable by the Participant's Beneficiary during the twelve (12) month period following the date of death, as long as no government regulations or rules are violated by such accelerated vesting or exercise period; provided, however, that no Company Matching Option will be exercisable beyond its original term.

(C) In the event Participant's employment with the Company and any subsidiary of the Company terminates by reason of total and permanent disability (as defined in the Company's Long-Term Disability Plan, or, if not defined in such plan, as defined by the Social Security Administration), the Company Matching RSUs and the Company Matching Option shall vest on a pro rata basis as follows:

- (i) the total number of Company Matching RSUs vested as of Participant's employment termination date (which is the last day that the Participant is employed by the Company or any subsidiary of the Company) shall be equal to the number of Company Matching RSUs granted on the Grant Date multiplied by the following fraction: (A) the numerator shall be the whole number of months elapsed since the Grant Date and (B) the denominator shall be sixty (60). For purposes of this calculation, the number of months in the numerator in sub-section (A) above shall include any partial month in which Participant has worked. For example, if the time elapsed between the Grant Date and the Separation Date is eight months and five days, the numerator in sub-section (A) above shall be nine. Participant will be responsible for any applicable withholding taxes that may become due as of Participant's employment termination date. Any Shares represented by RSUs that vest under this section shall settle on the Settlement Date that would have applied under the original schedule set forth in Section I(D) of this PEP Agreement.
- (ii) the total number of Company Matching Option vested as of Participant's employment termination date with respect to the number of shares of Stock subject to the Company Matching Options, shall be equal to the number of Company Matching Options granted on the Grant Date multiplied by the following fraction: (A) the numerator shall be the whole number of months elapsed since the Grant Date and (B) the denominator shall be sixty (60). For purposes of this calculation, the number of months in the numerator in sub-section (A) above shall include any partial month in which Participant has worked. For example, if the time elapsed

between the Grant Date and the Separation Date is eight months and five days, the numerator in sub-section (A) above shall be nine.

- (iii) the vested portion of the Company Matching Option shall be exercisable during the twelve (12) month period following Participant's employment termination date, as long as no government regulations or rules are violated by such accelerated vesting or exercise period; provided, however, that the Company Matching Option shall not be exercisable beyond its original term.

(D) Involuntary Termination with Severance. In the event that Participant's employment with the Company and any subsidiary of the Company terminates and Participant receives severance pay pursuant to a written agreement in the form required by the Company, Participant's Company Matching RSUs and the Company Matching Option to the extent not vested at the time of the Participant's employment termination date but scheduled to vest during the severance period specified in the agreement providing for severance pay shall continue to vest during the severance period and settle in accordance with the schedule set forth in Section I(D) and Section II(C)(i), respectively, of this Agreement. Participant will be responsible for any applicable withholding taxes that may become due as of Participant's employment termination date. All Company Matching RSUs and the Company Matching Option to the extent not scheduled to vest during the specified severance period shall be forfeited as of the Participant's employment termination date. Any Shares represented by RSUs that vest under this section shall settle on the Settlement Date that would have applied under the original schedule set forth in Section I(D) of this PEP Agreement. During any severance period, Participant is eligible to receive dividend equivalents on outstanding RSUs as described in Paragraph I(C)(ii) above. To the extent vested, the Company Matching Option shall be exercisable on or before the ninetieth (90th) day following the last day of the severance period, as long as no government regulations or rules are violated by such continued vesting or exercise period; provided, however, that the Company Matching Option shall not be exercisable beyond its original term.

(E) Retirement. "Qualified Retirement" shall mean termination of employment on or after attainment of age fifty-five (55) with at least ten (10) years of continuous service, or attainment of age sixty (60) with at least five (5) years of continuous service, provided that: (i) if Participant elects to terminate his or her employment voluntarily, Participant has provided the Company with at least twelve (12) months advance notice of his or her retirement date or such other term of advance notice as is determined by the Chief Human Resources Officer of the Company; or (ii) if the Company elects to terminate Participant's employment, then such termination is without cause.

- (i) In the event Participant's termination of employment qualifies as a Qualified Retirement, Participant may exercise the Company Matching Option to the extent vested as of Participant's retirement date at any time within two (2) years after Participant's retirement date, but not beyond the original term of the Company Matching Option. To the extent unvested as of the retirement date, the Company Matching Option shall be forfeited. The Committee shall have the authority in its sole discretion to make any interpretations, determinations, and/or take any administrative actions with respect to whether Participant has experienced a Qualified Retirement.
- (ii) Company Matching RSUs that are unvested as of the Participant's retirement date are forfeited as of the retirement date.
- (iii) In the event Participant's termination of employment qualifies as a Qualified Retirement and Participant also enters into a severance agreement with the Company, each portion of a Participant's Company Matching RSU or Company Matching Option under this Award shall be entitled to the more favorable treatment explicitly applicable to such portion of the Participant's Company Matching RSU or Company Matching Option under the provisions of Section XIII(F) of the PEP with respect to the vesting and settlement of the Company Matching RSUs and the Company Matching Option.

Any Shares represented by RSUs that vest under this section shall settle on the Settlement Date that would have applied under the original schedule set forth in Section I(D) of this PEP Agreement.

- (F) The provisions of Section 10 of the ICP, or any successor thereto, shall apply in the event of a Change in Control.

(G) For purposes of this Section III, transfer of employment by Participant from the Company to a subsidiary of the Company, transfer among or between subsidiaries of the Company, transfer from a subsidiary of the Company to the Company or any other continuation of employment with the Company or a subsidiary of the Company after termination by a related entity shall not be treated as termination of employment.

IV. NON-COMPETITION. The grant of RSUs pursuant to this Agreement is expressly subject to and contingent upon the requirement that the Participant shall have fully executed and delivered to the Company the CVS Health Corporation

Restrictive Covenant Agreement provided by the Company; provided that the Company in its sole discretion may waive such requirement if Participant is currently a party to another agreement with the Company setting forth restrictive covenants, such as non-competition, non-disclosure, and/or non-solicitation obligations. The applicable agreement containing the restrictive covenants the Company requires in connection with this Award, whether previously executed or required to be executed in connection with this Award, is hereafter referred to as the "Restrictive Covenant Agreement".

If the Company intends to require Participant to execute and deliver a new Restrictive Covenant Agreement in connection with the Award hereunder, the Company shall provide such Restrictive Covenant Agreement to Participant and Participant agrees to execute and deliver such agreement by the deadline set forth by the Company, which shall be no less than ten days from the date it is provided to Participant. If Participant is currently subject to a Restrictive Covenant Agreement, Participant hereby affirms his or her agreement and intent to be bound by the restrictions in the Restrictive Covenant Agreement and to comply with all of its provisions.

Participant agrees that failure to execute and return the Restrictive Covenant Agreement by the deadline set forth by the Company, if required, shall result in the immediate and irrevocable forfeiture of the RSU Award hereunder and any right to receive dividend equivalents or Shares with respect thereto. Further, if Participant violates any provision of the applicable Restrictive Covenant Agreement, any unvested RSUs will be immediately and irrevocably forfeited, and no payment of any kind, including dividend equivalents or Shares, shall be payable with respect thereto. This Section shall not constitute the Company's exclusive remedy for Participant's violation of the Restrictive Covenant Agreement, and the Company may seek all available legal or equitable remedies in the event of Participant's violation or threatened violation of the Restrictive Covenant Agreement, including injunctive relief.

V. MISCELLANEOUS .

(A) **Withholding Tax**. Participant may be subject to withholding taxes as a result of the exercise of the Company Matching Option or settlement of Participant Purchased RSUs or Company Matching RSUs. The number of shares of Stock to be delivered by the Company to Participant shall be reduced by the smallest number of shares of Stock having a FMV at least equal to the dollar amount of federal, state or local tax withholding required to be withheld by the Company with respect to such exercise or settlement. Any shares of Stock so withheld or tendered will be valued as of the date they are withheld or tendered. Participant shall remit to the Company in cash, promptly when the amount of such tax obligations become determinable, all applicable federal, state, local and any foreign withholding taxes that result from each exercise of the Company Matching Option.

(B) **Recoupment**. This Award under the ICP shall be subject to the terms of the Company's Recoupment Policy as it exists from time to time, which may require Participant to immediately repay to the Company the value of any pre-tax economic benefit that he or she may derive from the Award. By accepting this Award, Participant acknowledges that the Company's Recoupment Policy has been made available for Participant's reference.

(C) **Certain Terms and Conditions of the PEP**. Participant acknowledges and agrees that the terms and conditions of the PEP preclude all transfers of Participant Purchased RSUs, all Company Matching RSUs, and the Company Matching Option, except in limited circumstances in the event of Participant's death, impose a risk of forfeiture on Participant Purchased RSUs, Company Matching RSUs and the Company Matching Option, relieve the Company of certain obligations unless and until laws and regulations have been complied with, provide for adjustments to Participant Purchased RSUs, Company Matching RSUs, and the Company Matching Option upon the occurrence of certain events, and specify the state law which shall govern this Agreement, without giving effect to principles of conflict of laws.

(D) **Binding Agreement**. This Agreement shall be binding upon the heirs, executors, administrators, and successors of the parties. In particular, Participant's heirs, executors, administrators, and successors shall be subject to the terms and conditions of the PEP, ICP and this Agreement, and the Company may require any such person to execute an agreement or other documents acknowledging and agreeing to such terms and conditions as a condition precedent to any transfer of rights hereunder or shares of Stock issuable under the PEP, including upon exercise of the Company Matching Option, into the name of any such person.

(E) **Integration Clause; Amendments to Agreement**. This Agreement, together with the PEP and the ICP, constitutes the entire Agreement between the parties with respect to the PEP, and supersedes any prior agreements or documents with respect thereto. This Agreement may be amended, but no amendment or other change which may impose any additional obligation upon the Company or materially impair the rights of Participant under the PEP shall be valid unless contained in a writing signed by the party to be bound thereby.

(F) **Employment**. Neither the execution and delivery hereof nor the granting of the Company Matching RSUs or

the Company Matching Option evidenced hereby shall constitute or be evidence of any agreement or understanding, expressed or implied, on the part of the Company or its subsidiaries to employ Participant for any specific period.

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

(H) Company Matching RSUs. Neither a Company Matching RSU nor a Participant Purchased RSU represents an equity interest in the Company and neither carries any voting rights. Except as otherwise specifically provided herein, Participant shall have no rights of a shareholder with respect to the RSUs until the related shares of Stock have been delivered to Participant.

(I) Section 409A. The Company intends that this Agreement not violate any applicable provision of, or result in any additional tax or penalty under, Section 409A of the Internal Revenue Code of 1986 (the "Code"), as amended, and that to the extent any provisions of this Agreement do not comply with Code Section 409A the Company will make such changes in order to comply with Code Section 409A to the extent it considers reasonable. In all events, the provisions of CVS Health Corporation's 409A Universal Definitions Document are hereby incorporated by reference and to the extent required to avoid a violation of the applicable rules under Section 409A by reason of Section 409A(a)(2)(B)(i) of the Code, payment of any amounts subject to Section 409A of the Code shall be delayed until the first business day of the seventh month immediately following the employment termination date. For purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment, references to the "termination of employment" (and corollary terms) shall be construed to refer to "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)). Notwithstanding the foregoing, the Company makes no representations as to the tax treatment or consequences of any payment made hereunder, and Participant, by accepting this Award, acknowledges that Participant shall be solely responsible for same.

(J) Notices. Any notice required to be given hereunder to the Company shall be in writing. If by regular mail, any required notice shall be addressed to: CVS Health Corporation, Attention: Senior Director, Executive Compensation, One CVS Drive, Woonsocket, RI 02895. If by electronic mail, any notice required shall be sent to: equityadministration@cvshealth.com, with "Retirement Notice" in the subject line. Any notice required to be given hereunder to Participant shall be addressed to such Participant at the address shown on the records of the Company, subject to the right of either party hereafter to designate, in writing, to the other, some other address.

(K) ACKNOWLEDGEMENT. This Agreement shall be fully effective only upon the Participant's formal acceptance of the terms and conditions set forth above as required by the Company.

CVS HEALTH CORPORATION

By: / s/ Lisa G. Bisaccia
Executive Vice President and
Chief Human Resources Officer

Accepted by: _____
PARTICIPANT NAME

EMPLOYEE ID#

Date



**AETNA INC.
2010 STOCK INCENTIVE PLAN**

MARKET STOCK UNIT TERMS OF AWARD

Pursuant to its 2010 Stock Incentive Plan (the "Plan"), Aetna Inc. (the "Company") hereby grants Market Stock Units on the terms and conditions hereinafter set forth. The number of Market Stock Units awarded is included in the website of the designated broker, currently UBS Financial Services, Inc., and in the Notice of the Market Stock Unit Grant Acknowledgement and Acceptance Form. All capitalized terms used herein which are not otherwise defined herein shall have the meaning specified in the Plan.

ARTICLE I

DEFINITIONS

- (a) "Affiliate" means an entity at least a majority of the total voting power of the then-outstanding voting securities of which is held, directly or indirectly, by the Company and/or one or more other Affiliates.
- (b) "Board" means the Board of Directors of Aetna Inc.
- (c) "Change in Control" means the happening of any of the following:
 - (i) When any "person" as defined in Section 3(a)(9) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and as used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) of the Exchange Act but excluding the Company and any Subsidiary thereof and any employee benefit plan sponsored or maintained by the Company or any Subsidiary (including any trustee of such plan acting as trustee), directly or indirectly, becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act, as amended from time to time), of securities of the Company representing 20 percent or more of the combined voting power of the Company's then outstanding securities;
 - (ii) When, during any period of 24 consecutive months, the individuals who, at the beginning of such period, constitute the Board (the "Incumbent Directors") cease for any reason other than death to constitute at least a majority thereof, provided that a director who was not a director at the beginning of such 24-month period shall be deemed to have satisfied such 24-month requirement (and be an Incumbent Director) if such director was elected by, or on the recommendation of or with the approval of, at least two-thirds of the directors who then qualified as Incumbent Directors either actually (because they were directors at the beginning of such 24-month period) or by prior operation of this paragraph (ii); or
 - (iii) The occurrence of a transaction requiring stockholder approval for the acquisition of the Company by an entity other than the Company or a Subsidiary through purchase of assets, or by merger, or otherwise.

Notwithstanding the foregoing, in no event shall a "Change in Control" be deemed to have occurred (i) as a result of the formation of a Holding Company, or (ii) with respect to Grantee, if Grantee is part of a "group," within the meaning of Section 13(d)(3) of the Exchange Act as in effect on the effective date, which consummates the Change in Control transaction. In addition, for purposes of the definition of "Change in Control" a person engaged in business as an underwriter of securities shall not be deemed to be the "Beneficial Owner" of, or to "beneficially own," any securities acquired through such person's participation in good faith in a firm commitment underwriting until the expiration of forty days after the date of such acquisition.

- (d) "Committee" means the Board's Committee on Compensation and Organization or any successor thereto.
- (e) "Common Stock" means the Company's Common Shares, \$.01 par value per share.
- (f) "Company" means Aetna Inc.
- (g) "Effective Date" means the date of grant of this award of Market Stock Units.
- (h) "Fair Market Value" means the closing price of the Common Stock as reported by the Consolidated Tape of the New York Stock Exchange Listed Shares on the date such value is to be determined, or, if no shares were traded on such date, on the next day on which the Common Stock is traded.
- (i) "Fundamental Corporate Event" shall mean any stock dividend, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination, exchange of shares, warrants or rights offering to purchase Common Stock at a price substantially below fair market value, or similar event.
- (j) "Grantee" means the person to whom this award has been granted.
- (k) "Holding Company" means an entity that becomes a holding company for the Company or its businesses as a part of any reorganization, merger, consolidation or other transaction, provided that the outstanding shares of common stock of such entity and the combined voting power of the then outstanding voting securities of such entity entitled to vote generally in the election of directors is, immediately after such reorganization, merger, consolidation or other transaction, beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the voting stock outstanding immediately prior to such reorganization, merger, consolidation or other transaction in substantially the same proportions as their ownership, immediately prior to such reorganization, merger, consolidation or other transaction, of such outstanding voting stock.
- (l) "Long Term Disability" means long-term disability as defined under the terms of the Company's applicable long-term disability plans or policies.
- (m) "Net Shares" means the number of shares of Common Stock which will be deposited in a brokerage account in the Grantee's name at the Company's designated broker after shares have been withheld to satisfy applicable tax and withholding requirements upon vesting of the Market Stock Units.

- (n) "Performance Period" means the [] month period following the Effective Date.
- (o) "Market Stock Units" means the number of units awarded that will convert to a number of shares of Common Stock based on the operation of Article II of this Agreement, or such other amount as may result by operation of Article III of this Agreement.
- (p) "Plan" means the Aetna Inc. 2010 Stock Incentive Plan.
- (q) "Retirement" means the termination of employment of a Grantee from active service with the Company, a Subsidiary or Affiliate provided the Grantee's age and completed years of service total 65 or more points at termination of employment.
- (r) "Section 162(m)" means Section 162(m) of the Internal Revenue Code of 1986, as amended, and the regulation issued thereunder, as may be amended from time to time.
- (s) "Section 409A" means Section 409A of the Internal Revenue Code of 1986, as amended, and the regulation issued thereunder, as may be amended from time to time.
- (t) "Shares of Stock" or "Stock" means the Common Stock.

"Subsidiary" means an entity of which, at the time such subsidiary status is to be determined, at least 50% of the total combined voting power of all classes of stock of such entity is held by the Company and/or one or more other subsidiaries.
- (u) "Successor" means the legal representative of the estate of a deceased Grantee or the person or persons who shall acquire the right to the Market Stock Units by bequest or inheritance or by reason of the death of the Grantee.
- (v) "Vest Date" means the date on which this award of Market Stock Units shall vest in accordance with the terms of this Agreement and in the Notice of Market Stock Unit Grant.
- (w) "Vest Date Fair Market Value" means the average closing price of the Common Stock as reported by the Consolidated Tape of the New York Stock Exchange Listed Shares for the 29 trading days prior to the Vest Date and the Vest Date, or, if no shares were traded on such Vest Date, for the 30 trading days prior to the Vest Date.

ARTICLE II

PERFORMANCE PERIOD & AWARD CONVERSION

Subject to the terms of this Agreement, the Market Stock Units will vest, as of the Vest Date, in accordance with the terms of the Plan and this Terms of Award Agreement, or on such earlier date as provided in Article IV. On the Vest Date the Grantee shall vest in a number of shares of Common Stock for each vested Market Stock Unit based on the formula below, net of applicable taxes and withholding. Such Net Shares will be delivered to the Company's designated broker, in a brokerage account established in the Grantee's name after the Vest Date. To the extent Section 162(m) is applicable to a Grantee, for shares to vest the Committee must also determine that the performance goal set forth on Exhibit A is met. If the Committee determines that the performance goal is not met at the minimum level, as applicable, no shares will vest.

The number of shares of Common Stock that each Market Stock Unit will convert and be awarded to you on the Vest Date, net of applicable taxes, shall be determined in accordance with the following formula:

(Number of Market Stock Units granted)

Multiplied by

((the Vest Date Fair Market Value) divided by (the Grant Date Fair Market Value))

Up to a maximum of 1.5 shares of Common Stock per Market Stock Unit.

Any social security calculation or other adjustments discovered after the payment of Net Shares will be settled in cash, not in Common Stock.

ARTICLE III

CAPITAL CHANGES

In the event that the Committee shall determine that any Fundamental Corporate Event affects the Common Stock such that an adjustment is required to preserve, or to prevent enlargement of, the benefits or potential benefits made available under this Plan, then the Committee shall, in such manner as the Committee may deem equitable, adjust the number and kind of shares subject to the award of Market Stock Units. Additionally, the Committee may make provision for cash payment to a Grantee or the Successor of the Grantee to the extent permitted under Section 409A. However, the number of Market Stock Units shall always be a whole number.

ARTICLE IV

CHANGE IN CONTROL

Notwithstanding any other provision of this Agreement to the contrary, upon the occurrence of a Change in Control, the Market Stock Units not previously forfeited pursuant to this Terms of Award Agreement shall become immediately vested and convert to a number of shares of Common Stock based on the formula in Article II but such formula shall use the Fair Market Value on the date on which the Change in Control occurs rather than the Vest Date Fair Market Value. Net Shares will be payable on the Vest Date, provided however, if within the 24 month period following the Change in Control the Company terminates Grantee's employment without cause, the Net Shares will become payable as of such termination of employment date. If an award is considered deferred compensation subject to Section 409A, the award will vest but the Change in Control will not accelerate the payment of the Market Stock Units unless the Change in Control also meets the definition of change in control set forth in Treasury Regulation Section 1.409A-3(i)(5).

ARTICLE V

TERMINATION OF EMPLOYMENT

- (a) Except as provided in (c) below, if, during the Performance Period, Grantee shall cease to be employed by the Company, its Subsidiaries or Affiliates, for reason of death, Long-term Disability, Retirement or involuntary termination of employment by the Company, the portion of the Market Stock Units that may vest on the Vest Date, if any, shall be calculated in accordance with the following formula: (i) the number of completed months employed commencing on the first day of the Performance Period divided by the number of months in the Performance Period; multiplied by (ii) the number of Market Stock Units that otherwise would have vested under the term of this Agreement had the Grantee remained actively employed through the Vest Date.
- (b) Except as provided in (a) above, any Market Stock Unit not vested as of the date Grantee terminates employment shall be forfeited at the time of cessation of employment; provided, however, that if Grantee's employment is terminated by the Company other than for cause and Grantee has not previously, or does not subsequently, vest to any portion of the Market Stock Unit in accordance with its terms, then upon the forfeiture of the entire Market Stock Unit, the Company will pay Grantee an amount equal to the value of a single share of Common Stock, whether or not the forfeited Market Stock Unit related to more than a single share of Common Stock, calculated as of the cessation of employment, if requested by Grantee, within 30 days of such cessation of employment.
- (c) No Market Stock Unit will vest after the Company has terminated the employment of the Grantee for cause, unless the Committee, in its sole discretion, deems a payment to be warranted under the particular circumstances. In addition, the Market Stock Units will not vest if Grantee has willfully engaged in gross misconduct or other serious impropriety which the Company determines is likely to be damaging or detrimental to the Company, any Subsidiary or Affiliate.
- (d) Employment for purposes of determining the vesting rights of the Grantee and the expiration of the grant under this Article V shall mean continuous active full-time salaried employment with the Company, a Subsidiary or an Affiliate, except that the period during which the Grantee is on vacation, sick leave, or other pre-approved leave of absence (provided there is no actual termination of employment), shall not interrupt the continuous employment of the Grantee. Employment shall also include service with Aetna Foundation, Inc. Notwithstanding any period during which Grantee receives salary continuation or severance shall not be considered as part of the continuous employment of the Grantee.

ARTICLE VI

EMPLOYEE COVENANTS

- (a) As consideration for this grant of Market Stock Units, without prior written consent of the Company:
 - (i) Grantee will not (except to the extent required by an order of a court having competent jurisdiction or under subpoena from an appropriate government agency) use or disclose to any third person, whether during or subsequent to Grantee's employment, any trade secrets, confidential information and proprietary materials, which may include, but are not limited to, the following categories of information and materials: customer lists and identities; provider lists and identities; employee lists and identities; product development and related information; marketing plans and related

information; sales plans and related information; premium or other pricing information; operating policies and manuals; research; payment rates; methodologies; procedures; contractual forms; business plans; financial records; computer programs; database; or other financial, commercial, business or technical information related to the Company or any Subsidiary or Affiliate unless such information has been previously disclosed to the public by the Company or has become public knowledge other than by a breach of this Agreement; provided, however, that this limitation shall not apply to any such use or disclosure made while Grantee is employed by the Company, any Subsidiary or Affiliate if such disclosure occurred in connection with the performance of Grantee's job as an employee of the Company, any Subsidiary or Affiliate;

- (ii) Grantee will not, during and for a period of 12 months or 24 months for executive tier employees (the executive tier status determined as of the effective date of this grant) following Grantee's termination of Employment, directly or indirectly induce or attempt to induce any employee to be employed or perform services elsewhere;
- (iii) Grantee will not, during and for a period of 12 months or 24 months for executive tier employees (the executive tier status determined as of the effective date of this grant) following Grantee's termination of Employment, directly or indirectly, induce or attempt to induce any agent or agency, broker, supplier or health care provider of the Company or any Subsidiary to cease or curtail providing services to the Company or any Subsidiary; and
- (iv) Grantee will not, during and for a period of 12 months or 24 months for executive tier employees (the executive tier status determined as of the effective date of this grant) following Grantee's termination of Employment, directly or indirectly solicit or attempt to solicit the trade of any individual or entity which, at the time of such solicitation, is a customer of the Company, any Subsidiary or Affiliate, or which the Company, any Subsidiary or Affiliate is undertaking reasonable steps to procure as a customer at the time of or immediately preceding termination of Employment; provided, however, that this limitation shall only apply to any product or service which is in competition with a product or service of the Company, any Subsidiary or Affiliate and shall apply only with respect to a customer or prospective customer with whom the Grantee has been directly or indirectly involved.

In addition:

- (v) Following the termination of Grantee's Employment, Grantee shall provide assistance to and shall cooperate with the Company or a Subsidiary or Affiliate, upon its reasonable request and without additional compensation, with respect to matters within the scope of Grantee's duties and responsibilities during Employment, provided that any reasonable out-of-pocket expenses Grantee incurs in connection with any assistance Grantee has been requested to provide under this provision for items including, but not limited to, transportation, meals, lodging and telephone, shall be reimbursed by the Company. The Company agrees and acknowledges that it shall, to the maximum extent possible under the then prevailing circumstances, coordinate, or cause a Subsidiary or Affiliate to coordinate, any such request with Grantee's other commitments and responsibilities to minimize the degree to which such request interferes with such commitments and responsibilities; and
- (vi) Grantee shall promptly notify the Company's General Counsel if Grantee is contacted by a regulatory or self-regulatory agency with respect to matters pertaining to the Company or by an

attorney or other individual who informs the Grantee that he/she has filed, intends to file, or is considering filing a claim or complaint against the Company.

- (vii) Grantee acknowledges that all original works of authorship that are created by Grantee (solely or jointly with others) within the scope of Grantee's employment which are protectable by copyright are "works made for hire" as that term is defined in the United States Copyright Act (17 U.S.C., Section 101). Grantee further acknowledges that while employed by the Company, Grantee may develop ideas, inventions, discoveries, innovations, procedures, methods, know-how or other works which relate to the Company's current or are reasonably expected to relate to the Company's future business that may be patentable or subject to trade secret protection. Grantee agrees that all such works of authorship, ideas, inventions, discoveries, innovations, procedures, methods, know-how and other works shall belong exclusively to the Company, and the Grantee hereby assigns all right, title, and interest therein to the Company.

To the extent any of the foregoing works may be patentable, Grantee agrees that the Company may file and prosecute any application for patents for such works and that the Grantee will, on request, execute assignments to the Company relating to (and take all such further steps as may be reasonably necessary to perfect the Company's sole and exclusive ownership of) any such application and any patents resulting therefrom.

- (b) If any provision of Article VI (a) is determined by a court of competent jurisdiction not to be enforceable in the manner set forth herein, the Company and Grantee agree that it is the intention of the parties that such provision should be enforceable to the maximum extent possible under applicable law and that such court shall reform such provision to make it enforceable in accordance with the intent of the parties.
- (c) Grantee acknowledges that a material part of the inducement for the Company to grant the Market Stock Units is Grantee's covenants set forth in Article VI (a) and that the covenants and obligations of Grantee with respect to nondisclosure, non-solicitation and cooperation relate to special, unique and extraordinary matters and that a violation of any of the terms of such covenants and obligations will cause the Company irreparable injury for which adequate remedies are not available at law. Therefore, Grantee agrees that, if Grantee shall breach any of those covenants or obligations, Grantee shall not be entitled to vest in the Market Stock or be entitled to retain any income therefrom and the Company shall be entitled to an injunction, restraining order or such other equitable relief (without the requirement to post bond) restraining Grantee from committing any violation of the covenants and obligations contained in Article VI. The Company also shall be entitled to recover any attorneys' fees, costs, and expenses it incurs in connection with any judicial proceeding arising out of Grantee's breach of this Agreement. The remedies in the preceding sentences are cumulative and are in addition to any other rights and remedies the Company may have at law or in equity as a court or arbitrator shall reasonably determine.
- (d) Employment Dispute Arbitration Program - Mandatory Binding Arbitration of Employment Disputes.
 - (i) Except as otherwise specified in this Agreement, the Grantee and the Company agree that all employment-related legal disputes between them will be submitted to and resolved by binding arbitration, and neither the Grantee nor the Company will file or participate as an individual party or member of a class in a lawsuit in any court against the other with respect to such matters. This shall apply to claims brought on or after the date the Grantee accepts this Agreement, even if the facts and circumstances relating to the claim occurred prior to that date and regardless of whether the Grantee or the Company previously filed a complaint/charge with a government agency concerning the claim.

For purposes of Article VI (d) of this Agreement, “the Company” includes Aetna Inc., its Subsidiaries and Affiliates, their predecessors, successors and assigns, and those acting as representatives or agents of those entities. THE GRANTEE UNDERSTANDS THAT, WITH RESPECT TO CLAIMS SUBJECT TO THE ARBITRATION REQUIREMENT, ARBITRATION REPLACES THE RIGHT OF THE GRANTEE AND THE COMPANY TO SUE OR PARTICIPATE IN A LAWSUIT. THE GRANTEE ALSO UNDERSTANDS THAT IN ARBITRATION, A DISPUTE IS RESOLVED BY AN ARBITRATOR INSTEAD OF A JUDGE OR JURY, AND THE DECISION OF THE ARBITRATOR IS FINAL AND BINDING.

- (ii) THE GRANTEE UNDERSTANDS THAT THE ARBITRATION PROVISIONS OF THIS AGREEMENT AFFECT THE LEGAL RIGHTS OF THE GRANTEE AND THE COMPANY AND ACKNOWLEDGES THAT THE GRANTEE HAS BEEN ADVISED TO, AND HAS BEEN GIVEN THE OPPORTUNITY TO, OBTAIN LEGAL ADVICE BEFORE SIGNING THIS AGREEMENT.
- (iii) Article VI (d) of this Agreement does not apply to workers’ compensation claims, unemployment compensation claims, and claims under the Employee Retirement Income Security Act of 1974 (“ERISA”) for employee benefits. A dispute as to whether Article VI (d) of this Agreement applies must be submitted to the binding arbitration process set forth in this Agreement.
- (iv) The Grantee and/or the Company may seek emergency or temporary injunctive relief from a court (including with respect to claims arising out of Article VI (a) in accordance with applicable law). However, except as provided in Article VI (c) of this Agreement, after the court has issued a ruling concerning the emergency or temporary injunctive relief, the Grantee and the Company shall be required to submit the dispute to binding arbitration pursuant to this Agreement.
- (v) Unless otherwise agreed, the arbitration will be administered by the American Arbitration Association (the “AAA”) and will be conducted pursuant to the AAA’s Employment Arbitration Rules and Mediation Procedures (the “Rules”), as modified in this Agreement, in effect at the time the request for arbitration is filed. The AAA’s Rules are available on the AAA’s website at www.adr.org. THE GRANTEE ACKNOWLEDGES THAT THE COMPANY HAS ENCOURAGED THE GRANTEE TO READ THESE RULES PROMPTLY AND CAREFULLY AND THAT THE GRANTEE HAS BEEN AFFORDED SUFFICIENT OPPORTUNITY TO DO SO.
- (vi) If the Company initiates a request for arbitration, the Company will pay all of the administrative fees and costs charged by the AAA, including the arbitrator’s compensation and charges for hearing room rentals, etc. If the Grantee initiates a request for arbitration or submits a counterclaim to the Company’s request for arbitration, the Grantee shall be required to contribute One Hundred Dollars (\$100.00) to those administrative fees and costs, payable to the AAA at the time the Grantee’s request for arbitration or counterclaim is submitted. The Company may increase the contribution amount in the future without amending this Agreement, but not to exceed the maximum permitted under the AAA rules then in effect. In all cases, the Grantee and the Company shall be responsible for payment of any fees assessed by the arbitrator as a result of that party’s delay, request for postponement, failure to comply with the arbitrator’s rulings and for other similar reasons.
- (vii) The Grantee and the Company may choose to be represented by legal counsel in the arbitration process and shall be responsible for their own legal fees, expenses and costs. However, the

arbitrator shall have the same authority as a court to order the Grantee or the Company to pay some or all of the other's legal fees, expenses and costs, in accordance with applicable law.

- (viii) Unless otherwise agreed, there shall be a single arbitrator, selected by the Grantee and the Company from a list of qualified neutrals furnished by the AAA. If the Grantee and the Company cannot agree on an arbitrator, one will be selected by the AAA.
- (ix) Unless otherwise agreed, the arbitration hearing will take place in the city where the Grantee works or last worked for the Company. If the Grantee and the Company disagree as to the proper locale, the AAA will decide.
- (x) The Grantee and the Company shall be entitled to conduct limited pre-hearing discovery. Each may take the deposition of one person and anyone designated by the other as an expert witness. The party taking the deposition shall be responsible for all associated costs, such as the cost of a court reporter and the cost of an original transcript. Each party also has the right to submit one set of ten written questions (including subparts) to the other party, which must be answered under oath, and to request and obtain all documents on which the other party relies in support of its answers to the written questions. Additional discovery may be permitted by the arbitrator upon a showing that it is necessary for that party to have a fair opportunity to present a claim or defense.
- (xi) The arbitrator shall apply the same substantive law that would apply if the matter were heard by a court and shall have the authority to order the same remedies (but no others) as would be available in a court proceeding. The time limits for requesting arbitration or submitting a counterclaim and the administrative prerequisites for filing an arbitration claim or counterclaim are the same as they would be in a court proceeding. The arbitrator shall consider and decide any dispositive motions (motions seeking a decision on some or all of the claims or counterclaims without an arbitration hearing) filed by any party.
- (xii) All proceedings, including the arbitration hearing and decision, are private and confidential, unless otherwise required by law. Arbitration decisions may not be published or publicized without the consent of both the Grantee and the Company.
- (xiii) Unless otherwise agreed, the arbitrator's decision will be in writing with a brief summary of the arbitrator's opinion.
- (xiv) The arbitrator's decision is final and binding on the Grantee and the Company. After the arbitrator's decision is issued, the Grantee or the Company may obtain an order of judgment from a court and may obtain a court order enforcing the decision. The arbitrator's decision may be appealed to the courts only under the limited circumstances provided by law.
- (xv) If the Grantee previously signed an agreement, including but not limited to an employment agreement, containing arbitration provisions, those provisions are superseded by the arbitration provisions of this Agreement.
- (xvi) If any provision of Article VI (d) is found to be void or otherwise unenforceable, in whole or in part, this shall not affect the validity of the remainder of Article VI (d) and the remainder of the Agreement. All other provisions shall remain in full force and effect.

- (e) Except as provided in connection with mandatory binding arbitration of employment disputes, Grantee hereby submits to the exclusive jurisdiction of the courts of the State of Connecticut and the United States District Court for the District of Connecticut with respect to any action relating to this Agreement, and agrees that (i) the sole and exclusive appropriate venue for any suit or proceeding relating to this Agreement shall be in such court, and (ii) hereby waives any and all objections and defenses based on forum, venue or personal or subject matter jurisdiction as they may relate to a suit or proceeding brought before such court in accordance with the Agreement.

For purposes of this Article VI, the term “Employment” shall refer to active employment with the Company, any Subsidiary or Affiliate, and shall not include salary continuation or severance periods.

ARTICLE VII

OTHER TERMS

- (a) Nothing in this Agreement shall interfere with or limit in any way the right of the Company or any Subsidiary or Affiliate to terminate the Grantee’s employment at any time. Neither the execution and delivery hereof nor the granting of the Award shall constitute or be evidence of any agreement or understanding, express or implied, on the part of the Company or any of its Subsidiaries to employ or continue the employment of the Grantee for any period.
- (b) Until the Market Stock Units have become vested, Grantee shall not have any rights as a stockholder (including the right to payment of dividends) by virtue of this grant of Market Stock Units.
- (c) During the Performance Period, the Market Stock Units shall be nontransferable and non-assignable except by will or the laws of descent and distribution.
- (d) The award, when vested, will be settled on a net basis. Prior to issuing any Common Shares, the Company will withhold an amount sufficient to satisfy federal, state, local, social security and Medicare withholding tax requirements relating to award. Any social security calculation or other adjustments discovered after net share payment will be settled in cash, not in Shares of Common Stock. Vesting will result in taxable compensation reportable on the Grantee’s W-2 in year of vesting.
- (e) The Company may from time to time adopt stock ownership requirements applicable to Grantees who are senior managers of the Company. In connection with and for the purpose of implementing those ownership requirements, the Company may adopt certain restrictions on the ability of a Grantee to sell shares issued under this Agreement when such ownership requirements have not been satisfied. Any such restriction on sale will be communicated generally to affected Grantees and the restriction may be modified by the Company from time to time, at its discretion. Neither the Company nor its Board of Directors shall have any obligation or liability to a Grantee in connection with any such restriction.

- (f) This Market Stock Unit is an unfunded obligation of the Company and nothing in this Agreement shall be construed to create any claim against particular assets or require the Company to segregate or otherwise set aside any assets or create any fund to meet its obligations hereunder.

- (g) Anything herein to the contrary notwithstanding, a Grantee whose Market Stock Units have been forfeited as a result of termination of employment due to U.S. Military Service and who is later re-employed (in a full-time active status) after discharge within the time period set in 38 U.S.C. Section 4312 will be eligible to have the forfeited Market Stock Units reinstated as follows: (i) if such Grantee is re-employed during the Performance Period, all forfeited Market Stock Units shall be reinstated; or (ii) if such Grantee is re-employed after the Performance Period, a cash payment will be made to the Grantee, minus applicable taxes, for the value of the forfeited Market Stock Units on the Vest Date pursuant to procedures established by the Company for this purpose.
- (h) It is the intention of the Company and Grantee that this Agreement not result in unfavorable tax consequences to Grantee under Section 409A and the Agreement shall be interpreted as to so comply. Notwithstanding anything to the contrary herein, the Company and Grantee agree to the provisions set forth below in order to comply with the requirements of Section 409A.
- (i) If Grantee is a “specified employee” (within the meaning of Section 409A) with respect to the Company, any non-qualified deferred compensation otherwise payable to or in respect of Grantee in connection with Grantee’s termination of employment shall be delayed until the earliest date upon which such amounts may be paid without being subject to taxation under Section 409A. Any amount, the payment or benefit of which is delayed by application of the preceding sentence, shall be paid as soon as possible following the expiration of such period.
- (ii) Unless deferred pursuant to this agreement, all payments shall be paid to Grantee, to the extent earned, in no event later than the last day of the “applicable 2 ½ month period,” as such term is defined in Treasury Regulation Section 1.409A-1(b)(4)(i)(A) with respect to such payment’s treatment as a “short-term deferral” for purposes of Section 409A.
- (iii) The Company and Grantee agree to cooperate in good faith in an effort to comply with Section 409A. Under no circumstances shall the Company be responsible for any taxes, penalties, interest or other losses or expenses incurred by the Grantee due to any failure to comply with Section 409A.
- (i) This Agreement is subject to the 2010 Stock Incentive Plan heretofore adopted by the Company and approved by its shareholders. The terms and provisions of the Plan (including any subsequent amendments thereto) are hereby incorporated herein by reference. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms and provisions of the Plan will govern and prevail.
- (j) At such times and upon such terms and conditions as the Company shall determine, the Company may permit eligible Grantees to elect to defer the distribution of an Award otherwise payable to the Grantee under this Agreement until termination of the Grantee’s Employment or such other date Company shall permit.
- (k) This Agreement is made under and shall be governed by and construed in accordance with the laws of the State of Connecticut, without giving effect to its choice of law provisions.



AETNA INC.
2010 STOCK INCENTIVE PLAN

PERFORMANCE STOCK UNIT TERMS OF AWARD

Performance Period: [] through []

Units Awarded: []

Performance Metric: []

Vesting Period - [] month period following the Effective Date (Date of Grant)

Pursuant to its 2010 Stock Incentive Plan (the "Plan"), Aetna Inc. (the "Company") hereby grants Performance Stock Units (PSUs) on the terms and conditions hereinafter set forth. The number of Performance Stock Units awarded is included in the website of the designated broker, currently UBS Financial Services, Inc., and in the Notice of the Performance Stock Unit Grant Acknowledgement and Acceptance Form. All capitalized terms used herein which are not otherwise defined herein shall have the meaning specified in the Plan.

ARTICLE I

DEFINITIONS

- (a) "Affiliate" means an entity at least a majority of the total voting power of the then-outstanding voting securities of which is held, directly or indirectly, by the Company and/or one or more other Affiliates.
- (b) "Board" means the Board of Directors of Aetna Inc.
- (c) "Change in Control" means the happening of any of the following:
 - (i) When any "person" as defined in Section 3(a)(9) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and as used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) of the Exchange Act but excluding the Company and any Subsidiary thereof and any employee benefit plan sponsored or maintained by the Company or any Subsidiary (including any trustee of such plan acting as trustee), directly or indirectly, becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act, as amended from time to time), of securities of the Company representing 20 percent or more of the combined voting power of the Company's then outstanding securities;
 - (ii) When, during any period of 24 consecutive months, the individuals who, at the beginning of such period, constitute the Board (the "Incumbent Directors") cease for any reason other than death to constitute at least a majority thereof, provided that a director who was not a director at the beginning of such 24-month period shall be deemed to have satisfied such 24-month requirement (and be an Incumbent Director) if such director was elected by, or on the recommendation of or with the approval of, at least two-thirds of the directors who then qualified as Incumbent Directors either actually (because they were directors at the beginning of such 24-month period) or by prior operation of this paragraph (ii); or

- (iii) The occurrence of a transaction requiring stockholder approval for the acquisition of the Company by an entity other than the Company or a Subsidiary through purchase of assets, or by merger, or otherwise.

Notwithstanding the foregoing, in no event shall a "Change in Control" be deemed to have occurred (i) as a result of the formation of a Holding Company, or (ii) with respect to Grantee, if Grantee is part of a "group," within the meaning of Section 13(d)(3) of the Exchange Act as in effect on the effective date, which consummates the Change in Control transaction. In addition, for purposes of the definition of "Change in Control" a person engaged in business as an underwriter of securities shall not be deemed to be the "Beneficial Owner" of, or to "beneficially own," any securities acquired through such person's participation in good faith in a firm commitment underwriting until the expiration of forty days after the date of such acquisition.

- (d) "Committee" means the Board's Committee on Compensation and Organization or any successor thereto.
- (e) "Common Stock" means the Company's Common Shares, \$.01 par value per share.
- (f) "Company" means Aetna Inc.
- (g) "Effective Date" means the date of grant of this award of Performance Stock Units.
- (h) "Fair Market Value" means the closing price of the Common Stock as reported by the Consolidated Tape of the New York Stock Exchange Listed Shares on the date such value is to be determined, or, if no shares were traded on such date, on the next day on which the Common Stock is traded.
- (i) "Fundamental Corporate Event" shall mean any stock dividend, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination, exchange of shares, warrants or rights offering to purchase Common Stock at a price substantially below fair market value, or similar event.
- (j) "Grantee" means the person to whom this award has been granted.
- (k) "Holding Company" means an entity that becomes a holding company for the Company or its businesses as a part of any reorganization, merger, consolidation or other transaction, provided that the outstanding shares of common stock of such entity and the combined voting power of the then outstanding voting securities of such entity entitled to vote generally in the election of directors is, immediately after such reorganization, merger, consolidation or other transaction, beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the voting stock outstanding immediately prior to such reorganization, merger, consolidation or other transaction in substantially the same proportions as their ownership, immediately prior to such reorganization, merger, consolidation or other transaction, of such outstanding voting stock.
- (l) "Long Term Disability" means long-term disability as defined under the terms of the Company's applicable long-term disability plans or policies.

- (m) "Net Shares" means the number of shares of Common Stock which will be deposited in a brokerage account in the Grantee's name at the Company's designated broker after shares have been withheld to satisfy applicable tax and withholding requirements upon vesting of the Performance Stock Units.
- (n) "Performance Period" means the [] month performance period ending [date]. The Performance Period shall run from [date] to [date].
- (o) "Performance Stock Units" means the number of shares of Common Stock represented by the number of units awarded or such other amount as may result by operation of Article III of this Agreement.
- (p) "Plan" means the Aetna Inc. 2010 Stock Incentive Plan.
- (q) "Retirement" means the termination of employment of a Grantee from active service with the Company, any Subsidiary or Affiliate provided the Grantee's age and completed years of service total 65 or more points at termination of employment.
- (r) "Section 409A" means Section 409A of the Internal Revenue Code of 1986, as amended, and the regulation issued thereunder, as may be amended from time to time.
- (s) "Shares of Stock" or "Stock" means the Common Stock.
- (t) "Subsidiary" means an entity of which, at the time such subsidiary status is to be determined, at least 50% of the total combined voting power of all classes of stock of such entity is held by the Company and/or one or more other subsidiaries.
- (u) "Successor" means the legal representative of the estate of a deceased Grantee or the person or persons who shall acquire the right to the Performance Stock Units by bequest or inheritance or by reason of the death of the Grantee.
- (v) "Vest Date" means the last day of the Vesting Period and is the date on which this award of Performance Stock Units shall vest in accordance with the terms of this Agreement and in the Notice of Performance Stock Unit Grant, if at all.
- (w) "Vesting Period" means the period beginning on the Effective Date and ending thirty-six months thereafter.

ARTICLE II
VESTING PERIOD

Subject to the terms of this Agreement, the Performance Stock Units will vest, as of the Vest Date, in accordance with the terms of the Plan and this Terms of Award Agreement, or on such earlier date as provided in Article IV. If the Committee determines that the performance goal set forth on Exhibit A is met, on the Vest Date, the Grantee shall vest to one share of Common Stock for each vested Performance Stock Unit net of applicable taxes and withholding (or such greater or lesser amount based on performance, as set forth on Exhibit A). Such Net Shares will be delivered to the Company's designated broker, in a brokerage account established in the Grantee's name after the Vest Date. If the Committee determines that the performance goal set forth on Exhibit A is not met at the minimum level, no shares will vest.

Any social security calculation or other adjustments discovered after the payment of Net Shares will be settled in cash not in Common Stock.

ARTICLE III
CAPITAL CHANGES

In the event that the Committee shall determine that any Fundamental Corporate Event affects the Common Stock such that an adjustment is required to preserve, or to prevent enlargement of, the benefits or potential benefits made available under this Plan, then the Committee shall, in such manner as the Committee may deem equitable, adjust the number and kind of shares subject to the award of Performance Stock Units. Additionally, the Committee may make provision for cash payment to a Grantee or the Successor of the Grantee. However, the number of Performance Stock Units shall always be a whole number.

ARTICLE IV
CHANGE IN CONTROL

Notwithstanding any other provision of this Agreement to the contrary, upon the occurrence of a Change in Control, the Performance Stock Units not previously forfeited pursuant to this Terms of Award Agreement shall become immediately vested at a level which equals the greater of the number of Performance Stock Units that would have vested (x) at target-level 100% vesting, or (y) based on the Company's actual year-to-date performance level using the date on which the Change in Control occurs as the end of the Vesting Period. Net Shares will be payable on the Vest Date, provided however, if within the 24 month period following the Change in Control the Company terminates Grantee's employment without cause, the Net Shares will become payable as of such termination of employment date. If an award is considered deferred compensation subject to Section 409A, the award will vest but the Change in Control will not accelerate the payment of the deferred Performance Stock Units unless the Change in Control also meets the definition of change in control set forth in Treasury Regulation Section 1.409A-3(i)(5).

ARTICLE V

TERMINATION OF EMPLOYMENT

- (a) Except as provided in (c) below, if, during the Vesting Period, Grantee shall cease to be employed by the Company, any Subsidiaries or Affiliates, for reason of death, Long-term Disability, Retirement or involuntary termination of employment by the Company, the portion of the Performance Stock Units that may vest on the Vest Date, if any, shall be calculated in accordance with the following formula: (i) the number of completed months employed during the Vesting period divided by the number of months in the Vesting Period; multiplied by (ii) the number of Performance Stock Units, that otherwise would have vested. For purposes of this calculation, a month is complete on the day in the month that corresponds to the Effective Date of the grant (e.g., February 12 to March 12).
- (b) Except as provided in (a) above, any Performance Stock Unit not vested as of the date Grantee terminates employment shall be forfeited at the time of cessation of employment; provided, however, that if Grantee's employment is terminated by the Company other than for cause and Grantee has not previously, or does not subsequently, vest to any portion of the Performance Stock Unit in accordance with its terms, then upon the forfeiture of the entire Performance Stock Unit, the Company will pay Grantee an amount equal to the value of a single share of Common Stock, whether or not the forfeited Performance Stock Unit related to more than a single share of Common Stock, calculated as of the cessation of employment, if requested by Grantee, within 30 days of such cessation of employment.
- (c) No Performance Stock Unit will vest after the Company has terminated the employment of the Grantee for cause, unless the Committee, in its sole discretion, deems a payment to be warranted under the particular circumstances. In addition, the Performance Stock Units will not vest if Grantee has willfully engaged in gross misconduct or other serious impropriety which the Company determines is likely to be damaging or detrimental to the Company, any Subsidiary or Affiliate.
- (d) Employment for purposes of determining the vesting rights of the Grantee and the expiration of the grant under this Article V shall mean continuous active full-time salaried employment with the Company, any Subsidiary or Affiliate, except that the period during which the Grantee is on vacation, sick leave, or other pre-approved leave of absence (provided there is no actual termination of employment), shall not interrupt the continuous employment of the Grantee. Employment shall also include service with Aetna Foundation, Inc. Notwithstanding any period during which Grantee receives salary continuation or severance shall not be considered as part of the continuous employment of the Grantee.

ARTICLE VI

EMPLOYEE COVENANTS

- (a) As consideration for this grant of Performance Stock Units, without prior written consent of the Company:
- (i) Grantee will not (except to the extent required by an order of a court having competent jurisdiction or under subpoena from an appropriate government agency) use or disclose to any third person, whether during or subsequent to Grantee's employment, any trade secrets, confidential information and proprietary materials, which may include, but are not limited to, the following categories of information and materials: customer lists and identities; provider lists and identities; employee lists and identities; product development and related information; marketing plans and related information; sales plans and related information; premium or other pricing information; operating policies and manuals; research; payment rates; methodologies; procedures; contractual forms; business plans; financial records; computer programs; database; or other financial, commercial, business or technical information related to the Company, any Subsidiary or Affiliate unless such information has been previously disclosed to the public by the Company or has become public knowledge other than by a breach of this Agreement ("Confidential Information"); provided, however, that this limitation shall not apply to any such use or disclosure made while Grantee is employed by the Company, any Subsidiary or Affiliate if such disclosure occurred in connection with the performance of Grantee's job as an employee of the Company, any Subsidiary or Affiliate;
 - (ii) Grantee will not, during and for a period of twelve (12) months following Grantee's termination of employment, directly or indirectly, (x) engage in the ownership (except less than 1% of the outstanding capital stock of any publicly traded company) of or, (y) become an employee of, or (z) act as a consultant or contractor to, any competitor of the Company ("Competitor") in any market in the United States where Company, Affiliate or Subsidiary does business.
 - a. For purposes of this paragraph "Competitor" shall mean any entity, organization, person or corporation that is involved in the same business as Company, Subsidiary or Affiliate, but in the case of (y) and (z), only to the extent such work, consulting or other activity on behalf of other entity, organization, person or corporation
 - i. is materially similar to the duties and/or functions that Grantee performed for the Company, Subsidiary or Affiliate in the last 12 months or involves duties and/or functions for Competitor about which Grantee has Confidential Information in the last 12 months. Notwithstanding
 - 1. with respect to sales functions for the Company, Subsidiary or Affiliate that are regionally based or whose focus is geographically limited, the restriction shall only apply where such work, consulting or other activity on behalf of a Competitor overlaps in whole or in part the same geographic area in which the Grantee worked for Company, Subsidiary or Affiliate in the last 12 months;
 - 2. with respect to corporate staff functions, the restriction shall only apply where Competitor is substantially engaged in the business of health insurance, managed health care, population health management, or related products or services.

- b. Notwithstanding, if Grantee's employment is terminated by the Company, Subsidiary or Affiliate other than for cause, the length of the noncompetition covenant in this paragraph shall not exceed the length of the severance and/or salary continuation benefits paid by the Company, Subsidiary or Affiliate to Grantee.
- c. Grantee acknowledges and agrees that these restrictions:
 - i. are necessary to protect the Confidential Information and goodwill of the Company, Subsidiary or Affiliate;
 - ii. are appropriately tailored and limited in time and geographic scope to do so; and
 - iii. do not impair or limit the Grantee's ability to earn a living.
- (iii) Grantee will not, during and for a period of 24 months following Grantee's termination of Employment, directly or indirectly induce or attempt to induce any employee of the Company, any Subsidiary or Affiliate to be employed or perform services elsewhere;
- (iv) Grantee will not, during and for a period of 24 months following Grantee's termination of Employment, directly or indirectly, induce or attempt to induce any agent or agency, broker, supplier or health care provider of the Company, any Subsidiary or Affiliate to cease or curtail providing services to the Company, any Subsidiary or Affiliate; and
- (v) Grantee will not, during and for a period of 24 months following Grantee's termination of Employment, directly or indirectly solicit or attempt to solicit the trade of any individual or entity which, at the time of such solicitation, is a customer of the Company, any Subsidiary or Affiliate, or which the Company, any Subsidiary or Affiliate is undertaking reasonable steps to procure as a customer at the time of or immediately preceding termination of Employment; provided, however, that this limitation shall only apply to any product or service which is in competition with a product or service of the Company, any Subsidiary or Affiliate and shall apply only with respect to a customer or prospective customer with whom the Grantee has been directly or indirectly involved.
- (vi) Grantee will not, during and for a period of 24 months following Grantee's termination of Employment, for himself or herself or on behalf of or in cooperation with any other person or entity, consult with or in any manner provide advice to, any individual or entity which is a customer of the Company or any Subsidiary or Affiliate of the Company, provided, however, that this limitation shall apply only to consultation or advice relating to any product or service of the Company, or any Subsidiary or Affiliate, or which is in competition with any product or service of the Company, or any Subsidiary or Affiliate, and shall apply only with respect to a customer or prospective customer with whom the Grantee has been directly or indirectly involved, or about which Grantee has Confidential Information.

In addition:

- (vii) Following the termination of Grantee's Employment, Grantee shall provide assistance to and shall cooperate with the Company, any Subsidiary or Affiliate, upon its reasonable request and without additional compensation, with respect to matters within the scope of Grantee's duties and responsibilities during Employment, provided that any reasonable out-of-pocket expenses Grantee incurs in connection with any assistance Grantee has been requested to provide under this provision for items including, but not limited to, transportation, meals, lodging and telephone, shall be reimbursed by the Company. The Company agrees and acknowledges that it shall, to the maximum extent possible under the then prevailing circumstances, coordinate, or cause a Subsidiary or Affiliate to coordinate, any such request with Grantee's other commitments and responsibilities to minimize the degree to which such request interferes with such commitments and responsibilities; and
- (viii) Grantee shall promptly notify the Company's General Counsel if Grantee is contacted by a regulatory or self-regulatory agency with respect to matters pertaining to the Company or by an attorney or other individual who informs the Grantee that he/she has filed, intends to file, or is considering filing a claim or complaint against the Company.
- (ix) Grantee acknowledges that all original works of authorship that are created by Grantee (solely or jointly with others) within the scope of Grantee's employment and relating in any way to the business or contemplated business, products, activities, research or development of the Company, any Subsidiary or Affiliate, or resulting from any work performed by the Grantee for the Company, any Subsidiary or Affiliate (in each case, regardless of when or where the work product is prepared or whose equipment or other resources is used in preparing the same) which are protectable by copyright are "works made for hire" as that term is defined in the United States Copyright Act (17 U.S.C., Section 101). To the extent that the foregoing does not apply, the Grantee hereby irrevocably assigns to the Company, and its successors and assigns, for no additional consideration, the Grantee's entire right, title and interest in and to all such works of authorship. Grantee further acknowledges that while employed by the Company, any Subsidiary or Affiliate, Grantee may develop ideas, inventions, discoveries, innovations, procedures, methods, know-how or other works which relate to the Company's current or are reasonably expected to relate to the Company's future business (in each case, regardless of when or where the work product is prepared or whose equipment or other resources is used in preparing the same) that may be patentable or subject to trade secret protection. Grantee agrees that all such works of authorship, ideas, inventions, discoveries, innovations, procedures, methods, know-how and other works shall belong exclusively to the Company, and the Grantee hereby assigns all right, title, and interest therein to the Company.

To the extent any of the foregoing works may be patentable, Grantee agrees that the Company may file and prosecute any application for patents for such works and that the Grantee will, on request, execute assignments to the Company relating to (and take all such further steps as may be reasonably necessary to perfect the Company's sole and exclusive ownership of) any such application and any patents resulting there from.

- (b) If any provision of Article VI (a) is determined by a court of competent jurisdiction not to be enforceable in the manner set forth herein, the Company and Grantee agree that it is the intention of the parties that such provision should be enforceable to the maximum extent possible under applicable law and that such court shall reform such provision to make it enforceable in accordance with the intent of the parties.
- (c) Grantee acknowledges that a material part of the inducement for the Company to grant the Performance Stock Units is Grantee's covenants set forth in Article VI (a) and that the covenants and obligations of Grantee with respect to nondisclosure, non-solicitation and cooperation relate to special, unique and extraordinary matters and that a violation of any of the terms of such covenants and obligations will cause the Company irreparable injury for which adequate remedies are not available at law. Therefore, Grantee agrees that, if Grantee shall breach any of those covenants or obligations, Grantee shall not be entitled to vest in the Performance Stock or be entitled to retain any income therefrom and the Company shall be entitled to an injunction, restraining order or such other equitable relief (without the requirement to post bond) restraining Grantee from committing any violation of the covenants and obligations contained in Article VI. The Company also shall be entitled to recover any attorneys' fees, costs, and expenses it incurs in connection with any judicial proceeding arising out of Grantee's breach of this Agreement. The remedies in the preceding sentences are cumulative and are in addition to any other rights and remedies the Company may have at law or in equity as a court or arbitrator shall reasonably determine.
- (d) The Restrictive Covenants set forth in this Article VI shall supplement and do not supersede the restrictions agreed to by Grantee in any other agreement or contract.
- (e) Employment Dispute Arbitration Program - Mandatory Binding Arbitration of Employment Disputes.
 - (i) Except as otherwise specified in this Agreement, the Grantee and the Company agree that all employment-related legal disputes between them will be submitted to and resolved by binding arbitration, and neither the Grantee nor the Company will file or participate as an individual party or member of a class in a lawsuit in any court against the other with respect to such matters. This shall apply to claims brought on or after the date the Grantee accepts this Agreement, even if the facts and circumstances relating to the claim occurred prior to that date and regardless of whether the Grantee or the Company previously filed a complaint/charge with a government agency concerning the claim.

For purposes of Article VI (e) of this Agreement, "the Company" includes Aetna Inc., its Subsidiaries and Affiliates, their predecessors, successors and assigns, and those acting as representatives or agents of those entities. THE GRANTEE UNDERSTANDS THAT, WITH RESPECT TO CLAIMS SUBJECT TO THE ARBITRATION REQUIREMENT, ARBITRATION REPLACES THE RIGHT OF THE GRANTEE AND THE COMPANY TO SUE OR PARTICIPATE IN A LAWSUIT. THE GRANTEE ALSO UNDERSTANDS THAT IN ARBITRATION, A DISPUTE IS RESOLVED BY AN ARBITRATOR INSTEAD OF A JUDGE OR JURY, AND THE DECISION OF THE ARBITRATOR IS FINAL AND BINDING.

- (ii) THE GRANTEE UNDERSTANDS THAT THE ARBITRATION PROVISIONS OF THIS AGREEMENT AFFECT THE LEGAL RIGHTS OF THE GRANTEE AND THE COMPANY AND ACKNOWLEDGES THAT THE GRANTEE HAS BEEN ADVISED TO, AND HAS BEEN GIVEN THE OPPORTUNITY TO, OBTAIN LEGAL ADVICE BEFORE SIGNING THIS AGREEMENT.

- (iii) Article VI (e) of this Agreement does not apply to workers' compensation claims, unemployment compensation claims, and claims under the Employee Retirement Income Security Act of 1974 ("ERISA") for employee benefits. A dispute as to whether Article VI (e) of this Agreement applies must be submitted to the binding arbitration process set forth in this Agreement.
- (iv) The Grantee and/or the Company may seek emergency or temporary injunctive relief from a court (including with respect to claims arising out of Article VI (a) in accordance with applicable law). However, except as provided in Article VI (c) of this Agreement, after the court has issued a ruling concerning the emergency or temporary injunctive relief, the Grantee and the Company shall be required to submit the dispute to binding arbitration pursuant to this Agreement .
- (v) Unless otherwise agreed, the arbitration will be administered by the American Arbitration Association (the "AAA") and will be conducted pursuant to the AAA's Employment Arbitration Rules and Mediation Procedures (the "Rules"), as modified in this Agreement, in effect at the time the request for arbitration is filed. The AAA's Rules are available on the AAA's website at www.adr.org . THE GRANTEE ACKNOWLEDGES THAT THE COMPANY HAS ENCOURAGED THE GRANTEE TO READ THESE RULES PROMPTLY AND CAREFULLY AND THAT THE GRANTEE HAS BEEN AFFORDED SUFFICIENT OPPORTUNITY TO DO SO.
- (vi) If the Company initiates a request for arbitration, the Company will pay all of the administrative fees and costs charged by the AAA, including the arbitrator's compensation and charges for hearing room rentals, etc. If the Grantee initiates a request for arbitration or submits a counterclaim to the Company's request for arbitration, the Grantee shall be required to contribute One Hundred Dollars (\$100.00) to those administrative fees and costs, payable to the AAA at the time the Grantee's request for arbitration or counterclaim is submitted. The Company may increase the contribution amount in the future without amending this Agreement, but not to exceed the maximum permitted under the AAA rules then in effect. In all cases, the Grantee and the Company shall be responsible for payment of any fees assessed by the arbitrator as a result of that party's delay, request for postponement, failure to comply with the arbitrator's rulings and for other similar reasons.
- (vii) The Grantee and the Company may choose to be represented by legal counsel in the arbitration process and shall be responsible for their own legal fees, expenses and costs. However, the arbitrator shall have the same authority as a court to order the Grantee or the Company to pay some or all of the other's legal fees, expenses and costs, in accordance with applicable law.
- (viii) Unless otherwise agreed, there shall be a single arbitrator, selected by the Grantee and the Company from a list of qualified neutrals furnished by the AAA. If the Grantee and the Company cannot agree on an arbitrator, one will be selected by the AAA.
- (ix) Unless otherwise agreed, the arbitration hearing will take place in the city where the Grantee works or last worked for the Company. If the Grantee and the Company disagree as to the proper locale, the AAA will decide.
- (x) The Grantee and the Company shall be entitled to conduct limited pre-hearing discovery. Each may take the deposition of one person and anyone designated by the other as an expert witness. The party taking the deposition shall be responsible for all associated costs, such as the cost of a

court reporter and the cost of an original transcript. Each party also has the right to submit one set of ten written questions (including subparts) to the other party, which must be answered under oath, and to request and obtain all documents on which the other party relies in support of its answers to the written questions. Additional discovery may be permitted by the arbitrator upon a showing that it is necessary for that party to have a fair opportunity to present a claim or defense.

- (xi) The arbitrator shall apply the same substantive law that would apply if the matter were heard by a court and shall have the authority to order the same remedies (but no others) as would be available in a court proceeding. The time limits for requesting arbitration or submitting a counterclaim and the administrative prerequisites for filing an arbitration claim or counterclaim are the same as they would be in a court proceeding. The arbitrator shall consider and decide any dispositive motions (motions seeking a decision on some or all of the claims or counterclaims without an arbitration hearing) filed by any party.
 - (xii) All proceedings, including the arbitration hearing and decision, are private and confidential, unless otherwise required by law. Arbitration decisions may not be published or publicized without the consent of both the Grantee and the Company.
 - (xiii) Unless otherwise agreed, the arbitrator's decision will be in writing with a brief summary of the arbitrator's opinion.
 - (xiv) The arbitrator's decision is final and binding on the Grantee and the Company. After the arbitrator's decision is issued, the Grantee or the Company may obtain an order of judgment from a court and may obtain a court order enforcing the decision. The arbitrator's decision may be appealed to the courts only under the limited circumstances provided by law.
 - (xv) If the Grantee previously signed an agreement, including but not limited to an employment agreement, containing arbitration provisions, those provisions are superseded by the arbitration provisions of this Agreement.
 - (xvi) If any provision of Article VI (e) is found to be void or otherwise unenforceable, in whole or in part, this shall not affect the validity of the remainder of Article VI (e) and the remainder of the Agreement. All other provisions shall remain in full force and effect.
- (f) Except as provided in connection with mandatory binding arbitration of employment disputes, Grantee hereby submits to the exclusive jurisdiction of the courts of the State of Connecticut and the United States District Court for the District of Connecticut with respect to any action relating to this Agreement, and agrees that (i) the sole and exclusive appropriate venue for any suit or proceeding relating to this Agreement shall be in such court, and (ii) hereby waives any and all objections and defenses based on forum, venue or personal or subject matter jurisdiction as they may relate to a suit or proceeding brought before such court in accordance with the Agreement.

For purposes of this Article VI, the term "Employment" shall refer to active employment with the Company, any Subsidiary or Affiliate, and shall not include salary continuation or severance periods.

ARTICLE VII

OTHER TERMS

- (a) Nothing in this Agreement shall interfere with or limit in any way the right of the Company, any Subsidiary or Affiliate to terminate the Grantee's employment at any time. Neither the execution and delivery hereof nor the granting of the Award shall constitute or be evidence of any agreement or understanding, express or implied, on the part of the Company or any of its Subsidiaries to employ or continue the employment of the Grantee for any period.
- (b) Until the Performance Stock Units have become vested, Grantee shall not have any rights as a stockholder (including the right to payment of dividends) by virtue of this grant of Performance Stock Units.
- (c) During the Vesting Period, the Performance Stock Units shall be nontransferable and non-assignable except by will or the laws of descent and distribution.
- (d) The award, when vested, will be settled on a net basis. Prior to issuing any Common Shares, the Company will withhold an amount sufficient to satisfy federal, state, local, social security and Medicare withholding tax requirements relating to award. Any social security calculation or other adjustments discovered after net share payment will be settled in cash, not in Shares of Common Stock. Vesting will result in taxable compensation reportable on the Grantee's W-2 in year of vesting.
- (e) The Company may from time to time adopt stock ownership requirements applicable to Grantees who are senior managers of the Company. In connection with and for the purpose of implementing those ownership requirements, the Company may adopt certain restrictions on the ability of a Grantee to sell shares issued under this Agreement when such ownership requirements have not been satisfied. Any such restriction on sale will be communicated generally to affected Grantees and the restriction may be modified by the Company from time to time, at its discretion. Neither the Company nor its Board of Directors shall have any obligation or liability to a Grantee in connection with any such restriction.
- (f) This Performance Stock Unit is an unfunded obligation of the Company and nothing in this Agreement shall be construed to create any claim against particular assets or require the Company to segregate or otherwise set aside any assets or create any fund to meet its obligations hereunder.
- (g) Anything herein to the contrary notwithstanding, a Grantee whose Performance Stock Units have been forfeited as a result of termination of employment due to U.S. Military Service and who is later re-employed (in a full-time active status) after discharge within the time period set in 38 U.S.C. Section 4312 will be eligible to have the forfeited Performance Stock Units reinstated as follows: (i) if such Grantee is re-employed during the Vesting Period, all forfeited Performance Stock Units shall be reinstated; or (ii) if such Grantee is re-employed after the Vesting Period, a cash payment will be made to the Grantee, minus applicable taxes, for the value of the forfeited Performance Stock Units on the Vest Date pursuant to procedures established by the Company for this purpose.
- (h) It is the intention of the Company and Grantee that this Agreement not result in unfavorable tax consequences to Grantee under Section 409A and the Agreement shall be interpreted as to so comply. Notwithstanding anything to the contrary herein, the Company and Grantee agree to the provisions set forth below in order to comply with the requirements of Section 409A.

- (i) If Grantee is a “specified employee” (within the meaning of Section 409A) with respect to the Company, any non-qualified deferred compensation otherwise payable to or in respect of Grantee in connection with Grantee’s termination of employment shall be delayed until the earliest date upon which such amounts may be paid without being subject to taxation under Section 409A. Any amount, the payment or benefit of which is delayed by application of the preceding sentence, shall be paid as soon as possible following the expiration of such period.
 - (ii) Unless deferred pursuant to this agreement, all payments shall be paid to Grantee, to the extent earned, in no event later than the last day of the “applicable 2 ½ month period,” as such term is defined in Treasury Regulation Section 1.409A-1(b)(4)(i)(A) with respect to such payment’s treatment as a “short-term deferral” for purposes of Section 409A.
 - (iii) The Company and Grantee agree to cooperate in good faith in an effort to comply with Section 409A. Under no circumstances shall the Company be responsible for any taxes, penalties, interest or other losses or expenses incurred by the Grantee due to any failure to comply with Section 409A.
- (i) This Agreement is subject to the 2010 Stock Incentive Plan heretofore adopted by the Company and approved by its shareholders. The terms and provisions of the Plan (including any subsequent amendments thereto) are hereby incorporated herein by reference. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms and provisions of the Plan will govern and prevail.
 - (j) At such times and upon such terms and conditions as the Company shall determine, the Company may permit eligible Grantees to elect to defer the distribution of an Award otherwise payable to the Grantee under this Agreement until termination of the Grantee’s Employment or such other date Company shall permit.
 - (k) This Agreement is made under and shall be governed by and construed in accordance with the laws of the State of Connecticut, without giving effect to its choice of law provisions.



**AETNA INC.
2010 STOCK INCENTIVE PLAN**

EXECUTIVE RESTRICTED STOCK UNIT TERMS OF AWARD

Pursuant to its 2010 Stock Incentive Plan (the "Plan"), Aetna Inc. (the "Company") hereby grants Restricted Stock Units on the terms and conditions hereinafter set forth. The number of Restricted Stock Units awarded and vesting information are included in the website of the designated broker, currently UBS Financial Services, Inc., and in the Notice of the Restricted Stock Unit Acknowledgement and Acceptance Form, if applicable. All capitalized terms used herein which are not otherwise defined herein shall have the meaning specified in the Plan.

ARTICLE I

DEFINITIONS

- (a) "Affiliate" means an entity at least a majority of the total voting power of the then-outstanding voting securities of which is held, directly or indirectly, by the Company and/or one or more other Affiliates.
- (b) "Board" means the Board of Directors of Aetna Inc.
- (c) "Change in Control" means the happening of any of the following:
 - (i) When any "person" as defined in Section 3(a)(9) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and as used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) of the Exchange Act but excluding the Company and any Subsidiary thereof and any employee benefit plan sponsored or maintained by the Company or any Subsidiary (including any trustee of such plan acting as trustee), directly or indirectly, becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act, as amended from time to time), of securities of the Company representing 20 percent or more of the combined voting power of the Company's then outstanding securities;
 - (ii) When, during any period of 24 consecutive months, the individuals who, at the beginning of such period, constitute the Board (the "Incumbent Directors") cease for any reason other than death to constitute at least a majority thereof, provided that a director who was not a director at the beginning of such 24-month period shall be deemed to have satisfied such 24-month requirement (and be an Incumbent Director) if such director was elected by, or on the recommendation of or with the approval of, at least two-thirds of the directors who then qualified as Incumbent Directors either actually (because they were directors at the beginning of such 24-month period) or by prior operation of this paragraph (ii); or

- (iii) The occurrence of a transaction requiring stockholder approval for the acquisition of the Company by an entity other than the Company or a Subsidiary through purchase of assets, or by merger, or otherwise.

Notwithstanding the foregoing, in no event shall a “Change in Control” be deemed to have occurred (i) as a result of the formation of a Holding Company, or (ii) with respect to Grantee, if Grantee is part of a “group,” within the meaning of Section 13(d)(3) of the Exchange Act as in effect on the effective date, which consummates the Change in Control transaction. In addition, for purposes of the definition of “Change in Control” a person engaged in business as an underwriter of securities shall not be deemed to be the “Beneficial Owner” of, or to “beneficially own,” any securities acquired through such person’s participation in good faith in a firm commitment underwriting until the expiration of forty days after the date of such acquisition.

- (d) "Committee" means the Board's Committee on Compensation and Organization or any successor thereto.
- (e) "Common Stock" means the Company's Common Shares, \$.01 par value per share.
- (f) "Company" means Aetna Inc.
- (g) "Effective Date" means the date of grant of this award of Restricted Stock Units.
- (h) “Fair Market Value” means the closing price of the Common Stock as reported by the Consolidated Tape of the New York Stock Exchange Listed Shares on the date such value is to be determined, or, if no shares were traded on such date, on the next day on which the Common Stock is traded.
- (i) “Fundamental Corporate Event” shall mean any stock dividend, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination, exchange of shares, warrants or rights offering to purchase Common Stock at a price substantially below fair market value, or similar event.
- (j) "Grantee" means the person to whom this award has been granted.
- (k) “Holding Company” means an entity that becomes a holding company for the Company or its businesses as a part of any reorganization, merger, consolidation or other transaction, provided that the outstanding shares of common stock of such entity and the combined voting power of the then outstanding voting securities of such entity entitled to vote generally in the election of directors is, immediately after such reorganization, merger, consolidation or other transaction, beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the voting stock outstanding immediately prior to such reorganization, merger, consolidation or other transaction in substantially the same proportions as their ownership, immediately prior to such reorganization, merger, consolidation or other transaction, of such outstanding voting stock.
- (l) "Long Term Disability" means long-term disability as defined under the terms of the Company's applicable long-term disability plans or policies.

- (m) "Net Shares" means the number of shares of Common Stock which will be deposited in a brokerage account in the Grantee's name at the Company's designated broker after shares have been withheld to satisfy applicable tax and withholding requirements upon vesting of the Restricted Stock Units.
- (n) "Plan" means the Aetna Inc. 2010 Stock Incentive Plan.
- (o) "Restricted Period" means the period during which this award of Restricted Stock Units is not vested.
- (p) "Restricted Stock Units" means the number of shares of Common Stock represented by the number of units awarded or such other amount as may result by operation of Article III of this Agreement.
- (q) "Retirement" means the termination of employment of a Grantee from active service with the Company, any Subsidiary or Affiliate provided the Grantee's age and completed years of service total 65 or more points at termination of employment.
- (r) "Section 409A" means Section 409A of the Internal Revenue Code of 1986, as amended, and the regulation issued thereunder, as may be amended from time to time.
- (s) "Shares of Stock" or "Stock" means the Common Stock.
- (t) "Subsidiary" means an entity of which, at the time such subsidiary status is to be determined, at least 50% of the total combined voting power of all classes of stock of such entity is held by the Company and/or one or more other subsidiaries.
- (u) "Successor" means the legal representative of the estate of a deceased Grantee or the person or persons who shall acquire the right to the Restricted Stock Units by bequest or inheritance or by reason of the death of the Grantee.
- (v) "Vest Date" means the date on which this award of Restricted Stock Units shall vest in accordance with the terms of this Agreement and as set forth on the website of the designated broker and in the Notice of Restricted Stock Unit Grant, if applicable.

ARTICLE II

RESTRICTED PERIOD

Subject to the terms of this Agreement, the Restricted Stock Units will vest in installments on the Vest Date in accordance with the terms of the Plan and this Terms of Award Agreement, or on such date as provided in Article IV or V. On the Vest Date, the Grantee shall vest to one share of Common Stock for each vested Restricted Stock Unit net of applicable taxes and withholding. Such Net Shares will be delivered to the Company's designated broker, in a brokerage account established in the Grantee's name.

ARTICLE III

CAPITAL CHANGES

In the event that the Committee shall determine that any Fundamental Corporate Event affects the Common Stock such that an adjustment is required to preserve, or to prevent enlargement of, the benefits or potential benefits made available under this Plan, then the Committee shall, in such manner as the Committee may deem equitable, adjust the number and kind of shares subject to the award of Restricted Stock Units. Additionally, the Committee may make provision for cash payment to a Grantee or the Successor of the Grantee to the extent permitted under Section 409A. However, the number of Restricted Stock Units shall always be a whole number.

ARTICLE IV

CHANGE IN CONTROL

Upon the occurrence of (i) a Change in Control, and (ii) within 24 months thereafter the Company terminates Grantee's Employment without cause, all RSUs, whether or not vested, shall become immediately vested and become payable, provided, however, that, as set forth in the Plan, to the extent the RSUs are considered deferred compensation subject to Section 409A, unless the Change in Control also satisfies the definition of "change in control" under Section 409A, payment shall not be so accelerated but shall occur upon the scheduled Vest Date(s) under Article II.

ARTICLE V

TERMINATION OF EMPLOYMENT

- (a) Except as provided in (f) below, if the Grantee shall die during the Restricted Period, the unvested Restricted Stock Units shall become immediately vested and Net Shares, if any, will be deposited with the Company's designated broker in a brokerage account established in Grantee's name.
- (b) Except as provided in (f) below, if the Grantee shall begin to receive Long Term Disability benefits during the Restricted Period, the unvested Restricted Stock Units shall continue to vest and Net Shares, if any, will be deposited with the Company's designated broker in a brokerage account established in Grantee's name on the scheduled Vest Date(s) under Article II.
- (c) Except as provided in (f) below, if, during the restricted period, Grantee shall cease to be employed by the Company, any Subsidiaries or Affiliates during the Restricted Period, for reason of Retirement or involuntary termination of employment by the Company, a portion of the Restricted Stock Units shall vest in accordance with the following formula: (i) the number of completed months employed after the Effective Date divided by the number of full months in the restricted period; multiplied by (ii) number of Restricted Stock Units, minus any vested Restricted Stock Units. For purposes of this calculation, a month is complete on the day in the following month that corresponds to the Effective Date (e.g., February 13 to March 13). Net shares, if any, will be deposited with the Company's designated broker in a brokerage account established in Grantee's name on the next scheduled Vest Date under Article II and, applicable taxes and withholding will be applied based on the Fair Market Value on that date.

- (d) Except as provided in (e) and (f) below, if the Grantee shall, for a reason other than death, Long-Term Disability, Retirement or involuntary termination of employment by the Company, cease to be employed by the Company, any Subsidiaries or Affiliates during the Restricted Period, any unvested Restricted Stock Units shall be forfeited at the time of cessation of employment.
- (e) Except as provided in (a) or (b) or (c) above, any Restricted Stock Unit not vested as of the date Grantee terminates employment shall be forfeited at the time of cessation of employment; provided, however, that if Grantee's employment is terminated by the Company other than for cause and Grantee has not previously, or does not subsequently, vest to any portion of the Restricted Stock Unit in accordance with its terms, then upon the forfeiture of the entire Restricted Stock Unit, the Company will pay Grantee an amount equal to the value of a single share of Common Stock, whether or not the forfeited Restricted Stock Unit related to more than a single share of Common Stock, calculated as of the cessation of employment, if requested by Grantee, within 30 days of such cessation of employment.
- (f) No Restricted Stock Unit will vest after the Company has terminated the employment of the Grantee for cause, unless the Committee, in its sole discretion, deems a payment to be warranted under the particular circumstances. In addition, the Restricted Stock Units will not vest if Grantee has willfully engaged in gross misconduct or other serious impropriety which the Company determines is likely to be damaging or detrimental to the Company, any Subsidiary or Affiliate.
- (g) Employment for purposes of determining the vesting rights of the Grantee and the expiration of the grant under this Article V shall mean continuous full-time salaried employment with the Company, any Subsidiary or an Affiliate, except that the period during which the Grantee is on vacation, sick leave, or other pre-approved leave of absence (provided there is no actual termination of employment), or in receipt of salary continuation or severance pay shall not interrupt the continuous employment of the Grantee. Employment shall also include service with Aetna Foundation, Inc.

ARTICLE VI

EMPLOYEE COVENANTS

- (a) As consideration for this grant of Restricted Stock Units, without prior written consent of the Company:
 - (i) Grantee will not (except to the extent required by an order of a court having competent jurisdiction or under subpoena from an appropriate government agency) use or disclose to any third person, whether during or subsequent to Grantee's employment, any trade secrets, confidential information and proprietary materials, which may include, but are not limited to, the following categories of information and materials: customer lists and identities; provider lists and identities; employee lists and identities; product development and related information; marketing plans and related information; sales plans and related information; premium or other pricing information; operating policies and manuals; research; payment rates; methodologies; procedures; contractual forms; business plans; financial records; computer programs; database; or other financial, commercial, business or technical information related to the Company, any Subsidiary or Affiliate unless such information has been previously disclosed to the public by the Company or has become public knowledge other than by a breach of this Agreement ("Confidential Information"); provided, however, that this limitation shall not apply to any such use or disclosure made while Grantee is

employed by the Company, any Subsidiary or Affiliate if such disclosure occurred in connection with the performance of Grantee's job as an employee of the Company, any Subsidiary or Affiliate;

- (ii) Grantee will not, during and for a period of twelve (12) months following Grantee's termination of employment, directly or indirectly, (x) engage in the ownership (except less than 1% of the outstanding capital stock of any publicly traded company) of or, (y) become an employee of, or (z) act as a consultant or contractor to, any competitor of the Company ("Competitor") in any market in the United States where Company, Affiliate or Subsidiary does business.
- a. For purposes of this paragraph "Competitor" shall mean any entity, organization, person or corporation that is involved in the same business as Company, Subsidiary or Affiliate, but in the case of (y) and (z), only to the extent such work, consulting or other activity on behalf of other entity, organization, person or corporation
 - i. is materially similar to the duties and/or functions that Grantee performed for the Company, Subsidiary or Affiliate in the last 12 months or involves duties and/or functions for Competitor about which Grantee has Confidential Information in the last 12 months. Notwithstanding
 1. with respect to sales functions for the Company, Subsidiary or Affiliate that are regionally based or whose focus is geographically limited, the restriction shall only apply where such work, consulting or other activity on behalf of a Competitor overlaps in whole or in part the same geographic area in which the Grantee worked for Company, Subsidiary or Affiliate in the last 12 months;
 2. with respect to corporate staff functions, the restriction shall only apply where Competitor is substantially engaged in the business of health insurance, managed health care, population health management, or related products or services.
 - b. Notwithstanding, if Grantee's employment is terminated by the Company, Subsidiary or Affiliate other than for cause, the length of the noncompetition covenant in this paragraph shall not exceed the length of the severance and/or salary continuation benefits paid by the Company, Subsidiary or Affiliate to Grantee.
 - c. Grantee acknowledges and agrees that these restrictions:
 - i. are necessary to protect the Confidential Information and goodwill of the Company, Subsidiary or Affiliate;
 - ii. are appropriately tailored and limited in time and geographic scope to do so; and
 - iii. do not impair or limit the Grantee's ability to earn a living.

- (iii) Grantee will not, during and for a period of 24 months following Grantee's termination of Employment, directly or indirectly induce or attempt to induce any employee of the Company, any Subsidiary or Affiliate to be employed or perform services elsewhere;
- (iv) Grantee will not, during and for a period of 24 months following Grantee's termination of Employment, directly or indirectly, induce or attempt to induce any agent or agency, broker, supplier or health care provider of the Company, any Subsidiary or Affiliate to cease or curtail providing services to the Company, any Subsidiary or Affiliate; and
- (v) Grantee will not, during and for a period of 24 months following Grantee's termination of Employment, directly or indirectly solicit or attempt to solicit the trade of any individual or entity which, at the time of such solicitation, is a customer of the Company, any Subsidiary or Affiliate, or which the Company, any Subsidiary or Affiliate is undertaking reasonable steps to procure as a customer at the time of or immediately preceding termination of Employment; provided, however, that this limitation shall only apply to any product or service which is in competition with a product or service of the Company, any Subsidiary or Affiliate and shall apply only with respect to a customer or prospective customer with whom the Grantee has been directly or indirectly involved.
- (vi) Grantee will not, during and for a period of 24 months following Grantee's termination of Employment, for himself or herself or on behalf of or in cooperation with any other person or entity, consult with or in any manner provide advice to, any individual or entity which is a customer of the Company or any Subsidiary or Affiliate of the Company, provided, however, that this limitation shall apply only to consultation or advice relating to any product or service of the Company, or any Subsidiary or Affiliate, or which is in competition with any product or service of the Company, or any Subsidiary or Affiliate, and shall apply only with respect to a customer or prospective customer with whom the Grantee has been directly or indirectly involved, or about which Grantee has Confidential Information

In addition:

- (vii) Following the termination of Grantee's Employment, Grantee shall provide assistance to and shall cooperate with the Company, any Subsidiary or Affiliate, upon its reasonable request and without additional compensation, with respect to matters within the scope of Grantee's duties and responsibilities during Employment, provided that any reasonable out-of-pocket expenses Grantee incurs in connection with any assistance Grantee has been requested to provide under this provision for items including, but not limited to, transportation, meals, lodging and telephone, shall be reimbursed by the Company. The Company agrees and acknowledges that it shall, to the maximum extent possible under the then prevailing circumstances, coordinate, or cause a Subsidiary or Affiliate to coordinate, any such request with Grantee's other commitments and responsibilities to minimize the degree to which such request interferes with such commitments and responsibilities; and

(viii) Grantee shall promptly notify the Company's General Counsel if Grantee is contacted by a regulatory or self-regulatory agency with respect to matters pertaining to the Company or by an attorney or other individual who informs the Grantee that he/she has filed, intends to file, or is considering filing a claim or complaint against the Company .

(ix) Grantee acknowledges that all original works of authorship that are created by Grantee (solely or jointly with others) within the scope of Grantee's employment and relating in any way to the business or contemplated business, products, activities, research or development of the Company, any Subsidiary or Affiliate, or resulting from any work performed by the Grantee for the Company, any Subsidiary or Affiliate (in each case, regardless of when or where the work product is prepared or whose equipment or other resources is used in preparing the same) which are protectable by copyright are "works made for hire" as that term is defined in the United States Copyright Act (17 U.S.C., Section 101). To the extent that the foregoing does not apply, the Grantee hereby irrevocably assigns to the Company, and its successors and assigns, for no additional consideration, the Grantee's entire right, title and interest in and to all such works of authorship. Grantee further acknowledges that while employed by the Company, any Subsidiary or Affiliate, Grantee may develop ideas, inventions, discoveries, innovations, procedures, methods, know-how or other works which relate to the Company's current or are reasonably expected to relate to the Company's future business (in each case, regardless of when or where the work product is prepared or whose equipment or other resources is used in preparing the same) that may be patentable or subject to trade secret protection. Grantee agrees that all such works of authorship, ideas, inventions, discoveries, innovations, procedures, methods, know-how and other works shall belong exclusively to the Company, and the Grantee hereby assigns all right, title, and interest therein to the Company.

To the extent any of the foregoing works may be patentable, Grantee agrees that the Company may file and prosecute any application for patents for such works and that the Grantee will, on request, execute assignments to the Company relating to (and take all such further steps as may be reasonably necessary to perfect the Company's sole and exclusive ownership of) any such application and any patents resulting therefrom.

(b) If any provision of Article VI (a) is determined by a court of competent jurisdiction not to be enforceable in the manner set forth herein, the Company and Grantee agree that it is the intention of the parties that such provision should be enforceable to the maximum extent possible under applicable law and that such court shall reform such provision to make it enforceable in accordance with the intent of the parties.

- (c) Grantee acknowledges that a material part of the inducement for the Company to grant the Restricted Stock Units is Grantee's covenants set forth in Article VI (a) and that the covenants and obligations of Grantee with respect to nondisclosure, non-solicitation and cooperation relate to special, unique and extraordinary matters and that a violation of any of the terms of such covenants and obligations will cause the Company irreparable injury for which adequate remedies are not available at law. Therefore, Grantee agrees that, if Grantee shall breach any of those covenants or obligations, Grantee shall not be entitled to vest in the Restricted Stock or be entitled to retain any income therefrom and the Company shall be entitled to an injunction, restraining order or such other equitable relief (without the requirement to post bond) restraining Grantee from committing any violation of the covenants and obligations contained in Article VI. The Company also shall be entitled to recover any attorneys' fees, costs, and expenses it incurs in connection with any judicial proceeding arising out of Grantee's breach of this Agreement. The remedies in the preceding sentences are cumulative and are in addition to any other rights and remedies the Company may have at law or in equity as a court or arbitrator shall reasonably determine.
- (d) The Restrictive Covenants set forth in this Article VI shall supplement and do not supersede the restrictions agreed to by Grantee in any other agreement or contract.
- (e) Employment Dispute Arbitration Program - Mandatory Binding Arbitration of Employment Disputes.
 - (i) Except as otherwise specified in this Agreement, the Grantee and the Company agree that all employment-related legal disputes between them will be submitted to and resolved by binding arbitration, and neither the Grantee nor the Company will file or participate as an individual party or member of a class in a lawsuit in any court against the other with respect to such matters. This shall apply to claims brought on or after the date the Grantee accepts this Agreement, even if the facts and circumstances relating to the claim occurred prior to that date and regardless of whether the Grantee or the Company previously filed a complaint/charge with a government agency concerning the claim.

For purposes of Article VI (e) of this Agreement, "the Company" includes Aetna Inc., its Subsidiaries and Affiliates, their predecessors, successors and assigns, and those acting as representatives or agents of those entities. THE GRANTEE UNDERSTANDS THAT, WITH RESPECT TO CLAIMS SUBJECT TO THE ARBITRATION REQUIREMENT, ARBITRATION REPLACES THE RIGHT OF THE GRANTEE AND THE COMPANY TO SUE OR PARTICIPATE IN A LAWSUIT. THE GRANTEE ALSO UNDERSTANDS THAT IN ARBITRATION, A DISPUTE IS RESOLVED BY AN ARBITRATOR INSTEAD OF A JUDGE OR JURY, AND THE DECISION OF THE ARBITRATOR IS FINAL AND BINDING.

- (ii) THE GRANTEE UNDERSTANDS THAT THE ARBITRATION PROVISIONS OF THIS AGREEMENT AFFECT THE LEGAL RIGHTS OF THE GRANTEE AND THE COMPANY AND ACKNOWLEDGES THAT THE GRANTEE HAS BEEN ADVISED TO, AND HAS BEEN GIVEN THE OPPORTUNITY TO, OBTAIN LEGAL ADVICE BEFORE SIGNING THIS AGREEMENT.

- (iii) Article VI (e) of this Agreement does not apply to workers' compensation claims, unemployment compensation claims, and claims under the Employee Retirement Income Security Act of 1974 ("ERISA") for employee benefits. A dispute as to whether Article VI (e) of this Agreement applies must be submitted to the binding arbitration process set forth in this Agreement.
- (iv) The Grantee and/or the Company may seek emergency or temporary injunctive relief from a court (including with respect to claims arising out of Article VI (a) in accordance with applicable law). However, except as provided in Article VI (c) of this Agreement, after the court has issued a ruling concerning the emergency or temporary injunctive relief, the Grantee and the Company shall be required to submit the dispute to binding arbitration pursuant to this Agreement .
- (v) Unless otherwise agreed, the arbitration will be administered by the American Arbitration Association (the "AAA") and will be conducted pursuant to the AAA's Employment Arbitration Rules and Mediation Procedures (the "Rules"), as modified in this Agreement, in effect at the time the request for arbitration is filed. The AAA's Rules are available on the AAA's website at www.adr.org. THE GRANTEE ACKNOWLEDGES THAT THE COMPANY HAS ENCOURAGED THE GRANTEE TO READ THESE RULES PROMPTLY AND CAREFULLY AND THAT THE GRANTEE HAS BEEN AFFORDED SUFFICIENT OPPORTUNITY TO DO SO.
- (vi) If the Company initiates a request for arbitration, the Company will pay all of the administrative fees and costs charged by the AAA, including the arbitrator's compensation and charges for hearing room rentals, etc. If the Grantee initiates a request for arbitration or submits a counterclaim to the Company's request for arbitration, the Grantee shall be required to contribute One Hundred Dollars (\$100.00) to those administrative fees and costs, payable to the AAA at the time the Grantee's request for arbitration or counterclaim is submitted. The Company may increase the contribution amount in the future without amending this Agreement, but not to exceed the maximum permitted under the AAA rules then in effect. In all cases, the Grantee and the Company shall be responsible for payment of any fees assessed by the arbitrator as a result of that party's delay, request for postponement, failure to comply with the arbitrator's rulings and for other similar reasons.
- (vii) The Grantee and the Company may choose to be represented by legal counsel in the arbitration process and shall be responsible for their own legal fees, expenses and costs. However, the arbitrator shall have the same authority as a court to order the Grantee or the Company to pay some or all of the other's legal fees, expenses and costs, in accordance with applicable law.
- (viii) Unless otherwise agreed, there shall be a single arbitrator, selected by the Grantee and the Company from a list of qualified neutrals furnished by the AAA. If the Grantee and the Company cannot agree on an arbitrator, one will be selected by the AAA.
- (ix) Unless otherwise agreed, the arbitration hearing will take place in the city where the Grantee works or last worked for the Company. If the Grantee and the Company disagree as to the proper locale, the AAA will decide.

- (x) The Grantee and the Company shall be entitled to conduct limited pre-hearing discovery. Each may take the deposition of one person and anyone designated by the other as an expert witness. The party taking the deposition shall be responsible for all associated costs, such as the cost of a court reporter and the cost of an original transcript. Each party also has the right to submit one set of ten written questions (including subparts) to the other party, which must be answered under oath, and to request and obtain all documents on which the other party relies in support of its answers to the written questions. Additional discovery may be permitted by the arbitrator upon a showing that it is necessary for that party to have a fair opportunity to present a claim or defense.
 - (xi) The arbitrator shall apply the same substantive law that would apply if the matter were heard by a court and shall have the authority to order the same remedies (but no others) as would be available in a court proceeding. The time limits for requesting arbitration or submitting a counterclaim and the administrative prerequisites for filing an arbitration claim or counterclaim are the same as they would be in a court proceeding. The arbitrator shall consider and decide any dispositive motions (motions seeking a decision on some or all of the claims or counterclaims without an arbitration hearing) filed by any party.
 - (xii) All proceedings, including the arbitration hearing and decision, are private and confidential, unless otherwise required by law. Arbitration decisions may not be published or publicized without the consent of both the Grantee and the Company.
 - (xiii) Unless otherwise agreed, the arbitrator's decision will be in writing with a brief summary of the arbitrator's opinion.
 - (xiv) The arbitrator's decision is final and binding on the Grantee and the Company. After the arbitrator's decision is issued, the Grantee or the Company may obtain an order of judgment from a court and may obtain a court order enforcing the decision. The arbitrator's decision may be appealed to the courts only under the limited circumstances provided by law.
 - (xv) If the Grantee previously signed an agreement, including but not limited to an employment agreement, containing arbitration provisions, those provisions are superseded by the arbitration provisions of this Agreement.
 - (xvi) If any provision of Article VI (e) is found to be void or otherwise unenforceable, in whole or in part, this shall not affect the validity of the remainder of Article VI (e) and the remainder of the Agreement. All other provisions shall remain in full force and effect.
- (f) Except as provided in connection with mandatory binding arbitration of employment disputes, Grantee hereby submits to the exclusive jurisdiction of the courts of the State of Connecticut and the United States District Court for the District of Connecticut with respect to any action relating to this Agreement, and agrees that (i) the sole and exclusive appropriate venue for any suit or proceeding relating to this Agreement shall be in such court, and (ii) hereby waives any and all objections and defenses based on forum, venue or personal or subject matter jurisdiction as they may relate to a suit or proceeding brought before such court in accordance with the Agreement.

For purposes of this Article VI, the term “Employment” shall refer to active employment with the Company, any Subsidiary or Affiliate, and shall not include salary continuation or severance periods.

ARTICLE VII

OTHER TERMS

- (a) Nothing in this Agreement shall interfere with or limit in any way the right of the Company, any Subsidiary or Affiliate to terminate the Grantee’s employment at any time. Neither the execution and delivery hereof nor the granting of the Award shall constitute or be evidence of any agreement or understanding, express or implied, on the part of the Company or any of its Subsidiaries to employ or continue the employment of the Grantee for any period.
- (b) Until the Restricted Stock Units have become vested, Grantee shall not have any rights as a stockholder (including the right to payment of dividends) by virtue of this grant of Restricted Stock Units.
- (c) During the Restricted Period, the Restricted Stock Units shall be nontransferable and non-assignable except by will or the laws of descent and distribution.
- (d) The award will be settled on a net basis. Prior to issuing any Common Shares, the Company will withhold an amount sufficient to satisfy federal, state, local, social security and Medicare withholding tax requirements relating to award. Any social security calculation or other adjustments discovered after net share payment will be settled in cash, not in Shares of Common Stock. Vesting will result in taxable compensation reportable on the Grantee’s W-2 in year of vesting.
- (e) The Company may from time to time adopt stock ownership requirements applicable to Grantees who are senior managers of the Company. In connection with and for the purpose of implementing those ownership requirements, the Company may adopt certain restrictions on the ability of a Grantee to sell shares issued under this Agreement when such ownership requirements have not been satisfied. Any such restriction on sale will be communicated generally to affected Grantees and the restriction may be modified by the Company from time to time, at its discretion. Neither the Company nor its Board of Directors shall have any obligation or liability to a Grantee in connection with any such restriction.
- (f) This Restricted Stock Unit is an unfunded obligation of the Company and nothing in this Agreement shall be construed to create any claim against particular assets or require the Company to segregate or otherwise set aside any assets or create any fund to meet its obligations hereunder.

- (g) Anything herein to the contrary notwithstanding, a Grantee whose Restricted Stock Units have been forfeited as a result of termination of employment due to U.S. Military Service and who is later re-employed (in a full-time active status) after discharge within the time period set in 38 U.S.C. Section 4312 will be eligible to have the forfeited Restricted Stock Units reinstated as follows: (i) if such Grantee is re-employed during the Restricted Period, all forfeited Restricted Stock Units shall be reinstated; or (ii) if such Grantee is re-employed after the Restricted Period, a cash payment will be made to the Grantee, minus applicable taxes, for the value of the forfeited Restricted Stock Units on the Vest Date pursuant to procedures established by the Company for this purpose.
- (h) If any provision of this Agreement would cause Grantee to incur any additional tax or interest under Section 409A, the Company may reform such provision (including an amendment retroactive to the Effective Date to the extent permissible) to comply with Section 409A.
- (i) If the Company reasonably anticipates that the Company's tax deduction with respect to the payment upon vesting of the Restricted Stock Units would be limited or eliminated by application of Section 162(m) of the Internal Revenue Code, the Company may elect, in accordance with Section 409A, to delay the payment of such Restricted Stock Units to the earliest date in which the Company anticipates that its tax deduction for such payment will not be limited or eliminated.
- (j) This Agreement is subject to the 2010 Stock Incentive Plan heretofore adopted by the Company and approved by its shareholders. The terms and provisions of the Plan (including any subsequent amendments thereto) are hereby incorporated herein by reference. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms and provisions of the Plan will govern and prevail.
- (k) Voluntary Deferral. At such times and upon such terms and conditions as the Company shall determine in accordance with the terms of the Plan and Section 409A, the Company may permit eligible Grantees to elect to defer the distribution of an Award otherwise payable to the Grantee under this Agreement until termination of the Grantee's Employment or such other date Company shall permit.
- (l) This Agreement is made under and shall be governed by and construed in accordance with the laws of the State of Connecticut, without giving effect to its choice of law provisions.

I have read the Restricted Stock Unit Agreement. I accept the Restricted Stock Unit award and agree to be bound by all of its terms and conditions, including mandatory binding arbitration of employment related disputes and, if applicable, any other provisions of Article VI.



**AETNA INC.
2010 STOCK INCENTIVE PLAN**

STOCK APPRECIATION RIGHT TERMS OF AWARD

Pursuant to its 2010 Stock Incentive Plan, Aetna Inc. has granted a stock appreciation right on shares of Aetna Inc. Common Stock. The number of shares represented by this right, the Grant Price and vesting information are included on the website of the designated broker, currently UBS Financial Services, Inc., and in the Notice of Stock Appreciation Right Grant, if applicable. The Stock Appreciation Right is issued on the terms and conditions hereinafter set forth.

ARTICLE I

DEFINITIONS

- (a) "Affiliate" means an entity at least a majority of the total voting power of the then-outstanding voting securities of which is held, directly or indirectly, by the Company and/or one or more other Affiliates.
- (b) "Board" means the Board of Directors of Aetna Inc.
- (c) "Change in Control" means the happening of any of the following:
 - (i) When any "person" as defined in Section 3(a)(9) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and as used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) of the Exchange Act but excluding the Company and any Subsidiary thereof and any employee benefit plan sponsored or maintained by the Company or any Subsidiary (including any trustee of such plan acting as trustee), directly or indirectly, becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act, as amended from time to time), of securities of the Company representing 20 percent or more of the combined voting power of the Company's then outstanding securities;
 - (ii) When, during any period of 24 consecutive months, the individuals who, at the beginning of such period, constitute the Board (the "Incumbent Directors") cease for any reason other than death to constitute at least a majority thereof, provided that a director who was not a director at the beginning of such 24-month period shall be deemed to have satisfied such 24-month requirement (and be an Incumbent Director) if such director was elected by, or on the recommendation of or with the approval of, at least two-thirds of the directors who then qualified as Incumbent Directors either actually (because they were directors at the beginning of such 24-month period) or by prior operation of this paragraph (ii); or

- (iii) The occurrence of a transaction requiring stockholder approval for the acquisition of the Company by an entity other than the Company or a Subsidiary through purchase of assets, or by merger, or otherwise.

Notwithstanding the foregoing, in no event shall a "Change in Control" be deemed to have occurred (i) as a result of the formation of a Holding Company, or (ii) with respect to Grantee, if Grantee is part of a "group," within the meaning of Section 13(d)(3) of the Exchange Act as in effect on the effective date, which consummates the Change in Control transaction. In addition, for purposes of the definition of "Change in Control" a person engaged in business as an underwriter of securities shall not be deemed to be the "beneficial owner" of, or to "beneficially own," any securities acquired through such person's participation in good faith in a firm commitment underwriting until the expiration of forty days after the date of such acquisition.

- (d) "Committee" means the Board's Committee on Compensation and Organization or any successor thereto.
- (e) "Common Stock" means shares of the Company's Common Stock, \$.01 par value per share.
- (f) "Company" means Aetna Inc.
- (g) "Effective Date" means the date of grant of this Stock Appreciation Right, as approved by the Committee.
- (h) "Exercise Date" means the date the Grantee has notified the designated broker to exercise all or a portion of the Stock Appreciation Right.
- (i) "Fair Market Value" means the closing price of the Common Stock as reported by the Consolidated Tape of the New York Stock Exchange Listed Shares on the date such value is to be determined, or, if no shares were traded on such day, on the next day on which the Common Stock is traded.
- (j) "Fundamental Corporate Event" shall mean any stock dividend, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination, exchange of shares, warrants or rights offering to purchase Common Stock at a price substantially below fair market value, or similar event.
- (k) "Grantee" means the person to whom this Stock Appreciation Right has been granted.
- (l) "Grant Price" means the dollar amount per share of Common Stock that is the basis for determining the appreciation in value of the Common Stock.
- (m) "Holding Company" means an entity that becomes a holding company for the Company or its businesses as a part of any reorganization, merger, consolidation or other transaction, provided that the outstanding shares of common stock of such entity and the combined voting power of the then outstanding voting securities of such entity entitled to vote generally in the election of directors is, immediately after such reorganization, merger, consolidation or other transaction, beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively of the voting stock outstanding immediately prior to such reorganization, merger, consolidation or other transaction in substantially the same proportions as

their ownership, immediately prior to such reorganization, merger, consolidation or other transaction, of such outstanding voting stock.

- (n) "Long Term Disability" means long-term disability as defined under the terms of the Company's applicable long-term disability plans or policies.
- (o) "Plan" means the Aetna Inc. 2010 Stock Incentive Plan.
- (p) "Retirement" means the termination of employment of a Grantee from active service with the Company, a Subsidiary or Affiliate provided the Grantee's age and completed years of service total 65 or more points at termination of employment.
- (q) "SAR" means Stock Appreciation Right.
- (r) "Shares Granted" means the number of shares of Common Stock represented by the Stock Appreciation Right, or such other amount as may result by operation of Article IV of this Agreement.
- (s) "Shares of Stock" or "Stock" means the Common Stock.
- (t) "Stock Appreciation Right" or "SAR" means the right granted herein to be paid the excess, as of the Exercise Date, of (i) the Fair Market Value of the shares of Common Stock associated with this Stock Appreciation Right (or the portion thereof that is surrendered on exercise) over (ii) the Grant Price of such Stock Appreciation Right.
- (u) "Stock Appreciation Rights Vested" means number of Stock Appreciation Rights exercisable on any given date.
- (v) "Subsidiary" means any entity of which, at the time such subsidiary status is to be determined, at least 50% of the total combined voting power of all classes of stock in such entity is held by the Company and/or one or more other subsidiaries.
- (w) "Successor" means the legal representative of the estate of a deceased Grantee or the person or persons who shall acquire the right to exercise a SAR by bequest or inheritance or by reason of the death of the Grantee.
- (x) "Term" means the period during which the SAR granted hereby may be exercised.
- (y) "Vest Date" means the date on which a portion of the SAR becomes exercisable pursuant to the Terms of the Award and, as set forth on the website of the designated broker and in the Notice of Stock Appreciation Right Grant, if applicable.

ARTICLE II

TERM OF SAR AND EXERCISE

- (a) Subject to the terms of this Agreement, the term of the SAR shall commence on the first Vest Date and shall terminate, unless sooner terminated by the terms of the Plan or this Terms of Award Agreement, at:
 - (i) The close of the Company's business on the day preceding the tenth anniversary of the Effective Date, if the Company is open for business on such day; or
 - (ii) The close of the Company's business on the next preceding day that the Company is open for business.
- (b) The SAR is exercisable in installments, each installment to become exercisable as of the Vest Date in accordance with the terms of the Plan and this Terms of Award Agreement. Once an installment is vested, it may be exercised in whole or in part only during the Term of the SAR.

ARTICLE III

METHOD OF SAR EXERCISE

In order to exercise this SAR, Grantee must comply with procedures adopted by the Company from time to time. Under current procedures, the Grantee must exercise the SAR through the Company's designated broker.

In addition, if the Grantee has been notified that he or she must consult with a member of the Company's Law and Regulatory Affairs Unit prior to engaging in transactions in Aetna stock, Grantee must consult with Law prior to exercising the SAR.

Upon exercise of the SAR, payment (net of federal, state, local, social security and medicare taxes, if applicable) shall be paid in Common Stock. The resulting shares of Common Stock will be deposited in a brokerage account established in Grantee's name at the designated broker.

ARTICLE IV

CAPITAL CHANGES

In the event that the Committee shall determine that any Fundamental Corporate Event affects the Common Stock such that an adjustment is required to preserve, or to prevent enlargement of, the benefits or potential benefits made available under this SAR or the Plan, then the Committee may, in such manner as the Committee may deem equitable, adjust the (i) the number and kind of shares subject to the SAR or (ii) the SAR Grant Price. Additionally, the Committee may make provision for a cash payment to a Grantee or the Successor of the Grantee to the extent permitted under Section 409A. However, the number of Shares of Stock subject to the SAR shall always be a whole number.

ARTICLE V

CHANGE IN CONTROL

Upon the occurrence of (i) a Change in Control, and (ii) within 24 months thereafter, the Company terminates Grantee's Employment without cause, all SARs, whether or not vested, shall become immediately vested and become payable in accordance with the terms of this Agreement.

ARTICLE VI

TERMINATION OF SAR

- (a) Except as provided in (d) below, if the Grantee shall die or begin to receive Long Term Disability benefits after the Effective Date, the SAR shall become vested and immediately exercisable and the Grantee or Successor of the Grantee may exercise the SAR until the earlier of:
 - (i) The expiration of the Term of the SAR; or
 - (ii) A period not to exceed five years following such death or commencement of Long Term Disability benefits.
- (b) Except as provided in (e) below, if Grantee shall, for reason of Retirement, cease to be employed by the Company, its Subsidiaries or Affiliates after the Effective Date, the Grantee will become immediately vested and may immediately exercise any SAR that would have otherwise become vested within one year from the Grantee's termination of employment, and the Grantee or Successor of the Grantee may exercise a vested SAR until the earlier of:
 - (i) The expiration of the Term of the SAR; or
 - (ii) A period not to exceed five years following such cessation of employment.
- (c) Except as provided in (d) and (e) below, if the Grantee shall, for a reason other than death, Long Term Disability or Retirement, cease to be employed by the Company, its Subsidiaries or Affiliates during the Term of the SAR, the Grantee may exercise a vested SAR until the earlier of:
 - (i) The expiration of the term of the SAR; or
 - (ii) A period not to exceed ninety days following such cessation of employment.
- (d) Except as provided in (a) or (b) above, any SAR, or portion of a SAR that has not become vested and exercisable at the time of cessation of employment shall terminate immediately upon such cessation of employment and may not be exercised thereafter. Provided, however, if Grantee's employment is terminated by the Company other than for cause and Grantee has not previously, or does not subsequently, vest to any portion of the SAR in accordance with its terms, then upon the forfeiture of the entire SAR, the Company shall pay Grantee an amount equal to the SAR value on a single share of Common Stock, whether or not the forfeited SAR related to more than a single share of Common Stock, calculated as of the date of termination of employment under the same

method as the Company calculates its SAR expense charge for purposes of its financial statement reporting, if requested by Grantee, within 30 days of such cessation of employment.

- (e) No SAR may vest or be exercised after the Company has terminated the employment of the Grantee for cause, except that the Committee may, in its sole discretion, permit the exercise of a vested SAR for a period of up to ninety days in cases where the Committee shall determine such exercise period is warranted under the particular circumstances. In addition, the Company may terminate the SAR if Grantee has willfully engaged in gross misconduct or other serious impropriety which the Company determines is likely to be damaging or detrimental to the Company, any Subsidiary or Affiliate.
- (f) Employment for purposes of determining the vesting rights of the Grantee and expiration date of the grant under this Article VI shall mean continuous full-time salaried employment with the Company, a Subsidiary or an Affiliate, except that the period during which the Grantee is on vacation, sick leave, or other pre-approved leave of absence (provided there is no actual termination of employment), or in receipt of salary continuation or severance pay shall not interrupt the continuous employment of the Grantee. Employment shall also include service with Aetna Foundation, Inc.
- (g) Except as otherwise herein provided, exercise of the SAR, whether by the Grantee or the Successor of the Grantee, shall be subject to all terms and conditions of this Agreement.

ARTICLE VII OTHER TERMS

- (a) Grantee understands that the Grantee shall not have any rights as stockholder by virtue of the grant of an SAR but only with respect to shares of Common Stock actually issued to the Grantee in accordance with the terms hereof.
- (b) Anything herein to the contrary notwithstanding, the Company may postpone the exercise of the SAR or any portion thereof for such time as the Committee in its discretion may deem necessary, in order to permit the Company with reasonable diligence (i) to effect or maintain registration under the Securities Act of 1933, as amended, of the Plan or the shares of Common Stock issuable upon the exercise of the SAR or (ii) to determine that the Plan and such shares are exempt from registration; and the Company shall not be obligated by virtue of this Agreement or any provision of the Plan to recognize the exercise of the SAR or to sell or issue shares of Common Stock in violation of said Act or of the law of any government having jurisdiction thereof. Any such postponement shall not extend the Term of the SAR; and neither the Company nor its Board shall have any obligation or liability to the Grantee, or to the Grantee's Successor, with respect to any shares of Common Stock as to which the SAR shall lapse because of such postponement.
- (c) The SAR shall be nontransferable and nonassignable except by will and by the laws of descent and distribution. During the Grantee's lifetime, the SAR may be exercised only by the Grantee.
- (d) The SAR is not an incentive stock option as described in the Internal Revenue Code of 1986, as amended, Section 422A (b).

- (e) This Agreement is subject to the 2010 Stock Incentive Plan heretofore adopted by the Company and approved by its shareholders. The terms and provisions of the Plan (including any subsequent amendments thereto) are hereby incorporated herein by reference. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms and provisions of the Plan will govern and prevail.
- (f) Anything herein to the contrary notwithstanding, a Grantee whose SAR has been forfeited as a result of termination of employment due to U.S. Military Service and who is later re-employed (in a full-time active status) after discharge within the time period set in 38 U.S.C. Section 4312 will be eligible to have the forfeited SAR reinstated for the original Term pursuant to procedures established by the Company for this purpose.
- (g) Nothing in this Agreement shall interfere with a limit in anyway the right of the Company or any Subsidiary or Affiliate to terminate the Grantee's employment at any time. Neither the execution and delivery of this Agreement nor the granting of the SAR shall constitute or be evidence of any agreement or understanding, express or implied, on the part of the Company or any of its Subsidiaries to employ Grantee for any period.
- (h) This SAR is an unfunded obligation of the Company and nothing in this Agreement shall be construed to create any claim against particular assets or require the Company to segregate or otherwise set aside any assets or create any fund to meet its obligations hereunder.
- (i) The Company shall have the power to withhold, an amount sufficient to satisfy Federal, state and local, social security and medicare withholding tax requirements, if applicable. Any social security calculation or other adjustments discovered after the net share payment will be settled in cash, not in Common Stock.
- (j) The Company may from time to time adopt stock ownership requirements applicable to Grantees who are senior managers of the Company. In connection with and for the purpose of implementing those ownership requirements, the Company may adopt certain restrictions on the ability of a Grantee to sell shares issued under this Agreement when such ownership requirements have not been satisfied. Any such restriction on sale will be communicated generally to affected Grantees and the restriction may be modified by the Company from time to time, at its discretion. Neither the Company nor its Board of Directors shall have any obligation or liability to a Grantee in connections with any such restriction.
- (k) This Agreement is made under and shall be governed by and construed in accordance with the laws of the State of Connecticut, without giving effect to its choice of law provisions.

ARTICLE VIII

EMPLOYEE COVENANTS

- (a) As consideration for the grant of the SAR, without prior written consent of the Company:
- (i) Grantee will not (except to the extent required by an order of a court having competent jurisdiction or under subpoena from an appropriate government agency) use or disclose to any third person, whether during or subsequent to Grantee's Employment, any trade secrets, confidential information and proprietary materials, which may include, but are not limited to, the following categories of information and materials: customer lists and identities; provider lists and identities; employee lists and identities; product development and related information; marketing plans and related information; sales plans and related information; premium or other pricing information; operating policies and manuals; research; payment rates; methodologies; procedures; contractual forms; business plans; financial records; computer programs; database; or other financial, commercial, business or technical information related to the Company, any Subsidiary or Affiliate unless such information has been previously disclosed to the public by the Company or has become public knowledge other than by a breach of this Agreement ("Confidential Information"); provided, however, that this limitation shall not apply to any such use or disclosure made while Grantee is employed by the Company, any Subsidiary or Affiliate if such disclosure occurred in connection with the performance of Grantee's job as an employee of the Company, any Subsidiary or Affiliate;
 - (ii) Grantee will not, during and for a period of twelve (12) months following Grantee's termination of employment, directly or indirectly, (x) engage in the ownership (except less than 1% of the outstanding capital stock of any publicly traded company) of or, (y) become an employee of, or (z) act as a consultant or contractor to, any competitor of the Company ("Competitor") in any market in the United States where Company, Affiliate or Subsidiary does business.
 - a. For purposes of this paragraph "Competitor" shall mean any entity, organization, person or corporation that is involved in the same business as Company, Subsidiary or Affiliate, but in the case of (y) and (z), only to the extent such work, consulting or other activity on behalf of other entity, organization, person or corporation
 - i. is materially similar to the duties and/or functions that Grantee performed for the Company, Subsidiary or Affiliate in the last 12 months or involves duties and/or functions for Competitor about which Grantee has Confidential Information in the last 12 months. Notwithstanding
 - 1. with respect to sales functions for the Company, Subsidiary or Affiliate that are regionally based or whose focus is geographically limited, the restriction shall only apply where such work, consulting or other activity on behalf of a Competitor overlaps in whole or in part the same geographic area in which the Grantee worked for Company, Subsidiary or Affiliate in the last 12 months;

2. with respect to corporate staff functions, the restriction shall only apply where Competitor is substantially engaged in the business of health insurance, managed health care, population health management, or related products or services.
- b. Notwithstanding, if Grantee's employment is terminated by the Company, Subsidiary or Affiliate other than for cause, the length of the noncompetition covenant in this paragraph shall not exceed the length of the severance and/or salary continuation benefits paid by the Company, Subsidiary or Affiliate to Grantee.
 - c. Grantee acknowledges and agrees that these restrictions:
 - i. are necessary to protect the Confidential Information and goodwill of the Company, Subsidiary or Affiliate;
 - ii. are appropriately tailored and limited in time and geographic scope to do so; and
 - iii. do not impair or limit the Grantee's ability to earn a living.
- (iii) Grantee will not, during and for a period of 24 months following Grantee's termination of Employment, directly or indirectly induce or attempt to induce any employee of the Company, and Subsidiary or Affiliate to be employed or perform services elsewhere;
 - (iv) Grantee will not, during and for a period of 24 months following Grantee's termination of Employment, directly or indirectly, induce or attempt to induce any agent or agency, broker, supplier or health care provider of the Company, any Subsidiary or Affiliate to cease or curtail providing services to the Company, any Subsidiary or Affiliate; and
 - (v) Grantee will not, during and for a period of 24 months following Grantee's termination of Employment, directly or indirectly solicit or attempt to solicit the trade of any individual or entity which, at the time of such solicitation, is a customer of the Company, any Subsidiary or Affiliate, or which the Company, any Subsidiary or Affiliate is undertaking reasonable steps to procure as a customer at the time of or immediately preceding termination of Employment; provided, however, that this limitation shall only apply to any product or service which is in competition with a product or service of the Company, any Subsidiary or Affiliate and shall apply only with respect to a customer or prospective customer with whom the Grantee has been directly or indirectly involved
 - (vi) Grantee will not, during and for a period of 24 months following Grantee's termination of Employment, for himself or herself or on behalf of or in cooperation with any other person or entity, consult with or in any manner provide advice to, any individual or entity which is a customer of the Company or any Subsidiary or Affiliate of the Company, provided, however, that this limitation shall apply only to consultation or advice relating to any product or service of the Company, or any Subsidiary or Affiliate, or which is in competition with any product or service of the Company, or any Subsidiary or Affiliate, and shall apply only with respect to a customer or prospective customer with whom the Grantee has been directly or indirectly involved, or about which Grantee has Confidential Information.

In addition:

- (vii) Following the termination of Grantee's Employment, Grantee shall provide assistance to and shall cooperate with the Company, any Subsidiary or Affiliate, upon its reasonable request and without additional compensation, with respect to matters within the scope of Grantee's duties and responsibilities during Employment, provided that any reasonable out-of-pocket expenses Grantee incurs in connection with any assistance Grantee has been requested to provide under this provision for items including, but not limited to, transportation, meals, lodging and telephone, shall be reimbursed by the Company. The Company agrees and acknowledges that it shall, to the maximum extent possible under the then prevailing circumstances, coordinate, or cause a Subsidiary or Affiliate to coordinate, any such request with Grantee's other commitments and responsibilities to minimize the degree to which such request interferes with such commitments and responsibilities; and
- (viii) Grantee shall promptly notify the Company's General Counsel if Grantee is contacted by a regulatory or self-regulatory agency with respect to matters pertaining to the Company or by an attorney or other individual who informs the Grantee that he/she has filed, intends to file, or is considering filing a claim or complaint against the Company.
- (ix) Grantee acknowledges that all original works of authorship that are created by Grantee (solely or jointly with others) within the scope of Grantee's employment and relating in any way to the business or contemplated business, products, activities, research or development of the Company, any Subsidiary or Affiliate, or resulting from any work performed by the Grantee for the Company, any Subsidiary or Affiliate (in each case, regardless of when or where the work product is prepared or whose equipment or other resources is used in preparing the same) which are protectable by copyright are "works made for hire" as that term is defined in the United States Copyright Act (17 U.S.C., Section 101). To the extent that the foregoing does not apply, the Grantee hereby irrevocably assigns to the Company, and its successors and assigns, for no additional consideration, the Grantee's entire right, title and interest in and to all such works of authorship. Grantee further acknowledges that while employed by the Company, any Subsidiary or Affiliate, Grantee may develop ideas, inventions, discoveries, innovations, procedures, methods, know-how or other works which relate to the Company's current or are reasonably expected to relate to the Company's future business (in each case, regardless of when or where the work product is prepared or whose equipment or other resources is used in preparing the same) that may be patentable or subject to trade secret protection. Grantee agrees that all such works of authorship, ideas, inventions, discoveries, innovations, procedures, methods, know-how and other works shall belong exclusively to the Company and the Grantee hereby assigns all right, title and interest therein to the Company.

To the extent any of the foregoing works may be patentable, Grantee agrees that the Company may file and prosecute any application for patents for such works and that the Grantee will, on request, execute assignments to the Company relating to (and take all such further steps as may be reasonably necessary to perfect the Company's sole and exclusive ownership of) any such application and any patents resulting therefrom.

- (b) If any provision of Article VIII (a) is determined by a court of competent jurisdiction not to be enforceable in the manner set forth herein, the Company and Grantee agree that it is the intention of the parties that such provision should be enforceable to the maximum extent possible under applicable law and that such court shall reform such provision to make it enforceable in accordance with the intent of the parties.
- (c) Grantee acknowledges that a material part of the inducement for the Company to grant the SAR is Grantee's covenants set forth in Article VIII(a) and that the covenants and obligations of Grantee with respect to nondisclosure, nonsolicitation, cooperation and intellectual property rights relate to special, unique and extraordinary matters and that a violation of any of the terms of such covenants and obligations will cause the Company irreparable injury for which adequate remedies are not available at law. Therefore, Grantee agrees that, if Grantee shall breach any of those covenants or obligations, Grantee shall not be entitled to exercise the SAR or be entitled to retain any income therefrom and the Company shall be entitled to an injunction, restraining order or such other equitable relief (without the requirement to post bond) restraining Grantee from committing any violation of the covenants and obligations contained in Article VIII. The Company also shall be entitled to recover any attorneys' fees, costs, and expenses it incurs in connection with any judicial proceeding arising out of Grantee's breach of this Agreement. The remedies in the preceding sentences are cumulative and are in addition to any other rights and remedies the Company may have at law or in equity as a court or arbitrator shall reasonably determine..
- (d) The Restrictive Covenants set forth in this Article VIII shall supplement and do not supersede the restrictions agreed to by Grantee in any other agreement or contact.
- (e) Employment Dispute Arbitration Program - Mandatory Binding Arbitration of Employment Disputes.
 - (i) Except as otherwise specified in this Agreement, the Grantee and the Company agree that all employment-related legal disputes between them will be submitted to and resolved by binding arbitration, and neither the Grantee nor the Company will file or participate as an individual party or member of a class in a lawsuit in any court against the other with respect to such matters. This shall apply to claims brought on or after the date the Grantee accepts this Agreement, even if the facts and circumstances relating to the claim occurred prior to that date and regardless of whether Grantee or the Company previously filed a complaint/charge with a government agency concerning the claim.

For purposes of Article VIII (e) of this Agreement, "the Company" includes Aetna Inc., its Subsidiaries and Affiliates, their predecessors, successors and assigns, and those acting as representatives or agents of those entities. THE GRANTEE UNDERSTANDS THAT, WITH RESPECT TO CLAIMS SUBJECT TO THE ARBITRATION REQUIREMENT, ARBITRATION REPLACES THE RIGHT OF THE GRANTEE AND THE COMPANY TO SUE OR PARTICIPATE IN A LAWSUIT. THE GRANTEE ALSO UNDERSTANDS THAT IN ARBITRATION, A DISPUTE IS RESOLVED BY AN ARBITRATOR INSTEAD OF A JUDGE OR JURY, AND THE DECISION OF THE ARBITRATOR IS FINAL AND BINDING.

- (ii) THE GRANTEE UNDERSTANDS THAT THE ARBITRATION PROVISIONS OF THIS AGREEMENT AFFECT THE LEGAL RIGHTS OF THE GRANTEE AND THE COMPANY AND ACKNOWLEDGES THAT THE GRANTEE HAS BEEN ADVISED TO, AND HAS BEEN GIVEN THE OPPORTUNITY TO, OBTAIN LEGAL ADVICE BEFORE SIGNING THIS AGREEMENT.
- (iii) Article VIII (e) of this Agreement does not apply to workers' compensation claims, unemployment compensation claims, and claims under the Employee Retirement Income Security Act of 1974 ("ERISA") for employee benefits. A dispute as to whether Article VIII (e) of this Agreement applies must be submitted to the binding arbitration process set forth in this Agreement.
- (iv) The Grantee and/or the Company may seek emergency or temporary injunctive relief from a court (including with respect to claims arising out of Article VIII (a) in accordance with applicable law). However, except as provided in Article VIII (c) of this Agreement, after the court has issued a ruling concerning the emergency or temporary injunctive relief, the Grantee and the Company shall be required to submit the dispute to binding arbitration pursuant to this Agreement.
- (v) Unless otherwise agreed, the arbitration will be administered by the American Arbitration Association (the "AAA") and will be conducted pursuant to the AAA's Employment Arbitration Rules and Mediation Procedures (the "Rules"), as modified in this Agreement, in effect at the time the request for arbitration is filed. The AAA's Rules are available on the AAA's website at www.adr.org. THE GRANTEE ACKNOWLEDGES THAT THE COMPANY HAS ENCOURAGED THE GRANTEE TO READ THESE RULES PROMPTLY AND CAREFULLY AND THAT THE GRANTEE HAS BEEN AFFORDED SUFFICIENT OPPORTUNITY TO DO SO.
- (vi) If the Company initiates a request for arbitration, the Company will pay all of the administrative fees and costs charged by the AAA, including the arbitrator's compensation and charges for hearing room rentals, etc. If the Grantee initiates a request for arbitration or submits a counterclaim to the Company's request for arbitration, the Grantee shall be required to contribute One Hundred Dollars (\$100.00) to those administrative fees and costs, payable to the AAA at the time the Grantee's request for arbitration or counterclaim is submitted. The Company may increase the contribution amount in the future without amending this Agreement, but not to exceed the maximum permitted under the AAA rules then in effect. In all cases, the Grantee and the Company shall be responsible for payment of any fees assessed by the arbitrator as a result of that party's delay, request for postponement, failure to comply with the arbitrator's rulings and for other similar reasons.
- (vii) The Grantee and the Company may choose to be represented by legal counsel in the arbitration process and shall be responsible for their own legal fees, expenses and costs. However, the arbitrator shall have the same authority as a court to order the Grantee or the Company to pay some or all of the other's legal fees, expenses and costs, in accordance with applicable law.

- (viii) Unless otherwise agreed, there shall be a single arbitrator, selected by the Grantee and the Company from a list of qualified neutrals furnished by the AAA. If the Grantee and the Company cannot agree on an arbitrator, one will be selected by the AAA.
- (ix) Unless otherwise agreed, the arbitration hearing will take place in the city where the Grantee works or last worked for the Company. If the Grantee and the Company disagree as to the proper locale, the AAA will decide.
- (x) The Grantee and the Company shall be entitled to conduct limited pre-hearing discovery. Each may take the deposition of one person and anyone designated by the other as an expert witness. The party taking the deposition shall be responsible for all associated costs, such as the cost of a court reporter and the cost of an original transcript. Each party also has the right to submit one set of ten written questions (including subparts) to the other party, which must be answered under oath, and to request and obtain all documents on which the other party relies in support of its answers to the written questions. Additional discovery may be permitted by the arbitrator upon a showing that it is necessary for that party to have a fair opportunity to present a claim or defense.
- (xi) The arbitrator shall apply the same substantive law that would apply if the matter were heard by a court and shall have the authority to order the same remedies (but no others) as would be available in a court proceeding. The time limits for requesting arbitration or submitting a counterclaim and the administrative prerequisites for filing an arbitration claim or counterclaim are the same as they would be in a court proceeding. The arbitrator shall consider and decide any dispositive motions (motions seeking a decision on some or all of the claims or counterclaims without an arbitration hearing) filed by any party.
- (xii) All proceedings, including the arbitration hearing and decision, are private and confidential, unless otherwise required by law. Arbitration decisions may not be published or publicized without the consent of both the Grantee and the Company.
- (xiii) Unless otherwise agreed, the arbitrator's decision will be in writing with a brief summary of the arbitrator's opinion.
- (xiv) The arbitrator's decision is final and binding on the Grantee and the Company. After the arbitrator's decision is issued, the Grantee or the Company may obtain an order of judgment from a court and may obtain a court order enforcing the decision. The arbitrator's decision may be appealed to the courts only under the limited circumstances provided by law.
- (xv) If the Grantee previously signed an agreement, including but not limited to an employment agreement, containing arbitration provisions, those provisions are superseded by the arbitration provisions of this Agreement.
- (xvi) If any provision of Article VIII (e) is found to be void or otherwise unenforceable, in whole or in part, this shall not affect the validity of the remainder of Article VIII (e) and the remainder of the Agreement. All other provisions shall remain in full force and effect.

- (f) Except as provided in connection with mandatory binding arbitration of employment disputes, Grantee hereby submits to the exclusive jurisdiction of the courts of the State of Connecticut and the United States District Court for the District of Connecticut with respect to any action relating to this Agreement, and agrees that (i) the sole and exclusive appropriate venue for any suit or proceeding relating to this Agreement shall be in such court, and (ii) hereby waives any and all objections and defenses based on forum, venue or personal or subject matter jurisdiction as they may relate to a suit or proceeding brought before such court in accordance with the Agreement.

For purposes of this Article VIII, the term “Employment” shall refer to active employment with the Company, any Subsidiary or Affiliate, and shall not include salary continuation or severance periods.

I have read the Stock Appreciation Right Agreement. I accept the Stock Appreciation Right award and agree to be bound by all of its terms and conditions including mandatory binding arbitration of employment related disputes and, if applicable, any other provisions of Article VIII.

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

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

Overview of Business

CVS Health Corporation, together with its subsidiaries (collectively, “CVS Health,” the “Company,” “we,” “our” or “us”), is the nation’s premier health innovation company helping people on their path to better health. Whether in one of its pharmacies or through its health services and plans, CVS Health is pioneering a bold new approach to total health by making quality care more affordable, accessible, simple and seamless. CVS Health is community-based and locally focused, engaging consumers with the care they need when and where they need it. The Company has more than 9,900 retail locations, approximately 1,100 walk-in medical clinics, a leading pharmacy benefits manager with approximately 92 million plan members, a dedicated senior pharmacy care business serving more than one million patients per year, expanding specialty pharmacy services, and a leading stand-alone Medicare Part D prescription drug plan. CVS Health also serves an estimated 38 million people through traditional, voluntary and consumer-directed health insurance products and related services, including rapidly expanding Medicare Advantage offerings. The Company believes its innovative health care model increases access to quality care, delivers better health outcomes and lowers overall health care costs.

On November 28, 2018 (the “Aetna Acquisition Date”), the Company acquired Aetna Inc. (“Aetna”) for a combination of cash and CVS Health stock (the “Aetna Acquisition”). The Company acquired Aetna to help improve the consumer health care experience by combining Aetna’s health care benefits products and services with CVS Health’s more than 9,900 retail locations, approximately 1,100 walk-in medical clinics and integrated pharmacy capabilities with the goal of becoming the new, trusted front door to health care. Under the terms of the merger agreement, Aetna shareholders received \$145.00 in cash and 0.8378 CVS Health shares for each Aetna share. The transaction valued Aetna at approximately \$212 per share or approximately \$70 billion. Including the assumption of Aetna’s debt, the total value of the transaction was approximately \$78 billion. The Company financed the cash portion of the purchase price through a combination of cash on hand and by issuing approximately \$45 billion of new debt, including senior notes and term loans (see “Liquidity and Capital Resources” later in this document). The consolidated financial statements for the year ended December 31, 2018 reflect Aetna’s results subsequent to the Aetna Acquisition Date.

On October 10, 2018, the Company and Aetna entered into a consent decree with the United States Department of Justice (the “DOJ”) that allowed the Company’s proposed acquisition of Aetna to proceed, provided Aetna agreed to sell its individual standalone Medicare Part D prescription drug plans. As part of the agreement reached with the DOJ, Aetna entered into a purchase agreement with a subsidiary of WellCare Health Plans, Inc. for the divestiture of Aetna’s standalone Medicare Part D prescription drug plans effective December 31, 2018. On November 30, 2018, Aetna completed the sale of its standalone Medicare Part D prescription drug plans. Aetna’s standalone Medicare Part D prescription drug plans had an aggregate of approximately 2.3 million members as of December 31, 2018. Aetna will provide administrative services to, and will retain the financial results of, the divested plans through 2019.

As a result of the Aetna Acquisition, the Company added the Health Care Benefits segment, which is the equivalent of the former Aetna Health Care segment. Certain aspects of Aetna’s operations, including products for which the Company no longer solicits or accepts new customers, such as large case pensions and long-term care insurance products, are included in the Company’s Corporate/Other segment. The Company now has four reportable segments: Pharmacy Services, Retail/LTC, Health Care Benefits and Corporate/Other.

Overview of the Pharmacy Services Segment

The Pharmacy Services segment provides a full range of pharmacy benefit management (“PBM”) solutions, including plan design offerings and administration, formulary management, retail pharmacy network management services, mail order pharmacy, specialty pharmacy and infusion services, Medicare Part D services, clinical services, disease management services and medical spend management. The Pharmacy Services segment’s clients are primarily employers, insurance companies, unions, government employee groups, health plans, Medicare Part D prescription drug plans (“PDPs”), Medicaid managed care plans, plans offered on public health insurance exchanges and private health insurance exchanges, other sponsors of health benefit plans and individuals throughout the United States. In addition, the Company is a national provider of drug benefits to eligible beneficiaries under the Medicare Part D prescription drug program. The Pharmacy Services segment operates retail specialty pharmacy stores, specialty mail order pharmacies, mail order dispensing pharmacies, compounding pharmacies and

branches for infusion and enteral nutrition services. During the year ended December 31, 2018, the Company's PBM filled or managed approximately 1.9 billion prescriptions on a 30-day equivalent basis.

Overview of the Retail/LTC Segment

The Retail/LTC segment sells prescription drugs and a wide assortment of general merchandise, including over-the-counter drugs, beauty products, cosmetics and personal care products, provides health care services through its MinuteClinic[®] walk-in medical clinics and conducts long-term care ("LTC") pharmacy operations, which distribute prescription drugs and provide related pharmacy consulting and other ancillary services to chronic care facilities and other care settings. Prior to January 2, 2018, the Retail/LTC segment also provided commercialization services under the name RxCrossroads[®]. The Company divested its RxCrossroads subsidiary on January 2, 2018. As of December 31, 2018, the Retail/LTC segment operated more than 9,900 retail locations, over 1,100 MinuteClinic[®] locations as well as online retail pharmacy websites, LTC pharmacies and onsite pharmacies. During the year ended December 31, 2018, the Retail/LTC segment filled approximately 1.3 billion prescriptions on a 30-day equivalent basis. In December 2018, the Company held approximately 26% of the United States retail pharmacy market.

Overview of the Health Care Benefits Segment

The Health Care Benefits segment is one of the nation's leading diversified health care benefits providers, serving an estimated 38 million people as of December 31, 2018. The Health Care Benefits segment has the information and resources to help members, in consultation with their health care professionals, make better informed decisions about their health care. The Health Care Benefits segment offers a broad range of traditional, voluntary and consumer-directed health insurance products and related services, including medical, pharmacy, dental, behavioral health, medical management capabilities, Medicare Advantage and Medicare Supplement plans, PDPs, Medicaid health care management services, workers' compensation administrative services and health information technology products and services. The Health Care Benefits segment's customers include employer groups, individuals, college students, part-time and hourly workers, health plans, health care providers ("providers"), governmental units, government-sponsored plans, labor groups and expatriates.

Overview of the Corporate/Other Segment

The Company presents the remainder of its financial results in the Corporate/Other segment, which consists of:

- Management and administrative expenses to support the overall operations of the Company, which include certain aspects of executive management and the corporate relations, legal, compliance, human resources, information technology and finance departments; and
- Products for which the Company no longer solicits or accepts new customers such as large case pensions and long-term care insurance products.

Results of Operations

Summary of Consolidated Financial Results

<i>In millions</i>	Year Ended December 31,			Change			
				2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	\$	%	\$	%
Revenues:							
Products	\$ 183,910	\$ 180,063	\$ 173,377	\$ 3,847	2.1 %	\$ 6,686	3.9 %
Premiums	8,184	3,558	3,069	4,626	130.0 %	489	15.9 %
Services	1,825	1,144	1,080	681	59.5 %	64	5.9 %
Net investment income	660	21	20	639	3,042.9 %	1	5.0 %
Total revenues	194,579	184,786	177,546	9,793	5.3 %	7,240	4.1 %
Operating Costs:							
Cost of products sold	156,447	153,448	146,533	2,999	2.0 %	6,915	4.7 %
Benefit costs	6,594	2,810	2,179	3,784	134.7 %	631	29.0 %
Goodwill impairments	6,149	181	—	5,968	3,297.2 %	181	— %
Operating expenses	21,368	18,809	18,448	2,559	13.6 %	361	2.0 %
Total operating costs	190,558	175,248	167,160	15,310	8.7 %	8,088	4.8 %
Operating income	4,021	9,538	10,386	(5,517)	(57.8)%	(848)	(8.2)%
Interest expense	2,619	1,062	1,078	1,557	146.6 %	(16)	(1.5)%
Loss on early extinguishment of debt	—	—	643	—	— %	(643)	(100.0)%
Other expense (income)	(4)	208	28	(212)	(101.9)%	180	642.9 %
Income before income tax provision	1,406	8,268	8,637	(6,862)	(83.0)%	(369)	(4.3)%
Income tax provision	2,002	1,637	3,317	365	22.3 %	(1,680)	(50.6)%
Income (loss) from continuing operations	(596)	6,631	5,320	(7,227)	(109.0)%	1,311	24.6 %
Loss from discontinued operations, net of tax	—	(8)	(1)	8	(100.0)%	(7)	700.0 %
Net income (loss)	(596)	6,623	5,319	(7,219)	(109.0)%	1,304	24.5 %
Net (income) loss attributable to noncontrolling interest	2	(1)	(2)	3	(300.0)%	1	(50.0)%
Net income (loss) attributable to CVS Health	\$ (594)	\$ 6,622	\$ 5,317	\$ (7,216)	(109.0)%	\$ 1,305	24.5 %

Commentary - 2018 compared to 2017

Revenues

- Total revenues increased \$9.8 billion or 5.3% in 2018 compared to 2017. The increase in total revenues was due to a 2.7% increase in Pharmacy Services segment revenue, a 5.8% increase in Retail/LTC segment revenue and the impact of the Aetna Acquisition (primarily reflected in the Health Care Benefits segment) which occurred in November 2018.
- Please see “Segment Analysis” later in this document for additional information about the revenues of the Company’s segments.

Operating expenses (including goodwill impairments)

- Operating expenses increased \$8.5 billion or 44.9% in 2018 compared to 2017. The increase in operating expenses was primarily due to higher operating expenses in the Retail/LTC segment including increased goodwill impairment charges in 2018, the impact of the Aetna Acquisition and an increase in acquisition-related transaction and integration costs. The increase was partially offset by a lack of charges associated with store closures in 2018.
- Operating expenses as a percentage of total revenues was 14.1% in 2018, an increase of 380 basis points compared to 2017. The increase in operating expenses as a percentage of total revenues in 2018 was primarily due to the goodwill impairment charges in the Retail/LTC segment in 2018.
- Please see “Segment Analysis” later in this document for additional information about the operating expenses of the Company’s segments.

Operating income

- Operating income decreased \$5.5 billion or 57.8% in 2018 compared to 2017. The decrease was primarily due to the increase in operating expenses described above, continued price compression in the Pharmacy Services segment and reimbursement pressure in the Retail/LTC segment. The decrease was partially offset by increased prescription volume, improved purchasing economics and the addition of Aetna.
- Please see “Segment Analysis” later in this document for additional information about the operating income of the Company’s segments.

Interest expense

- Interest expense increased \$1.6 billion during 2018, primarily due to financing activity associated with the Aetna Acquisition. See Note 8 “Borrowings and Credit Agreements” to the consolidated financial statements for additional information.

Other expense (income)

- Other expense decreased \$212 million during 2018, primarily due to 2017 reflecting a \$187 million loss on settlement of the Company’s defined benefit pension plans.

Income tax provision

- The Tax Cuts and Jobs Act (the “TCJA”) was enacted on December 22, 2017. Among numerous changes to existing tax laws, the TCJA permanently reduced the federal corporate income tax rate from 35% to 21% effective January 1, 2018. The Company completed its assessment of the TCJA’s final impact in December 2018 and recorded an additional tax benefit of approximately \$100 million.
- The Company’s effective income tax rate was 142.4% in 2018 compared to 19.8% in 2017. The increase in the effective income tax rate was primarily due to the goodwill impairment charges in the Retail/LTC segment in 2018, the majority of which are not deductible for income tax purposes, and an income tax benefit of \$1.5 billion in 2017 which reflected the remeasurement of the Company’s net deferred income tax liabilities as a result of the enactment of the TCJA. The increase was partially offset by a lower federal corporate income tax rate in 2018 compared to the prior year as a result of the enactment of the TCJA, which reduced the corporate income tax rate in 2018 to 21% from 35% in 2017.

Loss from discontinued operations

- In connection with certain business dispositions completed between 1991 and 1997, the Company retained guarantees on store lease obligations for a number of former subsidiaries, including Linens ‘n Things, which filed for bankruptcy in 2008, and Bob’s stores, which filed for bankruptcy in 2016. The Company’s loss from discontinued operations includes lease-related costs required to satisfy its Linens ‘n Things and Bob’s Stores lease guarantees.
- The Company incurred a loss from discontinued operations, net of tax, of \$8 million in 2017. Results from discontinued operations were immaterial in 2018.
- See “Discontinued Operations” in Note 1 “Significant Accounting Policies” to the consolidated financial statements for additional information about discontinued operations and Note 16 “Commitments and Contingencies” to the consolidated financial statements for additional information about the Company’s lease guarantees.

Commentary - 2017 compared to 2016

Revenues

- Total revenues increased \$7.2 billion or 4.1% in 2017 compared to 2016. The increase in total revenues was due to a 8.9% increase in Pharmacy Services segment revenue, partially offset by a 2.1% decrease in Retail/LTC segment revenue.
- The increase in generic dispensing rates in 2017 negatively affected both the Pharmacy Services and Retail/LTC segment revenues in 2017 compared to 2016.
- Please see “Segment Analysis” later in this document for additional information about the revenues of the Company’s segments.

Operating expenses (including goodwill impairments)

- Operating expenses increased \$542 million, or 2.9%, in 2017 compared to 2016. The increase in operating expenses primarily relates to (i) higher operating expenses in the Retail/LTC segment including an increase of \$181 million in charges associated with the closure of retail stores in connection with the Company’s enterprise streamlining initiative and a \$181 million goodwill impairment charge related to the RxCrossroads reporting unit; and (ii) higher operating expenses

in the Pharmacy Services segment due to 2016 reflecting the favorable impact of a reversal of an accrual of \$85 million in connection with a legal settlement. The increase was partially offset by lower acquisition-related transaction and integration costs due to the bulk of the integration costs related to the acquisition of Omnicare, Inc. (“Omnicare”) being incurred in 2016.

- Operating expenses as a percentage of total revenues was 10.3% in 2017 , a decline of 10 basis points compared to 2016 . The decline in operating expenses as a percentage of total revenues in 2017 was primarily due expense leverage from revenue growth.
- Please see “Segment Analysis” later in this document for additional information about the operating expenses of the Company’s segments.

Operating income

- Operating income decreased \$848 million or 8.2% in 2017 compared to 2016 . The decrease was primarily driven by the previously announced restricted networks that excluded CVS Pharmacy, continued price compression in the Pharmacy Services segment, reimbursement pressure in the Retail/LTC segment and the increased operating expenses described above.
- Please see “Segment Analysis” later in this document for additional information about the operating income of the Company’s segments.

Interest expense

- Interest expense decreased \$16 million during 2017 , primarily due to the Company’s debt issuance and debt tender offers that occurred in 2016 which resulted in overall more favorable interest rates on the Company’s long-term debt. See Note 8 “Borrowings and Credit Agreements” to the consolidated financial statements for additional information.

Other expense (income)

- Other expense increased \$180 million during 2017 , primarily due to 2017 reflecting a \$187 million loss on settlement of the Company’s defined benefit pension plans.

Loss on early extinguishment of debt

- The loss on early extinguishment of debt of \$643 million in 2016 relates to the redemption of approximately \$4.2 billion aggregate principal amount of certain of the Company’s senior notes (see Note 8 “Borrowings and Credit Agreements” to the consolidated financial statements). As a result of the redemption, the Company paid a premium of \$583 million in excess of the debt principal, wrote off \$54 million of unamortized deferred financing costs and incurred \$6 million in fees.

Income tax provision

- The Company’s effective income tax rate was 19.8% in 2017 compared to 38.4% in 2016 . The decrease in the effective income tax rate was primarily due to the provisional impact of the TCJA, including the revaluation of net deferred tax liabilities.
- As the result of the reduction of the corporate income tax rate under the TCJA, the Company estimated the revaluation of its net deferred tax liabilities and recorded a provisional noncash income tax benefit of approximately \$1.5 billion in 2017.

Loss from discontinued operations

- Please see the *Commentary - 2018 compared to 2017* section above for additional information about the Company’s discontinued operations.
- The Company incurred losses from discontinued operations, net of tax, of \$8 million and \$1 million in 2017 and 2016 , respectively.

Outlook for 2019

The Company expects 2019 to be a transition year as it integrates the Aetna Acquisition and focuses on key pillars of its growth strategy. The Company believes that it is on track to exceed its 2020 target for synergies from the Aetna Acquisition. The Company also expects that the following challenges may have a disproportionate adverse impact on, and reduce, the operating income of its Pharmacy Services and Retail/LTC segments in 2019 compared to 2018:

- Ongoing pharmacy reimbursement pressure in the Pharmacy Services and Retail/LTC segments and reductions in the traditional offsets to those pressures, including a declining benefit from the introduction of new multi-source generic prescription drugs and lower benefits from generic dispensing rate increases;
- The reimbursement pressure in the Pharmacy Services segment is projected to be exacerbated by the cumulative effect on rebate guarantees of lower brand name drug price inflation and a modest 2019 selling season; and
- The Retail/LTC segment is projected to be impacted by structural and Company specific challenges in the long-term care space as well as the annualization of the Company's 2018 investment of a portion of the savings from the TCJA in wages and benefits.

The Company is taking specific actions designed to address these challenges and position it well in 2020 and beyond. These actions include new product and service initiatives in its Pharmacy Services and Retail/LTC segments, introducing a new PBM client contracting model, accelerating the action plan designed to improve the performance of the LTC business and initiating a new enterprise cost reduction effort. The Company also is continuing to evaluate its assets and the roles they play in enabling the Company's core strategies.

The Company's current expectations described above are forward-looking statements. Please see "Cautionary Statement Concerning Forward-Looking Statements" below for information regarding important factors that may cause the Company's actual results to differ from those currently projected and/or otherwise materially affect the Company.

Segment Analysis

The Company has three operating segments, Pharmacy Services, Retail/LTC and Health Care Benefits, as well as a Corporate/Other segment. The Company evaluates the performance of its operating segments based on operating income (loss) and operating income (loss) before the effect of (i) nonrecurring charges or gains and (ii) certain intersegment activities. The following is a reconciliation of the Company's segments total revenues and operating income (loss) to the consolidated financial statements:

<i>In millions</i>	Pharmacy Services ⁽¹⁾⁽²⁾	Retail/LTC ⁽²⁾	Health Care Benefits ⁽²⁾	Corporate/ Other	Intersegment Eliminations ⁽²⁾	Consolidated Totals
2018						
Total revenues ⁽³⁾	\$ 134,128	\$ 83,989	\$ 5,549	\$ 606	\$ (29,693)	\$ 194,579
Operating income (loss) ⁽⁴⁾⁽⁵⁾	4,699	620	276	(805)	(769)	4,021
2017						
Total revenues ⁽⁷⁾	130,601	79,398	—	16	(25,229)	184,786
Operating income (loss) ⁽⁴⁾⁽⁵⁾⁽⁷⁾	4,657	6,558	—	(936)	(741)	9,538
2016						
Total revenues ⁽⁷⁾	119,965	81,100	—	18	(23,537)	177,546
Operating income (loss) ⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	4,570	7,437	—	(900)	(721)	10,386

- (1) Total revenues of the Pharmacy Services segment include approximately \$11.4 billion, \$10.8 billion and \$10.5 billion of Retail Co-Payments for 2018, 2017 and 2016, respectively. See Note 1 "Significant Accounting Policies" to the consolidated financial statements for additional information about Retail Co-Payments.
- (2) Intersegment eliminations relate to intersegment revenue generating activities that occur between the Pharmacy Services segment and the Retail/LTC segment for 2018, 2017 and 2016. Effective November 28, 2018, intersegment eliminations also relate to intersegment revenue generating activities that occur between the Health Care Benefits segment, the Pharmacy Services segment and/or the Retail/LTC segment.
- (3) Corporate/Other segment revenues for 2018 include interest income of \$536 million related to the proceeds of the \$40 billion principal amount of unsecured floating rate notes and unsecured fixed rate senior notes the Company issued on March 9, 2018 (collectively, the "2018 Notes"). This amount is for the period prior to the close of the Aetna Acquisition, which occurred on November 28, 2018.
- (4) Retail/LTC segment operating income for 2018, 2017 and 2016 includes \$7 million, \$34 million and \$281 million, respectively, of acquisition-related integration costs. The integration costs in 2018 and 2017 are related to the acquisition of Omnicare. The integration costs in 2016 are related to the acquisitions of Omnicare and the pharmacy and clinic businesses of Target Corporation ("Target"). Retail/LTC segment operating income for 2018 and 2017 also includes goodwill impairment charges of \$6.1 billion related to the LTC reporting unit and \$181 million related to the RxCrossroads reporting unit, respectively. In addition, Retail/LTC segment operating income for 2017 and 2016 includes \$215 million and \$34 million, respectively, of charges associated with store rationalization and asset impairment charges in connection with planned store closures related to the Company's enterprise streamlining initiative. Retail/LTC segment operating income for 2018 also includes a \$43 million loss on impairment of long-lived assets primarily related to the impairment of property and equipment and an \$86 million loss on the divestiture of the Company's RxCrossroads subsidiary.
- (5) Corporate/Other segment operating loss for 2018, 2017 and 2016 includes \$485 million, \$40 million and \$10 million, respectively, of divestiture and acquisition-related transaction and integration costs included in operating expenses in the consolidated statements of operations. The transaction and integration costs in 2018 are related to the acquisitions of Aetna and Omnicare. The transaction and integration costs in 2017 are related to the acquisitions of Aetna and Omnicare and the divestiture of RxCrossroads. The integration costs in 2016 are related to the acquisitions of Omnicare and the pharmacy and clinic businesses of Target.
- (6) Pharmacy Services segment operating income for 2016 includes the reversal of an accrual of \$88 million in connection with a legal settlement.
- (7) Amounts revised to reflect the reclassification of interest income from interest expense, net to net investment income within total revenues to conform with insurance company presentation which increased total revenues and operating income by \$21 million and \$20 million in 2017 and 2016, respectively.

Pharmacy Services Segment

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

<i>In millions</i>	Year Ended December 31,			Change			
	2018	2017	2016	2018 vs. 2017		2017 vs. 2016	
				\$	%	\$	%
Revenues:							
Products	\$ 130,264	\$ 126,770	\$ 116,639	\$ 3,494	2.8 %	\$ 10,131	8.7%
Premiums	3,361	3,558	3,069	(197)	(5.5)%	489	15.9%
Services	490	268	255	222	82.8 %	13	5.1%
Net investment income ⁽¹⁾	13	5	2	8	160.0 %	3	150.0%
Total revenues	134,128	130,601	119,965	3,527	2.7 %	10,636	8.9%
Cost of products sold	125,107	121,799	111,949	3,308	2.7 %	9,850	8.8%
Benefit costs	2,805	2,810	2,179	(5)	(0.2)%	631	29.0%
Operating expenses ⁽²⁾	1,517	1,335	1,267	182	13.6 %	68	5.4%
Operating expenses % of revenues	1.1%	1.0%	1.1%				
Operating income ⁽¹⁾	\$ 4,699	\$ 4,657	\$ 4,570	\$ 42	0.9 %	\$ 87	1.9%
Operating income % of revenues	3.5%	3.6%	3.8%				
Revenues (by distribution channel): ⁽⁸⁾							
Pharmacy network ⁽³⁾⁽⁴⁾	\$ 83,261	\$ 80,891	\$ 73,686	\$ 2,370	2.9 %	\$ 7,205	9.8%
Mail choice ⁽⁵⁾	46,934	45,709	42,783	1,225	2.7 %	2,926	6.8%
Other ⁽⁴⁾	3,920	3,996	3,494	(76)	(1.9)%	502	14.4%
Pharmacy claims processed: ⁽⁶⁾⁽⁷⁾							
Total	1,889.8	1,781.9	1,639.2	107.9	6.1 %	142.7	8.7%
Pharmacy network ⁽³⁾	1,601.4	1,516.7	1,387.7	84.7	5.6 %	129	9.3%
Mail choice ⁽⁵⁾	288.4	265.2	251.5	23.2	8.7 %	13.7	5.4%
Generic dispensing rate: ⁽⁶⁾⁽⁷⁾							
Total	87.3%	87.0%	85.9%				
Pharmacy network ⁽³⁾	87.9%	87.7%	86.7%				
Mail choice ⁽⁵⁾	83.9%	83.1%	81.4%				
Mail choice penetration rate ⁽⁶⁾⁽⁷⁾	15.3%	14.9%	15.3%				

(1) Amounts revised to reflect the reclassification of interest income from interest expense, net to net investment income within revenues to conform with insurance company presentation which increased both net investment income and operating income by \$5 million and \$2 million in 2017 and 2016, respectively.

(2) Pharmacy Services segment operating expenses in 2016 include the reversal of an accrual of \$88 million in connection with a legal settlement.

(3) Pharmacy network revenues, pharmacy network claims processed and pharmacy network generic dispensing rate do not include Maintenance Choice[®] activity, which is included within the mail choice category. Pharmacy network is defined as claims filled at retail and specialty retail pharmacies, including the Company's retail pharmacies and LTC pharmacies, but excluding Maintenance Choice activity.

(4) Amounts revised for 2017 and 2016 to reflect the reclassification of Medicare Part D premium revenues from pharmacy network revenues to other revenues.

(5) Mail choice is defined as claims filled at a Pharmacy Services mail facility, which includes specialty mail claims inclusive of Specialty Connect[®] claims picked up at a CVS Pharmacy retail store, as well as prescriptions filled at the Company's retail pharmacies under the Maintenance Choice program, which permits eligible client plan members to fill their maintenance prescriptions through mail order delivery or at a CVS Pharmacy retail store for the same price as mail order.

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

(7) The pharmacy claims processed, generic dispensing rate and mail choice penetration rate in 2016 have been revised to convert 90-day prescriptions to the equivalent of three 30-day prescriptions.

(8) Excludes net investment income.

Commentary - 2018 compared to 2017

Revenues

- Total revenues increased \$3.5 billion , or 2.7% , to \$134.1 billion in 2018 compared to 2017. The increase was primarily due to increased total pharmacy claims volume, partially offset by continued client pricing pressures.
- As you review the Pharmacy Services segment's performance in this area, you should consider the following important information about the business:
 - The Company's mail choice claims processed, on a 30-day equivalent basis, increased 8.7% to 288.4 million claims in 2018 compared to 265.2 million claims in 2017 . The increase in mail choice claims was primarily driven by the continued adoption of Maintenance Choice offerings and an increase in specialty pharmacy claims.
 - During 2018 , the average revenue per mail choice claim, on a 30-day equivalent basis, decreased by 5.6% compared to 2017 as a result of price compression.
 - The Company's pharmacy network claims processed, on a 30-day equivalent basis, increased 5.6% to approximately 1.6 billion claims in 2018 compared to approximately 1.5 billion claims in 2017 . The increase in the pharmacy network claim volume was primarily due to net new business.
 - During 2018 , the average revenue per pharmacy network claim processed, on a 30-day equivalent basis, decreased 2.7% compared to 2017 as a result of continued price compression.
 - The Company's total generic dispensing rate increased to 87.3% in 2018 compared to 87.0% in 2017 . The continued increase in the Company's generic dispensing rate was primarily due to the impact of new generic drug introductions and the Company's ongoing efforts to encourage plan members to use generic drugs when they are available and clinically appropriate. The Company believes its generic dispensing rate will continue to increase in future periods, albeit at a slower pace. This increase will be affected by, among other things, the number of new brand and generic drug introductions and the Company's success at encouraging plan members to utilize generic drugs when they are available and clinically appropriate.

Operating expenses

- Operating expenses in the Pharmacy Services segment include selling, general and administrative expenses, depreciation and amortization related to selling, general and administrative activities and administrative payroll, employee benefits and occupancy costs.
- Operating expenses increased \$182 million , or 13.6% , in 2018 compared to 2017 . The year over year increase in operating expenses was primarily due to:
 - Growth in the business, including acquisitions; and
 - The reinstatement of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010' s (as amended, collectively, the "ACA's") health insurer fee ("HIF") in 2018;
 - Partially offset by the realization of partially reserved receivables in 2017 which reduced operating expenses.
- Operating expenses as a percentage of total revenues remained relatively consistent at 1.1% and 1.0% in 2018 and 2017 , respectively.

Operating income

- Operating income increased \$42 million , or 0.9% , to \$4.7 billion in 2018 compared to 2017 . The increase in operating income was primarily due to increased claims volume and improved purchasing economics, partially offset by continued price compression and the increased operating expenses described above.
- As you review the Pharmacy Services segment's performance in this area, you should consider the following important information about the business:
 - The Company's efforts to (i) retain existing clients, (ii) obtain new business and (iii) maintain or improve the rebates and/or discounts the Company receives from manufacturers, wholesalers and retail pharmacies continue to have an impact on operating income. In particular, competitive pressures in the PBM industry have caused the Company and other PBMs to continue to share with clients a larger portion of rebates and/or discounts received from pharmaceutical manufacturers. In addition, marketplace dynamics and regulatory changes have limited the Company's ability to offer plan sponsors pricing that includes retail network "differential" or "spread," and the Company expects these trends to continue. The "differential" or "spread" is any difference between the drug price charged to plan sponsors, including Medicare Part D plan sponsors, by a PBM and the price paid for the drug by the PBM to the dispensing provider.

Commentary - 2017 compared to 2016

Revenues

- Total revenues increased \$10.6 billion , or 8.9% , to \$130.6 billion in 2017 compared to 2016 . The increase was primarily due to growth in pharmacy network and specialty pharmacy volume as well as brand name drug price inflation, partially offset by continued price compression and increased generic dispensing.
- As you review the Pharmacy Services segment's performance in this area, you should consider the following important information about the business:
 - The Company's mail choice claims processed, on a 30-day equivalent basis, increased 5.4% to 265.2 million claims in 2017 compared to 251.5 million claims in 2016 .
 - During 2017 , the Company's average revenue per mail choice claim, on a 30-day equivalent basis, increased by 1.7% compared to 2016 . The increase was primarily due to growth in specialty pharmacy and brand name drug price inflation.
 - The Company's pharmacy network claims processed, on a 30-day equivalent basis, increased 9.3% to approximately 1.5 billion claims in 2017 compared to approximately 1.4 billion claims in 2016 . The increase was primarily due to increased volume from net new business.
 - During 2017 , the average revenue per pharmacy network claim processed remained flat on a 30-day equivalent basis.
 - The Company's total generic dispensing rate increased to 87.0% in 2017 compared to 85.9% in 2016 . The increase in the Company's generic dispensing rate was primarily due to the impact of new generic drug introductions, and the Company's ongoing efforts to encourage plan members to use generic drugs when they are available and clinically appropriate.

Operating expenses

- Operating expenses increased \$68 million , or 5.4% , in 2017 compared to 2016 . The year over year increase in operating expenses was primarily due to an \$88 million reversal of an accrual in connection with a legal settlement in 2016 and an increase in costs associated with the growth of the business. The increase was partially offset by the realization of partially reserved receivables in 2017 which reduced operating expenses.
- Operating expenses as a percentage of revenues remained relatively consistent at 1.0% and 1.1% of revenues in 2017 and 2016 , respectively.

Operating income

- Operating income increased \$87 million , or 1.9% , to \$4.7 billion in 2017 compared to 2016 . The increase in operating income was primarily due to growth in specialty pharmacy, higher generic dispensing and favorable purchasing economics, partially offset by price compression and the increased operating expenses described above.

Retail/LTC Segment

The following table summarizes the Retail/LTC segment's performance for the respective periods:

<i>In millions</i>	Year Ended December 31,			Change			
				2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	\$	%	\$	%
Revenues							
Products	\$ 83,175	\$ 78,522	\$ 80,275	\$ 4,653	5.9 %	\$ (1,753)	(2.2)%
Services	814	876	825	(62)	(7.1)%	51	6.2 %
Total revenues	83,989	79,398	81,100	4,591	5.8 %	(1,702)	(2.1)%
Cost of products sold ⁽¹⁾	59,906	56,066	57,339	3,840	6.8 %	(1,273)	(2.2)%
Operating expenses ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾	23,463	16,774	16,324	6,689	39.9 %	450	2.8 %
Operating expenses % of revenues	27.9%	21.1 %	20.1 %				
Operating income ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾	\$ 620	\$ 6,558	\$ 7,437	\$ (5,938)	(90.5)%	\$ (879)	(11.8)%
Operating income % of revenues	0.7%	8.3 %	9.2 %				
Revenues (by major goods/service line):							
Pharmacy	\$ 64,179	\$ 59,528	\$ 60,838	\$ 4,651	7.8 %	\$ (1,310)	(2.2)%
Front Store	19,055	18,769	19,123	286	1.5 %	(354)	(1.9)%
Other	755	1,101	1,139	(346)	(31.4)%	(38)	(3.3)%
Prescriptions filled ⁽⁷⁾	1,339.1	1,230.5	1,223.5	108.6	8.8 %	7.0	0.6 %
Revenue increase (decrease):							
Total	5.8%	(2.1)%	12.6 %				
Pharmacy	7.8%	(2.2)%	15.9 %				
Front Store	1.5%	(1.9)%	0.3 %				
Total prescription volume ⁽⁷⁾	8.8%	0.6 %	18.6 %				
Same store sales increase (decrease): ⁽⁸⁾							
Total	6.0%	(2.6)%	1.9 %				
Pharmacy	7.9%	(2.6)%	3.2 %				
Front Store	0.5%	(2.6)%	(1.5)%				
Prescription volume ⁽⁷⁾	9.1%	0.4 %	3.6 %				
Generic dispensing rate	87.5%	87.3 %	85.7 %				

(1) Cost of products sold and operating income for 2017 include \$2 million of acquisition-related integration costs related to the acquisition of Omnicare.

(2) Operating expenses and operating income in 2018, 2017 and 2016 include \$7 million, \$32 million and \$235 million, respectively, of acquisition-related integration costs. In 2018 and 2017, the integration costs related to the acquisition of Omnicare. In 2016, the integration costs related to the acquisitions of Omnicare and the pharmacy and clinic businesses of Target.

(3) Operating expenses and operating income for 2018 and 2017 include goodwill impairment charges of \$6.1 billion related to the LTC reporting unit and \$181 million related to the RxCrossroads reporting unit, respectively.

(4) Operating expenses and operating income for 2017 and 2016 include \$215 million and \$34 million, respectively, of charges associated with store rationalization and asset impairment charges in connection with planned store closures related to the Company's enterprise streamlining initiative.

(5) Operating expenses and operating income for 2018 include a \$43 million loss on impairment of long-lived assets primarily related to the impairment of property and equipment.

(6) Operating expenses and operating income for 2018 include an \$86 million loss on the divestiture of the Company's RxCrossroads subsidiary.

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

(8) Same store sales and prescription volume exclude revenues from MinuteClinic, and revenue and prescriptions from stores in Brazil, LTC operations and commercialization services.

Commentary - 2018 compared to 2017

Revenues

- Total revenues increased approximately \$4.6 billion , or 5.8% , to \$84.0 billion in 2018 compared to 2017 . The increase was primarily driven by increased prescription volume and brand name drug price inflation, partially offset by continued reimbursement pressure and the impact of recent generic introductions.
- As you review the Retail/LTC segment's performance in this area, you should consider the following important information about the business:
 - Front store same store sales increased 0.5% in 2018 compared to 2017 . Front store sales in 2018 continued to benefit from increases in health product sales.
 - Pharmacy same store sales increased 7.9% in 2018 compared to 2017 . The increase was driven by the 9.1% increase in pharmacy same store prescription volumes on a 30-day equivalent basis due to (i) continued adoption of patient care programs, (ii) collaborations with PBMs, and (iii) the Company's preferred status in a number of Medicare Part D networks during 2018. The increase was also due to the impact of year over year brand name drug price inflation that occurred primarily in the first three months of 2018.
 - Pharmacy revenue continues to be adversely affected by the conversion of brand name drugs to equivalent generic drugs, which typically have a lower selling price. The generic dispensing rate grew to 87.5% in 2018 compared to 87.3% in 2017 . In addition, pharmacy revenue growth has also been negatively affected by continued reimbursement pressure.
 - 2017 revenues include approximately \$0.4 billion related to the Company's RxCrossroads subsidiary which was sold on January 2, 2018.
 - Pharmacy revenue growth has been adversely affected by industry challenges in the LTC business, such as continuing lower occupancy rates at skilled nursing facilities, as well as the deteriorating financial health of many skilled nursing facilities which resulted in a number of customer bankruptcies in 2018.
 - Pharmacy revenue in 2018 continued to benefit from the Company's ability to attract and retain managed care customers and the increased use of pharmaceuticals by an aging population as the first line of defense for health care.

Operating expenses (including goodwill impairments)

- Operating expenses in the Retail/LTC segment include store payroll, store employee benefits, store occupancy costs, selling expenses, advertising expenses, depreciation and amortization expense and certain administrative expenses.
- Operating expenses increased \$6.7 billion , or 39.9% , in 2018 compared to 2017 . The increase in operating expenses in 2018 was primarily due to:
 - A goodwill impairment charge of \$6.1 billion in 2018 in the LTC reporting unit (see Note 5 "Goodwill and Other Intangibles" to the consolidated financial statements), as compared to a \$181 million goodwill impairment charge in the RxCrossroads reporting unit recorded in 2017 in connection with the upcoming sale of RxCrossroads. See the discussion of goodwill under "Critical Accounting Policies" later in this document;
 - An \$86 million pre-tax loss on the sale of the RxCrossroads subsidiary in 2018;
 - A \$43 million impairment of long-lived assets in 2018; and
 - An increase in operating expenses due to (i) the investment of a portion of the savings from the TCJA in wages and benefits, (ii) increased prescription volume described previously, (iii) incremental costs associated with operating more stores and (iv) other investments in the business to drive revenue growth;
 - Partially offset by lower operating expenses as a result of a lack of charges associated with store closures in 2018, for which the Company incurred \$215 million in connection with its enterprise streamlining initiative in 2017; and
 - A decrease in hurricane-related expenses of \$25 million in 2018 compared to 2017 .
- Operating expenses as a percentage of total revenues were 27.9% in 2018 compared to 21.1% in 2017 . The increase in operating expenses as a percentage of total revenues was driven by the increased goodwill impairment charges in 2018.

Operating income

- Operating income decreased \$5.9 billion , or 90.5% , to approximately \$620 million in 2018 compared to 2017 . The decrease in operating income was driven primarily by the increased operating expenses described above.

- As you review the Retail/LTC segment's performance in this area, you should consider the following important information about the business:
 - The Company's pharmacy operating income has been adversely affected by the efforts of managed care organizations, PBMs and governmental and other third-party payors to reduce their prescription drug costs, including the use of restrictive networks, as well as changes in the mix of business within the pharmacy portion of the Retail/LTC Segment. If the reimbursement pressure accelerates, the Company may not be able to grow revenues, and its operating income could be adversely affected.
 - The increased use of generic drugs has positively impacted the Company's operating income but has resulted in third-party payors augmenting their efforts to reduce reimbursement payments to retail pharmacies for prescriptions. This trend, which the Company expects to continue, reduces the benefit the Company realizes from brand to generic product conversions.

Commentary - 2017 compared to 2016

Revenues

- Total revenues decreased approximately \$1.7 billion, or 2.1%, to \$79.4 billion in 2017 compared to 2016. The decrease was primarily due to a decline in same store sales as a result of the previously-announced marketplace changes that restrict CVS Pharmacy from participating in certain networks.
- As you review the Retail/LTC segment's performance in this area, you should consider the following important information about the business:
 - Front store same store sales declined 2.6% in 2017 compared to 2016 and were negatively impacted approximately 30 basis points due to the absence of leap day in 2017. The decrease was primarily driven by softer customer traffic and efforts to rationalize promotional strategies, partially offset by an increase in basket size.
 - Pharmacy same store sales declined 2.6% in 2017 compared to 2016. Pharmacy same store sales were negatively impacted by approximately 390 basis points due to recent generic introductions. Same store prescription volumes increased 0.4%, despite the approximately 420 basis point negative impact from previously-discussed marketplace changes that restrict CVS Pharmacy from participating in certain networks.
 - Pharmacy revenue continues to be negatively impacted by the conversion of brand name drugs to equivalent generic drugs, which typically have a lower selling price. The generic dispensing rate grew to 87.3% in 2017 compared to 85.7% in 2016. In addition, pharmacy revenue growth has also been negatively affected by the mix of drugs sold, continued reimbursement pressure and the lack of significant new brand name drug introductions.
 - Pharmacy revenue in 2017 continued to benefit from the Company's ability to attract and retain managed care customers, and the increased use of pharmaceuticals by an aging population as the first line of defense for health care.

Operating expenses (including goodwill impairment)

- Operating expenses increased \$450 million, or 2.8% in 2017. The increase in operating expenses in 2017 was due primarily to:
 - An increase of \$181 million in charges associated with the closure of retail stores in connection with the Company's enterprise streamlining initiative;
 - A goodwill impairment charge of \$181 million related to the RxCrossroads reporting unit, which was subsequently sold on January 2, 2018;
 - Hurricane related costs of \$55 million; and
 - Costs associated with new store openings
- Operating expenses as a percentage of total revenues were 21.1% in 2017 compared to 20.1% in 2016. The increase in 2017 was primarily due to a decline in expense leverage with the loss of business from the previously discussed marketplace changes that restrict CVS Pharmacy from participating in certain networks.

Operating income

- Operating income decreased \$879 million, or 11.8%, to approximately \$6.6 billion in 2017 compared to 2016. The decrease in operating income was driven primarily by the increased operating expenses described above and reimbursement pressure.

Health Care Benefits Segment

On November 28, 2018, the Company completed the Aetna Acquisition. The Health Care Benefits segment is the equivalent of the former Aetna Health Care segment.

The following table summarizes the Health Care Benefits segment's performance for the period from November 28, 2018 to December 31, 2018:

In millions

Revenues:	
Products	\$ 164
Premiums	4,819
Services	521
Net investment income	45
Total revenues	5,549
Cost of products sold	147
Benefit costs	3,873
Operating expenses	1,253
Operating income	\$ 276

Revenues and operating income for the Health Care Benefits segment include results for the period from November 28, 2018 to December 31, 2018 and therefore are not directly comparable to the former Aetna Health Care segment results for the fourth quarter of 2017.

Health Care Benefits segment medical membership as of December 31, 2018 was as follows:

In thousands

	Insured	ASC ⁽¹⁾	Total
Medical membership:			
Commercial	3,871	13,888	17,759
Medicare Advantage	1,758	—	1,758
Medicare Supplement	793	—	793
Medicaid	1,128	663	1,791
Total medical membership	7,550	14,551	22,101

(1) Represents self-insured membership under Administrative Services Contracts.

Medical Membership

Medical membership as of December 31, 2018 remained relatively consistent compared with December 31, 2017, reflecting decreases in Commercial insured and Medicaid products, largely offset by increases in Commercial ASC and Medicare products.

Corporate/Other Segment

Commentary - 2018 compared to 2017

Revenues

- Revenues in 2018 reflect (i) revenues associated with products for which the Company no longer solicits or accepts new customers, such as large case pensions and long-term care insurance products, that were acquired in the Aetna Acquisition and (ii) interest income related to the \$40 billion of senior notes issued on March 9, 2018 to partially fund the Aetna Acquisition.

Operating expenses

- Operating expenses within the Corporate/Other segment include executive management, corporate relations, legal, compliance, human resources, information technology, finance related costs and acquisition-related transaction and integration costs. After the Aetna Acquisition Date, such operating expenses also include operating costs to support the large case pensions and long-term care insurance products acquired in the Aetna Acquisition.
- Operating expenses increased \$437 million , or 45.9% , in 2018 compared to 2017 . The increase was primarily driven by an increase in acquisition-related transaction and integration costs of \$454 million in 2018.

Commentary - 2017 compared to 2016

Operating expenses

- Operating expenses within the Corporate/Other segment include executive management, corporate relations, legal, compliance, human resources, information technology, finance related costs and acquisition-related transaction and integration costs.
- Operating expenses increased \$34 million , or 3.7% , in 2017 compared to 2016 . The increase was due to (i) ongoing investments in strategic initiatives, (ii) increased employee benefit costs and (iii) increased divestiture and acquisition-related costs, primarily related to \$34 million of transaction costs in 2017 associated with the Aetna Acquisition.

Liquidity and Capital Resources

Cash Flows

The Company maintains a level of liquidity sufficient to allow it to meet its cash needs in the short-term. Over the long term, the Company manages its cash and capital structure to maximize shareholder return, maintain its financial condition and maintain flexibility for future strategic initiatives. The Company continuously assesses its regulatory capital requirements, working capital needs, debt and leverage levels, debt maturity schedule, capital expenditure requirements, dividend payouts, potential share repurchases and future investments or acquisitions. The Company believes its operating cash flows, commercial paper program, credit facilities, sale-leaseback program, as well as any potential future borrowings, will be sufficient to fund these future payments and long-term initiatives.

The net change in cash, cash equivalents and restricted cash for the years ended December 31, 2018 , 2017 and 2016 is as follows:

<i>In millions</i>	Year Ended December 31,			Change			
				2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	\$	%	\$	%
Net cash provided by operating activities	\$ 8,865	\$ 8,007	\$ 10,141	\$ 858	11 %	\$ (2,134)	(21)%
Net cash used in investing activities	(43,285)	(2,877)	(2,470)	(40,408)	1,405 %	(407)	16 %
Net cash provided by (used in) financing activities	36,819	(6,751)	(6,761)	43,570	(645)%	10	— %
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(4)	1	2	(5)	(500)%	(1)	(50)%
Net increase (decrease) in cash, cash equivalents and restricted cash	\$ 2,395	\$ (1,620)	\$ 912	\$ 4,015	(248)%	\$ (2,532)	(278)%

Commentary - 2018 compared to 2017

- *Net cash provided by operating activities* increased by \$858 million in 2018 due primarily to the timing of client payments and the timing of payments for the Company's Medicare Part D operations.
- *Net cash used in investing activities* increased by \$40.4 billion in 2018 largely driven by the Aetna Acquisition in November 2018. In addition, cash used in investing activities reflected the following activity:
 - Gross capital expenditures remained relatively consistent at approximately \$2.0 billion and \$1.9 billion in 2018 and 2017, respectively. During 2018, approximately 21% of the Company's total capital expenditures were for new store construction, 32% were for store, fulfillment and support facilities expansion and improvements and 47% were for technology and other corporate initiatives.
 - The Company did not complete any sale-leaseback transactions in 2018 compared to \$265 million in 2017. Under the sale-leaseback transactions, the properties generally are sold at net book value, which generally approximates fair value, and the resulting leases generally qualify and are accounted for as operating leases. The specific timing and amount of future sale-leaseback transactions will vary depending on future market conditions and other factors.
- *Net cash provided by financing activities* was \$36.8 billion in 2018 compared to net cash used in financing activities of \$6.8 billion in 2017. The cash provided by financing activities in 2018 primarily related to long-term borrowings to partially fund the Aetna Acquisition.

Commentary - 2017 compared to 2016

- *Net cash provided by operating activities* decreased by \$2.1 billion, in 2017 due primarily to the timing of payments for the Company's Medicare Part D operations.
- *Net cash used in investing activities* increased by \$407 million in 2017 largely driven by an increase in acquisition activity as compared to 2016. In addition, cash used in investing activities reflected the following activity:
 - Gross capital expenditures in 2017 totaled approximately \$1.9 billion, a decrease of \$306 million compared to prior year. The decrease in 2017 capital expenditures is due to the Target integration being completed in 2016. During 2017, approximately 25% of the Company's total capital expenditures were for new store construction, 30% were for store, fulfillment and support facilities expansion and improvements and 45% were for technology and other corporate initiatives.
 - Proceeds from sale-leaseback transactions totaled \$265 million in 2017 compared to \$230 million in 2016.
- *Net cash used in financing activities* was \$6.8 billion in both 2017 and 2016 as net borrowings and net payments to shareholders were relatively flat in both years.

Included in net cash used in investing activities for the years ended December 31, 2018, 2017 and 2016 was the following store development activity ⁽¹⁾:

	2018	2017	2016
Total stores (beginning of year)	9,846	9,750	9,665
New and acquired stores ⁽²⁾	148	179	132
Closed stores ⁽²⁾	(27)	(83)	(47)
Total stores (end of year)	9,967	9,846	9,750
Relocated stores ⁽²⁾	34	30	50

(1) Includes retail drugstores, certain onsite pharmacy stores, retail specialty pharmacy stores and pharmacies within Target stores.

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

Short-term Borrowings

Commercial Paper and Back-up Credit Facilities

The Company had approximately \$720 million and \$1.3 billion of commercial paper outstanding at weighted average interest rates of 2.8% and 2.0% as of December 31, 2018 and 2017, respectively. In connection with its commercial paper program, the Company maintains a \$1.75 billion 364-day unsecured back-up revolving credit facility, which expires on May 16, 2019, a \$1.25 billion, five-year unsecured back-up revolving credit facility, which expires on July 1, 2020, a \$1.0 billion, five-year

unsecured back-up revolving credit facility, which expires on May 18, 2022, and a \$2.0 billion , five-year unsecured back-up revolving credit facility, which expires on May 17, 2023. The credit facilities allow for borrowings at various rates that are dependent, in part, on the Company’s public debt ratings and require the Company to pay a weighted average quarterly facility fee of approximately .03% , regardless of usage. As of December 31, 2018 and 2017 , there were no borrowings outstanding under any of the back-up credit facilities.

Bridge Loan Facility

On December 3, 2017, in connection with the Aetna Acquisition, the Company entered into a \$49.0 billion unsecured bridge loan facility commitment. The Company paid \$221 million in fees upon entering into the agreement. The fees were capitalized in other current assets and were amortized as interest expense over the period the bridge loan facility commitment was outstanding. The bridge loan facility commitment was reduced to \$44.0 billion on December 15, 2017 upon the Company entering into a \$5.0 billion term loan agreement. The Company recorded \$56 million of amortization of the bridge loan facility fees during the year ended December 31, 2017, which was recorded in interest expense in the consolidated statements of operations.

On March 9, 2018, the Company issued unsecured senior notes with an aggregate principal amount of \$40.0 billion (see “Long-term Borrowings - 2018 Notes” below). At this time, the bridge loan facility commitment was reduced to \$4.0 billion , and the Company paid \$8 million in fees to retain the bridge loan facility commitment through the Aetna Acquisition Date. Those fees were capitalized in other current assets and were amortized as interest expense over the period the bridge loan facility commitment was outstanding. The Company recorded \$173 million of amortization of the bridge loan facility commitment fees during the year ended December 31, 2018 , which was recorded in interest expense in the consolidated statement of operations. On October 26, 2018, the Company entered into a \$4.0 billion unsecured 364-day bridge term loan agreement to formalize the bridge loan facility discussed above. On November 28, 2018, in connection with the Aetna Acquisition, the \$4.0 billion unsecured 364-day bridge term loan agreement terminated.

Federal Home Loan Bank of Boston

Since the Aetna Acquisition Date, a subsidiary of the Company is a member of the Federal Home Loan Bank of Boston (the “FHLBB”). As a member, the subsidiary has the ability to obtain cash advances, subject to certain minimum collateral requirements. The maximum borrowing capacity available from the FHLBB as of December 31, 2018 was approximately \$790 million . As of December 31, 2018 , there were no outstanding advances from the FHLBB.

Long-term Borrowings

2018 Notes

On March 9, 2018, the Company issued an aggregate of \$40.0 billion in principal amount of the 2018 Notes for total proceeds of approximately \$39.4 billion, net of discounts and underwriting fees. The net proceeds of the 2018 Notes were used to fund a portion of the Aetna Acquisition. The 2018 Notes are comprised of the following:

In millions

3.125% senior notes due March 2020	\$	2,000
Floating rate notes due March 2020		1,000
3.35% senior notes due March 2021		3,000
Floating rate notes due March 2021		1,000
3.7% senior notes due March 2023		6,000
4.1% senior notes due March 2025		5,000
4.3% senior notes due March 2028		9,000
4.78% senior notes due March 2038		5,000
5.05% senior notes due March 2048		8,000
Total debt principal	\$	<u>40,000</u>

Term Loan Agreement

On December 15, 2017, in connection with the Aetna Acquisition, the Company entered into a \$5.0 billion term loan agreement. The term loan facility under the term loan agreement consists of a \$3.0 billion three-year tranche and a \$2.0 billion five-year tranche. The term loan agreement allows for borrowings at various rates that are dependent, in part, on the Company’s debt ratings. In connection with the Aetna Acquisition, the Company borrowed \$5.0 billion (a \$3.0 billion three-year tranche

and a \$2.0 billion five-year tranche) under the term loan agreement in November 2018. The Company terminated the \$2.0 billion five-year tranche in December 2018 with the repayment of the borrowing. As of December 31, 2018, the Company had \$3.0 billion outstanding under the three-year tranche of the term loan agreement.

Aetna Related Debt

Upon the closing of the Aetna Acquisition, the Company assumed long-term debt with a fair value of \$8.1 billion with stated interest rates ranging from 2.2% to 6.75%.

2016 Notes

On May 16, 2016, the Company issued \$1.75 billion aggregate principal amount of 2.125% unsecured senior notes due June 1, 2021 and \$1.75 billion aggregate principal amount of 2.875% unsecured senior notes due June 1, 2026 (collectively, the “2016 Notes”) for total proceeds of approximately \$3.5 billion, net of discounts and underwriting fees. The 2016 Notes may be redeemed, in whole at any time, or in part from time to time, at the Company’s option at a defined redemption price plus accrued and unpaid interest to the redemption date. The net proceeds of the 2016 Notes were used for general corporate purposes and to repay certain corporate debt.

Early Extinguishment of Long-Term Debt

On May 16, 2016, the Company announced tender offers for (i) any and all of its 5.75% senior notes due 2017, its 6.60% senior notes due 2019 and its 4.75% senior notes due 2020 (collectively, the “Any and All Notes”) and (ii) up to \$1.5 billion aggregate principal amount of the 4.75% Senior Notes due 2022 issued by its wholly-owned subsidiary Omnicare, the 5.00% Senior Notes due 2024 issued by Omnicare, its 3.875% Senior Notes due 2025, its 6.25% Senior Notes due 2027, its 4.875% Senior Notes due 2035, its 6.125% Senior Notes due 2039 and its 5.75% Senior Notes due 2041 (collectively, the “Maximum Tender Offer Notes”) and together with the Any and All Notes, the “Notes”). On May 31, 2016, the Company increased the aggregate principal amount of the tender offers for the Maximum Tender Offer Notes to \$2.25 billion. The Company purchased approximately \$835 million aggregate principal amount of the Any and All Notes and \$2.25 billion aggregate principal amount of the Maximum Tender Offer Notes pursuant to the tender offers, which expired on June 13, 2016. In connection with the purchase of the Notes, the Company paid a premium of \$486 million in excess of the debt principal, wrote off \$50 million of unamortized deferred financing costs and incurred \$6 million in fees, for a total loss on early extinguishment of long-term debt of \$542 million, which was recorded in income from continuing operations in the consolidated statement of operations for the year ended December 31, 2016.

On June 27, 2016, the Company notified the holders of the remaining Any and All Notes that the Company was exercising its option to redeem the outstanding Any and All Notes pursuant to the terms of the Any and All Notes and the Indenture dated as of August 15, 2006, between the Company and The Bank of New York Mellon Trust Company, N.A. Approximately \$1.1 billion aggregate principal amount of Any and All Notes was redeemed on July 27, 2016. In connection with that redemption, the Company paid a premium of \$97 million in excess of the debt principal and wrote off \$4 million of unamortized deferred financing costs, for a total loss on early extinguishment of long-term debt of \$101 million, which was recorded in income from continuing operations in the consolidated statement of operations for the year ended December 31, 2016.

See Note 8 “Borrowings and Credit Agreements” and Note 12 “Shareholders’ Equity” to the consolidated financial statements for additional information about debt issuances, debt repayments, share repurchases and dividend payments.

Derivative Financial Instruments

The Company uses derivative financial instruments in order to manage interest rate and foreign exchange risk and credit exposure. The Company’s use of these derivatives is generally limited to hedging risk and has principally consisted of using interest rate swaps, treasury rate locks, forward contracts, futures contracts, warrants, put options and credit default swaps. As of December 31, 2018 and 2017, the Company had outstanding derivative financial instruments (see Note 1 “Significant Accounting Policies” to the consolidated financial statements).

Debt Covenants

The Company’s back-up revolving credit facilities, unsecured senior notes, unsecured floating rate notes and term loan agreement (see Note 8 “Borrowings and Credit Agreements” to the consolidated financial statements) contain customary restrictive financial and operating covenants. These covenants do not include an acceleration of the Company’s debt maturities in the event of a downgrade in the Company’s credit ratings. The covenants do not materially affect the Company’s financial or operating flexibility. As of December 31, 2018, the Company was in compliance with all of its debt covenants.

Debt Ratings

As of December 31, 2018, the Company's long-term debt was rated "Baa2" by Moody's and "BBB" by Standard & Poor's ("S&P"), and its commercial paper program was rated "P-2" by Moody's and "A-2" by S&P. In December 2017, subsequent to the announcement of the proposed acquisition of Aetna, Moody's changed the outlook on the Company's long-term debt to "Under Review" from "Stable." Similarly, S&P placed the Company's long-term debt outlook on "Watch Negative" from "Stable." Upon the issuance of the 2018 Notes on March 9, 2018, S&P lowered its corporate credit rating on the Company's long-term debt to "BBB" from "BBB+" and changed the outlook from "Watch Negative" to "Stable." On November 27, 2018, S&P lowered its rating on the long-term debt of Aetna to "BBB" from "A." On November 28, 2018, upon the completion of the Aetna Acquisition, Moody's lowered its rating on CVS Health Corporation's long-term debt to "Baa2" from "Baa1." Additionally, Moody's changed the outlook on CVS Health Corporation's long-term debt to "Negative" from "Under Review" and changed the outlook on the long-term debt of Aetna to "Negative" from "Stable." In assessing the Company's credit strength, the Company believes that both Moody's and S&P considered, among other things, the Company's capital structure and financial policies as well as its consolidated balance sheet, its historical acquisition activity and other financial information. Although the Company currently believes its long-term debt ratings will remain investment grade, it cannot guarantee the future actions of Moody's and/or S&P. The Company's debt ratings have a direct impact on its future borrowing costs, access to capital markets and new store operating lease costs.

Share Repurchase Programs

During the year ended December 31, 2018, the Company did not repurchase any shares of common stock. See Note 12 "Shareholders' Equity" to the consolidated financial statements for additional information about share repurchases for the years ended December 31, 2017 and 2016.

Quarterly Cash Dividend

In December 2015, the Company's Board of Directors (the "Board") authorized a 21% increase in our quarterly common stock cash dividend to \$0.425 per share effective in 2016. This increase equated to an annual dividend rate of \$1.70 per share. In December 2016, the Board authorized an 18% increase in our quarterly common stock cash dividend to \$0.50 per share effective in 2017. This increase equated to an annual dividend rate of \$2.00 per share. During 2018, the Company maintained its quarterly dividend of \$0.50 per share and expects to maintain its quarterly dividend of \$0.50 per share throughout 2019.

Off-Balance Sheet Arrangements

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

Between 1995 and 1997, the Company sold or spun off a number of subsidiaries, including Bob's Stores and Linens 'n Things (each of which subsequently filed for bankruptcy), and Marshalls. In many cases, when a former subsidiary leased a store, the Company provided a guarantee of the former subsidiary's lease obligations. When the subsidiaries were disposed of, the Company's guarantees remained in place, although each initial purchaser agreed to indemnify the Company for any lease obligations the Company was required to satisfy. If any of the purchasers or any of the former subsidiaries fail to make the required payments under a store lease, the Company could be required to satisfy these obligations.

As of December 31, 2018, the Company guaranteed approximately 85 such store leases (excluding the lease guarantees related to Linens 'n Things), with the maximum remaining lease term extending through 2029. Management believes the ultimate disposition of any of the remaining lease guarantees will not have a material adverse effect on the Company's consolidated financial condition or future cash flows. Please see "Results of Operations - Summary of Consolidated Financial Results - Commentary - 2018 compared to 2017 - Loss from discontinued operations" previously in this document for further information regarding the Company's guarantee of certain Linens 'n Things' store lease obligations.

Contractual Obligations

The following table summarizes certain estimated future obligations by period under the Company's various contractual obligations at December 31, 2018. The table below does not include future payments of claims to health care providers or pharmacies because certain terms of these payments are not determinable at December 31, 2018 (for example, the timing and volume of future services provided under fee-for-service arrangements and future membership levels for capitated arrangements).

<i>In millions</i>	Payments Due by Period				
	Total	2019	2020 to 2021	2022 to 2023	Thereafter
Operating leases	\$ 27,980	\$ 2,690	\$ 4,943	\$ 4,343	\$ 16,004
Capital lease obligations	1,241	74	146	146	875
Contractual lease obligations with Target ⁽¹⁾	2,074	—	—	—	2,074
Lease obligations for discontinued operations	12	4	8	—	—
Long-term debt	72,903	1,242	16,150	12,699	42,812
Interest payments on long-term debt ⁽²⁾	37,949	3,061	5,595	4,594	24,699
Other long-term liabilities on the consolidated balance sheet ⁽³⁾					
Future policy benefits ⁽⁴⁾	6,728	575	1,200	952	4,001
Unpaid claims ⁽⁴⁾	2,742	816	644	413	869
Policyholders' funds ⁽⁴⁾⁽⁵⁾	1,266	632	127	86	421
Other liabilities	1,705	455	911	100	239
Total	\$ 154,600	\$ 9,549	\$ 29,724	\$ 23,333	\$ 91,994

- (1) The Company leases pharmacy and clinic space from Target. See Note 6 "Leases" to the consolidated financial statements for additional information regarding the lease arrangements with Target. Amounts related to the operating and capital leases with Target are reflected within the operating leases and capital lease obligations above. Amounts due after the remaining estimated economic lives of the buildings are reflected herein assuming equivalent stores continue to operate through the term of the arrangements.
- (2) Interest payments on long-term debt are calculated using outstanding balances and interest rates in effect on December 31, 2018.
- (3) Payments of other long-term liabilities exclude Separate Accounts liabilities of approximately \$3.9 billion because these liabilities are supported by assets that are legally segregated and are not subject to claims that arise out of the Company's business.
- (4) Total payments of future policy benefits, unpaid claims and policyholders' funds include \$1.2 billion, \$2.7 billion and \$339 million, respectively, of reserves for contracts subject to reinsurance. The Company expects the assuming reinsurance carrier to fund these obligations and has reflected these amounts as reinsurance recoverable assets on the consolidated balance sheets.
- (5) Customer funds associated with group life and health contracts of approximately \$2.3 billion have been excluded from the table above because such funds may be used primarily at the customer's discretion to offset future premiums and/or for refunds, and the timing of the related cash flows cannot be determined. Additionally, net unrealized capital gains on debt and equity securities supporting experience-rated products of \$10 million, before tax, have been excluded from the table above.

Restrictions on Certain Payments

In addition to general state law restrictions on payments of dividends and other distributions to shareholders applicable to all corporations, health maintenance organizations ("HMOs") and insurance companies are subject to further regulations that, among other things, may require those companies to maintain certain levels of equity (referred to as surplus) and restrict the amount of dividends and other distributions that may be paid to their equity holders. These regulations are not directly applicable to CVS Health as a holding company, since CVS Health is not an HMO or an insurance company. In addition, in connection with the Aetna Acquisition, the Company made certain undertakings that require prior regulatory approval of dividends by certain of its HMOs and insurance companies. The additional regulations and undertakings applicable to the Company's HMO and insurance company subsidiaries are not expected to affect the Company's ability to service the Company's debt, meet other financing obligations or pay dividends, or the ability of any of the Company's subsidiaries to service their debt or other financing obligations. Under applicable regulatory requirements and undertakings, at December 31, 2018, the maximum amount of dividends that may be paid by the Company's insurance and HMO subsidiaries without prior approval by regulatory authorities was approximately \$584 million in the aggregate.

The Company maintains capital levels in its operating subsidiaries at or above targeted and/or required capital levels and dividends amounts in excess of these levels to meet liquidity requirements, including the payment of interest on debt and shareholder dividends. In addition, at the Company's discretion, it uses these funds for other purposes such as funding share and debt repurchase programs, investments in new businesses and other purposes considered advisable.

As of December 31, 2018, the Company held investments of \$531 million that are not accounted for as Separate Accounts assets but are legally segregated and are not subject to claims that arise out of the Company's business. See Note 3 "Investments" to the consolidated financial statements for additional information on investments related to the 2012 conversion of an existing group annuity contract from a participating to a non-participating contract.

Solvency Regulation

The National Association of Insurance Commissioners (the "NAIC") utilizes risk-based capital ("RBC") standards for insurance companies that are designed to identify weakly-capitalized companies by comparing each company's adjusted surplus to its required surplus (the "RBC Ratio"). The RBC Ratio is designed to reflect the risk profile of insurance companies. Within certain ratio ranges, regulators have increasing authority to take action as the RBC Ratio decreases. There are four levels of regulatory action, ranging from requiring an insurer to submit a comprehensive financial plan for increasing its RBC to the state insurance commissioner to requiring the state insurance commissioner to place the insurer under regulatory control. At December 31, 2018, the RBC Ratio of each of the Company's primary insurance subsidiaries was above the level that would require regulatory action. The RBC framework described above for insurers has been extended by the NAIC to health organizations, including HMOs. Although not all states had adopted these rules at December 31, 2018, at that date, each of the Company's active HMOs had a surplus that exceeded either the applicable state net worth requirements or, where adopted, the levels that would require regulatory action under the NAIC's RBC rules. External rating agencies use their own capital models and/or RBC standards when they determine a company's rating.

Quantitative and Qualitative Disclosures About Market Risk

On November 28, 2018 the Company completed the Aetna Acquisition. As of December 31, 2018, the Company's earnings and financial condition were exposed to interest rate risk, credit quality risk, market valuation risk, foreign currency risk and commodity risk. As of December 31, 2017, the Company had outstanding interest rate derivative instruments related to its long-term debt and believed that its exposure to interest rate risk (inherent in the Company's debt securities portfolio) was not material. We refer you to Note 1 "Significant Accounting Policies" to the consolidated financial statements.

Evaluation of Interest Rate and Credit Quality Risk

The Company manages interest rate risk by seeking to maintain a tight match between the durations of assets and liabilities when appropriate. The Company manages credit quality risk by seeking to maintain high average credit quality ratings and diversified sector exposure within its debt securities portfolio. In connection with its investment and risk management objectives, the Company also uses derivative financial instruments whose market value is at least partially determined by, among other things, levels of or changes in interest rates (short-term or long-term), duration, prepayment rates, equity markets or credit ratings/spreads. The Company's use of these derivatives is generally limited to hedging risk and has principally consisted of using interest rate swaps, treasury rate locks, forward contracts, futures contracts, warrants, put options and credit default swaps. These instruments, viewed separately, subject the Company to varying degrees of interest rate, equity price and credit risk. However, when used for hedging, the Company expects these instruments to reduce overall risk.

Investments

The Company's investment portfolio supported the following products at December 31, 2018:

<i><u>In millions</u></i>	
Experience-rated products	\$ 1,063
Remaining products	17,191
Total investments	<u>\$ 18,254</u>

Investment risks associated with experience-rated products generally do not impact results of operations. The risks associated with investments supporting experience-rated pension and annuity products in the large case pensions business in the Company's Corporate/Other segment are assumed by the contract holders and not by the Company (subject to, among other things, certain minimum guarantees). Assets supporting experience-rated products may be subject to contract holder or participant withdrawals.

The debt securities in the Company's investment portfolio had an average credit quality rating of A at December 31, 2018, with approximately \$3.9 billion rated AAA at December 31, 2018. The debt securities that were rated below investment grade (that

is, having a credit quality rating below BBB-/Baa3) were \$1.1 billion at December 31, 2018 (of which 6% at December 31, 2018, supported experience-rated products).

At December 31, 2018, the Company held \$373 million of municipal debt securities that were guaranteed by third parties, representing 2% of total investments at December 31, 2018. These securities had an average credit quality rating of AA- at December 31, 2018 with the guarantee. These securities had an average credit quality rating of A- at December 31, 2018 without the guarantee. The Company does not have any significant concentration of investments with third party guarantors (either direct or indirect).

The Company generally classifies debt securities as available for sale, and carries them at fair value on the consolidated balance sheets. At December 31, 2018, approximately 1% of debt securities were valued using inputs that reflect the Company's assumptions (categorized as Level 3 inputs in accordance with accounting principles generally accepted in the United States of America). See Note 4 "Fair Value" to the consolidated financial statements, which is incorporated by reference herein, for additional information on the methodologies and key assumptions used to determine the fair value of investments. For additional information related to investments, see Note 3 "Investments" to the consolidated financial statements, which is incorporated by reference herein.

The Company regularly reviews debt securities in its portfolio to determine whether a decline in fair value below the cost basis or carrying value is other-than-temporary. When a debt security is in an unrealized capital loss position, the Company monitors the duration and severity of the loss to determine if sufficient market recovery can occur within a reasonable period of time. If a decline in fair value is considered other-than-temporary, the cost basis or carrying value of the debt security is written down. The write down is then bifurcated into its credit and non-credit related components. The amount of the credit-related component is included in net income, and the amount of the non-credit related component is included in other comprehensive income/loss, unless the Company intends to sell the debt security or it is more likely than not that the Company will be required to sell the debt security prior to its anticipated recovery of the debt security's amortized cost basis. Accounting for other-than-temporary impairment ("OTTI") of debt securities is considered a critical accounting estimate. The information under the heading "Critical Accounting Policies - Other-Than-Temporary Impairment of Debt Securities" contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report is incorporated by reference herein.

Evaluation of Market Valuation Risks

The Company regularly evaluates its risk from market-sensitive instruments by examining, among other things, levels of or changes in interest rates (short-term or long-term), duration, prepayment rates, equity markets and/or credit ratings/spreads. The Company also regularly evaluates the appropriateness of investments relative to management-approved investment guidelines (and operates within those guidelines) and the business objectives of its portfolios.

On a quarterly basis, the Company reviews the impact of hypothetical net losses in its investment portfolio on the Company's consolidated near-term financial condition, results of operations and cash flows assuming the occurrence of certain reasonably possible changes in near-term market rates and prices. Interest rate changes (whether resulting from changes in treasury yields or credit spreads or other factors) represent the most material risk exposure category for the Company. The Company has estimated the impact on the fair value of market sensitive instruments based on the net present value of cash flows using a representative set of likely future interest rate scenarios. The assumptions used were as follows: an immediate increase of 100 basis points in interest rates (which the Company believes represents a moderately adverse scenario and is approximately equal to the historical annual volatility of interest rate movements for intermediate-term available-for-sale debt securities) and an immediate decrease of 15% in prices for domestic equity securities.

Assuming an immediate 100 basis point increase in interest rates and immediate decrease of 15% in the prices for domestic equity securities, the theoretical decline in the fair values of market sensitive instruments at December 31, 2018 is as follows:

- The fair value of long-term debt would decline by \$3.9 billion (\$4.9 billion pretax). Changes in the fair value of long-term debt do not impact financial condition or results of operations.
- The theoretical reduction in the fair value of investment securities partially offset by the theoretical reduction in the fair value of interest rate sensitive liabilities would result in a net decline in fair value of \$364 million (\$461 million pretax) related to continuing non-experience-rated products. Reductions in the fair value of investment securities would be reflected as an unrealized loss in equity, as the Company classifies these securities as available for sale. The Company does not record liabilities at fair value.

Based on overall exposure to interest rate risk and equity price risk, the Company believes that these changes in market rates and prices would not materially affect consolidated near-term financial condition, results of operations or cash flows as of December 31, 2018 .

Evaluation of Foreign Currency and Commodity Risk

As of each of December 31, 2018 and 2017 , the Company did not have any material foreign currency exchange rate or commodity derivative instruments in place and believes its exposure to foreign currency exchange rate risk and commodity price risk is not material.

Evaluation of Operational Risks

The Company also faces certain operational risks, including risks related to information security, including cybersecurity. The Company and its vendors have experienced a variety of cyber attacks, and the Company and its vendors expect to continue to experience cyber attacks going forward. Among other things, the Company has experienced automated attempts to gain access to public facing networks, brute force, SYN flood and distributed denial of service attacks, attempted malware infections, vulnerability scanning, ransomware attacks, spear-phishing campaigns, mass reconnaissance attempts, injection attempts, phishing, PHP injection and cross-site scripting. The Company also has seen an increase in attacks designed to obtain access to consumers' accounts using illegally obtained demographic information. The Company is dedicating and will continue to dedicate significant resources and incur significant expenses to maintain and update on an ongoing basis the systems and processes that are designed to mitigate the information security risks it faces and protect the security of its computer systems, software, networks and other technology assets against attempts by unauthorized parties to obtain access to confidential information, destroy data, disrupt or degrade service, sabotage systems or cause other damage. The impact of the cyber attacks the Company has experienced through December 31, 2018 has not been material to its operations or results of operations. The Board and the Audit Committee of the Board ("the Audit Committee") are regularly informed regarding the Company's information security policies, practices and status.

Critical Accounting Policies

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

Significant accounting policies are discussed in Note 1 "Significant Accounting Policies" to the consolidated financial statements. Management believes the following accounting policies include a higher degree of judgment and/or complexity and, thus, are considered to be critical accounting policies. The Company has discussed the development and selection of these critical accounting policies with the Audit Committee, and the Audit Committee has reviewed the disclosures relating to them.

Revenue Recognition

Pharmacy Services Segment

The Pharmacy Services segment sells prescription drugs directly through its mail service dispensing pharmacies and indirectly through the Company's retail pharmacy network. The Company's pharmacy benefit arrangements are accounted for in a manner consistent with a master supply arrangement as there are no contractual minimum volumes and each prescription is considered a separate purchasing decision and distinct performance obligation transferred at a point in time. PBM services performed in connection with each prescription claim are considered part of a single performance obligation which culminates in the dispensing of prescription drugs.

The Company recognizes revenue using the gross method at the contract price negotiated with its clients when the Company has concluded it controls the prescription drug before it is transferred to the client plan members. The Company controls prescriptions dispensed indirectly through its retail pharmacy network because it has separate contractual arrangements with those pharmacies, has discretion in setting the price for the transaction and assumes primary responsibility for fulfilling the promise to provide prescription drugs to its client plan members while also performing the related PBM services.

Revenues include (i) the portion of the price the client pays directly to the Pharmacy Services segment, net of any discounts earned on brand name drugs or other discounts and refunds paid back to the client, (ii) the United States Centers for Medicare & Medicaid Services ("CMS") subsidized portion of prescription drugs dispensed to the Company's SilverScript PDP members, (iii) the price paid to the Pharmacy Services segment by client plan members for mail order prescriptions and the price paid to retail network pharmacies by client plan members for retail prescriptions ("Retail Co-Payments"), and (iv) claims based administrative fees for retail pharmacy network contracts. Sales taxes are not included in revenue.

The Company recognizes revenue when control of the prescription drugs is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those prescription drugs. The Company has established the following revenue recognition policies for the Pharmacy Services segment:

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

The Company recognizes revenue using the net method for contracts under which the Company acts as an agent or does not control the prescription drug prior to transfer to the client.

The Company records revenue net of manufacturers' rebates that are earned by its clients based on their plan members' utilization of brand-name formulary drugs. The Company estimates these rebates at period-end based on actual and estimated claims data and its estimates of the manufacturers' rebates earned by its clients. The estimates are based on the best available data at period-end and recent history for the various factors that can affect the amount of rebates due to the client. The Company adjusts its rebates payable to clients to the actual amounts paid when these rebates are paid or as significant events occur. Any cumulative effect of these adjustments is recorded against revenues as identified. Adjustments generally result from contract changes with clients or manufacturers that have retroactive rebate adjustments, differences between the estimated and actual product mix subject to rebates, or whether the brand name drug was included in the applicable formulary. The effect of adjustments between estimated and actual manufacturers' rebate amounts has not been material to the Company's results of operations or financial condition.

The Company also adjusts revenues for refunds owed to clients resulting from pricing guarantees and performance against defined service and performance metrics. The inputs to these estimates are not subject to a high degree of subjectivity or volatility. The effect of adjustments between estimated and actual performance refund amounts has not been material to the Company's results of operations or financial condition.

The Pharmacy Services segment participates in the federal government's Medicare Part D program as a PDP through the Company's SilverScript subsidiary. Revenues include insurance premiums earned by the PDP, which are determined based on the PDP's annual bid and related contractual arrangements with CMS. The insurance premiums include a beneficiary premium,

which is the responsibility of the PDP member, and can be subsidized by CMS in the case of low-income members, and a direct premium paid by CMS. Premiums collected in advance are initially recorded within other insurance liabilities and are then recognized ratably as revenue over the period in which members are entitled to receive benefits.

In addition to these premiums, the Pharmacy Services segment receives additional payments each month from CMS related to catastrophic reinsurance, low-income cost sharing subsidies and coverage gap benefits. If the subsidies received differ from the amounts earned from actual prescriptions transferred, the difference is recorded in either accounts receivable, net or accrued expenses.

The Company estimates variable consideration in the form of amounts payable to, or receivable from, CMS under a risk-sharing feature of the Medicare Part D program design, referred to as the risk corridor, and adjusts revenue based on calculations of additional subsidies to be received from or owed to CMS at the end of the reporting year.

Retail/LTC Segment

Retail Pharmacy

The Company's retail drugstores recognize revenue at the time the customer takes possession of the merchandise. For pharmacy sales, each prescription claim is its own arrangement with the customer and is a performance obligation, separate and distinct from other prescription claims under other retail network arrangements. Revenues are adjusted for refunds owed to the third party payer for pricing guarantees and performance against defined value-based service and performance metrics. The inputs to these estimates are not subject to a high degree of subjectivity or volatility. The effect of adjustments between estimated and actual pricing and performance refund amounts have not been material to the Company's results of operations or financial condition.

Revenue from Company gift cards purchased by customers is deferred as a contract liability until goods or services are transferred. Any amounts not expected to be redeemed by customers (i.e., breakage) are recognized based on historical redemption patterns.

Customer returns are not material to the Company's results of operations or financial condition. Sales taxes are not included in revenue.

Loyalty Program

The Company's customer loyalty program, ExtraCare[®], is comprised of two components, ExtraSavings[™] and ExtraBucks[®] Rewards. ExtraSavings are coupons that are recorded as a reduction of revenue when redeemed as the Company concluded that they do not represent a promise to the customer to deliver additional goods or services at the time of issuance because they are not tied to a specific transaction or spending level.

ExtraBucks Rewards are accumulated by customers based on their historical spending levels. Thus, the Company has determined that there is an additional performance obligation to those customers at the time of the initial transaction. The Company allocates the transaction price to the initial transaction and the ExtraBucks Rewards transaction based upon the relative standalone selling price, which considers historical redemption patterns for the rewards. Revenue allocated to ExtraBucks Rewards is recognized as those rewards are redeemed. At the end of each period, unredeemed rewards are reflected as a contract liability.

Long-term Care

Revenue is recognized when control of the promised goods or services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. Each prescription claim represents a separate performance obligation of the Company, separate and distinct from other prescription claims under customer arrangements. A significant portion of the revenue from sales of pharmaceutical and medical products are reimbursed by the federal Medicare Part D program and, to a lesser extent, state Medicaid programs. The Company monitors its revenues and receivables from these reimbursement sources, as well as other third party insurance payors, and reduces revenue at the revenue recognition date to properly account for the variable consideration due to anticipated differences between billed and reimbursed amounts. Accordingly, the total revenues and receivables reported in the Company's consolidated financial statements are recorded at the amount expected to be ultimately received from these payors.

Patient co-payments associated with Medicare Part D, certain state Medicaid programs, Medicare Part B and certain third party payors typically are not collected at the time products are delivered or services are rendered, but are billed to the individuals as part of normal billing procedures and subject to normal accounts receivable collections procedures.

Walk-In Medical Clinics

For services provided by the Company's walk-in medical clinics, revenue recognition occurs for completed services provided to patients, with adjustments taken for third party payor contractual obligations and patient direct bill historical collection rates.

Health Care Benefits Segment

Health Care Benefits revenue is principally derived from insurance premiums and fees billed to customers. Revenue is recognized based on customer billings, which reflect contracted rates per employee and the number of covered employees recorded in the Company's records at the time the billings are prepared. Billings are generally sent monthly for coverage during the following month.

The Company's billings may be subsequently adjusted to reflect enrollment changes due to member terminations or other factors. These adjustments are known as retroactivity adjustments. In each period, the Company estimates the amount of future retroactivity and adjusts the recorded revenue accordingly. As information regarding actual retroactivity amounts becomes known, the Company refines its estimates and records any required adjustments to revenues in the period in which they arise. A significant difference in the actual level of retroactivity compared to estimated levels would have a significant effect on the Company's results of operations.

Additionally, premium revenue subject to the ACA's minimum medical loss ratio ("MLR") rebate requirements is recorded net of the estimated minimum MLR rebates for the current calendar year. The Company estimates minimum MLR rebates payable by projecting MLRs for certain markets, as defined by the ACA, for each state in which each of its insurance entities operates. The claims and premiums used in estimating such rebates are modified for certain adjustments allowed by the ACA and include a statistical credibility adjustment for those states with a number of members that is not statistically credible.

Furthermore, the ACA's permanent risk adjustment program transfers funds from qualified individual and small group insurance plans with below average risk scores to plans with above average risk scores. Based on the risk of the Company's qualified plan members relative to the average risk of members of other qualified plans in comparable markets, the Company estimates its ultimate risk adjustment receivable or payable for the current calendar year and reflects the pro-rata year-to-date impact as an adjustment to premium revenue. In this analysis, the Company considers the estimate of the average risk of members of other qualified plans in comparable markets the most critical assumption. The Company estimates its ultimate risk adjustment receivable or payable using management's best estimates, which are based on various data sources, including but not limited to market risk data compiled by third party sources as well as pricing and other regulatory inputs. See Note 1 "Significant Accounting Policies" to the consolidated financial statements for additional information on the ACA's risk adjustment program.

Other-Than-Temporary Impairments of Debt Securities

The Company regularly reviews its debt securities to determine whether a decline in fair value below the cost basis or carrying value is other-than-temporary. If a decline in fair value is considered other-than-temporary, the cost basis or carrying value of the debt security is written down. The write-down is then bifurcated into its credit and non-credit related components. The amount of the credit-related component is included in results of operations, and the amount of the non-credit related component is included in other comprehensive income, unless the Company intends to sell the debt security or it is more likely than not that it will be required to sell the debt security prior to its anticipated recovery of its amortized cost basis. The Company analyzes all facts and circumstances believed to be relevant for each investment when performing this analysis, in accordance with applicable accounting guidance.

Among the factors considered in evaluating whether a decline in fair value is other-than-temporary are whether the decline results from a change in the quality of the debt security itself, whether the decline results from a downward movement in the market as a whole, and the prospects for realizing the carrying value of the debt security based on the investment's current and short-term prospects for recovery. For unrealized losses determined to be the result of market conditions (for example, increasing interest rates and volatility due to conditions in the overall market) or industry-related events, the Company determines whether it intends to sell the debt security or if it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis. If either case is true, the Company recognizes an OTTI, and the cost basis/carrying amount of the debt security is written down to fair value.

The risks inherent in assessing the impairment of a debt security include the risk that market factors may differ from projections and the risk that facts and circumstances factored into the Company's assessment may change with the passage of time. Unexpected changes to market factors and circumstances that were not present in past reporting periods are among the factors that may result in a current period decision to sell debt securities that were not impaired in prior reporting periods.

Vendor Allowances and Purchase Discounts

Pharmacy Services Segment

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

Retail/LTC Segment

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

There have not been any material changes in the way the Company accounts for vendor allowances and purchase discounts during the past three years.

Inventory

Inventories are valued at the lower of cost or net realizable value using the weighted average cost method.

The value of ending inventory is reduced for estimated inventory losses that have occurred during the interim period between physical inventory counts. Physical inventory counts are taken on a regular basis in each store and a continuous cycle count process is the primary procedure used to validate the inventory balances on hand in each distribution center and mail facility to ensure that the amounts reflected in the accompanying consolidated financial statements are properly stated. The accounting for inventory contains uncertainty since management must use judgment to estimate the inventory losses that have occurred during the interim period between physical inventory counts. When estimating these losses, a number of factors are considered which include, but are not limited to, historical physical inventory results on a location-by-location basis and current physical inventory loss trends.

The total reserve for estimated inventory losses covered by this critical accounting policy was \$328 million as of December 31, 2018 . Although management believes there is sufficient current and historical information available to record reasonable estimates for estimated inventory losses, it is possible that actual results could differ. In order to help investors assess the aggregate risk, if any, associated with the inventory-related uncertainties discussed above, a ten percent (10%) pre-tax change in estimated inventory losses, which is a reasonably likely change, would increase or decrease the total reserve for estimated inventory losses by approximately \$33 million as of December 31, 2018 .

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

Goodwill and Identifiable Intangible Assets

Identifiable intangible assets

Identifiable intangible assets consist primarily of trademarks, trade names, customer contracts/relationships, covenants not to compete, technology, provider networks, value of business acquired and favorable leases. These intangible assets arise primarily from the determination of their respective fair market values at the date of acquisition. Amounts assigned to identifiable intangible assets, and their related useful lives, are derived from established valuation techniques and management estimates.

Recoverability of definite-lived intangible assets

The Company evaluates the recoverability of definite-lived intangible assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. These long-lived assets are grouped and evaluated for impairment at the lowest level at which individual cash flows can be identified. When evaluating these long-lived assets for potential impairment, the Company first compares the carrying amount of the asset group to the asset group's estimated future cash flows (undiscounted and without interest charges). If the estimated future cash flows are less than that carrying amount of the asset group, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the asset group to the asset group's estimated future cash flows (discounted and with interest charges). If required, an impairment loss is recorded for the portion of the asset group's carrying value that exceeds the asset group's estimated future cash flows (discounted and with interest charges).

The long-lived asset impairment loss calculation contains uncertainty since management must use judgment to estimate each asset group's future sales, profitability and cash flows. When preparing these estimates, the Company considers historical results and current operating trends and consolidated sales, profitability and cash flow results and forecasts. These estimates can be affected by a number of factors including, but not limited to, general economic and regulatory conditions, efforts of third party organizations to reduce their prescription drug costs and/or increased member co-payments, the continued efforts of competitors to gain market share and consumer spending patterns.

There were no material impairment losses for definite-lived intangible assets recognized in any of the three years ended December 31, 2018, 2017 or 2016.

Recoverability of indefinitely-lived intangible assets

Indefinitely-lived intangible assets are subject to annual impairment reviews, or more frequent reviews if events or circumstances indicate that their carrying value may not be recoverable. Indefinitely-lived intangible assets are tested by comparing the estimated fair value of the asset to its carrying value. If the carrying value of the asset exceeds its estimated fair value, an impairment loss is recognized and the asset is written down to its estimated fair value.

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

There were no material impairment losses recognized on indefinitely-lived intangible assets recognized in any of the three years ended December 31, 2018, 2017 or 2016.

Recoverability of goodwill

Goodwill represents the excess of amounts paid for acquisitions over the fair value of the net identifiable assets acquired. Goodwill is subject to annual impairment reviews, or more frequent reviews if events or circumstances indicate that the carrying value may not be recoverable. Goodwill is tested for impairment on a reporting unit basis. The impairment test is calculated by comparing the reporting unit's fair value with its net book value (or carrying amount), including goodwill. The fair value of the reporting units is estimated using a combination of a discounted cash flow method and a market multiple method. If the net book value (carrying amount) of the reporting unit exceeds its fair value, the reporting unit's goodwill is considered to be impaired and an impairment is recognized in an amount equal to the excess.

The determination of the fair value of the reporting units requires the Company to make significant assumptions and estimates. These assumptions and estimates primarily include, but are not limited to, the selection of appropriate peer group companies; control premiums and valuation multiples appropriate for acquisitions in the industries in which the Company competes;

discount rates; terminal growth rates; and forecasts of revenue, operating income, depreciation and amortization, capital expenditures and future working capital requirements. When determining these assumptions and preparing these estimates, the Company considers each reporting unit's historical results and current operating trends; consolidated revenues, profitability and cash flow results and forecasts; and industry trends. These estimates can be affected by a number of factors including, but not limited to, general economic and regulatory conditions, market capitalization, efforts of customers and payers to reduce costs including their prescription drug costs and/or increase member co-payments, the continued efforts of competitors to gain market share and consumer spending patterns.

2018 goodwill impairment tests

As discussed in Note 5 "Goodwill and Other Intangibles" to the consolidated financial statements, during 2018, the LTC reporting unit continued to experience industry wide challenges that have impacted management's ability to grow the business at the rate that was originally estimated when the Company acquired Omnicare and when the 2017 annual goodwill impairment test was performed. These challenges include lower client retention rates, lower occupancy rates in skilled nursing facilities, the deteriorating financial health of numerous skilled nursing facility customers which resulted in a number of customer bankruptcies in 2018, and continued facility reimbursement pressures. In June 2018, LTC management submitted its initial budget for 2019 and updated the 2018 annual forecast which showed a projected deterioration in the financial results for the remainder of 2018 and in 2019, which also caused management to update its long-term forecast beyond 2019. Based on these updated projections, management determined that there were indicators that the LTC reporting unit's goodwill may be impaired and, accordingly, management performed an interim goodwill impairment test as of June 30, 2018. The results of that interim impairment test showed that the fair value of the LTC reporting unit was lower than the carrying value, resulting in a \$3.9 billion pre-tax goodwill impairment charge in the second quarter of 2018. The fair value of the LTC reporting unit was determined using a combination of a discounted cash flow method and a market multiple method. In addition to the lower financial projections, higher risk-free interest rates and lower market multiples of peer group companies contributed to the amount of the second quarter 2018 goodwill impairment charge.

During the third quarter of 2018, the Company performed its required annual impairment tests of goodwill. The results of these impairment tests indicated that there was no impairment of goodwill. The results of the annual goodwill impairment tests showed the fair values of the Pharmacy Services and Retail Pharmacy reporting units exceeded their carrying values by significant margins and the fair value of the LTC reporting unit exceeded its carrying value by approximately 2%.

During the fourth quarter of 2018, the LTC reporting unit missed its forecast primarily due to operational issues and customer liquidity issues, including one significant customer bankruptcy. Additionally, LTC management submitted an updated final budget for 2019 which showed significant additional deterioration in the projected financial results for 2019 compared to the analyses performed in the second and third quarters of 2018 primarily due to continued industry and operational challenges, which also caused management to make further updates to its long-term forecast beyond 2019. The updated projections continue to reflect industry wide challenges including lower occupancy rates in skilled nursing facilities, the significant deterioration in the financial health of numerous skilled nursing facility customers and continued facility reimbursement pressures. Based on these updated projections, management determined that there were indicators that the LTC reporting unit's goodwill may be impaired and, accordingly, an interim goodwill impairment test was performed during the fourth quarter of 2018. The results of that impairment test showed that the fair value of the LTC reporting unit was lower than the carrying value, resulting in an additional \$2.2 billion goodwill impairment charge in the fourth quarter of 2018. In addition to the lower financial projections, lower market multiples of peer group companies also contributed to the amount of the fourth quarter 2018 goodwill impairment charge. The fair value of the LTC reporting unit was determined using a methodology consistent with the methodology described above for the analyses performed during the second and third quarters of 2018.

As of December 31, 2018, the remaining goodwill balance in the LTC reporting unit is approximately \$431 million.

Although the Company believes the financial projections used to determine the fair value of the LTC reporting unit in the fourth quarter of 2018 are reasonable and achievable, the LTC reporting unit may continue to face challenges that may affect the Company's ability to grow its business at the rate estimated when such goodwill impairment test was performed. These challenges and some of the key assumptions included in the Company's financial projections to determine the estimated fair value of the LTC reporting unit include client retention rates, occupancy rates in skilled nursing facilities, the financial health of skilled nursing facility customers, facility reimbursement pressures, the Company's ability to execute its senior living initiative, the Company's ability to make acquisitions and integrate those businesses into its LTC operations in an orderly manner, as well as the Company's ability to extract cost savings from labor productivity and other initiatives. The Company has made a number of additions and changes to its LTC management team to better respond to these challenges. The estimated fair value of the LTC reporting unit also is dependent on earnings multiples of market participants in the pharmacy industry, as well as the risk-free interest rate environment, which impacts the discount rate used in the discounted cash flow valuation method. If the Company

does not achieve its forecasts, it is reasonably possible in the near term that the goodwill of the LTC reporting unit could be deemed to be impaired again by a material amount.

2017 and 2016 goodwill impairment tests

The Company recorded \$181 million in goodwill impairment charges in 2017 related to the RxCrossroads reporting unit. During the third quarter of 2017, the Company performed its required annual impairment test of goodwill. The goodwill impairment tests showed that the fair values of the Pharmacy Services and Retail Pharmacy reporting units exceeded their carrying values by significant margins and the fair values of the LTC and RxCrossroads reporting units exceeded their carrying values by approximately 1% and 6%, respectively. On January 2, 2018, the Company sold its RxCrossroads reporting unit to McKesson Corporation for \$725 million .

The Company did not record any goodwill impairment charges during 2016 .

Health Care Costs Payable

At December 31, 2018 , 80% of health care costs payable are estimates of the ultimate cost of (i) services rendered to members but not yet reported to the Company and (ii) claims which have been reported to the Company but not yet paid (collectively, "IBNR"). Health care costs payable also include an estimate of the cost of services that will continue to be rendered after the financial statement date if the Company is obligated to pay for such services in accordance with contractual or regulatory requirements. The remainder of health care costs payable is primarily comprised of pharmacy and capitation payables, other amounts due to providers pursuant to risk sharing agreements and accruals for state assessments. The Company develops its estimate of IBNR using actuarial principles and assumptions that consider numerous factors. See Note 1 "Significant Accounting Policies" to the consolidated financial statements for additional information on the Company's reserving methodology.

The Company has considered the pattern of changes in its completion factors when determining the completion factors used in its estimates of IBNR as of December 31, 2018 . However, based on historical claim experience, it is reasonably possible that the Company's estimated weighted average completion factors may vary by plus or minus 16 basis points from the Company's assumed rates, which could impact health care costs payable by approximately plus or minus \$194 million pretax.

Management considers historical health care cost trend rates together with its knowledge of recent events that may impact current trends when developing estimates of current health care cost trend rates. When establishing reserves as of December 31, 2018 , the Company increased its assumed health care cost trend rates for the most recent three months by 3.5% from health care cost trend rates recently observed. However, based on historical claim experience, it is reasonably possible that the Company's estimated health care cost trend rates may vary by plus or minus 3.5% from the assumed rates, which could impact health care costs payable by plus or minus \$299 million pretax.

Income Taxes

Income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are established for any temporary differences between financial and tax reporting bases and are adjusted as needed to reflect changes in the enacted tax rates expected to be in effect when the temporary differences reverse. Such adjustments are recorded in the period in which changes in tax laws are enacted, regardless of when they are effective. Deferred tax assets are reduced, if necessary, by a valuation allowance to the extent future realization of those losses, deductions or other tax benefits is sufficiently uncertain. Significant judgment is required in determining the provision for income taxes and the related taxes payable and deferred tax assets and liabilities since, in the ordinary course of business, there are transactions and calculations where the ultimate tax outcome is uncertain. Additionally, the Company's tax returns are subject to audit by various domestic and foreign tax authorities that could result in material adjustments based on differing interpretations of the tax laws. Although management believes that its estimates are reasonable and are based on the best available information at the time the provision is prepared, actual results could differ from these estimates resulting in a final tax outcome that may be materially different from that which is reflected in the consolidated financial statements.

The tax benefit from an uncertain tax position is recognized only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. Interest and/or penalties related to uncertain tax positions are recognized in the income tax provision. Significant judgment is required in determining uncertain tax positions. The Company has established

accruals for uncertain tax positions using its judgment and adjusts these accruals, as warranted, due to changing facts and circumstances.

Business Combinations

The Company accounts for business combinations using the acquisition method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of the acquisition at their respective fair values. The excess of purchase price over the fair value of assets acquired and liabilities assumed is recorded as goodwill. Determining the fair value of identifiable assets, particularly intangible assets, and liabilities acquired also requires management to make estimates, which are based on all available information and in some cases assumptions with respect to the timing and amount of future revenues and expenses associated with an asset. The most critical assumptions used in determining the fair value of intangible assets include customer attrition, membership growth and revenue growth. In determining the estimated fair value for intangible assets, the Company typically utilizes the income approach, which discounts the projected future net cash flow using an appropriate discount rate that reflects the risks associated with such projected future cash flows. Determining the useful life of an intangible asset also requires judgment, as different types of intangible assets will have different useful lives and certain assets are considered to have indefinite useful lives.

New Accounting Pronouncements

See Note 1 “Significant Accounting Policies” to the consolidated financial statements for a description of new accounting pronouncements applicable to the Company.

Holders of Common Stock

As of February 19, 2019, there were 27,266 registered holders of the Company’s common stock according to the records maintained by the Company’s transfer agent.

Cautionary Statement Concerning Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 (the “Reform Act”) provides a safe harbor for forward-looking statements made by or on behalf of the Company. In addition, the Company and its representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in the Company’s filings with the United States Securities and Exchange Commission (the “SEC”) and in its reports to stockholders, press releases, webcasts, conference calls, meetings and other communications. Generally, the inclusion of the words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “project,” “should,” “will” and similar expressions identify statements that constitute forward-looking statements. All statements addressing operating performance of CVS Health Corporation or any subsidiary, events or developments that the Company projects, expects or anticipates will occur in the future, including statements relating to corporate strategy; revenue growth; adjusted revenue growth, earnings or earnings per common share growth; adjusted operating income or adjusted earnings per common share growth; free cash flow; debt ratings; inventory levels; inventory turn and loss rates; store development; relocations and new market entries; retail pharmacy business, sales results and/or trends and operations; PBM business, sales results and/or trends and operations; specialty pharmacy business, sales trends and operations; LTC pharmacy business, sales results and/or trends and operations; Health Care Benefits business, sales results and/or trends, medical cost trends, medical membership growth, medical benefit ratios and operations; the Company’s ability to attract or retain customers and clients; Medicare Part D competitive bidding, enrollment and operations; new product development; and the impact of industry and regulatory developments, as well as statements expressing optimism or pessimism about future results of operations or events, are forward-looking statements within the meaning of the Reform Act.

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

By their nature, all forward-looking statements involve risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements for a number of reasons as described in the Company's SEC filings, including those set forth in the Risk Factors section within the CVS Health Corporation's 2018 Annual Report on Form 10-K, and including, but not limited to:

- *Risks to our brand and reputation, the Aetna Acquisition, data governance risks, effectiveness of our talent management and alignment of talent to our business needs, and potential changes in public policy, laws and regulations present overarching risks to our enterprise in 2019 and beyond.*
- *Our brand and reputation are two of our most important assets; negative public perception of the industries in which we operate, or of our industries' or our practices, can adversely affect our businesses, results of operations, cash flows and prospects.*
- *Data governance failures can adversely affect our reputation, businesses and prospects. Our use and disclosure of members', customers' and other constituents' sensitive information is subject to complex regulations at multiple levels. We would be adversely affected if we or our business associates or other vendors fail to adequately protect members', customers' or other constituents' sensitive information.*
- *We face significant competition in attracting and retaining talented employees. Further, managing succession for, and retention of, key executives is critical to our success, and our failure to do so could adversely affect our future performance.*
- *We are subject to potential changes in public policy, laws and regulations, including reform of the United States health care system, that can adversely affect the markets for our products and services and our businesses, operations, results of operations, cash flows and prospects.*
- *Our enterprise strategy may not be an effective response to the changing dynamics in the industries in which we operate, or we may not be able to implement our strategy and related strategic projects.*
- *Efforts to reduce reimbursement levels and alter health care financing practices could adversely affect our businesses.*
- *Gross margins in the industries in which we operate may decline.*
- *Our results of operations are affected by the health of the economy in general and in the geographies we serve.*
- *We operate in a highly competitive business environment. Competitive and economic pressures may limit our ability to increase pricing to reflect higher costs or may force us to accept lower margins. If customers elect to self-insure, reduce benefits or adversely renegotiate or amend their agreements with us, our revenues and results of operations will be adversely affected. We may not be able to obtain appropriate pricing on new or renewal business.*
- *We may lose clients and/or fail to win new business. If we fail to compete effectively in the geographies and product areas in which we operate, including maintaining or increasing membership in our Health Care Benefits segment, our results of operations, financial condition and cash flows could be materially and adversely affected.*
- *We are exposed to risks relating to the solvency of our customers and of other insurers.*
- *We face risks relating to the market availability, pricing, suppliers and safety profiles of prescription drugs that we purchase and sell.*
- *We face risks related to the frequency and rate of the introduction and pricing of generic drugs and brand name prescription drug products.*
- *Possible changes in industry pricing benchmarks and drug pricing generally can adversely affect our PBM business.*
- *Product liability, product recall or personal injury issues could damage our reputation.*
- *We face challenges in growing our Medicare Advantage and Medicare Part D membership.*
- *We face challenges in growing our Medicaid membership, and expanding our Medicaid membership exposes us to additional risks.*
- *A change in our Health Care Benefits product mix may adversely affect our profit margins.*
- *We may not be able to accurately forecast health care and other benefit costs, which could adversely affect our Health Care Benefits segment's results of operations. There can be no assurance that the future health care and other benefit costs of our Insured Health Care Benefits products will not exceed our projections.*
- *A number of factors, many of which are beyond our control, contribute to rising health care and other benefit costs. If we are unable to satisfactorily manage our health care and other benefit costs, our Health Care Benefits segment's results of operations and competitiveness will be adversely affected.*
- *The reserves we hold for expected claims in our Insured Health Care Benefits products are based on estimates that involve an extensive degree of judgment and are inherently variable. Any reserve, including a premium deficiency reserve, may be insufficient. If actual claims exceed our estimates, our results of operations could be materially adversely affected, and our ability to take timely corrective actions to limit future costs may be limited.*
- *Extreme events, or the threat of extreme events, could materially increase our health care (including behavioral health) costs. We cannot predict whether or when any such events will occur.*
- *Legislative and regulatory changes could create significant challenges to our Medicare Advantage and Medicare Part D revenues and results of operations, and proposed changes to these programs could create significant additional challenges.*

Entitlement program reform, if it occurs, could have a material adverse effect on our businesses, operations and/or results of operations.

- *We may not be able to obtain adequate premium rate increases in our Insured Health Care Benefits products, which would have an adverse effect on our revenues, MBRs and results of operations and could magnify the adverse impact of increases in health care and other benefit costs and of ACA assessments, fees and taxes.*
- *Minimum MLR rebate requirements limit the level of margin we can earn in our Insured Health Care Benefits products while leaving us exposed to higher than expected medical costs. Challenges to our minimum MLR rebate methodology and/or reports could adversely affect our results of operations.*
- *Our business activities are highly regulated. Our Pharmacy Services, Medicare Advantage, Medicare Part D, Medicaid, dual eligible, dual eligible special needs plan, small group and certain other products are subject to particularly extensive and complex regulations. If we fail to comply with applicable laws and regulations, we could be subject to significant adverse regulatory actions or suffer brand and reputational harm which may have a material adverse effect on our businesses. Compliance with existing and future laws, regulations and/or judicial decisions may reduce our profitability and limit our growth.*
- *If our compliance or other systems and processes fail or are deemed inadequate, we may suffer brand and reputational harm and become subject to regulatory actions or litigation which could adversely affect our businesses, results of operations, cash flows and/or financial condition.*
- *Our litigation and regulatory risk profile are changing as a result of the Aetna Acquisition and as we offer new products and services and expand in business areas beyond our historical core businesses of Retail/LTC and Pharmacy Services.*
- *We routinely are subject to litigation and other adverse legal proceedings, including class actions and qui tam actions. Many of these proceedings seek substantial damages which may not be covered by insurance. These proceedings may be costly to defend, result in changes in our business practices, harm our brand and reputation and adversely affect our businesses and results of operations.*
- *We frequently are subject to regular and special governmental audits, investigations and reviews that could result in changes to our business practices and also could result in material refunds, fines, penalties, civil liabilities, criminal liabilities and other sanctions.*
- *We are subject to retroactive adjustments to and/or withholding of certain premiums and fees, including as a result of CMS RADV audits. We generally rely on health care providers to appropriately code claim submissions and document their medical records. If these records do not appropriately support our risk adjusted premiums, we may be required to refund premium payments to CMS and/or pay fines and penalties under the False Claims Act.*
- *Programs funded in whole or in part by the U.S. federal government account for a significant portion of our revenues. The U.S. federal government and our other government customers may reduce funding for health care or other programs, cancel or decline to renew contracts with us, or make changes that adversely affect the number of persons eligible for certain programs, the services provided to enrollees in such programs, our premiums and our administrative and health care and other benefit costs, any of which could have a material adverse effect on our businesses, results of operations and cash flows. In addition, an extended federal government shutdown or a delay by Congress in raising the federal government's debt ceiling could lead to a delay, reduction, suspension or cancellation of federal government spending and a significant increase in interest rates that could, in turn, have a material adverse effect on our businesses, results of operations and cash flows.*
- *Our results of operations may be adversely affected by changes in laws and policies governing employers and by union organizing activity.*
- *We must develop and maintain a relevant omni-channel experience for our retail customers.*
- *We must maintain and improve our relationships with our retail and specialty pharmacy customers and increase the demand for our products and services, including proprietary brands. If we fail to develop new products, differentiate our products from those of our competitors or demonstrate the value of our products to our customers and members, our ability to retain or grow our customer base may be adversely affected.*
- *In order to be competitive in the increasingly consumer-oriented marketplace for our health care products and services, we will need to develop and deploy consumer-friendly products and services and make investments in consumer engagement, reduce our cost structure and compete successfully with new entrants into our businesses. If we are unsuccessful, our future growth and profitability may be adversely affected.*
- *Our results of operations may be adversely affected if we are unable to contract with manufacturers, providers, suppliers and vendors on competitive terms and develop and maintain attractive networks with high quality providers.*
- *If our service providers fail to meet their contractual obligations to us or to comply with applicable laws or regulations, we may be exposed to brand and reputational harm, litigation or regulatory action. This risk is particularly high in our Medicare, Medicaid, dual eligible and dual eligible special needs plan programs.*
- *Continuing consolidation and integration among providers and other suppliers may increase our medical and other covered benefits costs, make it difficult for us to compete in certain geographies and create new competitors.*

- *We may experience increased medical and other benefit costs, litigation risk and customer and member dissatisfaction when providers that do not have contracts with us render services to our Health Care Benefits members.*
- *Customers, particularly large sophisticated customers, expect us to implement their contracts and onboard their employees and members efficiently and effectively. Failure to do so could adversely affect our reputation, businesses, results of operations, cash flows and prospects. If we or our vendors fail to provide our customers with quality service that meets their expectations, our ability to retain and grow our membership and customer base will be adversely affected.*
- *We are subject to payment-related risks that could increase our operating costs, expose us to fraud or theft, subject us to potential liability and disrupt our business operations.*
- *Our and our vendors' operations are subject to a variety of business continuity hazards and risks, any of which could interrupt our operations or otherwise adversely affect our performance and results of operations.*
- *We and our vendors have experienced cyber attacks. We can provide no assurance that we or our vendors will be able to detect, prevent or contain the effects of such attacks or other information security (including cybersecurity) risks or threats in the future.*
- *The failure or disruption of our information technology systems or the failure of our information technology infrastructure to support our businesses could adversely affect our reputation, businesses, results of operations and cash flows.*
- *Our business success and results of operations depend in part on effective information technology systems and on continuing to develop and implement improvements in technology. Pursuing multiple initiatives simultaneously could make this continued development and implementation significantly more challenging.*
- *Sales of our products and services are dependent on our ability to attract and motivate internal sales personnel and independent third-party brokers, consultants and agents. New distribution channels create new disintermediation risk. We may be subject to penalties or other regulatory actions as a result of the marketing practices of brokers and agents selling our products.*
- *We also face other risks that could adversely affect our businesses, results of operations, financial condition and/or cash flows, which include:*
 - *Failure of our corporate governance policies or procedures, for example significant financial decisions being made at an inappropriate level in our organization;*
 - *Inappropriate application of accounting principles or a significant failure of internal control over financial reporting, which could lead to a restatement of our results of operations and/or a deterioration in the soundness and accuracy of our reported results of operations; and*
 - *Failure to adequately manage our run-off businesses and/or our regulatory and financial exposure to businesses we have sold, including Aetna's divested standalone Medicare Part D, domestic group life insurance, group disability insurance and absence management businesses.*
- *Goodwill and other intangible assets could, in the future, become impaired.*
- *We would be adversely affected if we do not effectively deploy our capital. Downgrades or potential downgrades in our credit ratings, should they occur, could adversely affect our brand and reputation, businesses, cash flows, financial condition and results of operations.*
- *Adverse conditions in the U.S. and global capital markets can significantly and adversely affect the value of our investments in debt and equity securities, mortgage loans, alternative investments and other investments, our results of operations and/or our financial condition.*
- *We have limited experience in the insurance and managed health care industry, which may hinder our ability to achieve our objectives as a combined company.*
- *The Aetna Acquisition may not be accretive, and may be dilutive, to our earnings per share, which may adversely affect our stock price.*
- *We may fail to successfully combine the businesses and operations of CVS Health and Aetna to realize the anticipated benefits and cost savings of the Aetna Acquisition within the anticipated timeframe or at all, which could adversely affect our stock price.*
- *Our future results may be adversely impacted if we do not effectively manage our expanded operations following completion of the Aetna Acquisition.*
- *We may have difficulty attracting, motivating and retaining executives and other key employees following completion of the Aetna Acquisition.*
- *The Aetna integration process could disrupt our ongoing businesses and/or operations.*
- *Our indebtedness following completion of the Aetna Acquisition is substantially greater than our indebtedness on a stand-alone basis and greater than the combined indebtedness of CVS Health and Aetna existing prior to the announcement of the transaction. This increased level of indebtedness could adversely affect our business flexibility and increase our borrowing costs.*
- *We will continue to incur significant integration-related costs in connection with the Aetna Acquisition.*

- *We expect to continue to pursue acquisitions, joint ventures, strategic alliances and other inorganic growth opportunities, which may be unsuccessful, cause us to assume unanticipated liabilities, disrupt our existing businesses, be dilutive or lead us to assume significant debt, among other things.*
- *We may be unable to successfully integrate companies we acquire.*
- *As a result of our expanded international operations, we face political, legal and compliance, operational, regulatory, economic and other risks that we do not face or are more significant than in our domestic operations.*

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

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the Company's consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Company's consolidated financial statements. In order to ensure the Company's internal control over financial reporting is effective, management regularly assesses such control and did so most recently for its financial reporting as of December 31, 2018 .

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). This evaluation included review of the documentation, evaluation of the design effectiveness and testing of the operating effectiveness of controls. The Company's system of internal control over financial reporting is enhanced by periodic reviews by the Company's internal auditors, written policies and procedures and a written Code of Conduct adopted by the Company's Board of Directors, applicable to all employees of the Company. In addition, the Company has an internal Disclosure Committee, comprised of management from each functional area within the Company, which performs a separate review of disclosure controls and procedures. There are inherent limitations in the effectiveness of any system of internal control over financial reporting.

On November 28, 2018, the Company completed its acquisition of Aetna Inc. ("Aetna"). Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2018 excludes Aetna from that assessment as permitted under SEC rules. Aetna's operations are included in the Company's consolidated financial statements for the period from November 28, 2018 to December 31, 2018 and represented 21% of the Company's consolidated total assets as of December 31, 2018 and 3% of the Company's consolidated total revenues for the year ended December 31, 2018.

Based on management's assessment, management concluded that the Company's internal control over financial reporting is effective and provides reasonable assurance that assets are safeguarded and that the financial records are reliable for preparing financial statements as of December 31, 2018 .

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

February 28, 2019

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of CVS Health Corporation

Opinion on Internal Control over Financial Reporting

We have audited CVS Health Corporation's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, CVS Health Corporation (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Aetna Inc., which is included in the 2018 consolidated financial statements of the Company and constituted 21% of total assets as of December 31, 2018 and 3% of revenues for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Aetna Inc.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and our report dated February 28, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ Ernst & Young LLP
Boston, Massachusetts
February 28, 2019

Consolidated Statements of Operations

<i>In millions, except per share amounts</i>	For the Years Ended December 31,		
	2018	2017	2016
Revenues:			
Products	\$ 183,910	\$ 180,063	\$ 173,377
Premiums	8,184	3,558	3,069
Services	1,825	1,144	1,080
Net investment income	660	21	20
Total revenues	194,579	184,786	177,546
Operating costs:			
Cost of products sold	156,447	153,448	146,533
Benefit costs	6,594	2,810	2,179
Goodwill impairments	6,149	181	—
Operating expenses	21,368	18,809	18,448
Total operating costs	190,558	175,248	167,160
Operating income	4,021	9,538	10,386
Interest expense	2,619	1,062	1,078
Loss on early extinguishment of debt	—	—	643
Other expense (income)	(4)	208	28
Income before income tax provision	1,406	8,268	8,637
Income tax provision	2,002	1,637	3,317
Income (loss) from continuing operations	(596)	6,631	5,320
Loss from discontinued operations, net of tax	—	(8)	(1)
Net income (loss)	(596)	6,623	5,319
Net (income) loss attributable to noncontrolling interests	2	(1)	(2)
Net income (loss) attributable to CVS Health	\$ (594)	\$ 6,622	\$ 5,317
Basic earnings (loss) per share:			
Income (loss) from continuing operations attributable to CVS Health	\$ (0.57)	\$ 6.48	\$ 4.93
Loss from discontinued operations attributable to CVS Health	\$ —	\$ (0.01)	\$ —
Net income (loss) attributable to CVS Health	\$ (0.57)	\$ 6.47	\$ 4.93
Weighted average basic shares outstanding	1,044	1,020	1,073
Diluted earnings (loss) per share:			
Income (loss) from continuing operations attributable to CVS Health	\$ (0.57)	\$ 6.45	\$ 4.91
Loss from discontinued operations attributable to CVS Health	\$ —	\$ (0.01)	\$ —
Net income (loss) attributable to CVS Health	\$ (0.57)	\$ 6.44	\$ 4.90
Weighted average diluted shares outstanding	1,044	1,024	1,079
Dividends declared per share	\$ 2.00	\$ 2.00	\$ 1.70

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (Loss)

<i><u>In millions</u></i>	For the Years Ended December 31,		
	2018	2017	2016
Net income (loss)	\$ (596)	\$ 6,623	\$ 5,319
Other comprehensive income (loss), net of tax:			
Net unrealized investment gains	97	—	—
Foreign currency translation adjustments	(29)	(2)	38
Net cash flow hedges	330	(10)	2
Pension and other postretirement benefits	(124)	152	13
Other comprehensive income	274	140	53
Comprehensive income (loss)	(322)	6,763	5,372
Comprehensive (income) loss attributable to noncontrolling interests	2	(1)	(2)
Comprehensive income (loss) attributable to CVS Health	\$ (320)	\$ 6,762	\$ 5,370

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

<i>In millions, except per share amounts</i>	At December 31,	
	2018	2017
Assets:		
Cash and cash equivalents	\$ 4,059	\$ 1,696
Investments	2,522	111
Accounts receivable, net	17,631	13,181
Inventories	16,450	15,296
Other current assets	4,581	945
Total current assets	45,243	31,229
Long-term investments	15,732	112
Property and equipment, net	11,349	10,292
Goodwill	78,678	38,451
Intangible assets, net	36,524	13,630
Separate accounts assets	3,884	—
Other assets	5,046	1,417
Total assets	\$ 196,456	\$ 95,131
Liabilities:		
Accounts payable	\$ 8,925	\$ 8,863
Pharmacy claims and discounts payable	12,302	10,355
Health care costs payable	5,210	5
Policyholders' funds	2,939	—
Accrued expenses	10,711	6,581
Other insurance liabilities	1,937	23
Short-term debt	720	1,276
Current portion of long-term debt	1,265	3,545
Total current liabilities	44,009	30,648
Long-term debt	71,444	22,181
Deferred income taxes	7,677	2,996
Separate accounts liabilities	3,884	—
Other long-term insurance liabilities	8,119	334
Other long-term liabilities	2,780	1,277
Total liabilities	137,913	57,436
Commitments and contingencies (Note 16)		
Shareholders' equity:		
CVS Health shareholders' equity:		
Preferred stock, par value \$0.01: 0.1 shares authorized; none issued or outstanding	—	—
Common stock, par value \$0.01: 3,200 shares authorized; 1,720 shares issued and 1,295 shares outstanding at December 31, 2018 and 1,712 shares issued and 1,014 shares outstanding at December 31, 2017 and capital surplus	45,440	32,096
Treasury stock, at cost: 425 shares at December 31, 2018 and 698 shares at December 31, 2017	(28,228)	(37,796)
Retained earnings	40,911	43,556
Accumulated other comprehensive income (loss)	102	(165)
Total CVS Health shareholders' equity	58,225	37,691
Noncontrolling interests	318	4
Total shareholders' equity	58,543	37,695
Total liabilities and shareholders' equity	\$ 196,456	\$ 95,131

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

<i>In millions</i>	For the Years Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Cash receipts from customers	\$ 186,519	\$ 176,594	\$ 172,310
Cash paid for inventory and prescriptions dispensed by retail network pharmacies	(148,821)	(146,469)	(140,312)
Insurance benefits paid	(7,057)	(2,810)	(2,199)
Cash paid to other suppliers and employees	(17,234)	(15,348)	(15,478)
Interest and investment income received	644	21	20
Interest paid	(2,803)	(1,072)	(1,140)
Income taxes paid	(2,383)	(2,909)	(3,060)
Net cash provided by operating activities	8,865	8,007	10,141
Cash flows from investing activities:			
Proceeds from sales and maturities of investments	817	61	91
Purchases of investments	(692)	(137)	(80)
Purchases of property and equipment	(2,037)	(1,918)	(2,224)
Proceeds from sale-leaseback transactions	—	265	230
Acquisitions (net of cash acquired)	(42,226)	(1,181)	(524)
Proceeds from sale of subsidiary and other assets	832	—	—
Other	21	33	37
Net cash used in investing activities	(43,285)	(2,877)	(2,470)
Cash flows from financing activities:			
Net repayments of short-term debt	(556)	(598)	1,874
Proceeds from issuance of long-term debt	44,343	—	3,455
Repayments of long-term debt	(5,522)	—	(5,943)
Purchase of noncontrolling interest in subsidiary	—	—	(39)
Payment of contingent consideration	—	—	(26)
Derivative settlements	446	—	—
Repurchase of common stock	—	(4,361)	(4,461)
Dividends paid	(2,038)	(2,049)	(1,840)
Proceeds from exercise of stock options	242	329	296
Payments for taxes related to net share settlement of equity awards	(97)	(71)	(72)
Other	1	(1)	(5)
Net cash provided by (used in) financing activities	36,819	(6,751)	(6,761)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(4)	1	2
Net increase (decrease) in cash, cash equivalents and restricted cash	2,395	(1,620)	912
Cash, cash equivalents and restricted cash at the beginning of the period	1,900	3,520	2,608
Cash, cash equivalents and restricted cash at the end of the period	\$ 4,295	\$ 1,900	\$ 3,520

<i>In millions</i>	For the Years Ended December 31,		
	2018	2017	2016
Reconciliation of net income (loss) to net cash provided by operating activities:			
Net income (loss)	\$ (596)	\$ 6,623	\$ 5,319
Adjustments required to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	2,718	2,479	2,475
Goodwill impairments	6,149	181	—
Losses on settlements of defined benefit pension plans	—	187	—
Stock-based compensation	280	234	222
Loss on early extinguishment of debt	—	—	643
Deferred income taxes	87	(1,334)	18
Other noncash items	339	53	135
Change in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable, net	(1,139)	(941)	(243)
Inventories	(1,153)	(514)	(742)
Other assets	(3)	(338)	(8)
Accounts payable and pharmacy claims and discounts payable	2,489	1,710	2,189
Health care costs payable and other insurance liabilities	(471)	—	(19)
Other liabilities	165	(333)	152
Net cash provided by operating activities	<u>\$ 8,865</u>	<u>\$ 8,007</u>	<u>\$ 10,141</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

<i>In millions</i>	Number of shares outstanding		Attributable to CVS Health							
	Common Shares	Treasury Shares ⁽¹⁾	Common Stock and Capital Surplus ⁽²⁾		Treasury Stock ⁽¹⁾	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total CVS Health Shareholders' Equity	Non Controlling Interests	Total Equity
			\$	\$						
Balance at December 31, 2015	1,699	(598)	\$ 30,965	\$ (28,917)	\$ 35,506	\$ (358)	\$ 37,196	\$ 7	\$ 37,203	
Net income ⁽³⁾	—	—	—	—	5,317	—	5,317	1	5,318	
Other comprehensive income (Note 13)	—	—	—	—	—	53	53	—	53	
Stock option activity, stock awards, related tax benefits and other	6	—	525	—	—	—	525	—	525	
Purchase of treasury shares, net of ESPP issuances	—	(46)	145	(4,566)	—	—	(4,421)	—	(4,421)	
Common stock dividends	—	—	—	—	(1,840)	—	(1,840)	—	(1,840)	
Other decreases in noncontrolling interests	—	—	—	—	—	—	—	(4)	(4)	
Balance at December 31, 2016	1,705	(644)	31,635	(33,483)	38,983	(305)	36,830	4	36,834	
Net income	—	—	—	—	6,622	—	6,622	1	6,623	
Other comprehensive income (Note 13)	—	—	—	—	—	140	140	—	140	
Stock option activity, stock awards and other	7	—	461	—	—	—	461	—	461	
Purchase of treasury shares, net of ESPP issuances	—	(54)	—	(4,313)	—	—	(4,313)	—	(4,313)	
Common stock dividends	—	—	—	—	(2,049)	—	(2,049)	—	(2,049)	
Other decreases in noncontrolling interests	—	—	—	—	—	—	—	(1)	(1)	
Balance at December 31, 2017	1,712	(698)	32,096	(37,796)	43,556	(165)	37,691	4	37,695	
Adoption of new accounting standards (Note 1)	—	—	—	—	(6)	(7)	(13)	—	(13)	
Net loss	—	—	—	—	(594)	—	(594)	(2)	(596)	
Other comprehensive income (Note 13)	—	—	—	—	—	274	274	—	274	
Common shares issued to acquire Aetna	—	274	12,923	9,561	—	—	22,484	—	22,484	
Stock option activity, stock awards and other	8	—	421	—	—	—	421	—	421	
Purchase of treasury shares, net of ESPP issuances	—	(1)	—	7	—	—	7	—	7	
Common stock dividends	—	—	—	—	(2,045)	—	(2,045)	—	(2,045)	
Other decreases in noncontrolling interests	—	—	—	—	—	—	—	(13)	(13)	
Acquisition of noncontrolling interests	—	—	—	—	—	—	—	329	329	
Balance at December 31, 2018	1,720	(425)	\$ 45,440	\$ (28,228)	\$ 40,911	\$ 102	\$ 58,225	\$ 318	\$ 58,543	

(1) Treasury shares include 1 million shares held in trust for each of the years ended December 31, 2018, 2017 and 2016. Treasury stock includes \$29 million related to shares held in trust for the year ended December 31, 2018 and \$31 million related to shares held in trust for each of the years ended December 31, 2017 and 2016. See Note 1 "Significant Accounting Policies" for additional information.

(2) Common stock and capital surplus includes the par value of common stock of \$17 million as of December 31, 2018, 2017 and 2016.

(3) Net income attributable to noncontrolling interests for the year ended December 31, 2016 excludes \$1 million attributable to a redeemable noncontrolling interest. See Note 1 "Significant Accounting Policies" for additional information.

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Significant Accounting Policies

Description of business

CVS Health Corporation, together with its subsidiaries (collectively, “CVS Health,” the “Company,” “we,” “our” or “us”), is the nation’s premier health innovation company helping people on their path to better health. Whether in one of its pharmacies or through its health services and plans, CVS Health is pioneering a bold new approach to total health by making quality care more affordable, accessible, simple and seamless. CVS Health is community-based and locally focused, engaging consumers with the care they need when and where they need it. The Company has more than 9,900 retail locations, approximately 1,100 walk-in medical clinics, a leading pharmacy benefits manager with approximately 92 million plan members, a dedicated senior pharmacy care business serving more than one million patients per year, expanding specialty pharmacy services, and a leading stand-alone Medicare Part D prescription drug plan. CVS Health also serves an estimated 38 million people through traditional, voluntary and consumer-directed health insurance products and related services, including rapidly expanding Medicare Advantage offerings. The Company believes its innovative health care model increases access to quality care, delivers better health outcomes and lowers overall health care costs.

On November 28, 2018 (the “Aetna Acquisition Date”), the Company acquired Aetna Inc. (“Aetna”). As a result of the acquisition of Aetna (the “Aetna Acquisition”), the Company added the Health Care Benefits segment, which is the equivalent of the former Aetna Health Care segment. The Company now has four reportable segments: Pharmacy Services, Retail/LTC, Health Care Benefits and Corporate/Other, which are described below. The consolidated financial statements for the year ended December 31, 2018 reflect Aetna’s results subsequent to the Aetna Acquisition Date.

Pharmacy Services Segment (“PSS”)

PSS provides a full range of pharmacy benefit management (“PBM”) solutions, including plan design offerings and administration, formulary management, retail pharmacy network management services, mail order pharmacy, specialty pharmacy and infusion services, Medicare Part D services, clinical services, disease management services and medical spend management. PSS’ clients are primarily employers, insurance companies, unions, government employee groups, health plans, Medicare Part D prescription drug plans (“PDPs”), Medicaid managed care plans, plans offered on public health insurance exchanges (“Public Exchanges”) and private health insurance exchanges, other sponsors of health benefit plans and individuals throughout the United States. In addition, the Company is a national provider of drug benefits to eligible beneficiaries under the Medicare Part D prescription drug program. PSS operates retail specialty pharmacy stores, specialty mail order pharmacies, mail order dispensing pharmacies, compounding pharmacies and branches for infusion and enteral nutrition services.

Retail/LTC Segment (“RLS”)

RLS sells prescription drugs and a wide assortment of general merchandise, including over-the-counter drugs, beauty products, cosmetics and personal care products, provides health care services through its MinuteClinic[®] walk-in medical clinics and conducts long-term care (“LTC”) pharmacy operations, which distribute prescription drugs and provide related pharmacy consulting and other ancillary services to chronic care facilities and other care settings. Prior to January 2, 2018, RLS also provided commercialization services under the name RxCrossroads[®]. The Company divested its RxCrossroads subsidiary on January 2, 2018. As of December 31, 2018, RLS operated more than 9,900 retail locations, over 1,100 MinuteClinic[®] locations as well as online retail pharmacy websites, LTC pharmacies and onsite pharmacies.

Health Care Benefits Segment (“HCBS”)

HCBS is one of the nation’s leading diversified health care benefits providers, serving an estimated 38 million people as of December 31, 2018. HCBS has the information and resources to help members, in consultation with their health care professionals, make better informed decisions about their health care. HCBS offers a broad range of traditional, voluntary and consumer-directed health insurance products and related services, including medical, pharmacy, dental, behavioral health, medical management capabilities, Medicare Advantage and Medicare Supplement plans, PDPs, Medicaid health care management services, workers’ compensation administrative services and health information technology products and services. HCBS’ customers include employer groups, individuals, college students, part-time and hourly workers, health plans, health care providers (“providers”), governmental units, government-sponsored plans, labor groups and expatriates. The Company refers to insurance products (where it assumes all or a majority of the risk for medical and dental care costs) as “Insured” and administrative services contract products (where the plan sponsor assumes all or a majority of the risk of medical and dental care costs) as “ASC.”

Corporate/Other Segment

The Company presents the remainder of its financial results in the Corporate/Other segment, which consists of:

- Management and administrative expenses to support the overall operations of the Company, which include certain aspects of executive management and the corporate relations, legal, compliance, human resources, information technology and finance departments; and
- Products for which the Company no longer solicits or accepts new customers such as its large case pensions and long-term care insurance products.

Basis of Presentation

The accompanying consolidated financial statements of CVS Health Corporation and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries and variable interest entities (“VIEs”) for which the Company is the primary beneficiary. All material intercompany balances and transactions have been eliminated.

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents

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

Restricted cash

As of December 31, 2018 and 2017, the Company had \$230 million and \$190 million, respectively, of restricted cash held in a trust in an insurance captive to satisfy collateral requirements associated with the assignment of certain insurance policies. Such amounts are included in other assets on the consolidated balance sheets. Additionally, as of December 31, 2018 and 2017, the Company had \$6 million and \$14 million, respectively, of restricted cash held in escrow accounts in connection with certain recent acquisitions. Such amounts are included in other current assets on the consolidated balance sheets.

Investments

Debt Securities

Debt securities consist primarily of United States Treasury and agency securities, mortgage-backed securities, corporate and foreign bonds and other debt securities. Debt securities are classified as either current or long-term investments based on their contractual maturities unless the Company intends to sell an investment within the next twelve months, in which case it is classified as current within the consolidated balance sheets. Debt securities are classified as available for sale and are carried at fair value. See Note 4 “Fair Value” for additional information on how the Company estimates the fair value of these investments.

The cost for mortgage-backed and other asset-backed securities is adjusted for unamortized premiums and discounts, which are amortized using the interest method over the estimated remaining term of the securities, adjusted for anticipated prepayments.

Debt securities are regularly reviewed to determine whether a decline in fair value below the cost basis or carrying value is other-than-temporary. When a debt security is in an unrealized capital loss position, the Company monitors the duration and severity of the loss to determine if sufficient market recovery can occur within a reasonable period of time. If a decline in the

fair value of a debt security is considered other-than-temporary, the cost basis or carrying value of the debt security is written down. The write-down is then bifurcated into its credit and non-credit related components. The amount of the credit-related component is included in net income, and the amount of the non-credit related component is included in other comprehensive income/loss, unless the Company intends to sell the debt security or it is more likely than not that the Company will be required to sell the debt security prior to its anticipated recovery of the debt security's amortized cost basis. Interest is not accrued on debt securities when management believes the collection of interest is unlikely.

Equity Securities

Equity securities with readily available fair values are measured at fair value with changes in fair value recognized in net income.

Mortgage Loans

Mortgage loan investments on the consolidated balance sheets are valued at the unpaid principal balance, net of impairment reserves. A mortgage loan may be impaired when it is a problem loan (i.e., more than 60 days delinquent, in bankruptcy or in process of foreclosure), a potential problem loan (i.e., high probability of default) or a restructured loan. For impaired loans, a specific impairment reserve is established for the difference between the recorded investment in the loan and the estimated fair value of the collateral. The Company applies its loan impairment policy individually to all loans in its portfolio.

The impairment evaluation described above also considers characteristics and risk factors attributable to the aggregate portfolio. An additional allowance for loan losses is established if it is probable that there will be a credit loss on a group of similar mortgage loans. The following characteristics and risk factors are considered when evaluating if a credit loss is probable on a group of similar mortgage loans: loan-to-value ratios, property type (e.g., office, retail, apartment, industrial), geographic location, vacancy rates and property condition.

Full or partial impairments of loans are recorded at the time an event occurs affecting the legal status of the loan, typically at the time of foreclosure or upon a loan modification giving rise to forgiveness of debt. Interest income on a potential problem loan or restructured loan is accrued to the extent it is deemed to be collectible and the loan continues to perform under its original or restructured terms. Interest income on problem loans is recognized on a cash basis. Cash payments on loans in the process of foreclosure are treated as a return of principal. Mortgage loans with a maturity date or a committed prepayment date within twelve months are classified as current on the consolidated balance sheets.

Other Investments

Other investments consist primarily of the following:

- Private equity and hedge fund limited partnerships are accounted for using the equity method of accounting. Under this method, the carrying value of the investments are based on the value of the Company's equity ownership of the underlying investment funds provided by the general partner or manager of the investments, the financial statements of which generally are audited. As a result of the timing of the receipt of the valuation information provided by the fund managers, these investments are generally reported on up to a three month lag. The Company reviews investments for impairment at least quarterly and monitors their performance throughout the year through discussions with the administrators, managers and/or general partners. If the Company becomes aware of an impairment of a limited partnership's investments through its review or prior to receiving the limited partnership's financial statements at the financial statement date, an impairment will be recognized by recording a reduction in the carrying value of the limited partnership with a corresponding charge to net investment income.
- Investment real estate, which is carried on the consolidated balance sheets at depreciated cost, including capital additions, net of write-downs for other-than-temporary declines in fair value. Depreciation is calculated using the straight-line method based on the estimated useful life of each asset. If any real estate investment is considered held-for-sale, it is carried at the lower of its carrying value or fair value less estimated selling costs. The Company generally estimates fair value using a discounted future cash flow analysis in conjunction with comparable sales information. At the time of the sale, the difference between the sales price and the carrying value is recorded as a realized capital gain or loss.
- Privately-placed equity securities, which are carried on the consolidated balance sheets at cost less impairments, plus or minus subsequent adjustments for observable price changes. Additionally, as a member of the Federal Home Loan Bank of Boston ("FHLBB"), a subsidiary of the Company is required to purchase and hold shares of the FHLBB. These shares are restricted and carried at cost.

Net Investment Income

Net investment income on the Company's investments is recorded when earned and is reflected in net income in the consolidated results of operations (other than net investment income on assets supporting experience-rated products). Experience-rated products are products in the large case pensions business where the contract holder, not the Company, assumes investment and other risks, subject to, among other things, minimum guarantees provided by the Company. The effect of investment performance on experience-rated products is allocated to contract holders' accounts daily, based on the underlying investment experience and, therefore, does not impact the Company's net income in the consolidated results of operations (as long as the contract's minimum guarantees are not triggered). Net investment income on assets supporting large case pensions' experience-rated products is included in net investment income in the consolidated statements of operations and is credited to contract holders' accounts through a charge to benefit costs.

Realized capital gains and losses on investments (other than realized capital gains and losses on investments supporting experience-rated products) are included as a component of net investment income in the consolidated statements of operations. Realized capital gains and losses are determined on a specific identification basis. Purchases and sales of debt and equity securities and alternative investments are reflected on the trade date. Purchases and sales of mortgage loans and investment real estate are reflected on the closing date.

Realized capital gains and losses on investments supporting large case pensions' experience-rated products are not included in realized capital gains and losses in the consolidated statements of operations and instead are credited directly to contract holders' accounts. The contract holders' accounts are reflected in policyholders' funds on the consolidated balance sheets.

Unrealized capital gains and losses on investments (other than unrealized capital gains and losses on investments supporting experience-rated products) are reflected in shareholders' equity, net of tax, as a component of accumulated other comprehensive income. Unrealized capital gains and losses on investments supporting large case pensions' experience-rated products are credited directly to contract holders' accounts, which are reflected in policyholders' funds on the consolidated balance sheets.

Derivative Financial Instruments

The Company uses derivative financial instruments in order to manage interest rate and foreign exchange risk and credit exposure. The Company's use of these derivatives is generally limited to hedging risk and has principally consisted of using interest rate swaps, treasury rate locks, forward contracts, futures contracts, warrants, put options and credit default swaps.

Accounts Receivable

Accounts receivable are stated net of allowances for doubtful accounts, customer credit allowances, contractual allowances and estimated terminations. Accounts receivable, net consists of the following at December 31 :

<i><u>In millions</u></i>	2018	2017
Trade receivables	\$ 6,896	\$ 7,895
Vendor and manufacturer receivables	7,655	5,109
Premium receivables	2,259	31
Other receivables	821	146
Total accounts receivable, net	<u>\$ 17,631</u>	<u>\$ 13,181</u>

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

<i><u>In millions</u></i>	2018	2017	2016
Beginning balance	\$ 307	\$ 286	\$ 161
Additions charged to bad debt expense	256	177	221
Write-offs charged to allowance	(70)	(156)	(96)
Ending balance	<u>\$ 493</u>	<u>\$ 307</u>	<u>\$ 286</u>

Inventories

Inventories are valued at the lower of cost or net realizable value using the weighted average cost method. Physical inventory counts are taken on a regular basis in each retail store and LTC pharmacy and a continuous cycle count process is the primary procedure used to validate the inventory balances on hand in each distribution center and mail facility to ensure that the amounts reflected in the accompanying consolidated financial statements are properly stated. During the interim period between physical inventory counts, the Company accrues for anticipated physical inventory losses on a location-by-location basis based on historical results and current trends.

Reinsurance Recoverables

The Company utilizes reinsurance agreements primarily to reduce its required capital and to facilitate the acquisition or disposition of certain insurance contracts. Ceded reinsurance agreements permit the Company to recover a portion of its losses from reinsurers, although they do not discharge the Company's primary liability as the direct insurer of the risks reinsured. Failure of reinsurers to indemnify the Company could result in losses; however, the Company does not expect charges for unrecoverable reinsurance to have a material effect on its consolidated results of operations or financial condition. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of its reinsurers. At December 31, 2018, the Company's reinsurance recoverables consisted primarily of amounts due from third parties that are rated consistent with companies that are considered to have the ability to meet their obligations. Reinsurance recoverables are recorded as other current assets or other assets on the consolidated balance sheets.

Health Care Contract Acquisition Costs

Insurance products included in the Health Care Benefits and Pharmacy Services segments are cancelable by either the customer or the member monthly upon written notice. Acquisition costs related to prepaid health care and health indemnity contracts are generally expensed as incurred. Acquisition costs for certain long-duration insurance contracts are deferred and are recorded as other current assets or other assets on the consolidated balance sheets and are amortized over the estimated life of the contracts. The amortization of deferred acquisition costs is recorded in operating expenses in the consolidated statements of operations. At December 31, 2018, the balance of deferred acquisition costs was \$22 million, comprised primarily of commissions paid on Medicare Supplement products within the Health Care Benefits segment.

Property and Equipment

Property and equipment is reported at historical cost, net of accumulated depreciation. Property, equipment and improvements to leased premises are depreciated using the straight-line method over the estimated useful lives of the assets, or when applicable, the term of the lease, whichever is shorter. Estimated useful lives generally range from 5 to 40 years for buildings, building improvements and leasehold improvements and 3 to 10 years for fixtures, equipment and internally developed software. Repair and maintenance costs are charged directly to expense as incurred. Major renewals or replacements that substantially extend the useful life of an asset are capitalized and depreciated. Application development stage costs for significant internally developed software projects are capitalized and depreciated.

Property and equipment consists of the following at December 31 :

<i>In millions</i>	2018	2017
Land	\$ 1,872	\$ 1,707
Building and improvements	3,785	3,343
Fixtures and equipment	13,028	11,963
Leashold improvements	5,384	4,793
Software	2,800	2,484
Total property and equipment	<u>26,869</u>	<u>24,290</u>
Accumulated depreciation and amortization	<u>(15,520)</u>	<u>(13,998)</u>
Property and equipment, net	<u>\$ 11,349</u>	<u>\$ 10,292</u>

The amount of property and equipment under capital leases at December 31 is as follows:

<i>In millions</i>	2018	2017
Property and equipment under capital leases	\$ 582	\$ 588
Accumulated amortization of property and equipment under capital leases	(163)	(140)
Property and equipment under capital leases, net	<u>\$ 419</u>	<u>\$ 448</u>

Depreciation expense (which includes the amortization of property and equipment under capital leases) totaled \$1.7 billion in each of the years ended December 31, 2018, 2017 and 2016.

Goodwill

The Company accounts for business combinations using the acquisition method of accounting, which requires the excess cost of an acquisition over the fair value of net assets acquired and identifiable intangible assets to be recorded as goodwill. Goodwill is not amortized, but is subject to impairment reviews annually, or more frequently if necessary. When evaluating goodwill for potential impairment, the Company compares the fair value of its reporting units to their respective carrying amounts. The Company estimates the fair value of its reporting units using a combination of a discounted cash flow method and a market multiple method. If the carrying amount of a reporting unit exceeds its estimated fair value, an impairment loss is recognized in an amount equal to that excess. See Note 5 “Goodwill and Other Intangibles” for additional information about goodwill and goodwill impairments.

Intangible Assets

The Company’s definite-lived intangible assets are amortized over their estimated useful-life based upon the pattern of future cash flows attributable to the asset. Other than value of business acquired (“VOBA”), definite-lived intangible assets are amortized using the straight-line method. VOBA is amortized over the expected life of the acquired contracts in proportion to estimated premiums. The Company groups and evaluates definite-lived intangible assets for impairment at the lowest level at which individual cash flows can be identified whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If indicators of impairment are present, the Company first compares the carrying amount of the asset group to the estimated future cash flows associated with the asset group (undiscounted and without interest charges). If the estimated future cash flows used in this analysis are less than the carrying amount of the asset group, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the asset group to the asset group’s estimated future cash flows (discounted and with interest charges). If required, an impairment loss is recorded for the portion of the asset group’s carrying value that exceeds the asset group’s estimated future cash flows (discounted and with interest charges). There were no material impairment losses recognized on definite-lived intangible assets in any of the three years ended December 31, 2018, 2017 or 2016.

Indefinitely-lived intangible assets are not amortized but are tested for impairment annually, or more frequently if necessary. Indefinitely-lived intangible assets are tested for impairment by comparing the estimated fair value of the asset to its carrying value. The Company estimates the fair value of its indefinitely-lived trademarks using the relief from royalty method under the income approach. If the carrying value of the asset exceeds its estimated fair value, an impairment loss is recognized, and the asset is written down to its estimated fair value. There were no impairment losses recognized on indefinitely-lived intangible assets in any of the three years ended December 31, 2018, 2017 or 2016.

See Note 5 “Goodwill and Other Intangibles” for additional information about intangible assets.

Separate Accounts

Separate Accounts assets and liabilities related to large case pensions products represent funds maintained to meet specific objectives of contract holders who bear the investment risk. These assets and liabilities are carried at fair value. Net investment income (including net realized capital gains and losses) accrue directly to such contract holders. The assets of each account are legally segregated and are not subject to claims arising from the Company’s other businesses. Deposits, withdrawals and net investment income (including net realized and net unrealized capital gains and losses) on Separate Accounts assets are not reflected in the consolidated statements of operations or cash flows. Management fees charged to contract holders are included in services revenue and recognized over the period earned.

Health Care Costs Payable

Health care costs payable consist principally of unpaid fee-for-service medical, dental and pharmacy claims, capitation costs, other amounts due to health care providers pursuant to risk-sharing arrangements primarily related to the Health Care Benefits segment's Insured Commercial, Medicare and Medicaid products and accruals for state assessments. Unpaid health care claims include an estimate of payments the Company will make for (i) services rendered to the Company's Insured members but not yet reported to the Company and (ii) claims which have been reported to the Company but not yet paid, each as of the financial statement date (collectively, "IBNR"). Health care costs payable also include an estimate of the cost of services that will continue to be rendered after the financial statement date if the Company is obligated to pay for such services in accordance with contractual or regulatory requirements. Such estimates are developed using actuarial principles and assumptions which consider, among other things, historical and projected claim submission and processing patterns, assumed and historical medical cost trends, historical utilization of medical services, claim inventory levels, changes in Insured membership and product mix, seasonality and other relevant factors. The Company reflects changes in these estimates in benefit costs in the consolidated results of operations in the period they are determined. Capitation costs represent contractual monthly fees paid to participating physicians and other medical providers for providing medical care, regardless of the volume of medical services provided to the Insured member. Amounts due under risk-sharing arrangements are based on the terms of the underlying contracts with the providers and consider claims experience under the contracts through the financial statement date.

The Company develops its estimate of IBNR using actuarial principles and assumptions that consider numerous factors. Of those factors, the Company considers the analysis of historical and projected claim payment patterns (including claims submission and processing patterns) and the assumed health care cost trend rate (the year-over-year change in per member per month health care costs) to be the most critical assumptions. In developing its IBNR estimate, the Company consistently applies these actuarial principles and assumptions each period, with consideration to the variability of related factors. There have been no significant changes to the methodologies or assumptions used to develop the Company's estimate of IBNR from the Aetna Acquisition Date through December 31, 2018 .

The Company analyzes historical claim payment patterns by comparing claim incurred dates (i.e., the date services were provided) to claim payment dates to estimate "completion factors." The Company uses completion factors predominantly to estimate the ultimate cost of claims incurred more than three months before the financial statement date. The Company estimates completion factors by aggregating claim data based on the month of service and month of claim payment and estimating the percentage of claims incurred for a given month that are complete by each month thereafter. For any given month, substantially all claims are paid within six months of the date of service, but it can take up to 48 months or longer after the date of service before all of the claims are completely resolved and paid. These historically-derived completion factors are then applied to claims paid through the financial statement date to estimate the ultimate claim cost for a given month's incurred claim activity. The difference between the estimated ultimate claim cost and the claims paid through the financial statement date represents the Company's estimate of claims remaining to be paid as of the financial statement date and is included in the Company's health care costs payable. The completion factors the Company uses reflect judgments and possible adjustments based on data such as claim inventory levels, claim submission and processing patterns and, to a lesser extent, other factors such as changes in health care cost trend rates, changes in Insured membership and changes in product mix. If claims are submitted or processed on a faster (slower) pace than prior periods, the actual claims may be more (less) complete than originally estimated using the Company's completion factors, which may result in reserves that are higher (lower) than the ultimate cost of claims.

Because claims incurred within three months before the financial statement date are less mature, the Company uses a combination of historically-derived completion factors and the assumed health care cost trend rate to estimate the ultimate cost of claims incurred for these months. The Company applies its actuarial judgment and places a greater emphasis on the assumed health care cost trend rate for the most recent claim incurred dates as these months may be influenced by seasonal patterns and changes in membership and product mix.

The Company's health care cost trend rate is affected by changes in per member utilization of medical services as well as changes in the unit cost of such services. Many factors influence the health care cost trend rate, including the Company's ability to manage benefit costs through product design, negotiation of favorable provider contracts and medical management programs, as well as the mix of the Company's business. The health status of the Company's Insured members, aging of the population and other demographic characteristics, advances in medical technology and other factors continue to contribute to rising per member utilization and unit costs. Changes in health care practices, inflation, new technologies, increases in the cost of prescription drugs (including specialty pharmacy drugs), direct-to-consumer marketing by pharmaceutical companies, clusters of high-cost cases, claim intensity, changes in the regulatory environment, health care provider or member fraud and numerous other factors also contribute to the cost of health care and the Company's health care cost trend rate.

For each reporting period, the Company uses an extensive degree of judgment in the process of estimating its health care costs payable. As a result, considerable variability and uncertainty is inherent in such estimates, particularly with respect to claims with claim incurred dates of three months or less before the financial statement date; and the adequacy of such estimates is highly sensitive to changes in assumed completion factors and the assumed health care cost trend rates. For each reporting period the Company recognizes the actuarial best estimate of health care costs payable considering the potential volatility in assumed completion factors and health care cost trend rates, as well as other factors. The Company believes its estimate of health care costs payable is reasonable and adequate to cover its obligations at December 31, 2018; however, actual claim payments may differ from the Company's estimates. A worsening (or improvement) of the Company's health care cost trend rates or changes in completion factors from those that the Company assumed in estimating health care costs payable at December 31, 2018 would cause these estimates to change in the near term, and such a change could be material.

Each quarter, the Company re-examines previously established health care costs payable estimates based on actual claim payments for prior periods and other changes in facts and circumstances. Given the extensive degree of judgment in this estimate, it is possible that the Company's estimates of health care costs payable could develop either favorably (that is, its actual benefit costs for the period were less than estimated) or unfavorably. The changes in the Company's estimate of health care costs payable may relate to a prior quarter, prior year or earlier periods. For a roll forward of the Company's health care costs payable, see Note 7 "Health Care Costs Payable." The Company's reserving practice is to consistently recognize the actuarial best estimate of its ultimate liability for health care costs payable.

Other Insurance Liabilities

Unpaid claims

Unpaid claims consist primarily of reserves associated with certain short-duration group disability and term life insurance contracts, including an estimate for IBNR as of the financial statement date. Reserves associated with certain short-duration group disability and term life insurance contracts are based upon the Company's estimate of the present value of future benefits, which is based on assumed investment yields and assumptions regarding mortality, morbidity and recoveries from the United States Social Security Administration. The Company develops its estimate of IBNR using actuarial principles and assumptions which consider, among other things, contractual requirements, claim incidence rates, claim recovery rates, seasonality and other relevant factors. The Company discounts certain claim liabilities related to group long-term disability and life insurance waiver of premium contracts. The discount rates generally reflect the Company's expected investment returns for the investments supporting all incurrence years of these liabilities. The discount rates for retrospectively-rated contracts are set at contractually specified levels. The Company's estimates of unpaid claims are subject to change due to changes in the underlying experience of the insurance contracts, changes in investment yields or other factors, and these changes are recorded in current and future benefits in the consolidated statements of operations in the period they are determined. The Company estimates its reserve for claims IBNR for life products largely based on completion factors. The completion factors used are based on the Company's historical experience and reflect judgments and possible adjustments based on data such as claim inventory levels, claim payment patterns, changes in business volume and other factors. If claims are submitted or processed on a faster (slower) pace than historical periods, the actual claims may be more (less) complete than originally estimated using completion factors, which may result in reserves that are higher (lower) than required to cover future life benefit payments. There have been no significant changes to the methodologies or assumptions used to develop the Company's estimate of IBNR from the Aetna Acquisition Date through December 31, 2018. As of December 31, 2018, unpaid claims balances of \$816 million and \$1.9 billion were recorded in other insurance liabilities and other long-term insurance liabilities, respectively.

Substantially all life and disability insurance liabilities have been fully ceded to unrelated third parties through indemnity reinsurance agreements; however, the Company remains directly obligated to the policyholders.

Future policy benefits

Future policy benefits consist primarily of reserves for limited payment pension and annuity contracts, long-duration group life and long-term care insurance contracts. Reserves for limited payment pension and annuity contracts are computed using actuarial principles that consider, among other things, assumptions reflecting anticipated mortality, retirement, expense and interest rate experience. Such assumptions generally vary by plan, year of issue and policy duration. Assumed interest rates on such contracts ranged from 3.5% to 11.3% from the Aetna Acquisition Date through December 31, 2018. The Company periodically reviews mortality assumptions against both industry standards and its experience. Reserves for long-duration long-term care contracts represent the Company's estimate of the present value of future benefits to be paid to or on behalf of policyholders less the present value of future net premiums. The assumed interest rate on such contracts was 5.1% from the Aetna Acquisition Date through December 31, 2018. The Company's estimate of the present value of future benefits under such contracts is based upon mortality, morbidity and interest rate assumptions. As of December 31, 2018, future policy benefits

balances of \$536 million and \$6.2 billion were recorded in other insurance liabilities and other long-term insurance liabilities, respectively.

Premium Deficiency Reserves

The Company evaluates its insurance contracts to determine if it is probable that a loss will be incurred. A premium deficiency loss is recognized when it is probable that expected future claims, including maintenance costs (for example, direct costs such as claim processing costs), will exceed existing reserves plus anticipated future premiums and reinsurance recoveries. Anticipated investment income is considered in the calculation of premium deficiency losses for short-duration contracts. For purposes of determining premium deficiency losses, contracts are grouped consistent with the Company's method of acquiring, servicing and measuring the profitability of such contracts. The Company established a premium deficiency reserve of \$16 million as of December 31, 2018 related to Medicaid products in the Health Care Benefits segment.

Policyholders' Funds

Policyholders' funds consist primarily of reserves for pension and annuity investment contracts and customer funds associated with certain health contracts. Reserves for such contracts are equal to cumulative deposits less withdrawals and charges plus credited interest thereon, net of experience-rated adjustments. From the Aetna Acquisition Date through December 31, 2018, interest rates for pension and annuity investment contracts ranged from 3.5% to 13.4%. Reserves for contracts subject to experience rating reflect the Company's rights as well as the rights of policyholders and plan participants. The Company also holds funds for health savings accounts ("HSAs") on behalf of members associated with high deductible health plans. These amounts are held to pay for qualified health care expenses incurred by these members. The HSA balances were approximately \$2.1 billion at December 31, 2018 and are reflected in other current assets with a corresponding liability in policyholder funds.

Policyholders' Funds liabilities that are expected to be paid within twelve months from the balance sheet date are classified as current on the consolidated balance sheets. Policyholders' Funds liabilities that are expected to be paid greater than twelve months from the balance sheet date are included in other long-term liabilities on the consolidated balance sheets.

Self-Insurance Liabilities

The Company is self-insured for certain losses related to general liability, workers' compensation and auto liability. The Company obtains third party insurance coverage to limit exposure from these claims. The Company is also self-insured for certain losses related to health and medical liabilities. The Company's self-insurance accruals, which include reported claims and claims incurred but not reported, are calculated using standard insurance industry actuarial assumptions and the Company's historical claims experience. At December 31, 2018 and 2017, self-insurance liabilities totaled \$865 million and \$696 million, respectively, and were recorded as accrued expenses on the consolidated balance sheets.

Facility Opening and Closing Costs

New facility opening costs, other than capital expenditures, are charged directly to expense when incurred. When the Company closes a facility, the present value of estimated unrecoverable costs, including the remaining lease obligation less estimated sublease income and the book value of abandoned property and equipment, are charged to expense.

In December 2016, the Company announced an enterprise streamlining initiative designed to reduce costs and enhance operating efficiencies to allow the Company to be more competitive in the current health care environment. During the year ended December 31, 2017, in connection with that enterprise streamlining initiative, the Company closed 71 retail stores and recorded charges of \$215 million within operating expenses in the Retail/LTC segment. The charges are primarily comprised of provisions for the present value of noncancelable lease obligations. The noncancelable lease obligations associated with stores closed during the year ended December 31, 2017 extend through the year 2039. During the year ended December 31, 2018, the Company did not recognize any significant charges related to facility closing costs.

The long-term portion of the lease obligations associated with all outstanding facility closings was \$269 million and \$306 million as of December 31, 2018 and 2017, respectively, and was recorded in other long-term liabilities on the consolidated balance sheets.

Contingent Consideration

In December 2015, the Company acquired the pharmacy and clinic businesses of Target for approximately \$1.9 billion , plus contingent consideration of up to \$60 million based on future prescription growth over a three year period through December 31, 2019. As of December 31, 2018, no liability for any potential contingent consideration has been recorded based on historical and projected prescription growth through 2019.

Redeemable Noncontrolling Interest

As a result of the acquisition of Omnicare, Inc. (“Omnicare”) in 2015, the Company obtained a 73% ownership interest in a limited liability company (“LLC”). Due to the change in control in Omnicare, the noncontrolling member of the LLC had the contractual right to put its membership interest to the Company at fair value. Consequently, the noncontrolling interest in the LLC was recorded as a redeemable noncontrolling interest at fair value. During 2016, the noncontrolling member of the LLC exercised its option to sell its ownership interest and the Company purchased the noncontrolling interest in the LLC for approximately \$39 million .

Below is a summary of the changes in redeemable noncontrolling interest for the year ended December 31, 2016 :

<u>In millions</u>	
Beginning balance	\$ 39
Net income attributable to noncontrolling interest	1
Distributions	(2)
Purchase of noncontrolling interest	(39)
Reclassification to capital surplus in connection with purchase of noncontrolling interest	1
Ending balance	<u>\$ —</u>

Foreign Currency Translation and Transactions

For local currency functional currency, (i) assets and liabilities are translated at end-of-period exchange rates, (ii) revenues and expenses are translated at average exchange rates in effect during the period and (iii) equity is translated at historical exchange rates. The resulting cumulative translation adjustments are included as a component of accumulated other comprehensive income (loss).

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

Gains and losses from foreign currency transactions and the effects of foreign currency remeasurements were not material in any of the periods presented.

Revenue Recognition

The following is a discussion of the Company’s revenue recognition policies by segment under the new revenue recognition accounting standard. See “New accounting pronouncements recently adopted - Revenue from Contracts with Customers” below for further discussion regarding the adoption of the new revenue recognition accounting standard. The new revenue recognition accounting standard does not relate to contracts within the scope of *Accounting Standards Codification 944 Financial Services - Insurance* . As a result, the majority of revenues within the Health Care Benefits segment and certain revenues within the Pharmacy Services segment are not within the scope of the new accounting standard.

Pharmacy Services Segment

PSS sells prescription drugs directly through its mail service dispensing pharmacies and indirectly through the Company’s retail pharmacy network. The Company’s pharmacy benefit arrangements are accounted for in a manner consistent with a master supply arrangement as there are no contractual minimum volumes and each prescription is considered a separate purchasing decision and distinct performance obligation transferred at a point in time. PBM services performed in connection with each

prescription claim are considered part of a single performance obligation which culminates in the dispensing of prescription drugs.

The Company recognizes revenue using the gross method at the contract price negotiated with its clients when the Company has concluded it controls the prescription drug before it is transferred to the client plan members. The Company controls prescriptions dispensed indirectly through its retail pharmacy network because it has separate contractual arrangements with those pharmacies, has discretion in setting the price for the transaction and assumes primary responsibility for fulfilling the promise to provide prescription drugs to its client plan members while also performing the related PBM services.

Revenues include (i) the portion of the price the client pays directly to PSS, net of any discounts earned on brand name drugs or other discounts and refunds paid back to the client (see “Drug Discounts” and “Guarantees” below), (ii) the United States Centers for Medicare & Medicaid Services (“CMS”) subsidized portion of prescription drugs dispensed to the Company’s Silverscript PDP members, (iii) the price paid to PSS by client plan members for mail order prescriptions and the price paid to retail network pharmacies by client plan members for retail prescriptions (“Retail Co-Payments”), and (iv) claims based administrative fees for retail pharmacy network contracts. Sales taxes are not included in revenue.

The Company recognizes revenue when control of the prescription drugs is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those prescription drugs. The following revenue recognition policies have been established for PSS:

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

For contracts under which PSS acts as an agent or does not control the prescription drugs prior to transfer to the client, revenue is recognized using the net method.

Drug discounts

PSS records revenue net of manufacturers’ rebates earned by its clients based on their plan members’ utilization of brand-name formulary drugs. PSS estimates these rebates at period-end based on actual and estimated claims data and its estimates of the manufacturers’ rebates earned by its clients. The estimates are based on the best available data at period-end and recent history for the various factors that can affect the amount of rebates due to the client. PSS adjusts its rebates payable to clients to the actual amounts paid when these rebates are paid or as significant events occur. Any cumulative effect of these adjustments is recorded against revenues as identified. Adjustments generally result from contract changes with clients or manufacturers that have retroactive rebate adjustments, differences between the estimated and actual product mix subject to rebates, or whether the brand name drug was included in the applicable formulary. The effect of adjustments between estimated and actual manufacturers’ rebate amounts has not been material to the Company’s results of operations or financial condition.

Guarantees

PSS also adjusts revenues for refunds owed to the client resulting from pricing guarantees and performance against defined service and performance metrics. The inputs to these estimates are not subject to a high degree of subjectivity or volatility. The effect of adjustments between estimated and actual pricing and performance refund amounts has not been material to the Company’s results of operations or financial condition.

Medicare Part D

PSS’ revenues include insurance premiums earned by the PDP, which are determined based on the PDP’s annual bid and related contractual arrangements with CMS. The insurance premiums include a beneficiary premium, which is the responsibility of the PDP member, and can be subsidized by CMS in the case of low-income members, and a direct premium paid by CMS. Premiums collected in advance are initially recorded within other insurance liabilities and are then recognized ratably as revenue over the period in which members are entitled to receive benefits.

PSS’ revenues also include a risk-sharing feature of the Medicare Part D program design referred to as the risk corridor. The Company estimates variable consideration in the form of amounts payable to, or receivable from, CMS under the risk corridor,

and adjusts revenue based on calculations of additional subsidies to be received from or owed to CMS at the end of the reporting year.

In addition to Medicare Part D premiums, PSS receives additional payments each month from CMS related to catastrophic reinsurance, low-income cost sharing subsidies and coverage gap benefits. If the subsidies received differ from the amounts earned from actual prescriptions transferred, the difference is recorded in either accounts receivable, net or accrued expenses.

Retail/LTC Segment

Retail Pharmacy

The Company's retail drugstores recognize revenue at the time the customer takes possession of the merchandise. For pharmacy sales, each prescription claim is its own arrangement with the customer and is a performance obligation, separate and distinct from other prescription claims under other retail network arrangements. Revenues are adjusted for refunds owed to the third party payer for pricing guarantees and performance against defined value-based service and performance metrics. The inputs to these estimates are not subject to a high degree of subjectivity or volatility. The effect of adjustments between estimated and actual pricing and performance refund amounts has not been material to the Company's results of operations or financial condition.

Revenue from Company gift cards purchased by customers is deferred as a contract liability until goods or services are transferred. Any amounts not expected to be redeemed by customers (i.e., breakage) are recognized based on historical redemption patterns.

Customer returns are not material to the Company's results of operations or financial condition. Sales taxes are not included in revenue.

Loyalty Program

The Company's customer loyalty program, ExtraCare[®], is comprised of two components, ExtraSavings[™] and ExtraBucks[®] Rewards. ExtraSavings are coupons that are recorded as a reduction of revenue when redeemed as the Company concluded that they do not represent a promise to the customer to deliver additional goods or services at the time of issuance because they are not tied to a specific transaction or spending level.

ExtraBucks Rewards are accumulated by customers based on their historical spending levels. Thus, the Company has determined that there is an additional performance obligation to those customers at the time of the initial transaction. The Company allocates the transaction price to the initial transaction and the ExtraBucks Rewards transaction based upon the relative standalone selling price, which considers historical redemption patterns for the rewards. Revenue allocated to ExtraBucks Rewards is recognized as those rewards are redeemed. At the end of each period, unredeemed rewards are reflected as a contract liability.

Long-term Care

Revenue is recognized when control of the promised goods or services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. Each prescription claim represents a separate performance obligation of the Company, separate and distinct from other prescription claims under customer arrangements. A significant portion of the revenue from sales of pharmaceutical and medical products are reimbursed by the federal Medicare Part D program and, to a lesser extent, state Medicaid programs. The Company monitors its revenues and receivables from these reimbursement sources, as well as other third party insurance payors, and reduces revenue at the revenue recognition date to properly account for the variable consideration due to anticipated differences between billed and reimbursed amounts. Accordingly, the total revenues and receivables reported in the Company's consolidated financial statements are recorded at the amount expected to be ultimately received from these payors.

Patient co-payments associated with Medicare Part D, certain state Medicaid programs, Medicare Part B and certain third party payors are typically not collected at the time products are delivered or services are rendered, but are billed to the individuals as part of normal billing procedures and subject to normal accounts receivable collections procedures.

Walk-In Medical Clinics

For services provided by the Company's walk-in medical clinics, revenue recognition occurs for completed services provided to patients, with adjustments taken for third party payor contractual obligations and patient direct bill historical collection rates.

Health Care Benefits Segment

Premium Revenue

HCBS premiums are recognized as income in the month in which the enrollee is entitled to receive health care services. Premiums are reported net of an allowance for estimated terminations and uncollectible amounts. Additionally, premium revenue subject to the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010's (as amended, collectively, the "ACA's") minimum medical loss ratio ("MLR") rebate requirements is recorded net of the estimated minimum MLR rebates for the current calendar year. Premiums related to unexpired contractual coverage periods (unearned premiums) are reported as other insurance liabilities on the consolidated balance sheets and recognized as revenue when earned.

Some of the Company's contracts allow for premiums to be adjusted to reflect actual experience or the relative health status of Insured members. Such adjustments are reasonably estimable at the outset of the contract, and adjustments to those estimates are made based on actual experience of the customer emerging under the contract and the terms of the underlying contract.

Services and Product Revenue

HCBS services and product revenue relates to contracts that can include various combinations of products, services, or series of services, which are generally capable of being distinct and accounted for as separate performance obligations. HCBS' services and product revenue consists of the following components:

- ASC fees are received in exchange for performing certain claim processing and member services for HCBS' ASC medical members. ASC fee revenue is recognized over the period the service is provided. Some of the administrative services contracts include guarantees with respect to certain functions, such as customer service response time, claim processing accuracy and claim processing turnaround time, as well as certain guarantees that a plan sponsor's benefit claim experience will fall within a certain range. With any of these guarantees, HCBS is financially at risk if the conditions of the arrangements are not met, although the maximum amount at risk is typically limited to a percentage of the fees otherwise payable to the Company by the customer involved. Each period HCBS estimates obligations under the terms of these guarantees and records its estimate as an offset to service revenues.
- Workers' compensation administrative services consist of fee-based managed care services. Workers' compensation administrative services revenue is recognized once the service is provided.
- Specialty and home delivery pharmacy product revenue is recognized when the prescription is delivered to an ASC member. Specialty and home delivery pharmacy product revenue reflects the price of the prescription on a gross basis (ASC member co-payments and plan sponsor reimbursements).

Accounting for Medicare Part D

HCBS offers Medicare Part D prescription drug insurance coverage under contracts with the CMS. HCBS' revenue recognition policy for Medicare Part D is consistent with the policy detailed in the "*Medicare Part D*" section of PSS' revenue recognition policy described above.

Disaggregation of Revenue

The following table disaggregates the Company's revenue by major source in each segment for the year ended December 31, 2018 :

<i>In millions</i>	Pharmacy Services	Retail/LTC	Health Care Benefits	Corporate/Other	Intersegment Eliminations	Consolidated Totals
Major goods/services lines:						
Pharmacy	\$ 130,195	\$ 64,179	\$ 164	\$ —	\$ (29,693)	\$ 164,845
Front Store	—	19,055	—	—	—	19,055
Premiums	3,361	—	4,819	4	—	8,184
Net investment income	13	—	45	602	—	660
Other	559	755	521	—	—	1,835
Total	\$ 134,128	\$ 83,989	\$ 5,549	\$ 606	\$ (29,693)	\$ 194,579

Pharmacy Services distribution channel:

Mail choice ⁽¹⁾	\$ 46,934
Pharmacy network ⁽²⁾	83,261
Other	3,933
Total	\$ 134,128

(1) Pharmacy Services mail choice is defined as claims filled at a Pharmacy Services mail facility, which includes specialty mail claims inclusive of Specialty Connect[®] claims picked up at a CVS Pharmacy retail store, as well as prescriptions filled at the Company's retail pharmacies under the Maintenance Choice[®] program, which permits eligible client plan members to fill their maintenance prescriptions through mail order delivery or at a CVS Pharmacy retail store for the same price as mail order.

(2) Pharmacy Services pharmacy network is defined as claims filled at retail and specialty retail pharmacies, including the Company's retail pharmacies and LTC pharmacies, but excluding Maintenance Choice activity, which is included within the mail choice category.

Contract Balances

Contract liabilities primarily represent the Company's obligation to transfer additional goods or services to a customer for which the Company has received consideration, for example ExtraBucks[®] Rewards and unredeemed Company gift cards. The consideration received remains a contract liability until goods or services have been provided to the customer. In addition, the Company recognizes breakage on Company gift cards based on historical redemption patterns.

The following table provides information about receivables and contract liabilities from contracts with customers as of December 31:

<i>In millions</i>	2018	2017
Trade receivables (included in accounts receivable, net)	\$ 6,896	\$ 7,895
Contract liabilities (included in accrued expenses)	67	53

During the year ended December 31, 2018, the contract liabilities balance includes increases related to customers' earnings in ExtraBucks Rewards or issuances of Company gift cards and decreases for revenues recognized during the period as a result of the redemption of ExtraBucks Rewards or Company gift cards and breakage of Company gift cards. Below is a summary of such changes:

<i>In millions</i>	
Balance at December 31, 2017	\$ 53
Adoption of ASU 2014-09	17
Loyalty program earnings and gift card issuances	332
Redemption and breakage	(335)
Balance at December 31, 2018	\$ 67

Cost of products sold

The Company accounts for cost of products sold as follows:

Pharmacy Services Segment

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

Retail/LTC Segment

RLS' cost of products sold includes: the cost of merchandise sold during the reporting period, including prescription drug costs, and the related purchasing costs, warehousing and delivery costs (including depreciation and amortization) and actual and estimated inventory losses.

Health Care Benefits Segment

HCBS' cost of products sold includes the cost of the prescription and certain administrative costs incurred for dispensing the prescription to ASC members by HCBS' specialty and home delivery pharmacy operations.

See Note 17 "Segment Reporting" for additional information about the cost of products sold of the Company's segments.

Vendor allowances and purchase discounts

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

Pharmacy Services Segment

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

Retail/LTC Segment

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

Health Care Reform

Health Insurer Fee

Since January 1, 2014, the ACA imposes an annual premium-based health insurer fee (“HIF”) for each calendar year payable in September which is not deductible for tax purposes. The Company is required to estimate a liability for the HIF at the beginning of the calendar year in which the fee is payable with a corresponding deferred asset that is amortized ratably to operating expenses over the calendar year. The Company records the liability for the health insurer fee in accrued expenses and records the deferred asset in other current assets. In 2018 and 2016, operating expenses include \$157 million and \$56 million, respectively, related to the Company’s share of the HIF. There was no expense related to the HIF in 2017 and there will be no expense for HIF in 2019, since the HIF was suspended for each of those periods.

Risk Adjustment

The ACA established a permanent risk adjustment program to transfer funds from qualified individual and small group insurance plans with below average risk scores to plans with above average risk scores. Based on the risk of the Company’s qualified plan members relative to the average risk of members of other qualified plans in comparable markets, the Company estimates its ultimate risk adjustment receivable (recorded in accounts receivable) or payable (recorded in accrued expenses) for the current calendar year and reflects the pro-rata year-to-date impact as an adjustment to premium revenue.

Advertising costs

Advertising costs are expensed when the related advertising takes place. Advertising costs, net of vendor funding (included in operating expenses), were \$364 million, \$230 million and \$216 million in 2018, 2017 and 2016, respectively.

Stock-based compensation

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

Income taxes

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the consolidated financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year or years in which the differences are expected to reverse. The effect of a change in the tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date of such change.

The Tax Cuts and Jobs Act (the “TCJA”) was enacted on December 22, 2017. Among numerous changes to existing tax laws, the TCJA permanently reduced the federal corporate income tax rate from 35% to 21% effective January 1, 2018. The effects of changes in tax rates on deferred tax balances are required to be taken into consideration in the period in which the changes are enacted, regardless of when they are effective. As a result of the reduction of the corporate income tax rate under the TCJA, the Company estimated the revaluation of its net deferred tax liabilities and recorded a provisional noncash income tax benefit of approximately \$1.5 billion for year ended December 31, 2017. The Company completed its assessment of the TCJA’s final impact in December 2018 and recorded an additional tax benefit of approximately \$100 million in the year ended December 31, 2018.

The Company recognizes deferred tax assets to the extent that it believes these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies, and recent results of operations. The Company establishes a valuation allowance when it does not consider it more likely than not that a deferred tax asset will be recovered.

The Company records uncertain tax positions on the basis of a two-step process whereby (1) the Company determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50% likely to be realized upon ultimate settlement with the related tax authority.

Interest and/or penalties related to uncertain tax positions are recognized in the income tax provision.

Measurement of Defined Benefit Pension and Other Postretirement Employee Benefit (“OPEB”) Plans

The Company sponsors defined benefit pension plans (“pension plans”) and OPEB plans for its employees and retirees. The Company recognizes the funded status of its pension plans and OPEB plans on the consolidated balance sheets based on the year-end measurements of plan assets and benefit obligations. When the fair value of plan assets are in excess of the plans benefit obligations, the amounts are reported in other current assets and other assets. When the fair value of benefit obligations are in excess of plan assets, the amounts are reported in accrued expenses and other long-term liabilities based on the amount by which the actuarial present value of benefits payable in the next twelve months included in the benefit obligation exceeds the fair value of plan assets. Nearly all of the Company’s net benefit costs for the Company’s defined benefit pension and postretirement plans do not contain a service cost component as most of these defined benefit plans have been frozen for an extended period of time. Non-service components of pension and postretirement benefit cost are included in other expense (income) in the consolidated statements of operations.

Earnings per common share

Earnings per share is computed using the two-class method. The Company calculates basic earnings per share based on the weighted average number of common shares outstanding for the period. See Note 14 “Earnings Per Share” for additional information.

Shares held in trust

The Company maintains grantor trusts, which held approximately one million shares of its common stock at December 31, 2018 and 2017, respectively. These shares are designated for use under various employee compensation plans. Since the Company holds these shares, they are excluded from the computation of basic and diluted shares outstanding.

Variable Interest Entities

The Company has investments in (i) a generic pharmaceutical sourcing entity, (ii) certain hedge fund and private equity investments and (iii) real estate partnerships that are considered VIE’s. The Company does not have a future obligation to fund losses or debts on behalf of these investments; however, it may voluntarily contribute funds. In evaluating whether the Company is the primary beneficiary of a VIE, the Company considers several factors, including whether the Company has (a) the power to direct the activities that most significantly impact the VIE’s economic performance and (b) the obligation to absorb losses and the right to receive benefits that could potentially be significant to the VIE.

Variable Interest Entities - Primary Beneficiary

In 2014, the Company and Cardinal Health, Inc. (“Cardinal”) established Red Oak Sourcing, LLC (“Red Oak”), a generic pharmaceutical sourcing entity in which the Company and Cardinal each own 50%. The Red Oak arrangement has an initial term of 10 years. Under this arrangement, the Company and Cardinal contributed their sourcing and supply chain expertise to Red Oak and agreed to source and negotiate generic pharmaceutical supply contracts for both companies through Red Oak; however, Red Oak does not own or hold inventory on behalf of either company. No physical assets (e.g., property and equipment) were contributed to Red Oak by either company, and minimal funding was provided to capitalize Red Oak. The Company has determined that it is the primary beneficiary of this VIE because it has the ability to direct the activities of Red Oak. Consequently, the Company consolidates Red Oak in its consolidated financial statements within the Retail/LTC segment.

Cardinal is required to pay the Company 39 quarterly payments beginning in October 2014. As milestones are met, the quarterly payments increase. The Company received from Cardinal approximately \$183 million during each of the years ended December 31, 2018 and 2017 and \$163 million during the year ended December 31, 2016. The payments reduce the Company’s carrying value of inventory and are recognized in cost of products sold when the related inventory is sold. Revenues associated with Red Oak expenses reimbursed by Cardinal for the years ended December 31, 2018, 2017 and 2016, as well as amounts due to or due from Cardinal at December 31, 2018 and 2017 were immaterial.

Variable Interest Entities - Other Variable Interest Holder

In November 2018, the Company completed the Aetna Acquisition. Aetna has involvement with VIEs where the Company has determined that it is not the primary beneficiary, consisting of the following:

- *Hedge fund and private equity investments* - The Company invests in hedge fund and private equity investments in order to generate investment returns for its investment portfolio supporting its insurance businesses.

- *Real estate partnerships* - The Company invests in various real estate partnerships, including those that construct, own and manage low-income housing developments. For the low income housing development investments, substantially all of the projected benefits to the Company are from tax credits and other tax benefits.

The Company is not the primary beneficiary of these investments because the nature of the Company's involvement with the activities of these VIEs does not give the Company the power to direct the activities that most significantly impact their economic performance. The Company records the amount of its investment in these VIEs as long-term investments on the consolidated balance sheet and recognizes its share of each VIE's income or losses in earnings. The Company's maximum exposure to loss from these VIEs is limited to its investment balances as disclosed below and the risk of recapture of previously recognized tax credits related to the real estate partnerships, which the Company does not consider significant.

The total amount of other variable interest holder VIE assets included in long-term investments on the consolidated balance sheet at December 31, 2018 was as follows:

<i><u>In millions</u></i>	
Hedge fund investments	\$ 270
Private equity investments	524
Real estate partnerships	275
Total	<u>\$ 1,069</u>

Related Party Transactions

The Company has an equity method investment in SureScripts, LLC ("SureScripts"), which operates a clinical health information network. PSS and RLS utilize this clinical health information network in providing services to their respective client plan members and retail customers. The Company expensed fees for the use of this network of approximately \$45 million, \$35 million and \$39 million in the years ended December 31, 2018, 2017 and 2016, respectively. The Company's investment in and equity in the earnings of SureScripts for all periods presented is immaterial.

The Company has an equity method investment in Heartland Healthcare Services ("Heartland"). Heartland operates several LTC pharmacies in four states. Heartland paid the Company approximately \$135 million, \$139 million and \$140 million for pharmaceutical inventory purchases during the years ended December 31, 2018, 2017 and 2016, respectively. Additionally, the Company performs certain collection functions for Heartland and then passes those customer cash collections back to Heartland. The Company's investment in and equity in the earnings of Heartland for all periods presented is immaterial.

Discontinued Operations

In connection with certain business dispositions completed between 1991 and 1997, the Company retained guarantees on store lease obligations for a number of former subsidiaries, including Bob's Stores and Linens 'n Things each of which subsequently filed for bankruptcy. The Company's loss from discontinued operations primarily includes lease-related costs which the Company believes it will likely be required to satisfy pursuant to its lease guarantees. See "Lease Guarantees" in Note 16 "Commitments and Contingencies" for more information.

Results from discontinued operations were immaterial for the year ended December 31, 2018. Below is a summary of the results of discontinued operations for the years ended December 31, 2017 and 2016:

<i><u>In millions</u></i>	<u>2017</u>	<u>2016</u>
Loss from discontinued operations	\$ (13)	\$ (2)
Income tax benefit	5	1
Loss from discontinued operations, net of tax	<u>\$ (8)</u>	<u>\$ (1)</u>

New accounting pronouncements recently adopted

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* (Topic 606) ("Topic 606"). ASU 2014-09 outlines a single comprehensive model for

companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. In March 2016, the FASB issued ASU 2016-08, *Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)* which amends the principal-versus-agent implementation guidance and in April 2016 the FASB issued ASU 2016-10, *Identifying Performance Obligations and Licensing*, which amends the guidance in those areas in the new revenue recognition standard.

The Company adopted the new standard as of January 1, 2018 using the modified retrospective method and applied the new standard to all contracts. Therefore, the comparative financial information has not been restated and continues to be reported under the accounting standards in effect for the applicable period. While the adoption of the new standard did not result in any material adjustments to the Company's revenue or net income, one difference was identified between the previous accounting guidance and the new accounting guidance in RLS related to the accounting for the Company's ExtraBucks[®] Rewards customer loyalty program. This program was previously accounted for under a cost deferral method, while under the new standard this program is accounted for under a revenue deferral method. The cumulative effect of applying the new guidance to all contracts was recorded as an adjustment to retained earnings as of the adoption date.

As a result of applying the modified retrospective method to adopt the new standard, the following adjustments were made to accounts on the consolidated balance sheet as of January 1, 2018:

<i>In millions</i>	Impact of Change in Accounting Policy		
	As Reported December 31, 2017	Adjustments	Adjusted January 1, 2018
Consolidated Balance Sheet:			
Accrued expenses	\$ 6,581	\$ 17	\$ 6,598
Deferred income taxes	2,996	(4)	2,992
Total liabilities	57,436	13	57,449
Retained earnings	43,556	(13)	43,543
Total CVS Health shareholders' equity	37,691	(13)	37,678
Total shareholders' equity	37,695	(13)	37,682

The following tables compare the reported consolidated balance sheet, statements of operations, and statement of cash flows amounts to the pro forma amounts had the previous revenue accounting guidance remained in effect:

<i>In millions</i>	Impact of Change in Accounting Policy		Balances Without Adoption of Topic 606
	As Reported As of/For the Year Ended December 31, 2018	Adjustments	
Consolidated Statement of Operations:			
Revenues:			
Products	\$ 183,910	\$ 3	\$ 183,913
Total revenues	194,579	3	194,582
Operating costs:			
Cost of products sold	156,447	2	156,449
Total operating costs	190,558	2	190,560
Operating income	4,021	1	4,022
Income before income tax provision	1,406	1	1,407
Income tax provision	2,002	—	2,002
Loss from continuing operations	(596)	1	(595)
Net loss	(596)	1	(595)
Net loss attributable to CVS Health	(594)	1	(593)
Consolidated Balance Sheet:			
Accrued expenses	10,711	(18)	10,693
Total current liabilities	44,009	(18)	43,991
Deferred income taxes	7,677	4	7,681
Total liabilities	137,913	(14)	137,899
Retained earnings	40,911	14	40,925
Total CVS Health shareholders' equity	58,225	14	58,239
Total shareholders' equity	58,543	14	58,557
Consolidated Statement of Cash Flow:			
Reconciliation of net loss to net cash provided by operating activities:			
Net loss	(596)	1	(595)
Other liabilities	165	(1)	164

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall* (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities*. This ASU requires equity investments, except those under the equity method of accounting or those that result in the consolidation of an investee, to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. This simplifies the impairment assessment of equity investments previously held at cost. Entities are required to apply the guidance retrospectively, with the exception of the amendments related to equity investments without readily determinable fair values, which must be applied on a prospective basis. Effective January 1, 2018, the Company adopted this new accounting guidance. The adoption of this new guidance did not have a material impact on the Company's financial condition or results of operations.

Classification of Certain Cash Receipts and Cash Payments in the Consolidated Statements of Cash Flows

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. This ASU is intended to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows and

to eliminate the diversity in practice related to such classifications. Effective January 1, 2018, the Company adopted this new accounting guidance. The adoption of this new guidance did not have a material impact on the Company's financial condition or results of operations.

Statement of Cash Flows - Restricted Cash

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows*, which amends Accounting Standard Codification Topic 230. This ASU requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities no longer are required to present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, the new guidance requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet. Entities will also have to disclose the nature of their restricted cash and restricted cash equivalent balances. The guidance is required to be applied retrospectively. Effective January 1, 2018, the Company adopted this new accounting guidance.

The following is a reconciliation of cash and cash equivalents on the consolidated balance sheets as of December 31 to total cash, cash equivalents and restricted cash in the consolidated statements of cash flows:

<i><u>In millions</u></i>	2018	2017	2016
Cash and cash equivalents	\$ 4,059	\$ 1,696	\$ 3,371
Restricted cash (included in other current assets)	6	14	—
Restricted cash (included in other assets)	230	190	149
Total cash, cash equivalents and restricted cash at the end of the period in the statement of cash flows	<u>\$ 4,295</u>	<u>\$ 1,900</u>	<u>\$ 3,520</u>

See "Restricted cash" above for further discussion of the nature of the Company's restricted cash and restricted cash equivalent balances.

The following is a reconciliation of the effect on the relevant line items in the consolidated statement of cash flows for the years ended December 31, 2017 and 2016 as a result of adopting this new accounting guidance:

<i><u>In millions</u></i>	As Previously Reported	Adjustments	As Revised
Year Ended December 31, 2017			
Acquisitions (net of cash acquired)	\$ (1,236)	\$ 55	\$ (1,181)
Net cash used in investing activities	(2,932)	55	(2,877)
Net decrease in cash, cash equivalents and restricted cash ⁽¹⁾	(1,675)	55	(1,620)
Cash, cash equivalents and restricted cash at the beginning of the period ⁽¹⁾	3,371	149	3,520
Cash, cash equivalents and restricted cash at the end of the period ⁽¹⁾	1,696	204	1,900
Year Ended December 31, 2016			
Acquisitions (net of cash acquired)	(524)	—	(524)
Net cash used in investing activities	(2,470)	—	(2,470)
Net decrease in cash, cash equivalents and restricted cash ⁽¹⁾	912	—	912
Cash, cash equivalents and restricted cash at the beginning of the period ⁽¹⁾	2,459	149	2,608
Cash, cash equivalents and restricted cash at the end of the period ⁽¹⁾	3,371	149	3,520

(1) Prior to the adoption of ASU 2016-18, these financial statement captions excluded restricted cash. The financial statement captions have been renamed to reflect the inclusion of restricted cash subsequent to the adoption of ASU 2016-18 on January 1, 2018.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("ASU 2018-02")*. This ASU permits entities to reclassify tax effects stranded in accumulated other comprehensive income as a result of the TCJA to retained

earnings. The guidance states that because the adjustment of deferred income taxes due to the reduction of the historical corporate income tax rate to the newly enacted corporate income tax rate was required to be included in income from continuing operations, the tax effects of items within accumulated other comprehensive income (“stranded tax effects”) are not reflected at the appropriate tax rate. During the first quarter of 2018, the Company elected to early adopt this new standard and decreased accumulated other comprehensive income and increased retained earnings in the period of adoption by \$7 million due to the change in the United States federal corporate income tax rate enacted in December 2017. See Note 13 “Other Comprehensive Income (Loss)” for the impact of the adoption of this guidance on accumulated other comprehensive income for the year ended December 31, 2018 .

New accounting pronouncements not yet adopted

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). Lessees will be required to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of future lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, a dual model was retained, requiring leases to be classified as either operating or finance leases. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Lessor accounting is similar to the current model, but updated to align with certain changes to the lessee model (e.g., certain definitions, such as initial direct costs, have been updated) and the new revenue recognition standard. The Company adopted this new accounting guidance on January 1, 2019 on a modified retrospective basis. The adoption of this new guidance resulted in an increase in both assets and liabilities of approximately \$20 billion as of January 1, 2019. The adoption of this new guidance is not expected to have a material impact on the Company’s results of operations or cash flows.

Accounting for Interest Associated with the Purchase of Callable Debt Securities

In March 2017, the FASB issued ASU 2017-08, *Accounting for Interest Associated with the Purchase of Callable Debt Securities* (Topic 310). Under this ASU, premiums on callable debt securities are amortized to the earliest call date rather than to the contractual maturity date. Callable debt securities held at a discount will continue to be amortized to the contractual maturity date. The Company adopted this new accounting guidance on January 1, 2019 on a modified retrospective basis and recorded an immaterial cumulative effect adjustment from accumulated other comprehensive income to retained earnings on the consolidated balance sheet.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses* (Topic 326). This ASU requires the use of a forward-looking expected loss impairment model for trade and other receivables, held-to-maturity debt securities, loans and other instruments. The ASU also requires impairments and recoveries for available-for-sale debt securities to be recorded through an allowance account and revises certain disclosure requirements. The standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company is currently evaluating the effect that implementation of this standard will have on the Company’s consolidated results of operations, cash flows, financial condition and related disclosures.

Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and other - Internal-Use Software* (Topic 350-40): *Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. The new standard requires a customer in a cloud computing arrangement that is a service contract to follow internal-use software guidance in Topic 350-40 to determine which implementation costs to capitalize as assets. The standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the effect the implementation of this standard will have on the Company’s consolidated results of operations, cash flows, financial condition and related disclosures.

Targeted Improvements to the Accounting for Long-Duration Insurance Contracts

In August 2018, the FASB issued ASU 2018-12, *Targeted Improvements to the Accounting for Long-Duration Insurance Contracts* (Topic 944). The ASU requires the Company to review cash flow assumptions for its long-duration insurance contracts at least annually and recognize the effect of changes in future cash flow assumptions in net income. The Company is also required to update discount rate assumptions quarterly and recognize the effect of changes in these assumptions in other comprehensive income. The rate used to discount the Company’s liability for future policy benefits will be based on an estimate of the yield for an upper-medium-grade fixed-income instrument. In addition, the new guidance changes the amortization method for deferred acquisition costs and requires additional disclosures regarding the long duration insurance contract

liabilities in the Company's interim and annual financial statements. The standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Company is currently evaluating the effect the implementation of this standard will have on the Company's consolidated results of operations, cash flows, financial condition and related disclosures.

2. Acquisition of Aetna

On the Aetna Acquisition Date, the Company acquired 100% of the outstanding shares and voting interests of Aetna for a combination of cash and stock. Under the terms of the merger agreement, Aetna shareholders received \$145.00 in cash and 0.8378 CVS Health shares for each Aetna share. The transaction valued Aetna at approximately \$212 per share or approximately \$70 billion. Including the assumption of Aetna's debt, the total value of the transaction was approximately \$78 billion. The Company financed the cash portion of the purchase price through a combination of cash on hand and by issuing approximately \$45 billion of new debt, including senior notes and term loans. Aetna is a leading health care benefits company that offers a broad range of traditional, voluntary, and consumer-directed health insurance products and related services. The majority of Aetna's operations are included in a new segment, Health Care Benefits. The Health Care Benefits segment is the equivalent of the former Aetna Health Care Segment. The remainder of Aetna's operations, including products for which the Company no longer solicits or accepts new customers, such as large case pensions and long-term care insurance products, are included in the Corporate/Other segment. The Company acquired Aetna to help improve the consumer health care experience by combining Aetna's health care benefits products and services with CVS Health's more than 9,900 retail locations, approximately 1,100 walk-in medical clinics and integrated pharmacy capabilities with the goal of becoming the new, trusted front door to health care.

The fair value of the consideration transferred on the date of acquisition consisted of the following:

<i>In millions</i>	
Cash	\$ 48,089
Common stock (274.4 million shares) ⁽¹⁾	22,117
Fair value of replacement equity awards for pre-combination services (9.9 million shares) ⁽²⁾	367
Effective settlement of pre-existing relationship ⁽³⁾	(807)
Total consideration transferred	\$ 69,766

- (1) The fair value of the Company's common stock issued as consideration was calculated based on the 327.6 million Aetna common shares outstanding as of November 28, 2018 multiplied by (i) the merger agreement per share exchange ratio and (ii) the volume weighted average price of CVS Health common stock on November 28, 2018 of \$80.59.
- (2) The fair value of the replacement equity awards issued by the Company was determined as of the Aetna Acquisition Date. The fair value of the awards attributed to pre-combination services of \$367 million is included in the consideration transferred and the fair value of the awards attributed to post-combination services of \$232 million has been, or will be, included in the Company's post-combination financial statements as compensation costs.
- (3) The purchase price included \$807 million of effectively settled liabilities the Company owed to Aetna from their pre-existing pharmacy services relationship.

The transaction has been accounted for using the acquisition method of accounting which requires, among other things, the assets acquired and liabilities assumed to be recognized at their fair values at the date of acquisition. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

<i>In millions</i>	
Cash and cash equivalents	\$ 6,565
Accounts receivable ⁽¹⁾	4,089
Other current assets	3,896
Investments (current and long-term)	17,991
Goodwill	46,684
Intangible assets	23,746
Other long-term assets	8,282
Total assets acquired	111,253
Health care costs payable	5,359
Other current liabilities	10,026
Debt (current and long-term)	8,098
Deferred income taxes	4,574
Other long-term liabilities	13,101
Total liabilities assumed	41,158
Noncontrolling interests	329
Total consideration transferred	\$ 69,766

(1) The fair value of premium receivables acquired is \$2.4 billion, with the gross contractual amount being \$2.8 billion. The Company expects \$424 million of premium receivables to be uncollectible. The fair value of other receivables acquired is \$1.7 billion, with the gross contractual amount being \$1.8 billion. The Company expects \$84 million of other receivables to be uncollectible.

The assessment of fair value is preliminary and is based on information that was available to management at the time the consolidated financial statements were prepared. The most significant open items included the valuation of certain intangible assets and investments, the accounting for income taxes and the accounting for contingencies as management is awaiting additional information to complete its assessment of these matters. Measurement period adjustments will be recorded in the period in which they are determined, as if they had been completed at the acquisition date. The finalization of the Company's purchase accounting assessment could result in changes in the valuation of assets acquired and liabilities assumed, which could be material.

Goodwill

Goodwill represents future economic benefits expected to arise from the Company's expanded presence in the health care industry, the assembled workforce acquired, expected purchasing, medical cost and revenue synergies, as well as operating efficiencies and cost savings. The preliminary valuation of goodwill was allocated to the Company's business segments as follows:

<i>In millions</i>	
Health Care Benefits	\$ 44,484
Pharmacy Services	1,500
Retail/LTC	700
Total goodwill	\$ 46,684

Approximately \$165 million of goodwill is deductible for income tax purposes.

Intangible Assets

The following table summarizes the preliminary fair values and weighted average useful lives for intangible assets acquired in the Aetna Acquisition, each of which is subject to change as the Company finalizes its purchase accounting:

<i><u>In millions, except weighted average useful life</u></i>	Gross Fair Value	Weighted Average Useful Life (years)
Customer relationships ⁽¹⁾	\$ 13,630	14.4
Standalone Medicare Part D prescription drug plan customer relationship (held for sale)	101	N/A
Technology	1,060	3.0
Provider networks ⁽¹⁾	4,200	20.0
Value of Business Acquired	590	20.0
Trademark (definite-lived)	65	5.0
Trademark (indefinitely-lived)	4,100	N/A
Total intangible assets	<u>\$ 23,746</u>	<u>15.1</u>

(1) The amortization period for the Company's customer relationships and provider networks includes an assumption of renewal or extension of these arrangements. At the acquisition date, the periods prior to the next renewal or extension for provider networks primarily ranged from one to three years, and the period prior to the next renewal or extension for customer relationships was one year. Any costs related to the renewal or extension of these contracts are expensed as incurred.

Deferred income taxes

The purchase price allocation includes net deferred tax liabilities of \$4.6 billion, primarily relating to deferred tax liabilities established on the identifiable acquired intangible assets.

Consolidated results of operations

The Company's consolidated results of operations for the year ended December 31, 2018, include \$5.6 billion of revenues and \$146 million of income before income tax provision associated with the results of operations of Aetna from the Aetna Acquisition Date to December 31, 2018.

During the year ended December 31, 2018 and 2017, the Company incurred transaction costs of \$147 million and \$34 million, respectively, associated with the Aetna Acquisition that were recorded within operating expenses.

Unaudited pro forma financial information

The following unaudited pro forma information presents a summary of the Company's combined results of operations for the years ended December 31, 2018 and 2017 as if the Aetna acquisition and the related financing transactions had occurred on January 1, 2017. The following pro forma financial information is not necessarily indicative of the results of operations as they would have been had the acquisition been effected on the assumed date, nor is it necessarily an indication of trends in future results for a number of reasons, including, but not limited to, differences between the assumptions used to prepare the pro forma information, basic shares outstanding and dilutive equivalents, cost savings from operating efficiencies, potential synergies, and the impact of incremental costs incurred in integrating the businesses.

<i><u>In millions, except per share data</u></i>	Year Ended December 31,	
	2018	2017
Total revenues	\$ 243,398	\$ 236,000
Income from continuing operations	1,123	6,813
Basic earnings per share from continuing operations attributable to CVS Health	\$ 0.87	\$ 5.25
Diluted earnings per share from continuing operations attributable to CVS Health	\$ 0.86	\$ 5.21

The pro forma results for the years ended December 31, 2018 and 2017 include adjustments related to the following purchase accounting and acquisition-related items:

- Elimination of intercompany transactions between CVS Health and Aetna;

- Elimination of estimated foregone interest income associated with (i) cash assumed to have been used to partially fund the Aetna Acquisition and (ii) adjusting the amortized cost of Aetna's investment portfolio to fair value as of the completion of the Aetna Acquisition;
- Elimination of historical intangible asset, deferred acquisition cost and capitalized software amortization expense and addition of amortization expense based on the current preliminary values of identified intangible assets;
- Additional interest expense from (i) the long-term debt issued to partially fund the Aetna Acquisition and (ii) the amortization of the fair value adjustment to assumed long-term debt.
- Additional depreciation expense related to the adjustment of Aetna's property and equipment to fair value;
- Adjustments to align CVS Health's and Aetna's accounting policies;
- Elimination of transaction related costs; and
- Tax effects of the adjustments noted above.

3. Investments

On November 28, 2018, the Company completed the Aetna Acquisition. Prior to the Aetna Acquisition Date, the Company's short term investments balance was comprised of certificates of deposit with initial maturities of greater than three months when purchased that mature in less than one year from the balance sheet date. These investments totaled \$111 million as of December 31, 2017 and were classified as available for sale. In addition, the Company had \$112 million of additional long-term investments as of December 31, 2017 which primarily consisted of cost method and equity method investments. Since the total amount of investments prior to the Aetna Acquisition was not material to the consolidated financial statements, the Company will include additional disclosures for investments on a prospective basis starting from the Aetna Acquisition Date.

Total investments at December 31, 2018 were as follows:

<i>In millions</i>	Current	Long-term	Total
Debt securities available for sale	\$ 2,359	\$ 12,896	\$ 15,255
Mortgage loans	145	1,216	1,361
Other investments	18	1,620	1,638
Total investments	\$ 2,522	\$ 15,732	\$ 18,254

At December 31, 2018, the Company held investments of \$531 million related to the 2012 conversion of an existing group annuity contract from a participating to a non-participating contract. The conversion occurred prior to the Aetna Acquisition. These investments are included in the total investments of large case pensions supporting non-experience-rated products. Although these investments are not accounted for as Separate Accounts assets, they are legally segregated and are not subject to claims that arise out of the Company's business and only support future policy benefits obligations under that group annuity contract.

Debt Securities

Debt securities available for sale at December 31, 2018 were as follows:

<i>In millions</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2018				
Debt securities:				
U.S. government securities	\$ 1,662	\$ 26	\$ —	\$ 1,688
States, municipalities and political subdivisions	2,370	30	(1)	2,399
U.S. corporate securities	6,444	61	(16)	6,489
Foreign securities	2,355	31	(3)	2,383
Residential mortgage-backed securities	567	10	—	577
Commercial mortgage-backed securities	594	11	—	605
Other asset-backed securities	1,097	3	(15)	1,085
Redeemable preferred securities	30	—	(1)	29
Total debt securities ⁽¹⁾	\$ 15,119	\$ 172	\$ (36)	\$ 15,255

(1) Investment risks associated with the Company's experience-rated products generally do not impact the Company's consolidated results of operations. At December 31, 2018, debt securities with a fair value of \$916 million, gross unrealized capital gains of \$12 million and gross unrealized capital losses of \$2 million were included in total debt securities, but support experience-rated products.

The fair value of debt securities at December 31, 2018 is shown below by contractual maturity. Actual maturities may differ from contractual maturities because securities may be restructured, called or prepaid, or the Company intends to sell a security prior to maturity.

<i>In millions</i>	Amortized Cost	Fair Value
Due to mature:		
Less than one year	\$ 901	\$ 902
One year through five years	5,489	5,521
After five years through ten years	2,973	2,999
Greater than ten years	3,498	3,566
Residential mortgage-backed securities	567	577
Commercial mortgage-backed securities	594	605
Other asset-backed securities	1,097	1,085
Total	\$ 15,119	\$ 15,255

Mortgage-Backed and Other Asset-Backed Securities

All of the Company's residential mortgage-backed securities at December 31, 2018 were issued by the Government National Mortgage Association, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation and carry agency guarantees and explicit or implicit guarantees by the United States Government. At December 31, 2018, the Company's residential mortgage-backed securities had an average credit quality rating of AAA and a weighted average duration of 4.8 years.

The Company's commercial mortgage-backed securities have underlying loans that are dispersed throughout the United States. Significant market observable inputs used to value these securities include loss severity and probability of default. At December 31, 2018, these securities had an average credit quality rating of AAA and a weighted average duration of 6.3 years.

The Company's other asset-backed securities have a variety of underlying collateral (e.g., automobile loans, credit card receivables, home equity loans and commercial loans). Significant market observable inputs used to value these securities include the unemployment rate, loss severity and probability of default. At December 31, 2018, these securities had an average credit quality rating of AA and a weighted average duration of 1.3 years.

Summarized below are the debt securities the Company held at December 31, 2018 that were in an unrealized capital loss position:

<i><u>In millions, except number of securities</u></i>	<u>Number of Securities</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Debt securities:			
U.S. government securities	8	\$ 26	\$ —
States, municipalities and political subdivisions	54	86	1
U.S. corporate securities	1,399	1,431	16
Foreign securities	243	314	3
Residential mortgage-backed securities	45	1	—
Other asset-backed securities	516	528	15
Redeemable preferred securities	14	23	1
Total debt securities	<u>2,279</u>	<u>\$ 2,409</u>	<u>\$ 36</u>

Since Aetna's investment portfolio was measured at fair value as of the Aetna Acquisition Date, each of the securities in the table above were in an unrealized loss position for less than 12 months. The Company reviewed the securities in the table above and concluded that they are performing assets generating investment income to support the needs of the Company's businesses. In performing this review, the Company considered factors such as the quality of the investment security based on research performed by the Company's internal credit analysts and external rating agencies and the prospects of realizing the carrying value of the security based on the investment's current prospects for recovery. As of December 31, 2018, the Company did not intend to sell these securities, and did not believe it was more likely than not that it would be required to sell these securities prior to anticipated recovery of their amortized cost basis.

The maturity dates for debt securities in an unrealized capital loss position at December 31, 2018 were as follows:

<i><u>In millions</u></i>	<u>Supporting experience-rated products</u>		<u>Supporting remaining products</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Due to mature:						
Less than one year	\$ 21	\$ —	\$ 308	\$ —	\$ 329	\$ —
One year through five years	36	2	557	5	593	7
After five years through ten years	47	—	492	9	539	9
Greater than ten years	49	—	370	5	419	5
Residential mortgage-backed securities	—	—	1	—	1	—
Other asset-backed securities	4	—	524	15	528	15
Total	<u>\$ 157</u>	<u>\$ 2</u>	<u>\$ 2,252</u>	<u>\$ 34</u>	<u>\$ 2,409</u>	<u>\$ 36</u>

Mortgage Loans

The Company's mortgage loans are collateralized by commercial real estate. From the Aetna Acquisition Date through December 31, 2018, the Company had the following activity in its mortgage loan portfolio:

<i><u>In millions</u></i>	
New mortgage loans	\$ 4
Mortgage loans fully-repaid	27
Mortgage loans foreclosed	—

The Company assesses mortgage loans on a regular basis for credit impairments, and annually assign a credit quality indicator to each loan. The Company's credit quality indicator is internally developed and categorizes its portfolio on a scale from 1 to 7. These indicators are based upon several factors, including current loan-to-value ratios, property condition, market trends, creditworthiness of the borrower and deal structure. The vast majority of the Company's mortgage loans fall into categories 2 to 4.

- *Category 1* - Represents loans of superior quality
- *Categories 2 to 4* - Represents loans where credit risk is minimal to acceptable; however, these loans may display some susceptibility to economic changes.
- *Categories 5 and 6* - Represents loans where credit risk is not substantial, but these loans warrant management's close attention.
- *Category 7* - Represents loans where collections are potentially at risk; if necessary, an impairment is recorded.

Based upon the most recent assessments at December 31, 2018, the Company's mortgage loans were given the following credit quality indicators:

In millions, except credit ratings indicator

1	\$ 42
2 to 4	1,301
5 and 6	18
7	—
Total	<u>\$ 1,361</u>

At December 31, 2018 scheduled mortgage loan principal repayments were as follows:

In millions

2019	\$ 145
2020	109
2021	269
2022	228
2023	83
Thereafter	527
Total	<u>\$ 1,361</u>

Net Investment Income

Sources of net investment income for the year ended December 31, 2018 were as follows:

In millions

Debt securities	\$ 637
Mortgage loans	6
Other investments	17
Gross investment income	<u>660</u>
Investment expenses	<u>(3)</u>
Net investment income (excluding net realized capital gains or losses)	657
Net realized capital gains	<u>3</u>
Net investment income ⁽¹⁾	<u>\$ 660</u>

(1) Net investment income in 2018 includes \$4 million related to investments supporting experience-rated products.

The Company's net investment income was \$21 million and \$20 million in 2017 and 2016, respectively, relating to interest income on debt securities. The Company did not have any material realized capital gains or losses during 2017 or 2016.

The portion of unrealized capital gains and losses recognized during the year ended December 31, 2018 related to investments in equity securities held as of December 31, 2018 was not material.

Excluding amounts related to experience-rated products, proceeds from the sale of available for sale debt securities and the related gross realized capital gains and losses from the Aetna Acquisition Date through December 31, 2018 were as follows: ⁽¹⁾

<i>In millions</i>	
Proceeds from sales	\$ 389
Gross realized capital gains	2
Gross realized capital losses	(2)

(1) The proceeds from sales and gross realized capital gains and losses exclude the impact of the sales of short-term debt securities which primarily relate to the Company's investments in mutual funds. These investments were excluded from the disclosed amounts because they represent an immaterial amount of aggregate gross realized capital gains or losses and have a high volume of sales activity.

4. Fair Value

The preparation of the Company's consolidated financial statements in accordance with GAAP requires certain assets and liabilities to be reflected at their fair value, and others on another basis, such as an adjusted historical cost basis. In this note, the Company provides details on the fair value of financial assets and liabilities and how it determines those fair values. The Company presents this information for those financial instruments that are measured at fair value for which the change in fair value impacts net income (loss) attributable to CVS Health or other comprehensive income separately from other financial assets and liabilities.

Financial Instruments Measured at Fair Value on the Consolidated Balance Sheets

Certain of the Company's financial instruments are measured at fair value on the consolidated balance sheets. The fair values of these instruments are based on valuations that include inputs that can be classified within one of three levels of a hierarchy established by GAAP. The following are the levels of the hierarchy and a brief description of the type of valuation information ("inputs") that qualifies a financial asset or liability for each level:

- Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 – Inputs other than Level 1 that are based on observable market data. These include: quoted prices for similar assets in active markets, quoted prices for identical assets in inactive markets, inputs that are observable that are not prices (such as interest rates and credit risks) and inputs that are derived from or corroborated by observable markets.
- Level 3 – Developed from unobservable data, reflecting the Company's assumptions.

Financial assets and liabilities are classified based upon the lowest level of input that is significant to the valuation. When quoted prices in active markets for identical assets and liabilities are available, the Company uses these quoted market prices to determine the fair value of financial assets and liabilities and classifies these assets and liabilities in Level 1. In other cases where a quoted market price for identical assets and liabilities in an active market is either not available or not observable, the Company estimates fair value using valuation methodologies based on available and observable market information or by using a matrix pricing model. These financial assets and liabilities would then be classified in Level 2. If quoted market prices are not available, the Company determines fair value using broker quotes or an internal analysis of each investment's financial performance and cash flow projections. Thus, financial assets and liabilities may be classified in Level 3 even though there may be some significant inputs that may be observable.

The following is a description of the valuation methodologies used for the Company's financial assets and liabilities that are measured at fair value, including the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Debt Securities – Where quoted prices are available in an active market, debt securities are classified in Level 1 of the fair value hierarchy. The Company's Level 1 debt securities consist primarily of United States Treasury securities.

The fair values of the Company's Level 2 debt securities are obtained using models, such as matrix pricing, which use quoted market prices of debt securities with similar characteristics or discounted cash flows to estimate fair value. The Company reviews these prices to ensure they are based on observable market inputs that include, but are not limited to, quoted prices for similar assets in active markets, quoted prices for identical assets in inactive markets and inputs that are observable but not prices (for example, interest rates and credit risks). The Company also reviews the

methodologies and the assumptions used to calculate prices from these observable inputs. On a quarterly basis, the Company selects a sample of its Level 2 debt securities' prices and compares them to prices provided by a secondary source. Variances over a specified threshold are identified and reviewed to confirm the price provided by the primary source represents an appropriate estimate of fair value. In addition, the Company's internal investment team consistently compares the prices obtained for select Level 2 debt securities to the team's own independent estimates of fair value for those securities. The Company obtained one price for each of its Level 2 debt securities and did not adjust any of these prices at December 31, 2018. The Company's Level 2 debt securities were not material as of December 31, 2017.

The Company also values certain debt securities using Level 3 inputs. For Level 3 debt securities, fair values are determined by outside brokers or, in the case of certain private placement securities, are priced internally. Outside brokers determine the value of these debt securities through a combination of their knowledge of the current pricing environment and market flows. The Company obtained one non-binding broker quote for each of these Level 3 debt securities and did not adjust any of these quotes at December 31, 2018. The total fair value of broker quoted debt securities was \$50 million at December 31, 2018. The Company did not have any Level 3 debt securities as of December 31, 2017. Examples of these broker quoted Level 3 debt securities include certain United States and foreign corporate securities and certain of the Company's commercial mortgage-backed securities as well as other asset-backed securities. For some private placement securities, the Company's internal staff determines the value of these debt securities by analyzing spreads of corporate and sector indices as well as interest spreads of comparable public bonds. Examples of these private placement Level 3 debt securities include certain United States and foreign securities and certain tax-exempt municipal securities.

Equity Securities – The Company currently has two classifications of equity securities: those that are publicly traded and those that are privately placed. Publicly-traded equity securities are classified in Level 1 because quoted prices are available for these securities in an active market. For privately placed equity securities, there is no active market; therefore, these securities are classified in Level 3 because the Company prices these securities through an internal analysis of each investment's financial statements and cash flow projections. Significant unobservable inputs consist of earnings and revenue multiples, discount for lack of marketability and comparability adjustments. An increase or decrease in any of these unobservable inputs would result in a change in the fair value measurement, which may be significant. The Company did not have any Level 3 equity securities as of December 31, 2017.

Derivative Financial Instruments - The fair values of derivative financial instruments are determined using quoted prices in markets that are not active or inputs that are observable for the asset or liability and therefore they are classified as Level 2 in the fair value hierarchy. The fair value of these instruments are recorded in other current assets or accrued expenses, as applicable. The Company did not have any material outstanding derivative financial instruments as of December 31, 2018.

Financial assets and liabilities measured at fair value on a recurring basis on the consolidated balance sheets at December 31, 2018 and 2017 were as follows:

<i><u>In millions</u></i>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2018				
Assets:				
Debt securities:				
U.S. government securities	\$ 1,597	\$ 91	\$ —	\$ 1,688
States, municipalities and political subdivisions	—	2,399	—	2,399
U.S. corporate securities	—	6,422	67	6,489
Foreign securities	—	2,380	3	2,383
Residential mortgage-backed securities	—	577	—	577
Commercial mortgage-backed securities	—	605	—	605
Other asset-backed securities	—	1,085	—	1,085
Redeemable preferred securities	—	22	7	29
Total debt securities	1,597	13,581	77	15,255
Equity securities	19	—	54	73
Total	<u>\$ 1,616</u>	<u>\$ 13,581</u>	<u>\$ 131</u>	<u>\$ 15,328</u>
December 31, 2017				
Assets:				
Debt securities:				
U.S. corporate securities	\$ —	\$ 1	\$ —	\$ 1
Foreign securities	—	110	—	110
Total debt securities	—	111	—	111
Equity securities	—	—	—	—
Derivative financial instruments	—	5	—	5
Total assets	<u>\$ —</u>	<u>\$ 116</u>	<u>\$ —</u>	<u>\$ 116</u>
Liabilities:				
Derivative financial instruments	<u>\$ —</u>	<u>\$ 23</u>	<u>\$ —</u>	<u>\$ 23</u>

There were no transfers between Levels 1 and 2 during the years ended December 31, 2018 and 2017. The change in the balance of Level 3 financial assets during 2018 relates to investments acquired in the Aetna Acquisition, which occurred on November 28, 2018. There were no transfers into or out of Level 3 from November 28, 2018 to December 31, 2018.

Financial Instruments Not Measured at Fair Value on the Consolidated Balance Sheets

The carrying value and estimated fair value classified by level of fair value hierarchy for financial instruments carried on the consolidated balance sheets at adjusted cost or contract value at December 31, 2018 and 2017 were as follows:

<i>In millions</i>	Carrying Value	Estimated Fair Value			Total
		Level 1	Level 2	Level 3	
December 31, 2018					
Assets:					
Mortgage loans	\$ 1,361	\$ —	\$ —	\$ 1,366	\$ 1,366
Equity securities ⁽¹⁾	140	N/A	N/A	N/A	N/A
Liabilities:					
Investment contract liabilities:					
With a fixed maturity	5	—	—	5	5
Without a fixed maturity	382	—	—	357	357
Long-term debt	72,709	71,252	—	—	71,252

<i>In millions</i>	Carrying Value	Estimated Fair Value			Total
		Level 1	Level 2	Level 3	
December 31, 2017					
Assets:					
Equity securities ⁽¹⁾	\$ 47	N/A	N/A	N/A	N/A
Liabilities:					
Long-term debt	25,726	26,756	—	—	26,756

(1) It was not practical to estimate the fair value of these cost-method investments as it represents shares of unlisted companies. See Note 1 “Significant Accounting Policies” for additional information regarding the valuation of cost-method investments.

Separate Accounts Measured at Fair Value on the Consolidated Balance Sheets

As part of the Aetna Acquisition, the Company acquired Separate Accounts assets related to large case pensions products which represent funds maintained to meet specific objectives of contract holders. Since contract holders bear the investment risk of these assets, a corresponding Separate Accounts liability has been established equal to the assets. These assets and liabilities are carried at fair value. Net investment income and capital gains and losses accrue directly to such contract holders. The assets of each account are legally segregated and are not subject to claims arising from the Company’s other businesses. Deposits, withdrawals, net investment income and realized and unrealized capital gains and losses on Separate Accounts assets are not reflected in the consolidated statements of operations, shareholders’ equity or cash flows.

Separate Accounts assets include debt and equity securities. The valuation methodologies used for these assets are similar to the methodologies described above in this Note 4 “Fair Value.” Separate Accounts assets also include investments in common/collective trusts that are carried at fair value. Common/collective trusts invest in other investment funds otherwise known as the underlying funds. The Separate Accounts’ interests in the common/collective trust funds are based on the fair values of the investments of the underlying funds and therefore are classified in Level 2. The assets in the underlying funds primarily consist of equity securities. Investments in common/collective trust funds are valued at their respective net asset value (“NAV”) per share/unit on the valuation date.

Separate Accounts financial assets as of December 31, 2018 were as follows:

<i>In millions</i>	Level 1	Level 2	Level 3	Total
Debt securities	\$ 782	\$ 2,500	\$ 4	\$ 3,286
Equity securities	—	3	—	3
Common/collective trusts	—	404	—	404
Total ⁽¹⁾	\$ 782	\$ 2,907	\$ 4	\$ 3,693

(1) Excludes \$191 million of cash and cash equivalents and accounts receivable at December 31, 2018 .

During 2018 , the Company had an immaterial amount of Level 3 Separate Accounts financial assets and an immaterial amount of gross transfers of Separate Accounts financial assets into or out of Level 3. During 2018 , there were no transfers of Separate Accounts financial assets between Levels 1 and 2. The Company held no Separate Accounts financial assets as of December 31, 2017 .

Offsetting Financial Assets and Liabilities

Subsequent to the Aetna Acquisition Date, certain financial assets and liabilities are offset in the Company's consolidated balance sheets or are subject to master netting arrangements or similar agreements with the applicable counterparty. Financial assets, including derivative assets, subject to offsetting and enforceable master netting arrangements were \$13 million as of December 31, 2018.

5. Goodwill and Other Intangibles

Goodwill

Below is a summary of the changes in the carrying amount of goodwill by segment for the years ended December 31, 2018 and 2017 :

<i>In millions</i>	Pharmacy Services	Retail/LTC	Health Care Benefits	Total
Balance at December 31, 2016	\$ 21,637	\$ 16,612	\$ —	\$ 38,249
Acquisitions	182	203	—	385
Foreign currency translation adjustments	—	(2)	—	(2)
Impairments	—	(181)	—	(181)
Balance at December 31, 2017	21,819	16,632	—	38,451
Acquisitions	1,569	735	44,484	46,788
Foreign currency translation adjustments	—	(14)	—	(14)
Divestiture of RxCrossroads subsidiary	—	(398)	—	(398)
Impairments	—	(6,149)	—	(6,149)
Balance at December 31, 2018	\$ 23,388	\$ 10,806	\$ 44,484	\$ 78,678

Cumulative goodwill impairments as of December 31, 2018 and 2017 were \$6.1 billion and \$181 million , respectively.

The changes in the carrying amount of goodwill during the years ended December 31, 2018 and 2017 reflect the following activity:

Aetna Acquisition

On November 28, 2018, the Company completed the Aetna Acquisition. The majority of the preliminary valuation of goodwill associated with the Aetna Acquisition was recorded in the Health Care Benefits segment. The Company also allocated a portion of such goodwill to the Retail/LTC and Pharmacy Services segments related to the fair value of identified synergies that are expected to directly benefit those segments. See Note 2 "Acquisition of Aetna" for further discussion regarding the Aetna Acquisition.

LTC

During 2018, the LTC reporting unit continued to experience industry wide challenges that have impacted management's ability to grow the business at the rate that was originally estimated when the Company acquired Omnicare and when the 2017 annual goodwill impairment test was performed. These challenges include lower client retention rates, lower occupancy rates in skilled nursing facilities, the deteriorating financial health of numerous skilled nursing facility customers which resulted in a number of customer bankruptcies in 2018, and continued facility reimbursement pressures. In June 2018, LTC management submitted its initial budget for 2019 and updated the 2018 annual forecast which showed a projected deterioration in the financial results for the remainder of 2018 and in 2019, which also caused management to update its long-term forecast beyond 2019. Based on these updated projections, management determined that there were indicators that the LTC reporting unit's goodwill may be impaired and, accordingly, management performed an interim goodwill impairment test as of June 30, 2018. The results of that interim impairment test showed that the fair value of the LTC reporting unit was lower than the carrying value, resulting in a \$3.9 billion pre-tax goodwill impairment charge in the second quarter of 2018. The fair value of the LTC reporting unit was determined using a combination of a discounted cash flow method and a market multiple method. In addition to the lower financial projections, higher risk-free interest rates and lower market multiples of peer group companies contributed to the amount of the second quarter 2018 goodwill impairment charge.

During the third quarter of 2018, the Company performed its required annual impairment tests of goodwill and concluded there was no impairment of goodwill or trade names.

During the fourth quarter of 2018, the LTC reporting unit missed its forecast primarily due to operational issues and customer liquidity issues, including one significant customer bankruptcy. Additionally, LTC management submitted an updated final budget for 2019 which showed significant additional deterioration in the projected financial results for 2019 compared to the analyses performed in the second and third quarters of 2018 primarily due to continued industry and operational challenges, which also caused management to make further updates to its long-term forecast beyond 2019. The updated projections continue to reflect industry wide challenges including lower occupancy rates in skilled nursing facilities, significant deterioration in the financial health of numerous skilled nursing facility customers and continued facility reimbursement pressures. Based on these updated projections, management determined that there were indicators that the LTC reporting unit's goodwill may be further impaired and, accordingly, an interim goodwill impairment test was performed during the fourth quarter of 2018. The results of that impairment test showed that the fair value of the LTC reporting unit was lower than the carrying value, resulting in an additional \$2.2 billion goodwill impairment charge in the fourth quarter of 2018. In addition to the lower financial projections, lower market multiples of peer group companies also contributed to the amount of the fourth quarter 2018 goodwill impairment charge. The fair value of the LTC reporting unit was determined using a methodology consistent with the methodology described above for the analyses performed during the second and third quarters of 2018.

As of December 31, 2018, the remaining goodwill balance in the LTC reporting unit is approximately \$431 million.

RxCrossroads

During 2017, the Company began pursuing various strategic alternatives for its RxCrossroads reporting unit. In connection with this effort, the Company performed an interim goodwill impairment test in the second quarter of 2017. The results of that impairment test showed that the fair value of the RxCrossroads reporting unit was lower than the carrying value, resulting in a \$135 million pre-tax goodwill impairment charge in the second quarter of 2017.

The TCJA was enacted on December 22, 2017 and reduced the United States federal corporate income tax rate from 35% to 21% effective January 1, 2018 (see Note 10 "Income Taxes"). As a result, the RxCrossroads deferred income tax liabilities were reduced by \$47 million and an income tax benefit of \$47 million was recorded in the 2017 statement of operations. The reduction in the deferred income tax liabilities increased the carrying value of the RxCrossroads reporting unit by \$47 million which triggered an additional goodwill impairment charge in the RxCrossroads reporting unit of \$46 million during the fourth quarter of 2017.

On January 2, 2018, the Company sold its RxCrossroads subsidiary to McKesson Corporation for \$725 million, at which time the remaining goodwill of this reporting unit was removed from the consolidated balance sheet.

Intangible Assets

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

<i>In millions, except weighted average life</i>	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Life (years)
2018				
Trademarks (indefinitely-lived)	\$ 10,498	\$ —	\$ 10,498	N/A
Customer contracts/relationships and covenants not to compete	26,213	(6,349)	19,864	14.8
Technology	1,060	(31)	1,029	3.0
Provider networks	4,200	(19)	4,181	20.0
Value of Business Acquired	590	(7)	583	20.0
Favorable leases and other	1,177	(808)	369	17.1
Total	\$ 43,738	\$ (7,214)	\$ 36,524	15.3
2017				
Trademark (indefinitely-lived)	\$ 6,398	\$ —	\$ 6,398	N/A
Customer contracts/relationships and covenants not to compete	12,341	(5,536)	6,805	15.3
Favorable leases and other	1,190	(763)	427	16.2
Total	\$ 19,929	\$ (6,299)	\$ 13,630	15.4

Amortization expense for intangible assets totaled \$1.0 billion , \$817 million and \$795 million for the years ended December 31, 2018 , 2017 and 2016 , respectively. The projected annual amortization expense for the Company's intangible assets for the next five years is as follows:

<i>In millions</i>	
2019	\$ 2,563
2020	2,350
2021	2,253
2022	1,879
2023	1,844

6. Leases

The Company leases most of its retail and mail order dispensing pharmacy locations, and certain distribution centers and corporate offices under noncancelable operating leases, typically with initial terms of 15 to 25 years and with options that permit renewals for additional periods. The Company also leases certain equipment and other assets under noncancelable operating leases, typically with initial terms of 3 to 10 years.

In December 2015, in connection with the acquisition of the pharmacy and clinic businesses of Target, the Company entered into lease agreements with Target for the pharmacy and clinic space within Target stores. Given that the noncancelable contractual term of the pharmacy lease arrangement exceeds the remaining estimated economic life of the buildings being leased, the Company concluded for accounting purposes that the lease term was the remaining economic life of the buildings. Consequently, most of the individual Target pharmacy and clinic leases are capital leases.

Minimum rent on operating leases is expensed on a straight-line basis over the term of the lease. In addition to minimum rental payments, certain leases require additional payments based on sales volume, as well as reimbursement for real estate taxes, common area maintenance and insurance, which are expensed as incurred.

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

<i>In millions</i>	2018	2017	2016
Minimum rentals	\$ 2,528	\$ 2,455	\$ 2,418
Contingent rentals	28	29	35
Rental expense	2,556	2,484	2,453
Less: sublease income	(21)	(24)	(24)
Total rental expense, net	\$ 2,535	\$ 2,460	\$ 2,429

The following table is a summary of the future minimum lease payments under capital and operating leases as of December 31, 2018 :

<i>In millions</i>	Capital Leases	Operating Leases ⁽¹⁾
2019	\$ 74	\$ 2,690
2020	73	2,544
2021	73	2,399
2022	73	2,233
2023	73	2,110
Thereafter	875	16,004
Total future lease payments ⁽²⁾	1,241	\$ 27,980
Less: imputed interest	(599)	
Present value of capital lease obligations	\$ 642	

(1) Future operating lease payments have not been reduced by minimum sublease rentals of \$164 million due in the future under noncancelable subleases.

(2) The Company leases pharmacy and clinic space from Target. Amounts related to such capital and operating leases are reflected above. Amounts due in excess of the remaining estimated economic life of the buildings of approximately \$2.1 billion are not reflected herein since the estimated economic life of the buildings is shorter than the contractual term of the lease arrangement.

The Company finances a portion of its store development program through sale-leaseback transactions. The properties are generally sold at net book value, which generally approximates fair value, and the resulting leases generally qualify and are accounted for as operating leases. The operating leases that resulted from these transactions are included in the above table. The Company does not have any retained or contingent interests in the stores and does not provide any guarantees, other than a guarantee of lease payments, in connection with the sale-leaseback transactions. There were no sale-leaseback transactions in 2018. Proceeds from sale-leaseback transactions totaled \$265 million and \$230 million in 2017 and 2016, respectively.

7. Health Care Costs Payable

On November 28, 2018, the Company completed the Aetna Acquisition. Prior to the Aetna Acquisition, the Company's health care costs payable balance was immaterial and related to unpaid pharmacy claims for its stand-alone Medicare Part D PDPs within the Pharmacy Services segment. Accordingly, the Company will include disclosures for health care costs payable for the year ended December 31, 2018. Since the health care costs payable liability related to the Pharmacy Services segment is immaterial, the Company's disclosures will be presented on a consolidated basis and will not be disaggregated between the Pharmacy Services and Health Care Benefits segments.

Health care costs payable consist principally of unpaid fee-for-service medical, dental and pharmacy claims, capitation costs, other amounts due to health care providers pursuant to risk-sharing arrangements and accruals for state assessments within the Health Care Benefits segment. See Note 1 "Significant Accounting Policies" for information on how the Company estimates IBNR reserves and health care costs payable as well as changes to those methodologies, if any. The Company's estimate of IBNR liabilities is primarily based on trend and completion factors. Claim frequency is not used in the calculation of the Company's liability. In addition, it is impracticable to disclose claim frequency information for health care claims due to the Company's inability to gather consistent claim frequency information across its multiple claims processing systems. Any claim frequency count disclosure would not be comparable across the Company's different claim processing systems and would not

be consistent from period to period based on the volume of claims processed through each system. As a result, health care claim count frequency was not included in the disclosures included below.

The following table shows the components of the change in health care costs payable during 2018:

In millions

Health care costs payable, beginning of the period	\$ 5
Less: Reinsurance recoverables	—
Health care costs payable, beginning of the period, net	5
Acquisitions, net	5,357
Add: Components of incurred health care costs	
Current year	6,594
Prior years	(42)
Total incurred health care costs ⁽¹⁾	6,552
Less: Claims paid	
Current year	6,464
Prior years	260
Total claims paid	6,724
Add: Premium deficiency reserve	16
Health care costs payable, end of period, net	5,206
Add: Reinsurance recoverables	4
Health care costs payable, end of period	\$ 5,210

(1) Total incurred health care costs for the year ended December 31, 2018 in the table above exclude (i) \$16 million related to a premium deficiency reserve for the 2019 coverage year related to Medicaid products, (ii) \$4 million of benefit costs recorded in the Health Care Benefits segment that are included in Other Insurance Liabilities on the consolidated balance sheet and (iii) \$22 million of benefit costs recorded in the Corporate/Other segment that are included in Other Insurance Liabilities on the consolidated balance sheet.

At December 31, 2018, the Company's liabilities for IBNR plus expected development on reported claims totaled approximately \$ 4.1 billion. Substantially all of the Company's liabilities for IBNR plus expected development on reported claims at December 31, 2018 related to the current calendar year.

Due to the proximity of the Aetna Acquisition Date to December 31, 2018, the Company did not include disclosures related to incurred and paid claim development from November 28, 2018 to December 31, 2018. The Company will begin including disclosures related to incurred and paid claim development for the year ended December 31, 2019.

8. Borrowings and Credit Agreements

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

<u><i>In millions</i></u>	<u>2018</u>	<u>2017</u>
<u>Short-term debt</u>		
Commercial paper	\$ 720	\$ 1,276
<u>Long-term debt</u>		
1.9% senior notes due July 2018	—	2,250
2.25% senior notes due December 2018	—	1,250
2.2% senior notes due March 2019	375	—
2.25% senior notes due August 2019	850	850
3.125% senior notes due March 2020	2,000	—
Floating rate notes due March 2020	1,000	—
2.8% senior notes due July 2020	2,750	2,750
3.35% senior notes due March 2021	3,000	—
Floating rate notes due March 2021	1,000	—
4.125% senior notes due May 2021	550	550
2.125% senior notes due June 2021	1,750	1,750
4.125% senior notes due June 2021	500	—
5.45% senior notes due June 2021	600	—
3-Year tranche loan due November 2021	3,000	—
3.5% senior notes due July 2022	1,500	1,500
2.75% senior notes due November 2022	1,000	—
2.75% senior notes due December 2022	1,250	1,250
4.75% senior notes due December 2022	399	399
3.7% senior notes due March 2023	6,000	—
2.8% senior notes due June 2023	1,300	—
4% senior notes due December 2023	1,250	1,250
3.375% senior notes due August 2024	650	650
3.5% senior notes due November 2024	750	—
5% senior notes due December 2024	299	299
4.1% senior notes due March 2025	5,000	—
3.875% senior notes due July 2025	2,828	2,828
2.875% senior notes due June 2026	1,750	1,750
6.25% senior notes due June 2027	372	372
4.3% senior notes due March 2028	9,000	—
4.875% senior notes due July 2035	652	652
3.25% senior exchange debentures due December 2035	—	1
6.625% senior notes due June 2036	771	—
6.75% senior notes due December 2037	533	—
4.78% senior notes due March 2038	5,000	—
6.125% senior notes due September 2039	447	447
5.75% senior notes due May 2041	133	133
4.5% senior notes due May 2042	500	—
4.125% senior notes due November 2042	500	—
5.3% senior notes due December 2043	750	750
4.75% senior notes due March 2044	375	—
5.125% senior notes due July 2045	3,500	3,500
3.875% senior notes due August 2047	1,000	—
5.05% senior notes due March 2048	8,000	—
Capital lease obligations	642	670
Other	19	43
Total debt principal	74,265	27,170

Debt premiums	302	28
Debt discounts and deferred financing costs	(1,138)	(196)
	<u>73,429</u>	<u>27,002</u>
Less:		
Short-term debt (commercial paper)	(720)	(1,276)
Current portion of long-term debt	(1,265)	(3,545)
Long-term debt	<u>\$ 71,444</u>	<u>\$ 22,181</u>

The following is a summary of the Company's required principal debt repayments due during each of the next five years and thereafter, as of December 31, 2018 :

<i>In millions</i>	
2019	\$ 1,985
2020	5,775
2021	10,427
2022	4,178
2023	8,581
Thereafter	43,319
Total	\$ 74,265

Short-term Borrowings

Commercial Paper and Back-up Credit Facilities

The Company had approximately \$720 million and \$1.3 billion of commercial paper outstanding at weighted average interest rates of 2.8% and 2.0% as of December 31, 2018 and 2017, respectively. In connection with its commercial paper program, the Company maintains a \$1.75 billion 364-day unsecured back-up revolving credit facility, which expires on May 16, 2019, a \$1.25 billion, five-year unsecured back-up revolving credit facility, which expires on July 1, 2020, a \$1.0 billion, five-year unsecured back-up revolving credit facility, which expires on May 18, 2022, and a \$2.0 billion, five-year unsecured back-up revolving credit facility, which expires on May 17, 2023. The credit facilities allow for borrowings at various rates that are dependent, in part, on the Company's public debt ratings and require the Company to pay a weighted average quarterly facility fee of approximately .03%, regardless of usage. As of December 31, 2018 and 2017, there were no borrowings outstanding under any of the back-up credit facilities.

Bridge Loan Facility

On December 3, 2017, in connection with the Aetna Acquisition, the Company entered into a \$49.0 billion unsecured bridge loan facility commitment. The Company paid \$221 million in fees upon entering into the agreement. The fees were capitalized in other current assets and were amortized as interest expense over the period the bridge loan facility commitment was outstanding. The bridge loan facility commitment was reduced to \$44.0 billion on December 15, 2017 upon the Company entering into a \$5.0 billion term loan agreement. The Company recorded \$56 million of amortization of the bridge loan facility fees during the year ended December 31, 2017, which was recorded in interest expense in the consolidated statements of operations.

On March 9, 2018, the Company issued an aggregate of \$40.0 billion principal amount of unsecured floating rate notes and unsecured fixed rate senior notes, collectively the "2018 Notes". At this time, the bridge loan facility commitment was reduced to \$4.0 billion, and the Company paid \$8 million in fees to retain the bridge loan facility commitment through the Aetna Acquisition Date. Those fees were capitalized in other current assets and were amortized as interest expense over the period the bridge loan facility commitment was outstanding. The Company recorded \$173 million of amortization of the bridge loan facility commitment fees during the year ended December 31, 2018, which was recorded in interest expense in the consolidated statement of operations. On October 26, 2018, the Company entered into a \$4.0 billion unsecured 364-day bridge term loan agreement to formalize the bridge loan facility discussed above. On November 28, 2018, in connection with the Aetna Acquisition, the \$4.0 billion unsecured 364-day bridge term loan agreement terminated.

Terminated Revolving Credit Facility

On January 3, 2017, the Company entered into a \$2.5 billion revolving credit facility. The credit facility allowed for borrowings at various rates that were dependent, in part, on the Company's debt ratings and required the Company to pay a weighted average quarterly facility fee of approximately 0.03%, regardless of usage. The Company terminated this credit facility in May 2017.

Federal Home Loan Bank of Boston

Since the Aetna Acquisition Date, a subsidiary of the Company is a member of the FHLBB. As a member, the subsidiary has the ability to obtain cash advances, subject to certain minimum collateral requirements. The maximum borrowing capacity available from the FHLBB as of December 31, 2018 was approximately \$790 million. As of December 31, 2018, there were no outstanding advances from the FHLBB.

Long-term Borrowings

2018 Notes

On March 9, 2018, the Company issued the 2018 Notes with an aggregate principal amount of \$40.0 billion, for total proceeds of approximately \$39.4 billion, net of discounts and underwriting fees. The net proceeds of the 2018 Notes were used to fund a portion of the Aetna Acquisition. The 2018 Notes are comprised of the following:

In millions

3.125% senior notes due March 2020	\$	2,000
Floating rate notes due March 2020		1,000
3.35% senior notes due March 2021		3,000
Floating rate notes due March 2021		1,000
3.7% senior notes due March 2023		6,000
4.1% senior notes due March 2025		5,000
4.3% senior notes due March 2028		9,000
4.78% senior notes due March 2038		5,000
5.05% senior notes due March 2048		8,000
Total debt principal	\$	<u>40,000</u>

Beginning in December 2017 through March 31, 2018, the Company entered into several interest rate swap and treasury lock transactions to manage interest rate risk. These agreements were designated as cash flow hedges and were used to hedge the exposure to variability in future cash flows resulting from changes in interest rates related to the anticipated issuance of long-term debt to fund the Aetna Acquisition.

In connection with the issuance of the 2018 Notes, the Company terminated all outstanding cash flow hedges. In connection with the hedge transactions, the Company received a net amount of \$446 million from the hedge counterparties upon termination, which was recorded as a gain, net of tax, of \$331 million in accumulated other comprehensive income and will be reclassified as a reduction of interest expense over the life of the 2018 Notes. See Note 13 "Other Comprehensive Income (Loss)" for additional information. The Company expects to reclassify approximately \$18 million, net of tax, in gains associated with these cash flow hedges into net income within the next 12 months.

Term Loan Agreement

On December 15, 2017, in connection with the Aetna Acquisition, the Company entered into a \$5.0 billion term loan agreement. The term loan facility under the term loan agreement consists of a \$3.0 billion three-year tranche and a \$2.0 billion five-year tranche. The term loan agreement allows for borrowings at various rates that are dependent, in part, on the Company's debt ratings. In connection with the Aetna Acquisition, the Company borrowed \$5.0 billion (a \$3.0 billion three-year tranche and a \$2.0 billion five-year tranche) under term loan agreement in November 2018. The Company terminated the \$2.0 billion five-year tranche in December 2018 with the repayment of the borrowing. As of December 31, 2018, the Company had \$3.0 billion outstanding under the three-year tranche of the term loan agreement.

Aetna Related Debt

On the Aetna Acquisition Date, the Company assumed long-term debt with a fair value of \$8.1 billion, with stated interest rates ranging from 2.2% to 6.75%. The long-term debt assumed is included in the summary of borrowings table above.

2016 Notes

On May 16, 2016, the Company issued \$1.75 billion aggregate principal amount of 2.125% unsecured senior notes due June 1, 2021 and \$1.75 billion aggregate principal amount of 2.875% unsecured senior notes due June 1, 2026 (collectively, the "2016 Notes") for total proceeds of approximately \$3.5 billion, net of discounts and underwriting fees. The 2016 Notes may be redeemed, in whole at any time, or in part from time to time, at the Company's option at a defined redemption price plus accrued and unpaid interest to the redemption date. The net proceeds of the 2016 Notes were used for general corporate purposes and to repay certain corporate debt.

Early Extinguishment of Long-Term Debt

On May 16, 2016, the Company announced tender offers for (i) any and all of its 5.75% senior notes due 2017, its 6.60% senior notes due 2019 and its 4.75% senior notes due 2020 (collectively, the "Any and All Notes") and (ii) up to \$1.5 billion aggregate

principal amount of the 4.75% Senior Notes due 2022 issued by its wholly-owned subsidiary Omnicare, the 5.00% Senior Notes due 2024 issued by Omnicare, its 3.875% Senior Notes due 2025, its 6.25% Senior Notes due 2027, its 4.875% Senior Notes due 2035, its 6.125% Senior Notes due 2039 and its 5.75% Senior Notes due 2041 (collectively, the “Maximum Tender Offer Notes” and together with the Any and All Notes, the “Notes”). On May 31, 2016, the Company increased the aggregate principal amount of the tender offers for the Maximum Tender Offer Notes to \$2.25 billion . The Company purchased approximately \$835 million aggregate principal amount of the Any and All Notes and \$2.25 billion aggregate principal amount of the Maximum Tender Offer Notes pursuant to the tender offers, which expired on June 13, 2016. In connection with the purchase of the Notes, the Company paid a premium of \$486 million in excess of the debt principal, wrote off \$50 million of unamortized deferred financing costs and incurred \$6 million in fees, for a total loss on early extinguishment of long-term debt of \$542 million , which was recorded in income from continuing operations in the consolidated statement of operations for the year ended December 31, 2016.

On June 27, 2016, the Company notified the holders of the remaining Any and All Notes that the Company was exercising its option to redeem the outstanding Any and All Notes pursuant to the terms of the Any and All Notes and the Indenture dated as of August 15, 2006, between the Company and The Bank of New York Mellon Trust Company, N.A. Approximately \$1.1 billion aggregate principal amount of Any and All Notes was redeemed on July 27, 2016. In connection with that redemption, the Company paid a premium of \$97 million in excess of the debt principal and wrote off \$4 million of unamortized deferred financing costs, for a total loss on early extinguishment of long-term debt of \$101 million , which was recorded in income from continuing operations in the consolidated statement of operations for the year ended December 31, 2016.

Debt Covenants

The back-up revolving credit facilities, unsecured senior notes, unsecured floating rate notes and term loan agreement contain customary restrictive financial and operating covenants. These covenants do not include a requirement for the acceleration of the Company’s debt maturities in the event of a downgrade in the Company’s credit rating. The Company does not believe the restrictions contained in these covenants materially affect its financial or operating flexibility. As of December 31, 2018 , the Company was in compliance with all of its debt covenants.

9. Pension Plans and Other Postretirement Benefits

Defined Contribution Plans

As of December 31, 2018 , the Company sponsors several active 401(k) savings plans that cover all employees who meet plan eligibility requirements. The Company makes matching contributions consistent with the provisions of the respective plans.

At the participant’s option, account balances, including the Company’s matching contribution, can be invested without restriction among various investment options under each plan. Two of the defined contribution plans offer the Company’s common stock fund as an investment option. The Company also maintains nonqualified, unfunded deferred compensation plans for certain key employees. The plans provide participants the opportunity to defer portions of their eligible compensation and for certain nonqualified plans, participants receive matching contributions equivalent to what they could have received under the CVS Health 401(k) Plan or Aetna 401(k) Plan absent certain restrictions and limitations under the Internal Revenue Code. The Company’s contributions under the above defined contribution plans were \$334 million , \$314 million and \$295 million in 2018, 2017 and 2016, respectively. The Company’s contributions for the year ended December 31, 2018 include contributions to the Aetna Inc. 401(k) plan subsequent to the Aetna Acquisition Date.

Defined Benefit Pension Plans

On November 28, 2018, the Company completed the Aetna Acquisition. Aetna sponsors a tax-qualified pension plan that was frozen in 2010. Aetna also sponsors a non-qualified supplemental pension plan that was frozen in 2007. Aetna’s pension plan benefit obligations and the fair value of plan assets were remeasured as of the Aetna Acquisition Date.

Prior to the Aetna Acquisition, during the year ended December 31, 2017 , the Company settled the pension obligations of its existing two tax-qualified defined benefit pension plans by irrevocably transferring pension liabilities to an insurance company through the purchase of group annuity contracts and through lump sum distributions. These purchases, funded with pension plan assets, resulted in pre-tax settlement losses of \$187 million in the year ended December 31, 2017 , related to the recognition of accumulated deferred actuarial losses. The settlement losses were recorded in other expense in the consolidated statement of operations. The Company also sponsors several other defined benefit pension plans that are unfunded nonqualified supplemental retirement plans as described in the “Other Postretirement Benefits” section below.

Pension Benefit Obligations and Plan Assets

The following tables outline the change in benefit obligations and plan assets over the specified periods:

<i>In millions</i>	2018	2017
Change in benefit obligation:		
Benefit obligation, beginning of year	\$ 131	\$ 844
Acquired benefit obligations	5,685	—
Interest cost	25	20
Actuarial loss (gain)	41	(31)
Benefit payments	(41)	(35)
Settlements	—	(667)
Benefit obligation, end of year	<u>\$ 5,841</u>	<u>\$ 131</u>

<i>In millions</i>	2018	2017
Change in plan assets:		
Fair value of plan assets, beginning of year	\$ —	\$ 624
Fair value of plan assets acquired	5,709	—
Actual return on plan assets	(17)	32
Employer contributions	12	46
Benefit payments	(41)	(35)
Settlements	—	(667)
Fair value of plan assets, end of year	<u>5,663</u>	<u>—</u>
Funded status	<u>\$ (178)</u>	<u>\$ (131)</u>

The assets (liabilities) recognized on the consolidated balance sheets at December 31, 2018 and 2017 for the pension plans consisted of the following:

<i>In millions</i>	2018	2017
Accrued benefit assets reflected in other assets	\$ 147	\$ —
Accrued benefit liabilities reflected in accrued expenses	(25)	(21)
Accrued benefit liabilities reflected in other long-term liabilities	(300)	(110)
Net liabilities	<u>\$ (178)</u>	<u>\$ (131)</u>

Net Periodic Benefit Costs

The components of net periodic benefit cost for the years ended December 31 are shown below:

<i>In millions</i>	2018	2017	2016
Components of net periodic benefit cost:			
Interest cost	\$ 25	\$ 20	\$ 27
Expected return on plan assets	(33)	(20)	(32)
Amortization of net actuarial loss	2	21	32
Settlement losses	—	187	—
Net periodic benefit cost	<u>\$ (6)</u>	<u>\$ 208</u>	<u>\$ 27</u>

Pension Plan Assumptions

The Company uses a series of actuarial assumptions to determine its benefit obligations and net benefit costs as further detailed below.

Discount Rates - The discount rate for the acquired Aetna plans is determined using a yield curve as of the annual measurement date. Each yield curve consisted of a series of individual discount rates, with each discount rate corresponding to a single point in time, based on high-quality bonds. Projected benefit payments are discounted to the measurement date using the corresponding rate from the yield curve. The weighted average discount rate for the Aetna pension plans was 4.4% in 2018 .

The Company settled the pension obligations of its existing tax-qualified plans during 2017. The discount rates for determining plan benefit obligations (excluding the terminated qualified plan) were approximately 4.0% , 3.5% and 4.0% in 2018 , 2017 and 2016 , respectively. The discount rate for the terminated qualified plan was 3.1% in 2016.

Expected Return on Plan Assets - The expected long-term rate of return on plan assets is determined by using the plan's target allocation and return expectations based on many factors including forecasted long-term capital market real returns and the inflationary outlook on a plan by plan basis. The expected long-term rate of return for the acquired Aetna plans was 6.6% in 2018. See "Pension Plan Assets" below for additional details regarding the Aetna pension plan assets as of December 31, 2018.

The Company settled the pension obligations of its existing tax-qualified plans during 2017. The expected long-term rate of return for these plans ranged from 4.0% to 5.5% in both 2017 and 2016 .

Net Actuarial Losses/Gains - Based on the mortality experience of the acquired Aetna pension plans, in 2018 the Company utilized the RP-2014WC Mortality Table with a generation projection of future mortality improvements using Scale MP-2018 for the acquired Aetna plans.

Pension Plan Assets

As of December 31, 2017, the assets in the Company's prior qualified defined benefit pension plans had been fully liquidated to settle all plan obligations through the purchase of group annuity contracts and through lump sum distributions. On November 28, 2018, the Company completed the Aetna Acquisition. At December 31, 2018, the assets of the Aetna pension plan (the "Aetna Pension Plan") primarily include debt and equity securities held in separate accounts, as well as common/collective trusts and real estate investments. The valuation methodologies used to price these debt and equity securities and common/collective trusts are similar to the methodologies described in Note 4 "Fair Value." Assets of the Aetna pension plan also include investments in other assets that are carried at fair value. The following is a description of the valuation methodology used to price real estate investments and these additional investments, including the general classification pursuant to the fair value hierarchy.

Real Estate - Real estate investments are valued by independent third party appraisers. The appraisals comply with the Uniform Standards of Professional Appraisal Practice, which includes, among other things, the income, cost, and sales comparison approaches to estimating property value. Therefore, these investments are classified in Level 3.

Private equity and hedge fund limited partnerships - Private equity and hedge fund limited partnerships are carried at fair value which is estimated using the NAV per unit as reported by the administrator of the underlying investment fund as a practical expedient to fair value. Therefore, these investments have been excluded from the fair value table below.

Aetna Pension Plan assets with changes in fair value measured on a recurring basis at December 31, 2018 were as follows:

<i>In millions</i>	Level 1	Level 2	Level 3	Total
Debt securities:				
U.S. government securities	\$ 511	\$ 38	\$ —	\$ 549
States, municipalities and political subdivisions	—	147	—	147
U.S. corporate securities	—	1,671	5	1,676
Foreign securities	—	177	—	177
Residential mortgage-backed securities	—	339	—	339
Commercial mortgage-backed securities	—	70	—	70
Other asset-backed securities	—	162	—	162
Redeemable preferred securities	—	6	—	6
Total debt securities	511	2,610	5	3,126
Equity securities:				
U.S. Domestic	744	—	—	744
International	356	—	—	356
Domestic real estate	30	—	—	30
Total equity securities	1,130	—	—	1,130
Other investments:				
Real estate	—	—	425	425
Common/collective trusts ⁽¹⁾	—	253	—	253
Derivatives	—	2	—	2
Total other investments	—	255	425	680
Total pension investments ⁽²⁾	\$ 1,641	\$ 2,865	\$ 430	\$ 4,936

(1) The assets in the underlying funds of common/collective trusts consist of \$109 million of equity securities and \$144 million of debt securities.

(2) Excludes \$98 million of cash and cash equivalents, \$465 million of private equity limited partnership investments and \$164 million of hedge fund limited partnership investments as the amounts are carried at fair value.

The change in the balance of pension plan assets during 2018 relates to investments acquired in the Aetna Acquisition, which occurred on November 28, 2018. There was an immaterial amount of transfers into or out of Level 3 from November 28, 2018 to December 31, 2018.

The Aetna Pension Plan invests in a diversified mix of assets intended to maximize long-term returns while recognizing the need for adequate liquidity to meet ongoing benefit and administrative obligations. The risk of unexpected investment and actuarial outcomes is regularly evaluated. This evaluation is performed through forecasting and assessing ranges of investment outcomes over short- and long-term horizons and by assessing Aetna Pension Plan's liability characteristics. Complementary investment styles and techniques are utilized by multiple professional investment firms to further improve portfolio and operational risk characteristics. Public and private equity investments are used primarily to increase overall plan returns. Real estate investments are viewed favorably for their diversification benefits and above-average dividend generation. Fixed income investments provide diversification benefits and liability hedging attributes that are desirable, especially in falling interest rate environments.

At December 31, 2018, target investment allocations for the Aetna Pension Plan were: 31% in equity securities, 57% in debt securities, 6% in real estate, 3% in private equity limited partnerships and 3% in hedge funds. Actual asset allocations may differ from target allocations due to tactical decisions to overweight or underweight certain assets or as a result of normal fluctuations in asset values. Asset allocations are consistent with stated investment policies and, as a general rule, periodically rebalanced back to target asset allocations. Asset allocations and investment performance are formally reviewed periodically throughout the year by the Aetna Pension Plan's Benefit Finance Committee. Forecasting of asset and liability growth is performed at least annually.

Cash Flows

The Company generally contributes to its tax-qualified pension plans based on minimum funding requirements determined under applicable federal laws and regulations. Employer contributions related to the non-qualified supplemental pension plans generally represent payments to retirees for current benefits. The Company contributed \$12 million, \$46 million and \$25 million to the pension plans during 2018, 2017 and 2016, respectively. No contributions are required for the Aetna Pension Plan in 2019. The Company expects to make an immaterial amount of contributions for all other pension plans in 2019. The Company estimates the following future benefit payments, which are calculated using the same actuarial assumptions used to measure the pension plan benefit obligation as of December 31, 2018 :

<i><u>In millions</u></i>	
2019	\$ 375
2020	387
2021	411
2022	387
2023	391
2024-2028	1,916

Multiemployer Pension Plans

The Company also contributes to a number of multiemployer pension plans under the terms of collective-bargaining agreements that cover its union-represented employees. The risks of participating in these multiemployer plans are different from single-employer pension plans in the following aspects: (i) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (ii) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers, and (iii) if the Company chooses to stop participating in some of its multiemployer plans, the Company may be required to pay those plans an amount based on the underfunded status of the applicable plan, referred to as a withdrawal liability.

None of the multiemployer pension plans in which the Company participates are individually significant to the Company. Total Company contributions to multiemployer pension plans were \$18 million, \$17 million and \$15 million in 2018, 2017 and 2016, respectively.

Other Postretirement Benefits

The Company provides postretirement health care and life insurance benefits to certain retirees who meet eligibility requirements. On November 28, 2018, the Company completed the Aetna Acquisition. Aetna also sponsors OPEB plans that provide certain health care and life insurance benefits for retired employees. The Company's funding policy is generally to pay covered expenses as they are incurred. For retiree medical plan accounting, the Company reviews external data and its own historical trends for health care costs to determine the health care cost trend rates. As of December 31, 2018 and 2017, the Company's other postretirement benefits had an accumulated postretirement benefit obligation of \$228 million and \$25 million, respectively. Net periodic benefit costs related to these other postretirement benefits were \$2 million in 2018, and \$1 million in both 2017 and 2016.

The Company estimates the following future benefit payments, which are calculated using the same actuarial assumptions used to measure the other postretirement benefit obligation as of December 31, 2018 :

<i><u>In millions</u></i>	
2019	\$ 17
2020	17
2021	17
2022	16
2023	16
2024-2028	76

Pursuant to various collective bargaining agreements, the Company also contributes to multiemployer health and welfare plans that cover certain union-represented employees. The plans provide postretirement health care and life insurance benefits to

certain employees who meet eligibility requirements. Total Company contributions to multiemployer health and welfare plans were \$58 million, \$58 million and \$52 million in 2018, 2017 and 2016, respectively.

10. Income Taxes

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

<i>In millions</i>	2018	2017	2016
Current:			
Federal	\$ 1,480	\$ 2,594	\$ 2,803
State	499	464	511
	<u>1,979</u>	<u>3,058</u>	<u>3,314</u>
Deferred:			
Federal	22	(1,435)	5
State	1	14	(2)
	<u>23</u>	<u>(1,421)</u>	<u>3</u>
Total	<u>\$ 2,002</u>	<u>\$ 1,637</u>	<u>\$ 3,317</u>

The TCJA was enacted on December 22, 2017. Among numerous changes to existing tax laws, the TCJA permanently reduced the federal corporate income tax rate from 35% to 21% effective on January 1, 2018. The effects of changes in tax rates on deferred tax balances are required to be taken into consideration in the period in which the changes are enacted, regardless of when they are effective. As a result of the reduction of the corporate income tax rate under the TCJA, the Company estimated the revaluation of its net deferred tax liabilities and recorded a provisional noncash income tax benefit of approximately \$1.5 billion for year ended December 31, 2017. The Company completed its assessment of the TCJA's final impact in December 2018 and recorded an additional tax benefit of approximately \$100 million in the year ended December 31, 2018.

The following table is a reconciliation of the statutory income tax rate to the Company's effective income tax rate for continuing operations for the years ended December 31:

	2018	2017	2016
Statutory income tax rate	21.0 %	35.0 %	35.0 %
State income taxes, net of federal tax benefit	27.7	4.1	4.1
Effect of the Tax Cuts and Jobs Act	(7.1)	(18.3)	—
Health insurer fee	2.2	—	0.2
Goodwill impairments	89.5	0.8	—
Sale of subsidiary	5.0	—	—
Other	4.1	(1.8)	(0.9)
Effective income tax rate	<u>142.4 %</u>	<u>19.8 %</u>	<u>38.4 %</u>

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

<i>In millions</i>	2018	2017
Deferred income tax assets:		
Lease and rents	\$ 277	\$ 291
Inventory	28	31
Employee benefits	243	246
Allowance for doubtful accounts	243	187
Retirement benefits	130	40
Net operating loss and capital loss carryforwards	529	101
Deferred income	104	93
Insurance reserves	467	—
Investments	11	—
Other	242	18
Valuation allowance	(520)	(77)
Total deferred income tax assets	1,754	930
Deferred income tax liabilities:		
Depreciation and amortization	(9,431)	(3,926)
Total deferred income tax liabilities	(9,431)	(3,926)
Net deferred income tax liabilities	\$ (7,677)	\$ (2,996)

The increase in net deferred income tax liabilities is mainly due to the Aetna Acquisition. As of December 31, 2018, the Company has net operating and capital loss carryovers of approximately \$529 million. The Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent results of operations. The Company established a valuation allowance of \$520 million because it does not consider it more likely than not that these deferred tax assets will be recovered.

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

<i>In millions</i>	2018	2017	2016
Beginning balance	\$ 344	\$ 307	\$ 338
Additions based on tax positions related to the current year	1	62	68
Additions based on tax positions related to prior years	324	32	70
Reductions for tax positions of prior years	(5)	(28)	(100)
Expiration of statutes of limitation	(2)	(10)	(22)
Settlements	(1)	(19)	(47)
Ending balance	\$ 661	\$ 344	\$ 307

The increase in the balance of unrecognized tax benefits in 2018 compared to 2017 and 2016 is mainly due to the Aetna Acquisition.

The Company and most of its subsidiaries are subject to United States federal income tax as well as income tax of numerous state and local jurisdictions. The Company is a participant in the Compliance Assurance Process, which is a program made available by the Internal Revenue Service ("IRS") to certain qualifying large taxpayers, under which participants work collaboratively with the IRS to identify and resolve potential tax issues through open, cooperative and transparent interaction prior to the annual filing of their federal income tax return. The IRS has substantially completed its examinations of the Company's 2015, 2016 and 2017 consolidated United States federal income tax returns. The IRS is currently examining the Company's 2018 consolidated United States federal income tax return.

The Company and its subsidiaries are also currently under income tax examinations by a number of state and local tax authorities. As of December 31, 2018, no examination has resulted in any proposed adjustments that would result in a material change to the Company's results of operations, financial condition or liquidity.

Substantially all material state and local income tax matters have been concluded for fiscal years through 2012. Certain state exams are likely to be concluded and certain state statutes of limitations will lapse in 2019, but the change in the balance of the Company's uncertain tax positions is projected to be immaterial. In addition, it is reasonably possible that the Company's unrecognized tax benefits could change within the next twelve months due to the anticipated conclusion of various examinations with the IRS for various years. An estimate of the range of the possible change cannot be made at this time.

The Company records interest expense related to unrecognized tax benefits and penalties in the income tax provision. The Company accrued interest expense of approximately \$19 million, \$11 million and \$10 million in 2018, 2017 and 2016, respectively. The Company had approximately \$80 million and \$34 million accrued for interest and penalties as of December 31, 2018 and 2017, respectively.

As of December 31, 2018, the total amount of unrecognized tax benefits that, if recognized, would affect the Company's effective income tax rate is approximately \$597 million, after considering the federal benefit of state income taxes.

11. Stock Incentive Plans

The terms of the CVS Health 2017 Incentive Compensation Plan ("ICP") provide for grants of annual incentive and long-term performance awards to executive officers and other officers and employees of the Company or any subsidiary of the Company, as well as equity compensation to outside directors of CVS Health. Payment of such annual incentive and long-term performance awards will be in cash, stock, other awards or other property, at the discretion of the Management Planning and Development Committee (the "MP&D Committee") of the Company's Board of Directors (the "Board"). The ICP allows for a maximum of 32 million shares of CVS Health common stock to be reserved and available for grants. Prior to the acquisition of Aetna in 2018, the ICP was the only compensation plan under which the Company granted stock options, restricted stock and other stock-based awards to its employees, with the exception of the Company's Employee Stock Purchase Plan ("ESPP"). As of December 31, 2018, there were approximately 26 million shares of CVS Health common stock available for future grants under the ICP.

As of the Aetna Acquisition Date, approximately 22 million shares of Aetna common stock subject to awards outstanding under the Amended Aetna Inc. 2010 Stock Incentive Plan ("SIP") were assumed by CVS Health. In addition, in accordance with the merger agreement, shares which were available for future issuance under the SIP were converted into approximately 32 million shares of CVS Health common stock reserved and available for issuance pursuant to future awards. As of December 31, 2018, there were approximately 32 million shares of CVS Health common stock available for future grants under the SIP.

Stock-based Compensation Expense

Stock-based compensation is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period of the stock award (generally three to five years) using the straight-line method. The following table is a summary of stock-based compensation for each of the respective periods:

<i><u>In millions</u></i>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Stock options and stock appreciation rights ("SARs") ⁽¹⁾⁽²⁾	\$ 70	\$ 65	\$ 79
Restricted stock units and performance stock units ⁽²⁾	210	169	143
Total stock-based compensation	<u>\$ 280</u>	<u>\$ 234</u>	<u>\$ 222</u>

(1) Includes the ESPP.

(2) Stock-based compensation for the year ended December 31, 2018 includes \$14 million and \$27 million associated with accelerated vesting of SARs and restricted stock replacement awards, respectively, issued to Aetna employees who were terminated subsequent to the acquisition.

ESPP

The ESPP provides for the purchase of up to 30 million shares of common stock. Under the ESPP, beginning in 2016, eligible employees could purchase common stock at the end of each six month offering period at a purchase price equal to 90% of the lower of the fair market value on the first day or the last day of the offering period. Prior to 2016, the purchase price was equal

to 85% of the lower of the fair market value on the first day or the last day of the offering period. During 2018, approximately two million shares of common stock were purchased under the provisions of the ESPP at an average price of \$61.40 per share. As of December 31, 2018, approximately 9 million shares of common stock were available for issuance under the ESPP.

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

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

	2018	2017	2016
Dividend yield ⁽¹⁾	1.45%	1.24%	0.88%
Expected volatility ⁽²⁾	28.02%	22.70%	20.64%
Risk-free interest rate ⁽³⁾	1.87%	0.86%	0.45%
Expected life (in years) ⁽⁴⁾	0.5	0.5	0.5
Weighted-average grant date fair value	\$ 12.26	\$ 13.01	\$ 14.98

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

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

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

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

Restricted Stock Units and Performance Stock Units

The Company's restricted stock units and performance stock units are considered nonvested share awards and require no payment from the employee. Vesting of the Company's performance stock units is dependent upon the degree to which the Company achieves its performance goals, which are set at the time of grant by the MP&D Committee. For each restricted stock unit and performance share stock granted, employees receive one share of common stock, net of taxes, at the end of the vesting period. Compensation cost is recorded based on the market price of the Company's common stock on the grant date and is recognized on a straight-line basis over the requisite service period. On November 28, 2018, the Company completed the Aetna Acquisition. All unvested Aetna performance stock unit and restricted stock unit awards as of the Aetna Acquisition Date were converted into replacement CVS Health restricted stock awards.

As of December 31, 2018, there was \$491 million of total unrecognized compensation cost related to Company restricted stock units and performance stock units that are expected to vest. These costs are expected to be recognized over a weighted-average period of 2.01 years. The total fair value of restricted shares vested during 2018, 2017 and 2016 was \$262 million, \$175 million and \$218 million, respectively.

The following table is a summary of the restricted stock unit and performance stock unit activity for the year ended December 31, 2018:

<i>Units in thousands</i>	Units	Weighted Average Grant Date Fair Value
Unvested at beginning of year	5,014	\$ 86.92
Granted	10,185	\$ 73.18
Vested	(3,757)	\$ 68.85
Forfeited	(437)	\$ 76.92
Unvested at end of year	11,005	\$ 76.18

Stock Options and SARs

All stock option grants are awarded at fair value on the date of grant. The fair value of stock options is estimated using the Black-Scholes option pricing model and stock-based compensation is recognized on a straight-line basis over the requisite

service period. Stock options granted generally become exercisable over a four -year period from the grant date. Stock options generally expire seven years after the grant date.

On November 28, 2018, the Company completed the Aetna Acquisition. All unvested Aetna SARs outstanding as of the Aetna Acquisition Date were converted into replacement CVS Health SARs. The replacement SARs granted will be settled in CVS Health common stock, net of taxes, based on the appreciation of the stock price on the exercise date over the market price on the date of grant. The fair value of SARs is estimated using the Black-Scholes option pricing model and stock-based compensation is recognized on a straight-line basis over the requisite service period. SARs generally become exercisable over a three -year period from the grant date. SARs generally expire ten years after the grant date.

The following table is a summary of stock option and SAR activity that occurred for the years ended December 31, 2018 , 2017 and 2016 :

<i>In millions</i>	2018	2017	2016
Cash received from stock options exercised (including ESPP)	\$ 242	\$ 329	\$ 296
Payments for taxes for net share settlement of equity awards	97	71	72
Intrinsic value of stock options and SARs exercised	79	176	244
Fair value of stock options and SARs vested	324	341	298

The fair value of each stock option and SAR is estimated using the Black-Scholes option pricing model based on the following assumptions at the time of grant:

	2018	2017	2016
Dividend yield ⁽¹⁾	2.76%	2.56%	1.62%
Expected volatility ⁽²⁾	21.27%	18.39%	17.22%
Risk-free interest rate ⁽³⁾	2.77%	1.77%	1.24%
Expected life (in years) ⁽⁴⁾	4.8	4.1	4.2
Weighted-average grant date fair value	\$ 24.55	\$ 9.43	\$ 13.00

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

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

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

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

As of December 31, 2018 , unrecognized compensation expense related to unvested stock options and SARs totaled \$58 million , which the Company expects to be recognized over a weighted-average period of 1.2 years. After considering anticipated forfeitures, the Company expects approximately 11 million of the unvested stock options and SARs to vest over the requisite service period.

The following table is a summary of the Company's stock option and SAR activity for the year ended December 31, 2018

<u><i>In thousands, except weighted average exercise price and remaining contractual term</i></u>	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2017	20,530	\$ 75.32		
Granted	7,144	\$ 51.06		
Exercised	(2,993)	\$ 44.62		
Forfeited	(908)	\$ 86.97		
Expired	(864)	\$ 81.79		
Outstanding at December 31, 2018	22,909	\$ 71.15	4.08	\$ 165,245
Exercisable at December 31, 2018	11,436	\$ 72.69	2.23	\$ 73,784
Vested at December 31, 2018 and expected to vest in the future	22,532	\$ 71.18	4.05	\$ 163,596

12. Shareholders' Equity

Share Repurchases

The following share repurchase programs have been authorized by the Board:

<u><i>In billions</i></u>	Authorized	Remaining as of December 31, 2018
Authorization Date		
November 2, 2016 ("2016 Repurchase Program")	\$ 15.0	\$ 13.9
December 15, 2014 ("2014 Repurchase Program")	10.0	—

The share Repurchase Programs, each of which was effective immediately, permit the Company to effect repurchases from time to time through a combination of open market repurchases, privately negotiated transactions, accelerated share repurchase ("ASR") transactions, and/or other derivative transactions. The 2014 Repurchase Program was completed during the second quarter of 2017. The 2016 Repurchase Program can be modified or terminated by the Board at any time.

2018 Activity

During the year ended December 31, 2018, the Company did not repurchase any shares of common stock pursuant to the 2016 Repurchase Program.

2017 Activity

Pursuant to the authorization under the 2014 Repurchase Program, in August 2016, the Company entered into two fixed dollar ASRs with Barclays Bank PLC ("Barclays") for a total of \$3.6 billion. Upon payment of the \$3.6 billion purchase price in January 2017, the Company received a number of shares of its common stock equal to 80% of the \$3.6 billion notional amount of the ASRs or approximately 36.1 million shares, which were placed into treasury stock in January 2017. The ASRs were accounted for as an initial treasury stock transaction for \$2.9 billion and a forward contract for \$0.7 billion. In April 2017, the Company received an additional 9.9 million shares of common stock, representing the remaining 20% of the \$3.6 billion notional amount of the ASRs, thereby concluding the ASRs. The additional 9.9 million shares of common stock delivered to the Company by Barclays were placed into treasury stock and the forward contract was reclassified from capital surplus to treasury stock in April 2017.

During the year ended December 31, 2017, the Company repurchased an aggregate of 55.4 million shares of common stock for approximately \$4.4 billion under the 2014 and 2016 Repurchase Programs.

2016 Activity

Pursuant to the authorization under the 2014 Repurchase Program, in December 2015, the Company entered into a \$725 million fixed dollar ASR with Barclays. Upon payment of the \$725 million purchase price in December 2015, the Company received a number of shares of its common stock equal to 80% of the \$725 million notional amount of the ASR or approximately 6.2

million shares, which were placed into treasury stock in December 2015. The ASR was accounted for as an initial treasury stock transaction for \$580 million and a forward contract for \$145 million. The forward contract was classified as an equity instrument and was recorded within capital surplus on the consolidated balance sheet. In January 2016, the Company received an additional 1.4 million shares of common stock, representing the remaining 20% of the \$725 million notional amount of the ASR, thereby concluding the ASR. The additional 1.4 million shares of common stock delivered to the Company by Barclays were placed into treasury stock and the forward contract was reclassified from capital surplus to treasury stock in January 2016.

During the year ended December 31, 2016, the Company repurchased an aggregate of 47.5 million shares of common stock for approximately \$4.5 billion under the 2014 Repurchase Program.

Dividends

The quarterly cash dividend declared by the Board was \$0.50 per share in 2018 and 2017. CVS Health has paid cash dividends every quarter since becoming a public company. Future dividend payments will depend on the Company’s earnings, capital requirements, financial condition and other factors considered relevant by the Board.

Regulatory Requirements

On November 28, 2018, the Company completed the Aetna Acquisition. Aetna’s insurance business operations are conducted through subsidiaries that principally consist of HMOs and insurance companies. The Company’s HMO and insurance subsidiaries report their financial statements in accordance with accounting practices prescribed by state regulatory authorities which may differ from GAAP.

The combined statutory net income for the year ended December 31, 2018 (which includes Aetna and its subsidiaries from November 28, 2018 to December 2018) was not material. The combined statutory capital and surplus at December 31, 2018 of the Company’s insurance and HMO subsidiaries was approximately \$11.1 billion. From November 28, 2018 to December 31, 2018, the Company’s insurance and HMO subsidiaries paid \$909 million of gross dividends to the Company.

In addition to general state law restrictions on payments of dividends and other distributions to shareholders applicable to all corporations, HMOs and insurance companies are subject to further regulations that, among other things, may require those companies to maintain certain levels of equity and restrict the amount of dividends and other distributions that may be paid to their equity holders. In addition, in connection with the Aetna Acquisition, the Company made certain undertakings that require prior regulatory approval of dividends by certain of its HMOs and insurance companies. At December 31, 2018, these amounts were as follows:

In millions

Estimated minimum statutory surplus required by regulators	\$	5,358
Investments on deposit with regulatory bodies		630
Estimated maximum dividend distributions permitted in 2019 without prior regulatory approval		584

Noncontrolling Interests

At December 31, 2018, noncontrolling interests were \$318 million primarily related to third party interests in the Company’s operating entities. The noncontrolling entities’ share is included in total shareholders’ equity.

13. Other Comprehensive Income (Loss)

Shareholders' equity included the following activity in accumulated other comprehensive income (loss) in 2018, 2017 and 2016:

<i>In millions</i>	At December 31,		
	2018	2017	2016
Net unrealized investment gains (losses):			
Beginning of year balance	\$ —	\$ —	\$ —
Other comprehensive income before reclassifications (\$132 pretax)	97	—	—
Amounts reclassified from accumulated other comprehensive income (\$1 pretax) ⁽¹⁾	—	—	—
Other comprehensive income	97	—	—
End of year balance	97	—	—
Foreign currency translation adjustments:			
Beginning of year balance	(129)	(127)	(165)
Other comprehensive income (loss)	(29)	(2)	38
Other comprehensive income (loss)	(29)	(2)	38
End of year balance	(158)	(129)	(127)
Net cash flow hedges:			
Beginning of year balance	(15)	(5)	(7)
Adoption of new accounting standard ⁽⁴⁾	(3)	—	—
Other comprehensive income (loss) before reclassifications (\$465, \$(18) and \$0 pretax)	344	(11)	—
Amounts reclassified from accumulated other comprehensive loss (\$(19), \$2 and \$3 pretax) ⁽²⁾	(14)	1	2
Other comprehensive income (loss)	330	(10)	2
End of year balance	312	(15)	(5)
Pension and OPEB plans:			
Beginning of year balance	(21)	(173)	(186)
Adoption of new accounting standard ⁽⁴⁾	(4)	—	—
Other comprehensive loss before reclassifications (\$(178), \$0 and \$0 pretax)	(132)	—	—
Amounts reclassified from accumulated other comprehensive loss (\$11, \$249 and \$21 pretax) ⁽³⁾	8	152	13
Other comprehensive income (loss)	(124)	152	13
End of year balance	(149)	(21)	(173)
Total beginning of year accumulated other comprehensive loss	(165)	(305)	(358)
Adoption of new accounting standard ⁽⁴⁾	(7)	—	—
Total other comprehensive income	274	140	53
Total end of year accumulated other comprehensive income (loss)	\$ 102	\$ (165)	\$ (305)

(1) Amounts reclassified from accumulated other comprehensive income for debt securities are included in net investment income within the consolidated statements of operations.

(2) Amounts reclassified from accumulated other comprehensive loss for specifically identified cash flow hedges are included within interest expense in the consolidated statements of operations.

(3) Amounts reclassified from accumulated other comprehensive loss for specifically identified pension and other postretirement benefits are included in other (income) expense in the consolidated statements of operations.

(4) See Note 1 "Significant Accounting Policies" for additional information on the adoption of ASU 2018-02 during the first quarter of 2018.

14. Earnings Per Share

Earnings (loss) per share is computed using the two-class method. For periods in which the Company reports net income, diluted earnings per share is determined by using the weighted average number of common and dilutive common equivalent shares outstanding during the period, unless the effect is antidilutive. Due to the loss from continuing operations attributable to CVS Health in the year ended December 31, 2018, 3 million potentially dilutive common equivalent shares were excluded from

the calculation of diluted earnings per share, as the impact of these shares was antidilutive. In addition, options to purchase 13.2 million shares of common stock were outstanding, but were excluded from the calculation of diluted earnings per share, for the year ended December 31, 2018 because the exercise prices of the options were greater than the average market price of the common shares and, therefore, the effect would be antidilutive. For the same reason, options to purchase 10.4 million and 6.7 million shares of common stock were outstanding, but were excluded from the calculation of diluted earnings per share, for the years ended December 31, 2017 and 2016, respectively.

The following is a reconciliation of basic and diluted earnings (loss) per share from continuing operations for the years ended December 31:

<i><u>In millions, except per share amounts</u></i>	2018	2017	2016
Numerator for earnings per share calculation:			
Income (loss) from continuing operations	\$ (596)	\$ 6,631	\$ 5,320
Income allocated to participating securities	(3)	(24)	(27)
Net (income) loss attributable to noncontrolling interests	2	(1)	(2)
Income (loss) from continuing operations attributable to CVS Health	<u>\$ (597)</u>	<u>\$ 6,606</u>	<u>\$ 5,291</u>
Denominator for earnings per share calculation:			
Weighted average shares, basic	1,044	1,020	1,073
Effect of dilutive securities	—	4	6
Weighted average shares, diluted	<u>1,044</u>	<u>1,024</u>	<u>1,079</u>
Earnings (loss) per share from continuing operations:			
Basic	\$ (0.57)	\$ 6.48	\$ 4.93
Diluted	\$ (0.57)	\$ 6.45	\$ 4.91

15. Reinsurance

The Company utilizes reinsurance agreements primarily to reduce required capital and to facilitate the acquisition or disposition of certain insurance contracts. Ceded reinsurance agreements permit the Company to recover a portion of its losses from reinsurers, although they do not discharge the Company's primary liability as the direct insurer of the risks reinsured.

On November 30, 2018, Aetna completed the sale of its standalone Medicare Part D prescription drug plans to a subsidiary of WellCare, effective December 31, 2018. In connection with that sale, subsidiaries of WellCare and Aetna entered into reinsurance agreements under which WellCare has ceded to Aetna 100% of the insurance risk related to the divested standalone Medicare Part D prescription drug plans for the 2019 PDP plan year.

In January 2019, the Company entered into two four-year reinsurance agreements with an unrelated reinsurer that allowed it to reduce required capital and provided collateralized excess of loss reinsurance coverage on a portion of the Health Care Benefits segment's group Commercial Insured business.

Reinsurance recoverables (recorded as other current assets or other assets on the consolidated balance sheets) at December 31, 2018 were as follows:

<i><u>In millions</u></i>	
Reinsurer	
Hartford Life and Accident Insurance Company	\$ 3,470
Lincoln Life & Annuity Company of New York	424
Constitution Life	320
VOYA Retirement Insurance and Annuity Company	186
All Other	141
Total	<u>\$ 4,541</u>

Direct, assumed and ceded premiums earned for the year ended December 31, 2018 were as follows:

<i><u>In millions</u></i>	
Direct	\$ 8,365
Assumed	38
Ceded	(219)
Net premiums	<u>\$ 8,184</u>

The impact of reinsurance on benefit costs for the year ended December 31, 2018 was as follows:

<i><u>In millions</u></i>	
Direct	\$ 6,773
Assumed	32
Ceded	(211)
Net benefit costs	<u>\$ 6,594</u>

There is not a material difference between premiums on a written basis versus an earned basis.

The Company also has various agreements with unrelated reinsurers that do not qualify for reinsurance accounting under GAAP, and consequently are accounted for using deposit accounting. These contracts were entered into to reduce the risk of catastrophic loss which in turn reduces the Company's capital and surplus requirements for certain portions of its group term life insurance and group accidental death and dismemberment insurance businesses and certain portions of the Health Care Benefits segment's Medicare Advantage and group Commercial Insured businesses. Total deposit assets and liabilities related to reinsurance agreements that do not qualify for reinsurance accounting under GAAP were not material as of December 31, 2018 .

16. Commitments and Contingencies

Guarantees

The Company has the following significant guarantee arrangements at December 31, 2018 :

- ASC Claim Funding Accounts - The Company has arrangements with certain banks for the processing of claim payments for its ASC customers. The banks maintain accounts to fund claims of the Company's ASC customers. The customer is responsible for funding the amount paid by the bank each day. In these arrangements, the Company guarantees that the banks will not sustain losses if the responsible ASC customer does not properly fund its account. The aggregate maximum exposure under these arrangements is generally limited to \$250 million . The Company can limit its exposure to these guarantees by suspending the payment of claims for ASC customers that have not adequately funded the amount paid by the bank.
- Separate Accounts Assets - Certain Separate Accounts assets associated with the large case pensions business in the Corporate/Other segment represent funds maintained as a contractual requirement to fund specific pension annuities that the Company has guaranteed. Minimum contractual obligations underlying the guaranteed benefits in these Separate Accounts were approximately \$1.4 billion at December 31, 2018 . See Note 1 "Significant Accounting Policies" for additional information on Separate Accounts. Contract holders assume all investment and mortality risk and are required to maintain Separate Accounts balances at or above a specified level. The level of required funds is a function of the risk underlying the Separate Account's investment strategy. If contract holders do not maintain the required level of Separate Accounts assets to meet the annuity guarantees, the Company would establish an additional liability. Contract holders' balances in the Separate Accounts at December 31, 2018 exceeded the value of the guaranteed benefit obligation. As a result, the Company was not required to maintain any additional liability for its related guarantees at December 31, 2018 .

Lease Guarantees

Between 1995 and 1997, the Company sold or spun off a number of subsidiaries, including Bob's Stores and Linens 'n Things, each of which subsequently filed for bankruptcy, and Marshalls. In many cases, when a former subsidiary leased a store, the Company provided a guarantee of the former subsidiary's lease obligations. When the subsidiaries were disposed of and accounted for as discontinued operations, the Company's guarantees remained in place, although each initial purchaser agreed

to indemnify the Company for any lease obligations the Company was required to satisfy. If any of the purchasers or any of the former subsidiaries fail to make the required payments under a store lease, the Company could be required to satisfy those obligations. As of December 31, 2018, the Company guaranteed approximately 85 such store leases (excluding the lease guarantees related to Linens 'n Things, which have been recorded as a liability on the consolidated balance sheet), with the maximum remaining lease term extending through 2029.

Guaranty Fund Assessments, Market Stabilization and Other Non-Voluntary Risk Sharing Pools

Under guaranty fund laws existing in all states, insurers doing business in those states can be assessed (in most states up to prescribed limits) for certain obligations of insolvent insurance companies to policyholders and claimants. The life and health insurance guaranty associations in which the Company participates that operate under these laws respond to insolvencies of long-term care insurers as well as health insurers. The Company's assessments generally are based on a formula relating to the Company's health care premiums in the state compared to the premiums of other insurers. Certain states allow assessments to be recovered over time as offsets to premium taxes. Some states have similar laws relating to HMOs and/or other payors such as not-for-profit consumer-governed health plans established under the ACA.

In 2009, the Pennsylvania Insurance Commissioner placed long-term care insurer Penn Treaty Network America Insurance Company and one of its subsidiaries (collectively, "Penn Treaty") in rehabilitation, an intermediate action before insolvency, and subsequently petitioned a state court to convert the rehabilitation into a liquidation. Penn Treaty was placed in liquidation in March 2017. During the first quarter of 2017, Aetna recorded a discounted estimated liability and expense of \$231 million pretax for its estimated share of future assessments by applicable life and health guaranty associations which reflects a 3.5% discount rate. The Company did not record an asset for expected premium tax offsets for its in force business at December 31, 2018, as the amount was not material. It is reasonably possible that in the future the Company may record a liability and expense relating to other insolvencies which could have a material adverse effect on the Company's results of operations, financial condition and cash flows. While historically the Company has ultimately recovered more than half of guaranty fund assessments through statutorily permitted premium tax offsets, significant increases in assessments could lead to legislative and/or regulatory actions that may limit future offsets.

HMOs in certain states in which the Company does business are subject to assessments, including market stabilization and other risk-sharing pools, for which the Company is assessed charges based on incurred claims, demographic membership mix and other factors. The Company establishes liabilities for these assessments based on applicable laws and regulations. In certain states, the ultimate assessments the Company pays are dependent upon the Company's experience relative to other entities subject to the assessment, and the ultimate liability is not known at the financial statement date. While the ultimate amount of the assessment is dependent upon the experience of all pool participants, the Company believes it has adequate reserves to cover such assessments.

The total guaranty fund assessments liability as of December 31, 2018 was \$90 million and was recorded in accrued expenses on the consolidated balance sheet.

Litigation and Regulatory Proceedings

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

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

Usual and Customary Litigation

The Company is named as a defendant in a number of litigations that allege that the Company's retail stores overcharged for prescription drugs by not providing the correct usual and customary charge.

State of Texas ex rel. Myron Winkelman and Stephani Martinson, et al. v. CVS Health Corporation (Travis County Texas District Court). In February 2012, the Attorney General of the State of Texas issued Civil Investigative Demands (“CIDs”) to the Company and subsequently has issued a series of requests for documents and information in connection with its investigation concerning the CVS Health Savings Pass program and other pricing practices with respect to claims for reimbursement from the Texas Medicaid program. In January 2017, the Travis County Court unsealed a first amended *qui tam* petition filed in April 2014. The government has intervened in this case. The amended petition alleges the Company violated the Texas Medicaid Fraud Prevention Act by submitting false claims for reimbursement to the Texas Medicaid program by, among other things, failing to use the price available to members of the CVS Health Savings Pass program as the pharmacies’ usual and customary price. The amended petition was unsealed following the Company’s December 2016 filing of *CVS Pharmacy, Inc. v. Charles Smith, et al.* (Travis County Texas District Court), a declaratory judgment action against the State of Texas seeking a declaration that the prices charged to members of the CVS Health Savings Pass program do not constitute usual and customary prices under the applicable Medicaid regulation. In March 2018, the Travis County Court denied the State of Texas’s request for temporary injunctive relief. The Company is defending itself against these claims.

Corcoran et al. v. CVS Health Corporation (U.S. District Court for the Northern District of California) and *Podgorny et al. v. CVS Health Corporation* (U.S. District Court for the Northern District of Illinois). These putative class actions were filed against the Company in July and September 2015. The cases were consolidated in the U.S. District Court for the Northern District of California. Plaintiffs seek damages and injunctive relief under the consumer protection statutes and common laws of certain states on behalf of a class of consumers who purchased certain prescription drugs. Several third-party payors filed similar putative class actions on behalf of payors captioned *Sheet Metal Workers Local No. 20 Welfare and Benefit Fund v. CVS Health Corp.* and *Plumbers Welfare Fund, Local 130 v. CVS Health Corporation* (both pending in the U.S. District Court for the District of Rhode Island) in February and August 2016. In all of these cases the plaintiffs allege the Company overcharged for certain prescription drugs by not submitting the price available to members of the CVS Health Savings Pass program as the pharmacy’s usual and customary price. In the *Corcoran* case, the U.S. District Court granted summary judgment to CVS on plaintiffs’ claims in their entirety and certified certain subclasses in September 2017. The *Corcoran* plaintiffs have appealed the District Court’s decision to the Ninth Circuit. The *Sheet Metal Workers* plaintiffs have amended their complaint to assert a claim under the federal Racketeer Influenced and Corrupt Organizations Act (“RICO”) premised on an alleged conspiracy between the Company and other PBMs. The Company is defending itself against these claims.

State of California ex rel. Matthew Omlansky v. CVS Caremark Corporation (Superior Court of the State of California, County of Sacramento). In April 2016, the California Superior Court unsealed a first amended *qui tam* complaint filed in July 2013. The government has declined to intervene in this case. The relator alleges that the Company submitted false claims for payment to the California Medicaid program in connection with reimbursement for drugs available through the CVS Health Savings Pass program as well as certain other generic drugs. The case has been stayed pending the relator’s appeal of the judgment against him in a similar case against another retailer. The Company is defending itself against these claims.

State of Mississippi v. CVS Health Corporation, et al. (Chancery Court of DeSoto County, Mississippi, Third Judicial District). In July 2016, the Company was served with a complaint filed on behalf of the State of Mississippi alleging that CVS retail pharmacies in Mississippi submitted false claims for reimbursement to the Mississippi Medicaid program by not submitting the price available to members of the CVS Health Savings Pass program as the pharmacy’s usual and customary price. The Company has responded to the complaint, moved for judgment on the pleadings, filed a counterclaim and moved the case to Mississippi Circuit Court. The Company’s motion for judgment on the pleadings remains pending. The Company is defending itself against these claims.

Manufacturer’s Rebate Litigation and Investigations

The Company is named as a defendant in a number of lawsuits and is subject to a number of investigations concerning manufacturer’s rebates that the Company has negotiated.

Bewley, et al. v. CVS Health Corporation, et al. and *Prescott, et al. v. CVS Health Corporation, et al.* (both pending in the U.S. District Court for the Western District of Washington). These putative class actions were filed against the Company and other PBMs and manufacturers of glucagon kits (*Bewley*) and diabetes test strips (*Prescott*) in May 2017. Both cases allege that, by contracting for rebates with the manufacturers of these diabetes products, the Company and other PBMs caused list prices for these products to increase, thereby harming certain consumers. The plaintiffs’ primary claims are made under federal antitrust laws, RICO, state unfair competition and consumer protection laws and the federal Employee Retirement Income Security Act of 1974 (“ERISA”). Both of these cases have been transferred to the U.S. District Court for the District of New Jersey on defendants’ motions. The Company is defending itself against these claims.

Klein , et al. v. Prime Therapeutics , et al. (U.S. District Court for the District of Minnesota). This putative class action was filed against the Company and other PBMs in June 2017 on behalf of ERISA plan members who purchased and paid for EpiPen or EpiPen Jr. Plaintiffs allege that the PBMs are ERISA fiduciaries to plan members and have violated ERISA by allegedly causing higher inflated prices for EpiPens through the process of negotiating increased rebates from EpiPen manufacturer Mylan. This case has been consolidated with a similar matter and is now proceeding as *In re EpiPen ERISA Litigation* . The Company is defending itself against these claims.

In April 2017, the Company received a CID from the Attorney General of Washington requesting documents and information regarding pricing and rebates for insulin products in connection with a pending investigation into unfair and deceptive acts or practices regarding insulin pricing. The Office of the Attorney General of Washington has notified the Company that information provided in response to the Washington Attorney General's CID will be shared with the Attorneys General of California, Florida, Minnesota, New Mexico, the District of Columbia and Mississippi. In July 2017, the Company received a CID from the Attorney General of Minnesota requesting documents and information regarding pricing and rebates for insulin and epinephrine products in connection with a pending investigation into unfair and deceptive acts or practices regarding insulin and epinephrine pricing. The Company has been cooperating with the government and providing documents and information in response to these CIDs.

Controlled Substances Litigation, Audits and Subpoenas

In December 2017, the U.S. Judicial Panel on Multidistrict Litigation consolidated numerous cases filed against various defendants by plaintiffs such as counties, cities, hospitals, Indian tribes and third-party payors, alleging claims generally concerning the impacts of widespread opioid abuse. The consolidated multidistrict litigation captioned *In re National Prescription Opiate Litigation* (MDL No. 2804) is pending in the U.S. District Court for the Northern District of Ohio. This multidistrict litigation presumptively includes hundreds of relevant federal court cases that name the Company as a defendant. Fewer than 100 similar cases that name the Company as a defendant in some capacity are pending in state courts. The Company is defending itself against all such claims. Additionally, the Company has received subpoenas, CIDs and/or other requests for information regarding opioids from the Attorneys General of several states. The Company has been cooperating with the government with respect to these subpoenas, CIDs and other requests for information.

The Company routinely is audited by the United States Drug Enforcement Administration ("DEA"). For several of these audits, the Company is in discussions with the DEA and U.S. Attorney's Offices concerning allegations that the Company violated certain requirements of the Controlled Substance Act.

In September 2015, the DEA served Omnicare with an administrative subpoena. The subpoena seeks documents related to controlled substance policies, procedures and practices at eight Company pharmacy locations from May 2012 to the present. In September 2017, the DEA expanded the investigation to include an additional Company pharmacy location. The Company has been cooperating with the government and providing documents and witnesses in response to this subpoena.

Prescription Processing Investigations

In October 2015, Omnicare received a CID from the U.S. Attorney's Office for the Southern District of New York requesting documents and information concerning Omnicare's cycle fill process for assisted living facilities. The Company has been cooperating with the government and providing documents and information in response to this CID. In July 2017, Omnicare also received a subpoena from the California Department of Insurance requesting documents concerning similar subject matter. The Company has been cooperating with the California Department of Insurance and providing documents and information in response to this subpoena.

In December 2016, the Company received a CID from the U.S. Attorney's Office for the Northern District of New York requesting documents and information in connection with a federal False Claims Act investigation concerning whether the Company's retail pharmacies improperly submitted certain insulin claims to Part D of the Medicare program rather than Part B of the Medicare program. The Company has been cooperating with the government and providing documents and information in response to this CID.

In May 2017, the Company received a CID from the U.S. Attorney's Office for the Southern District of New York requesting documents and information concerning possible false claims submitted to Medicare in connection with reimbursements for prescription drugs under the Medicare Part D program. The Company has been cooperating with the government and providing documents and information in response to this CID.

Provider Proceedings

The Company is named as a defendant in purported class actions and individual lawsuits arising out of its practices related to the payment of claims for services rendered to its members by health care providers with whom the Company has a contract and with whom the Company does not have a contract (“out-of-network providers”). Among other things, these lawsuits allege that the Company paid too little to its health plan members and/or providers for these services and/or otherwise allege that the Company failed to timely or appropriately pay or administer claims and benefits (including the Company’s post payment audit and collection practices and reductions in payments to providers due to sequestration). Other major health insurers are the subject of similar litigation or have settled similar litigation.

On October 28, 2016, Aetna was named as a respondent in an arbitration proceeding that had commenced as a lawsuit in Florida state court on August 25, 2015. The arbitration proceeding was brought by hospitals owned by HCA Holdings, Inc. with respect to Aetna’s out-of-network benefit payment and administration practices in Florida relating to services and care rendered to members in Aetna’s individual Public Exchange products from 2014 through 2016. Coverage under Aetna’s individual Public Exchange products in Florida was not available after December 31, 2016. On October 15, 2018, the arbitrator awarded the claimant hospitals approximately \$150 million. The Company is defending itself against the claimant hospitals’ claims and has appealed the arbitrator’s decision.

The Company also has received subpoenas and/or requests for documents and other information from, and been investigated by, attorneys general and other state and/or federal regulators, legislators and agencies relating to, and the Company is involved in other litigation regarding, its out-of-network benefit payment and administration practices. It is reasonably possible that others could initiate additional litigation or additional regulatory action against the Company with respect to its out-of-network benefit payment and/or administration practices.

CMS Actions

CMS regularly audits the Company’s performance to determine its compliance with CMS’s regulations and its contracts with CMS and to assess the quality of services it provides to Medicare beneficiaries. CMS uses various payment mechanisms to allocate and adjust premium payments to the Company’s and other companies’ Medicare plans by considering the applicable health status of Medicare members as supported by information prepared, maintained and provided by health care providers. The Company collects claim and encounter data from providers and generally relies on providers to appropriately code their submissions to the Company and document their medical records, including the diagnosis data submitted to the Company with claims. CMS pays increased premiums to Medicare Advantage plans and Medicare PDP plans for members who have certain medical conditions identified with specific diagnosis codes. Federal regulators review and audit the providers’ medical records to determine whether those records support the related diagnosis codes that determine the members’ health status and the resulting risk-adjusted premium payments to the Company. In that regard, CMS has instituted risk adjustment data validation (“RADV”) audits of various Medicare Advantage plans, including certain of the Company’s plans, to validate coding practices and supporting medical record documentation maintained by health care providers and the resulting risk adjusted premium payments to the plans. CMS may require the Company to refund premium payments if the Company’s risk adjusted premiums are not properly supported by medical record data. The Office of Inspector General (the “OIG”) also is auditing the Company’s risk adjustment-related data and that of other companies. The Company expects CMS and the OIG to continue these types of audits.

In 2012, CMS revised its audit methodology for RADV audits to determine refunds payable by Medicare Advantage plans for contract year 2011 and forward. Under the revised methodology, among other things, CMS will project the error rate identified in the audit sample of approximately 200 members to all risk adjusted premium payments made under the contract being audited. For contract years prior to 2011, CMS did not project sample error rates to the entire contract. As a result, the revised methodology may increase the Company’s exposure to premium refunds to CMS based on incomplete medical records maintained by providers. Since 2013, CMS has selected certain of the Company’s Medicare Advantage contracts for various contract years for RADV audit. The Company is currently unable to predict which of its Medicare Advantage contracts will be selected for future audit, the amounts of any retroactive refunds of, or prospective adjustments to, Medicare Advantage premium payments made to the Company, the effect of any such refunds or adjustments on the actuarial soundness of the Company’s Medicare Advantage bids, or whether any RADV audit findings would require the Company to change its method of estimating future premium revenue in future bid submissions to CMS or compromise premium assumptions made in the Company’s bids for prior contract years, the current contract year or future contract years. Any premium or fee refunds or adjustments resulting from regulatory audits, whether as a result of RADV, Public Exchange related or other audits by CMS, the OIG, HHS or otherwise, including audits of the Company’s minimum MLR rebates, methodology and/or reports, could be material and could adversely affect the Company’s results of operations, financial condition and/or cash flows.

Medicare CIDs

The Company has received CIDs from the Civil Division of the DOJ in connection with a current investigation of the Company's patient chart review processes in connection with risk adjustment data submissions under Parts C and D of the Medicare program. The Company has been cooperating with the government and providing documents and information in response to these CIDs.

Tunney Act Proceeding

On October 10, 2018, the Company and Aetna entered into a consent decree with the DOJ that allowed CVS Health's proposed acquisition of Aetna to proceed, provided Aetna agreed to sell its individual standalone Medicare Part D prescription drug plans. As permitted by the asset preservation stipulation and order dated October 25, 2018, CVS Health completed its acquisition of Aetna on November 28, 2018, and Aetna completed the sale of such plans on November 30, 2018. The consent decree remains subject to the court approval process under the Antitrust Procedures and Penalties Act, which could result in a revision in or delay in receiving approval of the consent decree. The approval process is for the limited purpose of determining whether the consent decree is in the public interest. The Company believes that the consent decree will not have a material impact on the Company's results of operations, cash flows or financial condition.

Other Legal and Regulatory Proceedings

The Company is also a party to other legal proceedings and is subject to government investigations, inquiries and audits and has received and is cooperating with the government in response to CIDs, subpoenas or similar process from various governmental agencies requesting information, all arising in the ordinary course of its businesses. These other legal proceedings include claims of or relating to bad faith, medical malpractice, non-compliance with state and federal regulatory regimes, marketing misconduct, failure to timely or appropriately pay or administer claims and benefits, provider network structure (including the use of performance-based networks and termination of provider contracts), rescission of insurance coverage, improper disclosure or use of personal information, anticompetitive practices, general contractual matters, product liability, intellectual property litigation and employment litigation. Some of these other legal proceedings are or are purported to be class actions or derivative claims. The Company is defending itself against the claims brought in these matters.

Awards to the Company and others of certain government contracts, particularly Medicaid contracts and contracts with government customers in the Company's Commercial Health Care Benefits segment, are subject to increasingly frequent protests by unsuccessful bidders. These protests may result in awards to the Company being reversed, delayed or modified. The loss or delay in implementation of any government contract could adversely affect the Company's results of operations. The Company will continue to defend contract awards it receives.

There also continues to be a heightened level of review and/or audit by regulatory authorities of, and increased litigation regarding, the Company's and the rest of the health care and related benefits industry's business and reporting practices, including premium rate increases, utilization management, development and application of medical policies, complaint, grievance and appeal processing, information privacy, provider network structure (including provider network adequacy, the use of performance-based networks and termination of provider contracts), provider directory accuracy, calculation of minimum medical loss ratios and/or payment of related rebates, delegated arrangements, rescission of insurance coverage, limited benefit health products, student health products, pharmacy benefit management practices (including the use of narrow networks and the placement of drugs in formulary tiers), sales practices, customer service practices, vendor oversight and claim payment practices (including payments to out-of-network providers).

As a leading national health care company, the Company regularly is the subject of government actions of the types described above. These government actions may prevent or delay the Company from implementing planned premium rate increases and may result, and have resulted, in restrictions on the Company's businesses, changes to or clarifications of the Company's business practices, retroactive adjustments to premiums, refunds or other payments to members, beneficiaries, states or the federal government, withholding of premium payments to the Company by government agencies, assessments of damages, civil or criminal fines or penalties, or other sanctions, including the possible suspension or loss of licensure and/or suspension or exclusion from participation in government programs.

The Company can give no assurance, however, that its businesses, financial condition, results of operations and/or cash flows will not be materially adversely affected, or that the Company will not be required to materially change its business practices, based on: (i) future enactment of new health care or other laws or regulations; (ii) the interpretation or application of existing laws or regulations as they may relate to one or more of the Company's businesses, one or more of the industries in which the

Company competes and/or the health care industry generally; (iii) pending or future federal or state governmental investigations of one or more of the Company's businesses, one or more of the industries in which the Company competes and/or the health care industry generally; (iv) pending or future government audits, investigations or enforcement actions against the Company; (v) adverse developments in any pending *qui tam* lawsuit against the Company, whether sealed or unsealed, or in any future *qui tam* lawsuit that may be filed against the Company; or (vi) adverse developments in pending or future legal proceedings against the Company or affecting one or more of the industries in which the Company competes and/or the health care industry generally.

17. Segment Reporting

The Company currently has three operating segments, Pharmacy Services, Retail/LTC and Health Care Benefits, as well as a Corporate/Other segment. The Company's segments maintain separate financial information for which results of operations are evaluated on a regular basis by the Company's chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Company evaluates its Pharmacy Services, Retail/LTC and Health Care Benefits segments' performance based on operating income (loss) and operating income (loss) before the effect of (i) nonrecurring charges or gains and (ii) certain intersegment activities. The chief operating decision maker does not use total assets by segment to make decisions regarding resources. Therefore the total asset disclosure by segment has not been included. See Note 1 "Significant Accounting Policies" for a description of the Pharmacy Services, Retail/LTC, Health Care Benefits and Corporate/Other segments and related significant accounting policies.

In 2018, 2017 and 2016, approximately 9.8%, 12.3% and 11.7%, respectively, of the Company's consolidated revenues were from Aetna, a Pharmacy Services segment client. On November 28, 2018, the Company completed the Aetna Acquisition. Subsequent to the Aetna Acquisition, transactions with Aetna will continue to be reported within the Pharmacy Services segment, but are eliminated in the Company's consolidated financial statements.

Effective for the first quarter of 2019, the Company will realign the composition of its segments to correspond with changes to its operating model. As a result of this realignment, the Company's Silverscript PDP will move from the Pharmacy Services segment to the Health Care Benefits segment. In addition, the Company will move Aetna's mail order and specialty pharmacy operations from the Health Care Benefits segment to the Pharmacy Services segment.

<i>In millions</i>	Pharmacy Services ⁽¹⁾⁽²⁾	Retail/ LTC ⁽²⁾	Health Care Benefits ⁽²⁾	Corporate/ Other	Intersegment Eliminations ⁽²⁾	Consolidated Totals
2018:						
Revenues from customers	\$ 134,115	\$ 83,989	\$ 5,504	\$ 4	\$ (29,693)	\$ 193,919
Net investment income ⁽³⁾	13	—	45	602	—	660
Total revenues	134,128	83,989	5,549	606	(29,693)	194,579
Operating income (loss) ⁽⁴⁾⁽⁵⁾	4,699	620	276	(805)	(769)	4,021
Depreciation and amortization	712	1,698	170	138	—	2,718
Additions to property and equipment	326	1,350	46	401	—	2,123
2017:						
Revenues from customers	130,596	79,398	—	—	(25,229)	184,765
Net investment income	5	—	—	16	—	21
Total revenues ⁽⁷⁾	130,601	79,398	—	16	(25,229)	184,786
Operating income (loss) ⁽⁴⁾⁽⁵⁾⁽⁷⁾	4,657	6,558	—	(936)	(741)	9,538
Depreciation and amortization	712	1,651	—	116	—	2,479
Additions to property and equipment	311	1,398	—	340	—	2,049
2016:						
Revenues from customers	119,963	81,100	—	—	(23,537)	177,526
Net investment income	2	—	—	18	—	20
Total revenues ⁽⁷⁾	119,965	81,100	—	18	(23,537)	177,546
Operating income (loss) ⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	4,570	7,437	—	(900)	(721)	10,386
Depreciation and amortization	714	1,642	—	119	—	2,475
Additions to property and equipment	295	1,732	—	252	—	2,279

- (1) Total revenues of PSS include approximately \$11.4 billion, \$10.8 billion and \$10.5 billion of Retail Co-Payments for 2018, 2017 and 2016, respectively. See Note 1 “Significant Accounting Policies” for additional information about Retail Co-Payments.
- (2) Intersegment eliminations relate to intersegment revenue generating activities that occur between PSS and RLS for 2018, 2017 and 2016. Effective November 28, 2018, intersegment eliminations also relate to intersegment revenue generating activities that occur between HCBS, PSS and/or RLS.
- (3) Corporate/Other segment net investment income for 2018 includes interest income of \$536 million related to the proceeds of the \$40 billion 2018 Notes. This amount is for the period prior to the close of the Aetna Acquisition, which occurred on November 28, 2018.
- (4) RLS operating income for 2018, 2017 and 2016 includes \$7 million, \$34 million and \$281 million, respectively, of acquisition-related integration costs. The integration costs in 2018 and 2017 are related to the acquisition of Omnicare. The integration costs in 2016 are related to the acquisitions of Omnicare and the pharmacy and clinic businesses of Target. RLS operating income for 2018 and 2017 also includes goodwill impairment charges of \$6.1 billion related to the LTC reporting unit and \$181 million related to the RxCrossroads reporting unit, respectively. In addition, RLS operating income for 2017 and 2016 includes \$215 million and \$34 million, respectively, of charges associated with store rationalization and asset impairment charges in connection with planned store closures related to the Company’s enterprise streamlining initiative. RLS operating income for 2018 also includes a \$43 million loss on impairment of long-lived assets primarily related to the impairment of property and equipment and an \$86 million loss on the divestiture of the Company’s RxCrossroads subsidiary.
- (5) Corporate/Other segment operating loss for 2018, 2017 and 2016 includes \$485 million, \$40 million and \$10 million, respectively, of divestiture and acquisition-related transaction and integration costs included in operating expenses in the consolidated statements of operations. The transaction and integration costs in 2018 are related to the acquisitions of Aetna and Omnicare. The transaction and integration costs in 2017 are related to the acquisitions of Aetna and Omnicare and the divestiture of RxCrossroads. The integration costs in 2016 are related to the acquisitions of Omnicare and the pharmacy and clinic businesses of Target.
- (6) PSS operating income for 2016 includes the reversal of an accrual of \$88 million in connection with a legal settlement.
- (7) Amounts revised to reflect the reclassification of interest income from interest expense, net to net investment income within total revenues to conform with insurance company presentation which increased total revenues and operating income by \$21 million and \$20 million in 2017 and 2016, respectively.

In conjunction with the Company's implementation of a new enterprise resource planning system in the first quarter of 2018, the Company changed the manner in which certain shared functional costs are allocated to its reportable segments.

Additionally, in connection with the Aetna Acquisition on November 28, 2018, the Company reclassified interest income from interest expense, net to net investment income within revenues to conform with insurance company presentation. Segment financial information for the years ended December 31, 2017 and 2016, have been retrospectively adjusted to reflect this change to the Company's cost allocation methodology and net investment income presentation as shown below:

	Year Ended December 31, 2017				
<i><u>In millions</u></i>	Pharmacy Services	Retail/ LTC	Corporate/ Other	Intersegment Eliminations	Consolidated Totals
Revenues, as previously reported	\$ 130,596	\$ 79,398	\$ —	\$ (25,229)	\$ 184,765
Adjustments	5	—	16	—	21
Revenues, as adjusted	<u>\$ 130,601</u>	<u>\$ 79,398</u>	<u>\$ 16</u>	<u>\$ (25,229)</u>	<u>\$ 184,786</u>
Cost of products sold ⁽¹⁾	\$ 121,746	\$ 56,081	\$ —	\$ (24,417)	\$ 153,410
Adjustments	53	(15)	—	—	38
Cost of products sold	<u>\$ 121,799</u>	<u>\$ 56,066</u>	<u>\$ —</u>	<u>\$ (24,417)</u>	<u>\$ 153,448</u>
Benefit costs ⁽¹⁾	\$ 2,810	\$ —	\$ —	\$ —	\$ 2,810
Adjustments	—	—	—	—	—
Benefit costs	<u>\$ 2,810</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,810</u>
Operating expenses, as previously reported	\$ 1,285	\$ 16,848	\$ 966	\$ (71)	\$ 19,028
Adjustments	50	(74)	(14)	—	(38)
Operating expenses, as adjusted	<u>\$ 1,335</u>	<u>\$ 16,774</u>	<u>\$ 952</u>	<u>\$ (71)</u>	<u>\$ 18,990</u>
Operating income (loss), as previously reported	\$ 4,755	\$ 6,469	\$ (966)	\$ (741)	\$ 9,517
Adjustments	(98)	89	30	—	21
Operating income (loss), as adjusted	<u>\$ 4,657</u>	<u>\$ 6,558</u>	<u>\$ (936)</u>	<u>\$ (741)</u>	<u>\$ 9,538</u>

(1) The total of cost of products sold and benefit costs previously was reported as cost of revenues.

Year Ended December 31, 2016

<i>In millions</i>	Pharmacy Services	Retail/ LTC	Corporate/ Other	Intersegment Eliminations	Consolidated Totals
Revenues, as previously reported	\$ 119,963	\$ 81,100	\$ —	\$ (23,537)	\$ 177,526
Adjustments	2	—	18	—	20
Revenues, as adjusted	<u>\$ 119,965</u>	<u>\$ 81,100</u>	<u>\$ 18</u>	<u>\$ (23,537)</u>	<u>\$ 177,546</u>
Cost of products sold ⁽¹⁾	\$ 111,883	\$ 57,362	\$ —	\$ (22,755)	\$ 146,490
Adjustments	66	(23)	—	—	43
Cost of products sold	<u>\$ 111,949</u>	<u>\$ 57,339</u>	<u>\$ —</u>	<u>\$ (22,755)</u>	<u>\$ 146,533</u>
Benefit costs ⁽¹⁾	\$ 2,179	\$ —	\$ —	\$ —	\$ 2,179
Adjustments	—	—	—	—	—
Benefit costs	<u>\$ 2,179</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,179</u>
Operating expenses, as previously reported	\$ 1,225	\$ 16,436	\$ 891	\$ (61)	\$ 18,491
Adjustments	42	(112)	27	—	(43)
Operating expenses, as adjusted	<u>\$ 1,267</u>	<u>\$ 16,324</u>	<u>\$ 918</u>	<u>\$ (61)</u>	<u>\$ 18,448</u>
Operating income (loss), as previously reported	\$ 4,676	\$ 7,302	\$ (891)	\$ (721)	\$ 10,366
Adjustments	(106)	135	(9)	—	20
Operating income (loss), as adjusted	<u>\$ 4,570</u>	<u>\$ 7,437</u>	<u>\$ (900)</u>	<u>\$ (721)</u>	<u>\$ 10,386</u>

(1) The total of cost of products sold and benefit costs previously was reported as cost of revenues.

18. Quarterly Financial Information (Unaudited)

<i><u>In millions, except per share amounts</u></i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2018:					
Total revenues ⁽¹⁾	\$ 45,743	\$ 46,922	\$ 47,490	\$ 54,424	\$ 194,579
Operating income (loss) ⁽¹⁾	1,996	(1,373)	2,574	824	4,021
Income (loss) from continuing operations	998	(2,562)	1,390	(422)	(596)
Net income (loss) attributable to CVS Health	998	(2,563)	1,390	(419)	(594)
Per common share data:					
Basic earnings (loss) per common share:					
Income (loss) from continuing operations attributable to CVS Health	\$ 0.98	\$ (2.52)	\$ 1.36	\$ (0.37)	\$ (0.57)
Income (loss) from discontinued operations attributable to CVS Health	\$ —	\$ —	\$ —	\$ —	\$ —
Net income (loss) attributable to CVS Health	\$ 0.98	\$ (2.52)	\$ 1.36	\$ (0.37)	\$ (0.57)
Diluted earnings (loss) per common share:					
Income (loss) from continuing operations attributable to CVS Health	\$ 0.98	\$ (2.52)	\$ 1.36	\$ (0.37)	\$ (0.57)
Income (loss) from discontinued operations attributable to CVS Health	\$ —	\$ —	\$ —	\$ —	\$ —
Net income (loss) attributable to CVS Health	\$ 0.98	\$ (2.52)	\$ 1.36	\$ (0.37)	\$ (0.57)
Dividends per common share	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.50	\$ 2.00

(1) Effective for the fourth quarter of 2018, interest income was reclassified from interest expense, net to net investment income within revenues to conform with insurance company presentation. Accordingly, a retrospective reclassification of \$50 million, \$214 million and \$221 million was made for the first, second and third quarters of 2018, respectively, to increase revenues and increase interest expense.

<i>In millions, except per share amounts</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2017:					
Total revenues ⁽¹⁾	\$ 44,520	\$ 45,689	\$ 46,186	\$ 48,391	\$ 184,786
Operating income ⁽¹⁾	1,799	2,121	2,504	3,114	9,538
Income from continuing operations	962	1,097	1,285	3,287	6,631
Net income attributable to CVS Health	952	1,098	1,285	3,287	6,622
Per common share data:					
Basic earnings per common share:					
Income from continuing operations attributable to CVS Health	\$ 0.93	\$ 1.07	\$ 1.26	\$ 3.23	\$ 6.48
Income (loss) from discontinued operations attributable to CVS Health	\$ (0.01)	\$ —	\$ —	\$ —	\$ (0.01)
Net income attributable to CVS Health	\$ 0.92	\$ 1.07	\$ 1.26	\$ 3.23	\$ 6.47
Diluted earnings per common share:					
Income from continuing operations attributable to CVS Health	\$ 0.92	\$ 1.07	\$ 1.26	\$ 3.22	\$ 6.45
Income (loss) from discontinued operations attributable to CVS Health	\$ (0.01)	\$ —	\$ —	\$ —	\$ (0.01)
Net income attributable to CVS Health	\$ 0.92	\$ 1.07	\$ 1.26	\$ 3.22	\$ 6.44
Dividends per common share	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.50	\$ 2.00

(1) Effective for the fourth quarter of 2018, interest income was reclassified from interest expense, net to net investment income within revenues to conform with insurance company presentation. Accordingly, a retrospective reclassification of \$6 million, \$4 million, \$5 million and \$6 million was made for the first, second, third and fourth quarters of 2017, respectively, to increase revenues and increase interest expense.

Five-Year Financial Summary

In millions, except per share amounts

	2018 ⁽²⁾	2017	2016	2015	2014
Statement of operations data:					
Total revenues ⁽¹⁾	\$ 194,579	\$ 184,786	\$ 177,546	\$ 153,311	\$ 139,382
Operating income ⁽¹⁾	4,021	9,538	10,386	9,496	8,837
Income (loss) from continuing operations	(596)	6,631	5,320	5,230	4,645
Net income (loss) attributable to CVS Health	(594)	6,622	5,317	5,237	4,644
Per common share data:					
Basic earnings (loss) per common share:					
Income (loss) from continuing operations attributable to CVS Health	\$ (0.57)	\$ 6.48	\$ 4.93	\$ 4.65	\$ 3.98
Income (loss) from discontinued operations attributable to CVS Health	\$ —	\$ (0.01)	\$ —	\$ 0.01	\$ —
Net income (loss) attributable to CVS Health	\$ (0.57)	\$ 6.47	\$ 4.93	\$ 4.66	\$ 3.98
Diluted earnings (loss) per common share:					
Income (loss) from continuing operations attributable to CVS Health	\$ (0.57)	\$ 6.45	\$ 4.91	\$ 4.62	\$ 3.96
Income (loss) from discontinued operations attributable to CVS Health	\$ —	\$ (0.01)	\$ —	\$ 0.01	\$ —
Net income (loss) attributable to CVS Health	\$ (0.57)	\$ 6.44	\$ 4.90	\$ 4.63	\$ 3.96
Dividends per common share	\$ 2.00	\$ 2.00	\$ 1.70	\$ 1.40	\$ 1.10
Balance sheet and other data:					
Total assets	\$ 196,456	\$ 95,131	\$ 94,462	\$ 92,437	\$ 73,202
Long-term debt	\$ 71,444	\$ 22,181	\$ 25,615	\$ 26,267	\$ 11,630
Total shareholders' equity	\$ 58,543	\$ 37,695	\$ 36,834	\$ 37,203	\$ 37,963
Number of stores (at end of year)	9,967	9,846	9,750	9,681	7,866

(1) Effective for the fourth quarter of 2018, interest income was reclassified from interest expense, net to net investment income within revenues to conform with insurance company presentation. Accordingly, a retrospective reclassification of \$21 million, \$20 million, \$21 million and \$15 million was made for years ended December 31, 2017, 2016, 2015 and 2014, respectively, to increase revenues and increase interest expense.

(2) On November 28, 2018, the Company acquired Aetna. Aetna's operations are included in the Company's consolidated financial statements for the period from November 28, 2018 to December 31, 2018 and the period then ended. See Note 2 "Acquisition of Aetna" of Notes to Consolidated Financial Statements for additional information.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of CVS Health Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of CVS Health Corporation (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 28, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2007.

Boston, Massachusetts
February 28, 2019

Subsidiaries of CVS Health Corporation

Listed below are subsidiaries under CVS Health Corporation at December 31, 2018 with their jurisdictions of organization shown in parentheses. Subsidiaries excluded from the list below are not insurance companies and would not, in the aggregate, constitute a “significant subsidiary” of CVS Health Corporation, as that term is defined in Rule 1-02(w) of Regulation S-X.

- **CVS Foreign, Inc. (New York)**
 - CVS Caremark Indemnity Ltd. (Bermuda)
 - CVS International, L.L.C. (Delaware)

 - **CVS Pharmacy, Inc. (Rhode Island)**
 - Aetna Inc. (Pennsylvania)
 - Aetna Health Holdings, LLC (Delaware)
 - Aetna Health of California Inc. (California)
 - Aetna Health Inc. (Connecticut)
 - Aetna Health Inc. (Florida)
 - Aetna Health Inc. (Georgia)
 - Aetna Health Inc. (Maine)
 - Aetna Health Inc. (Michigan)
 - Aetna Health Inc. (New Jersey)
 - Aetna Health Inc. (New York)
 - Aetna Better Health Inc. (New York)
 - Aetna Health Inc. (Pennsylvania)
 - Aetna Health Inc. (Texas)
 - Aetna Better Health of California Inc. (California)
 - Aetna Better Health of Iowa Inc. (Iowa)
 - Aetna Better Health of Texas Inc. (Texas)
 - Aetna Better Health of Washington, Inc. (Washington)
 - Aetna Better Health Inc. (Georgia)
 - Aetna HealthAssurance Pennsylvania, Inc. (Pennsylvania)
 - Aetna Dental of California Inc. (California)
 - Aetna Dental Inc. (New Jersey)
 - Aetna Dental Inc. (Texas)
 - Aetna Rx Home Delivery, LLC (Delaware)
 - Aetna Health Management, LLC (Delaware)
 - Aetna Ireland Inc. (Delaware)
 - Aetna Specialty Pharmacy, LLC (Delaware)
 - Cofinity, Inc. (Delaware)
 - @Credentials Inc. (Delaware)
 - Aetna Better Health Inc. (Pennsylvania)
 - Aetna Better Health Inc. (Connecticut)
 - Aetna Better Health Inc. (Illinois)
 - Aetna Better Health of Kansas Inc. (Kansas)
 - Aetna Better Health, Inc. (Louisiana)
 - Aetna Florida Inc. (Florida)
 - Aetna Better Health Inc. (Ohio)
 - Aetna Better Health of Oklahoma Inc. (Oklahoma)
 - Aetna Better Health of Nevada Inc. (Nevada)
 - Aetna Better Health Inc. (New Jersey)
 - Aetna Better Health of North Carolina Inc. (North Carolina)
 - Aetna Network Services LLC (Connecticut)
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- Aetna Risk Assurance Company of Connecticut Inc. (Connecticut)
 - Aetna Student Health Agency Inc. (Massachusetts)
 - Delaware Physicians Care, Incorporated (Delaware)
 - Schaller Anderson Medical Administrators, Incorporated (Delaware)
 - Aetna Medicaid Administrators LLC (Arizona)
 - iTriage, LLC (Delaware)
 - bswift LLC (Illinois)
 - Prodigy Health Group, Inc. (Delaware)
 - Niagara Re, Inc. (New York)
 - Performax, Inc. (Delaware)
 - Scrip World, LLC (Utah)
 - Precision Benefit Services, Inc. (Delaware)
 - American Health Holding, Inc. (Ohio)
 - Meritain Health, Inc. (New York)
 - Administrative Enterprises, Inc. (Arizona)
 - U.S Healthcare Holdings, LLC (Ohio)
 - Prime Net, Inc. (Ohio)
 - Professional Risk Management, Inc. (Ohio)
 - ADMINCO, Inc. (Arizona)
 - Aetna Pharmacy Management Services, LLC (Delaware)
 - Coventry Transplant Network, Inc. (Delaware)
 - Aetna Health of Iowa Inc. (Iowa)
 - Coventry Health Care of Nebraska, Inc. (Nebraska)
 - Aetna Health Inc. (Louisiana)
 - HealthAssurance Pennsylvania, Inc. (Pennsylvania)
 - Coventry Prescription Management Services Inc. (Nevada)
 - Coventry Health and Life Insurance Company (Missouri)
 - Aetna Better Health of Kentucky Insurance Company (Kentucky)
 - Coventry Health Care of Virginia, Inc. (Virginia)
 - Coventry Health Care of Missouri, Inc. (Missouri)
 - Aetna Better Health of Missouri LLC (Missouri)
 - Coventry Health Care of Illinois, Inc. (Illinois)
 - Coventry Health Care of West Virginia, Inc. (West Virginia)
 - Coventry HealthCare Management Corporation (Delaware)
 - Coventry Health Care of Kansas, Inc. (Kansas)
 - Coventry Health Care National Accounts, Inc. (Delaware)
 - Aetna Better Health of Michigan Inc. (Michigan)
 - Aetna Health of Utah Inc. (Utah)
 - Aetna Better Health Inc. (Tennessee)
 - Coventry Health Care National Network, Inc. (Delaware)
 - Coventry Consumer Advantage, Inc. (Delaware)
 - MHNet Specialty Services, LLC (Maryland)
 - Mental Health Network of New York IPA, Inc. (New York)
 - Mental Health Associates, Inc. (Louisiana)
 - MHNet of Florida, Inc. (Florida)
 - MHNet Life and Health Insurance Company (Texas)
 - Group Dental Service, Inc. (Maryland)
 - Group Dental Service of Maryland, Inc. (Maryland)
 - Florida Health Plan Administrators, LLC (Florida)
 - Coventry Health Care of Florida, Inc. (Florida)
 - Carefree Insurance Services, Inc. (Florida)
 - Coventry Health Plan of Florida, Inc. (Florida)
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- First Health Group Corp. (Delaware)
 - First Health Life & Health Insurance Company (Texas)
 - Claims Administration Corp. (Maryland)
 - Coventry Health Care Workers' Compensation, Inc. (Delaware)
 - Coventry Rehabilitation Services, Inc. (Delaware)
 - First Script Network Services, Inc. (Nevada)
 - FOCUS HealthCare Management, Inc. (Tennessee)
 - Medical Examinations of New York, P.C. (New York)
 - MetraComp, Inc. (Connecticut)
 - Continental Life Insurance Company of Brentwood, Tennessee (Tennessee)
 - American Continental Insurance Company (Tennessee)
 - Aetna Life Insurance Company (Connecticut)
 - AHP Holdings, Inc. (Connecticut)
 - Aetna Insurance Company of Connecticut (Connecticut)
 - AE Fourteen, Incorporated (Connecticut)
 - Aetna Life Assignment Company (Connecticut)
 - Aetna ACO Holdings Inc. (Delaware)
 - Innovation Health Holdings, LLC (Delaware)
 - Innovation Health Insurance Company (Virginia)
 - Innovation Health Plan, Inc. (Virginia)
 - Texas Health + Aetna Health Insurance Holding Company LLC (Texas)
 - Texas Health + Aetna Health Insurance Company (Texas)
 - Texas Health + Aetna Health Plan Inc. (Texas)
 - Banner Health and Aetna Health Insurance Holding Company LLC (Delaware)
 - Banner Health and Aetna Health Insurance Company (Arizona)
 - Banner Health and Aetna Health Plan Inc. (Arizona)
 - Sutter Health and Aetna Insurance Holding Company LLC (Delaware)
 - Sutter Health and Aetna Administrative Services LLC (Delaware)
 - Sutter Health and Aetna Insurance Company (California)
 - Allina Health and Aetna Insurance Holding Company LLC (Delaware)
 - Allina Health and Aetna Insurance Company (Minnesota)
 - PE Holdings, LLC (Connecticut)
 - Aetna Resources LLC (Delaware)
 - Canal Place, LLC (Delaware)
 - Aetna Ventures, LLC (Delaware)
 - Broadspire National Services, Inc. (Florida)
 - Aetna Multi-Strategy 1099 Fund, LLC (Delaware)
 - Phoenix Data Solutions LLC (Delaware)
 - Aetna Financial Holdings, LLC (Delaware)
 - Aetna Asset Advisors, LLC (Delaware)
 - U.S. Healthcare Properties, Inc. (Pennsylvania)
 - Aetna Capital Management, LLC (Delaware)
 - Aetna Partners Diversified Fund, LLC (Delaware)
 - Aetna Workers' Comp Access, LLC (Delaware)
 - Aetna Behavioral Health, LLC (Delaware)
 - Managed Care Coordinators, Inc. (Delaware)
 - Horizon Behavioral Services, LLC (Delaware)
 - Employee Assistance Services, LLC (Kentucky)
 - Health and Human Resource Center, Inc. (California)
 - Resources for Living, LLC (Texas)
 - The Vasquez Group Inc. (Illinois)
 - Work and Family Benefits, Inc. (New Jersey)
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- Aetna Card Solutions, LLC (Connecticut)
 - PayFlex Holdings, Inc. (Delaware)
 - PayFlex Systems USA, Inc. (Nebraska)
 - Aetna Health and Life Insurance Company (Connecticut)
 - Aetna Health Insurance Company (Pennsylvania)
 - Aetna Health Insurance Company of New York (New York)
 - AUSHC Holdings, Inc. (Connecticut)
 - PPHSNE Parent Corporation (Delaware)
 - Active Health Management, Inc. (Delaware)
 - Health Data & Management Solutions, Inc. (Delaware)
 - Futrix Limited (New Zealand)
 - Aetna Integrated Informatics, Inc. (Pennsylvania)
 - Health Re, Inc. (Vermont)
 - ASI Wings, LLC (Delaware)
 - Healthagen LLC
 - Aetna Corporate Services LLC (Delaware)
 - Echo Merger Sub, Inc. (Delaware)
 - Aetna International Inc. (Connecticut)
 - Aetna Life & Casualty (Bermuda) Ltd. (Bermuda)
 - Aetna Global Holdings Limited (England & Wales)
 - Aetna Insurance (Hong Kong) Limited (Hong Kong)
 - Virtual Home Healthcare LLC (Dubai)
 - Aetna Korea Ltd. (South Korea)
 - Minor Health Enterprise Co, Ltd.
 - Health Care Management Co. Ltd.
 - Aetna Services (Thailand) Limited
 - Aetna Health Insurance (Thailand) Public Company Limited
 - Aetna Holdings (Thailand) Limited
 - Health Care Management Co. Ltd.
 - Minor Health Enterprise Co, Ltd.
 - Aetna Health Insurance (Thailand) Public Company Limited
 - Aetna Global Benefits (Bermuda) Limited (Bermuda)
 - Goodhealth Worldwide (Global) Limited (Bermuda)
 - Aetna Global Benefits (Europe) Limited (England & Wales)
 - Aetna Global Benefits (Asia Pacific) Limited (Hong Kong)
 - Goodhealth Worldwide (Asia) Limited (Hong Kong)
 - Aetna Global Benefits Limited (DIFC, UAE)
 - Aetna Global Benefits (Middle East) LLC (UAE)
 - Pt. Aetna Global Benefits Indonesia (Indonesia)
 - Aetna Global Benefits (Bahamas) Limited (Bahamas)
 - Spinnaker Topco Limited (Bermuda)
 - Spinnaker Bidco Limited (England and Wales)
 - Aetna Holdco (UK) Limited (England and Wales)
 - Aetna Global Benefits (UK) Limited (England and Wales)
 - Aetna Insurance Company Limited (England and Wales)
 - Aetna Insurance (Singapore) Pte. Ltd. (Singapore)
 - Aetna Health Insurance Company of Europe DAC (Ireland)
 - Aetna (Shanghai) Enterprise Services Co. Ltd. (China)
 - Aetna (Beijing) Enterprise Management Services Co., Ltd. (China)
 - Aetna Global Benefits (Singapore) PTE. LTD. (Singapore)
 - Indian Health Organisation Private Limited (India)
 - PT Aetna Management Consulting
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- Tianjin An Hai Tai Hua Medical Information Technology Co., Ltd (China)
- CVS Pharmacy, Inc. (continued)
 - Alabama CVS Pharmacy, L.L.C. (Alabama)
 - Alaska CVS Pharmacy, L.L.C. (Alaska)
 - American Drug Stores Delaware, L.L.C. (Delaware)
 - Arkansas CVS Pharmacy, L.L.C. (Arkansas)
 - CareCenter Pharmacy, L.L.C. (Delaware)
 - Caremark Rx, L.L.C. (Delaware)
 - CaremarkPCS, L.L.C. (Delaware)
 - Accordant Health Services, L.L.C. (Delaware)
 - AdvancePCS SpecialtyRx, LLC (Delaware)
 - AdvanceRx.com, L.L.C. (Delaware)
 - CaremarkPCS Health, L.L.C. (Delaware)
 - Caremark IPA, L.L.C. (New York)
 - Caremark PhC, L.L.C. (Delaware)
 - Caremark Ulysses Holding Corp. (New York)
 - MemberHealth LLC (Delaware)
 - UAC Holding, Inc. (Delaware)
 - Pennsylvania Life Insurance Company (Pennsylvania)
 - Caremark, L.L.C. (California)
 - Caremark Arizona Mail Pharmacy, LLC (Arizona)
 - Caremark Arizona Specialty Pharmacy, L.L.C. (Arizona)
 - Caremark California Specialty Pharmacy, L.L.C. (California)
 - Caremark Florida Mail Pharmacy, LLC (Florida)
 - Caremark Florida Specialty Pharmacy, LLC (Florida)
 - Caremark Hawaii Mail Pharmacy, L.L.C. (Hawaii)
 - Caremark Hawaii Specialty Pharmacy, LLC (Hawaii)
 - Caremark Illinois Mail Pharmacy, LLC (Illinois)
 - CVS Caremark Advanced Technology Pharmacy, L.L.C. (Illinois)
 - Caremark Illinois Specialty Pharmacy, LLC (Illinois)
 - Caremark Irving Resource Center, LLC (Texas)
 - Caremark Kansas Specialty Pharmacy, LLC (Kansas)
 - Caremark Logistics, LLC (Delaware)
 - Caremark Louisiana Specialty Pharmacy, LLC (Louisiana)
 - Caremark Maryland Specialty Pharmacy, LLC (Maryland)
 - Caremark Massachusetts Specialty Pharmacy, L.L.C. (Massachusetts)
 - Caremark Michigan Specialty Pharmacy, LLC (Michigan)
 - Caremark Minnesota Specialty Pharmacy, LLC (Minnesota)
 - Caremark New Jersey Specialty Pharmacy, LLC (New Jersey)
 - Caremark North Carolina Specialty Pharmacy, LLC (North Carolina)
 - Caremark Ohio Specialty Pharmacy, L.L.C. (Ohio)
 - Caremark Pennsylvania Specialty Pharmacy, LLC (Pennsylvania)
 - Caremark Redlands Pharmacy, L.L.C. (California)
 - Caremark Repack, LLC (Illinois)
 - Caremark Tennessee Specialty Pharmacy, LLC (Tennessee)
 - Caremark Texas Mail Pharmacy, LLC (Texas)
 - Caremark Texas Specialty Pharmacy, LLC (Texas)
 - Caremark Washington Specialty Pharmacy, LLC (Washington)
 - Central Rx Services, LLC (Nevada)
 - Generation Health, L.L.C. (Delaware)

- NovoLogix, LLC (Delaware)
 - CaremarkPCS Alabama Mail Pharmacy, LLC (Alabama)
 - CaremarkPCS, L.L.C. (Delaware)
 - CVS Caremark Part D Services, L.L.C. (Delaware)
 - Eckerd Corporation of Florida, Inc. (Florida)
 - Express Pharmacy Services of PA, L.L.C. (Delaware)
 - Ocean Acquisition Sub, L.L.C. (Delaware)
 - Coram LLC (Delaware)
 - Coram Clinical Trials, Inc. (Delaware)
 - T2 Medical, Inc. (Delaware)
 - Coram Healthcare Corporation of Alabama (Delaware)
 - Coram Healthcare Corporation of Florida (Delaware)
 - Coram Healthcare Corporation of Greater D.C. (Delaware)
 - Coram Healthcare Corporation of Greater New York (New York)
 - Coram Healthcare Corporation of Indiana (Delaware)
 - Coram Healthcare Corporation of Mississippi (Delaware)
 - Coram Healthcare Corporation of Nevada (Delaware)
 - Coram Healthcare Corporation of Northern California (Delaware)
 - Coram Healthcare Corporation of Southern California (Delaware)
 - Coram Healthcare Corporation of Southern Florida (Delaware)
 - Coram Specialty Infusion Services, L.L.C. (Delaware)
 - Coram Rx, LLC (Delaware)
 - Coram Healthcare Corporation of North Texas (Delaware)
 - Coram Healthcare Corporation of Utah (Delaware)
 - Coram Healthcare Corporation of Massachusetts (Delaware)
 - Coram Alternate Site Services, Inc. (Delaware)
 - Geneva Woods Management, LLC (Delaware)
 - Part D Holding Company, L.L.C. (Delaware)
 - Accendo Insurance Company (Utah)
 - Silverscript Insurance Company (Tennessee)
 - Connecticut CVS Pharmacy, L.L.C. (Connecticut)
 - CVS 2948 Henderson, L.L.C. (Nevada)
 - CVS AL Distribution, L.L.C. (Alabama)
 - CVS Albany, L.L.C. (New York)
 - CVS AOC Services, L.L.C. (Delaware)
 - CVS Indiana, L.L.C. (Indiana)
 - CVS International, L.L.C. (Delaware)
 - CCI Foreign, S'arl (R.C.S. Luxembourg)
 - Beauty Holdings, L.L.C. (Delaware)
 - Drogaria Onofre Ltda. (Brazil)
 - Pamplona Saúde e Beleza LTDA (Brazil)
 - CVS Kidney Care, LLC (Delaware)
 - CVS Manchester NH, L.L.C. (New Hampshire)
 - CVS Michigan, L.L.C. (Michigan)
 - CVS Orlando FL Distribution, L.L.C. (Florida)
 - CVS PA Distribution, L.L.C. (Pennsylvania)
 - CVS PR Center, Inc. (Delaware)
 - Puerto Rico CVS Pharmacy, L.L.C. (Puerto Rico)
 - Caremark Puerto Rico, L.L.C. (Puerto Rico)
 - Caremark Puerto Rico Specialty Pharmacy, L.L.C. (Puerto Rico)
 - CVS RS Arizona, L.L.C. (Arizona)
 - Arizona CVS Stores, L.L.C. (Arizona)
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- CVS 3268 Gilbert, L.L.C. (Arizona)
 - CVS 3745 Peoria, L.L.C. (Arizona)
 - CVS Gilbert 3272, L.L.C. (Arizona)
 - CVS Rx Services, Inc. (New York)
 - Busse CVS, L.L.C. (Illinois)
 - Goodyear CVS, L.L.C. (Arizona)
 - Sheffield Avenue CVS, L.L.C. (Illinois)
 - South Wabash CVS, L.L.C. (Illinois)
 - Thomas Phoenix CVS, L.L.C. (Arizona)
 - Washington Lamb CVS, L.L.C. (Nevada)
 - CVS SC Distribution, L.L.C. (South Carolina)
 - CVS State Capital, L.L.C. (Maine)
 - CVS TN Distribution, L.L.C. (Tennessee)
 - CVS Transportation, L.L.C. (Indiana)
 - CVS Vero FL Distribution, L.L.C. (Florida)
 - D.A.W., LLC (Massachusetts)
 - Delaware CVS Pharmacy, L.L.C. (Delaware)
 - Digital eHealth, LLC (Rhode Island)
 - District of Columbia CVS Pharmacy, L.L.C. (District of Columbia)
 - Enterprise Patient Safety Organization, LLC (Rhode Island)
 - E.T.B., INC. (Texas)
 - Garfield Beach CVS, L.L.C. (California)
 - Georgia CVS Pharmacy, L.L.C. (Georgia)
 - German Dobson CVS, L.L.C. (Arizona)
 - Grand St. Paul CVS, L.L.C. (Minnesota)
 - Highland Park CVS, L.L.C. (Illinois)
 - Holiday CVS, L.L.C. (Florida)
 - Hook-SupeRx, L.L.C. (Delaware)
 - Idaho CVS Pharmacy, L.L.C. (Idaho)
 - Iowa CVS Pharmacy, L.L.C. (Iowa)
 - Kansas CVS Pharmacy, L.L.C. (Kansas)
 - Kentucky CVS Pharmacy, L.L.C. (Kentucky)
 - Longs Drug Stores California, L.L.C. (California)
 - Louisiana CVS Pharmacy, L.L.C. (Louisiana)
 - Maryland CVS Pharmacy, L.L.C. (Maryland)
 - Melville Realty Company, Inc. (New York)
 - CVS Bellmore Avenue, L.L.C. (New York)
 - MinuteClinic, L.L.C. (Delaware)
 - MinuteClinic Diagnostic of Alabama, L.L.C. (Alabama)
 - MinuteClinic Diagnostic of Arizona, LLC (Minnesota)
 - MinuteClinic Diagnostic of Florida, LLC (Minnesota)
 - MinuteClinic Diagnostic of Georgia, LLC (Minnesota)
 - MinuteClinic Diagnostic of Hawaii, L.L.C. (Hawaii)
 - MinuteClinic Diagnostic of Illinois, LLC (Delaware)
 - MinuteClinic Diagnostic of Kentucky, L.L.C. (Kentucky)
 - MinuteClinic Diagnostic of Louisiana, L.L.C. (Louisiana)
 - MinuteClinic Diagnostic of Maine, L.L.C. (Maine)
 - MinuteClinic Diagnostic of Maryland, LLC (Minnesota)
 - MinuteClinic Diagnostic of Massachusetts, LLC (Massachusetts)
 - MinuteClinic Diagnostic of Nebraska, L.L.C. (Nebraska)
 - MinuteClinic Diagnostic of New Hampshire, L.L.C. (New Hampshire)
 - MinuteClinic Diagnostic of New Mexico, L.L.C. (New Mexico)
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- MinuteClinic Diagnostic of Ohio, LLC (Ohio)
 - MinuteClinic Diagnostic of Oklahoma, LLC (Oklahoma)
 - MinuteClinic Diagnostic of Oregon, LLC (Oregon)
 - MinuteClinic Diagnostic of Pennsylvania, LLC (Minnesota)
 - MinuteClinic Diagnostic of Rhode Island, LLC (Minnesota)
 - MinuteClinic Diagnostic of South Carolina, L.L.C. (South Carolina)
 - MinuteClinic Diagnostic of Texas, LLC (Minnesota)
 - MinuteClinic Diagnostic of Utah, L.L.C. (Utah)
 - MinuteClinic Diagnostic of Virginia, LLC (Virginia)
 - MinuteClinic Diagnostic of Washington, LLC (Oregon)
 - MinuteClinic Diagnostic of Wisconsin, L.L.C. (Wisconsin)
 - MinuteClinic Online Diagnostic Services, LLC (Delaware)
 - MinuteClinic Telehealth Services, LLC (Delaware)
 - Mississippi CVS Pharmacy, L.L.C. (Mississippi)
 - Missouri CVS Pharmacy, L.L.C. (Missouri)
 - Montana CVS Pharmacy, L.L.C. (Montana)
 - Nebraska CVS Pharmacy, L.L.C. (Nebraska)
 - New Jersey CVS Pharmacy, L.L.C. (New Jersey)
 - North Carolina CVS Pharmacy, L.L.C. (North Carolina)
 - Ohio CVS Stores, L.L.C. (Ohio)
 - Oklahoma CVS Pharmacy, L.L.C. (Oklahoma)
 - Omnicare, Inc. (Delaware)
 - ACS ACQCO CORP. (Delaware)
 - Advanced Care Scripts, Inc. (Florida)
 - Omnicare Holding Company (Delaware)
 - Evergreen Pharmaceutical of California, Inc. (California)
 - JHC Acquisition, LLC (Delaware)
 - Geneva Woods Pharmacy, LLC (Alaska)
 - Geneva Woods Health Services, LLC (Delaware)
 - Geneva Woods Retail Pharmacy LLC (Delaware)
 - Geneva Woods LTC Pharmacy, LLC
 - Geneva Woods Pharmacy Wyoming, LLC (Delaware)
 - Geneva Woods Pharmacy Washington, LLC (Delaware)
 - Geneva Woods Pharmacy Alaska, LLC (Delaware)
 - AMC - Tennessee, LLC (Delaware)
 - CHP Acquisition, LLC (Delaware)
 - Home Pharmacy Services, LLC (Missouri)
 - CP Acquisition, LLC (Oklahoma)
 - Managed Healthcare, LLC (Delaware)
 - Med World Acquisition Corp. (Delaware)
 - Medical Arts Health Care, LLC (Georgia)
 - MHHP Acquisition Company, LLC (Delaware)
 - NCS Healthcare, LLC (Delaware)
 - NCS Healthcare of South Carolina, LLC (Ohio)
 - NCS Healthcare of Tennessee, LLC (Ohio)
 - NCS Healthcare of Kentucky, Inc. (Oh)
 - NCS Healthcare of Montana, LLC (Ohio)
 - NCS Healthcare of New Mexico, LLC (Ohio)
 - UNI-Care Health Services of Maine, LLC (New Hampshire)
 - NeighborCare, Inc. (Pennsylvania)
 - Three Forks Apothecary, LLC (Kentucky)
 - NeighborCare Holdings, Inc. (Delaware)
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- Badger Acquisition of Kentucky LLC (Delaware)
- NeighborCare Services Corporation (Delaware)
 - D & R Pharmaceutical Services LLC (Kentucky)
 - NeighborCare Pharmacy Services, Inc. (Delaware)
 - APS Acquisition LLC (Delaware)
 - ASCO HealthCare, LLC (Maryland)
 - Badger Acquisition LLC (Delaware)
 - Badger Acquisition of Minnesota LLC (Delaware)
 - Merwin Long Term Care, LLC (Minnesota)
 - Badger Acquisition of Ohio LLC (Delaware)
 - Best Care LTC Acquisition Company, LLC (Delaware)
 - Care Pharmaceutical Services, LP (Delaware)
 - CCRx Holdings, LLC (Delaware)
 - Continuing Care Rx, LLC (Pennsylvania)
 - CCRx of North Carolina LLC (Delaware)
 - Compscript, LLC (Florida)
 - Campo's Medical Pharmacy, LLC (Louisiana)
 - Enloe Drugs, LLC (Delaware)
 - Evergreen Pharmaceutical, LLC (Washington)
 - Home Care Pharmacy, LLC (Delaware)
 - Interlock Pharmacy Systems, LLC (Missouri)
 - Langsam Health Services, LLC (Delaware)
 - LCPS Acquisition, LLC (Delaware)
 - Omnicare Pharmacy of Tennessee LLC (Delaware)
 - Lobos Acquisition, LLC (Delaware)
 - Lo-Med Prescription Services, LLC (Ohio)
 - ZS Acquisition Company, LLC (Delaware)
 - NCS Healthcare of Illinois, LLC (Ohio)
 - NCS Healthcare of Iowa, LLC (Ohio)
 - Martin Health Services, LLC (Delaware)
 - NCS Healthcare of Kansas, LLC (Ohio)
 - NCS Healthcare of Ohio, LLC (Ohio)
 - NCS Healthcare of Wisconsin, LLC (Ohio)
 - North Shore Pharmacy Services LLC (Delaware)
 - Omnicare Indiana Partnership Holding Company LLC (Delaware)
 - Omnicare of New York, LLC (Delaware)
 - NeighborCare of Indiana, LLC (Indiana)
 - Grandview Pharmacy, LLC (Indiana)
 - NeighborCare of Virginia, LLC (Virginia)
 - Omnicare Pharmacies of Pennsylvania West LLC (Pennsylvania)
 - Omnicare Pharmacies of Pennsylvania East LLC (Delaware)
 - Omnicare Pharmacy and Supply Services LLC (South Dakota)
 - Omnicare Pharmacy of the Midwest, LLC (Delaware)
 - Omnicare Property Management, LLC (Delaware)
 - Pharmacy Consultants, LLC (South Carolina)
 - PRN Pharmaceutical Services, LP (Delaware)
 - Roeschen's Healthcare LLC (Wisconsin)
 - PP Acquisition Company LLC (Delaware)
 - Specialized Pharmacy Services, LLC (Michigan)

- Value Health Care Services LLC (Delaware)
 - VAPS Acquisition Company, LLC (Delaware)
 - Westhaven Services Co, LLC (Ohio)
 - NIV Acquisition, LLC (Delaware)
 - OCR Services, LLC (Delaware)
 - Shore Pharmaceutical Providers, LLC (Delaware)
 - Omnicare of Nevada, LLC (Delaware)
 - Omnicare Pharmacies of the Great Plains Holding, LLC (Delaware)
 - Omnicare of Nebraska LLC (Delaware)
 - Pharmacy Associates of Glenn Falls, LLC (New York)
 - Sterling Healthcare Services, LLC (Delaware)
 - Superior Care Pharmacy, LLC (Delaware)
 - TCPI Acquisition, LLC (Delaware)
 - UC Acquisition, LLC (Delaware)
 - Weber Medical Systems LLC (Delaware)
 - Williamson Drug Company, LLC (Virginia)
- CVS Pharmacy, Inc. (continued)
 - Oregon CVS Pharmacy, L.L.C. (Oregon)
 - Pennsylvania CVS Pharmacy, L.L.C. (Pennsylvania)
 - ProCare Pharmacy Direct, L.L.C. (Ohio)
 - ProCare Pharmacy, L.L.C. (Rhode Island)
 - Red Oak Sourcing, LLC (Delaware)
 - Rhode Island CVS Pharmacy, L.L.C. (Rhode Island)
 - South Carolina CVS Pharmacy, L.L.C. (South Carolina)
 - Tennessee CVS Pharmacy, L.L.C. (Tennessee)
 - Utah CVS Pharmacy, L.L.C. (Utah)
 - Vermont CVS Pharmacy, L.L.C. (Vermont)
 - Virginia CVS Pharmacy, L.L.C. (Virginia)
 - Warm Springs Road CVS, L.L.C. (Nevada)
 - Washington CVS Pharmacy, L.L.C. (Washington)
 - Wellpartner, LLC (Delaware)
 - West Virginia CVS Pharmacy, L.L.C. (West Virginia)
 - Wisconsin CVS Pharmacy, L.L.C. (Wisconsin)
 - Woodward Detroit CVS, L.L.C. (Michigan)

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-3ASR No. 333-217596) of CVS Health Corporation, and
- (2) Registration Statements (Form S-8 Nos. 333-228622, 333-167746, 333-217853, 333-208805, 333-141481, 333-139470, 333-63664, 333-91253, 333-49407, 333-34927, and 333-28043) of CVS Health Corporation;

of our reports dated February 28, 2019, with respect to the consolidated financial statements of CVS Health Corporation and the effectiveness of internal control over financial reporting of CVS Health Corporation incorporated by reference in this Annual Report (Form 10-K) of CVS Health Corporation for the year ended December 31, 2018.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 28, 2019

Certification

I, Eva C. Boratto, Executive Vice President and Chief Financial Officer of CVS Health Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of CVS Health Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2019

By: _____ /s/ EVA C. BORATTO

Eva C. Boratto

Executive Vice President and Chief Financial Officer

CERTIFICATION

The certification set forth below is being submitted in connection with the Annual Report of CVS Health Corporation (the "Company") on Form 10-K for the period ended December 31, 2018 (the "Report") solely for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, Larry J. Merlo, President and Chief Executive Officer of the Company, certify that, to the best of my knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2019

/ s/ LARRY J. MERLO

Larry J. Merlo
President and Chief Executive Officer

CERTIFICATION

The certification set forth below is being submitted in connection with the Annual Report of CVS Health Corporation (the "Company") on Form 10-K for the period ended December 31, 2018 (the "Report") solely for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, Eva C. Boratto, Executive Vice President and Chief Financial Officer of the Company, certify that, to the best of my knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2019

/ s/ EVA C. BORATTO

Eva C. Boratto

Executive Vice President and Chief Financial Officer

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2017

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission file number 001-01011



CVS HEALTH CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

05-0494040

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

One CVS Drive, Woonsocket, Rhode Island

(Address of principal executive offices)

02895

(Zip Code)

(401) 765-1500

(Registrant's telephone number, including area code)

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

Common Stock, par value \$0.01 per share

Title of each class

New York Stock Exchange

Name of each exchange on which registered

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the registrant's common stock held by non-affiliates was approximately \$81,440,458,676 as of June 30, 2017, based on the closing price of the common stock on the New York Stock Exchange. For purposes of this calculation, only executive officers and directors are deemed to be the affiliates of the registrant.

As of February 9, 2018, the registrant had 1,014,532,157 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

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

Portions of our Annual Report to Stockholders for the fiscal year ended December 31, 2017 are incorporated by reference in our response to Items 7, 8 and 9 of Part II.

Information contained in our Proxy Statement for the 2018 Annual Meeting of Stockholders is incorporated by reference in our response to Items 10 through 14 of Part III.

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PART I

Item 1. Business

Overview

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

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

Through more than 9,800 retail locations, more than 1,100 walk-in health care clinics, a leading pharmacy benefits manager with more than 94 million plan members, a dedicated senior pharmacy care business serving more than one million patients per year, expanding specialty pharmacy services and a leading stand-alone Medicare Part D prescription drug plan, we enable people, businesses, and communities to manage health in more affordable, effective ways. We are delivering break-through products and services, from advising patients on their medications at our CVS Pharmacy[®] locations, to introducing unique programs to help control costs for our clients at CVS Caremark[®], to innovating how care is delivered to our patients with complex conditions through CVS Specialty[®], to improving pharmacy care for the senior community through Omnicare[®], or by expanding access to high-quality, low-cost care at CVS MinuteClinic[®].

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

Proposed Acquisition of Aetna

On December 3, 2017, we entered into a definitive merger agreement to acquire all of the outstanding shares of Aetna Inc. (“Aetna”) for a combination of cash and stock (the “Aetna Acquisition”). Under the terms of the merger agreement, Aetna shareholders will receive \$145.00 per share in cash and 0.8378 CVS Health shares for each Aetna share. The transaction values Aetna at approximately \$207 per share or approximately \$69 billion based on the Company’s 5-day volume weighted average price ending December 1, 2017 of \$74.21 per share. Including the assumption of Aetna’s debt, the total value of the transaction is approximately \$77 billion. The final purchase price will be determined based on the Company’s stock price on the date of closing of the transaction.

The proposed acquisition is currently projected to close in the second half of 2018 and remains subject to approval by CVS Health and Aetna shareholders and customary closing conditions, including the expiration of the waiting period under the federal Hart-Scott-Rodino Antitrust Improvements Act of 1976 (“HSR Act”) and approvals of state departments of insurance and U.S. and international regulators.

Pharmacy Services Segment

The Pharmacy Services Segment provides a full range of pharmacy benefit management (“PBM”) solutions, as described more fully below, to clients consisting primarily of employers, insurance companies, unions, government employee groups, health plans, Medicare Part D plans, Managed Medicaid plans, plans offered on the public and private exchanges, other sponsors of health benefit plans and individuals throughout the United States. In addition, through our SilverScript Insurance Company (“SilverScript”) subsidiary, we are a national provider of drug benefits to eligible beneficiaries under the federal government’s Medicare Part D program. The Pharmacy Services Segment operates under the CVS Caremark Pharmacy Services, Caremark[®], CVS Specialty[®], AccordantCare[™], SilverScript[®], Wellpartner[®], NovoLogix[®], Coram[®], Navarro[®] Health Services and ACS Pharmacy names. As of December 31, 2017, the Pharmacy Services Segment operated 23 retail specialty pharmacy stores, 18 specialty mail order pharmacies and four mail order dispensing pharmacies, and 83 branches for infusion and enteral services, including approximately 73 ambulatory infusion suites and three centers of excellence, located in 42 states, Puerto Rico and the District of Columbia. During the year ended December 31, 2017, our PBM filled or managed approximately 1.8 billion prescriptions on a 30-day equivalent basis.

Pharmacy Services Business Strategy - Our pharmacy services business strategy centers on providing innovative tools and strategies, as well as quality client service, in order to help improve clinical outcomes for our clients' plan members while assisting them with better managing pharmacy and overall health care costs. Our goal is to produce superior results for our clients and their plan members by leveraging our expertise in core PBM services, including: plan design offerings and administration, formulary management, Medicare Part D services, mail order, specialty pharmacy and infusion services, retail pharmacy network management services, prescription management systems, clinical services, disease management services and medical spend management.

In addition, as a fully integrated pharmacy services company that helps clients improve quality and lower their pharmacy costs, we offer our clients and their plan members a variety of programs and tools, including plan design offerings, that benefit from our integrated systems and the ability of our almost 36,000 pharmacists, nurses, nurse practitioners and physician assistants to interact personally with the many plan members we serve. Through our multiple member touch points (retail stores, mail order, infusion, long-term care and specialty pharmacies, retail clinics, digital resources and cost management tools), we seek to engage plan members in behaviors that help lower cost and improve health care outcomes. Examples of these programs and services include: Maintenance Choice[®], a program where eligible client plan members can elect to fill their maintenance prescriptions through delivery to their home or business or at our CVS Pharmacy retail stores for the same price as mail order; Pharmacy Advisor[®], a program that facilitates face-to-face and telephone counseling by our pharmacists to help participating plan members with certain chronic diseases, such as diabetes and cardiovascular conditions, to identify gaps in care, adhere to their prescribed medications and manage their health conditions; enhanced disease management programs, such as our TransformCare[™] offerings, that are targeted at managing chronic disease states; Specialty Connect[®], our specialty pharmacy offering that integrates specialty mail and retail capabilities, providing members with disease-state specific counseling from our experienced specialty pharmacists and the convenience of picking up their prescriptions at their local CVS Pharmacy or having them delivered to their home or office and an ExtraCare[®] Health Card program that offers discounts to eligible plan members on certain over-the-counter health care products sold in our CVS Pharmacy stores. In addition, CVS MinuteClinic ("MinuteClinic") is an important and differentiated part of the enterprise that offers certain capabilities to PBM clients and their members. For example, we offer plan-sponsored co-pay reductions to encourage use of MinuteClinic, thereby helping to reduce emergency room visits and to lower overall health care costs. We also partner with our health plan clients sponsoring patient-centered medical homes, biometric screenings for plan members, closing gaps in care, and onsite clinics at client corporate headquarters.

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

Plan Design Offerings and Administration - We administer pharmacy benefit plans for clients who contract with us to facilitate prescription coverage and claims processing for their eligible plan members. We assist our clients in designing pharmacy benefit plans that help improve health outcomes while minimizing the costs to the client. We also assist clients in monitoring the effectiveness of their plans through frequent, informal communications, their use of our proprietary software, as well as through formal annual, quarterly and sometimes monthly performance reviews.

We make recommendations to help clients design benefit plans that promote the use of the lower cost, clinically appropriate drugs. We help our clients control costs by recommending plan designs that encourage the use of generic equivalents of brand name drugs when such equivalents are available. Our clients also have the option, through plan design, to further lower their pharmacy benefit plan costs by setting different member payment levels for different products on their drug lists or "formularies," which helps guide members to choose lower cost alternatives through appropriate financial incentives.

Formulary Management - We utilize an independent panel of doctors, pharmacists and other medical experts, referred to as our CVS Caremark National Pharmacy and Therapeutics Committee, to review and approve the selection of drugs that meet our high standards of safety and efficacy for inclusion on one of our template formularies. Our formularies provide recommended products in numerous drug classes to help ensure member access to clinically appropriate drugs with alternatives within a class under the client's pharmacy benefit plan, while helping to drive the lowest net cost for our clients that select one of our formularies. To help improve clinical outcomes for members and clients, we conduct ongoing, independent reviews of all drugs, including, but not limited to, those appearing on the formularies and generic equivalent products. Many of our clients choose to adopt one of our template formulary offerings as part of their plan design. Beginning in 2018, clients will have new capabilities to offer real time benefits information for a member's specific plan design, provided digitally at the point of prescribing, at the pharmacy and directly to members.

Medicare Part D Services - We participate in the administration of the drug benefit added to the Medicare program under Part D of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (“MMA”) through the provision of PBM services to those of our health plan clients and other clients that have qualified as a Medicare Part D prescription drug plans (“PDP”) or as a Medicare Advantage prescription drug plan (“MA-PD”) and by offering Medicare Part D pharmacy benefits through SilverScript, a PDP that has contracted with the United States Centers for Medicare and Medicaid Services (“CMS”). We also assist employer, union and other health plan clients that qualify for the retiree drug subsidy made available under the MMA by collecting and submitting eligibility and/or drug cost data to CMS in order for them to obtain the subsidy and offer Medicare Part D pharmacy benefits to such clients' retirees through SilverScript-sponsored Employer Group Waiver Plans (“EGWPs”).

Mail Order Pharmacy - As of December 31, 2017, we operated four mail order dispensing pharmacies in the United States. Plan members or their prescribers submit prescriptions or refill requests, primarily for maintenance medications, to these pharmacies via mail, telephone, fax, e-prescribing or the Internet. We also operate a network of smaller mail order specialty pharmacies described below. Our staff pharmacists review mail order prescriptions and refill requests with the assistance of our prescription management systems. This review may involve communications with the prescriber and, with the prescriber’s approval when required, can result in generic substitution, therapeutic interchange or other actions designed to help reduce cost and/or improve quality of treatment. These pharmacies have been awarded Mail Order Pharmacy accreditation from Utilization Review Accreditation Commission (“URAC”), a Washington DC-based health care accrediting organization that establishes quality standards for the health care industry.

Specialty Pharmacy - Our specialty pharmacies support individuals who require complex and expensive drug therapies. As of December 31, 2017, our specialty pharmacy operations included 18 specialty mail order pharmacies located throughout the United States, including Puerto Rico, that are used for delivery of advanced medications to individuals with chronic or genetic diseases and disorders. These pharmacies have also been awarded Specialty Pharmacy accreditation from URAC. As of December 31, 2017, the Company operated a network of 23 retail specialty pharmacy stores, which operate under the CVS Pharmacy specialty services and Navarro *Health Services names. These stores average 1,100 square feet in size and sell prescription drugs and a limited assortment of front store items such as alternative medications, homeopathic remedies and vitamins. Our care management program, AccordantCare, is a differentiated clinical model that focuses on whole patient care, including comorbidity management. It embeds specially trained nurses into the CVS Specialty CareTeam for members who fill their specialty medications through CVS Specialty helping deliver better care and improved outcomes. Through our affiliate Coram LLC and its subsidiaries (collectively, “Coram”), one of the nation’s largest providers of comprehensive infusion services, we care for approximately 165,000 patients annually, providing specialty infusion and enteral nutrition services. Our Specialty Connect * offering integrates our specialty pharmacy mail and retail capabilities, providing members with disease-state specific counseling from our experienced specialty pharmacists and the convenience of picking-up their prescriptions at their local CVS Pharmacy, or having them delivered to their preferred address. Whether submitted through our specialty mail order pharmacy or at a CVS Pharmacy, all prescriptions are filled through our specialty mail order pharmacies, so all revenue from this specialty prescription services program is recorded within the Pharmacy Services Segment. Members then can choose to pick up their medication at their local CVS Pharmacy, or have it sent to their home through the mail. Specialty Connect is available where allowed by law. Innovative digital tools for specialty pharmacy provide a more accessible, connected, and personal health experience. Members can manage all their specialty medications in real-time using the CVS Specialty app and more than 60 percent have opted in to receive email and text messages including refill reminders and order status. Patients can also use secure messaging to contact their Specialty CareTeam with any questions. Additionally, with the acquisition of Omnicare, Inc. (“Omnicare”), we expanded our specialty pharmacy to include the specialty pharmacy operations of Omnicare which operates under the name ACS Pharmacy.

Retail Pharmacy Network Management - We maintain a national network of more than 68,000 retail pharmacies, consisting of approximately 41,000 chain pharmacies (which includes our CVS Pharmacy locations) and 27,000 independent pharmacies, in the United States, including Puerto Rico, the District of Columbia, Guam and the U.S. Virgin Islands. When a customer fills a prescription in a retail pharmacy, the pharmacy sends prescription data electronically to us from the point-of-sale. This data interfaces with our proprietary prescription management systems, which verify relevant plan member data and eligibility, while also performing a drug utilization review to help evaluate clinical appropriateness and safety and confirming that the pharmacy will receive payment for the prescription. We are also able to build client-specific networks and managed network solutions to further drive savings for our clients. These include a performance-based pharmacy network with approximately 30,000 stores that will be anchored by CVS Pharmacy and Walgreens, along with up to 10,000 community-based, independently owned pharmacies across the United States. The network is designed to deliver unit cost savings and to improve clinical outcomes that will help to lower overall health

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care costs for participating payors and their members. This network will be available beginning March 2018 to eligible commercial and Medicaid clients.

Prescription Management Systems - We dispense prescription drugs both directly, through one of our mail order or specialty pharmacies, or through a network of retail pharmacies, described above. All prescriptions processed through our systems, whether they are filled through one of our mail order or specialty dispensing pharmacies or through a pharmacy in our retail network, are analyzed, processed and documented by our proprietary prescription management systems. These systems provide essential features and functionality to allow a plan member to use their prescription drug benefit. These systems also streamline the process by which prescriptions are processed by staff and network pharmacists, by enhancing review of various items through automation, including, but not limited to, plan eligibility, early refills, duplicate dispensing, appropriateness of dosage, drug interactions or allergies, over-utilization and potential fraud.

Clinical Services - We offer multiple clinical programs and services to help clients manage overall pharmacy and health care costs in a clinically appropriate manner. Our programs are primarily designed to promote good health outcomes, and to help target inappropriate utilization and non-adherence to medication, each of which may result in adverse medical events that negatively impact member health and client pharmacy and medical spend. In this regard, we offer various utilization management (“UM”), medication management, quality assurance, adherence and counseling programs to complement the client’s plan design and clinical strategies. To help address the opioid epidemic, we introduced an industry-leading UM approach that limits to seven days the supply of opioids dispensed for certain acute prescriptions for patients who are new to therapy; limits the daily dosage of opioids dispensed based on the strength of the opioid; and requires the use of immediate-release formulations of opioids before extended-release opioids are dispensed. To support improved adherence, our Pharmacy Advisor program facilitates pharmacist counseling, both face-to-face and over the telephone, to help participating plan members with certain chronic diseases, such as diabetes and cardiovascular conditions, to identify gaps in care, adhere to their prescribed medications and manage their health conditions. We also have digital connectivity that helps to lower drug costs for patients by providing expanded visibility to lower cost alternatives through enhanced analytics and data sharing.

Disease Management Programs - Our clinical services utilize advanced protocols and offer clients convenience in working with health care providers and other third parties. Our AccordantCare programs include integrated rare disease management programs, which cover diseases such as rheumatoid arthritis, Parkinson’s disease, seizure disorders and multiple sclerosis. The majority of these integrated programs are accredited by the National Committee for Quality Assurance (“NCQA”), a private, not-for-profit organization that evaluates, accredits and certifies a wide range of health care organizations. They have also been awarded Case Management accreditation from URAC.

Medical Benefit Management - We offer a technology platform, NovoLogix[®], an online preauthorization tool that helps identify and capture cost savings opportunities for specialty drugs billed under the medical benefit by identifying outliers to appropriate dosages and costs, and helps to ensure clinically appropriate use of these drugs.

Pharmacy Services Information Systems - We currently operate and support a small number of claim adjudication platforms to support our Pharmacy Services Segment. However, the majority of our clients have migrated to one platform. These information systems incorporate architecture that centralizes the data generated from filling mail order prescriptions, adjudicating retail pharmacy claims and delivering other solutions to our PBM clients. Our Health Engagement Engine[®] technology and proprietary clinical algorithms help connect the various parts of the enterprise and serves an essential role in cost management and health improvement. This capability responsibly transforms pharmacy data into actionable interventions at key points of care such as our mail and specialty pharmacists to help provide quality care, and our enterprise digital strategy and integrated digital offerings help patients seamlessly manage mail, specialty and retail prescriptions.

Pharmacy Services Clients - Our clients are primarily employers, insurance companies, unions, government employee groups, health plans, Medicare Part D plans, Managed Medicaid plans and plans offered on public and private exchanges, other sponsors of health benefit plans and individuals located throughout the United States. We provide pharmaceuticals to eligible members in benefit plans maintained by our clients and utilize our information systems, among other things, to help perform safety checks, drug interaction screening and identify opportunities for generic substitution. We generate substantially all of our Pharmacy Services Segment net revenue from dispensing and managing prescription drugs to eligible members in benefit plans maintained by our clients. In 2017, 2016 and 2015, net revenues from Aetna accounted for approximately 12.3%, 11.7% and 10.0%, respectively, of our consolidated net revenues.

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

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

Retail/LTC Segment

As of December 31, 2017, the Retail/LTC Segment included 9,803 retail locations (of which 8,060 were our stores that operated a pharmacy and 1,695 were our pharmacies located within Target Corporation ("Target") stores), our online retail pharmacy websites, CVS.com^{*}, Navarro.com[™] and Onofre.com.br[™], 37 onsite pharmacy stores, our long-term care pharmacy operations and our retail health care clinics. The retail locations are in 49 states, the District of Columbia, Puerto Rico and Brazil, operating primarily under the CVS Pharmacy^{*}, CVS^{*}, CVS Pharmacy y más^{*}, Longs Drugs^{*}, Navarro Discount Pharmacy^{*} and Drogeria Onofre[™] names. Including the pharmacies within Target, we currently operate in all of the top 100 United States drugstore markets. Existing retail stores range in size from approximately 5,000 to 30,000 square feet, although most new stores range in size from approximately 11,000 to 15,000 square feet and typically include a drive-thru pharmacy. The pharmacies within Target stores range in size from approximately 450 to 1,100 square feet. During 2017, our Retail/LTC Segment filled approximately 1.2 billion prescriptions (counting 90-day prescriptions as three prescriptions), and we held approximately 23.6% of the United States retail pharmacy market.

Our acquisition of Omnicare broadened our base of pharmacy care to an additional dispensing channel, long-term care pharmacy. Omnicare's LTC operations include the distribution of pharmaceuticals, related pharmacy consulting and other ancillary services to chronic care facilities and other care settings. Omnicare also provided commercialization services under the name RxCrossroads until January 2, 2018, when we completed the sale of RxCrossroads. LTC is comprised of 145 spoke pharmacies that primarily handle new prescription orders, of which 30 are also hub pharmacies that use automation to support spoke pharmacies with refill prescriptions. LTC primarily operates under the Omnicare^{*} and NeighborCare^{*} names. With the addition of the LTC operations, we are continuing to enhance our service offerings to further address the needs of an aging population throughout the continuum of senior care.

Retail Pharmacy Business Strategy - Our integrated pharmacy services model has enhanced the ability of our retail pharmacy stores to expand customer access to care while helping to lower overall health care costs and improve health outcomes. In that regard, the role of our retail pharmacist is shifting from primarily dispensing prescriptions to also providing services, including flu vaccinations as well as face-to-face patient counseling with respect to adherence to drug therapies, closing gaps in care and recommending more cost effective drug therapies. We also provide a broad assortment of quality merchandise at competitive prices using a retail format that emphasizes service, innovation and convenience. One of the keys to our strategy is technology, which allows us to focus on constantly improving service and exploring ways to provide more personalized product offerings and services. We are continuing to leverage digital to empower our customers and patients by making the full breadth of health care and pharmacy services available to them anytime, anywhere. We are continuing to introduce digital tools to make it easier for people to save time and money and to live healthier lives. In 2017, we rolled out CVS Pay^{*} nationwide, an end-to-end mobile payment solution that integrates payment, prescription pick-up and our ExtraCare^{*} loyalty program into one spot at checkout. We believe that continuing to innovate with new and unique products and services, using innovative marketing and adjusting our mix of merchandise to match our customers' needs and preferences is very important to our ability to continue to improve customer satisfaction.

Retail/LTC Products and Services - A typical retail store sells prescription drugs and a wide assortment of high-quality, nationally advertised brand name and proprietary brand merchandise. Front store categories include over-the-counter drugs, beauty products and cosmetics, personal care products, convenience foods, photo finishing services, seasonal merchandise and greeting cards. The pharmacies within Target stores sell prescription drugs and over-the-counter drugs that are required to be held behind the counter. The LTC operations include distribution of pharmaceuticals and related consulting and ancillary services. We purchase our merchandise from numerous manufacturers and distributors. We believe that competitive sources are readily available for substantially all of the products we carry and the loss of any one supplier would not likely have a material effect on the business. Our clinics offer a variety of health care services by nurse practitioners and physician assistants.

Retail/LTC net revenues by major product group are as follows:

	Percentage of Net Revenues		
	2017	2016	2015
Pharmacy ⁽¹⁾	75.0 %	75.0 %	72.9 %
Front store and other ⁽²⁾	25.0	25.0	27.1
	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

(1) Pharmacy includes LTC sales and sales in pharmacies within Target stores.

(2) "Other" represents less than 5% of the "Front store and other" net revenue category.

Pharmacy - Pharmacy revenues represented approximately three-fourths of the Retail Pharmacy Segment revenues in each of 2017, 2016 and 2015. We believe that our retail pharmacy operations will continue to represent a critical part of our business due to industry demographics, e.g., an aging American population consuming a greater number of prescription drugs, pharmaceuticals being used more often as the first line of defense for managing illness, the introduction of new pharmaceutical products, and Medicare Part D. We believe our retail pharmacy business benefits from our investment in both people and technology, as well as our innovative partnerships with health plans, PBMs and providers. Given the nature of prescriptions, people want their prescriptions filled accurately by professional pharmacists using the latest tools and technology, and ready when promised. Consumers need medication management programs and better information to help them get the most out of their health care dollars. To assist our customers with these needs, we have introduced integrated pharmacy health care services that provide an earlier, easier and more effective approach to engaging them in behaviors that can help lower costs, improve health, and save lives. Examples include: our Patient Care Initiative, an enhanced medication adherence program; Maintenance Choice ^{*}, a program where eligible client plan members can elect to fill their maintenance prescriptions through delivery to their home or business or at our CVS Pharmacy retail stores for the same price as mail order; Pharmacy Advisor ^{*}, our program that facilitates pharmacist counseling, both face-to-face and over the telephone, to help participating plan members with certain chronic diseases, such as diabetes and cardiovascular conditions, to identify gaps in care, adhere to their prescribed medications and manage their health conditions; Specialty Connect ^{*}, which integrates our specialty pharmacy mail and retail capabilities, providing members with disease-state specific counseling from our experienced specialty pharmacists and the convenience of picking-up their prescriptions at their local CVS Pharmacy, or having them delivered to their preferred address; ScriptSync ^{*}, a service that enables patients with multiple medications to pick up their eligible maintenance prescriptions in a single monthly CVS Pharmacy visit; S criptPath [™] Prescription Schedule, a new capability for CVS Pharmacy patients, who manage multiple prescription medications, which features all of a patient's current CVS Pharmacy prescription information in one place – including which medications the patient takes, when the patient should take them and how much of each medication should be taken in each dose; and HealthTag [®], an integrated communications platform that can be leveraged to communicate healthcare opportunities to members that provides unmatched ability to reach and connect with members as well as industry-leading data integration to improve coordination of member care. Each of these are programs that demonstrate our ability to enhance the customer experience through our integrated enterprise products and services. Further evidencing our belief in the importance of pharmacy service is our continuing investment in technology, such as our Drug Utilization Review system that helps check for harmful interactions between prescription drugs and patient identified over-the-counter products, vitamins and herbal remedies; RxConnect, our proprietary pharmacy system that integrates our product delivery and clinical workflows as well as advanced patient safety functionality such as drug utilization review; our prescription refill program, ReadyFill [®]; and our online retail businesses, CVS.com, Navarro.com and Onofre.com.br. Our Health Engagement Engine enables patient-specific opportunities to be prioritized and delivered at each key moment of care relevant to that specific patient. In December 2015, we expanded our pharmacy offering with the acquisition of the

pharmacies within Target stores. We offer all the same pharmacy services available in our retail drugstores and online at our pharmacies within Target stores.

Front Store - Front store revenues benefited from our strategy to innovate with new and unique products and services, using innovative personalized marketing and adjusting our mix of merchandise to match our customers' needs and preferences. A key component of our front store strategy is our ExtraCare[®] card program, which is helping us continue to build our loyal customer base. The ExtraCare program is one of the largest and most successful retail loyalty programs in the United States. The ExtraCare program allows us to balance our marketing efforts so we can reward our best customers by providing them automatic sale prices, customized coupons, ExtraBucks[®] rewards and other benefits. We continue to launch and enhance new and exclusive brands to create unmatched offerings in beauty. Another component of our front store strategy is our unique product offerings, which include a full range of high-quality CVS Pharmacy[®] and proprietary brand products that are only available through CVS Pharmacy stores. We currently carry approximately 7,000 CVS Pharmacy and proprietary brand products, which accounted for approximately 23% of our front store revenues during 2017. These products include expanded offerings of healthy foods and vitamins. Furthermore, we are tailoring certain groups of stores, such as suburban area stores, to better meet the needs of our customers.

MinuteClinic - As of December 31, 2017, we operated 1,134 MinuteClinic[®] locations in 33 states and the District of Columbia, of which 1,050 were located in our retail pharmacy stores, and 79 were located in Target stores. We opened 15 new clinics during 2017. Our clinics are staffed by nurse practitioners and physician assistants who utilize nationally established guidelines to diagnose and treat minor health conditions, perform health screenings, monitor chronic conditions, provide wellness services and deliver vaccinations. Payors value our clinics because they provide convenient, high-quality, cost-effective care, in many cases offering an attractive alternative to more expensive sites of care. As a result, visits paid for by employers, health insurers or other third parties accounted for approximately 91% of MinuteClinic's total revenues in 2017. MinuteClinic is collaborating with our Pharmacy Services Segment to help meet the needs of CVS Caremark's client plan members by offering programs that can improve member health and lower costs. MinuteClinic is now affiliated with more than 75 major health systems and continues to build a platform that supports primary care.

Long-term Care - Through our Omnicare business, we provide the distribution of pharmaceuticals, related pharmacy consulting and other ancillary services to chronic care facilities and other care settings. Omnicare's customers consist of skilled nursing facilities, assisted living facilities, independent living communities, hospitals, correctional facilities, and other health care service providers. We provide pharmacy consulting, including monthly patient drug therapy evaluations, assist in compliance with state and federal regulations and provide proprietary clinical and health management programs. We also provide pharmaceutical case management services for retirees, employees and dependents who have drug benefits under corporate-sponsored health care programs.

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

Retail Pharmacy Drugstore Development - The addition of new stores has played, and will continue to play, a key role in our continued growth and success. Our store development program focuses on three areas: entering new markets, adding stores within existing markets and relocating stores to more convenient sites. During 2017, we opened 175 new retail locations, relocated 30 stores and closed 81 locations. During the last five years, we opened approximately 1,000 new and relocated locations, and acquired 1,880 locations including the pharmacies acquired from Target. We believe that continuing to grow our store base and locating stores in more accessible markets are essential components to compete effectively in the current health care environment. As a result, we believe that our store development program is an integral part of our ability to maintain our leadership position given the changing health care landscape and to meet the increasing needs of our customers.

Retail/LTC Information Systems - We have continued to invest in information systems to enable us to deliver exceptional customer service, enhance safety and quality, and expand our patient care services while lowering operating costs. Our proprietary WeCARE Workflow supports our pharmacy teams by prioritizing work to meet customer expectations, facilitating prescriber outreach, and seamlessly integrating our clinical programs. This solution delivers improved efficiency and enhances the customer experience, as well as providing a framework to accommodate the evolution of pharmacy practice and the expansion of our clinical programs. Our Health Engagement Engine technology and proprietary clinical algorithms enable us to help identify opportunities for our pharmacists to deliver face-to-face

counseling regarding patient health and safety matters, including adherence issues, gaps in care and management of certain chronic health conditions. Our digital strategy empowers the consumer to navigate their pharmacy experience and manage their condition through our on-line and mobile tools that offer utility and convenience. This includes the ability to schedule an appointment at MinuteClinic, get next-in line alerts or health reminders and appointment updates via text messages. Our integrated digital offerings help patients seamlessly manage retail, mail and specialty prescriptions dispensed by a CVS Pharmacy or LTC location and enhance front store personalization to drive value for customers. We continue to experience strong adoption of our digital solutions with our mobile app receiving critical acclaim for ease of use and our text message program experiencing significant growth. LTC's digital technology suite, Omniview[®], improves the efficiency of customers' operations with tools that include executive dashboards, pre-admission pricing, electronic ordering of prescription refills, proof-of-delivery tracking, access to patient profiles, receipt and management of facility bills, and real-time validation of Medicare Part D coverage, among other capabilities.

Retail/LTC Customers - The success of our retail drugstore and LTC businesses is dependent upon our ability to establish and maintain contractual relationships with pharmacy benefit managers and other payors on acceptable terms. Pharmacy benefit managers, managed care organizations, government-funded health care programs, commercial employers and other third party payors accounted for 99.2% of our 2017 pharmacy revenues. No single Retail/LTC payor accounts for 10% or more of our annual consolidated net revenues.

Retail/LTC Seasonality - The majority of our revenues, particularly pharmacy revenues, are generally not seasonal in nature. However, retail front store revenues tend to be higher during the December holiday season. In addition, both pharmacy and retail front store revenues are affected by the timing and severity of the cough, cold and flu season. For additional information, we refer you to "Risks related to the seasonality of our business" in Item 1A. Risk Factors.

Retail/LTC Competition - The retail drugstore business is highly competitive. We believe that we compete principally on the basis of: (i) store location and convenience, (ii) customer service and satisfaction, (iii) product selection and variety, and (iv) price. In the markets we serve, we compete with other drugstore chains (e.g., Walgreens and Rite Aid), supermarkets, discount retailers (e.g., Wal-Mart), independent pharmacies, restrictive pharmacy networks, membership clubs, Internet companies, and retail health clinics (including urgent care centers), as well as other mail order pharmacies.

LTC pharmaceutical services are highly regional or local in nature and within a given geographic area of operation, highly competitive. Our largest competitor nationally is PharMerica. We also compete with numerous local and regional institutional pharmacies, pharmacies owned by long-term care facilities and local retail pharmacies. Some states have enacted "freedom of choice" or "any willing provider" requirements as part of their state Medicaid programs or in separate legislation, which may increase the competition that we face in providing services to long-term care facility residents in these states.

Corporate Segment

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

Generic Sourcing Venture

The Company and Cardinal Health, Inc. ("Cardinal") each have a 50% ownership in Red Oak Sourcing, LLC ("Red Oak"), a generic pharmaceutical sourcing entity. Under this arrangement, the Company and Cardinal contributed their sourcing and supply chain expertise to Red Oak and agreed to source and negotiate generic pharmaceutical supply contracts for both companies through Red Oak; however, Red Oak does not own or hold inventory on behalf of either company.

Working Capital Practices

We fund the growth of our business through a combination of cash flow from operations, commercial paper and other short-term borrowings, proceeds from sale-leaseback transactions and long-term borrowings. For additional information on our working capital practices, we refer you to the caption "Management's Discussion and Analysis - Liquidity and Capital Resources" in our Annual Report to Stockholders for the year ended December 31, 2017, which section is

incorporated by reference herein. The majority of our non-pharmacy revenues are paid in cash, or with debit or credit cards. Managed care organizations, pharmacy benefit managers, government-funded health care programs, commercial employers and other third party insurance programs, which represent the vast majority of our consolidated pharmacy revenues, typically settle in less than 30 days. With the exception of our Medicare Part D services, the remainder of our consolidated pharmacy revenues are paid in cash, or with debit or credit cards. As a provider of Medicare Part D services, we contract annually with CMS. Utilization of services each plan year results in the accumulation of either a receivable from or a payable to CMS. The timing of settlement of the receivable or payable with CMS takes several quarters which impacts our working capital from year to year.

Colleague Development

As of December 31, 2017, we employed approximately 246,000 colleagues in 50 states, the District of Columbia, Puerto Rico and Brazil, which included approximately 36,000 pharmacists, nurses, nurse practitioners and physician assistants. The total included approximately 86,000 part-time colleagues who work less than 30 hours per week. To deliver the highest levels of service to our customers, we devote considerable time and attention to our people and service standards. We emphasize attracting and training knowledgeable, friendly and helpful associates to work in our organization.

Intellectual Property

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

Government Regulation

Overview - Much of our business is subject to federal and state laws and regulations. In addition, many of our PBM clients and our payors in the Retail/LTC Segment, including insurers, Medicare Part D plans, Managed Medicaid plans and managed care organizations (“MCOs”), are themselves subject to extensive regulations that affect the design and implementation of prescription drug benefit plans that they sponsor. Similarly, our LTC clients, such as skilled nursing facilities, are subject to government regulations, including many of the same government regulations to which we are subject. The application of these complex legal and regulatory requirements to the detailed operation of our business creates areas of uncertainty. Further, there are numerous proposed health care laws and regulations at the federal and state levels, some of which could adversely affect our business if they are enacted. We are unable to predict what federal or state legislation or regulatory initiatives may be enacted in the future relating to our business or the health care industry in general, or what effect any such legislation or regulations might have on our business. Any failure or alleged failure to comply with applicable laws and regulations as summarized below, or any adverse applications of, or changes in, the laws and regulations affecting our business, could have a material adverse effect on our operating results and/or financial condition. See Item 3, “Legal Proceedings” for further information.

Although we believe that we are in material compliance with existing laws and regulations applicable to our various business lines, we cannot give any assurances that our business, financial condition and results of operations will not be materially adversely affected, or that we will not be required to materially change our business practices, based on: (i) future enactment of new health care or other laws or regulations; (ii) the interpretation or application of existing laws or regulations, including the laws and regulations described in this Government Regulation section, as they may relate to our business, the pharmacy services, retail pharmacy, long-term care or retail clinic industry or to the health care industry generally; (iii) pending or future federal or state governmental investigations of our business or the pharmacy services, retail pharmacy, long-term care or retail clinic industry or of the health care industry generally; (iv) institution of government enforcement actions against us; (v) adverse developments in any pending *qui tam* lawsuit against us, whether sealed or unsealed, or in any future *qui tam* lawsuit that may be filed against us; or (vi) adverse developments in other pending or future legal proceedings against us or affecting the pharmacy services, retail pharmacy, long-term care or retail clinic industry or the health care industry generally.

Laws and Regulations Related to Each Operating Segment of Our Business

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

Anti-Remuneration Laws - Federal law prohibits, among other things, an entity from knowingly and willfully offering, paying, soliciting or receiving, subject to certain exceptions and “safe harbors,” any remuneration to induce the referral of individuals or the purchase, lease or order of items or services for which payment may be made under Medicare, Medicaid or certain other federal health care programs. A number of states have similar laws, some of which are not limited to services paid for with government funds. Sanctions for violating these federal and state anti-remuneration laws may include imprisonment, criminal and civil fines, and exclusion from participation in Medicare, Medicaid and other government-sponsored health care programs.

Antitrust and Unfair Competition - The Federal Trade Commission (“FTC”) has authority under Section 5 of the Federal Trade Commission Act (“FTCA”) to investigate and prosecute practices that are “unfair trade practices” or “unfair methods of competition.” Numerous lawsuits have been filed throughout the United States against pharmaceutical manufacturers, retail pharmacies and/or PBMs under various state and federal antitrust and unfair competition laws challenging, among other things: (i) brand drug pricing practices of pharmaceutical manufacturers, (ii) the maintenance of retail or specialty pharmacy networks by PBMs, and (iii) various other business practices of PBMs and retail pharmacies. To the extent that we appear to have actual or potential market power in a relevant market or CVS Pharmacy or CVS Specialty plays a unique or expanded role in a PBM product offering, our business arrangements and uses of confidential information may be subject to heightened scrutiny from an anti-competitive perspective and possible challenge by state or federal regulators or private parties.

Privacy and Confidentiality Requirements - Many of our activities involve the receipt, use and disclosure by us of personally identifiable information (“PII”) as permitted in accordance with applicable federal and state privacy and data security laws, which require organizations to provide appropriate privacy and security safeguards for such information. In addition to PII, we use and disclose de-identified data for analytical and other purposes when permitted. Additionally, there are industry standards for handling credit card data known as the Payment Card Industry Data Security Standard, which are a set of requirements designed to help ensure that entities that process, store or transmit credit card information maintain a secure environment. Certain states have recently incorporated these requirements into state laws.

The federal Health Insurance Portability and Accountability Act of 1996 and the regulations issued thereunder (collectively, “HIPAA”) impose extensive requirements on the way in which health plans, health care providers, health care clearinghouses (known as “covered entities”) and their business associates use, disclose and safeguard protected health information (“PHI”). Criminal penalties and civil sanctions may be imposed for failing to comply with HIPAA standards. The Health Information Technology for Economic and Clinical Health Act (the “HITECH Act”), enacted as part of the American Recovery and Reinvestment Act of 2009, amended HIPAA to impose additional restrictions on third-party funded communications using PHI and the receipt of remuneration in exchange for PHI. It also extended HIPAA privacy and security requirements and penalties directly to business associates. In addition to HIPAA, state health privacy laws apply to the extent they are more protective of individual privacy than is HIPAA.

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

Consumer Protection Laws - The federal government has many consumer protection laws, such as the FTCA, the Federal Postal Service Act and the FTC’s Telemarketing Sales Rule. Most states also have similar consumer protection laws. These laws have been the basis for investigations, lawsuits and multi-state settlements relating to, among other matters, the marketing of loyalty programs and health care services, pricing accuracy, expired front store products, financial incentives provided by drug manufacturers to pharmacies in connection with therapeutic interchange programs and disclosures related to how personal data is used and protected.

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

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

Health Reform Legislation - Passed in 2010, ACA affects virtually every aspect of health care in the country. In addition to establishing the framework for every individual to have health coverage, ACA enacted a number of significant health care reforms. Many of these reforms affect the coverage and plan designs that are provided by our health plan clients. As a result, these reforms impact a number of our services and business practices. Some significant ACA provisions are still being finalized (e.g., implementation of the excise tax on high-cost employer-sponsored health coverage has been delayed by Congress) and parts of ACA may still face potential Congressional changes, so the full impact of ACA on our Company is still uncertain.

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

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

Laws and Regulations Related to Our Pharmacy Services Segment

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

PBM Laws and Regulation - Legislation seeking to regulate PBM activities in a comprehensive manner has been introduced or enacted in a number of states. This legislation could adversely impact our ability to conduct business on commercially reasonable terms in states where the legislation is in effect.

In addition, certain quasi-regulatory organizations, including the National Association of Boards of Pharmacy and the National Association of Insurance Commissioners (“NAIC”) have issued model regulations or may propose future regulations concerning PBMs and/or PBM activities. Similarly, credentialing organizations such as NCQA and URAC may establish voluntary standards regarding PBM, mail or specialty pharmacy activities. While the actions of these quasi-regulatory or standard-setting organizations do not have the force of law, they may influence states to adopt their requirements or recommendations and influence client requirements for PBM or specialty pharmacy services. Moreover, any standards established by these organizations could also impact our health plan clients and/or the services we provide to them.

Medicare Part D - The Medicare Part D program, which makes prescription drug coverage available to eligible Medicare beneficiaries through private insurers, regulates all aspects of the provision of Medicare drug coverage, including enrollment, formularies, pharmacy networks, marketing, and claims processing. The Medicare Part D program has undergone significant legislative and regulatory changes since its inception, and continues to attract a high degree of legislative and regulatory scrutiny. The applicable government rules and regulations continue to evolve. CMS has imposed restrictions and issued new requirements to protect Medicare Part D beneficiaries and has used its authority to sanction and impose civil monetary penalties on plans for non-compliance.

Network Access Legislation - Medicare Part D and a majority of states now have some form of legislation affecting the ability to limit access to a pharmacy provider network or remove network providers. For example, certain “any willing provider” legislation may require us or our clients to admit a non-participating pharmacy if such pharmacy is willing and able to meet the plan’s price and other applicable terms and conditions for network participation. These laws could negatively impact the services and economic benefits achievable through a limited pharmacy provider network.

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

Contract Audits - We are subject to audits of many of our contracts, including our PBM client contracts, our PBM rebate contracts, our PBM network contracts, our contracts relating to Medicare Part D and the agreements our pharmacies enter into with other payors. Because some of our contracts are with state or federal governments or with entities contracted with state or federal agencies, audits of these agreements are often regulated by the federal or state agencies responsible for administering federal or state benefits programs, including those which operate Medicaid fee for service plans, Managed Medicaid plans, Medicare Part D plans or Medicare Advantage organizations.

Federal Employee Health Benefits Program - We have a contractual arrangement with carriers for the Federal Employee Health Benefits (“FEHB”) Program, such as the BlueCross BlueShield Association, to provide pharmacy services to federal employees, postal workers, annuitants, and their dependents under the Government-wide Service Benefit Plan, as authorized by the FEHB Act and as part of the FEHB Program. These arrangements subjects us to certain aspects of FEHB Act, and other federal regulations, such as the FEHB Acquisition Regulation, that otherwise are not applicable to us.

State Insurance Laws - PDPs and our PBM service contracts, including those in which we assume certain risks under performance guarantees or similar arrangements, are generally not subject to insurance regulation by the states. However, state departments of insurance are increasing their oversight of PBM activities due to legislation passing in several states requiring PBMs to register or obtain a license with the department. Rulemaking is either underway or has already taken place in a few states with the areas of focus on licensure requirements, pharmacy reimbursement for generics (MAC reimbursement) and pharmacy audits - most of which fall under the state insurance code. Additionally, some states have laws that prohibit submitting a false claim or making a false record or statement in order to secure reimbursement from an insurance company. These state laws vary, and violation of them may lead to the imposition of civil or criminal penalties.

As a PDP, SilverScript is subject to state insurance laws limited to licensure and solvency. In addition, PBM offerings of prescription drug coverage under certain risk arrangements may be subject to laws and regulations in various states. Such laws may require that the party at risk become licensed as an insurer, establish reserves or otherwise demonstrate financial viability. Laws that may apply in such cases include insurance laws and laws governing MCOs and limited prepaid health service plans.

ERISA Regulation - The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), provides for comprehensive federal regulation of certain employee pension and benefit plans, including private employer and union sponsored health plans and certain other plans that contract with us to provide PBM services. In general, we assist plan sponsors in the administration of the prescription drug portion of their health benefit plans in accordance with the plan designs adopted by the plan sponsors. We do not believe that the conduct of our business subjects us to the fiduciary obligations of ERISA, except when we have specifically contracted with a plan sponsor to accept limited fiduciary responsibility, such as for the adjudication of initial prescription drug benefit claims and/or the appeals of denied claims under a plan, and with respect to the Contraceptive Coverage Mandate, one of the health reforms presently included in ACA.

In addition to its fiduciary provisions, ERISA imposes civil and criminal liability on service providers to health plans and certain other persons if certain forms of illegal remuneration are made or received. These provisions of ERISA are broadly written and their application to specific business practices is often uncertain.

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

Managed Care Reform - In addition to health reforms enacted by ACA, proposed legislation has been considered at the state level, and legislation has been enacted in several states, aimed primarily at providing additional rights and access to drugs to individuals enrolled in managed care plans. This legislation may impact the design and implementation of prescription drug benefit plans sponsored by our PBM health plan clients and/or the services we provide to them. Both the scope of the managed care reform proposals considered by state legislatures and reforms enacted by states to date vary greatly, and the scope of future legislation that may be enacted is uncertain.

Disease Management Services Regulation - We provide disease management programs to PBM plan members for rare medical conditions and arrange for them to receive disease management programs for common medical conditions. State laws regulate the practice of medicine, the practice of pharmacy and the practice of nursing. Clinicians engaged in a professional practice in connection with the provision of disease management services must satisfy applicable state licensing requirements and must act within their scope of practice.

Third Party Administration and Other State Licensure Laws - Many states have licensure or registration laws governing certain types of administrative organizations, such as preferred provider organizations, third party administrators and companies that provide utilization review services. Several states also have licensure or registration laws governing the organizations that provide or administer consumer card programs (also known as cash card or discount card programs).

Laws and Regulations Related to Our Retail/LTC Segment

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

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

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

Available Information

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

Item 1A. Risk Factors

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

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

The PBM industry has been experiencing margin pressure as a result of competitive pressures and increased client demands for lower prices, increased revenue sharing, enhanced service offerings and/or higher service levels. In that regard, we maintain contractual relationships with generic pharmaceutical manufacturers and brand name pharmaceutical manufacturers that provide for purchase discounts and/or rebates on drugs dispensed by pharmacies in our retail network and by our specialty and mail order pharmacies (all or a portion of which may be passed on to clients). Manufacturer rebates often depend on a PBM's ability to meet contractual market share or other requirements, including in some cases the placement of a manufacturer's products on the PBM's formularies. If we lose our relationship with one

or more pharmaceutical manufacturers, or if the discounts or rebates provided by pharmaceutical manufacturers decline, our business and financial results could be adversely affected. Further, competitive pressures in the PBM industry have resulted in our clients sharing in a larger portion of rebates and/or discounts received from pharmaceutical manufacturers. Market dynamics and regulatory changes have impacted our ability to offer plan sponsors pricing that includes the use of retail “differential” or “spread”, which could negatively impact our future profitability. Further, changes in existing federal or state laws or regulations or the adoption of new laws or regulations relating to patent term extensions, purchase discount and rebate arrangements with pharmaceutical manufacturers, or to formulary management or other PBM services could also reduce the discounts or rebates we receive. In addition, changes in federal or state laws or regulations or the adoption of new laws or regulations relating to claims processing and billing, including our ability to use MAC lists and collect transmission fees, could adversely impact our profitability.

Our retail pharmacy, specialty pharmacy and LTC pharmacy operations have also been affected by the margin pressures described above, including client demands for lower prices, generic pricing and network reimbursement pressure. In addition, as competition increases in the markets in which we operate, a significant increase in general pricing pressures could occur, and this could require us to reevaluate our pricing structures to remain competitive. A shift in the mix of our pharmacy prescription volume towards programs offering lower reimbursement rates could adversely affect our margins, including the shift in pharmacy mix towards 90-day prescriptions at retail and the shift in pharmacy mix towards Medicare Part D prescriptions. Finally, the margins of our LTC business are further affected by the increased efforts of health care payors to negotiate reduced or capitated pricing arrangements. These actions could also adversely affect the margins of our LTC business.

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

The continued efforts of health maintenance organizations, managed care organizations, PBMs, government entities, and other third party payors to reduce prescription drug costs and pharmacy reimbursement rates, as well as litigation and other legal proceedings relating to how drugs are priced, may impact our profitability. In particular, increased utilization of generic pharmaceuticals (which normally yield a higher gross profit rate than equivalent brand named drugs) has resulted in pressure to decrease reimbursement payments to retail, specialty, LTC and mail order pharmacies for generic drugs, causing a reduction in the generic profit rate. Historically, the effect of this trend on generic profitability has been mitigated by our efforts to negotiate reduced acquisition costs of generic pharmaceuticals with manufacturers. However, in recent years, there has been significant consolidation within the generic manufacturing industry, and it is possible that this and other external factors may enhance the ability of manufacturers to sustain or increase pricing of generic pharmaceuticals and diminish our ability to negotiate reduced acquisition costs. Any inability to offset increased costs or to modify our activities to lessen the impact could have a significant adverse effect on our results of operations.

In addition, during the past several years, the United States health care industry has been subject to an increase in governmental regulation and audits at both the federal and state levels. Efforts to control health care costs, including prescription drug costs, are continuing at the federal and state government levels. Changing political, economic and regulatory influences may significantly affect health care financing and reimbursement practices. For example, we anticipate that federal and state governments will continue to review and assess alternative health care delivery systems, payment methodologies and operational requirements for health care providers, including LTC facilities and pharmacies. A change in the composition of pharmacy prescription volume toward programs offering lower reimbursement rates could negatively impact our profitability. Any action taken to repeal or replace all or significant parts of ACA could also impact our profitability, though it is unclear at this time what the full effects will be.

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

A highly competitive business environment.

Each of our retail pharmacy, LTC pharmacy, retail health clinic and pharmacy services operations currently operates in a highly competitive and evolving health care environment.

The competitive success of our retail pharmacy business, as well as our specialty pharmacy operations with non-Caremark payors, is derived by their ability to establish and maintain contractual relationships with PBMs and other payors on acceptable terms in an environment where some PBM clients are considering adopting narrow or restricted retail pharmacy networks. As a pharmacy retail business, we compete with other drugstore chains, supermarkets, on-line and other discount retailers, independent pharmacies, membership clubs, convenience stores and mass merchants, some of which are aggressively expanding into markets we serve. We also face competition from other retail health clinics, as well as other mail order pharmacies and PBMs. Disruptive innovation by existing or new competitors could alter the competitive landscape in the future and require us to accurately identify and assess such changes and make timely and effective changes to our strategies and business model to compete effectively. Competition may also come from other sources in the future. Changes in market dynamics or the actions of competitors or manufacturers, including industry consolidation, the emergence of new competitors and strategic alliances, and the exclusion from new narrow or restricted networks, could materially and adversely impact us.

We could also be adversely affected if we fail to identify or effectively respond to changes in market dynamics. For example, specialty pharmacy represents a significant and growing proportion of prescription drug spending in the United States, a significant portion of which is dispensed outside of traditional retail pharmacies. Because our specialty pharmacy operations focuses on complex and high-cost medications that serve a relatively limited universe of patients, the future growth of this business depends to a significant extent upon expanding our ability to access key drugs and successfully penetrate key treatment categories.

The competitive success of our LTC pharmacy operations is dependent upon our ability to compete in each geographic region where we have operations. In the geographic regions we serve, we compete with PharMerica, our largest competitor, as well as with numerous local and regional institutional pharmacies, pharmacies owned by long-term care facilities and local retail pharmacies. Our long-term care customers consist of skilled nursing facilities, assisted living facilities, independent living communities, hospitals, correctional facilities, and other health care service providers. We believe that the assisted living segment, where residents can choose which pharmacy will provide them with pharmaceuticals, is projected to grow the most as a percentage of the total LTC sector over the near term. The ability of a resident of an assisted living facility to select the pharmacy that supplies him or her with pharmaceuticals could adversely affect our business, financial condition and results of operations because there can be no assurance that such resident will select us.

The competitive success of our pharmacy services business is impacted by its ability to establish and maintain contractual relationships with network pharmacies in an environment where some PBM clients are considering adopting narrow or restricted retail pharmacy networks. Competitors in the PBM industry (e.g., Express Scripts, OptumRx, Prime Therapeutics, MedImpact and Humana), include large, national PBM companies, PBMs owned by large national health plans and smaller standalone PBMs. Competition may also come from other sources in the future. In addition, changes in the overall composition of our pharmacy networks, or reduced pharmacy access under our networks, could adversely affect our claims volume and/or our competitiveness generally.

Competitors in each of our business areas may offer services and pricing terms that we may not be willing or able to offer. Strong competition in the PBM marketplace has generated greater client demand for lower pricing, increased revenue sharing and enhanced product and service offerings. Unless we can demonstrate enhanced value to our clients through innovative product and service offerings, particularly in a rapidly changing health care industry, we may be unable to remain competitive.

Changes in U.S. policy, laws and regulations, including reform of the United States health care system.

The results of the November 2016 elections continue to generate some uncertainty with respect to, and could result in, significant changes in legislation, regulation and government policy that could significantly impact our business and the health care and retail industries. While it is not possible to predict whether and when any such changes will occur or what form any such changes may take (including through the use of Executive Orders), specific proposals discussed by the Presidential Administration could have a material adverse effect on our business, liquidity and results of operations include, but are not limited to, immigration policies, the modification of ACA. Other significant changes to health care system legislation or regulation as well as changes with respect to tax and trade policies, tariffs and other government regulations affecting trade between the United States and other countries are also possible.

Potential modification to ACA, significant changes to Medicaid funding or even significant destabilization of the Health Insurance Marketplaces could impact the number of Americans with health insurance and, consequently, prescription drug coverage. Further changes to ACA are possible and we cannot predict the effect, if any, on future changes to ACA, the implementation or failure to implement the outstanding provisions of ACA, or the enactment of new health care system legislation to replace current legislation may have on our retail pharmacy, LTC pharmacy, specialty pharmacy and pharmacy services operations.

In addition, much of the branded and generic drug product that we sell in our retail, mail and specialty pharmacies, and much of the other merchandise we sell, is manufactured in whole or in substantial part outside of the United States. In most cases, the products or merchandise are imported by others and sold to us. As a result, significant changes in tax or trade policies, tariffs or trade relations between the United States and other countries, such as the imposition of unilateral tariffs on imported products, could result in significant increases in our costs, restrict our access to suppliers, depress economic activity, and have a material impact on our business, liquidity and results of operations. In addition, other countries may change their business and trade policies and such changes, as well as any negative sentiments towards the United States in response to increased import tariffs and other changes in U.S. trade regulations, could adversely affect our business.

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

Our business is subject to numerous federal, state and local laws and regulations. See “Business - Government Regulation.” In addition, during the past several years, the United States health care industry has been subject to an increase in governmental regulation and enforcement activity at both the federal and state levels. Further, uncertainties exist regarding the application of many of these legal requirements to our business. In addition, it is possible that certain provisions of the current health care reform legislation may be modified, repealed or otherwise invalidated. Changes in these laws and regulations and the related interpretations and enforcement practices may require extensive system and operating changes that may be difficult to implement. Untimely compliance or noncompliance with applicable laws and regulations could adversely affect the continued operation of our business, including, but not limited to: imposition of civil or criminal penalties; significant fines or monetary penalties; suspension or disgorgement of payments from government programs; loss of required government certifications or approvals; loss of authorizations to participate in or exclusion from government reimbursement programs, such as the Medicare and Medicaid programs; or loss of registrations or licensure. The regulations to which we are subject include, but are not limited to: the laws and regulations described in the Government Regulation section; accounting standards; financial disclosure; securities laws and regulations; federal anti-trust laws; tax laws and regulations and their possible reform; laws and regulations relating to the protection of the environment and health and safety matters, including those governing exposure to, and the management and disposal of, hazardous materials and wastes; and laws and regulations of the FTC, the FCC, and the Consumer Product Safety Commission, as well as state regulatory authorities, governing the sale, advertisement and promotion of products that we sell, such as Boards of Pharmacy. The FDA, DEA and various states regulate the distribution of pharmaceuticals and controlled substances. We are required to hold valid DEA and state-level registrations and licenses, meet various security and operating standards and comply with the federal and various states’ controlled substances acts and their accompanying regulations governing the sale, marketing, packaging, holding and distribution of controlled substances. The DEA, FDA and state regulatory authorities have broad enforcement powers, including the ability to suspend our registrations and licenses, seize or recall products and impose significant criminal, civil and administrative sanctions for violations of these laws and regulations. In addition, our business interests outside of the United States are subject to the Foreign Corrupt Practices Act and other applicable domestic and international laws and regulations. We are also subject to the terms of various government agreements and mandates, including those described in the Government Regulation section. In that regard, our business, financial position and results of operations could be adversely affected by existing and new government legislative, regulatory action and enforcement activity, including, without limitation, any one or more of the following:

- federal and state laws and regulations concerning the submission of claims for reimbursement by Medicare, Medicaid and other government programs, whether at retail, mail, specialty or LTC;
- federal and state laws and regulations governing the purchase, distribution, tracking, management, compounding, dispensing and reimbursement of prescription drugs and related services, whether at retail, mail, specialty or LTC, and applicable registration or licensing requirements;
- heightened enforcement of controlled substances regulations;
- the effect of the expiration of patents covering brand name drugs and the introduction of generic products;

- the frequency and rate of approvals by the FDA of new brand name and generic drugs, or of over-the-counter status for brand name drugs;
- rules and regulations issued pursuant to HIPAA and the HITECH Act; and other federal and state laws affecting the collection, use, disclosure and transmission of health or other personal information, such as federal laws on information privacy precipitated by concerns about information collection through the Internet, state security breach laws and state laws limiting the use and disclosure of prescriber information;
- health care fraud and abuse laws regulations;
- consumer protection laws affecting our health care services, our loyalty programs, our drug discount card programs, the products we sell, the informational calls we make and/or the marketing of our goods and services;
- federal, state and local environmental, health and safety laws and regulations applicable to our business, including the management of hazardous substances, storage and transportation of hazardous materials, and various recordkeeping disclosure and procedure requirements promulgated by the Occupational Safety and Health Administration that may apply to our operations;
- health care reform, managed care reform and plan design legislation;
- laws against the corporate practice of medicine;
- FDA regulation affecting the retail, LTC, specialty or PBM industry;
- government regulation of the development, administration, review and updating of formularies and drug lists including requirements and/or limitations around formulary tiering and patient cost sharing;
- state laws and regulations related to increased oversight of PBM activities by state departments of insurance pharmacy reimbursement for generics and pharmacy audits;
- drug pricing legislation, including “most favored nation” pricing;
- federal and state laws and regulations establishing or changing prompt payment requirements for payments to retail pharmacies;
- impact of network access legislation or regulations, including “any willing provider” laws, on our ability to manage pharmacy networks;
- ERISA and related regulations;
- administration of Medicare Part D, including legislative changes and/or CMS rulemaking and interpretation;
- Medicare and Medicaid regulations applicable to our business, in particular our LTC pharmacies and those of our client’s facilities;
- ongoing compliance with consent decrees, corporate integrity agreements, corrective action plans and other agreements with government agencies;
- insurance licensing and other insurance regulatory requirements applicable to offering Medicare Part D programs and services or other health care services; and
- direct regulation of pharmacies or PBMs by regulatory and quasi-regulatory bodies.

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

Our PBM business generates net revenues primarily by contracting with clients to provide prescription drugs and related health care services to plan members. PBM client contracts often have terms of approximately three years in duration, so approximately one third of a PBM’s client base typically is subject to renewal each year. In some cases, however, PBM clients may negotiate a shorter or longer contract term or may require early or periodic renegotiation of pricing prior to expiration of a contract. Our clients are generally well informed and organized, can move between our competitors and often seek competing bids prior to expiration of their contracts. In addition, the reputational impact of a service-related incident could negatively affect our business. These factors, together with the impact of competitive pressures, could make it difficult for us to attract new clients, retain existing clients and cross-sell additional services. Further, the PBM industry has been affected by consolidation activity that may continue in the future. In the event one or more of our PBM clients is acquired by an entity that is not also our client, we may be unable to retain all or a portion of the acquired business. These circumstances, either individually or in the aggregate, could result in an adverse effect on our business and financial results. Therefore, we continually face challenges in competing for new PBM business and retaining or renewing our existing PBM business. With respect to our LTC business, reimbursement from skilled nursing facilities for prescriptions we dispense is determined pursuant to our agreements with those skilled nursing facilities. The termination of these agreements generally causes our ability to provide services to any of the residents of that facility to cease, resulting in the loss of revenue from any source for those residents. There can be no assurance that we will be able to win new business or secure renewal business on terms as favorable to us as the present terms.

Additionally, with respect to our retail and LTC pharmacy businesses, reimbursement under Medicare Part D, as well as reimbursement from certain private third-party payors, is determined pursuant to agreements that we negotiate with those payors or their pharmacy benefit manager representatives. The loss of those agreements, or a material change in the terms of those agreements, could negatively impact the Company. In addition, restricted networks that exclude our retail or specialty pharmacies negatively impact those businesses.

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

We dispense significant volumes of brand-name and generic drugs from our retail, LTC, specialty and mail-order pharmacies and through our PBM's network of retail pharmacies. When increased safety risk profiles or manufacturing or other supply issues of specific drugs or classes of drugs occur, or drugs become subject to greater restrictions as controlled substances, physicians may cease writing prescriptions for these drugs or the utilization of these drugs may be otherwise reduced.

Additionally, adverse publicity regarding drugs with higher safety risk profiles may result in reduced consumer demand for such drugs. On occasion, products are withdrawn by their manufacturers or transition to over-the-counter products, which can result in lower prescription utilization. In addition, future FDA rulings could restrict the supply or increase the cost of products sold to our customers. Our volumes, net revenues, profitability and cash flows may decline as a result of such regulatory rulings or market changes.

Further, we acquire a substantial amount of our mail and specialty pharmacies' prescription drug supply from a limited number of suppliers. Our agreements with these suppliers are often short-term and easily cancelable by either party without cause. In addition, these agreements may limit our ability to provide services for competing drugs during the term of the agreement and may allow the supplier to distribute through channels other than ours. Certain of these agreements also allow pricing and other terms to be adjusted periodically for changing market conditions or required service levels. A termination or modification to any of these relationships could have a material adverse effect on our business, financial condition and results of operations. Moreover, many products distributed by our specialty pharmacy business are manufactured with ingredients that are susceptible to supply shortages. In some cases, we depend upon a single source of supply.

In addition, our suppliers are independent entities subject to their own operational and financial risks that are outside our control. If our current suppliers were to stop selling prescription drugs to us or delay delivery, including as a result of supply shortages, supplier production disruptions, supplier quality issues, closing or bankruptcies of our suppliers, or for other reasons, we may be unable to procure alternatives from other suppliers in a timely and efficient manner and on acceptable terms, or at all.

A disruption in our business operations could occur as a result of contamination of drugs, a failure to maintain necessary shipment and storage conditions, errors in mail order processing, the unavailability of prescription drugs provided by suppliers, labor disruptions or other unanticipated disruptions at our mail order facilities, call centers, data centers or corporate facilities, among other factors. Such disruption could reduce our ability to process and dispense prescriptions and provide products and services to our customers.

In the event any products we distribute are in limited supply for significant periods of time, our financial condition and results of operations could be materially and adversely affected.

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

The profitability of our business is dependent upon the utilization of prescription drug products. Utilization trends are affected by, among other factors, the introduction of new and successful prescription pharmaceuticals as well as lower-priced generic alternatives to existing brand name products, as the sale of generic alternatives normally yield higher gross margins than brand name equivalents. In addition, inflation in the price of the brand name drugs can affect utilization, particularly given the increase in high deductible health plans. Accordingly, our business could be impacted by a slowdown or delay in the number or magnitude of new and successful prescription pharmaceuticals and/or generic alternatives, as well as the pricing of brand name drugs.

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

Our business is affected by the economy and consumer confidence in general, including various economic factors, inflation and changes in consumer purchasing power, preferences and/or spending patterns. It is possible that an unfavorable, uncertain or volatile economic environment will cause a decline in drug and health care services utilization and dampen demand for pharmacy benefit management services as well as consumer demand for products sold in our retail stores. Further economic conditions including interest rate fluctuations, changes in capital market conditions and regulatory changes may affect our ability to obtain necessary financing on acceptable terms, our ability to secure suitable store locations under acceptable terms and our ability to execute sale-leaseback transactions under acceptable terms. These changes in conditions could result in an adverse effect on our business and financial results. This could be further exacerbated by the increasing prevalence of high deductible health plans and health plan designs favoring co-insurance over co-payments.

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

Many aspects of our operations are dependent on our information systems and the information collected, processed, stored, and handled by these systems. We rely heavily on our computer systems to manage our ordering, pricing, point-of-sale, pharmacy fulfillment, inventory replenishment, claims processing, ExtraCare customer loyalty program, finance, human resource and other processes. Throughout our operations, we receive, retain and transmit certain confidential information, including PII that our customers and clients provide to purchase products or services, enroll in programs or services, register on our websites, interact with our personnel, or otherwise communicate with us. In addition, for these operations, we depend in part on the secure transmission of confidential information over public networks. Our information systems are subject to damage or interruption from power outages, facility damage, computer and telecommunications failures, computer viruses, security breaches including credit card or personally identifiable information breaches, coordinated cyber attacks, vandalism, catastrophic events and human error. Although we deploy a layered approach to address information security threats and vulnerabilities, including ones from a cyber security standpoint, designed to protect confidential information against data security breaches, a compromise of our information security controls or of those businesses with whom we interact, which results in confidential information being accessed, obtained, damaged, or used by unauthorized or improper persons, could harm our reputation and expose us to regulatory actions and claims from customers and clients, financial institutions, payment card associations and other persons, any of which could adversely affect our business, financial position, and results of operations. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may not immediately produce signs of intrusion, we may be unable to anticipate these techniques or to implement adequate preventative measures. Moreover, a data security breach could require that we expend significant resources related to our information systems and infrastructure, and could distract management and other key personnel from performing their primary operational duties. We also could be adversely affected by any significant disruption in the systems of third parties we interact with, including key payors and vendors.

If our information systems are damaged, fail to work properly or otherwise become unavailable, or if we are unable to successfully complete our planned consolidation of our PBM claims adjudication platforms, we may incur substantial costs to repair or replace them, and may experience reputational damage, loss of critical information, customer disruption and interruptions or delays in our ability to perform essential functions and implement new and innovative services. In addition, compliance with changes in privacy and information security laws and standards may result in considerable expense due to increased investment in technology and the development of new operational processes.

Failure to adequately protect receipt and use of confidential health information concerning individuals.

Many aspects of our business involve the collection, transmission and use of an individual's protected health information or other sensitive personal information. In some cases, we also use aggregated and de-identified data as defined by HIPAA for analytical and research purposes, particularly data related to improving the quality of the care we provide. In other cases, we may provide de-identified data to pharmaceutical manufacturers and to third-party data aggregators where permitted by our contracts. These activities are subject to federal and state privacy and security laws and regulations and, in the future, may be subject to international regulatory requirements such as the General Data Protection Regulation, a new European Union privacy regulation that takes effect on May 25, 2018. At the federal level, HIPAA imposes extensive privacy and security requirements governing the transmission, use and disclosure of health

information by all participants in the health care industry, whether directly as a covered entity or as a business associate. Our business encompasses both situations and includes our pharmacists, nurse practitioners and PBM operations. In addition, industry requirements, such as Generally Accepted Privacy Principles may be imposed on us by our contracts with our PBM clients or other customers. Many of our businesses are also subject to the Payment Card Industry Data Security Standard, which is a security standard mandated by the credit card industry for the purpose of protecting credit card account data. These increasingly complex laws, regulations and industry requirements are subject to change and compliance with them may result in significant expenses associated with increased operational and compliance costs, particularly as we continue to collect and retain large amounts of information. To the extent that either we or our vendors with whom we share information are found to be out of compliance with applicable laws and regulations or experience a data security breach, we could be subject to additional litigation, regulatory risks and reputational harm. For example, the privacy and security of the information we maintain may be compromised by the actions of outside parties, by employee errors or by malfeasance. Such risks may result in an unauthorized party obtaining access to our data systems thereby threatening the privacy of protected health information or other sensitive personal information we use and maintain. Failure to comply with federal or state statutes or regulations may result in criminal penalties and civil sanctions. In addition, failure to comply with our own privacy or security policies may result in sanctions by the FTC or other federal oversight agencies. Future regulations and legislation that severely restrict or prohibit our use of patient, member or customer identifiable or other information could limit our ability to use information critical to the operation of our business. Furthermore, if we violate a patient's privacy or are found to have violated any federal or state statute or regulation with regard to confidentiality or dissemination or use of PHI, we could be liable for significant damages, fines or penalties and suffer reputational harm, any one of which could have a material adverse effect on our business and results of operations.

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

Medicare Part D has resulted in increased utilization and puts pressure on pharmacy gross margin rates due to regulatory and competitive pressures. Further, as a result of ACA and changes to the retiree drug subsidy rules, our PBM clients could decide to discontinue providing prescription drug benefits to their Medicare-eligible members. To the extent this occurs, the adverse effects of increasing customer migration into Medicare Part D may outweigh the benefits we realize from growth of our Medicare Part D business. In addition, if the cost and complexity of Medicare Part D exceed management's expectations or prevent effective program implementation or administration; if changes to the regulations regarding how drug costs are reported for Medicare Part D are implemented in a manner that impacts the profitability of our Medicare Part D business; if changes to the regulations impact our ability to retain fees from third parties including network pharmacies; if the government alters Medicare program requirements or reduces funding because of the higher-than-anticipated cost to taxpayers of Medicare Part D or for other reasons; if the government mandates the use of point-of-sale manufacturer rebates or makes changes to how pharmacy pay-for-performance is calculated; if Congress acts to reduce reinsurance thresholds from 80% to 20%; if we fail to design and maintain programs that are attractive to Medicare participants; if CMS imposes restrictions on our Medicare Part D business as a result of audits or other regulatory actions; if we fail to successfully implement corrective action or other remedial measures sufficient to prevent or remove any applicable restrictions that may be imposed by CMS; or if we are not successful in retaining enrollees, or winning contract renewals or new contracts under Medicare Part D's competitive bidding process, our Medicare Part D services and the ability to expand our Medicare Part D services could be negatively impacted.

Possible changes in industry pricing benchmarks and drug pricing generally.

It is possible that the pharmaceutical industry or regulators may evaluate and/or develop an alternative pricing reference to replace Average Wholesale Price ("AWP") or Wholesale Acquisition Cost ("WAC"), which are the pricing references used for many of our PBM and LTC client contracts, pharmaceutical purchase agreements, retail network contracts, specialty payor agreements and other contracts with third party payors in connection with the reimbursement of drug payments. In addition, many state Medicaid fee-for-service programs ("FFS Medicaid") have established pharmacy network payments on the basis of Actual Acquisition Cost ("AAC"). The use of an AAC basis in FFS Medicaid could have an impact in reimbursement practices in other commercial and government segments. Future changes to the use of AWP, WAC or to other published pricing benchmarks used to establish pharmaceutical pricing, including changes in the basis for calculating reimbursement by federal and state health programs and/or other payors, could impact the reimbursement we receive from Medicare and Medicaid programs, the reimbursement we receive from PBM clients and other payors and/or our ability to negotiate rebates and/or discounts with pharmaceutical manufacturers, wholesalers, PBMs and retail pharmacies. A failure or inability to fully offset any increased prices or costs or to modify our operations to mitigate the impact of such increases could have an adverse effect on our results of operations.

Additionally, any future changes in drug prices could be significantly different than our projections. The effect of these possible changes on our business cannot be predicted at this time.

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

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

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

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

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

Finally, our specialty pharmacy business focuses on complex and high-cost medications, many of which are made available by manufacturers to a limited number of pharmacies (so-called limited distribution drugs), that serve a relatively limited universe of patients. As a result, the future growth of our specialty pharmacy business is dependent largely upon expanding our base of drugs or penetration in certain treatment categories. Any contraction of our base of patients or reduction in demand for the prescriptions we currently dispense could have an adverse effect on our business, financial condition and results of operations.

Risks related to developing and maintaining a relevant omni-channel experience for our customers.

Our business has evolved from a retail store experience to interaction with customers across numerous channels, including in-store, online, mobile and social media, among others. Omni-channel retailing is rapidly evolving and we must keep pace with changing customer expectations and new developments by our competitors. Our customers are increasingly using computers, tablets, mobile phones, and other devices to comparison shop, determine product availability and complete purchases through mobile commerce applications. As a result, the portion of total consumer expenditures with all retailers occurring online and through mobile commerce applications is increasing and the pace of this increase could accelerate. We must compete by offering a consistent and convenient shopping experience for our customers regardless of the ultimate sales channel and by investing in, providing and maintaining mobile commerce

applications for our customers that have the right features and are reliable and easy to use. If we are unable to make, improve, or develop relevant customer-facing technology in a timely manner that keeps pace with technological developments and dynamic customer expectations, our ability to compete and our results of operations could be materially and adversely affected. In addition, if our online activities or our other customer-facing technology systems do not function as designed, we may experience a loss of customer confidence, data security breaches, lost sales, or be exposed to fraudulent purchases, any of which could materially and adversely affect our business operations, reputation and results of operations.

We are subject to payment-related risks that could increase our operating costs, expose us to fraud or theft, subject us to potential liability and disrupt our business operations.

We accept payments using a variety of methods, including cash, checks, credit cards, debit cards, gift cards, mobile payments and potentially other technologies in the future. Acceptance of these payment methods subjects us to rules, regulations, contractual obligations and compliance requirements, including payment network rules and operating guidelines, data security standards and certification requirements, and rules governing electronic funds transfers. These requirements may change in the future, which could make compliance more difficult or costly. For certain payment options, including credit and debit cards, we pay interchange and other fees, which could increase periodically thereby raising our operating costs. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards, and various other forms of electronic payment. If these companies are unable to provide these services to us, or if their systems are compromised, our operations could be disrupted. The payment methods that we offer also expose us to potential fraud and theft by persons seeking to obtain unauthorized access to, or exploit any weaknesses in, the payment systems. If we fail to abide by applicable rules or requirements, or if data relating to our payment systems is compromised due to a breach or misuse, we may be responsible for any costs incurred by payment card issuing banks and other third parties or subject to fines and higher transaction fees. In addition, our reputation and ability to accept certain types of payments could each be harmed resulting in reduced sales and adverse effects on our results of operations.

Solvency of our customers.

In the event that our customers' operating and financial performance deteriorates, or they are unable to make scheduled payments or obtain adequate financing, our customers may not be able to pay timely, or may delay payment of, amounts owed to us. Any inability of our customers to pay us for our products and services may adversely affect our business, financial condition and results of operations. In addition, both state and federal government sponsored payers, as a result of budget deficits or reductions, may suspend payments or seek to reduce their healthcare expenditures resulting in our customers delaying payments to us or renegotiating their contracts with us. Any delay or reduction in payments by such government sponsored payers may adversely affect our business, financial condition and results of operations.

Our outstanding debt and associated payment obligations could significantly increase in the future if we incur additional debt and do not retire existing debt.

Our current debt service costs associated with our increased debt levels may negatively impact our ability to make important investments in our business and limit our flexibility to respond to industry changes and market conditions. In addition, our debt levels and related debt service obligations could make it more difficult or expensive for us to obtain financing for working capital, capital expenditures, acquisitions or other purposes in the future. These circumstances could have a material adverse effect on our business operations and financial condition.

Further, we may incur and assume significantly more debt in the future, including in connection with the Aetna Acquisition or other acquisitions, strategic investments or joint ventures. For example, in connection with the Aetna Acquisition, if it is completed, we expect to incur approximately, \$45.0 billion of new indebtedness and assume approximately \$8.2 billion of existing indebtedness of Aetna. If we do not retire our existing debt or debt we assume in acquisitions or other strategic transactions, the risks described above could increase. We also could be adversely impacted by any failure to renew or replace, on terms acceptable to us or at all, existing indebtedness when it expires, and by any failure to satisfy applicable covenants.

We may be unable to refinance existing indebtedness or otherwise access the capital markets for any reason, whether due to market conditions or otherwise. Our continued access to the capital markets, and the terms of such access, depend on multiple factors including the condition of debt capital markets, our operating performance, the amount of our

indebtedness and debt service obligations and our credit ratings. Any disruptions or turmoil in the capital markets or any downgrade of our credit ratings could have a material adverse effect on our cost of funds, liquidity, competitive position and access to capital markets, which could materially and adversely affect our business operations, financial condition, and results of operations.

Our long-term debt obligations include covenants that limit our ability and the ability of our subsidiaries to secure indebtedness with a security interest on certain property or stock or engage in certain sale and leaseback transactions with respect to certain properties. In addition, our existing credit agreements require us to maintain a ratio of consolidated debt to total capitalization not to exceed specified levels. Our ability to comply with these restrictions and covenants may be affected by events beyond our control, and if we fail to comply with such restrictions or covenants, our outstanding indebtedness could be declared immediately due and payable. This could have a material adverse effect on our business operations and financial condition.

We may be unable to successfully integrate companies acquired by us.

Upon the closing of any acquisition we complete, we will need to successfully integrate the products, services and related assets, as well as internal controls into our business operations. If an acquisition is consummated, the integration of the acquired business, its products, services and related assets into our company may also be complex and time-consuming and, if the integration is not fully successful, we may not achieve the anticipated benefits, operating and cost synergies or growth opportunities of an acquisition. Potential difficulties that may be encountered in the integration process include the following:

- Integrating personnel, operations and systems, while maintaining focus on producing and delivering consistent, high quality products and services;
- Coordinating geographically dispersed organizations;
- Disruption of management's attention from our ongoing business operations;
- Retaining existing customers and attracting new customers; and
- Managing inefficiencies associated with integrating our operations.

An inability to realize the full extent of the anticipated benefits, operating and cost synergies, innovations and operations efficiencies or growth opportunities of an acquisition, as well as any delays encountered in the integration process, could have a material adverse effect on our business and results of operation. Furthermore, these acquisitions, even if successfully integrated, may fail to further our business strategy as anticipated, expose us to increased competition or challenges with respect to our products, services or geographic markets, and expose us to additional liabilities associated with an acquired business including risks and liabilities associated with litigation involving the acquired business. Any one of these challenges or risks could impair our ability to realize any benefit from our acquisitions after we have expended resources on them.

Risks related to the seasonality of our business.

Although the majority of our revenues, particularly pharmacy revenues, are generally not seasonal in nature, front store revenues tend to be higher during the December holiday season. Uncharacteristic or extreme weather conditions can adversely impact consumer shopping patterns as well. This could lead to lost sales, as well as increased snow removal and other costs, thereby negatively affecting our short-term results of operations. In addition, both pharmacy and front store revenues are affected by the timing and severity of the cough, cold and flu season, which is susceptible to large fluctuations from year to year, and our quarterly earnings and operating cash flows are impacted by the Medicare Part D benefit design and changes in the composition of our membership. See "Business - Pharmacy Services Seasonality."

Our operations are subject to a variety of business continuity hazards and risks, any of which could interrupt operations or otherwise adversely affect our performance and results.

We are subject to business continuity hazards and other risks, including natural disasters, utility and other mechanical failures, acts of war or terrorism, disruption of communications, data security and preservation, disruption of supply or distribution, safety regulation and labor difficulties. The occurrence of any of these or other events might disrupt or shut down operations, or otherwise adversely impact our operations. We may also be subject to certain liability claims in the event of an injury or loss of life, or damage to property, resulting from such events. Although we have developed business continuity plans and maintain insurance policies that we believe are customary and adequate for our size and

industry, our insurance policies include limits and, as such, our coverage may be insufficient to protect against all potential hazards and risks incident to our business. Should any such hazards or risks occur, or should our insurance coverage be inadequate or unavailable, our business financial condition and results of operations could be adversely affected.

Risks related to litigation and other legal proceedings.

Pharmacy services, retail pharmacy and LTC pharmacy are highly regulated and litigious industries. We are currently subject to various litigation matters, investigations, audits, inspections, government inquiries, and regulatory and legal proceedings. Litigation, and particularly securities and collective or class action litigation, is often expensive and disruptive. Further, under the *qui tam* or “whistleblower” provisions of the federal and various state false claims acts, private citizens may bring lawsuits alleging that a violation of the federal anti-kickback statute or similar laws has resulted in the submission of “false” claims to federal and/or state health care programs, including Medicare and Medicaid. Litigation related to our provision of professional services in our pharmacies, specialty pharmacies, clinics and LTC facilities has also increased as we expand our services along the continuum of health care. We cannot predict the outcome of any of these matters, and the costs incurred may be substantial regardless of outcome. Our business, financial condition and results of operations may be adversely affected, or we may be required to materially change our business practices, as a result of such proceedings. We refer you to Item 3, “Legal Proceedings” for additional information.

We face significant competition in attracting and retaining talented employees. Further, managing succession for, and retention of, key executives is critical to our success, and our failure to do so could have an adverse impact on our future performance.

Our ability to attract and retain qualified and experienced employees is essential to meet current and future goals and objectives and there is no guarantee we will be able to attract and retain such employees or that competition among potential employers will not result in increased salaries or other benefits. An inability to retain existing employees or attract additional employees, or an unexpected loss of leadership, could have a material adverse effect on our business and results of operations.

In addition, our failure to adequately plan for succession of senior management and other key management roles or the failure of key employees to successfully transition into new roles could have a material adverse effect on our business and results of operations. While we have succession plans in place and employment arrangements with certain key executives, these do not guarantee the services of these executives will continue to be available to us.

Goodwill and other intangible assets could, in the future, become impaired.

As of December 31, 2017, we had \$52.1 billion of goodwill and other intangible assets. Goodwill and indefinitely-lived intangible assets are subject to annual impairment reviews, or more frequent reviews if events or circumstances indicate that the carrying value may not be recoverable. When evaluating goodwill for potential impairment, we first compare the fair value of our reporting units to their respective carrying amounts. We estimate the fair value of our reporting units using a combination of a discounted cash flow model and a comparable market multiple model. If the estimated fair value of the reporting unit is less than its carrying amount, an impairment loss calculation is prepared. The impairment loss calculation compares the fair value of a reporting unit to its carrying amount. If the carrying amount of the reporting unit exceeds the fair value, a goodwill impairment loss is recognized in an amount equal to the excess to the extent of the goodwill balance. Estimated fair values could change if, for example, there are changes in the business climate, changes in the competitive environment, adverse legal or regulatory actions or developments, changes in capital structure, cost of debt, interest rates, capital expenditure levels, operating cash flows, or market capitalization. Because of the significance of our goodwill and intangible assets, any future impairment of these assets could require material noncash charges to our results of operations, which could have a material adverse effect on our financial condition and results of operations.

The foregoing is not a comprehensive listing of all possible risks and there can be no assurance that we have correctly identified and appropriately assessed all factors affecting the business. As such, we refer you to “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” which includes our “Cautionary Statement Concerning Forward-Looking Statements” at the end of such section, of our Annual Report to Stockholders for the year ended December 31, 2017, which section is incorporated by reference herein.

Aetna-Related Risk Factors In addition to the risk factors described above that could materially adversely affect our business, financial condition, results of operations, cash flows and prospects, the following risk factors, and additional risks not presently known to us or that we currently deem to be immaterial, could also materially adversely affect us and the Aetna Acquisition.

In order to complete the merger, we and Aetna must obtain certain governmental authorizations, and if such authorizations are not granted or are granted with conditions that become applicable to the parties, completion of the merger may be jeopardized or prevented or the anticipated benefits of the merger could be reduced.

Completion of the merger is conditioned upon the expiration or early termination of the waiting period relating to the merger under the HSR Act and certain other applicable laws or regulations and the required governmental authorizations having been obtained and being in full force and effect. Although we and Aetna have agreed in the merger agreement to use our reasonable best efforts, subject to certain limitations, to make certain governmental filings or obtain the governmental authorizations required to complete the merger (the “required governmental authorizations”), as the case may be, there can be no assurance that the relevant waiting periods will expire or authorizations will be obtained and no assurance that the merger will be completed.

In addition, the governmental authorities from which these authorizations are required have broad discretion in administering the governing laws and regulations, and may take into account various facts and circumstances in their consideration of the merger, including other potential transactions in the health care industry or other industries. These governmental authorities may initiate proceedings seeking to prevent, or otherwise seek to prevent, the merger. As a condition to authorization of the merger or related transactions, these governmental authorities also may impose requirements, limitations or costs, require divestitures or place restrictions on the conduct of our business after completion of the merger. Under the terms of the merger agreement, we are not required, and Aetna is not permitted without our consent, to take any actions or agree to any terms or conditions in connection with (i) the expiration or early termination of the waiting period relating to the merger under the HSR Act, (ii) any other antitrust law or (iii) the required governmental authorizations, in each case if such action, term or condition would have, or would reasonably be expected to have, individually or in the aggregate, a regulatory material adverse effect on us or Aetna.

However, notwithstanding the provisions of the merger agreement, either we or Aetna could become subject to terms or conditions in connection with such waiting periods, laws or other authorizations (whether because such term or condition does not rise to the specified level of materiality or we otherwise consent to its imposition) the imposition of which could adversely affect our ability to integrate Aetna’s operations with our operations, reduce the anticipated benefits of the merger or otherwise materially and adversely affect our business and results of operations after completion of the merger.

In addition to receipt of certain governmental authorizations, completion of the merger is subject to a number of other conditions, and if these conditions are not satisfied or waived, the merger will not be completed.

Our obligations and the obligations of Aetna to complete the merger are subject to satisfaction or waiver of a number of conditions in addition to receipt of certain governmental authorizations, including, among other conditions: (i) approval and adoption of the merger agreement by Aetna shareholders at an Aetna special meeting, (ii) approval of the stock issuance by our stockholders at the CVS Health special meeting, (iii) approval for the listing on the New York Stock Exchange of the shares of CVS Health common stock to be issued in the merger, (iv) absence of any applicable law or order that prohibits completion of the transaction, (v) accuracy of the representations and warranties made in the merger agreement by the other party, subject to certain materiality qualifications, (vi) performance in all material respects by the other party of the material obligations required to be performed by it at or prior to completion of the transaction, and (vii) the absence of a material adverse effect on the other party. There can be no assurance that the conditions to completion of the merger will be satisfied or waived or that the merger will be completed.

In addition, the CVS Health special meeting and the Aetna special meeting may take place before certain governmental authorizations have been obtained and, therefore, before the terms on which such governmental authorizations may be obtained, or the conditions to obtaining such governmental authorizations that may be imposed, are known. As a result, if CVS Health stockholders approve the stock issuance at the CVS Health special meeting, or Aetna shareholders approve and adopt the merger agreement at the Aetna special meeting, we and Aetna may make decisions after the respective meetings to waive a condition as to the receipt of certain governmental authorizations or to take certain

actions required to obtain such governmental authorizations without seeking further stockholder or shareholder approval, as applicable, and such actions could have an adverse effect on the combined company.

After completion of the merger, we may fail to realize the anticipated benefits and cost savings of the merger, which could adversely affect the value of shares of our common stock.

The success of the merger will depend, in part, on our ability to realize the anticipated benefits and cost savings from combining the businesses of CVS Health and Aetna. Our ability to realize these anticipated benefits and cost savings is subject to certain risks, including:

- Our ability to successfully combine the businesses of CVS Health and Aetna;
- whether the combined businesses will perform as expected;
- the possibility that we paid more for Aetna than the value we will derive from the acquisition;
- the reduction of our cash available for operations and other uses and the incurrence of indebtedness to finance the acquisition; and
- the assumption of known and unknown liabilities of Aetna.

If we are not able to successfully combine the businesses of CVS Health and Aetna within the anticipated time frame, or at all, the anticipated cost savings and other benefits of the merger may not be realized fully or may take longer to realize than expected, the combined businesses may not perform as expected and the value of the shares of our common stock may be adversely affected.

We and Aetna have operated and, until completion of the merger will continue to operate, independently, and there can be no assurances that our respective businesses can be integrated successfully. It is possible that the integration process could result in the loss of key CVS Health or Aetna employees, the disruption of either company's or both companies' ongoing businesses or in unexpected integration issues, higher than expected integration costs and an overall post-completion integration process that takes longer than originally anticipated. Specifically, issues that must be addressed in integrating the operations of Aetna and CVS Health in order to realize the anticipated benefits of the merger so the combined business performs as expected include, among other things:

- combining the companies' separate operational, financial, reporting and corporate functions;
- integrating the companies' technologies, products and services;
- identifying and eliminating redundant and underperforming operations and assets;
- harmonizing the companies' operating practices, employee development, compensation and benefit programs, internal controls and other policies, procedures and processes;
- addressing possible differences in business backgrounds, corporate cultures and management philosophies;
- consolidating the companies' corporate, administrative and information technology infrastructure;
- coordinating sales, distribution and marketing efforts;
- managing the movement of certain businesses and positions to different locations;
- maintaining existing agreements with customers, providers and vendors and avoiding delays in entering into new agreements with prospective customers, providers and vendors;
- operating in industry sectors in which we and our current management may have little or no experience;
- coordinating geographically dispersed organizations;
- consolidating offices of Aetna and CVS Health that are currently in or near the same location; and
- effecting potential actions that may be required in connection with obtaining regulatory approvals.

In addition, at times, the attention of certain members of each company's management and each company's resources may be focused on completion of the merger and the integration of the businesses of the two companies and diverted from day-to-day business operations, which may disrupt each company's ongoing business and the business of the combined company.

We have limited experience in the insurance and managed health care industry, which may hinder our ability to achieve the combined company's objectives.

We have limited experience operating an insurance and managed health care business, and will rely in large part on the existing management of Aetna to continue to manage the Aetna business following the merger. However, there is no

assurance that we will be able to retain the services of such management. If we fail to retain the existing management of Aetna, our ability to realize the anticipated benefits of the transaction may be adversely affected.

We and Aetna may have difficulty attracting, motivating and retaining executives and other key employees in light of the merger.

As we will be operating in industry sectors for which our existing management team has little or no experience, our success after the transaction will depend in part on our ability to retain key executives and other employees of Aetna. Uncertainty about the effect of the merger on CVS Health and Aetna employees may have an adverse effect on each of us and Aetna separately and consequently the combined business. This uncertainty may impair our and/or Aetna's ability to attract, retain and motivate key personnel. Employee retention may be particularly challenging during the pendency of the merger, as employees of CVS Health and Aetna may experience uncertainty about their future roles in the combined business.

Additionally, Aetna's officers and employees may hold Aetna common shares, as well as Aetna stock appreciation rights, Aetna restricted stock units ("Aetna RSUs") and Aetna performance stock units ("Aetna PSUs") that are subject to accelerated vesting on a change in control, and, if the merger is completed, these officers and employees may be entitled to cash and/or the consideration payable under the merger agreement in respect of such Aetna common shares, stock appreciation rights, Aetna RSUs and Aetna PSUs. These payouts could also make retention of these officers and employees more difficult. Additionally, pursuant to employment agreements and/or other agreements or arrangements with Aetna, certain key employees of Aetna are entitled to receive severance payments upon a termination without cause and/or a resignation for "good reason" following completion of the merger. Under these agreements, certain key employees of Aetna potentially could resign from his or her employment following specified circumstances set forth in his or her applicable agreement, including an adverse change in his or her title, authority or responsibilities, compensation and benefits or primary office location.

Furthermore, if key employees of CVS Health or Aetna depart or are at risk of departing, including because of issues relating to the uncertainty and difficulty of integration, financial security or a desire not to become employees of the combined business, we may have to incur significant costs in retaining such individuals or in identifying, hiring and retaining replacements for departing employees and may lose significant expertise and talent relating to the business of Aetna, and our ability to realize the anticipated benefits of the merger may be materially and adversely affected. Accordingly, no assurance can be given that we will be able to attract or retain key employees of Aetna to the same extent that Aetna has been able to attract or retain employees in the past.

Our and Aetna's business relationships may be subject to disruption due to uncertainty associated with the merger.

Parties with which we or Aetna do business may experience uncertainty associated with the merger, including with respect to current or future business relationships with us, Aetna or the combined business. Our and Aetna's business relationships may be subject to disruption as customers, providers, vendors and others may attempt to negotiate changes in existing business relationships or consider entering into business relationships with parties other than us, Aetna or the combined business. These disruptions could have a material adverse effect on the businesses, financial condition, results of operations or prospects of CVS Health, Aetna and/or the combined business, including a material adverse effect on our ability to realize the anticipated benefits of the merger. The risk and adverse effect of such disruptions could be exacerbated by a delay in completion of the merger or termination of the merger agreement.

The merger agreement contains provisions that may make it more difficult for us and Aetna to pursue alternatives to the merger.

The merger agreement contains provisions that make it more difficult for Aetna to sell its business to a party other than us, or for us to sell its business. These provisions include a general prohibition on each party soliciting any acquisition proposal. Further, there are only limited exceptions to each party's agreement that its board of directors will not withdraw or modify in a manner adverse to the other party the recommendation of its board of directors in favor of the approval and adoption of the merger agreement, in the case of Aetna, or the approval of the stock issuance, in our case, and the other party generally has a right to match any acquisition proposal that may be made. However, at any time prior to the approval and adoption of the merger agreement by Aetna shareholders, in the case of Aetna, or the approval of the stock issuance by CVS Health stockholders, in our case, such party's board of directors is permitted to take certain of

these actions if it determines in good faith that the failure to take such action would be reasonably likely to be inconsistent with its fiduciary duties under applicable law.

While we believe these provisions are reasonable and not preclusive of other offers, these restrictions might discourage a third party that has an interest in acquiring all or a significant part of either Aetna or CVS Health from considering or proposing that acquisition, even if that party were prepared to pay consideration with a higher per-share value than the currently proposed merger consideration, in the case of Aetna, or that party were prepared to enter into an agreement that may be favorable to us or our stockholders, in our case. Furthermore, the termination fees described below may result in a potential competing acquirer proposing to pay a lower per-share price to acquire the applicable party than it might otherwise have proposed to pay because of the added expense of the termination fee that may become payable by such party in certain circumstances.

Failure to complete the merger could negatively impact our stock price and our future business and financial results.

If the merger is not completed for any reason, including as a result of Aetna shareholders failing to approve and adopt the merger agreement or CVS Health stockholders failing to approve the stock issuance, our ongoing business may be materially and adversely affected and, without realizing any of the benefits of having completed the merger, we would be subject to a number of risks, including the following:

- we may experience negative reactions from the financial markets, including negative impacts on the trading price of our common stock and other securities, and from our customers, providers, vendors, regulators and employees;
- we may be required to pay Aetna a termination fee of \$2.1 billion if the merger agreement is terminated under certain circumstances;
- we will be required to pay certain transaction expenses and other costs incurred in connection with the merger, whether or not the merger is completed;
- the merger agreement places certain restrictions on the conduct of our businesses prior to completion of the merger, and such restrictions, the waiver of which is subject to the consent of Aetna, may prevent us from making certain acquisitions, taking certain other specified actions or otherwise pursuing business opportunities during the pendency of the merger that we would have made, taken or pursued if these restrictions were not in place; and
- matters relating to the merger (including arranging permanent financing and integration planning) will require substantial commitments of time and resources by our management and the expenditure of significant funds in the form of fees and expenses, which would otherwise have been devoted to day-to-day operations and other opportunities that may have been beneficial to us as an independent company.

There can be no assurance that the risks described above will not materialize. If any of those risks materialize, they may materially and adversely affect our businesses, financial condition, financial results, ratings, stock prices and/or bond prices.

In addition, we could be subject to litigation related to any failure to complete the merger or related to any proceeding to specifically enforce our obligation to perform our obligations under the merger agreement. If the merger is not completed, these risks may materialize and may materially and adversely affect our businesses, financial condition, financial results, ratings, stock prices and/or bond prices.

We and Aetna may be targets of securities class action and derivative lawsuits which could result in substantial costs and may delay or prevent the merger from being completed.

Securities class action lawsuits and derivative lawsuits are often brought against public companies that have entered into merger agreements. Even if the lawsuits are without merit, defending against these claims can result in substantial costs and divert management time and resources. An adverse judgment could result in monetary damages, which could have a negative impact on our and Aetna's respective liquidity and financial condition. Additionally, if a plaintiff is successful in obtaining an injunction prohibiting completion of the merger, then that injunction may delay or prevent the merger from being completed, which may adversely affect our and Aetna's respective business, financial position and results of operation. Since the filing with the SEC of the preliminary joint proxy statement/prospectus relating to the proposed merger, a number of class action lawsuits in connection with the merger have been filed against us, Aetna and Aetna's

directors and officers. Neither we nor Aetna presently believe that there is any merit to any such lawsuit. We and Aetna intend to defend them vigorously.

Our indebtedness following completion of the merger will be substantially greater than our indebtedness on a stand-alone basis and greater than the combined indebtedness of CVS Health and Aetna existing prior to the announcement of the transaction. This increased level of indebtedness could adversely affect our business flexibility, and increase our borrowing costs. Downgrades in our ratings could adversely affect our business, cash flows, financial condition and operating results.

In order to complete the merger, we expect to incur acquisition-related debt financing of approximately \$45.0 billion and assume Aetna's existing indebtedness of approximately \$8.2 billion. Our substantially increased indebtedness and higher debt-to-equity ratio following completion of the merger in comparison to that of CVS Health prior to the merger will have the effect, among other things, of reducing our flexibility to respond to changing business and economic conditions and will increase our borrowing costs. In addition, the amount of cash required to service our increased indebtedness levels and thus the demands on our cash resources will be greater than the amount of cash flows required to service the indebtedness of CVS Health or Aetna individually prior to the merger. The increased levels of indebtedness could also reduce funds available to fund our efforts to combine our business with Aetna and realize expected benefits of the merger and/or engage in investments in product development, capital expenditures, dividend payments, share repurchases and other activities and may create competitive disadvantages for us relative to other companies with lower debt levels.

In addition, our credit ratings impact the cost and availability of future borrowings, and, as a result, our cost of capital. Our ratings reflect each rating organization's opinion of our financial strength, operating performance and ability to meet our debt obligations or, following completion of the merger, obligations to the combined company's insureds. Each of the ratings organizations reviews our ratings periodically, and there can be no assurance that our current ratings will be maintained in the future. Following the announcement of the merger agreement, each of Standard & Poor's and Moody's placed certain of our debt, financial strength and other credit ratings under review for a possible downgrade. Following the announcement of the merger agreement, Standard & Poor's, A.M. Best and Fitch placed Aetna's debt, financial strength and other credit ratings under review with negative implications. Downgrades in our ratings could adversely affect our business, cash flows, financial condition and operating results. In addition, if the merger is completed and, in certain circumstances, Aetna's debt securities are rated below investment grade, this may constitute a change of control triggering event under the indentures governing such debt. Upon the occurrence of a change of control triggering event, Aetna, as the surviving corporation of the merger, would be required to offer to repurchase most of Aetna's outstanding notes at 101% of the principal amount thereof plus accrued and unpaid interest if any, to, but not including, the date of repurchase. However, it is possible that Aetna (or us) would not have sufficient funds at the time of the change of control triggering event to make the required repurchase of notes or that restrictions in other debt instruments would not allow such repurchases. We cannot provide any assurance that there will be sufficient funds available for Aetna (or us) to make any required repurchases of the notes upon a change of control triggering event.

We will incur significant transaction and integration-related costs in connection with the merger.

We expect to incur a number of non-recurring costs associated with the merger and combining the operations of the two companies. We will incur significant transaction costs related to the merger, including with respect to the financing for the cash consideration to be paid to Aetna shareholders. We also will incur significant integration-related fees and costs related to formulating and implementing integration plans, including facilities and systems consolidation costs and employment-related costs. We continue to assess the magnitude of these costs, and additional unanticipated costs may be incurred in the merger and the integration of the two companies' businesses. Although we expect that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses, should allow us to offset integration-related costs over time, this net benefit may not be achieved in the near term, or at all.

The merger may not be accretive, and may be dilutive, to our earnings per share, which may negatively affect the market price of shares of our common stock.

We currently project that the merger will result in a number of benefits, including enhanced competitive positioning and a platform from which to accelerate growth, and that it will be accretive to earnings per share in the second full year after the close of the transaction. This projection is based on preliminary estimates that may materially change. In addition, future events and conditions could decrease or delay the accretion that is currently projected or could result in dilution, including adverse changes in market conditions, additional transaction and integration-related costs and other factors such as the failure to realize some or all of the anticipated benefits of the merger. Any dilution of, decrease in or delay of any accretion to, our earnings per share could cause the price of shares of our common stock to decline or grow at a reduced rate.

The future results of the combined company may be adversely impacted if the combined company does not effectively manage its expanded operations following completion of the merger.

Following completion of the merger, the size of the combined company's business will be significantly larger than the current size of either our or Aetna's respective businesses. The combined company's ability to successfully manage this expanded business will depend, in part, upon management's ability to implement an effective integration of the two companies and its ability to manage a combined business with significantly larger size and scope with the associated increased costs and complexity. There can be no assurances that the management of the combined company will be successful or that the combined company will realize the expected operating efficiencies, cost savings and other benefits currently anticipated from the merger.

Additional information concerning these risks, uncertainties and assumptions can be found in the section entitled "Risk Factors" beginning on page 62 of our preliminary joint proxy statement/prospectus filed February 9, 2018 with the SEC on Form S-4/A.

Item 1B. Unresolved Staff Comments

There are no unresolved SEC Staff Comments.

Item 2. Properties

We lease most of our stores under long-term leases that vary as to rental amounts, expiration dates, renewal options and other rental provisions. For additional information on the amount of our rental obligations for our leases, we refer you to Note 7 "Leases" in our Annual Report to Stockholders for the year ended December 31, 2017, which section is incorporated by reference herein.

As of December 31, 2017, we owned approximately 4% of our 8,108 retail stores. Net selling space for our retail stores was approximately 79.5 million square feet as of December 31, 2017. Approximately 20% of our store base was opened or significantly remodeled within the last five years.

We lease 1,695 retail pharmacies and 79 clinics in Target stores located in 47 states and the District of Columbia.

We own nine distribution centers located in Alabama, California, Hawaii, New York, Rhode Island, South Carolina, Tennessee and Texas and lease 13 additional distribution facilities located in Arizona, Florida, Indiana, Michigan, Missouri, New Jersey, Pennsylvania, Texas, Virginia and Brazil. The 22 distribution centers total approximately 10.4 million square feet as of December 31, 2017.

As of December 31, 2017, we owned six and leased 139 LTC pharmacies in 44 states and owned one LTC repackaging facility in Kentucky.

As of December 31, 2017, we owned one mail service dispensing pharmacy located in Texas and leased three additional mail order dispensing pharmacies located in Hawaii, Illinois and Pennsylvania; we leased call centers located in California, Missouri, Pennsylvania, Tennessee and Texas; we leased 37 onsite pharmacy stores and 23 specialty pharmacy stores, and leased 18 specialty mail order pharmacies; we leased 83 branches for infusion and enteral services, including approximately 73 ambulatory infusion suites and three centers of excellence.

We own our corporate offices located in Woonsocket, Rhode Island, which totals approximately one million square feet. In addition, we lease corporate offices in Scottsdale, Arizona, Northbrook, Illinois, Cincinnati, Ohio, Monroeville, Pennsylvania, Irving, Texas, and Sao Paulo, Brazil.

In connection with certain business dispositions completed between 1991 and 1997, we continue to guarantee lease obligations for approximately 85 former stores. We are indemnified for these guarantee obligations by the respective purchasers. These guarantees generally remain in effect for the initial lease term and any extension thereof pursuant to a renewal option provided for in the lease prior to the time of the disposition. For additional information, we refer you to Note 12 “Commitments and Contingencies” in our Annual Report to Stockholders for the year ended December 31, 2017, which section is incorporated by reference herein.

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

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The following is a breakdown by state, District of Columbia, Puerto Rico and Brazil of our retail stores, pharmacies and clinics in Target stores, LTC hub and spoke pharmacies, onsite pharmacy stores, specialty pharmacy stores, specialty mail order pharmacies, mail order dispensing pharmacies and branches and centers of excellence for infusion and enteral services as of December 31, 2017:

	Retail Stores ⁽¹⁾	Pharmacies within Target ⁽¹⁾	LTC Hub & Spoke Pharmacies	Onsite Pharmacy Stores	Specialty Pharmacy Stores	Specialty Mail Order Pharmacies	Mail Order Dispensing Pharmacies	Infusion & Enteral Services Locations	Total
United States:									
Alabama	160	22	2	1	1	—	—	1	187
Alaska	3	3	—	—	—	—	—	—	6
Arizona	152	46	2	—	1	1	—	2	204
Arkansas	15	8	1	—	—	—	—	1	25
California	886	260	8	—	3	1	—	8	1,166
Colorado	3	39	3	—	1	—	—	1	47
Connecticut	154	20	1	1	—	—	—	1	177
Delaware	17	3	—	—	—	—	—	—	20
District of Columbia	58	1	—	—	1	—	—	—	60
Florida	754	121	5	1	1	2	—	7	891
Georgia	311	41	1	3	1	—	—	1	358
Hawaii	64	7	—	—	1	—	1	—	73
Idaho	—	2	1	—	—	—	—	1	4
Illinois	282	90	7	2	—	1	1	3	386
Indiana	309	30	4	—	—	—	—	3	346
Iowa	20	18	2	—	—	—	—	1	41
Kansas	39	14	2	—	—	1	—	2	58
Kentucky	70	9	9	—	—	1	—	—	89
Louisiana	119	14	3	—	—	—	—	1	137
Maine	22	5	1	—	—	—	—	1	29
Maryland	185	39	2	5	—	—	—	1	232
Massachusetts	376	40	5	2	2	1	—	1	427
Michigan	248	50	4	1	—	1	—	2	306
Minnesota	61	75	6	1	—	—	—	2	145
Mississippi	52	5	1	1	—	—	—	1	60
Missouri	97	33	5	—	—	—	—	1	136
Montana	14	2	1	—	—	—	—	—	17
Nebraska	19	11	1	—	—	—	—	1	32
Nevada	86	15	2	—	—	—	—	2	105
New Hampshire	40	9	1	—	—	—	—	—	50
New Jersey	291	45	3	4	—	1	—	1	345
New Mexico	19	6	1	—	—	—	—	1	27
New York	489	75	5	—	1	—	—	7	577
North Carolina	314	51	3	1	1	1	—	3	374
North Dakota	6	—	—	—	—	—	—	—	6
Ohio	329	59	7	—	—	—	—	4	399
Oklahoma	62	15	2	—	—	—	—	1	80
Oregon	—	18	2	—	1	1	—	1	23
Pennsylvania	410	66	6	2	1	1	1	2	489
Puerto Rico	25	—	—	—	—	1	—	—	26
Rhode Island	62	4	1	1	1	—	—	1	70
South Carolina	191	19	3	1	1	—	—	2	217
South Dakota	—	3	1	—	—	—	—	—	4
Tennessee	136	27	3	1	1	3	—	3	174
Texas	695	135	10	3	2	1	1	5	852
Utah	12	13	2	—	—	—	—	1	28
Vermont	10	—	—	—	—	—	—	—	10
Virginia	286	58	6	5	1	—	—	2	358
Washington	12	30	3	—	1	—	—	2	48
West Virginia	51	6	2	—	—	—	—	—	59
Wisconsin	50	33	5	1	—	—	—	1	90
Wyoming	—	—	—	—	—	—	—	1	1
Total United States	8,066	1,695	145	37	23	18	4	83	10,071
Brazil	42	—	—	—	—	—	—	—	42
Total	8,108	1,695	145	37	23	18	4	83	10,113

(1) The Retail Stores above include 1,050 in-store MinuteClinic locations and the Target stores with CVS pharmacies also include 79 MinuteClinic locations.

Item 3. Legal Proceedings

I. Legal Proceedings

We refer you to the Note 12 “Commitments and Contingencies” contained in the “Notes to the Consolidated Financial Statements” of our Annual Report to Stockholders for the year ended December 31, 2017, which section is incorporated by reference herein.

II. Environmental Matters

Item 103 of SEC Regulation S-K requires disclosure of certain environmental legal proceedings if management reasonably believes that the proceedings involve potential monetary sanctions of \$100,000 or more. The Company is in the process of negotiating with the New York State Department of Environmental Conservation to resolve claims of alleged historical noncompliance with hazardous waste regulations in connection with long-term care pharmacies in the State of New York. These proceedings are not material to the Company's business or financial position.

Item 4. Mine Safety Disclosures

Not applicable.

Executive Officers of the Registrant

Executive Officers of the Registrant

The following sets forth the name, age and biographical information for each of our executive officers as of February 14, 2018. In each case the officer's term of office extends to the date of the board of directors meeting following the next annual meeting of stockholders of the Company. Previous positions and responsibilities held by each of the executive officers over the past five years are indicated below:

Lisa G. Bisaccia, age 61, Executive Vice President of CVS Health Corporation since March 2016 and Chief Human Resources Officer of CVS Health Corporation since January 2010; Senior Vice President of CVS Health Corporation from January 2010 through February 2016; Vice President, Human Resources of CVS Pharmacy, Inc. from September 2004 through December 2009. Ms. Bisaccia is also a member of the Board of Directors of Aramark, a leading global provider of food, facilities and uniform services.

Eva C. Boratto, age 51, Executive Vice President - Controller and Chief Accounting Officer of CVS Health Corporation since March 2017; Senior Vice President - Controller and Chief Accounting Officer of CVS Health Corporation from July 2013 through February 2017; Senior Vice President of PBM Finance from July 2010 through June 2013; Vice President, U.S. Market Finance Leader of Merck & Co., Inc. from June 2009 through June 2010.

Troyen A. Brennan, M.D., age 63, Executive Vice President and Chief Medical Officer of CVS Health Corporation since November 2008; Executive Vice President and Chief Medical Officer of Aetna, Inc. from February 2006 through November 2008.

David M. Denton, age 52, Executive Vice President and Chief Financial Officer of CVS Health Corporation since January 2010; Senior Vice President and Controller and Chief Accounting Officer of CVS Health Corporation from March 2008 until December 2009; Senior Vice President, Financial Administration of CVS Health Corporation and CVS Pharmacy, Inc. from April 2007 to March 2008. Mr. Denton is also a member of the Board of Directors of Tapestry, Inc. (formerly known as Coach, Inc.), a leading retailer of premium bags and luxury accessories.

Larry J. Merlo, age 62, President and Chief Executive Officer of CVS Health Corporation since March 2011; President and Chief Operating Officer of CVS Health Corporation from May 2010 through March 2011; President of CVS Pharmacy from January 2007 through August 2011; Executive Vice President of CVS Health Corporation from January 2007 through May 2010; also a director of CVS Health Corporation since May 2010.

Thomas M. Moriarty, age 54, Executive Vice President and General Counsel of CVS Health Corporation since October 2012 and Chief Policy and External Affairs Officer since March 2017; Chief Strategy Officer from March 2014 through February 2017; General Counsel of Celgene Corporation, a global biopharmaceutical company, from May 2012 through September 2012; General Counsel and Corporate Secretary of Medco Health Solutions, Inc. ("Medco"), a pharmacy benefit management company, from March 2008 through April 2012; also President of Global Pharmaceutical Strategies of Medco from March 2011 through April 2012.

Jonathan C. Roberts, age 62, Executive Vice President and Chief Operating Officer of CVS Health Corporation since March 2017; Executive Vice President of CVS Health Corporation and President of CVS Caremark from September 2012 through February 2017; Executive Vice President of CVS Health Corporation and Chief Operating Officer of CVS Caremark from October 2010 through August 2011; Executive Vice President, Rx Purchasing, Pricing and Network Relations of CVS Health Corporation from January 2009 through October 2010.

PART II**Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Our common stock is listed on the New York Stock Exchange under the symbol “CVS.” The table below sets forth the high and low closing prices of our common stock on the New York Stock Exchange Composite Tape and the quarterly cash dividends declared per share of common stock during the periods indicated.

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Year</u>
2017 High	\$ 83.92	\$ 82.79	\$ 83.31	\$ 80.91	\$ 83.92
Low	\$ 74.80	\$ 75.95	\$ 75.35	\$ 66.80	\$ 66.80
Cash dividends per common share	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.50	\$ 2.00
2016 High	\$ 104.05	\$ 106.10	\$ 98.06	\$ 88.80	\$ 106.10
Low	\$ 89.65	\$ 93.21	\$ 88.99	\$ 73.53	\$ 73.53
Cash dividends per common share	\$ 0.425	\$ 0.425	\$ 0.425	\$ 0.425	\$ 1.70

CVS Health has paid cash dividends every quarter since becoming a public company. Future dividend payments will depend on the Company’s earnings, capital requirements, financial condition and other factors considered relevant by the Company’s Board of Directors. As of February 9, 2018, there were 21,453 registered shareholders according to the records maintained by our transfer agent.

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

<u>In billions</u> <u>Authorization Date</u>	<u>Authorized</u>	<u>Remaining as of</u> <u>December 31, 2017</u>
November 2, 2016 (“2016 Repurchase Program”)	\$ 15.0	\$ 13.9
December 15, 2014 (“2014 Repurchase Program”)	10.0	—
December 17, 2013 (“2013 Repurchase Program”)	6.0	—

The share Repurchase Programs, each of which was effective immediately, permit the Company to effect repurchases from time to time through a combination of open market repurchases, privately negotiated transactions, accelerated share repurchase (“ASR”) transactions, and/or other derivative transactions. The 2016 Repurchase Program can be modified or terminated by the Board of Directors at any time.

Pursuant to the authorization under the 2014 Repurchase Program, in August 2016, the Company entered into two fixed dollar ASRs with Barclays Bank PLC (“Barclays”) for a total of \$3.6 billion. Upon payment of the \$3.6 billion purchase price in January 2017, the Company received a number of shares of its common stock equal to 80% of the \$3.6 billion notional amount of the ASRs or approximately 36.1 million shares, which were placed into treasury stock in January 2017. The ASRs were accounted for as an initial treasury stock transaction for \$2.9 billion and a forward contract for \$0.7 billion. In April 2017, the Company received 9.9 million shares of common stock, representing the remaining 20% of the \$3.6 billion notional amount of the ASRs, thereby concluding the ASRs. The remaining 9.9 million shares of common stock delivered to the Company by Barclays were placed into treasury stock and the forward contract was reclassified from capital surplus to treasury stock in April 2017.

In the ASR transactions described above, the initial repurchase of the shares and delivery of the remainder of the shares to conclude the ASR, resulted in an immediate reduction of the outstanding shares used to calculate the weighted average common shares outstanding for basic and diluted earnings per share.

During the year ended December 31, 2017, the Company repurchased an aggregate of 55.4 million shares of common stock for approximately \$4.4 billion under the 2014 and 2016 Repurchase Programs. As of December 31, 2017, there remained an aggregate of approximately \$13.9 billion available for future repurchases under the 2016 Repurchase Program and the 2014 Repurchase Program was complete. During the fourth quarter of 2017, the Company suspended share repurchase activity in connection with the Aetna Acquisition.

Fiscal Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2017 through October 31, 2017	—	\$ —	—	\$ 13,869,392,446
November 1, 2017 through November 30, 2017	—	\$ —	—	\$ 13,869,392,446
December 1, 2017 through December 31, 2017	—	\$ —	—	\$ 13,869,392,446
	—	—	—	—

Item 6. Selected Financial Data

The selected consolidated financial data of CVS Health Corporation as of and for the periods indicated in the five-year period ended December 31, 2017, have been derived from the consolidated financial statements of CVS Health Corporation. The selected consolidated financial data should be read in conjunction with the consolidated financial statements and the audit reports of Ernst & Young LLP, which are incorporated elsewhere herein.

In millions, except per share amounts	2017	2016	2015	2014	2013
Statement of operations data:					
Net revenues	\$ 184,765	\$ 177,526	\$ 153,290	\$ 139,367	\$ 126,761
Gross profit	28,545	28,857	26,528	25,367	23,783
Operating expenses ⁽¹⁾	19,028	18,491	17,053	16,545	15,713
Operating profit	9,517	10,366	9,475	8,822	8,070
Interest expense, net	1,041	1,058	838	600	509
Loss on early extinguishment of debt	—	643	—	521	—
Other expense ⁽¹⁾	208	28	21	23	33
Income tax provision	1,637	3,317	3,386	3,033	2,928
Income from continuing operations	6,631	5,320	5,230	4,645	4,600
Income (loss) from discontinued operations, net of tax	(8)	(1)	9	(1)	(8)
Net income	6,623	5,319	5,239	4,644	4,592
Net income attributable to noncontrolling interest	(1)	(2)	(2)	—	—
Net income attributable to CVS Health	\$ 6,622	\$ 5,317	\$ 5,237	\$ 4,644	\$ 4,592
Per common share data:					
Basic earnings per common share:					
Income from continuing operations attributable to CVS Health	\$ 6.48	\$ 4.93	\$ 4.65	\$ 3.98	\$ 3.78
Income (loss) from discontinued operations attributable to CVS Health	\$ (0.01)	\$ —	\$ 0.01	\$ —	\$ (0.01)
Net income attributable to CVS Health	\$ 6.47	\$ 4.93	\$ 4.66	\$ 3.98	\$ 3.77
Diluted earnings per common share:					
Income from continuing operations attributable to CVS Health	\$ 6.45	\$ 4.91	\$ 4.62	\$ 3.96	\$ 3.75
Income (loss) from discontinued operations attributable to CVS Health	\$ (0.01)	\$ —	\$ 0.01	\$ —	\$ (0.01)
Net income attributable to CVS Health	\$ 6.44	\$ 4.90	\$ 4.63	\$ 3.96	\$ 3.74
Cash dividends per common share	\$ 2.00	\$ 1.70	\$ 1.40	\$ 1.10	\$ 0.90
Balance sheet and other data:					
Total assets	\$ 95,131	\$ 94,462	\$ 92,437	\$ 73,202	\$ 70,550
Long-term debt	\$ 22,181	\$ 25,615	\$ 26,267	\$ 11,630	\$ 12,767
Total shareholders' equity	\$ 37,695	\$ 36,834	\$ 37,203	\$ 37,963	\$ 37,938
Number of stores (at end of year)	9,846	9,750	9,681	7,866	7,702

(1) As of January 1, 2017, the Company adopted Accounting Standards Update (“ASU”) 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which resulted in a retrospective reclassification of \$28 million, \$21 million, \$23 million and \$33 million of net benefit costs from operating expenses to other expense in the years ended December 31, 2016, 2015, 2014, and 2013, respectively.

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

We refer you to “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” which includes our “Cautionary Statement Concerning Forward-Looking Statements” at the end of such section of our Annual Report to Stockholders for the year ended December 31, 2017, which section is incorporated by reference herein.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

As of December 31, 2017, the Company had outstanding interest rate derivative instruments and believes that as of December 31, 2017, its exposure to interest rate risk (inherent in the Company’s debt portfolio) is not material. We refer you to Note 1 “Significant Accounting Policies” contained in the “Notes to the Consolidated Financial Statements” of our Annual Report to Stockholders for the year ended December 31, 2017, which section is incorporated by reference herein.

As of December 31, 2017, the Company did not have any foreign currency exchange rate or commodity derivative instruments in place and believes that as of December 31, 2017, its exposure to foreign currency exchange rate risk and commodity price risk is not material

Item 8. Financial Statements and Supplementary Data

We refer you to the “Consolidated Statements of Income,” “Consolidated Statements of Comprehensive Income,” “Consolidated Balance Sheets,” “Consolidated Statements of Shareholders’ Equity,” “Consolidated Statements of Cash Flows,” “Notes to Consolidated Financial Statements,” and “Report of Independent Registered Public Accounting Firm” of our Annual Report to Stockholders for the year ended December 31, 2017, which sections are incorporated by reference herein.

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

None.

Item 9A. Controls and Procedures

Evaluation of disclosure controls and procedures: The Company’s Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rules 13a-15 (f) and 15d-15(f) under the Securities Exchange Act of 1934) as of December 31, 2017, have concluded that as of such date the Company’s disclosure controls and procedures were adequate and effective at a reasonable assurance level and designed to ensure that material information relating to the Company and its subsidiaries would be made known to such officers on a timely basis.

Internal control over financial reporting: We refer you to “Management’s Report on Internal Control Over Financial Reporting” and “Report of Independent Registered Public Accounting Firm” of our Annual Report to Stockholders for the fiscal year ended December 31, 2017, which are incorporated by reference herein, for management’s report on the Company’s internal control over financial reporting and the Independent Registered Public Accounting Firm’s report with respect to the effectiveness of internal control over financial reporting.

Changes in internal control over financial reporting: There have been no changes in our internal controls over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 that occurred during the fourth quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

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

PART III

Item 10. Directors, Executive Officers and Corporate Governance

We refer you to our Proxy Statement for the 2018 Annual Meeting of Stockholders under the captions “Committees of the Board,” “Code of Conduct,” “Director Nominations,” “Audit Committee Report,” “Biographies of our Board Nominees,” and “Section 16(a) Beneficial Ownership Reporting Compliance,” which sections are incorporated by reference herein. Biographical information on our executive officers is contained in Part I of this Annual Report on Form 10-K.

Item 11. Executive Compensation

We refer you to our Proxy Statement for the 2018 Annual Meeting of Stockholders under the captions “Executive Compensation and Related Matters,” including “Compensation Discussion & Analysis” and “Management Planning and Development Committee Report,” which sections are incorporated by reference herein.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

We refer you to our Proxy Statement for the 2018 Annual Meeting of Stockholders under the captions “Share Ownership of Directors and Certain Executive Officers,” and “Share Ownership of Principal Stockholders” which sections are incorporated by reference herein, for information concerning security ownership of certain beneficial owners and management and related stockholder matters.

The following table summarizes information about the Company’s common stock that may be issued upon the exercise of options, warrants and rights under all of our equity compensation plans as of December 31, 2017.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights ⁽¹⁾	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column) ⁽¹⁾
Equity compensation plans approved by stockholders	32,219	\$ 75.32	20,530
Equity compensation plans not approved by stockholders	—	—	—
Total	<u>32,219</u>	<u>\$ 75.32</u>	<u>20,530</u>

(1) Shares in thousands.

Item 13. Certain Relationships and Related Transactions and Director Independence

We refer you to our Proxy Statement for the 2018 Annual Meeting of Stockholders under the caption “Independence Determinations for Directors” and “Certain Transactions with Directors and Officers,” which sections are incorporated by reference herein.

Item 14. Principal Accountant Fees and Services

We refer you to our Proxy Statement for the 2018 Annual Meeting of Stockholders under the caption “Item 2: Ratification of Appointment of Independent Registered Public Accounting Firm,” which section is incorporated by reference herein.

PART IV

Item 15. Exhibits and Financial Statement Schedules

A. Documents filed as part of this report:

1. Financial Statements:

The following financial statements are incorporated by reference from our Annual Report to Stockholders for the fiscal year ended December 31, 2017, as provided in Item 8 hereof:

Consolidated Statements of Income for the Years Ended December 31, 2017, 2016 and 2015
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2017, 2016 and 2015
Consolidated Balance Sheets as of December 31, 2017 and 2016
Consolidated Statements of Cash Flows for the Years Ended December 31, 2017, 2016 and 2015
Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2017, 2016 and 2015
Notes to Consolidated Financial Statements
Report of Independent Registered Public Accounting Firm

2. Financial Statement Schedules

All financial statement schedules are omitted because they are not applicable, not required under the instructions, or the information is included in the consolidated financial statements or related notes.

B. Exhibits

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

<u>Exhibit</u>	<u>Description</u>
2.1*	Agreement and Plan of Merger dated as of November 1, 2006 among, the Registrant, Caremark Rx, Inc. and Twain MergerSub Corp. (incorporated by reference to Exhibit 2.1 to the Registrant's Registration Statement No. 333-139470 on Form S-4 filed December 19, 2006).
2.2*	Amendment No. 1 dated as of January 16, 2007 to the Agreement and Plan of Merger dated as of November 1, 2006 among the Registrant, Caremark Rx, Inc. and Twain Merger Sub Corp. (incorporated by reference to Exhibit 2.2 to the Registrant's Registration Statement No. 333-139470 on Form S-4/A filed January 16, 2007).
2.3*	Waiver Agreement dated as of January 16, 2007 between the Registrant and Caremark Rx, Inc. with respect to the Agreement and Plan Merger dated as of November 1, 2006 by and between Registrant and Caremark Rx, Inc (incorporated by reference to Exhibit 2.3 to the Registrant's Registration Statement No. 333-139470 on Form S-4/A filed January 16, 2007).
2.4*	Amendment to Waiver Agreement, dated as of February 12, 2007, between Registrant and Caremark Rx, Inc. (incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K dated February 13, 2007; Commission File No. 001-01011).
2.5*	Amendment to Waiver Agreement, dated as of March 8, 2007, between Registrant and Caremark Rx, Inc. (incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K dated March 8, 2007; Commission File No. 001-01011).
2.6*	Agreement and Plan of Merger dated as of August 12, 2008, among the Registrant, Longs Drug Stores Corporation and Blue MergerSub Corp. (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated August 13, 2008; Commission File No. 001-01011).

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- 2.7* [Agreement and Plan of Merger, dated as of May 20, 2015, among CVS Pharmacy, Inc., Tree Merger Sub, Inc. and Omnicare, Inc. \(incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated May 21, 2015; Commission File No. 001-01011\).](#)
- 2.8* [Agreement and Plan of Merger, dated as of December 3, 2017, among CVS Health Corporation, Hudson Merger Sub Corp. and Aetna Inc. \(incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated December 5, 2017; Commission File No. 001-01011\).](#)
- 2.9* [Bridge Facility Commitment Letter dated December 3, 2017, by and among the Registrant, Barclays Bank PLC, Goldman Sachs Bank USA, Goldman Sachs Lending Partners LLC, Bank of America, N.A., and Merrill Lynch, Pierce Fenner & Smith Incorporated \(incorporated by reference to Exhibit 2.2 to the Registrant's Current Report on Form 8-K dated December 5, 2017; Commission File No. 001-01011\).](#)
- 2.10* [Joinder to Bridge Facility Commitment Letter dated as of December 15, 2017, by and among the Registrant, Barclays Bank PLC, Goldman Sachs Bank USA, Goldman Sachs Lending Partners LLC, Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated, and each of the Additional Commitment Parties party thereto \(incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated December 19, 2017; Commission File No. 001-01011\).](#)
- 3.1* [Amended and Restated Certificate of Incorporation of the Registrant \(incorporated by reference to Exhibit 3.1 of Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1996; Commission File No. 001-01011\).](#)
- 3.1A* [Certificate of Amendment to the Amended and Restated Certificate of Incorporation, effective May 13, 1998 \(incorporated by reference to Exhibit 4.1A to Registrant's Registration Statement No. 333-52055 on Form S-3/A dated May 18, 1998\).](#)
- 3.1B* [Certificate of Amendment to the Amended and Restated Certificate of Incorporation \(incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K dated March 22, 2007; Commission File No. 001-01011\).](#)
- 3.1C* [Certificate of Merger dated May 9, 2007 \(incorporated by reference to Exhibit 3.1C to Registrant's Quarterly Report on Form 10-Q dated November 1, 2007; Commission File No. 001-01011\).](#)
- 3.1D* [Certificate of Amendment to the Amended and Restated Certificate of Incorporation \(incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K dated May 13, 2010; Commission File No. 001-01011\).](#)
- 3.1E* [Certificate of Amendment to the Amended and Restated Certificate of Incorporation \(incorporated by reference to Exhibit 3.1 to the Registrant's Current Report On Form 8-K dated May 10, 2012; Commission File No. 001-01011\).](#)
- 3.1F* [Certificate of Amendment to the Amended and Restated Certificate of Incorporation \(incorporated by reference to Exhibit 3.1 to the Registrant's Current Report On Form 8-K dated May 13, 2013; Commission File No. 001-01011\).](#)
- 3.1G* [Certificate of Amendment to the Amended and Restated Certificate of Incorporation \(incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated September 3, 2014 \(Commission File No. 001-01011\)\).](#)
- 3.2* [By-laws of the Registrant, as amended and restated \(incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K dated January 26, 2016; Commission File No. 001-01011\).](#)
- 4 Pursuant to Regulation S-K, Item 601(b)(4)(iii)(A), no instrument which defines the rights of holders of long-term debt of the Registrant and its subsidiaries is filed with this report. The Registrant hereby agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.

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- 4.1* [Specimen common stock certificate \(incorporated by reference to Exhibit 4.1 to the Registration Statement of the Registrant on Form 8-B dated November 4, 1996; Commission File No. 001-01011\).](#)
- 10.1* [Stock Purchase Agreement dated as of October 14, 1995 between The TJX Companies, Inc. and Melville Corporation, as amended November 17, 1995 \(incorporated by reference to Exhibits 2.1 and 2.2 to Melville's Current Report on Form 8-K dated December 4, 1995; Commission File No. 001-01011\).](#)
- 10.2* [Stock Purchase Agreement dated as of March 25, 1996 between Melville Corporation and Consolidated Stores Corporation, as amended May 3, 1996 \(incorporated by reference to Exhibits 2.1 and 2.2 to Melville's Current Report on Form 8-K dated May 5, 1996; Commission File No. 001-01011\).](#)
- 10.3* [Distribution Agreement dated as of September 24, 1996 among Melville Corporation, Footstar, Inc. and Footstar Center, Inc. \(incorporated by reference to Exhibit 99.1 to Melville's Current Report on Form 8-K dated October 28, 1996; Commission File No. 001-01011\).](#)
- 10.4* [Tax Disaffiliation Agreement dated as of September 24, 1996 among Melville Corporation, Footstar, Inc. and certain subsidiaries named therein \(incorporated by reference to Exhibit 99.2 to Melville's Current Report on Form 8-K dated October 28, 1996; Commission File No. 001-01011\).](#)
- 10.5* [Stockholder Agreement dated as of December 2, 1996 between the Registrant, Nashua Hollis CVS, Inc. and Linens 'n Things, Inc. \(incorporated by reference to Exhibit 10\(i\)\(6\) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997; Commission File No. 001-01011\).](#)
- 10.6* [Tax Disaffiliation Agreement dated as of December 2, 1996 between the Registrant and Linens 'n Things, Inc. and certain of their respective affiliates \(incorporated by reference to Exhibit 10\(i\)\(7\) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997; Commission File No. 001-01011\).](#)
- 10.7* [Second Amended and Restated Credit Agreement, dated as of July 24, 2014, by and among the Registrant, the lenders party thereto, Barclays Bank PLC and JPMorgan Chase Bank, N.A., as Co-Syndication Agents, Bank of America, N.A. and Wells Fargo Bank, N.A., as Co-Documentation Agents, and The Bank of New York Mellon, as Administrative Agent \(incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 \(Commission File No. 001-01011\).](#)
- 10.8* [Amendment No. 1 to Second Amended and Restated Credit Agreement, dated as of December 15, 2017, by and among the Registrant, the lenders party thereto and The Bank of New York Mellon, as administrative agent \(incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K dated December 19, 2017; Commission File No. 001-01011\).](#)
- 10.9* [Five Year Credit Agreement dated as of July 1, 2015, by and among the Registrant, the lenders party thereto, Barclays Bank PLC and JPMorgan Chase Bank, N.A., as Co-Syndication Agents, Bank of America, N.A. and Wells Fargo Bank, N.A., as Co-Documentation Agents, and The Bank of New York Mellon, as Administrative Agent \(incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2015 \(Commission File No. 001-01011\).](#)
- 10.10* [Amendment No. 1, dated as of December 15, 2017, to Five Year Credit Agreement dated as of July 1, 2015, by and among the Registrant, the lenders party thereto and The Bank of New York Mellon, as administrative agent \(incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K dated December 19, 2017; Commission File No. 001-01011\).](#)
- 10.11* [364-Day Credit Agreement, dated as of May 18, 2017, by and among the Registrant, the lenders party thereto and The Bank of New York Mellon, as administrative agent \(incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2017; Commission File No. 001-01011\).](#)

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- 10.12* [Amendment No. 1, dated as of December 15, 2017, to 364-Day Credit Agreement dated as of May 18, 2017, by and among the Registrant, the lenders party thereto and The Bank of New York Mellon, as administrative agent \(incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated December 19, 2017; Commission File No. 001-01011\).](#)
- 10.13* [Five Year Credit Agreement, dated as of May 18, 2017, by and among the Registrant, the lenders party thereto and The Bank of New York Mellon, as administrative agent \(incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2017; Commission File No. 001-01011\).](#)
- 10.14* [Amendment No. 1 dated as of December 15, 2017, to Five Year Credit Agreement dated as of May 18, 2017, by and among the Registrant, the lenders party thereto and The Bank of New York Mellon, as administrative agent \(incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K dated December 19, 2017; Commission File No. 001-01011\).](#)
- 10.15* [Term Loan Agreement dated as of December 15, 2017, by and among the Registrant, the lenders party thereto and Barclays Bank PLC, as administrative agent \(incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated December 19, 2017; Commission File No. 001-01011\).](#)
- 10.16* [The Registrant's Supplemental Retirement Plan for Select Senior Management I as amended and restated in December 2008 \(incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009; Commission File No. 001-01011\).](#)
- 10.17* [The Registrant's 1996 Directors Stock Plan, as amended and restated November 5, 2002 \(incorporated by reference to Exhibit 10.18 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 28, 2002; Commission File No. 001-01011\).](#)
- 10.18* [The Registrant's 1997 Incentive Compensation Plan as amended through December 2008 \(incorporated by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009; Commission File No. 001-01011\).](#)
- 10.19* [Caremark Rx, Inc. 2004 Incentive Stock Plan \(incorporated by reference to Exhibit 99.2 of the Registrant's Registration Statement No. 333-141481 on Form S-8 filed March 22, 2007; Commission File No. 011-01011\).](#)
- 10.20* [The Registrant's Deferred Stock Compensation Plan, as amended \(incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015; Commission File No. 001-01011\).](#)
- 10.21* [The Registrant's Deferred Compensation Plan, as amended \(incorporated by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016; Commission File No. 001-01011\).](#)
- 10.22* [The Registrant's 2010 Incentive Compensation Plan, as amended through January 15, 2013 \(incorporated by reference to Exhibit A to the Registrant's Definitive Proxy Statement on Form 14A filed March 27, 2015; Commission File No. 001-01011\).](#)
- 10.23* [The Registrant's 2017 Incentive Compensation Plan \(incorporated by reference to Exhibit A to the Registrant's Definitive Proxy Statement on Form 14A filed March 31, 2017; Commission File No. 001-01011\).](#)
- 10.24* [The Registrant's 2007 Employee Stock Purchase Plan, as amended \(incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015; Commission File No. 001-01011\).](#)

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- 10.25* [The Registrant's Management Incentive Plan \(incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2017; Commission File No. 001-01011\).](#)
- 10.26* [The Registrant's Executive Incentive Plan \(incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2017; Commission File No. 001-01011\).](#)
- 10.27* [The Registrant's Long-Term Incentive Plan \(incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2017; Commission File No. 001-01011\).](#)
- 10.28* [The Registrant's Partnership Equity Program, as amended \(incorporated by reference to Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016; Commission File No. 001-01011\).](#)
- 10.29* [The Registrant's Severance Plan for Non-Store Employees amended as of January 2016 \(incorporated by reference to Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016; Commission File No. 001-01011\).](#)
- 10.30* [The Registrant's Performance-Based Restricted Stock Unit Plan, as amended \(incorporated by reference to Exhibit 10.27 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016; Commission File No. 001-01011\).](#)
- 10.31* [Form of Enterprise Non-Competition, Non-Disclosure and Developments Agreement between the Registrant and certain of the Registrant's executive officers \(incorporated by reference to Exhibit 10.25 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013; Commission File No. 001-01011\).](#)
- 10.32* [Universal 409A Definition Document, as amended \(incorporated by reference to Exhibit 10.28 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015; Commission File No. 001-01011\).](#)
- 10.33* [Form of Non-Qualified Stock Option Agreement between the Registrant and selected employees of the Registrant \(incorporated by reference to Exhibit 10.29 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011\).](#)
- 10.34* [Form of Restricted Stock Unit Agreement - Annual Grant - between the Registrant and selected employees of the Registrant \(incorporated by reference to Exhibit 10.30 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011\).](#)
- 10.35* [Form of Performance-Based Restricted Stock Unit Agreement between the Registrant and selected employees of the Registrant \(incorporated by reference to Exhibit 10.31 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011\).](#)
- 10.36* [Form of Partnership Equity Program Participant Purchased RSUs, Company Matching RSUs and Company Matching Options Agreement \(Pre-Tax\) \(incorporated by reference to Exhibit 10.32 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011\).](#)
- 10.37* [Form of Partnership Equity Program Participant Purchased RSUs, Company Matching RSUs and Company Matching Options Agreement \(Post-Tax\) \(incorporated by reference to Exhibit 10.33 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011\).](#)

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- 10.38* [Amended and Restated Employment Agreement dated as of December 22, 2008 between the Registrant and the Registrant's President and Chief Executive Officer \(incorporated by reference to Exhibit 10.38 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008; Commission File No. 001-01011\).](#)
- 10.39* [Amendment dated December 21, 2012 to the Amended and Restated Employment Agreement dated as of December 22, 2008 between the Registrant and the Registrant's President and Chief Executive Officer \(incorporated by reference to Exhibit 10.31 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012; Commission File No. 001-01011\).](#)
- 10.40* [Form of Non-Qualified Stock Option Agreement between the Registrant and the Registrant's President and Chief Executive Officer \(incorporated by reference to Exhibit 10.37 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016; Commission File No. 001-01011\).](#)
- 10.41* [Form of Restricted Stock Unit Agreement between the Registrant and the Registrant's President and Chief Executive Officer \(incorporated by reference to Exhibit 10.38 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016; Commission File No. 001-01011\).](#)
- 10.42* [Amendment dated January 22, 2015 to Nonqualified Stock Option Agreements between the Registrant and the Registrant's President and Chief Executive Officer \(incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated January 23, 2015; Commission File No. 001-01011\).](#)
- 10.43* [Change in Control Agreement dated December 22, 2008 between the Registrant and the Registrant's Executive Vice President and Chief Financial Officer \(incorporated by reference to Exhibit 10.39 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010; Commission File No. 001-01011\).](#)
- 10.44* [Amendment dated as of December 31, 2012 to the Change in Control Agreement dated December 22, 2008 between the Registrant and the Registrant's Executive Vice President and Chief Financial Officer \(incorporated by reference to Exhibit 10.32 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012; Commission File No. 001-01011\).](#)
- 10.45* [Change in Control Agreement dated December 22, 2008 between the Registrant and the Registrant's Executive Vice President and Chief Operating Officer \(incorporated by reference to Exhibit 10.33 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012; Commission File No. 001-01011\).](#)
- 10.46* [Amendment dated as of December 31, 2012 to the Change in Control Agreement dated December 22, 2008 between the Registrant and the Registrant's Executive Vice President and Chief Operating Officer \(incorporated by reference to Exhibit 10.34 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012; Commission File No. 001-01011\).](#)
- 10.47* [Restricted Stock Unit Agreement dated April 1, 2017 between the Registrant and the Registrant's Executive Vice President and Chief Operating Officer \(incorporated by reference to Exhibit 10.44 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016; Commission File No. 001-01011\).](#)
- 10.48* [Restrictive Covenant Agreement dated May 20, 2017 between the Registrant and the Registrant's Executive Vice President and Chief Operating Officer \(incorporated by reference to Exhibit 10.45 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016; Commission File No. 001-01011\).](#)
- 10.49* [Change in Control Agreement dated December 22, 2008 between the Registrant and the Registrant's Executive Vice President and President of CVS Pharmacy \(incorporated by reference to Exhibit 10.43 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011\).](#)

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10.50*	Amendment dated as of December 31, 2012 to the Change in Control Agreement between the Registrant and the Registrant's Executive Vice President and President of CVS Pharmacy (incorporated by reference to Exhibit 10.44 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011).
10.51*	Change in Control Agreement dated October 1, 2012 between the Registrant and the Registrant's Executive Vice President, Chief Policy and External Affairs Officer and General Counsel (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2015; Commission File No. 001-01011).
10.52*	Restrictive Covenant Agreement dated June 1, 2014 between the Registrant and the Registrant's Executive Vice President, Chief Policy and External Affairs Officer and General Counsel (incorporated by reference to Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2015; Commission File No. 001-01011).
12	Computation of Ratios of Earnings to Fixed Charges.
13	Portions of the 2018 Annual Report to Stockholders of CVS Health Corporation, which are specifically designated in this Form 10-K as being incorporated by reference.
21	Subsidiaries of the Registrant.
23	Consent of Ernst & Young LLP.
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the CVS Health Corporation Annual Report on Form 10-K for the year ended December 31, 2017 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Income, (ii) the Consolidated Balance Sheets, (iii) the Consolidated Statements of Cash Flows and (iv) related notes.

CVS Health Corporation
Computation of Ratios of Earnings to Fixed Charges

<i>In millions</i>	Year Ended December 31,				
	2017	2016	2015	2014	2013
Earnings:					
Income from continuing operations before income taxes ^(a)	\$ 8,267	\$ 8,635	\$ 8,614	\$ 7,678	\$ 7,528
Interest portion of net rental expense ^(b)	802	790	764	786	750
Interest expense (net of interest capitalized)	1,062	1,078	859	615	517
Adjusted earnings	\$ 10,131	\$ 10,503	\$ 10,237	\$ 9,079	\$ 8,795
Fixed Charges:					
Interest portion of net rental expense ^(b)	802	790	764	786	750
Interest expense (net of interest capitalized)	1,062	1,078	859	615	517
Interest capitalized	8	13	12	19	25
Total fixed charges	\$ 1,872	\$ 1,881	\$ 1,635	\$ 1,420	\$ 1,292
Ratio of earnings to fixed charges	5.41 x	5.58 x	6.26 x	6.39 x	6.81 x

(a) Excludes net (income) loss attributable to noncontrolling interest.

(b) The portion of net rental expense deemed to be representative of the interest factor.

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

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

Overview of Our Business

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

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

Through more than 9,800 retail locations, more than 1,100 walk-in health care clinics, a leading pharmacy benefits manager with more than 94 million plan members, a dedicated senior pharmacy care business serving more than one million patients per year, expanding specialty pharmacy services and a leading stand-alone Medicare Part D prescription drug plan, we enable people, businesses, and communities to manage health in more affordable, effective ways. We are delivering break-through products and services, from advising patients on their medications at our CVS Pharmacy[®] locations, to introducing unique programs to help control costs for our clients at CVS Caremark[®], to innovating how care is delivered to our patients with complex conditions through CVS Specialty[®], to improving pharmacy care for the senior community through Omnicare[®], or by expanding access to high-quality, low-cost care at CVS MinuteClinic[®].

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

Overview of Our Pharmacy Services Segment

Our Pharmacy Services business generates revenue from a full range of pharmacy benefit management ("PBM") solutions, including plan design offerings and administration, formulary management, Medicare Part D services, mail order pharmacy, specialty pharmacy and infusion services, retail pharmacy network management services, prescription management systems, clinical services, disease management services and medical spend management.

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

As a pharmacy benefits manager, we manage the dispensing of prescription drugs through our mail order pharmacies, specialty pharmacies, national network of long-term care pharmacies and more than 68,000 retail pharmacies, consisting of approximately 41,000 chain pharmacies (which includes our CVS Pharmacy[®] pharmacies) and 27,000 independent pharmacies, to eligible members in the benefit plans maintained by our clients and utilize our information systems to perform, among other things, safety checks, drug interaction screenings and brand-to-generic substitutions.

Our specialty pharmacies support individuals who require complex and expensive drug therapies. Our specialty pharmacy business includes mail order and retail specialty pharmacies that operate under the CVS Caremark[®], Navarro[®] Health Services and Advanced Care Scripts ("ACS Pharmacy") names. Substantially all of our mail service specialty pharmacies have been accredited by The Joint Commission, which is an independent, not-for-profit organization that accredits and certifies health care organizations and programs in the United States. We also offer specialty infusion services and enteral nutrition services through Coram LLC and its subsidiaries (collectively, "Coram"). With Specialty Connect[®], which integrates our specialty pharmacy mail and retail capabilities, we provide members with disease-state specific counseling from our experienced specialty pharmacists and the choice to bring their specialty prescriptions to

any CVS Pharmacy location. Whether submitted through one of our mail order pharmacy or at a CVS Pharmacy, all prescriptions are filled through the Company's specialty mail order pharmacies, so all revenue from this specialty prescription services program is recorded within the Pharmacy Services Segment. Members then can choose to pick up their medication at their local CVS Pharmacy or have it sent to their home through the mail.

We also provide health management programs, which include integrated disease management for 18 conditions, through our AccordantCare™ rare disease management offering. The majority of these integrated programs are accredited by the National Committee for Quality Assurance.

In addition, through our SilverScript Insurance Company ("SilverScript") subsidiary, we are a national provider of drug benefits to eligible beneficiaries under the federal government's Medicare Part D program. As of December 31, 2017, we provided Medicare Part D plan benefits to approximately 5.5 million beneficiaries through SilverScript, including our individual and employer group waiver plans.

The Pharmacy Services Segment operates under the CVS Caremark® Pharmacy Services, Caremark®, CVS Caremark®, CVS Specialty®, AccordantCare™, SilverScript®, Wellpartner®, Coram®, NovoLogix®, Navarro® Health Services and ACS Pharmacy names. As of December 31, 2017, the Pharmacy Services Segment operated 23 retail specialty pharmacy stores, 18 specialty mail order pharmacies, four mail order dispensing pharmacies, and 83 branches for infusion and enteral services, including approximately 73 ambulatory infusion suites and three centers of excellence, located in 42 states, Puerto Rico and the District of Columbia.

Overview of Our Retail/LTC Segment

Our Retail/LTC Segment sells prescription drugs and a wide assortment of general merchandise, including over-the-counter drugs, beauty products and cosmetics, personal care products, convenience foods, photo finishing, seasonal merchandise and greeting cards. With the acquisition of Omnicare's long-term care ("LTC") operations, the Retail/LTC Segment now also includes the distribution of prescription drugs, related pharmacy consulting and other ancillary services to chronic care facilities and other care settings. Omnicare operations also included commercialization services which were provided under the name RxCrossroads® ("RxC"), until the sale of RxC was completed on January 2, 2018. See Note 3 "Goodwill and Other Intangibles" to our consolidated financial statements for more information. Our Retail/LTC Segment derives the majority of its revenues through the sale of prescription drugs, which are dispensed by our more than 32,000 pharmacists. The role of our retail pharmacists is expanding from primarily dispensing prescriptions to also providing services, including flu vaccinations as well as face-to-face patient counseling with respect to adherence to drug therapies, closing gaps in care, and more cost-effective drug therapies. Our integrated pharmacy services model enables us to enhance access to care while helping to lower overall health care costs and improve health outcomes.

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

Our proprietary loyalty card program, ExtraCare®, has about 62 million active cardholders, making it one of the largest and most successful retail loyalty card programs in the country.

As of December 31, 2017, our Retail/LTC Segment included 9,803 retail stores (of which 8,060 were our stores that operated a pharmacy and 1,695 were our pharmacies located within Target stores) located in 49 states, the District of Columbia, Puerto Rico and Brazil operating primarily under the CVS Pharmacy®, CVS®, CVS Pharmacy y más®, Longs Drugs®, Navarro Discount Pharmacy® and Drogeria Onofre™ names, 37 onsite pharmacies primarily operating under the CarePlus CVS Pharmacy™, CarePlus® and CVS Pharmacy® names, and 1,134 retail health care clinics operating under the MinuteClinic® name (of which 1,129 were located in our retail pharmacy stores or Target stores), and our online retail websites, CVS.com®, Navarro.com™ and Onofre.com.br™. LTC operations are comprised of 145 spoke pharmacies that primarily handle new prescription orders, of which 30 are also hub pharmacies that use proprietary automation to support spoke pharmacies with refill prescriptions. LTC operates primarily under the Omnicare® and NeighborCare® names.

Overview of Our Corporate Segment

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

Proposed Acquisition of Aetna

On December 3, 2017, we entered into a definitive merger agreement to acquire all of the outstanding shares of Aetna Inc. (“Aetna”) for a combination of cash and stock (“Aetna Acquisition”). Under the terms of the merger agreement, Aetna shareholders will receive \$145.00 per share in cash and 0.8378 CVS Health shares for each Aetna share. The transaction values Aetna at approximately \$207 per share or approximately \$69 billion based on the Company’s 5-day volume weighted average price ending December 1, 2017 of \$74.21 per share. Including the assumption of Aetna’s debt, the total value of the transaction is approximately \$77 billion. The final purchase price will be determined based on the Company’s stock price on the date of closing of the transaction. We expect to finance the cash portion of the purchase price through a combination of cash on hand and by issuing approximately \$45.0 billion of new debt, including senior notes and term loans (see “Liquidity and Capital Resources” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”). We made customary representations, warranties and covenants in the merger agreement, including, among others, a covenant, subject to certain exceptions, to conduct our business in the ordinary course between the execution of the merger agreement and the closing of the transaction.

The proposed acquisition is currently projected to close in the second half of 2018 and remains subject to approval by CVS Health and Aetna shareholders and customary closing conditions, including the expiration of the waiting period under the federal Hart-Scott-Rodino Antitrust Improvements Act of 1976 and approvals of state departments of insurance and U.S. and international regulators.

If the transaction is not completed, the Company could be liable to Aetna for a termination fee of \$2.1 billion in connection with the merger agreement, depending on the reasons leading to such termination.

Results of Operations

Summary of our Consolidated Financial Results

<i>In millions, except per share amounts</i>	Year Ended December 31,		
	2017	2016	2015
Net revenues	\$ 184,765	\$ 177,526	\$ 153,290
Cost of revenues	156,220	148,669	126,762
Gross profit	28,545	28,857	26,528
Operating expenses	19,028	18,491	17,053
Operating profit	9,517	10,366	9,475
Interest expense, net	1,041	1,058	838
Loss on early extinguishment of debt	—	643	—
Other expense	208	28	21
Income before income tax provision	8,268	8,637	8,616
Income tax provision	1,637	3,317	3,386
Income from continuing operations	6,631	5,320	5,230
Income (loss) from discontinued operations, net of tax	(8)	(1)	9
Net income	6,623	5,319	5,239
Net income attributable to noncontrolling interest	(1)	(2)	(2)
Net income attributable to CVS Health	\$ 6,622	\$ 5,317	\$ 5,237

Net revenues increased \$7.2 billion in 2017 compared to 2016, and increased \$24.2 billion in 2016 compared to 2015. As you review our performance in this area, we believe you should consider the following important information:

- During 2017, net revenues in our Pharmacy Services Segment increased 8.9% and net revenues in our Retail/LTC Segment decreased 2.1% compared to the prior year. The Retail/LTC Segment decrease was primarily due to a decline in same store sales of 2.6% as a result of the previously-announced marketplace changes that restrict CVS Pharmacy from participating in certain networks.
- During 2016, net revenues in our Pharmacy Services Segment increased by 19.5% and net revenues in our Retail/LTC Segment increased 12.6% compared to the prior year. The Retail/LTC Segment benefited from the 2015 acquisitions of Omnicare and the pharmacies and clinics of Target.
- In 2017 and 2016, the Pharmacy Services Segment continued to grow from net new business and specialty. The increase in our generic dispensing rates in both of our operating segments continued to have a negative effect on net revenue in 2017 as compared to 2016, as well as in 2016 as compared to 2015.

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

Gross profit decreased \$312 million, or 1.1% in 2017, to \$28.5 billion, as compared to \$28.9 billion in 2016. Gross profit increased \$2.3 billion, or 8.8% in 2016, to \$28.9 billion, as compared to \$26.5 billion in 2015. Gross profit as a percentage of net revenues declined to 15.4%, as compared to 16.3% in 2016 and 17.3% in 2015.

- During 2017, gross profit in our Pharmacy Services Segment and Retail/LTC Segment increased by 2.4% and decreased by 1.8%, respectively, compared to the prior year. For the year ended December 31, 2017, gross profit as a percentage of net revenues in our Pharmacy Services Segment and Retail/LTC Segment was 4.6% and 29.4%, respectively.
- During 2016, gross profit in our Pharmacy Services Segment and Retail/LTC Segment increased by 12.9% and 7.9%, respectively, compared to the prior year. For the year ended December 31, 2016, gross profit as a percentage of net revenues in our Pharmacy Services Segment and Retail/LTC Segment was 4.9% and 29.3%, respectively.
- The increased weighting toward the Pharmacy Services Segment, which has a lower gross margin than the Retail/LTC Segment, resulted in a decline in consolidated gross profit as a percent of net revenues in 2017 as compared to 2016. In addition, gross profit for 2017 and 2016 has been negatively impacted by price compression in the Pharmacy Services Segment and reimbursement pressure in the Retail/LTC Segment.
- Our gross profit continued to benefit from the increased utilization of generic drugs, which normally yield a higher gross profit rate than brand name drugs, in both the Pharmacy Services and Retail/LTC segments for 2017 and 2016, partially offsetting the negative impacts described above.

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

Operating expenses increased \$537 million, or 2.9%, in the year ended December 31, 2017, as compared to the prior year. Operating expenses as a percent of net revenues declined to 10.3% in the year ended December 31, 2017 compared to 10.4% in the prior year. The increase in operating expense dollars in the year ended December 31, 2017 was primarily due to an increase in charges of \$181 million associated with the closure of 71 retail stores in connection with our enterprise streamlining initiative, goodwill impairment charges of \$181 million related to the RxCrossroads reporting unit within the Retail/LTC Segment, \$57 million of hurricane related expenses which were predominately in the Retail/LTC Segment, and new store openings. The increase in operating expenses also reflects the lack of a favorable impact for the reversal of an accrual of \$85 million, in the Pharmacy Services Segment, in connection with a legal settlement in the year ended December 31, 2016. These matters which led to the increase in operating expenses in 2017 were partially offset by a decrease in acquisition-related transaction and integration costs of \$226 million due to the bulk of the Omnicare related integration costs being incurred in 2016. The improvement in operating expenses as a percentage of net revenues in 2017 is primarily due to expense leverage from net revenue growth.

Operating expenses increased \$1.4 billion, or 8.4%, in the year ended December 31, 2016, as compared to the prior year. Operating expenses as a percent of net revenues declined to 10.4% in the year ended December 31, 2016 compared to 11.1% in the prior year. The increase in operating expense dollars in the year ended December 31, 2016 was primarily due to the acquisition of the Target pharmacy and clinic businesses in December 2015, the Omnicare acquisition in August 2015 and incremental store operating costs associated with a higher store count, partially offset by lower legal settlement costs, including the reversal of an accrual of \$85 million, in the Pharmacy Services Segment, in the year ended December 31, 2016. The improvement in operating expenses as a percentage of net revenues in 2016 was primarily due to expense leverage from net revenue growth.

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

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

<i>In millions</i>	2017	2016	2015
Interest expense	\$ 1,062	\$ 1,078	\$ 859
Interest income	(21)	(20)	(21)
Interest expense, net	\$ 1,041	\$ 1,058	\$ 838

Net interest expense decreased \$17 million during the year ended December 31, 2017, primarily due to the Company's debt issuance and debt tender offers that occurred in 2016 which resulted in overall more favorable interest rates on the Company's long-term debt. See Note 5 "Borrowings and Credit Agreements" to the consolidated financial statements for additional information. During 2016, net interest expense increased \$220 million, primarily due to the \$15 billion debt issuance in July 2015, the proceeds of which were used to fund the acquisitions of Omnicare and the pharmacies and clinics of Target, and repay the majority of the debt assumed in the Omnicare acquisition.

Loss on early extinguishment of debt - During the year ended December 31, 2016, the Company purchased approximately \$4.2 billion aggregate principal amount of certain of its senior notes pursuant to its tender offer for such senior notes and option to redeem the outstanding senior notes (see Note 5 "Borrowings and Credit Agreements" to the consolidated financial statements). The Company paid a premium of \$583 million in excess of the debt principal, wrote off \$54 million of unamortized deferred financing costs and incurred \$6 million in fees, for a total loss on the early extinguishment of debt of \$643 million.

Income tax provision - On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act (the "TCJA"). Among numerous changes to existing tax laws, the TCJA permanently reduces the federal corporate income tax rate from 35% to 21% effective January 1, 2018. The effects of changes in tax rates on deferred tax balances are required to be taken into consideration in the period in which the changes are enacted, regardless of when they are effective. As the result of the reduction of the corporate income tax rate under the TCJA, the Company estimated the revaluation of its net deferred tax liabilities and recorded a provisional noncash income tax benefit of approximately \$1.5 billion for year ended December 31, 2017. The Company has not completed all of its processes to determine the TCJA's final impact. The final impact may differ from this provisional amount due to, among other things, changes in interpretations and assumptions the Company has made thus far and the issuance of additional regulatory or other guidance. The accounting is expected to be completed by the time the 2017 federal corporate income tax return is filed in 2018.

Our effective income tax rate was 19.8%, 38.4% and 39.3% in 2017, 2016 and 2015, respectively. The effective income tax rate was lower in 2017 compared to 2016 primarily due to the provisional impact of the TCJA, including the revaluation of net deferred tax liabilities. The effective income tax rate was lower in 2016 compared to 2015 primarily due to the resolution in 2016 of certain income tax matters in tax years through 2012, as well as other permanent items.

Income (loss) from discontinued operations - In connection with certain business dispositions completed between 1991 and 1997, the Company retained guarantees on store lease obligations for a number of former subsidiaries, including Linens 'n Things, which filed for bankruptcy in 2008, and Bob's stores, which filed for bankruptcy in 2016. The Company's loss from discontinued operations includes lease-related costs required to satisfy its Linens 'n Things and Bob's Stores lease guarantees. We incurred a loss from discontinued operations, net of tax, of \$8 million and \$1 million in 2017 and 2016, respectively. The Company's income from discontinued operations in 2015 of \$9 million, net of tax, was related to the release of certain store lease guarantees due to the settlement of a dispute with a landlord.

See Note 1 “Significant Accounting Policies - Discontinued Operations” to the consolidated financial statements for additional information about discontinued operations and Note 12 “Commitments and Contingencies” for additional information about our lease guarantees.

Segment Analysis

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

<i>In millions</i>	Pharmacy Services Segment ⁽¹⁾⁽²⁾	Retail/LTC Segment ⁽²⁾	Corporate Segment	Intersegment Eliminations	Consolidated Totals
2017:					
Net revenues	\$ 130,596	\$ 79,398	\$ —	\$ (25,229)	\$ 184,765
Gross profit ⁽³⁾	6,040	23,317	—	(812)	28,545
Operating profit (loss) ⁽⁴⁾⁽⁵⁾	4,755	6,469	(966)	(741)	9,517
2016:					
Net revenues	119,963	81,100	—	(23,537)	177,526
Gross profit ⁽³⁾	5,901	23,738	—	(782)	28,857
Operating profit (loss) ⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	4,676	7,302	(891)	(721)	10,366
2015:					
Net revenues	100,363	72,007	—	(19,080)	153,290
Gross profit	5,227	21,992	—	(691)	26,528
Operating profit (loss) ⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	3,992	7,146	(1,035)	(628)	9,475

- (1) Net revenues of the Pharmacy Services Segment include approximately \$10.8 billion, \$10.5 billion and \$8.9 billion of Retail/LTC Co-Payments for 2017, 2016 and 2015, respectively. See Note 1 “Significant Accounting Policies - Revenue Recognition” to the consolidated financial statements for additional information about Retail/LTC Co-Payments.
- (2) Intersegment eliminations relate to intersegment revenue generating activities that occur between the Pharmacy Services Segment and the Retail/LTC Segment. These occur in the following ways: when members of Pharmacy Services Segment clients (“members”) fill prescriptions at our retail pharmacies to purchase covered products, when members enrolled in programs such as Maintenance Choice * elect to pick up maintenance prescriptions at one of our retail pharmacies instead of receiving them through the mail, or when members have prescriptions filled at our long-term care pharmacies. When these occur, both the Pharmacy Services and Retail/LTC segments record the revenues, gross profit and operating profit on a standalone basis.
- (3) The Retail/LTC Segment gross profit for the year ended December 31, 2017 and 2016, includes \$2 million and \$46 million, respectively, of acquisition-related integration costs. The integration costs in 2017 are related to the acquisition of Omnicare and the integration costs in 2016 are related to the acquisitions of Omnicare and the pharmacies and clinics of Target.
- (4) The Retail/LTC Segment operating profit for 2017, 2016 and 2015, include \$34 million, \$281 million and \$64 million, respectively, of acquisition-related integration costs. The integration costs in 2017 are related to the acquisition of Omnicare. The integration costs in 2016 and 2015 are related to the acquisitions of Omnicare and the pharmacies and clinics of Target. Operating profit for the year ended December 31, 2017 also includes \$215 million of charges associated with store rationalization and \$181 million of goodwill impairment charges related to the RxCrossroads reporting unit. For the year ended December 31, 2016, operating profit includes a \$34 million asset impairment charge in connection with planned store closures in 2017 related to our enterprise streamlining initiative.
- (5) The Corporate Segment operating loss for the year ended December 31, 2017, includes a reduction of \$3 million in integration costs for a change in estimate related to the acquisition of Omnicare, \$34 million in acquisition-related transaction costs related to the proposed Aetna acquisition and \$9 million of transaction costs related to the divestiture of RxCrossroads. The Corporate Segment operating loss for the year ended December 31, 2016 includes integration costs of \$10 million related to the acquisitions of Omnicare and the pharmacies and clinics of Target. For the year ended December 31, 2015, the Corporate Segment operating loss includes \$156 million of acquisition-related transaction and integration costs related to the acquisitions of Omnicare and the pharmacies and clinics of Target and a \$90 million charge related to a legacy lawsuit challenging the 1999 legal settlement by MedPartners of various securities class actions and a related derivative claim.
- (6) The Pharmacy Services Segment operating profit for the year ended December 31, 2016, includes the reversal of an accrual of \$88 million in connection with a legal settlement.
- (7) Amounts revised to reflect the adoption of ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which increased consolidated operating profit by \$28 million and \$21 million for the years ended December 31, 2016 and 2015, respectively.

Pharmacy Services Segment

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

<i>In millions</i>	Year Ended December 31,		
	2017	2016	2015
Net revenues	\$ 130,596	\$ 119,963	\$ 100,363
Gross profit	\$ 6,040	\$ 5,901	\$ 5,227
Gross profit % of net revenues	4.6 %	4.9 %	5.2 %
Operating expenses ⁽¹⁾⁽²⁾	\$ 1,285	\$ 1,225	\$ 1,235
Operating expenses % of net revenues	1.0 %	1.0 %	1.2 %
Operating profit ⁽¹⁾	\$ 4,755	\$ 4,676	\$ 3,992
Operating profit % of net revenues	3.6 %	3.9 %	4.0 %
Net revenues:			
Mail choice ⁽³⁾	\$ 45,709	\$ 42,783	\$ 37,828
Pharmacy network ⁽⁴⁾	\$ 84,555	\$ 76,848	\$ 62,240
Other	\$ 332	\$ 332	\$ 295
Pharmacy claims processed (90 Day = 3 prescriptions) ⁽⁵⁾⁽⁶⁾ :			
Total	1,781.9	1,639.2	1,325.8
Mail choice ⁽³⁾	265.2	251.5	241.1
Pharmacy network ⁽⁴⁾	1,516.7	1,387.7	1,084.7
Generic dispensing rate ⁽⁵⁾⁽⁶⁾ :			
Total	87.0 %	85.9 %	83.9 %
Mail choice ⁽³⁾	83.1 %	81.4 %	79.4 %
Pharmacy network ⁽⁴⁾	87.7 %	86.7 %	84.9 %
Mail choice penetration rate ⁽⁵⁾⁽⁶⁾	14.9 %	15.3 %	18.2 %

(1) Amounts revised to reflect the adoption of ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which decreased operating expenses and increased operating profit by \$4 million and \$3 million for the year ended December 31, 2016 and 2015, respectively.

(2) The Pharmacy Services Segment operating expenses for the year ended December 31, 2016, includes the reversal of an accrual of \$88 million in connection with a legal settlement.

(3) Mail choice is defined as claims filled at a Pharmacy Services mail facility, which includes specialty mail claims inclusive of Specialty Connect® claims picked up at retail, as well as prescriptions filled at our retail pharmacies under the Maintenance Choice* program.

(4) Pharmacy network net revenues, claims processed and generic dispensing rates do not include Maintenance Choice activity, which is included within the mail choice category. Pharmacy network is defined as claims filled at retail and specialty retail pharmacies, including our retail pharmacies and long-term care pharmacies, but excluding Maintenance Choice activity.

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

(6) The pharmacy claims processed, the generic dispensing rate and the mail choice penetration rate for the year ended December 31, 2016, has been revised to reflect 90-day prescriptions to the equivalent of three 30-day prescriptions.

Net revenues in our Pharmacy Services Segment increased \$10.6 billion, or 8.9%, to \$130.6 billion for the year ended December 31, 2017, as compared to the prior year. The increase is primarily due to growth in pharmacy network and specialty pharmacy volume as well as brand inflation, partially offset by continued price compression and increased generic dispensing.

Net revenues increased \$19.6 billion, or 19.5%, to \$120.0 billion for the year ended December 31, 2016, as compared to the prior year. The increase is primarily due to increased pharmacy network claims, growth in specialty pharmacy, growth in Medicare Part D, addition of ACS Pharmacy through the acquisition of Omnicare, and inflation, partially offset by increased generic dispensing and price compression.

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

- Our mail choice claims processed increased 5.5% to 265.2 million claims, on a 30-day equivalent basis, in the year ended December 31, 2017, compared to 251.5 million claims in the prior year. During 2016, our mail choice claims processed increased 4.3% to 251.5 million claims on a 30-day equivalent basis. The increases in mail choice claims

were driven by growth in specialty pharmacy claims, an increase in net new business, and continued adoption of our Maintenance Choice offerings.

- During 2017 and 2016, our average revenue per mail choice claim, on a 30-day equivalent basis, increased by 1.7% and 8.3%, compared to 2016 and 2015, respectively. The increase in both years was primarily due to growth in specialty pharmacy and inflation.
- Our pharmacy network claims processed increased 9.3% to 1,516.7 million claims in the year ended December 31, 2017, compared to 1,387.7 million claims in the prior year on a 30-day equivalent basis. During 2016, our pharmacy network claims processed, on a 30-day equivalent basis, increased 27.9% to 1,387.7 million compared to 1,084.7 million pharmacy network claims processed in 2015. These increases were primarily due to volume from net new business.
- During 2017 and 2016, our average revenue per pharmacy network claim processed remained flat on a 30-day equivalent basis.
- Our mail choice generic dispensing rate was 83.1%, 81.4% and 79.4% in the years ended December 31, 2017, 2016 and 2015, respectively. Our pharmacy network generic dispensing rate was 87.7%, 86.7%, and 84.9% in the years ended December 31, 2017, 2016 and 2015, respectively. These continued increases in mail choice and pharmacy network generic dispensing rates were primarily due to the impact of new generic drug introductions, and our continuous efforts to encourage plan members to use generic drugs when they are available and clinically appropriate. We believe our generic dispensing rates will continue to increase in future periods, albeit at a slower pace. This increase will be affected by, among other things, the number of new brand and generic drug introductions and our success at encouraging plan members to utilize generic drugs when they are available and clinically appropriate.

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

Gross profit increased \$139 million, or 2.4%, to \$6.0 billion in the year ended December 31, 2017, as compared to the prior year. Gross profit as a percentage of net revenues decreased to 4.6% for the year ended December 31, 2017, compared to 4.9% in the prior year. The increase in gross profit dollars in the year ended December 31, 2017 was primarily due to growth in specialty pharmacy, higher generic dispensing and favorable purchasing economics, partially offset by price compression. The decrease in gross profit as a percentage of net revenues was primarily due to changes in the mix of our business and continued price compression, partially offset by favorable generic dispensing and purchasing economics.

Gross profit increased \$674 million, or 12.9%, to \$5.9 billion in the year ended December 31, 2016, as compared to the prior year. Gross profit as a percentage of net revenues decreased to 4.9% for the year ended December 31, 2016, compared to 5.2% in the prior year. The increase in gross profit dollars in the year ended December 31, 2016 was primarily due to growth in specialty pharmacy, growth in Medicare Part D lives, higher generic dispensing and favorable purchasing economics, partially offset by price compression. The decrease in gross profit as a percentage of net revenues was primarily due to changes in the mix of our business and continued price compression, partially offset by favorable generic dispensing and purchasing economics.

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

- Our efforts to (i) retain existing clients, (ii) obtain new business and (iii) maintain or improve the rebates and/or discounts we received from manufacturers, wholesalers and retail pharmacies continue to have an impact on our gross profit dollars and gross profit as a percentage of net revenues. In particular, competitive pressures in the PBM industry have caused us and other PBMs to continue to share with clients a larger portion of rebates and/or discounts received from pharmaceutical manufacturers. In addition, market dynamics and regulatory changes have limited our

ability to offer plan sponsors pricing that includes retail network “differential” or “spread,” and we expect these trends to continue. The “differential” or “spread” is any difference between the drug price charged to plan sponsors, including Medicare Part D plan sponsors, by a PBM and the price paid for the drug by the PBM to the dispensing provider.

Operating expenses in our Pharmacy Services Segment, which include selling, general and administrative expenses, depreciation and amortization related to selling, general and administrative activities and administrative payroll, employee benefits and occupancy costs, were flat at 1.0% of net revenues in 2017 and 2016, compared to 1.2% in 2015.

Operating expenses increased \$60 million or 4.9% in the year ended December 31, 2017, compared to the prior year. Operating expenses decreased \$10 million or 0.8% in the year ended December 31, 2016, compared to the prior year. These changes in operating expense dollars are primarily due to an \$88 million reversal of an accrual in connection with a legal settlement in 2016, partially offset by an increase in costs associated with the growth of our business.

Retail/LTC Segment

The following table summarizes our Retail/LTC Segment’s performance for the respective periods:

<i>In millions</i>	Year Ended December 31,		
	2017	2016	2015
Net revenues	\$ 79,398	\$ 81,100	\$ 72,007
Gross profit ⁽¹⁾	\$ 23,317	\$ 23,738	\$ 21,992
Gross profit % of net revenues	29.4 %	29.3 %	30.5 %
Operating expenses ⁽²⁾⁽³⁾	\$ 16,848	\$ 16,436	\$ 14,846
Operating expenses % of net revenues	21.2 %	20.3 %	20.6 %
Operating profit ⁽³⁾	\$ 6,469	\$ 7,302	\$ 7,146
Operating profit % of net revenues	8.1 %	9.0 %	9.9 %
Prescriptions filled (90 Day = 3 prescriptions) ⁽⁴⁾	1,230.5	1,223.5	1,031.6
Net revenue increase (decrease):			
Total	(2.1)%	12.6 %	6.2 %
Pharmacy	(2.2)%	15.9 %	9.5 %
Front Store	(1.9)%	0.3 %	(2.5)%
Total prescription volume (90 Day = 3 prescriptions) ⁽⁴⁾	0.6 %	18.6 %	10.2 %
Same store sales increase (decrease) ⁽⁵⁾ :			
Total	(2.6)%	1.9 %	1.7 %
Pharmacy	(2.6)%	3.2 %	4.5 %
Front Store ⁽⁶⁾	(2.6)%	(1.5)%	(5.0)%
Prescription volume (90 Day = 3 prescriptions) ⁽⁴⁾	0.4 %	3.6 %	4.8 %
Generic dispensing rates	87.3 %	85.7 %	84.5 %
Pharmacy % of net revenues	75.0 %	75.0 %	72.9 %

- (1) Gross profit for the years ended December 31, 2017 and 2016, includes \$2 million and \$46 million, respectively, of acquisition-related integration costs. In 2017, the integration costs related to the acquisition of Omnicare. In 2016, the integration costs related to the acquisitions of Omnicare and the pharmacies and clinics of Target.
- (2) Operating expenses for the years ended December 31, 2017, 2016 and 2015, include \$32 million, \$235 million and \$64 million, respectively, of acquisition-related integration costs. In 2017, the integration costs related to the acquisition of Omnicare. In 2016 and 2015, the integration costs related to the acquisitions of Omnicare and the pharmacies and clinics of Target. For the year ended December 31, 2017, operating expenses include \$215 million of charges associated with store closures and \$181 million of goodwill impairment charges related to the segment’s RxCrossroads reporting unit. Operating expenses for the year ended December 31, 2016, also include a \$34 million asset impairment charge in connection with planned store closures in 2017 related to our enterprise streamlining initiative.
- (3) Amounts revised to reflect the adoption of ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which decreased operating expenses and increased operating profit by \$21 million and \$16 million for the year ended December 31, 2016 and 2015, respectively.
- (4) Includes the adjustment to convert 90-day, non-specialty prescriptions to the equivalent of three 30-day prescriptions. This adjustment reflects the fact that these prescriptions include approximately three times the amount of product days supplied compared to a normal prescription.
- (5) Same store sales and prescriptions exclude revenues from MinuteClinic, and revenue and prescriptions from stores in Brazil, from LTC operations and from commercialization services.
- (6) Front store same store sales would have been approximately 520 basis points higher for the year ended December 31, 2015, if tobacco and the estimated associated basket sales were excluded from the year ended December 31, 2014.

Net revenues decreased approximately \$1.7 billion, or 2.1%, to \$79.4 billion for the year ended December 31, 2017, as compared to the prior year. The decrease was primarily due to a decline in same store sales as a result of the previously-announced marketplace changes that restrict CVS Pharmacy from participating in certain networks.

Net revenues increased approximately \$9.1 billion, or 12.6%, to \$81.1 billion for the year ended December 31, 2016, as compared to the prior year. This increase was primarily driven by the acquisitions of the pharmacies and clinics of Target and new stores, which accounted for approximately 640 basis points of our total net revenue percentage increase during the year, the acquisition of Omnicare's LTC operations and a same store sales increase of 1.9%. As you review our Retail/LTC Segment's performance in this area, we believe you should consider the following important information about the business:

- Front store same store sales declined 2.6% in the year ended December 31, 2017, as compared to the prior year, and were negatively impacted approximately 30 basis points due to the absence of leap day in the current year. The decrease is primarily driven by softer customer traffic and efforts to rationalize promotional strategies, partially offset by an increase in basket size.
- Pharmacy same store sales declined 2.6% in the year ended December 31, 2017, as compared to the prior year. Pharmacy same store sales were negatively impacted by approximately 390 basis points due to recent generic introductions. Same store prescription volumes increased 0.4%, including the approximately 420 basis point negative impact from previously-discussed marketplace changes that restrict CVS Pharmacy from participating in certain networks that had an.
- Pharmacy revenues continue to be negatively impacted by the conversion of brand name drugs to equivalent generic drugs, which typically have a lower selling price. The generic dispensing rate grew to 87.3% for the year ended December 31, 2017, compared to 85.7% in the prior year. In addition, our pharmacy revenue growth has also been negatively affected by the mix of drugs sold, continued reimbursement pressure and the lack of significant new brand name drug introductions.
- Pharmacy revenue growth may be impacted by industry changes in the LTC business, such as continuing lower occupancy rates at skilled nursing facilities.
- Pharmacy revenue continued to benefit from our ability to attract and retain managed care customers, the increased use of pharmaceuticals by an aging population and as the first line of defense for health care.

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

Gross profit decreased \$421 million, or 1.8%, to approximately \$23.3 billion in the year ended December 31, 2017, as compared to the prior year. Gross profit as a percentage of net revenues increased slightly to 29.4% in year ended December 31, 2017, from 29.3% in 2016. Gross profit increased \$1.7 billion, or 7.9%, to approximately \$23.7 billion in the year ended December 31, 2016, as compared to the prior year. Gross profit as a percentage of net revenues decreased to 29.3% in year ended December 31, 2016, from 30.5% in 2015.

The decrease in gross profit dollars in both Retail Pharmacy and LTC in the year ended December 31, 2017, was primarily driven by the continued reimbursement pressure as well as a loss of prescriptions in Retail Pharmacy due to previously discussed network restrictions. In the year ended December 31, 2017, gross profit as a percentage of net revenues was relatively flat driven by increased front store margins which offset the continued reimbursement pressure on pharmacy. Front store margins increased due to changes in the mix of products sold and efforts to rationalize promotional strategies.

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

- Front store revenues as a percentage of total Retail/LTC Segment net revenues for both of the years ended December 31, 2017 and 2016 was 23.6% and for the year ended December 31, 2015 was 26.5%. On average, our

gross profit on front store revenues is higher than our gross profit on pharmacy revenues. The mix effect from a higher proportion of pharmacy sales had a negative effect on our overall gross profit as a percentage of net revenues for the years ended December 31, 2016 and 2015. This negative effect was partially offset by an increase in generic drugs dispensed, and an improved front store gross margin rate, which includes efforts to rationalize promotional strategies.

- During 2017 and 2016, our front store gross profit as a percentage of net revenues increased compared to the prior year. In both years, the increase reflects a change in the mix of products sold, including store brand products, as a result of our efforts to rationalize promotional strategies.
- Our pharmacy gross profit rates have been adversely affected by the efforts of managed care organizations, PBMs and governmental and other third-party payors to reduce their prescription drug costs, including the use of restrictive networks, as well as changes in the mix of our business within the pharmacy portion of the Retail/LTC Segment. In the event the reimbursement pressure accelerates, we may not be able to grow our revenues and gross profit dollars could be adversely impacted. The increased use of generic drugs has positively impacted our gross profit but has resulted in third-party payors augmenting their efforts to reduce reimbursement payments to retail pharmacies for prescriptions. This trend, which we expect to continue, reduces the benefit we realize from brand to generic product conversions.

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

Operating expenses increased \$412 million, or 2.5% to \$16.8 billion, or 21.2% as a percentage of net revenues, in the year ended December 31, 2017, as compared to \$16.4 billion, or 20.3% as a percentage of net revenues, in the prior year. Operating expenses increased \$1.6 billion, or 10.7%, to \$16.4 billion, or 20.3% as a percentage of net revenues, in the year ended December 31, 2016, as compared to \$14.9 billion, or 20.6% as a percentage of net revenues, in the prior year.

The increase in operating expense dollars for the year ended December 31, 2017, was primarily due to \$181 million increase in charges associated with the closure of 71 retail stores in connection with our enterprise streamlining initiative, \$181 million of goodwill impairment charges related to the RxCrossroads reporting unit, which was subsequently sold on January 2, 2018, \$55 million in hurricane related costs, and new store openings. Operating expenses as a percentage of net revenues for the year ended December 31, 2017 increased due to a decline in expense leverage with the loss of business from restricted network changes.

The increase in operating expense dollars for the year ended December 31, 2016, was primarily due to the 2015 acquisitions of LTC and the pharmacies and clinics within Target stores, including acquisition-related integration costs of \$235 million, as well as incremental store operating costs associated with operating more stores. Operating expenses for the year ended December 31, 2016, includes a gain from a legal settlement with certain credit card companies of \$32 million and an asset impairment charge of \$34 million in connection with planned store closures in 2017 related to our enterprise streamlining initiative. Additionally, in April 2016, the Retail/LTC Segment made a charitable contribution of \$32 million to the CVS Foundation to fund future charitable giving. The CVS Foundation is a non-profit entity that focuses on health, education and community involvement programs. The charitable contribution was recorded as an operating expense in the year ended December 31, 2016.

Corporate Segment

Operating expenses increased \$75 million, or 8.4%, to \$966 million in the year ended December 31, 2017, as compared to the prior year. Operating expenses decreased \$144 million, or 13.9%, to \$891 million in the year ended December 31, 2016. Operating expenses within the Corporate Segment include executive management, corporate relations, legal, compliance, human resources, information technology and finance related costs. The increase in operating expenses for the year ended December 31, 2017, was partially driven by ongoing investments in strategic initiatives and increased employee benefit costs. Operating expenses for the year ended December 31, 2017, include \$34 million in transaction costs associated with the proposed acquisition of Aetna, \$9 million of transaction costs associated with the divestiture of RxCrossroads. The decrease in operating expenses for the year ended December 31, 2016 was primarily due to

acquisition-related transaction and integration costs associated with the acquisition of Omnicare that occurred in August 2015, and the acquisition of the pharmacies and clinics of Target that occurred in December 2015.

Liquidity and Capital Resources

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

The change in cash and cash equivalents is as follows:

<i>In millions</i>	Year Ended December 31,		
	2017	2016	2015
Net cash provided by operating activities	\$ 8,007	\$ 10,141	\$ 8,539
Net cash used in investing activities	(2,932)	(2,470)	(13,420)
Net cash provided by (used in) financing activities	(6,751)	(6,761)	4,879
Effect of exchange rate changes on cash and cash equivalents	1	2	(20)
Net increase (decrease) in cash and cash equivalents	\$ (1,675)	\$ 912	\$ (22)

Net cash provided by operating activities decreased by \$2.1 billion in 2017 and increased by \$1.6 billion in 2016. These changes are primarily related to the timing of payments for our Medicare Part D operations.

Net cash used in investing activities increased by \$462 million in 2017 and decreased \$11.0 billion in 2016. The increase in 2017 is largely driven by an increase in acquisition activity as compared to 2016. The decrease in 2016 was primarily due to the \$9.6 billion paid for the acquisition of Omnicare and the \$1.9 billion paid for the acquisition of the pharmacies and clinics of Target in 2015, compared to the \$539 million paid for acquisitions in 2016.

In 2017, gross capital expenditures totaled approximately \$1.9 billion, a decrease of approximately \$306 million compared to the prior year. The decrease in 2017 capital expenditures is due to the Target integration being completed in 2016. During 2017, approximately 25% of our total capital expenditures were for new store construction, 30% were for store, fulfillment and support facilities expansion and improvements and 45% were for technology and other corporate initiatives. Gross capital expenditures totaled approximately \$2.2 billion and \$2.4 billion during 2016 and 2015, respectively. During 2016, approximately 31% of our total capital expenditures were for new store construction, 20% were for store, fulfillment and support facilities expansion and improvements and 49% were for technology and other corporate initiatives.

Proceeds from sale-leaseback transactions totaled \$265 million in 2017. This compares to \$230 million in 2016 and \$411 million in 2015. Under the sale-leaseback transactions, the properties are generally sold at net book value, which generally approximates fair value, and the resulting leases generally qualify and are accounted for as operating leases. The specific timing and amount of future sale-leaseback transactions will vary depending on future market conditions and other factors.

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

	2017 (2)	2016 (2)	2015 (2)
Total stores (beginning of year)	9,750	9,665	7,866
New and acquired stores ⁽¹⁾	179	132	1,833
Closed stores ⁽¹⁾	(83)	(47)	(34)
Total stores (end of year)	9,846	9,750	9,665
Relocated stores	30	50	58

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

(2) Includes retail drugstores, certain onsite pharmacy stores, specialty pharmacy stores and pharmacies within Target stores.

Net cash used in financing activities was \$6.8 billion in both 2017 and 2016 as net borrowings and net payments to shareholders were relatively flat in both years. Net cash provided by financing activities was \$4.9 billion in 2015 versus net cash used in financing activities of \$6.8 billion in 2016. The difference of \$11.6 billion was primarily due to higher net borrowings in 2015, including the \$14.8 billion in net proceeds received from the July 2015 debt issuance that was used to fund the acquisition of Omnicare and the acquisition of the pharmacies and clinics of Target.

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

<i>In billions</i> <u>Authorization Date</u>	<u>Authorized</u>	<u>Remaining as of December 31, 2017</u>
November 2, 2016 (“2016 Repurchase Program”)	\$ 15.0	\$ 13.9
December 15, 2014 (“2014 Repurchase Program”)	10.0	—
December 17, 2013 (“2013 Repurchase Program”)	6.0	—

The share Repurchase Programs, each of which was effective immediately, permit the Company to effect repurchases from time to time through a combination of open market repurchases, privately negotiated transactions, accelerated share repurchase (“ASR”) transactions, and/or other derivative transactions. The 2016 Repurchase Program can be modified or terminated by the Board of Directors at any time.

Pursuant to the authorization under the 2014 Repurchase Program, in August 2016, the Company entered into two fixed dollar ASRs with Barclays Bank PLC (“Barclays”) for a total of \$3.6 billion. Upon payment of the \$3.6 billion purchase price in January 2017, the Company received a number of shares of its common stock equal to 80% of the \$3.6 billion notional amount of the ASRs or approximately 36.1 million shares, which were placed into treasury stock in January 2017. The ASRs were accounted for as an initial treasury stock transaction for \$2.9 billion and a forward contract for \$0.7 billion. In April 2017, the Company received 9.9 million shares of common stock, representing the remaining 20% of the \$3.6 billion notional amount of the ASRs, thereby concluding the ASRs. The remaining 9.9 million shares of common stock delivered to the Company by Barclays were placed into treasury stock and the forward contract was reclassified from capital surplus to treasury stock in April 2017.

Pursuant to the authorization under the 2014 Repurchase Program, in December 2015, the Company entered into a \$725 million fixed dollar ASR with Barclays. Upon payment of the \$725 million purchase price in December 2015, the Company received a number of shares of its common stock equal to 80% of the \$725 million notional amount of the ASR or approximately 6.2 million shares. The initial 6.2 million shares of common stock delivered to the Company by Barclays were placed into treasury stock in December 2015. The ASR was accounted for as an initial treasury stock transaction of \$580 million and a forward contract of \$145 million. The forward contract was classified as an equity instrument and was recorded within capital surplus on the consolidated balance sheet. In January 2016, the Company received 1.4 million shares of common stock, representing the remaining 20% of the \$725 million notional amount of the ASR, thereby concluding the ASR. The remaining 1.4 million shares of common stock delivered to the Company by Barclays were placed into treasury stock in January 2016 and the forward contract was reclassified from capital surplus to treasury stock.

Pursuant to the authorization under the 2013 Repurchase Programs, in January 2015, the Company entered into a \$2.0 billion fixed dollar ASR agreement with J.P. Morgan Chase Bank (“JP Morgan”). Upon payment of the \$2.0 billion purchase price in January 2015, the Company received a number of shares of its common stock equal to 80% of the \$2.0 billion notional amount of the ASR agreement or approximately 16.8 million shares, which were placed into treasury stock in January 2015. In May 2015, the Company received approximately 3.1 million shares of common stock, representing the remaining 20% of the \$2.0 billion notional amount of the ASR, thereby concluding the ASR. The remaining 3.1 million shares of common stock delivered to the Company by JP Morgan were placed into treasury stock in May 2015. The ASR was accounted for as an initial treasury stock transaction of \$1.6 billion and a forward contract of \$0.4 billion. The forward contract was classified as an equity instrument and was initially recorded within capital surplus on the consolidated balance sheet and was reclassified to treasury stock upon the settlement of the ASR in May 2015.

In the ASR transactions described above, the initial repurchase of the shares and delivery of the remainder of the shares to conclude the ASR, resulted in an immediate reduction of the outstanding shares used to calculate the weighted average common shares outstanding for basic and diluted earnings per share.

During the year ended December 31, 2017, the Company repurchased an aggregate of 55.4 million shares of common stock for approximately \$4.4 billion under the 2014 and 2016 Repurchase Programs. As of December 31, 2017, there remained an aggregate of approximately \$13.9 billion available for future repurchases under the 2016 Repurchase Program and the 2014 Repurchase Program was complete. During the fourth quarter of 2017, the Company suspended share repurchase activity as a result of the Aetna Acquisition.

During the year ended December 31, 2016, the Company repurchased an aggregate of 47.5 million shares of common stock for approximately \$4.5 billion under the 2014 Repurchase Program. As of December 31, 2016, there remained an aggregate of approximately \$18.2 billion available for future repurchases under the 2016 and 2014 Repurchase Programs.

During the year ended December 31, 2015, the Company repurchased an aggregate of 48.0 million shares of common stock for approximately \$5.0 billion under the 2013 and 2014 Repurchase Programs. As of December 31, 2015, there remained an aggregate of approximately \$7.7 billion available for future repurchases under the 2014 Repurchase Program and the 2013 Repurchase Program was complete.

Short-term borrowings - The Company had approximately \$1.3 billion of commercial paper outstanding at a weighted average interest rate of 2.0% as of December 31, 2017. The Company had approximately \$1.9 billion of commercial paper outstanding at a weighted average interest rate of 1.22% as of December 31, 2016. In connection with its commercial paper program, the Company maintains a \$1.0 billion 364-day unsecured back-up credit facility, which expires on May 17, 2018, a \$1.25 billion, five-year unsecured back-up credit facility, which expires on July 24, 2019, a \$1.25 billion, five-year unsecured back-up credit facility, which expires on July 1, 2020, and a \$1.0 billion, five-year unsecured back-up credit facility which expires on May 18, 2022. The credit facilities allow for borrowings at various rates that are dependent, in part, on the Company's public debt ratings and require the Company to pay a weighted average quarterly facility fee of approximately 0.02%, regardless of usage. As of December 31, 2016, there were no borrowings outstanding under the back-up credit facilities. During 2018, the Company intends to refinance the 364-day unsecured back-up credit facility, which expires on May 17, 2018.

On December 3, 2017, in connection with the proposed acquisition of Aetna, the Company entered into a \$49.0 billion unsecured bridge loan facility. The Company paid approximately \$221 million in fees upon entering into the agreement. The fees were capitalized in other current assets and will be amortized as interest expense over the period the bridge facility is outstanding. The bridge loan facility was reduced to \$44.0 billion on December 15, 2017 upon the Company entering into a \$5.0 billion term loan agreement. The Company recorded \$56 million of amortization of the bridge loan facility fees during the year ended December 31, 2017, which was recorded in interest expense. On December 15, 2017, in connection with the proposed acquisition of Aetna, the Company entered into a \$5.0 billion unsecured term loan agreement. The term loan facility under the term loan agreement consists of a \$3.0 billion three-year tranche and a \$2.0 billion five-year tranche. The term loan facility allows for borrowings at various rates that are dependent, in part, on the Company's debt ratings and require the Company to pay a weighted average quarterly commitment fee, regardless of usage.

On January 3, 2017, the Company entered into a \$2.5 billion revolving credit facility. The credit facility allows for borrowings at various rates that are dependent, in part, on the Company's debt ratings and require the Company to pay a weighted average quarterly facility fee of approximately 0.03%, regardless of usage. The Company terminated the credit facility in May 2017.

On May 20, 2015, in connection with the acquisition of Omnicare, the Company entered into a \$13 billion unsecured bridge loan facility. The Company paid approximately \$52 million in fees in connection with the facility. The fees were capitalized and amortized as interest expense over the period the bridge facility was outstanding. The bridge loan facility expired on July 20, 2015 upon the Company's issuance of unsecured senior notes with an aggregate principal of \$15 billion as discussed below. The bridge loan facility fees became fully amortized in July 2015.

Long-term borrowings - On May 16, 2016, the Company issued \$1.75 billion aggregate principal amount of 2.125% unsecured senior notes due June 1, 2021 and \$1.75 billion aggregate principal amount of 2.875% unsecured senior notes due June 1, 2026 (collectively, the “2016 Notes”) for total proceeds of approximately \$3.5 billion, net of discounts and underwriting fees. The 2016 Notes pay interest semi-annually and may be redeemed, in whole at any time, or in part from time to time, at the Company’s option at a defined redemption price plus accrued and unpaid interest to the redemption date. The net proceeds of the 2016 Notes were used for general corporate purposes and to repay certain corporate debt.

On May 16, 2016, the Company announced tender offers for (1) any and all of its 5.75% Senior Notes due 2017, its 6.60% Senior Notes due 2019 and its 4.75% Senior Notes due 2020 (collectively, the “Any and All Notes”) and (2) up to \$1.5 billion aggregate principal amount of its 6.25% Senior Notes due 2027, its 6.125% Senior Notes due 2039, its 5.75% Senior Notes due 2041, the 5.00% Senior Notes due 2024 issued by its wholly-owned subsidiary, Omnicare, Inc. (“Omnicare”), the 4.75% Senior Notes due 2022 issued by Omnicare, its 4.875% Senior Notes due 2035 and its 3.875% Senior Notes due 2025 (collectively, the “Maximum Tender Offer Notes” and together with the Any and All Notes, the “Notes”). On May 31, 2016, the Company increased the aggregate principal amount of the tender offers for the Maximum Tender Offer Notes to \$2.25 billion. The Company purchased approximately \$835 million aggregate principal amount of the Any and All Notes and \$2.25 billion aggregate principal amount of the Maximum Tender Offer Notes pursuant to the tender offers, which expired on June 13, 2016. The Company paid a premium of \$486 million in excess of the debt principal in connection with the purchase of the Notes, wrote off \$50 million of unamortized deferred financing costs and incurred \$6 million in fees, for a total loss on the early extinguishment of debt of \$542 million which was recorded in income from continuing operations in the consolidated statement of income for the year ended December 31, 2016.

On June 27, 2016, the Company notified the holders of the remaining Any and All Notes that the Company was exercising its option to redeem the outstanding Any and All Notes pursuant to the terms of the Any and All Notes and the Indenture dated as of August 15, 2006, between the Company and The Bank of New York Mellon Trust Company, N.A. Approximately \$1.1 billion aggregate principal amount of Any and All Notes was redeemed on July 27, 2016. The Company paid a premium of \$97 million in excess of the debt principal and wrote off \$4 million of unamortized deferred financing costs, for a total loss on early extinguishment of debt of \$101 million during the year ended December 31, 2016.

The Company recorded a total loss on the early extinguishment of debt of \$643 million which was recorded in the income from continuing operations in the consolidated statement of income for the year ended December 31, 2016.

On July 20, 2015, the Company issued an aggregate of \$2.25 billion of 1.9% unsecured senior notes due 2018 (“2018 Notes”), an aggregate of \$2.75 billion of 2.8% unsecured senior notes due 2020 (“2020 Notes”), an aggregate of \$1.5 billion of 3.5% unsecured senior notes due 2022 (“2022 Notes”), an aggregate of \$3 billion of 3.875% unsecured senior notes due 2025 (“2025 Notes”), an aggregate of \$2 billion of 4.875% unsecured senior notes due 2035 (“2035 Notes”), and an aggregate of \$3.5 billion of 5.125% unsecured senior notes due 2045 (“2045 Notes” and, together with the 2018 Notes, 2020 Notes, 2022 Notes, 2025 Notes and 2035 Notes, the “Notes”) for total proceeds of approximately \$14.8 billion, net of discounts and underwriting fees. The Notes pay interest semi-annually and contain redemption terms which allow or require the Company to redeem the Notes at a defined redemption price plus accrued and unpaid interest at the redemption date. The net proceeds of the Notes were used to fund the Omnicare acquisition and the acquisition of the pharmacies and clinics of Target. The remaining proceeds were used for general corporate purposes.

Upon the closing of the Omnicare acquisition in August 2015, the Company assumed the long-term debt of Omnicare that had a fair value of approximately \$3.1 billion, \$2.0 billion of which was previously convertible into Omnicare shares that holders were able to redeem subsequent to the acquisition. During the period from August 18, 2015 to December 31, 2015, all but \$5 million of the \$2.0 billion of previously convertible debt was redeemed and repaid and approximately \$0.4 billion in Omnicare term debt assumed was repaid for total repayments of Omnicare debt of approximately \$2.4 billion in 2015.

The remaining principal of the Omnicare debt assumed was comprised of senior unsecured notes with an aggregate principal amount of \$700 million (\$400 million of 4.75% senior notes due 2022 and \$300 million of 5% senior notes due 2024). In September 2015, the Company commenced exchange offers for the 4.75% senior notes due 2022 and the 5%

senior notes due 2024 to exchange all validly tendered and accepted notes issued by Omnicare for notes to be issued by the Company. This offer expired on October 20, 2015 and the aggregate principal amounts of \$388 million of the 4.75% senior notes due 2022 and \$296 million of the 5% senior notes due 2024 were validly tendered and exchanged for notes issued by the Company. The Company recorded this exchange transaction as a modification of the original debt instruments. Consequently, no gain or loss on extinguishment was recognized in the Company's consolidated income statement as a result of this exchange transaction and the issuance costs of the new debt were expensed as incurred.

Our back-up credit facilities and unsecured senior notes (see Note 5 "Borrowings and Credit Agreements" to the consolidated financial statements) contain customary restrictive financial and operating covenants. The covenants do not materially affect the Company's financial or operating flexibility. As of December 31, 2017, the Company is in compliance with all debt covenants.

As of December 31, 2017, we had outstanding derivative financial instruments (see Note 1 "Significant Accounting Policies" to the consolidated financial statements). We had no outstanding derivative financial instruments as of December 31, 2016.

Debt Ratings - As of December 31, 2017, our long-term debt was rated "Baa1" by Moody's and "BBB+" by Standard & Poor's, and our commercial paper program was rated "P-2" by Moody's and "A-2" by Standard & Poor's. In December 2017, subsequent to the announcement of the proposed acquisition of Aetna, Moody's changed the outlook on our long-term debt to "Under Review" from "Stable." Similarly, S&P placed our long-term debt outlook on "Watch Negative" from "Stable". The outlook for the commercial paper program was unchanged. In assessing our credit strength, we believe that both Moody's and Standard & Poor's considered, among other things, our capital structure and financial policies as well as our consolidated balance sheet, our historical acquisition activity and other financial information. Although we currently believe our long-term debt ratings will remain investment grade, we cannot guarantee the future actions of Moody's and/or Standard & Poor's. Our debt ratings have a direct impact on our future borrowing costs, access to capital markets and new store operating lease costs.

Quarterly Cash Dividend - In December 2016, our Board of Directors authorized an 18% increase in our quarterly common stock cash dividend to \$0.50 per share effective in 2017. This increase equated to an annual dividend rate of \$2.00 per share. The Company expects to maintain its quarterly dividend of \$0.50 per share throughout 2018. In December 2015, our Board of Directors authorized a 21% increase in our quarterly common stock cash dividend to \$0.425 per share. This increase equated to an annual dividend rate of \$1.70 per share. In December 2014, our Board of directors authorized a 27% increase to our quarterly common stock cash dividend to \$0.35 per share. This increase equated to an annual dividend rate of \$1.40 per share.

Off-Balance Sheet Arrangements

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

Between 1995 and 1997, we sold or spun off a number of subsidiaries, including Bob's Stores, Linens 'n Things, and Marshalls. In many cases, when a former subsidiary leased a store, the Company provided a guarantee of the store's lease obligations. When the subsidiaries were disposed of, the Company's guarantees remained in place, although each initial purchaser agreed to indemnify the Company for any lease obligations the Company was required to satisfy. If any of the purchasers or any of the former subsidiaries were to become insolvent and failed to make the required payments under a store lease, the Company could be required to satisfy these obligations.

As of December 31, 2017, we guaranteed approximately 85 such store leases (excluding the lease guarantees related to Linens 'n Things), with the maximum remaining lease term extending through 2029. Management believes the ultimate disposition of any of the remaining lease guarantees will not have a material adverse effect on the Company's consolidated financial condition or future cash flows. Please see "Income (loss) from discontinued operations"

previously in this document for further information regarding our guarantee of certain Linens ‘n Things’ store lease obligations.

Below is a summary of our significant contractual obligations as of December 31, 2017:

<i>In millions</i>	Payments Due by Period				
	Total	2018	2019 to 2020	2021 to 2022	Thereafter
Operating leases	\$27,151	\$ 2,493	\$ 4,562	\$ 4,006	\$ 16,090
Lease obligations from discontinued operations	11	3	5	3	—
Capital lease obligations	1,342	74	148	146	974
Contractual lease obligations with Target ⁽¹⁾	1,924	—	—	—	1,924
Long-term debt	25,224	3,523	3,600	5,449	12,652
Interest payments on long-term debt ⁽²⁾	10,469	893	1,614	1,343	6,619
Other long-term liabilities in the consolidated balance sheet	468	52	346	33	37
	<u>\$66,589</u>	<u>\$ 7,038</u>	<u>\$ 10,275</u>	<u>\$ 10,980</u>	<u>\$ 38,296</u>

(1) The Company leases pharmacy and clinic space from Target Corporation (“Target”). See Note 7 “Leases” to the consolidated financial statements for additional information regarding the lease arrangements with Target. Amounts related to the operating and capital leases with Target are reflected within the operating leases and capital lease obligations above. Amounts due in excess of the remaining estimated economic lives of the buildings are reflected herein assuming equivalent stores continue to operate through the term of the arrangements.

(2) Interest payments on long-term debt are calculated on outstanding balances and interest rates in effect on December 31, 2017.

Critical Accounting Policies

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

Our significant accounting policies are discussed in Note 1 “Significant Accounting Policies” to our consolidated financial statements. We believe the following accounting policies include a higher degree of judgment and/or complexity and, thus, are considered to be critical accounting policies. We have discussed the development and selection of our critical accounting policies with the Audit Committee of our Board of Directors and the Audit Committee has reviewed our disclosures relating to them.

Revenue Recognition

Pharmacy Services Segment

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

We recognize revenue in the Pharmacy Services Segment when: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the seller’s price to the buyer is fixed or determinable, and

(iv) collectability is reasonably assured. The following revenue recognition policies have been established for the Pharmacy Services Segment.

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

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

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

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

In addition to these premiums, our net revenues include co-payments, coverage gap benefits, deductibles and co-insurance (collectively, the "Member Co-Payments") related to PDP members' actual prescription claims. In certain cases, CMS subsidizes a portion of these Member Co-Payments and we are paid an estimated prospective Member Co-Payment subsidy, each month. The prospective Member Co-Payment subsidy amounts received from CMS are also included in our net revenues. These amounts represent 7.2%, 5.9% and 6.3% of consolidated net revenues in 2017, 2016 and 2015, respectively. If the prospective Member Co-Payment subsidies received differ from the amounts based on actual prescription claims, the difference is recorded in either accounts receivable or accrued expenses. We account for fully insured CMS obligations and Member Co-Payments (including the amounts subsidized by CMS) using the gross

method consistent with our revenue recognition policies for Mail Co-Payments and Retail Co-Payments. We have recorded estimates of various assets and liabilities arising from our participation in the Medicare Part D program based on information in our claims management and enrollment systems. Significant estimates arising from our participation in the Medicare Part D program include: (i) estimates of low-income cost subsidy, reinsurance amounts and coverage gap discount amounts ultimately payable to or receivable from CMS based on a detailed claims reconciliation, (ii) an estimate of amounts payable to CMS under a risk-sharing feature of the Medicare Part D program design, referred to as the risk corridor and (iii) estimates for claims that have been reported and are in the process of being paid or contested and for our estimate of claims that have been incurred but have not yet been reported. Actual amounts of Medicare Part D-related assets and liabilities could differ significantly from amounts recorded. Historically, the effect of these adjustments has not been material to our results of operations or financial position.

Retail/LTC Segment

Retail Pharmacy - We recognize revenue from the sale of front store merchandise at the time the merchandise is purchased by the retail customer and recognize revenue from the sale of prescription drugs when the prescription is picked up by the customer. Customer returns are not material. Sales taxes are not included in revenue.

Long-term Care - We recognize revenue when products are delivered or services are rendered or provided to our customers, prices are fixed and determinable, and collection is reasonably assured. A significant portion of our revenues from sales of pharmaceutical and medical products are reimbursed by the federal Medicare Part D program and, to a lesser extent, state Medicaid programs. Payments for services rendered to patients covered by these programs are generally less than billed charges. We monitor our revenues and receivables from these reimbursement sources, as well as other third party insurance payors, and record an estimated contractual allowance for sales and receivable balances at the revenue recognition date, to properly account for anticipated differences between billed and reimbursed amounts. Accordingly, the total net revenues and receivables reported in our consolidated financial statements are recorded at the amount expected to be ultimately received from these payors. Since billing functions for a portion of our revenue systems are largely computerized, enabling on-line adjudication at the time of sale to record net revenues, our exposure in connection with estimating contractual allowance adjustments is limited primarily to unbilled and initially rejected Medicare, Medicaid and third party claims (typically approved for reimbursement once additional information is provided to the payor). For the remaining portion of our revenue systems, the contractual allowance is estimated for all billed, unbilled and initially rejected Medicare, Medicaid and third party claims. We evaluate several criteria in developing the estimated contractual allowances on a monthly basis, including historical trends based on actual claims paid, current contract and reimbursement terms, and changes in customer base and payor/product mix. Contractual allowance estimates are adjusted to actual amounts as cash is received and claims are settled, and the aggregate impact of these resulting adjustments was not significant to our results of operations. Further, we do not expect the impact of changes in estimates related to unsettled contractual allowance amounts from Medicare, Medicaid and third party payors as of December 31, 2017 to be significant to our future consolidated results of operations, financial position and cash flows.

Patient co-payments associated with Medicare Part D, certain state Medicaid programs, Medicare Part B and certain third party payors are typically not collected at the time products are delivered or services are rendered, but are billed to the individuals as part of our normal billing procedures and subject to our normal accounts receivable collections procedures.

Health Care Clinics - for services provided by our health care clinics, revenue recognition occurs for completed services provided to patients, with adjustments made for third party payor contractual obligations and patient direct bill historical collection rates.

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

Allowances for Doubtful Accounts

Accounts receivable primarily includes amounts due from third party providers (e.g., pharmacy benefit managers, insurance companies, governmental agencies and long-term care facilities), clients, members and private pay customers, as well as vendors and manufacturers. We provide a reserve for accounts receivable considered to be at increased risk of becoming uncollectible by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. We establish this allowance for doubtful accounts and consider such factors as historical collection experience, (i.e., payment history and credit losses) and creditworthiness, specifically identified credit risks, aging of accounts receivable by payor category, current and expected economic conditions and other relevant factors. We regularly review our allowance for doubtful accounts for appropriateness. Judgment is used to assess the collectability of account balances and the economic ability of a customer to pay.

Our allowance for doubtful accounts as of December 31, 2017 was \$307 million, compared with \$286 million as of December 31, 2016. Our allowance for doubtful accounts represented 2.3% of gross receivables (net of contractual allowance adjustments) as of both December 31, 2017 and 2016. Unforeseen future developments could lead to changes in our provision for doubtful accounts levels and future allowance for doubtful accounts percentages. For example, a one percentage point increase in the allowance for doubtful accounts as a percentage of gross receivables as of December 31, 2017 would result in an increase to the provision of doubtful accounts of approximately \$135 million.

Given our experience, we believe that our aggregate reserves for potential losses are adequate, but if any of our larger customers were to unexpectedly default on their obligations, our overall allowances for doubtful accounts may prove to be inadequate. In particular, if economic conditions worsen, the payor mix shifts significantly or reimbursement rates are adversely affected, we may adjust our allowance for doubtful accounts accordingly, and our accounts receivable collections, cash flows, financial position and results of operations could be adversely affected.

Vendor Allowances and Purchase Discounts

Pharmacy Services Segment

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

Retail/LTC Segment

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

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

Inventory

Inventories are valued at the lower of cost or market using the weighted average cost method.

We reduce the value of our ending inventory for estimated inventory losses that have occurred during the interim period between physical inventory counts. Physical inventory counts are taken on a regular basis in each store and a continuous cycle count process is the primary procedure used to validate the inventory balances on hand in each distribution center and mail facility to ensure that the amounts reflected in the accompanying consolidated financial statements are properly stated. The accounting for inventory contains uncertainty since we must use judgment to estimate the inventory losses that have occurred during the interim period between physical inventory counts. When estimating these losses, we consider a number of factors, which include, but are not limited to, historical physical inventory results on a location-by-location basis and current physical inventory loss trends.

Our total reserve for estimated inventory losses covered by this critical accounting policy was \$297 million as of December 31, 2017. Although we believe we have sufficient current and historical information available to us to record reasonable estimates for estimated inventory losses, it is possible that actual results could differ. In order to help you assess the aggregate risk, if any, associated with the uncertainties discussed above, a ten percent (10%) pre-tax change in our estimated inventory losses, which we believe is a reasonably likely change, would increase or decrease our total reserve for estimated inventory losses by about \$30 million as of December 31, 2017.

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

Goodwill and Intangible Assets

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

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

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

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

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

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

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

Goodwill is tested for impairment on a reporting unit basis. The impairment test is calculated by comparing the reporting unit's fair value with its net book value (or carrying amount), including goodwill. The fair value of our reporting units is estimated using a combination of a discounted cash flow method and a market multiple method. If the fair value of the reporting unit exceeds its carrying amount, the reporting unit's goodwill is considered to be impaired and an impairment is recognized in an amount equal to the excess.

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

The carrying value of goodwill and other intangible assets covered by this critical accounting policy was \$38.5 billion and \$13.5 billion as of December 31, 2017, respectively. We recorded \$181 million in goodwill impairments in 2017 related to our RxCrossroads reporting unit, see Note 3 "Goodwill and Other Intangibles" to our consolidated financial statements. We did not record any impairment losses related to goodwill or other intangible assets during 2016 or 2015. During the third quarter of 2017, we performed our required annual impairment tests of goodwill and indefinitely-lived trademarks. The goodwill impairment tests resulted in the fair values of our Pharmacy Services and Retail Pharmacy reporting units exceeding their carrying values by significant margins. The fair values of our LTC and RxC reporting units exceeded their carrying values by approximately 1% and 6%, respectively. The balance of goodwill for our LTC and RxCrossroads reporting units at December 31, 2017 was approximately \$6.5 billion and \$0.4 billion, respectively. On January 2, 2018, we sold our RxCrossroads reporting unit to McKesson Corporation for \$725 million.

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

As previously discussed, the results of our annual goodwill impairment test resulted in the fair value of our LTC reporting unit exceeding its carrying value by approximately 1%. Our multi-year cash flow projections for our LTC reporting unit have declined from the prior year due to customer reimbursement pressures, industry trends such as lower occupancy rates in skilled nursing facilities, and client retention rates. Our projected discounted cash flow model assumes future script growth from our senior living initiative and the impact of acquisitions. Such projections also include expected cost savings from labor productivity and other initiatives. Our market multiple method is heavily dependent on earnings multiples of market participants in the pharmacy industry, including certain competitors and suppliers. If we do not achieve our forecasts, given the small excess of fair value over the related carrying value, as well as current market conditions in the healthcare industry, it is reasonably possible that the operational performance of the LTC reporting unit could be below our current expectations in the near term and the LTC reporting unit could be deemed to be impaired by a material amount.

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

Closed Store Lease Liability

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

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

Our total closed store lease liability covered by this critical accounting policy was \$344 million as of December 31, 2017. This amount is net of \$156 million of estimated sublease income that is subject to the uncertainties discussed above. Although we believe we have sufficient current and historical information available to us to record reasonable estimates for sublease income, it is possible that actual results could differ.

In order to help you assess the risk, if any, associated with the uncertainties discussed above, a ten percent (10%) pre-tax change in our estimated sublease income, which we believe is a reasonably likely change, would increase or decrease our total closed store lease liability by about \$16 million as of December 31, 2017.

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

Self-Insurance Liabilities

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

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

Our total self-insurance liability covered by this critical accounting policy was \$696 million as of December 31, 2017. Although we believe we have sufficient current and historical information available to us to record reasonable estimates for our self-insurance liability, it is possible that actual results could differ. In order to help you assess the risk, if any, associated with the uncertainties discussed above, a ten percent (10%) pre-tax change in our estimate for our self-insurance liability, which we believe is a reasonably likely change, would increase or decrease our self-insurance liability by about \$70 million as of December 31, 2017.

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

Income Taxes

Income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are established for any temporary differences between financial and tax reporting bases and are adjusted as needed to reflect changes in the enacted tax rates expected to be in effect when the temporary differences reverse. Such adjustments are recorded in the period in which changes in tax laws are enacted, regardless of when they are effective. Deferred tax assets are reduced, if necessary, by a valuation allowance to the extent future realization of those losses, deductions or other tax benefits is sufficiently uncertain.

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

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

New Accounting Pronouncements

See Note 1 “Significant Accounting Policies” to the consolidated financial statements for a description of New Accounting Pronouncements applicable to the Company.

Cautionary Statement Concerning Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 (the “Reform Act”) provides a safe harbor for forward-looking statements made by or on behalf of the Company. In addition, the Company and its representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in the Company’s filings with the U.S. Securities and Exchange Commission (“SEC”) and in its reports to stockholders, press releases, webcasts, conference calls, meetings and other communications. Generally, the inclusion of the words “believe,” “expect,” “intend,” “estimate,” “project,” “anticipate,” “will,” “should” and similar expressions identify statements that constitute forward-looking statements. All statements addressing operating performance of CVS Health Corporation or any subsidiary, events or developments that the Company expects or anticipates will occur in the future, including statements relating to corporate strategy; revenue growth; earnings or earnings per common share growth; adjusted earnings or adjusted earnings per common share growth; free cash flow; debt ratings; inventory levels; inventory turn and loss rates; store development; relocations and new market entries; retail pharmacy business, sales trends and operations; PBM business, sales trends and operations; specialty pharmacy business, sales trends and operations; LTC pharmacy business, sales trends and operations; the Company’s ability to attract or retain customers and clients; Medicare Part D competitive bidding, enrollment and operations; new product development; and the impact of industry and regulatory developments, as well as statements expressing optimism or pessimism about future operating results or events, are forward-looking statements within the meaning of the Reform Act.

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

By their nature, all forward-looking statements involve risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements for a number of reasons as described in our SEC filings, including those set forth in the Risk Factors section within the 2017 Annual Report on Form 10-K, and including, but not limited to:

- *Risks relating to the health of the economy in general and in the markets we serve, which could impact consumer purchasing power, preferences and/or spending patterns, drug utilization trends, the financial health of our PBM and LTC clients, retail and specialty pharmacy payors or other payors doing business with the Company and our ability to secure necessary financing, suitable store locations and sale-leaseback transactions on acceptable terms.*
- *Efforts to reduce reimbursement levels and alter health care financing practices, including pressure to reduce reimbursement levels for generic drugs.*
- *The possibility of PBM and LTC client loss and/or the failure to win new PBM and LTC business, including as a result of failure to win renewal of expiring contracts, contract termination rights that may permit clients to terminate a contract prior to expiration and early or periodic renegotiation of pricing by clients prior to expiration of a contract.*
- *The possibility of loss of Medicare Part D business and/or failure to obtain new Medicare Part D business, whether as a result of the annual Medicare Part D competitive bidding process or otherwise.*
- *Risks related to the frequency and rate of the introduction of generic drugs and brand name prescription products.*
- *Risks of declining gross margins attributable to increased competitive pressures, increased client demand for lower prices, enhanced service offerings and/or higher service levels and market dynamics and, with respect to the PBM industry, regulatory changes that impact our ability to offer plan sponsors pricing that includes the use of retail “differential” or “spread” or the use of maximum allowable cost pricing.*
- *Regulatory changes, business changes and compliance requirements and restrictions that may be imposed by Centers for Medicare and Medicaid Services (“CMS”), Office of Inspector General or other government agencies relating to the Company’s participation in Medicare, Medicaid and other federal and state government-funded programs, including sanctions and remedial actions that may be imposed by CMS on our Medicare Part D business.*
- *Risks and uncertainties related to the timing and scope of reimbursement from Medicare, Medicaid and other government-funded programs, including the possible impact of sequestration, the impact of other federal budget, debt and deficit negotiations and legislation that could delay or reduce reimbursement from such programs and the impact of any closure, suspension or other changes affecting federal or state government funding or operations.*
- *Possible changes in industry pricing benchmarks used to establish pricing in many of our PBM and LTC client contracts, pharmaceutical purchasing arrangements, retail network contracts, specialty payor agreements and other third party payor contracts.*
- *Efforts to increase reimbursement rates in PBM pharmacy networks and to inhibit the ability of PBMs to audit network pharmacies for fraud, waste and abuse.*
- *Risks related to increasing oversight of PBM activities by state departments of insurance and boards of pharmacy.*

- *A highly competitive business environment, including the uncertain impact of increased consolidation in the PBM industry, the possibility of combinations, joint ventures or other collaboration between PBMs and retailers, uncertainty concerning the ability of our retail pharmacy business to secure and maintain contractual relationships with PBMs and other payors on acceptable terms, uncertainty concerning the ability of our PBM business to secure and maintain competitive access, pricing and other contract terms from retail network pharmacies in an environment where some PBM clients are willing to consider adopting narrow or more restricted retail pharmacy networks, the possibility of our retail stores or specialty pharmacies being excluded from narrow or restricted networks, the potential of disruptive innovation from existing and new competitors and risks related to developing and maintaining a relevant experience for our customers.*
- *The Company's ability to timely identify or effectively respond to changing consumer preferences and spending patterns, an inability to expand the products being purchased by our customers, or the failure or inability to obtain or offer particular categories of products.*
- *Risks relating to our ability to secure timely and sufficient access to the products we sell from our domestic and/or international suppliers, including limited distribution drugs.*
- *Reform of the U.S. health care system, including ongoing implementation of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, "ACA") and the possible repeal and replacement of all or parts of ACA, continuing legislative efforts, regulatory changes and judicial interpretations impacting our health care system and the possibility of shifting political and legislative priorities related to reform of the health care system in the future.*
- *Risks related to changes in legislation, regulation and government policy (including through the use of Executive Orders) that could significantly impact our business and the health care and retail industries, including, but not limited to, the possibility of major developments in tax policy or trade relations, such as the imposition of unilateral tariffs on imported products, changes with respect to the approval process for biosimilars, or changes or developments with respect to the regulation of drug pricing, including federal and state drug pricing programs.*
- *Risks relating to any failure to properly maintain our information technology systems, our information security systems and our infrastructure to support our business and to protect the privacy and security of sensitive customer and business information.*
- *Risks related to compliance with a broad and complex regulatory framework, including compliance with new and existing federal, state and local laws and regulations relating to health care, network pharmacy reimbursement and auditing, accounting standards, corporate securities, tax, environmental and other laws and regulations affecting our business.*
- *Risks related to litigation, government investigations and other legal proceedings as they relate to our business, the pharmacy services, retail pharmacy, LTC pharmacy, specialty pharmacy or retail clinic industries, or to the health care industry generally.*
- *The risk that any condition related to the closing of any proposed acquisition, including the Aetna Acquisition, may not be satisfied on a timely basis or at all, including the inability to obtain required regulatory approvals of any proposed acquisition, including the Aetna Acquisition, or on the terms desired or anticipated; the risk that such approvals may result in the imposition of conditions that could adversely affect the resulting combined company or the expected benefits of any proposed transaction, including the Aetna Acquisition; and the risk that the proposed transactions, including the Aetna Acquisition fail to close for any other reason, which could negatively impact our stock price and our future business and financial results.*
- *The possibility that the anticipated synergies and other benefits from any acquisition by us, including the Aetna Acquisition, will not be realized, or will not be realized within the expected time periods.*

- *Other risks related to the Aetna Acquisition including the possibility of failing to retain existing management including key executives of Aetna, the potential for disruption of our business relationships due to uncertainty associated with the Aetna Acquisition, the increased difficulty for us to pursue alternatives to the Aetna Acquisition, and the possibility that the Aetna Acquisition may not be accretive to our earnings per share.*
- *The risks and uncertainties related to our ability to integrate the operations, products, services and employees of any entities acquired by us, including the Aetna Acquisition and the effect of the potential disruption of management's attention from ongoing business operations due to any pending acquisitions, including the Aetna Acquisition.*
- *The accessibility or availability of adequate financing on a timely basis and on reasonable terms and the risks of increased indebtedness incurred to fund the Aetna Acquisition.*
- *Risks related to the outcome of any legal proceedings related to, or involving any entity that is a part of, any proposed acquisition contemplated by us, including the risk that we may be subject to securities class action and derivative lawsuits in connection with the Aetna Acquisition .*
- *The possibility of lower than expected valuations at the Company's reporting units could result in goodwill impairment charges at those reporting units.*
- *Other risks and uncertainties detailed from time to time in our filings with the SEC.*

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

Management's Report on Internal Control Over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting. Our Company's internal control over financial reporting includes those policies and procedures that pertain to the Company's ability to record, process, summarize and report a system of internal accounting controls and procedures to provide reasonable assurance, at an appropriate cost/benefit relationship, that the unauthorized acquisition, use or disposition of assets are prevented or timely detected and that transactions are authorized, recorded and reported properly to permit the preparation of financial statements in accordance with generally accepted accounting principles (GAAP) and receipts and expenditures are duly authorized. In order to ensure the Company's internal control over financial reporting is effective, management regularly assesses such controls and did so most recently for its financial reporting as of December 31, 2017.

We conducted an assessment of the effectiveness of our internal controls over financial reporting based on the criteria set forth in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). This evaluation included review of the documentation, evaluation of the design effectiveness and testing of the operating effectiveness of controls. Our system of internal control over financial reporting is enhanced by periodic reviews by our internal auditors, written policies and procedures and a written Code of Conduct adopted by our Company's Board of Directors, applicable to all employees of our Company. In addition, we have an internal Disclosure Committee, comprised of management from each functional area within the Company, which performs a separate review of our disclosure controls and procedures. There are inherent limitations in the effectiveness of any system of internal controls over financial reporting.

Based on our assessment, we conclude our Company's internal control over financial reporting is effective and provides reasonable assurance that assets are safeguarded and that the financial records are reliable for preparing financial statements as of December 31, 2017.

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

February 14, 2018

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of CVS Health Corporation

Opinion on Internal Control over Financial Reporting

We have audited CVS Health Corporation's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, CVS Health Corporation (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and our report dated February 14, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ Ernst & Young LLP

Boston, Massachusetts
February 14, 2018

Consolidated Statements of Income

<i>In millions, except per share amounts</i>	Year Ended December 31,		
	2017	2016	2015
Net revenues	\$ 184,765	\$ 177,526	\$ 153,290
Cost of revenues	156,220	148,669	126,762
Gross profit	28,545	28,857	26,528
Operating expenses	19,028	18,491	17,053
Operating profit	9,517	10,366	9,475
Interest expense, net	1,041	1,058	838
Loss on early extinguishment of debt	—	643	—
Other expense	208	28	21
Income before income tax provision	8,268	8,637	8,616
Income tax provision	1,637	3,317	3,386
Income from continuing operations	6,631	5,320	5,230
Income (loss) from discontinued operations, net of tax	(8)	(1)	9
Net income	6,623	5,319	5,239
Net income attributable to noncontrolling interest	(1)	(2)	(2)
Net income attributable to CVS Health	<u>\$ 6,622</u>	<u>\$ 5,317</u>	<u>\$ 5,237</u>
Basic earnings per share:			
Income from continuing operations attributable to CVS Health	\$ 6.48	\$ 4.93	\$ 4.65
Income (loss) from discontinued operations attributable to CVS Health	\$ (0.01)	\$ —	\$ 0.01
Net income attributable to CVS Health	\$ 6.47	\$ 4.93	\$ 4.66
Weighted average shares outstanding	1,020	1,073	1,118
Diluted earnings per share:			
Income from continuing operations attributable to CVS Health	\$ 6.45	\$ 4.91	\$ 4.62
Income (loss) from discontinued operations attributable to CVS Health	\$ (0.01)	\$ —	\$ 0.01
Net income attributable to CVS Health	\$ 6.44	\$ 4.90	\$ 4.63
Weighted average shares outstanding	1,024	1,079	1,126
Dividends declared per share	\$ 2.00	\$ 1.70	\$ 1.40

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

<i>In millions</i>	Year Ended December 31,		
	2017	2016	2015
Net income	\$ 6,623	\$ 5,319	\$ 5,239
Other comprehensive income:			
Foreign currency translation adjustments, net of tax	(2)	38	(100)
Net cash flow hedges, net of tax	(10)	2	2
Pension and other postretirement benefits, net of tax	152	13	(43)
Total other comprehensive income (loss)	140	53	(141)
Comprehensive income	6,763	5,372	5,098
Comprehensive income attributable to noncontrolling interest	(1)	(2)	(2)
Comprehensive income attributable to CVS Health	<u>\$ 6,762</u>	<u>\$ 5,370</u>	<u>\$ 5,096</u>

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

<i>In millions, except per share amounts</i>	December 31, 2017	December 31, 2016
Assets:		
Cash and cash equivalents	\$ 1,696	\$ 3,371
Short-term investments	111	87
Accounts receivable, net	13,181	12,164
Inventories	15,296	14,760
Other current assets	945	660
Total current assets	<u>31,229</u>	<u>31,042</u>
Property and equipment, net	10,292	10,175
Goodwill	38,451	38,249
Intangible assets, net	13,630	13,511
Other assets	1,529	1,485
Total assets	<u>\$ 95,131</u>	<u>\$ 94,462</u>
Liabilities:		
Accounts payable	\$ 8,863	\$ 7,946
Claims and discounts payable	10,355	9,451
Accrued expenses	6,609	6,937
Short-term debt	1,276	1,874
Current portion of long-term debt	3,545	42
Total current liabilities	<u>30,648</u>	<u>26,250</u>
Long-term debt	22,181	25,615
Deferred income taxes	2,996	4,214
Other long-term liabilities	1,611	1,549
Shareholders' equity:		
CVS Health shareholders' equity:		
Preferred stock, par value \$0.01: 0.1 shares authorized; none issued or outstanding	—	—
Common stock, par value \$0.01: 3,200 shares authorized; 1,712 shares issued and 1,014 shares outstanding at December 31, 2017 and 1,705 shares issued and 1,061 shares outstanding at December 31, 2016	17	17
Treasury stock, at cost: 697 shares at December 31, 2017 and 643 shares at December 31, 2016	(37,765)	(33,452)
Shares held in trust: 1 share at December 31, 2017 and December 31, 2016	(31)	(31)
Capital surplus	32,079	31,618
Retained earnings	43,556	38,983
Accumulated other comprehensive income (loss)	(165)	(305)
Total CVS Health shareholders' equity	<u>37,691</u>	<u>36,830</u>
Noncontrolling interest	4	4
Total shareholders' equity	<u>37,695</u>	<u>36,834</u>
Total liabilities and shareholders' equity	<u>\$ 95,131</u>	<u>\$ 94,462</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

<i>In millions</i>	Year Ended December 31,		
	2017	2016	2015
Cash flows from operating activities:			
Cash receipts from customers	\$ 176,594	\$ 172,310	\$ 148,954
Cash paid for inventory and prescriptions dispensed by retail network pharmacies	(149,279)	(142,511)	(122,498)
Cash paid to other suppliers and employees	(15,348)	(15,478)	(14,035)
Interest received	21	20	21
Interest paid	(1,072)	(1,140)	(629)
Income taxes paid	(2,909)	(3,060)	(3,274)
Net cash provided by operating activities	8,007	10,141	8,539
Cash flows from investing activities:			
Purchases of property and equipment	(1,918)	(2,224)	(2,367)
Proceeds from sale-leaseback transactions	265	230	411
Proceeds from sale of property and equipment and other assets	33	37	35
Acquisitions (net of cash acquired) and other investments	(1,287)	(539)	(11,475)
Purchase of available-for-sale investments	(86)	(65)	(267)
Maturities of available-for-sale investments	61	91	243
Net cash used in investing activities	(2,932)	(2,470)	(13,420)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	(598)	1,874	(685)
Proceeds from issuance of long-term debt	—	3,455	14,805
Repayments of long-term debt	—	(5,943)	(2,902)
Purchase of noncontrolling interest in subsidiary	—	(39)	—
Payment of contingent consideration	—	(26)	(58)
Dividends paid	(2,049)	(1,840)	(1,576)
Proceeds from exercise of stock options	329	296	362
Payments for taxes related to net share settlement of equity awards	(71)	(72)	(63)
Repurchase of common stock	(4,361)	(4,461)	(5,001)
Other	(1)	(5)	(3)
Net cash provided by (used in) financing activities	(6,751)	(6,761)	4,879
Effect of exchange rate changes on cash and cash equivalents	1	2	(20)
Net increase (decrease) in cash and cash equivalents	(1,675)	912	(22)
Cash and cash equivalents at the beginning of the period	3,371	2,459	2,481
Cash and cash equivalents at the end of the period	\$ 1,696	\$ 3,371	\$ 2,459
Reconciliation of net income to net cash provided by operating activities:			
Net income	\$ 6,623	\$ 5,319	\$ 5,239
Adjustments required to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,479	2,475	2,092
Goodwill impairments	181	—	—
Losses on settlements of defined benefit pension plans	187	—	—
Stock-based compensation	234	222	230
Loss on early extinguishment of debt	—	643	—
Deferred income taxes	(1,334)	18	(252)
Other noncash items	53	135	(14)
Change in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable, net	(941)	(243)	(1,594)
Inventories	(514)	(742)	(1,141)
Other current assets	(341)	35	355
Other assets	3	(43)	2
Accounts payable and claims and discounts payable	1,710	2,189	2,834
Accrued expenses	(371)	131	892
Other long-term liabilities	38	2	(104)
Net cash provided by operating activities	\$ 8,007	\$ 10,141	\$ 8,539

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

<i>In millions</i>	Shares			Dollars		
	Year Ended December 31,			Year Ended December 31,		
	2017	2016	2015	2017	2016	2015
Common stock:						
Beginning of year	1,705	1,699	1,691	\$ 17	\$ 17	\$ 17
Stock options exercised and issuance of stock awards	7	6	8	—	—	—
End of year	<u>1,712</u>	<u>1,705</u>	<u>1,699</u>	<u>\$ 17</u>	<u>\$ 17</u>	<u>\$ 17</u>
Treasury stock:						
Beginning of year	(643)	(597)	(550)	\$ (33,452)	\$ (28,886)	\$ (24,078)
Purchase of treasury shares	(55)	(47)	(48)	(4,361)	(4,606)	(4,856)
Employee stock purchase plan issuances	1	1	1	48	40	48
End of year	<u>(697)</u>	<u>(643)</u>	<u>(597)</u>	<u>\$ (37,765)</u>	<u>\$ (33,452)</u>	<u>\$ (28,886)</u>
Shares held in trust:						
Balance at beginning and end of year	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>\$ (31)</u>	<u>\$ (31)</u>	<u>\$ (31)</u>
Capital surplus:						
Beginning of year				\$ 31,618	\$ 30,948	\$ 30,418
Stock option activity, stock awards and other				461	449	533
Excess tax benefit on stock options and stock awards				—	76	142
2015 accelerated share repurchase settled in 2016				—	145	(145)
End of year				<u>\$ 32,079</u>	<u>\$ 31,618</u>	<u>\$ 30,948</u>
Retained earnings:						
Beginning of year				\$ 38,983	\$ 35,506	\$ 31,849
Changes in inventory accounting principles				—	—	(4)
Net income attributable to CVS Health				6,622	5,317	5,237
Common stock dividends				(2,049)	(1,840)	(1,576)
End of year				<u>\$ 43,556</u>	<u>\$ 38,983</u>	<u>\$ 35,506</u>
Accumulated other comprehensive income (loss):						
Beginning of year				\$ (305)	\$ (358)	\$ (217)
Foreign currency translation adjustments, net of tax				(2)	38	(100)
Net cash flow hedges, net of tax				(10)	2	2
Pension and other postretirement benefits, net of tax				152	13	(43)
End of year				<u>(165)</u>	<u>(305)</u>	<u>(358)</u>
Total CVS Health shareholders' equity				<u>\$ 37,691</u>	<u>\$ 36,830</u>	<u>\$ 37,196</u>
Noncontrolling interest:						
Beginning of year				\$ 4	\$ 7	\$ 5
Business combinations				—	—	1
Capital contributions				1	1	2
Net income attributable to noncontrolling interest ⁽¹⁾				1	1	1
Distributions				(2)	(5)	(2)
End of year				<u>4</u>	<u>4</u>	<u>7</u>
Total shareholders' equity				<u>\$ 37,695</u>	<u>\$ 36,834</u>	<u>\$ 37,203</u>

(1) Excludes \$1 million attributable to redeemable noncontrolling interest in 2016 and 2015 (See Note 1 "Significant Accounting Policies").

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1 Significant Accounting Policies

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

Pharmacy Services Segment (the “PSS”) - The PSS provides a full range of pharmacy benefit management services including plan design offerings and administration, formulary management, Medicare Part D services, mail order, specialty pharmacy and infusion services, retail pharmacy network management services, prescription management systems, clinical services, disease management services and medical spend management. The Company’s clients are primarily employers, insurance companies, unions, government employee groups, health plans, Medicare Part D, Managed Medicaid plans, plans offered on the public and private exchanges, and other sponsors of health benefit plans and individuals throughout the United States.

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

The PSS’ specialty pharmacies support individuals that require complex and expensive drug therapies. The specialty pharmacy business includes mail order and retail specialty pharmacies that operate under the CVS Caremark[®], CarePlus CVS Pharmacy[™], Navarro[®] Health Services and Advanced Care Scripts (“ACS Pharmacy”) names. The Company enhanced its provides specialty infusion services and enteral nutrition services through Coram LLC and its subsidiaries (collectively, “Coram”). In August 2015, the Company further expanded its specialty offerings with the acquisition of ACS Pharmacy which was part of the Omnicare, Inc. (“Omnicare”) acquisition. See Note 2 “Acquisitions.”

The PSS also provides health management programs, which include integrated disease management for 18 conditions, through the Company’s AccordantCare rare disease management offering.

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

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

The PSS operates under the CVS Caremark[®] Pharmacy Services, Caremark[®], CVS Caremark[®], CVS Specialty[®], AccordantCare, SilverScript[®], Wellpartner[®], Coram[®], CVS Specialty[®], NovoLogix[®], Navarro[®] Health Services and ACS Pharmacy names. As of December 31, 2017, the PSS operates 23 retail specialty pharmacy stores, 18 specialty mail order pharmacies, four mail order dispensing pharmacies, and 83 branches for infusion and enteral services, including approximately 73 ambulatory infusion suites and three centers of excellence, located in 42 states, Puerto Rico and the District of Columbia.

Retail/LTC Segment (the “RLS”) - The RLS sells prescription drugs and a wide assortment of general merchandise, including over-the-counter drugs, beauty products and cosmetics, personal care products, convenience foods, photo finishing services, seasonal merchandise, and greeting cards, through the Company’s CVS Pharmacy[®], CVS[®], CVS Pharmacy y más[®], Longs Drugs[®], Navarro Discount Pharmacy[®] and Drogeria Onofre[™] retail stores and online through CVS.com[®], Navarro.com[™] and Onofre.com.br[™].

Notes to Consolidated Financial Statements (continued)

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

In 2015, the Company made two larger acquisitions which expanded the Retail/LTC Segment's services. With the acquisition of Omnicare, the RLS began providing long-term care ("LTC") operations, which is comprised of providing the distribution of pharmaceuticals, related pharmacy consulting and other ancillary services to chronic care facilities and other care settings, as well as commercialization services which are provided under the name RxCrossroads[®] ("RxC"). With the December 2015 acquisition of the pharmacies and clinics of Target Corporation ("Target"), the Company added 1,672 pharmacies and approximately 79 clinics.

As of December 31, 2017, our Retail/LTC Segment included 9,803 retail stores (of which 8,060 were our stores that operated a pharmacy and 1,695 were our pharmacies located within Target stores) located in 49 states, the District of Columbia, Puerto Rico and Brazil operating primarily under the CVS Pharmacy[®], CVS[®], CVS Pharmacy y más[®], Longs Drugs[®], Navarro Discount Pharmacy[®] and Drogeria Onofre[™] names, 37 onsite pharmacies primarily operating under the CarePlus CVS Pharmacy[™], CarePlus[®] and CVS Pharmacy[®] names, and 1,134 retail health care clinics operating under the MinuteClinic[®] name (of which 1,129 were located in our retail pharmacy stores or Target stores), and our online retail websites, CVS.com[®], Navarro.com[™] and Onofre.com.br[™]. LTC operations are comprised of 145 spoke pharmacies that primarily handle new prescription orders, of which 30 are also hub pharmacies that use proprietary automation to support spoke pharmacies with refill prescriptions. LTC operates primarily under the Omnicare[®] and NeighborCare[®] names.

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

Principles of consolidation - The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries and variable interest entities ("VIEs") for which the Company is the primary beneficiary. All material intercompany balances and transactions have been eliminated.

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

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

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

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

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Notes to Consolidated Financial Statements (continued)

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

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

Restricted cash - As of December 31, 2017 and 2016, the Company had \$190 million and \$149 million, respectively, of restricted cash held in a trust in its insurance captive to satisfy collateral requirements associated with the assignment of certain insurance policies. Such amounts are included in other assets in the consolidated balance sheets. Additionally, as of December 31, 2017, the Company had \$14 million of restricted cash held in escrow accounts in connection with certain recent acquisitions. Such amounts are included in other current assets in the consolidated balance sheets. All restricted cash is invested in time deposits which are classified within Level 1 of the fair value hierarchy.

Short-term investments - The Company's short-term investments consist of certificates of deposit with initial maturities of greater than three months when purchased that mature in less than one year from the balance sheet date. These investments, which were classified as available-for-sale within Level 1 of the fair value hierarchy, were carried at fair value, which approximated their historical cost at December 31, 2017 and 2016.

Fair value of financial instruments - As of December 31, 2017, the Company's financial instruments include cash and cash equivalents, short-term and long-term investments, accounts receivable, accounts payable and short-term debt approximate their fair value due to the nature of these financial instruments. The carrying amount and estimated fair value of total long-term debt was \$25.7 billion and \$26.8 billion, respectively, as of December 31, 2017. The fair value of the Company's long-term debt was estimated based on quoted rates currently offered in active markets for the Company's debt, which is considered Level 1 of the fair value hierarchy.

Derivative financial instruments - The Company is exposed to interest rate risk and management considers it prudent to periodically reduce the Company's exposure to cash flow variability resulting from interest rate fluctuations. In December 2017, the Company entered into several interest rate swap transactions. These agreements were designated as cash flow hedges and were used to hedge the exposure to variability in future cash flows resulting from changes in interest rates related to the anticipated issuance of long-term debt in connection with the proposed acquisition of Aetna Inc. ("Aetna"). The interest rate swaps had notional amounts totaling \$4.75 billion. At December 31, 2017, the fair value of these agreements were a \$5 million asset recorded in other current assets and a \$23 million liability recorded in accrued expenses. The fair value of these derivative financial instruments was determined using quoted prices in markets that are not active or inputs that are observable for the asset or liability and therefore they are classified as Level 2 in the fair value hierarchy. The Company has deferred gains and losses in accumulated other comprehensive income which are expected to be reclassified to interest expense over the life of the underlying forecasted debt. The hedges are expected to be highly effective; therefore, no ineffectiveness was recognized in earnings. There were no outstanding derivative financial instruments as of December 31, 2016.

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

Notes to Consolidated Financial Statements (continued)

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

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

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

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

<i><u>In millions</u></i>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 286	\$ 161	\$ 256
Additions charged to bad debt expense	177	221	216
Write-offs charged to allowance	(156)	(96)	(311)
Ending balance	<u>\$ 307</u>	<u>\$ 286</u>	<u>\$ 161</u>

Inventories - Inventories are stated at the lower of weighted average cost or market. Physical inventory counts are taken on a regular basis in each retail store and long-term care pharmacy and a continuous cycle count process is the primary procedure used to validate the inventory balances on hand in each distribution center and mail facility to ensure that the amounts reflected in the accompanying consolidated financial statements are properly stated. During the interim period between physical inventory counts, the Company accrues for anticipated physical inventory losses on a location-by-location basis based on historical results and current trends.

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

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

<i><u>In millions</u></i>	<u>2017</u>	<u>2016</u>
Land	\$ 1,707	\$ 1,734
Building and improvements	3,343	3,226
Fixtures and equipment	11,963	10,956
Leasehold improvements	4,793	4,494
Software	2,484	2,392
	<u>24,290</u>	<u>22,802</u>
Accumulated depreciation and amortization	(13,998)	(12,627)
Property and equipment, net	<u>\$ 10,292</u>	<u>\$ 10,175</u>

The gross amount of property and equipment under capital leases was \$588 million and \$547 million as of December 31, 2017 and 2016, respectively. Accumulated amortization of property and equipment under capital lease was \$140 million

Notes to Consolidated Financial Statements (continued)

and \$119 million as of December 31, 2017 and 2016, respectively. Amortization of property and equipment under capital lease is included within depreciation expense. Depreciation expense totaled \$1.7 billion in both 2017 and 2016, and \$1.5 billion in 2015.

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

Intangible assets - Purchased customer contracts and relationships are amortized on a straight-line basis over their estimated useful lives between 9 and 20 years. Purchased customer lists are amortized on a straight-line basis over their estimated useful lives of up to 10 years. Purchased leases are amortized on a straight-line basis over the remaining life of the lease. See Note 3 “Goodwill and Other Intangibles” for additional information about intangible assets.

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

Redeemable noncontrolling interest - As a result of the acquisition of Omnicare in 2015, the Company obtained a 73% ownership interest in a limited liability company (“LLC”). Due to the change in control in Omnicare, the noncontrolling member of the LLC had the contractual right to put its membership interest to the Company at fair value. Consequently, the noncontrolling interest in the LLC was recorded as a redeemable noncontrolling interest at fair value. During 2016, the noncontrolling shareholder of the LLC exercised its option to sell its ownership interest and the Company purchased the noncontrolling interest in the LLC for approximately \$39 million.

Below is a summary of the changes in redeemable noncontrolling interest for the years ended December 31:

<i>In millions</i>	2016	2015
Beginning balance	\$ 39	\$ —
Acquisition of noncontrolling interest	—	39
Net income attributable to noncontrolling interest	1	1
Distributions	(2)	(1)
Purchase of noncontrolling interest	(39)	—
Reclassification to capital surplus in connection with purchase of noncontrolling interest	1	—
Ending balance	\$ —	\$ 39

Revenue Recognition

Pharmacy Services Segment

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

Notes to Consolidated Financial Statements (continued)

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

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

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

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

Medicare Part D - The PSS, through its SilverScript subsidiary, participates in the federal government's Medicare Part D program as a Prescription Drug Plan ("PDP"). Net revenues include insurance premiums earned by the PDP, which are determined based on the PDP's annual bid and related contractual arrangements with the Centers for Medicare and Medicaid Services ("CMS"). The insurance premiums include a direct premium paid by CMS and a beneficiary premium, which is the responsibility of the PDP member, but which is subsidized by CMS in the case of low-income members. Premiums collected in advance are initially deferred in accrued expenses and are then recognized in net revenues over the period in which members are entitled to receive benefits.

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

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

Notes to Consolidated Financial Statements (continued)

Retail/LTC Segment

Retail Pharmacy - The retail drugstores recognize revenue at the time the customer takes possession of the merchandise. Customer returns are not material. Revenue generated from the performance of services in the RLS' health care clinics is recognized at the time the services are performed. Sales taxes are not included in revenue.

Long-term Care - Revenue is recognized when products are delivered or services are rendered or provided to the customer, prices are fixed and determinable, and collection is reasonably assured. A significant portion of the revenues from sales of pharmaceutical and medical products are reimbursed by the federal Medicare Part D program and, to a lesser extent, state Medicaid programs. Payments for services rendered to patients covered by these programs are generally less than billed charges. The Company monitors its revenues and receivables from these reimbursement sources, as well as other third party insurance payors, and record an estimated contractual allowance for sales and receivable balances at the revenue recognition date, to properly account for anticipated differences between billed and reimbursed amounts. Accordingly, the total net sales and receivables reported in the Company's consolidated financial statements are recorded at the amount expected to be ultimately received from these payors. Since billing functions for a portion of the Company's revenue systems are largely computerized, enabling on-line adjudication at the time of sale to record net revenues, the Company's exposure in connection with estimating contractual allowance adjustments is limited primarily to unbilled and initially rejected Medicare, Medicaid and third party claims (typically approved for reimbursement once additional information is provided to the payor). For the remaining portion of the Company's revenue systems, the contractual allowance is estimated for all billed, unbilled and initially rejected Medicare, Medicaid and third party claims. The Company evaluates several criteria in developing the estimated contractual allowances on a monthly basis, including historical trends based on actual claims paid, current contract and reimbursement terms, and changes in customer base and payor/product mix. Contractual allowance estimates are adjusted to actual amounts as cash is received and claims are settled, and the aggregate impact of these resulting adjustments was not significant to our results of operations for any of the periods presented.

Patient co-payments associated with Medicare Part D, certain state Medicaid programs, Medicare Part B and certain third party payors are typically not collected at the time products are delivered or services are rendered, but are billed to the individuals as part of our normal billing procedures and subject to our normal accounts receivable collections procedures.

Health Care Clinics - For services provided by our health care clinics, revenue recognition occurs for completed services provided to patients, with adjustments taken for third party payor contractual obligations and patient direct bill historical collection rates.

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

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

Cost of revenues

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

Notes to Consolidated Financial Statements (continued)

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

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

Vendor allowances and purchase discounts

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

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

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

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

Facility opening and closing costs - New facility opening costs, other than capital expenditures, are charged directly to expense when incurred. When the Company closes a facility, the present value of estimated unrecoverable costs, including the remaining lease obligation less estimated sublease income and the book value of abandoned property and equipment, are charged to expense. The long-term portion of the lease obligations associated with facility closings was \$306 million and \$181 million in 2017 and 2016, respectively.

Advertising costs - Advertising costs are expensed when the related advertising takes place. Advertising costs, net of vendor funding (included in operating expenses), were \$230 million, \$216 million and \$221 million in 2017, 2016 and 2015, respectively.

Notes to Consolidated Financial Statements (continued)

Interest expense, net - The following are the components of net interest expense for the years ended December 31:

<i>In millions</i>	2017	2016	2015
Interest expense	\$ 1,062	\$ 1,078	\$ 859
Interest income	(21)	(20)	(21)
Interest expense, net	\$ 1,041	\$ 1,058	\$ 838

Capitalized interest totaled \$ 8 million, \$13 million and \$12 million in 2017, 2016 and 2015, respectively.

Shares held in trust - The Company maintains grantor trusts, which held approximately one million shares of its common stock at December 31, 2017 and 2016, respectively. These shares are designated for use under various employee compensation plans. Since the Company holds these shares, they are excluded from the computation of basic and diluted shares outstanding.

Accumulated other comprehensive income - Accumulated other comprehensive income (loss) consists of changes in the net actuarial gains and losses associated with pension and other postretirement benefit plans, net losses on cash flow hedge derivative instruments associated with forecasted debt issuances, and foreign currency translation adjustments. The amount included in accumulated other comprehensive loss related to the Company's pension and postretirement plans was \$ 34 million pre-tax (\$21 million after-tax) as of December 31, 2017 and \$284 million pre-tax (\$173 million after-tax) as of December 31, 2016. The net impact on cash flow hedges totaled \$24 million pre-tax (\$15 million after-tax) and \$9 million pre-tax (\$5 million after-tax) as of December 31, 2017 and 2016, respectively. Cumulative foreign currency translation adjustments at December 31, 2017 and 2016 were \$129 million and \$127 million, respectively.

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

<i>In millions</i>	Year Ended December 31, 2017 ⁽¹⁾			
	Foreign Currency	Losses on Cash Flow Hedges	Pension and Other Postretirement Benefits	Total
Balance, December 31, 2016	\$ (127)	\$ (5)	\$ (173)	\$ (305)
Other comprehensive loss before reclassifications	(2)	(11)	—	(13)
Amounts reclassified from accumulated other comprehensive income ⁽²⁾	—	1	152	153
Net other comprehensive income (loss)	(2)	(10)	152	140
Balance, December 31, 2017	\$ (129)	\$ (15)	\$ (21)	\$ (165)
	Year Ended December 31, 2016 ⁽¹⁾			
	Foreign Currency	Losses on Cash Flow Hedges	Pension and Other Postretirement Benefits	Total
Balance, December 31, 2015	\$ (165)	\$ (7)	\$ (186)	\$ (358)
Other comprehensive income before reclassifications	38	—	—	38
Amounts reclassified from accumulated other comprehensive income ⁽²⁾	—	2	13	15
Net other comprehensive income	38	2	13	53
Balance, December 31, 2016	\$ (127)	\$ (5)	\$ (173)	\$ (305)

(1) All amounts are net of tax.

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

Notes to Consolidated Financial Statements (continued)

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

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

The Company has determined that it is the primary beneficiary of this variable interest entity because it has the ability to direct the activities of Red Oak. Consequently, the Company consolidates Red Oak in its consolidated financial statements within the Retail/LTC Segment.

Cardinal is required to pay the Company 39 quarterly payments beginning in October 2014. As milestones are met, the quarterly payments increase. The Company received approximately \$183 million, \$163 million and \$122 million from Cardinal during the years ended December 31, 2017, 2016 and 2015, respectively. The payments reduce the Company’s carrying value of inventory and are recognized in cost of revenues when the related inventory is sold. Revenues associated with Red Oak expenses reimbursed by Cardinal for the years ended December 31, 2017, 2016 and 2015, as well as amounts due to or due from Cardinal at December 31, 2017 and 2016 were immaterial.

Related party transactions - The Company has an equity method investment in SureScripts, LLC (“SureScripts”), which operates a clinical health information network. The Pharmacy Services and Retail/LTC segments utilize this clinical health information network in providing services to its client plan members and retail customers. The Company expensed fees of approximately \$35 million, \$39 million and \$50 million in the years ended December 31, 2017, 2016 and 2015, respectively, for the use of this network. The Company’s investment in and equity in earnings of SureScripts for all periods presented is immaterial.

The Company has an equity method investment in Heartland Healthcare Services (“Heartland”). Heartland operates several long-term care pharmacies in four states. Heartland paid the Company approximately \$139 million, \$140 million and \$25 million for pharmaceutical inventory purchases during the years ended December 31, 2017, 2016 and 2015, respectively. Additionally, the Company performs certain collection functions for Heartland and then passes those customer cash collections to Heartland. The Company’s investment in and equity in earnings of Heartland as of and for the years ended December 31, 2016 and 2015 is immaterial.

In 2016, the Company made charitable contributions of \$32 million to the CVS Foundation (the “Foundation”) to fund future giving. The Foundation is an unconsolidated non-profit entity managed by employees of the Company that focuses on health, education and community involvement programs. The charitable contributions were recorded as operating expenses in the Company’s consolidated statement of income for the year ended December 31, 2016.

Income taxes - The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the consolidated financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year or years in which the differences are expected to reverse. The effect of a change in the tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

On December 22, 2017, the President signed into law the “Tax Cuts and Jobs Act” (the “TCJA”). Among numerous changes to existing tax laws, the TCJA permanently reduces the federal corporate income tax rate from 35% to 21% effective January 1, 2018. The effects on deferred tax balances of changes in tax rates are required to be taken into consideration in the period in which the changes are enacted, regardless of when they are effective. As the result of the

Notes to Consolidated Financial Statements (continued)

reduction of the corporate income tax rate under the TCJA, the Company estimated the revaluation of its net deferred tax liabilities and recorded a provisional noncash income tax benefit of approximately \$1.5 billion for year ended December 31, 2017. The Company has not completed all of its processes to determine the TCJA's final impact. The final impact may differ from this provisional amount due to, among other things, changes in interpretations and assumptions the Company has made thus far and the issuance of additional regulatory or other guidance. The accounting is expected to be completed by the time the 2017 federal income tax return is filed in 2018.

The Company recognizes net deferred tax assets to the extent that it believes these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies, and results of recent operations. To the extent that the Company does not consider it more likely than not that a deferred tax asset will be recovered, a valuation allowance is established.

The Company records uncertain tax positions on the basis of a two-step process whereby (1) the Company determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50% likely to be realized upon ultimate settlement with the related tax authority.

Interest and/or penalties related to uncertain tax positions are recognized in income tax expense.

Discontinued operations - In connection with certain business dispositions completed between 1991 and 1997, the Company retained guarantees on store lease obligations for a number of former subsidiaries, including Bob's Stores and Linens 'n Things which filed for bankruptcy in 2016 and 2008, respectively. Additionally, the Company's recently acquired Bluegrass Pharmacy is considered held for sale and is included in discontinued operations (see Note 2 "Acquisitions" for additional information). The Company's loss from discontinued operations in 2017 and 2016 primarily includes lease-related costs which the Company believes it will likely be required to satisfy pursuant to its lease guarantees. The Company's income from discontinued operations in 2015 of \$9 million, net of tax, was related to the release of certain store lease guarantees due to a settlement with a landlord. See Note 12 "Commitments and Contingencies" of the consolidated financial statements.

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

<i>In millions</i>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Income (loss) from discontinued operations	\$ (13)	\$ (2)	\$ 15
Income tax benefit (expense)	5	1	(6)
Income (loss) from discontinued operations, net of tax	<u>\$ (8)</u>	<u>\$ (1)</u>	<u>\$ 9</u>

Earnings per common share - Earnings per share is computed using the two-class method. Options to purchase 10.4 million, 6.7 million and 2.7 million shares of common stock were outstanding as of December 31, 2017, 2016 and 2015, respectively, but were not included in the calculation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

New accounting pronouncements recently adopted - In July 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-11, *Inventory*, which amends Accounting Standard Codification ("ASC") Topic 330. This ASU simplifies current accounting treatments by requiring entities to measure most inventories at "the lower of cost and net realizable value" rather than using lower of cost or market. This guidance does not apply to inventories measured using the last-in, first-out method or the retail inventory method. The Company adopted this standard effective January 1, 2017. The adoption of this new guidance did not have any impact on the Company's consolidated results of operations, financial position or cash flows.

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which amends the accounting for certain aspects of shared-based payments to employees in ASC Topic 718,

Notes to Consolidated Financial Statements (continued)

Compensation - Stock Compensation. The new guidance eliminates the accounting for any excess tax benefits and deficiencies through equity, and requires all excess tax benefits and deficiencies related to employee share-based compensation arrangements to be recorded in the income statement. This aspect of the guidance is required to be applied prospectively. The guidance also requires the presentation of excess tax benefits on the statement of cash flows as an operating activity rather than a financing activity, a change which may be applied prospectively or retrospectively. The guidance further provides an accounting policy election to account for forfeitures as they occur rather than utilizing the estimated amount of forfeitures at the time of issuance. The Company adopted this guidance effective January 1, 2017. The primary impact of adopting this guidance was the recognition of excess tax benefits in the income statement instead of recognizing them in equity. This income statement guidance was adopted on a prospective basis. As a result, a discrete tax benefit of \$53 million was recognized in the income tax provision in the year ended December 31, 2017.

The Company elected to retrospectively adopt the guidance on the presentation of excess tax benefits in the statement of cash flows. The following is a reconciliation of the effect of the resulting reclassification of the excess tax benefits on the Company's consolidated statements of cash flows for the years ended December 31, 2016 and 2015:

<i>In millions</i>	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>As Revised</u>
Year Ended December 31, 2016:			
Cash paid to other suppliers and employees	\$ (15,550)	\$ 72	\$ (15,478)
Net cash provided by operating activities	10,069	72	10,141
Excess tax benefits from stock-based compensation	72	(72)	—
Net cash used in financing activities	(6,689)	(72)	(6,761)
Reconciliation of net income to net cash provided by operating activities:			
Accrued expenses	59	72	131
Year Ended December 31, 2015:			
Cash paid to other suppliers and employees	(14,162)	127	(14,035)
Net cash provided by operating activities	8,412	127	8,539
Excess tax benefits from stock-based compensation	127	(127)	—
Net cash provided by financing activities	5,006	(127)	4,879
Reconciliation of net income to net cash provided by operating activities:			
Accrued expenses	765	127	892

The Company elected to continue to estimate forfeitures expected to occur to determine the amount of compensation cost to be recognized in each period. None of the other provisions in this guidance had a material impact on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which amends ASC Topic 715, *Compensation – Retirement Benefits*. ASU 2017-07 requires entities to disaggregate the current service cost component from the other components of net benefit cost and present it with other current compensation costs for related employees in the income statement and present the other components of net benefit cost elsewhere in the income statement and outside of operating income. Only the service cost component of net benefit cost is eligible for capitalization. The guidance is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted as of the beginning of any annual periods for which an entity's financial statements have not been issued. Entities are required to retrospectively apply the requirement for a separate presentation in the income statement of service costs and other components of net benefit cost and prospectively adopt the requirement to limit the capitalization of benefit costs to the service component. The Company adopted the income statement presentation aspects of this new guidance on a retrospective basis effective January 1, 2017. Nearly all of the Company's net benefit costs for the Company's defined benefit pension and postretirement plans do not contain a service cost component as most of these defined benefit plans have been frozen for an extended period of time.

Notes to Consolidated Financial Statements (continued)

The following is a reconciliation of the effect of the reclassification of the net benefit cost from operating expenses to other expense in the Company's consolidated statements of income for the years ended December 31 2016 and 2015:

<u>In millions</u>	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>As Revised</u>
Year Ended December 31, 2016:			
Operating expenses	\$ 18,519	\$ (28)	\$ 18,491
Operating profit	10,338	28	10,366
Other expense	—	28	28
Year Ended December 31, 2015:			
Operating expenses	17,074	(21)	17,053
Operating profit	9,454	21	9,475
Other expense	—	21	21

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*, which amends ASC Topic 350, *Intangibles – Goodwill and Other*. This ASU requires the Company to perform its annual, or applicable interim, goodwill impairment test by comparing the fair value of each reporting unit with its carrying amount. An impairment charge must be recognized at the amount by which the carrying amount exceeds the fair value of the reporting unit; however, the charge recognized should not exceed the total amount of goodwill allocated to that reporting unit. Income tax effects resulting from any tax deductible goodwill should be considered when measuring a goodwill impairment charge, if applicable. The guidance in ASU 2017-04 is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company elected to early adopt this standard as of January 1, 2017. At the date of adoption of this new guidance, the guidance did not have any impact on the Company's consolidated results of operations, financial position or cash flows.

In August 2017, the FASB issued ASU 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, which amends ASC Topic 815, *Derivative and Hedging*. ASU 2017-12 expands an entity's ability to hedge nonfinancial and financial risk components and reduces complexity in fair value hedges of interest rate risk. It eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. ASU 2017-12 also eases certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. The guidance is effective for fiscal years beginning after December 15, 2018, and interims periods with those years. Early adoption is permitted. The guidance with respect to cash flow and net investment hedge relationships existing on the date of adoption must be applied on a modified retrospective basis, and the new presentation and disclosure requirements must be applied on a prospective basis. The Company elected to early adopt this standard as of October 1, 2017. As the date of adoption of this new guidance, the guidance did not have any impact on the Company's consolidated results of operations, financial position or cash flows since the Company did not have any outstanding derivative instruments at that time.

New accounting pronouncements not yet adopted - In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. In March 2016, the FASB issued ASU 2016-08, "*Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)*," which amends the principal-versus-agent implementation guidance and in April 2016 the FASB issued ASU 2016-10, "*Identifying Performance Obligations and Licensing*," which amends the guidance in those areas in the new revenue recognition standard. The new revenue standard is effective for annual reporting periods (including interim reporting periods within those periods) beginning January 1, 2018. The Company does not expect that the implementation of the new standard will have a material effect on the Company's consolidated results of operations, cash flows or financial position. The new standard will however require more extensive revenue-related disclosures. The Company has identified one difference in its Retail/LTC Segment related to the accounting for its ExtraBucks Rewards customer loyalty program, which is currently accounted for under a cost deferral method. Under the new standard, this program will be accounted for under a revenue deferral method. On

Notes to Consolidated Financial Statements (continued)

January 1, 2018, the Company adopted the new revenue standard on a modified retrospective basis and recorded an after-tax transition adjustment to reduce retained earnings as of January 1, 2018 by approximately \$13 million.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10) : Recognition and Measurement of financial Assets and Financial Liabilities*. This ASU requires equity investments, except those under the equity method of accounting or those that result in the consolidation of an investee, to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. This simplifies the impairment assessment of equity investments previously held at cost. Separate presentation of financial assets and liabilities by measurement category is required. The guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those years. Early adoption is permitted for fiscal years or interim periods that have not yet been issued as of the beginning of the fiscal year of adoption. Entities are required to apply the guidance retrospectively, with the exception of the amendments related to equity investments without readily determinable fair values, which must be applied on a prospective basis. The Company is evaluating the effect of adopting this guidance but does not expect the adoption to have a material impact on the Company's consolidated results of operations.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Lessees will be required to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, a dual model was retained, requiring leases to be classified as either operating or finance leases. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Lessor accounting is similar to the current model, but updated to align with certain changes to the lessee model (e.g., certain definitions, such as initial direct costs, have been updated) and the new revenue recognition standard. The standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Company believes that the new standard will have a material impact on its consolidated balance sheet. The Company is currently evaluating the effect that implementation of this standard will have on the Company's consolidated results of operations, cash flows, financial position and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 is intended to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows and to eliminate the diversity in practice related to such classifications. The guidance in ASU 2016-15 is required for annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company is evaluating the effect of adopting this guidance but does not expect the adoption will have a material impact on the Company's consolidated cash flows.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows*, which amends ASC Topic 230. This ASU requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer be required to present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, the new guidance requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet. Entities will also have to disclose the nature of their restricted cash and restricted cash equivalent balances. The guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those years. Early adoption is permitted. Entities are required to apply the guidance retrospectively. The Company is evaluating the effect of adopting this guidance but does not expect the adoption will have a material impact on the Company's consolidated cash flows.

2 Acquisitions

Proposed Aetna Acquisition

On December 3, 2017, the Company entered into a definitive merger agreement to acquire all of the outstanding shares of Aetna for a combination of cash and stock. Under the terms of the merger agreement, Aetna shareholders will receive \$145.00 per share in cash and 0.8378 CVS Health shares for each Aetna share. The transaction values Aetna at approximately \$207 per share or approximately \$69 billion based on the Company's 5-day volume weighted average price ending December 1, 2017 of \$74.21 per share. Including the assumption of Aetna's debt, the total value of the transaction is approximately \$77 billion. The final purchase price will be determined based on the Company's stock price on the date of closing of the transaction.

The proposed acquisition remains subject to approval by CVS Health and Aetna shareholders and customary closing conditions, including the expiration of the waiting period under the federal Hart-Scott-Rodino Antitrust Improvements Act of 1976 and approvals of state departments of insurance and U.S. and international regulators.

If the transaction is not completed, the Company could be liable to Aetna for a termination fee of \$2.1 billion in connection with the merger agreement, depending on the reasons leading to such termination.

During the year ended December 31, 2017, the Company recorded \$34 million of transaction-related costs in operating expenses in connection with the proposed acquisition.

Wellpartner Acquisition

On November 30, 2017, the Company acquired Wellpartner, Inc. ("Wellpartner") for approximately \$380 million. The purchase price is subject to a working capital adjustment. Wellpartner is a provider of specialty pharmacy services which provides products and services under the Section 340B drug discount program, which is a U.S. federal government program that requires drug manufacturers participating in the Medicaid program to provide outpatient drugs to eligible health care organizations and covered entities at significantly reduced prices. Wellpartner has two specialty pharmacies, one in Oregon, and the other, Bluegrass Pharmacy of Lexington, LLC ("Bluegrass Pharmacy"), is located in Kentucky. The fair value of the assets acquired and liabilities assumed were \$532 million and \$152 million, respectively, which included identifiable intangible assets of \$233 million and goodwill of \$182 million that were recorded in the PSS. The allocation of the purchase price is preliminary and is based on information that was available to management at the time the consolidated financial statements were prepared, accordingly, the allocation may change. The Company has classified the assets of Bluegrass Pharmacy as held for sale, and has reported Bluegrass Pharmacy as a discontinued operation. The assets held for sale and the operating results of Bluegrass Pharmacy as of and for the month ended December 31, 2017 are immaterial.

Target Pharmacy Acquisition

On December 16, 2015, the Company acquired the pharmacy and clinic businesses of Target for approximately \$1.9 billion, plus contingent consideration of up to \$60 million based on future prescription growth over a three year period through 2019. The Company acquired Target's 1,672 pharmacies which operate in 47 states and will operate them through a store-within-a-store format, branded as CVS Pharmacy. The Company also acquired 79 Target clinic locations which were rebranded as MinuteClinic. The Company acquired the Target pharmacy and clinic businesses primarily to expand the geographic reach of its retail pharmacy business.

Notes to Consolidated Financial Statements (continued)

The fair values of the assets acquired at the date of acquisition were approximately as follows:

In millions

Accounts receivable	\$ 2
Inventories	467
Property and equipment	9
Intangible assets	490
Goodwill	900
Total cash consideration	<u>\$ 1,868</u>

Intangible assets acquired include customer relationships with an estimated useful life of 13 years. The goodwill represents future economic benefits expected to arise from the Company's expanded geographic presence in the retail pharmacy market, the assembled workforce acquired, expected purchasing and revenue synergies, as well as operating efficiencies and cost savings. The goodwill is deductible for income tax purposes. As of December 31, 2017 and 2016, no liability for any potential contingent consideration has been recorded based on projections for future prescription growth over the relevant period.

In connection with the closing of the transaction, the Company and Target entered into pharmacy and clinic operating and master lease agreements. See Note 7 "Leases" of the consolidated financial statements for disclosures of the Company's leasing arrangements.

During the year ended December 31, 2015, the Company incurred transaction costs of approximately \$26 million associated with the acquisition that were recorded within operating expenses. The results of the Target pharmacies and clinics are included in the Company's Retail/LTC Segment beginning on December 16, 2015. Pro forma financial information for this acquisition is not presented as such results are immaterial to the Company's consolidated financial statements.

Omnicare Acquisition

On August 18, 2015, the Company acquired 100% of the outstanding common shares and voting interests of Omnicare, for \$98 per share for a total of \$9.6 billion and assumed long-term debt with a fair value of approximately \$3.1 billion. Omnicare is a leading health care services company that specializes in the management of complex pharmaceutical care. Omnicare's LTC business is the nation's largest provider of pharmaceuticals, related pharmacy consulting and other ancillary services to chronic care facilities and other care settings. In addition, Omnicare has a specialty pharmacy business operating primarily under the name of ACS Pharmacy, and provides commercialization services under the name of RxCrossroads[®]. The Company includes LTC and the commercialization services business in the Retail/LTC Segment, and includes the specialty pharmacy business in its Pharmacy Services Segment. The Company acquired Omnicare to expand its operations in dispensing prescription drugs to assisted-living and long-term care facilities, and to broaden its presence in the specialty pharmacy business as the Company seeks to serve a greater percentage of the growing senior patient population in the United States.

Notes to Consolidated Financial Statements (continued)

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition:

In Millions

Current assets (including cash of \$298)	\$ 1,657
Property and equipment	313
Goodwill	9,139
Intangible assets	3,962
Other noncurrent assets	63
Current liabilities	(773)
Long-term debt	(3,110)
Deferred income tax liabilities	(1,498)
Other noncurrent liabilities	(69)
Redeemable noncontrolling interest	(39)
Total consideration	\$ 9,645

The goodwill represents future economic benefits expected to arise from the Company's expanded presence in the pharmaceutical care market, the assembled workforce acquired, expected purchasing and revenue synergies, as well as operating efficiencies and cost savings. Goodwill of \$8.7 billion was allocated to the Retail/LTC Segment and the remaining goodwill of \$0.4 billion was allocated to the Pharmacy Services Segment. Approximately \$0.4 billion of the goodwill is deductible for income tax purposes. Intangible assets acquired include customer relationships and trade names of \$3.9 billion and \$74 million, respectively, with estimated weighted average useful lives of 19.1 and 2.9 years, respectively, and 18.8 years in total.

During the year ended December 31, 2015, the Company incurred transaction costs of \$70 million associated with the acquisition of Omnicare that were recorded within operating expenses.

The Company's consolidated results of operations for the year ended December 31, 2015, include \$2.6 billion of net revenues and net income of \$61 million associated with the operating results of Omnicare from August 18, 2015 to December 31, 2015. These Omnicare operating results include severance costs and accelerated stock-based compensation.

The following unaudited pro forma information presents a summary of the Company's combined results of operations for the year ended December 31, 2015 as if the Omnicare acquisition and the related financing transactions had occurred on January 1, 2015. The following pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transactions been effected on the assumed date, nor is it necessarily an indication of trends in future results for a number of reasons, including, but not limited to, differences between the assumptions used to prepare the pro forma information, basic shares outstanding and dilutive equivalents, cost savings from operating efficiencies, potential synergies, and the impact of incremental costs incurred in integrating the businesses.

(In millions, except per share data)

Total revenues	\$ 156,798
Income from continuing operations	5,277
Basic earnings per share from continuing operations	4.70
Diluted earnings per share from continuing operations	4.66

Pro forma income from continuing operations for the year ended December 31, 2015, excludes \$135 million related to severance costs, accelerated stock-based compensation and transaction costs incurred in connection with the Omnicare acquisition.

Notes to Consolidated Financial Statements (continued)

3 Goodwill and Other Intangibles

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

When evaluating goodwill for potential impairment, the Company compares the fair value of its reporting units to their respective carrying amounts. The Company estimates the fair value of its reporting units using a combination of a discounted cash flow method and a market multiple method. If the carrying amount of a reporting unit exceeds its estimated fair value, an impairment loss is recognized in an amount equal to that excess.

During 2017, the Company began pursuing various strategic alternatives for its RxC reporting unit. In connection with this effort, the Company performed an interim goodwill impairment test in the second quarter of 2017. The results of the impairment test determined that the fair value of the RxC reporting unit was lower than the carrying value, resulting in a \$135 million goodwill impairment charge within operating expenses during the second quarter of 2017.

During the third quarter of 2017, the Company performed its required annual impairment tests of its reporting units and concluded there was no impairment of goodwill.

On January 2, 2018, the Company sold RxC to McKesson Corporation for \$725 million. The transaction is subject to a working capital adjustment.

The TCJA enacted on December 22, 2017 reduces the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018 (see Note 11 “Income Taxes”). As a result, the RxC deferred income tax liabilities were reduced by \$47 million and an income tax benefit of \$47 million was recorded in the 2017 income statement. The reduction in the deferred income tax liabilities increased the carrying value of the RxC reporting unit by \$47 million which triggered an additional goodwill impairment in the RxC reporting unit of \$46 million during the fourth quarter of 2017.

The Company has cumulative goodwill impairments of \$181 million as of December 31, 2017.

Below is a summary of the changes in the carrying amount of goodwill by segment for the years ended December 31, 2017 and 2016:

<i><u>In millions</u></i>	<u>Pharmacy Services</u>	<u>Retail/LTC</u>	<u>Total</u>
Balance, December 31, 2015	\$ 21,685	\$ 16,421	\$ 38,106
Acquisitions	—	126	126
Foreign currency translation adjustments	—	17	17
Other ⁽¹⁾	(48)	48	—
Balance, December 31, 2016	21,637	16,612	38,249
Acquisitions	182	203	385
Foreign currency translation adjustments	—	(2)	(2)
Impairments	—	(181)	(181)
Balance, December 31, 2017	<u>\$ 21,819</u>	<u>\$ 16,632</u>	<u>\$ 38,451</u>

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

Indefinitely-lived intangible assets are tested for impairment by comparing the estimated fair value of the asset to its carrying value. The Company estimates the fair value of its indefinitely-lived trademark using the relief from royalty method under the income approach. If the carrying value of the asset exceeds its estimated fair value, an impairment loss is recognized and the asset is written down to its estimated fair value. During the third quarter of 2017, the Company performed its annual impairment test of the indefinitely-lived trademark and concluded there was no impairment as of the testing date.

Notes to Consolidated Financial Statements (continued)

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

	2017			2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<i>In millions</i>						
Trademark (indefinitely-lived)	\$ 6,398	\$ —	\$ 6,398	\$ 6,398	\$ —	\$ 6,398
Customer contracts and relationships and covenants not to compete	12,341	(5,536)	6,805	11,485	(4,802)	6,683
Favorable leases and other	1,190	(763)	427	1,123	(693)	430
	<u>\$ 19,929</u>	<u>\$ (6,299)</u>	<u>\$ 13,630</u>	<u>\$ 19,006</u>	<u>\$ (5,495)</u>	<u>\$ 13,511</u>

The Company amortizes intangible assets with finite lives over the estimated useful lives of the respective assets, which have a weighted average useful life of 15.4 years. The weighted average useful life of the Company's customer contracts and relationships and covenants not to compete is 15.3 years. The weighted average life of the Company's favorable leases and other intangible assets is 16.2 years. Amortization expense for intangible assets totaled \$817 million, \$ 795 million and \$ 611 million in 2017, 2016 and 2015, respectively. The anticipated annual amortization expense for these intangible assets for the next five years is as follows:

<i>In millions</i>	
2018	\$ 817
2019	771
2020	600
2021	539
2022	494

4 Share Repurchase Programs

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

<i>In billions</i>		Remaining as of
<u>Authorization Date</u>	<u>Authorized</u>	<u>December 31, 2017</u>
November 2, 2016 ("2016 Repurchase Program")	\$ 15.0	\$ 13.9
December 15, 2014 ("2014 Repurchase Program")	10.0	—
December 17, 2013 ("2013 Repurchase Program")	6.0	—

The share Repurchase Programs, each of which was effective immediately, permit the Company to effect repurchases from time to time through a combination of open market repurchases, privately negotiated transactions, accelerated share repurchase ("ASR") transactions, and/or other derivative transactions. The 2016 Repurchase Program can be modified or terminated by the Board of Directors at any time.

Pursuant to the authorization under the 2014 Repurchase Program, in August 2016, the Company entered into two fixed dollar ASRs with Barclays Bank PLC ("Barclays") for a total of \$3.6 billion. Upon payment of the \$3.6 billion purchase price in January 2017, the Company received a number of shares of its common stock equal to 80% of the \$3.6 billion notional amount of the ASRs or approximately 36.1 million shares, which were placed into treasury stock in January 2017. The ASRs were accounted for as an initial treasury stock transaction for \$2.9 billion and a forward contract for \$0.7 billion. In April 2017, the Company received 9.9 million shares of common stock, representing the remaining 20% of the \$3.6 billion notional amount of the ASRs, thereby concluding the ASRs. The remaining 9.9 million shares of common stock delivered to the Company by Barclays were placed into treasury stock and the forward contract was reclassified from capital surplus to treasury stock in April 2017.

Notes to Consolidated Financial Statements (continued)

Pursuant to the authorization under the 2014 Repurchase Program, in December 2015, the Company entered into a \$725 million fixed dollar ASR with Barclays. Upon payment of the \$725 million purchase price in December 2015, the Company received a number of shares of its common stock equal to 80% of the \$725 million notional amount of the ASR or approximately 6.2 million shares. The initial 6.2 million shares of common stock delivered to the Company by Barclays were placed into treasury stock in December 2015. The ASR was accounted for as an initial treasury stock transaction of \$580 million and a forward contract of \$145 million. The forward contract was classified as an equity instrument and was recorded within capital surplus on the consolidated balance sheet. In January 2016, the Company received 1.4 million shares of common stock, representing the remaining 20% of the \$725 million notional amount of the ASR, thereby concluding the ASR. The remaining 1.4 million shares of common stock delivered to the Company by Barclays were placed into treasury stock in January 2016 and the forward contract was reclassified from capital surplus to treasury stock.

Pursuant to the authorization under the 2013 Repurchase Programs, in January 2015, the Company entered into a \$2.0 billion fixed dollar ASR agreement with J.P. Morgan Chase Bank (“JP Morgan”). Upon payment of the \$2.0 billion purchase price in January 2015, the Company received a number of shares of its common stock equal to 80% of the \$2.0 billion notional amount of the ASR agreement or approximately 16.8 million shares, which were placed into treasury stock in January 2015. In May 2015, the Company received approximately 3.1 million shares of common stock, representing the remaining 20% of the \$2.0 billion notional amount of the ASR, thereby concluding the ASR. The remaining 3.1 million shares of common stock delivered to the Company by JP Morgan were placed into treasury stock in May 2015. The ASR was accounted for as an initial treasury stock transaction of \$1.6 billion and a forward contract of \$0.4 billion. The forward contract was classified as an equity instrument and was initially recorded within capital surplus on the consolidated balance sheet and was reclassified to treasury stock upon the settlement of the ASR in May 2015.

In the ASR transactions described above, the initial repurchase of the shares and delivery of the remainder of the shares to conclude the ASR, resulted in an immediate reduction of the outstanding shares used to calculate the weighted average common shares outstanding for basic and diluted earnings per share.

During the year ended December 31, 2017, the Company repurchased an aggregate of 55.4 million shares of common stock for approximately \$4.4 billion under the 2014 and 2016 Repurchase Programs. As of December 31, 2017, there remained an aggregate of approximately \$13.9 billion available for future repurchases under the 2016 Repurchase Program and the 2014 and 2013 Repurchase Programs were complete.

During the year ended December 31, 2016, the Company repurchased an aggregate of 47.5 million shares of common stock for approximately \$4.5 billion under the 2014 Repurchase Program. During the year ended December 31, 2015, the Company repurchased an aggregate of 48.0 million shares of common stock for approximately \$5.0 billion under the 2013 and 2014 Repurchase Programs.

Notes to Consolidated Financial Statements (continued)

5 Borrowings and Credit Agreements

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

<i>In millions</i>	2017	2016
Short-term debt		
Commercial paper	\$ 1,276	\$ 1,874
Long-term debt		
1.9% senior notes due 2018	2,250	2,250
2.25% senior notes due 2018	1,250	1,250
2.25% senior notes due 2019	850	850
2.8% senior notes due 2020	2,750	2,750
2.125% senior notes due 2021	1,750	1,750
4.125% senior notes due 2021	550	550
2.75% senior notes due 2022	1,250	1,250
3.5% senior notes due 2022	1,500	1,500
4.75% senior notes due 2022	399	399
4% senior notes due 2023	1,250	1,250
3.375% senior notes due 2024	650	650
5% senior notes due 2024	299	299
3.875% senior notes due 2025	2,828	2,828
2.875% senior notes due 2026	1,750	1,750
6.25% senior notes due 2027	372	372
3.25% senior exchange debentures due 2035	1	1
4.875% senior notes due 2035	652	652
6.125% senior notes due 2039	447	447
5.75% senior notes due 2041	133	133
5.3% senior notes due 2043	750	750
5.125% senior notes due 2045	3,500	3,500
Capital lease obligations	670	648
Other	43	23
Total debt principal	27,170	27,726
Debt premiums	28	33
Debt discounts and deferred financing costs	(196)	(228)
	27,002	27,531
Less:		
Short-term debt (commercial paper)	(1,276)	(1,874)
Current portion of long-term debt	(3,545)	(42)
Long-term debt	\$ 22,181	\$ 25,615

The Company had approximately \$1.3 billion of commercial paper outstanding at a weighted average interest rate of 2.0% as of December 31, 2017. The Company had approximately \$1.9 billion of commercial paper outstanding at a weighted average interest rate of 1.22% as of December 31, 2016. In connection with its commercial paper program, the Company maintains a \$1.0 billion 364-day unsecured back-up credit facility, which expires on May 17, 2018, a \$1.25 billion, five-year unsecured back-up credit facility, which expires on July 24, 2019, a \$1.25 billion, five-year unsecured back-up credit facility, which expires on July 1, 2020, and a \$1.0 billion, five-year unsecured back-up credit facility, which expires on May 18, 2022. The credit facilities allow for borrowings at various rates that are dependent, in part, on the Company's public debt ratings and require the Company to pay a weighted average quarterly facility fee of approximately 0.02%, regardless of usage. As of December 31, 2017 and 2016, there were no borrowings outstanding under the back-up credit facilities.

Notes to Consolidated Financial Statements (continued)

On December 3, 2017, in connection with the proposed acquisition of Aetna, the Company entered into a \$49.0 billion unsecured bridge loan facility. The Company paid approximately \$221 million in fees upon entering into the agreement. The fees were capitalized in other current assets and will be amortized as interest expense over the period the bridge facility is outstanding. The bridge loan facility was reduced to \$44.0 billion on December 15, 2017 upon the Company entering into a \$5.0 billion term loan agreement. The Company recorded \$56 million of amortization of the bridge loan facility fees during the three months and year ended December 31, 2017, which was recorded in interest expense. On December 15, 2017, in connection with the proposed acquisition of Aetna, the Company entered into a \$5.0 billion unsecured term loan agreement. The term loan facility under the term loan agreement consists of a \$3.0 billion three-year tranche and a \$2.0 billion five-year tranche. The term loan facility allows for borrowings at various rates that are dependent, in part, on the Company's debt ratings and require the Company to pay a weighted average quarterly commitment fee, regardless of usage.

On January 3, 2017, the Company entered into a \$2.5 billion revolving credit facility. The credit facility allows for borrowings at various rates that are dependent, in part, on the Company's debt ratings and require the Company to pay a weighted average quarterly facility fee of approximately 0.03%, regardless of usage. The Company terminated the credit facility in May 2017.

On May 16, 2016, the Company issued \$1.75 billion aggregate principal amount of 2.125% unsecured senior notes due June 1, 2021 and \$1.75 billion aggregate principal amount of 2.875% unsecured senior notes due June 1, 2026 (collectively, the "2016 Notes") for total proceeds of approximately \$3.5 billion, net of discounts and underwriting fees. The 2016 Notes pay interest semi-annually and may be redeemed, in whole at any time, or in part from time to time, at the Company's option at a defined redemption price plus accrued and unpaid interest to the redemption date. The net proceeds of the 2016 Notes were used for general corporate purposes and to repay certain corporate debt.

On May 16, 2016, the Company announced tender offers for (1) any and all of its 5.75% Senior Notes due 2017, its 6.60% Senior Notes due 2019 and its 4.75% Senior Notes due 2020 (collectively, the "Any and All Notes") and (2) up to \$1.5 billion aggregate principal amount of its 6.25% Senior Notes due 2027, its 6.125% Senior Notes due 2039, its 5.75% Senior Notes due 2041, the 5.00% Senior Notes due 2024 issued by its wholly-owned subsidiary, Omnicare, Inc. ("Omnicare"), the 4.75% Senior Notes due 2022 issued by Omnicare, its 4.875% Senior Notes due 2035 and its 3.875% Senior Notes due 2025 (collectively, the "Maximum Tender Offer Notes" and together with the Any and All Notes, the "Notes"). On May 31, 2016, the Company increased the aggregate principal amount of the tender offers for the Maximum Tender Offer Notes to \$2.25 billion. The Company purchased approximately \$835 million aggregate principal amount of the Any and All Notes and \$2.25 billion aggregate principal amount of the Maximum Tender Offer Notes pursuant to the tender offers, which expired on June 13, 2016. The Company paid a premium of \$486 million in excess of the debt principal in connection with the purchase of the Notes, wrote off \$50 million of unamortized deferred financing costs and incurred \$6 million in fees, for a total loss on the early extinguishment of debt of \$542 million which was recorded in income from continuing operations in the consolidated statement of income for the year ended December 31, 2016.

On June 27, 2016, the Company notified the holders of the remaining Any and All Notes that the Company was exercising its option to redeem the outstanding Any and All Notes pursuant to the terms of the Any and All Notes and the Indenture dated as of August 15, 2006, between the Company and The Bank of New York Mellon Trust Company, N.A. Approximately \$1.1 billion aggregate principal amount of Any and All Notes was redeemed on July 27, 2016. The Company paid a premium of \$97 million in excess of the debt principal and wrote off \$4 million of unamortized deferred financing costs, for a total loss on early extinguishment of debt of \$101 million during the year ended December 31, 2016.

The Company recorded a total loss on the early extinguishment of debt of \$643 million which was recorded in the income from continuing operations in the consolidated statement of income for the year ended December 31, 2016.

On May 20, 2015, in connection with the acquisition of Omnicare, the Company entered into a \$13 billion unsecured bridge loan facility. The Company paid approximately \$52 million in fees in connection with the facility. The fees were capitalized and amortized as interest expense over the period the bridge facility was outstanding. The bridge loan facility

Notes to Consolidated Financial Statements (continued)

expired on July 20, 2015 upon the Company's issuance of unsecured senior notes with an aggregate principal of \$15 billion as discussed below. The bridge loan facility fees became fully amortized in July 2015.

On July 20, 2015, the Company issued an aggregate of \$2.25 billion of 1.9% unsecured senior notes due 2018 ("2018 Notes"), an aggregate of \$2.75 billion of 2.8% unsecured senior notes due 2020 ("2020 Notes"), an aggregate of \$1.5 billion of 3.5% unsecured senior notes due 2022 ("2022 Notes"), an aggregate of \$3 billion of 3.875% unsecured senior notes due 2025 ("2025 Notes"), an aggregate of \$2 billion of 4.875% unsecured senior notes due 2035 ("2035 Notes"), and an aggregate of \$3.5 billion of 5.125% unsecured senior notes due 2045 ("2045 Notes" and, together with the 2018 Notes, 2020 Notes, 2022 Notes, 2025 Notes and 2035 Notes, the "Notes") for total proceeds of approximately \$14.8 billion, net of discounts and underwriting fees. The Notes pay interest semi-annually and contain redemption terms which allow or require the Company to redeem the Notes at a defined redemption price plus accrued and unpaid interest at the redemption date. The net proceeds of the Notes were used to fund the Omnicare acquisition and the acquisition of the pharmacies and clinics of Target. The remaining proceeds were used for general corporate purposes.

Upon the closing of the Omnicare acquisition in August 2015, the Company assumed the long-term debt of Omnicare that had a fair value of approximately \$3.1 billion, \$2.0 billion of which was previously convertible into Omnicare shares that holders were able to redeem subsequent to the acquisition. During the period from August 18, 2015 to December 31, 2015, all but \$5 million of the \$2.0 billion of previously convertible debt was redeemed and repaid and approximately \$0.4 billion in Omnicare term debt assumed was repaid for total repayments of Omnicare debt of approximately \$2.4 billion in 2015.

The remaining principal of the Omnicare debt assumed was comprised of senior unsecured notes with an aggregate principal amount of \$700 million (\$400 million of 4.75% senior notes due 2022 and \$300 million of 5% senior notes due 2024). In September 2015, the Company commenced exchange offers for the 4.75% senior notes due 2022 and the 5% senior notes due 2024 to exchange all validly tendered and accepted notes issued by Omnicare for notes to be issued by the Company. This offer expired on October 20, 2015 and the aggregate principal amounts of \$388 million of the 4.75% senior notes due 2022 and \$296 million of the 5% senior notes due 2024 were validly tendered and exchanged for notes issued by the Company. The Company recorded this exchange transaction as a modification of the original debt instruments. Consequently, no gain or loss on extinguishment was recognized in the Company's consolidated income statement as a result of this exchange transaction and the issuance costs of the new debt were expensed as incurred.

The back-up credit facilities and unsecured senior notes contain customary restrictive financial and operating covenants. The covenants do not materially affect the Company's financial or operating flexibility. As of December 31, 2017, the Company is in compliance with all debt covenants.

The following is a summary of the Company's required principal debt repayments due during each of the next five years and thereafter, as of December 31, 2017:

<i>In millions</i>	
2018	\$ 4,821
2019	873
2020	2,775
2021	2,327
2022	3,178
Thereafter	13,196
Total	<u>\$ 27,170</u>

6 Store Closures

In December 2016, the Company announced an enterprise streamlining initiative designed to reduce costs and enhance operating efficiencies to allow the Company to be more competitive in the current health care environment. In connection with the enterprise streamlining initiative, the Company announced its intention to rationalize the number of retail stores by closing approximately 70 underperforming stores during the year ending December 31, 2017. During the

Notes to Consolidated Financial Statements (continued)

year ended December 31, 2017, the Company closed 71 retail stores and recorded charges of \$215 million within operating expenses in the Retail/LTC Segment. The charges are primarily comprised of provisions for the present value of noncancelable lease obligations. The noncancelable lease obligations associated with stores closed during the year ended December 31, 2017 extend through the year 2039.

7 Leases

The Company leases most of its retail and mail order locations, 13 of its distribution centers and certain corporate offices under noncancelable operating leases, typically with initial terms of 15 to 25 years and with options that permit renewals for additional periods. The Company also leases certain equipment and other assets under noncancelable operating leases, typically with initial terms of 3 to 10 years. In December 2015, in connection with the acquisition of the pharmacy and clinic businesses of Target, the Company entered into lease agreements with Target for the pharmacy and clinic space within Target stores. Given that the noncancelable contractual term of the pharmacy lease arrangement exceeds the remaining estimated economic life of the buildings being leased, the Company concluded for accounting purposes that the lease term was the remaining economic life of the buildings. Consequently, most of the individual pharmacy leases are capital leases. Approximately \$0.3 billion of capital lease obligations were recorded in connection with this transaction.

Minimum rent on operating leases is expensed on a straight-line basis over the term of the lease. In addition to minimum rental payments, certain leases require additional payments based on sales volume, as well as reimbursement for real estate taxes, common area maintenance and insurance, which are expensed when incurred.

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

<i>In millions</i>	2017	2016	2015
Minimum rentals	\$ 2,455	\$ 2,418	\$ 2,317
Contingent rentals	29	35	34
	2,484	2,453	2,351
Less: sublease income	(24)	(24)	(22)
	\$ 2,460	\$ 2,429	\$ 2,329

Notes to Consolidated Financial Statements (continued)

The following table is a summary of the future minimum lease payments under capital and operating leases as of December 31, 2017:

<i>In millions</i>	Capital Leases	Operating Leases ⁽¹⁾
2018	\$ 74	\$ 2,493
2019	74	2,361
2020	74	2,201
2021	73	2,072
2022	73	1,934
Thereafter	974	16,090
Total future lease payments ⁽²⁾	<u>1,342</u>	<u>\$ 27,151</u>
Less: imputed interest	(672)	
Present value of capital lease obligations	<u>\$ 670</u>	

(1) Future operating lease payments have not been reduced by minimum sublease rentals of \$171 million due in the future under noncancelable subleases.

(2) The Company leases pharmacy and clinic space from Target. Amounts related to such capital and operating leases are reflected above. Amounts due in excess of the remaining estimated economic life of the buildings of approximately \$1.9 billion are not reflected herein since the estimated economic life of the buildings is shorter than the contractual term of the lease arrangement.

The Company finances a portion of its store development program through sale-leaseback transactions. The properties are generally sold at net book value, which generally approximates fair value, and the resulting leases generally qualify and are accounted for as operating leases. The operating leases that resulted from these transactions are included in the above table. The Company does not have any retained or contingent interests in the stores and does not provide any guarantees, other than a guarantee of lease payments, in connection with the sale-leaseback transactions. Proceeds from sale-leaseback transactions totaled \$265 million in 2017, \$230 million in 2016 and \$411 million in 2015.

8 Medicare Part D

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

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

The Company has recorded estimates of various assets and liabilities arising from its participation in the Medicare Part D program based on information in its claims management and enrollment systems. Significant estimates arising from its participation in this program include: (i) estimates of low-income cost subsidy, reinsurance amounts, and coverage gap discount amounts ultimately payable to or receivable from CMS based on a detailed claims reconciliation that will occur in the following year; (ii) an estimate of amounts receivable from or payable to CMS under a risk-sharing feature of the Medicare Part D program design, referred to as the risk corridor and (iii) estimates for claims that have been reported and are in the process of being paid or contested and for our estimate of claims that have been incurred but have not yet been reported.

9 Pension Plans and Other Postretirement Benefits**Defined Contribution Plans**

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

At the participant's option, account balances, including the Company's matching contribution, can be transferred without restriction among various investment options, including the Company's common stock fund under one of the defined contribution plans. The Company also maintains a nonqualified, unfunded deferred compensation plan for certain key employees. This plan provides participants the opportunity to defer portions of their eligible compensation and receive matching contributions equivalent to what they could have received under the CVS Health 401(k) Plan absent certain restrictions and limitations under the Internal Revenue Code. The Company's contributions under the above defined contribution plans were \$314 million, \$295 million and \$251 million in 2017, 2016 and 2015, respectively.

Defined Benefit Pension Plans

As of December 31, 2016 and 2015, the Company sponsored seven defined benefit pension plans, all of which are closed to new participants. Two of the plans are tax-qualified plans that are funded based on actuarial calculations and applicable federal laws and regulations. The other five plans are unfunded nonqualified supplemental retirement plans. In 2015, the Company terminated its largest tax-qualified plan and in 2017, the Company terminated the other tax-qualified plan.

During the year ended December 31, 2017, the Company settled the pension obligations of its two tax-qualified plans by irrevocably transferring pension liabilities to an insurance company through the purchase of group annuity contracts and through lump sum distributions. These purchases, funded with pension plan assets, resulted in pre-tax settlement losses of \$187 million in the year ended December 31, 2017, related to the recognition of accumulated deferred actuarial losses. The settlement losses are included in other expense in the consolidated statement of income.

The following tables outline the change in benefit obligations and plan assets over the comparable periods:

<i>In millions</i>	2017	2016
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 844	\$ 844
Interest cost	20	27
Actuarial loss (gain)	(31)	13
Benefit payments	(35)	(37)
Settlements	(667)	(3)
Benefit obligation at end of year	<u>\$ 131</u>	<u>\$ 844</u>
Change in plan assets:		
Fair value of plan assets at the beginning of the year	\$ 624	\$ 613
Actual return on plan assets	32	26
Employer contributions	46	25
Benefit payments	(35)	(37)
Settlements	(667)	(3)
Fair value of plan assets at the end of the year	<u>—</u>	<u>624</u>
Funded status	<u>\$ (131)</u>	<u>\$ (220)</u>

Notes to Consolidated Financial Statements (continued)

The components of net periodic benefit costs for the years ended December 31 are shown below:

<i>In millions</i>	2017	2016	2015
Components of net periodic benefit cost:			
Interest cost	\$ 20	\$ 27	\$ 31
Expected return on plan assets	(20)	(32)	(33)
Amortization of net loss	21	32	21
Settlement losses	187	—	—
Net periodic pension cost	<u>\$ 208</u>	<u>\$ 27</u>	<u>\$ 19</u>

Pension Plan Assumptions

The Company uses a series of actuarial assumptions to determine the benefit obligations and the net benefit costs. The discount rate is determined by examining the current yields observed on the measurement date of fixed-interest, high quality investments expected to be available during the period to maturity of the related benefits on a plan by plan basis. In 2016, the discount rate for the qualified plan that had been terminated was determined by examining the current assumed lump sum and annuity purchase rates. The expected long-term rate of return on plan assets is determined by using the plan's target allocation and historical returns for each asset class on a plan by plan basis. Certain of the Company's pension plans use assumptions on expected compensation increases of plan participants. These increases are determined by an actuarial analysis of the plan participants, their expected compensation increases, and the duration of their earnings period until retirement. Each of these assumptions is reviewed as plan characteristics change and on an annual basis with input from senior pension and financial executives and the Company's external actuarial consultants.

The discount rate for determining plan benefit obligations was 3.5% in 2017 and 4.0% in 2016 for all plans, except the terminated qualified plan. The discount rate for the terminated qualified plan was 3.09% in 2016. The expected long-term rate of return for the plans ranged from 4.0% to 5.5% in 2017 and 2016. The rate of compensation increases for certain of the plans with active participants ranged from 4.0% to 6.0% in 2017 and 2016.

Return on Plan Assets

The Company's investment strategy for its two qualified pension plans was liability management driven. The asset allocation targets were to hold fixed income investments based upon this strategy. The following tables show the fair value allocation of plan assets by asset category as of December 31, 2016.

	Fair value of plan assets at December 31, 2016			
	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 8	\$ —	\$ —	\$ 8
Fixed income funds	3	580	—	583
Equity mutual funds	33	—	—	33
Total assets at fair value	<u>\$ 44</u>	<u>\$ 580</u>	<u>\$ —</u>	<u>\$ 624</u>

As of December 31, 2016, the Company's qualified defined benefit pension plan assets consisted of 5% equity, 94% fixed income and 1% money market securities of which 7% were classified as Level 1 and 93% as Level 2 in the fair value hierarchy. The Company had no investments in Level 3 alternative investments during the year ended December 31, 2016.

As of December 31, 2017, the assets in the Company's qualified defined benefit pension plans had been fully liquidated through the purchase of group annuity contracts and through lump sum distributions.

Notes to Consolidated Financial Statements (continued)

Cash Flows

The Company contributed \$46 million, \$25 million and \$22 million to the pension plans during 2017, 2016 and 2015, respectively. The Company plans to make approximately \$21 million in contributions to the pension plans during 2018. These contributions include contributions made to certain nonqualified benefit plans for which there is no funding requirement. The Company estimates the following future benefit payments which are calculated using the same actuarial assumptions used to measure the benefit obligation as of December 31, 2017:

<i>In millions</i>	
2018	\$ 21
2019	14
2020	12
2021	23
2022	8
Thereafter	31

Multiemployer Pension Plans

The Company also contributes to a number of multiemployer pension plans under the terms of collective-bargaining agreements that cover its union-represented employees. The risks of participating in these multiemployer plans are different from single-employer pension plans in the following aspects: (i) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (ii) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers, and (iii) if the Company chooses to stop participating in some of its multiemployer plans, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

None of the multiemployer pension plans in which the Company participates are individually significant to the Company. Total Company contributions to multiemployer pension plans were \$17 million in 2017, \$15 million in 2016 and \$14 million in 2015.

Other Postretirement Benefits

The Company provides postretirement health care and life insurance benefits to certain retirees who meet eligibility requirements. The Company's funding policy is generally to pay covered expenses as they are incurred. For retiree medical plan accounting, the Company reviews external data and its own historical trends for health care costs to determine the health care cost trend rates. As of December 31, 2017 and 2016, the Company's other postretirement benefits had an accumulated postretirement benefit obligation of \$25 million and \$24 million, respectively. Net periodic benefit costs related to these other postretirement benefits were \$1 million in both 2017 and 2016, and \$2 million in 2015.

Pursuant to various collective bargaining agreements, the Company also contributes to multiemployer health and welfare plans that cover certain union-represented employees. The plans provide postretirement health care and life insurance benefits to certain employees who meet eligibility requirements. Total Company contributions to multiemployer health and welfare plans were \$58 million, \$52 million and \$60 million in 2017, 2016 and 2015, respectively.

Notes to Consolidated Financial Statements (continued)

10 Stock Incentive Plans

Stock-based compensation is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period of the stock award (generally three to five years) using the straight-line method. The following table is a summary of stock-based compensation for each of the respective periods:

<i>In millions</i>	2017	2016	2015
Stock options ⁽¹⁾	\$ 65	\$ 79	\$ 90
Restricted stock awards ⁽²⁾	169	143	140
Total stock-based compensation	\$ 234	\$ 222	\$ 230

(1) Includes the Employee Stock Purchase Plan (the "ESPP")

(2) Stock-based compensation for the year ended December 31, 2015 includes \$38 million associated with accelerated vesting of restricted stock replacement awards issued to Omnicare executives who were terminated subsequent to the acquisition.

The ESPP provides for the purchase of up to 30 million shares of common stock. Under the ESPP, beginning in 2016, eligible employees could purchase common stock at the end of each six month offering period at a purchase price equal to 90% of the lower of the fair market value on the first day or the last day of the offering period. Prior to 2016, the purchase price was equal to 85% of the lower of the fair market value on the first day or the last day of the offering period. During 2017, approximately one million shares of common stock were purchased under the provisions of the ESPP at an average price of \$71.66 per share. As of December 31, 2017, approximately 11 million shares of common stock were available for issuance under the ESPP.

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

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

	2017	2016	2015
Dividend yield ⁽¹⁾	1.24 %	0.88 %	0.71 %
Expected volatility ⁽²⁾	22.70 %	20.64 %	13.92 %
Risk-free interest rate ⁽³⁾	0.86 %	0.45 %	0.11 %
Expected life (<i>in years</i>) ⁽⁴⁾	0.5	0.5	0.5
Weighted-average grant date fair value	\$ 13.01	\$ 14.98	\$ 18.72

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

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

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

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

The terms of the Company's Incentive Compensation Plan ("ICP") provide for grants of annual incentive and long-term performance awards to executive officers and other officers and employees of the Company or any subsidiary of the Company. Payment of such annual incentive and long-term performance awards will be in cash, stock, other awards or other property, at the discretion of the Management Planning and Development Committee of the Company's Board of Directors. The ICP allows for a maximum of 74 million shares to be reserved and available for grants. The ICP is the only compensation plan under which the Company grants stock options, restricted stock and other stock-based awards to its employees, with the exception of the Company's ESPP. As of December 31, 2017, there were approximately 32 million shares available for future grants under the ICP.

The Company's restricted awards are considered nonvested share awards and require no payment from the employee. Compensation cost is recorded based on the market price of the Company's common stock on the grant date and is recognized on a straight-line basis over the requisite service period. As of December 31, 2017, there was \$350 million of total unrecognized compensation cost related to the restricted stock units that are expected to vest. These costs are

Notes to Consolidated Financial Statements (continued)

expected to be recognized over a weighted-average period of 2.25 years. The total fair value of restricted shares vested during 2017, 2016 and 2015 was \$175 million, \$218 million and \$164 million, respectively.

The following table is a summary of the restricted stock unit and restricted share award activity for the year ended December 31, 2017.

<i>Units in thousands</i>	<u>Units</u>	<u>Weighted Average Grant Date Fair Value</u>
Nonvested at beginning of year	4,876	\$ 55.56
Granted	2,873	\$ 78.35
Vested	(2,340)	\$ 78.92
Forfeited	(395)	\$ 89.21
Nonvested at end of year	<u>5,014</u>	<u>\$ 86.92</u>

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

Cash received from stock options exercised, which includes the ESPP, totaled \$329 million, \$296 million and \$362 million during 2017, 2016 and 2015, respectively. Payments for taxes for net share settlement of equity awards totaled \$71 million in 2017, \$72 million in 2016 and \$63 million in 2015, respectively. The total intrinsic value of stock options exercised was \$176 million, \$244 million and \$394 million in 2017, 2016 and 2015, respectively. The total fair value of stock options vested during 2017, 2016 and 2015 was \$341 million, \$298 million and \$334 million, respectively.

The fair value of each stock option is estimated using the Black-Scholes option pricing model based on the following assumptions at the time of grant:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Dividend yield ⁽¹⁾	2.56 %	1.62 %	1.37 %
Expected volatility ⁽²⁾	18.39 %	17.22 %	18.07 %
Risk-free interest rate ⁽³⁾	1.77 %	1.24 %	1.24 %
Expected life (<i>in years</i>) ⁽⁴⁾	4.1	4.2	4.2
Weighted-average grant date fair value	\$ 9.43	\$ 13.00	\$ 14.01

- (1) The dividend yield is based on annual dividends paid and the fair market value of the Company's stock at the grant date.
- (2) The expected volatility is estimated using the Company's historical volatility over a period equal to the expected life of each option grant after adjustments for infrequent events such as stock splits.
- (3) The risk-free interest rate is selected based on yields from U.S. Treasury zero-coupon issues with a remaining term equal to the expected term of the options being valued.
- (4) The expected life represents the number of years the options are expected to be outstanding from grant date based on historical option holder exercise experience.

As of December 31, 2017, unrecognized compensation expense related to unvested options totaled \$57 million, which the Company expects to be recognized over a weighted-average period of 1.76 years. After considering anticipated forfeitures, the Company expects approximately 9 million of the unvested stock options to vest over the requisite service period.

Notes to Consolidated Financial Statements (continued)

The following table is a summary of the Company's stock option activity for the year ended December 31, 2017:

<i>Shares in thousands</i>	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2016	23,275	\$ 68.60		
Granted	3,513	\$ 78.05		
Exercised	(4,814)	\$ 43.07		
Forfeited	(889)	\$ 94.25		
Expired	(555)	\$ 60.00		
Outstanding at December 31, 2017	<u>20,530</u>	\$ 75.32	3.62	\$ 180,318,054
Exercisable at December 31, 2017	11,365	\$ 61.37	2.30	\$ 179,628,690
Vested at December 31, 2017 and expected to vest in the future	20,114	\$ 75.00	3.57	\$ 180,299,134

11 Income Taxes

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

<i>In millions</i>	2017	2016	2015
Current:			
Federal	\$ 2,594	\$ 2,803	\$ 3,065
State	464	511	555
	<u>3,058</u>	<u>3,314</u>	<u>3,620</u>
Deferred:			
Federal	(1,435)	5	(180)
State	14	(2)	(54)
	<u>(1,421)</u>	<u>3</u>	<u>(234)</u>
Total	<u>\$ 1,637</u>	<u>\$ 3,317</u>	<u>\$ 3,386</u>

On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act (the "TCJA"). Among numerous changes to existing tax laws, the TCJA permanently reduces the federal corporate income tax rate from 35% to 21% effective on January 1, 2018. The effects on deferred tax balances of changes in tax rates are required to be taken into consideration in the period in which the changes are enacted, regardless of when they are effective. As the result of the reduction of the corporate income tax rate under the TCJA, the Company estimated the revaluation of its net deferred tax liabilities and recorded a provisional income tax benefit of approximately \$1.5 billion for year ended December 31, 2017. The Company has not completed all of its processes to determine the TCJA's final impact. The final impact may differ from this provisional amount due to, among other things, changes in interpretations and assumptions the Company has made thus far and the issuance of additional regulatory or other guidance. The accounting is expected to be completed by the time the 2017 federal corporate income tax return is filed in 2018.

The following table is a reconciliation of the statutory income tax rate to the Company's effective income tax rate for continuing operations for the years ended December 31:

	2017	2016	2015
Statutory income tax rate	35.0 %	35.0 %	35.0 %
State income taxes, net of federal tax benefit	4.1	4.1	4.0
Provisional effect of the Tax Cuts and Jobs Act	(18.3)	—	—
Other	(1.0)	(0.7)	0.3
Effective income tax rate	<u>19.8 %</u>	<u>38.4 %</u>	<u>39.3 %</u>

Notes to Consolidated Financial Statements (continued)

The Company has \$3.0 billion and \$4.2 billion of net deferred income tax liabilities as of December 31, 2017 and 2016, respectively. The following table is a summary of the components of the Company's deferred income tax assets and liabilities as of December 31:

<i>In millions</i>	2017	2016
Deferred income tax assets:		
Lease and rents	\$ 291	\$ 375
Inventory	31	57
Employee benefits	246	400
Allowance for doubtful accounts	187	301
Retirement benefits	40	65
Net operating loss and capital loss carryforwards	101	125
Deferred income	93	144
Other	18	336
Valuation allowance	(77)	(135)
Total deferred income tax assets	930	1,668
Deferred income tax liabilities:		
Depreciation and amortization	(3,926)	(5,882)
Total deferred income tax liabilities	(3,926)	(5,882)
Net deferred income tax liabilities	\$ (2,996)	\$ (4,214)

The Company assesses positive and negative evidence to determine whether it is more likely than not some portion of a deferred tax asset would not be realized. When it would not, a valuation allowance is established for such portion of a deferred tax asset.

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

<i>In millions</i>	2017	2016	2015
Beginning balance	\$ 307	\$ 338	\$ 188
Additions based on tax positions related to the current year	62	68	57
Additions based on tax positions related to prior years	32	70	122
Reductions for tax positions of prior years	(28)	(100)	(11)
Expiration of statutes of limitation	(10)	(22)	(13)
Settlements	(19)	(47)	(5)
Ending balance	\$ 344	\$ 307	\$ 338

The Company and most of its subsidiaries are subject to U.S. federal income tax as well as income tax of numerous state and local jurisdictions. The Company is a participant in the Compliance Assurance Process ("CAP"), which is a program made available by the Internal Revenue Service ("IRS") to certain qualifying large taxpayers, under which participants work collaboratively with the IRS to identify and resolve potential tax issues through open, cooperative and transparent interaction prior to the annual filing of their federal income tax return. The IRS is currently examining the Company's 2016 and 2017 consolidated U.S. federal income tax returns.

The Company and its subsidiaries are also currently under income tax examinations by a number of state and local tax authorities. As of December 31, 2017, no examination has resulted in any proposed adjustments that would result in a material change to the Company's results of operations, financial condition or liquidity.

Substantially all material state and local income tax matters have been concluded for fiscal years through 2011. Certain state exams are expected to/likely to be concluded and certain state statutes will lapse in 2018, but the change in the balance of our uncertain tax positions will be immaterial. In addition, it is reasonably possible that the Company's unrecognized tax benefits could change within the next twelve months due to the anticipated conclusion of various

Notes to Consolidated Financial Statements (continued)

examinations with the IRS for various years. An estimate of the range of the possible change cannot be made at this time.

The Company records interest expense related to unrecognized tax benefits and penalties in income tax expense. The Company accrued interest expense of approximately \$11 million in 2017, \$10 million in 2016 and \$5 million in 2015. The Company had approximately \$34 million and \$30 million accrued for interest and penalties as of December 31, 2017 and 2016, respectively.

There are no material uncertain tax positions as of December 31, 2017 the ultimate deductibility of which is highly certain but for which there is uncertainty about the timing.

As of December 31, 2017, the total amount of unrecognized tax benefits that, if recognized, would affect the effective income tax rate is approximately \$317 million, after considering the federal benefit of state income taxes.

12 Commitments and Contingencies

Lease Guarantees

Between 1995 and 1997, the Company sold or spun off a number of subsidiaries, including Bob's Stores, Linens 'n Things, and Marshalls. In many cases, when a former subsidiary leased a store, the Company provided a guarantee of the store's lease obligations. When the subsidiaries were disposed of and accounted for as discontinued operations, the Company's guarantees remained in place, although each initial purchaser has agreed to indemnify the Company for any lease obligations the Company was required to satisfy. If any of the purchasers or any of the former subsidiaries were to become insolvent and failed to make the required payments under a store lease, the Company could be required to satisfy these obligations. As of December 31, 2017, the Company guaranteed approximately 85 such store leases (excluding the lease guarantees related to Linens 'n Things, which have been recorded as a liability on the consolidated balance sheet), with the maximum remaining lease term extending through 2029.

Legal Matters

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

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

- *Indiana State District Council of Laborers and HOD Carriers Pension and Welfare Fund v. Omnicare, Inc., et al.* (U.S. District Court for the Eastern District of Kentucky). In February 2006, two substantially similar putative class action lawsuits were filed and subsequently consolidated. The consolidated complaint was filed against Omnicare, three of its officers and two of its directors and purported to be brought on behalf of all open-market purchasers of Omnicare common stock from August 3, 2005 through July 27, 2006, as well as all purchasers who bought shares of Omnicare common stock in Omnicare's public offering in December 2005. The complaint alleged violations of the Securities Exchange Act of 1934 and Section 11 of the Securities Act of 1933 and sought, among other things, compensatory damages and injunctive relief. After dismissals and appeals to the United States Court of Appeals for the Sixth Circuit, the United States Supreme Court remanded the case to the district court. In October 2016, Omnicare filed an answer to plaintiffs' third amended complaint, and

Notes to Consolidated Financial Statements (continued)

discovery commenced. In August 2017, the plaintiffs moved for class certification, which Omnicare has opposed.

- *FTC and Multi-State Investigation.* In March 2010, the Company learned that various State Attorneys General offices and certain other government agencies were conducting a multi-state investigation of certain of the Company's business practices similar to those being investigated at that time by the U.S. Federal Trade Commission ("FTC"). Twenty-eight states, the District of Columbia and the County of Los Angeles are known to be participating in this investigation. The prior FTC investigation, which commenced in August 2009, was officially concluded in May 2012 when the consent order entered into between the FTC and the Company became final. The Company has cooperated with the multi-state investigation.
- *United States ex rel. Jack Chin v. Walgreen Company, et al.* (U.S. District Court for the Central District of California). In March 2010, the Company received a subpoena from the U.S. Department of Health and Human Services, Office of the Inspector General requesting information about programs under which the Company has offered customers remuneration conditioned upon the transfer of prescriptions for drugs or medications to the Company's pharmacies in the form of gift cards, cash, non-prescription merchandise or discounts or coupons for non-prescription merchandise. In October 2016, the U.S. District Court for the Central District of California unsealed a *qui tam* complaint, filed in April 2009 against CVS Pharmacy and other retail pharmacies, alleging that the Company violated the federal False Claims Act, and the False Claims Acts of several states, by offering such programs. The complaint was served on the Company in January 2017. In December 2017, the same court unsealed a second *qui tam* complaint filed by the same relator in September 2017. The complaint is based on the same factual allegations but asserts a legal theory the Court did not permit him to add to the original case. The federal government has declined intervention in both cases. The Company is defending both lawsuits.
- *United States ex rel. Anthony R. Spay v. CVS Caremark Corporation, et al.* (U.S. District Court for the Eastern District of Pennsylvania). In January 2012, the court unsealed a first amended *qui tam* complaint filed in August 2011 by an individual relator, Anthony Spay, who is described in the complaint as having once been employed by a firm providing pharmacy prescription benefit audit and recovery services. The complaint seeks monetary damages and alleges that CVS Caremark's processing of Medicare claims on behalf of one of its clients violated the federal False Claims Act. The United States declined to intervene in the lawsuit. In September 2015, the Court granted CVS Caremark's motion for summary judgment in its entirety, and entered judgment in favor of CVS Caremark and against Spay. Spay appealed. In December 2017, the United States Court of Appeals for the Third Circuit affirmed the court's judgment in favor of CVS Caremark.
- *State of Texas ex rel. Myron Winkelman and Stephani Martinson, et al. v. CVS Health Corporation,* (Travis County Texas District Court). In February 2012, the Attorney General of the State of Texas issued Civil Investigative Demands and has issued a series of subsequent requests for documents and information in connection with its investigation concerning the CVS Health Savings Pass program and other pricing practices with respect to claims for reimbursement from the Texas Medicaid program. In January 2017, the court unsealed a first amended petition. The amended petition alleges the Company violated the Texas Medicaid Fraud Prevention Act by submitting false claims for reimbursement to Texas Medicaid by, among other things, failing to use the price available to members of the CVS Health Savings Pass program as the usual and customary price. The amended petition was unsealed following the Company's filing of *CVS Pharmacy, Inc. v. Charles Smith, et al.* (Travis County District Court), a declaratory judgment action against the State of Texas in December 2016 seeking a declaration that the prices charged to members of the CVS Health Savings Pass program do not constitute usual and customary prices under the Medicaid regulation. The State of Texas is also pursuing temporary injunctive relief.
- *Subpoena Concerning PBM Administrative Fees.* In March 2014, the Company received a subpoena from the United States Attorney's Office for the District of Rhode Island, requesting documents and information concerning bona fide service fees and rebates received from pharmaceutical manufacturers in connection with certain drugs utilized under Medicare Part D, as well as the reporting of those fees and rebates to Part D plan

Notes to Consolidated Financial Statements (continued)

sponsors. The Company has been cooperating with the government and providing documents and information in response to the subpoena.

- *Corcoran et al. v. CVS Health Corporation* (U.S. District Court for the Northern District of California) and *Podgorny et al. v. CVS Health Corporation* (U.S. District Court for the Northern District of Illinois). These putative class actions were filed against the Company in July and September 2015. The cases were consolidated in United States District Court in the Northern District of California. Plaintiffs seek damages and injunctive relief on behalf of a class of consumers who purchased certain prescription drugs under the consumer protection statutes and common laws of certain states. Several third-party payors filed similar putative class actions on behalf of payors captioned *Sheet Metal Workers Local No. 20 Welfare and Benefit Fund v. CVS Health Corp.* and *Plumbers Welfare Fund, Local 130 v. CVS Health Corporation* (both pending in the U.S. District Court for the District of Rhode Island) in February and August 2016. In all of these cases the plaintiffs allege the Company overcharged for certain prescription drugs by not submitting the price available to members of the CVS Health Savings Pass program as the pharmacy's usual and customary price. In the consumer case (Corcoran), the Court granted summary judgment to CVS on plaintiffs' claims in their entirety and certified certain subclasses in September 2017. The plaintiffs have filed a notice of appeal to the Ninth Circuit. The Company continues to defend these actions.
- *Omnicare DEA Subpoena*. In September 2015, Omnicare was served with an administrative subpoena by the U.S. Drug Enforcement Administration ("DEA"). The subpoena seeks documents related to controlled substance policies, procedures, and practices at eight pharmacy locations from May 2012 to the present. In September 2017, the DEA expanded the investigation to include an additional pharmacy. The Company has been cooperating and providing documents in response to this administrative subpoena.
- *Omnicare Cycle Fill Civil Investigative Demand*. In October 2015, Omnicare received a Civil Investigative Demand from the United States Attorney's Office for the Southern District of New York requesting information and documents concerning Omnicare's cycle fill process for assisted living facilities. The Company has been cooperating with the government and providing documents and information in response to the Civil Investigative Demand. In July 2017, Omnicare also received a subpoena from the California Department of Insurance requesting documents on similar subject matter.
- *PBM Pricing Civil Investigative Demand*. In October 2015, the Company received from the U.S. Department of Justice (the "DOJ") a Civil Investigative Demand requesting documents and information in connection with a federal False Claims Act investigation concerning allegations that the Company submitted, or caused to be submitted, to the Medicare Part D program prescription drug event data that misrepresented true prices paid by the Company's PBM to pharmacies for drugs dispensed to Part D beneficiaries with prescription benefits administered by the Company's PBM. The Company has been cooperating with the government and providing documents and information in response to the Civil Investigative Demand.
- *United States ex rel. Sally Schimelpfenig and John Segura v. Dr. Reddy's Laboratories Limited and Dr. Reddy's Laboratories, Inc.* (U.S. District Court for the Eastern District of Pennsylvania). In November 2015, the court unsealed a second amended *qui tam* complaint filed in September 2015. The DOJ declined to intervene in this action. The relators allege that the Company, Walgreens, Wal-Mart, and Dr. Reddy's Laboratories violated the federal and various state False Claims Acts by dispensing prescriptions in unit dose packaging supplied by Dr. Reddy's that was not compliant with the Consumer Product Safety Improvement Act and the Poison Preventive Packaging Act and thereby allegedly rendering the drugs misbranded under the Food, Drug and Cosmetic Act. In March 2017, the Court granted the Company's motion to dismiss with leave to file an amended complaint. In June 2017, the Company moved to dismiss relators' third amended complaint.
- *Barchock et al. v. CVS Health Corporation, et al.* (U.S. District Court for the District of Rhode Island). In February 2016, a class action lawsuit was filed against the Company, the Benefit Plans Committee of the Company, and Galliard Capital Management, Inc., by Mary Barchock, Thomas Wasecko, and Stacy Weller,

Notes to Consolidated Financial Statements (continued)

purportedly on behalf of the 401(k) Plan and the Employee Stock Ownership Plan of the Company (the “Plan”), and participants in the Plan. The complaint alleged that the defendants breached fiduciary duties owed to the plaintiffs and the Plan by investing too much of the Plan’s Stable Value Fund in short-term money market funds and cash management accounts. The court recently granted the Company’s motion to dismiss the plaintiffs’ amended complaint. In May 2017, plaintiffs appealed that ruling in the United States Court of Appeals for the First Circuit.

- *State of California ex rel. Matthew Omlansky v. CVS Caremark Corporation* (Superior Court of the State of California, County of Sacramento). In April 2016, the court unsealed a first amended *qui tam* complaint filed in July 2013. The government has declined intervention in this case. The relator alleges that the Company submitted false claims for payment to California Medicaid in connection with reimbursement for drugs available through the CVS Health Savings Pass program as well as certain other generic drugs. The case has been stayed pending the relator’s appeal of the judgment against him in a similar case against another retailer.
- *Retail DEA Matters*. The Company has been also undergoing several audits by the DEA Administrator and is in discussions with the DEA and the U.S. Attorney’s Offices in several locations concerning allegations that the Company has violated certain requirements of the Controlled Substance Act.
- *National Opioid Litigation*. In December 2017, the United States Judicial Panel on Multidistrict Litigation ordered consolidated numerous cases filed against various defendants by plaintiffs such as counties, cities, hospitals, Indian tribes, and third-party payors, alleging claims generally concerning the impacts of widespread opioid abuse. The consolidated multidistrict litigation is *In re National Prescription Opiate Litigation* (MDL No. 2804), pending in the U.S. District Court for the Northern District of Ohio. This multidistrict litigation presumptively includes relevant federal court cases that name the Company, including actions filed by several counties in West Virginia; actions filed by several counties and cities in Michigan; actions filed by hospitals in Florida and Mississippi; and an action filed by the St. Croix Chippewa Indians of Wisconsin. Similar cases that name the Company in some capacity have been filed in state courts, including cases filed by Shelby County, Tennessee, *Shelby County (Tennessee) v. Purdue Pharma, L.P., et al.* (Shelby County Circuit Court, No. CT-004500-17), and several counties in West Virginia, *Brooke County (West Virginia) et al. v. Purdue Pharma, L.P., et al.* (Marshall County Circuit Court, Nos. 17-C-248 – 17-C-255). The Company is defending all such matters.
- *Cherokee Nation Opioid Litigation*. In April 2017, the Company was named as a defendant in an action filed on behalf of the Cherokee Nation in the District Court of Cherokee Nation (the “Cherokee Action”) asserting various causes of action allegedly arising from the widespread abuse of opioids. In June 2017, the Company filed a motion to dismiss the Cherokee Action. The Cherokee Nation has since filed an amended petition in the Cherokee Action. Also in June 2017, the six defendants in the Cherokee Action collectively filed a complaint in the U.S. District Court for the Northern District of Oklahoma, *McKesson, et al. v. Hembree, et al.*, seeking a declaration and preliminary injunction prohibiting the District Court of Cherokee Nation from exercising jurisdiction over the Cherokee Action. In January 2018, the U.S. District Court granted the preliminary injunction motion and issued an order enjoining the Cherokee Nation Attorney General and the judicial officers of the Cherokee Nation District Court from taking any action with respect to the Cherokee Action pending resolution of the federal court case.
- *State of Mississippi v. CVS Health Corporation, et al.* (Chancery Court of DeSoto County, Mississippi, Third Judicial District). In July 2016, the Company was served with a complaint filed on behalf of the State of Mississippi alleging that CVS retail pharmacies in Mississippi submitted false claims for reimbursement to Mississippi Medicaid by not submitting the price available to members of the CVS Health Savings Pass program as the pharmacy’s usual and customary price. The Company has responded to the complaint, filed a counterclaim, and moved to transfer the case to circuit court. The motion to transfer was granted, which the State has appealed, and the motion to dismiss remains pending.

Notes to Consolidated Financial Statements (continued)

- *Part B Insulin Products Civil Investigative Demand*. In December 2016, the Company received a Civil Investigative Demand from the U.S. Attorney's Office for the Northern District of New York, requesting documents and information in connection with a False Claims Act investigation concerning whether the Company's retail pharmacies improperly submitted certain insulin claims to Medicare Part D rather than Part B. The Company has cooperated with the government and provided documents and information in response to the Civil Investigative Demand.
- *Cold Chain Logistics Civil Investigative Demand*. In September 2016, the Company received from the DOJ a Civil Investigative Demand in connection with an investigation as to whether the Company's handling of certain temperature-sensitive pharmaceuticals violates the federal Food, Drug and Cosmetic Act and the False Claims Act. The Company has been cooperating with the government and providing documents and information in response to the Civil Investigative Demand.
- *Amburgey, et al. v. CaremarkPCS Health, L.L.C.* (U.S. District Court for the Central District of California). In March 2017, the Company was served with a complaint challenging the policies and procedures used by CVS Specialty pharmacies to ship temperature-sensitive medications. The case is similar to a matter already pending against the Company in the Superior Court of California (Los Angeles County), *Bertram v. Immunex Corp.*, et al., which was filed in October 2014. In November 2017, the plaintiffs voluntarily dismissed the *Amburgey* case without prejudice. The Company continues to defend the *Bertram* matter.
- *Barnett, et al. v. Novo Nordisk Inc.*, et al. and *Boss, et al. v. CVS Health Corporation*, et al., and *Christensen, et al., v. Novo Nordisk Inc.* et al., (all pending in the U.S. District Court for the District of New Jersey). These putative class actions were filed against the Company and other PBMs and manufacturers of insulin in March and April 2017. Plaintiffs in all cases allege that the PBMs and manufacturers have engaged in a conspiracy whereby the PBMs sell access to their formularies by demanding the highest rebates, which in turn causes increased list prices for insulin. The primary claims are antitrust claims, claims under the Racketeer Influenced and Corrupt Organizations Act ("RICO"), violations of state unfair competition and consumer protection laws and in *Boss*, claims pursuant to the Employee Retirement Income Security Act ("ERISA"). In December 2017, the attorney appointed as interim lead counsel in *Barnett, Boss* and *Christensen* filed a consolidated amended class action complaint in a related action, *In re Insulin Pricing Litigation*, against only the drug manufacturers, and not against the PBMs.
- *Insulin Products Investigation*. In April 2017, the Company received a Civil Investigative Demand from the Attorney General of Washington, seeking documents and information regarding pricing and rebates for insulin products in connection with a pending investigation into unfair and deceptive acts or practice regarding insulin pricing. We have been notified by the Office of the Attorney General of Washington that information provided in response to the Civil Investigative Demand will be shared with the Attorneys General of California, Florida, Minnesota, New Mexico and the District of Columbia. In July 2017, the Company received a Civil Investigative Demand from the Attorney General of Minnesota, seeking documents and information regarding pricing and rebates for insulin and epinephrine products in connection with a pending investigation into unfair and deceptive acts or practices regarding insulin and epinephrine pricing.
- *Bewley, et al. v. CVS Health Corporation*, et al. and *Prescott, et al. v. CVS Health Corporation*, et al. (both pending in the U.S. District Court for the Western District of Washington). These putative class actions were filed in May 2017 against the Company and other pharmacy benefit managers and manufacturers of glucagon kits (*Bewley*) and diabetes test strips (*Prescott*). Both cases allege that, by contracting for rebates with the manufacturers of these diabetes products, the Company and other PBMs caused list prices for these products to increase, thereby harming certain consumers. The primary claims are made under federal antitrust laws, RICO, state unfair competition and consumer protection laws, and ERISA. These cases have both been transferred to the United States District Court for the District of New Jersey on defendants' motions. The Company is defending these lawsuits.

Notes to Consolidated Financial Statements (continued)

- *Klein , et al. v. Prime Therapeutics , et al.* (U.S. District Court for the District of Minnesota). In June 2017, a putative class action complaint was filed against the Company and other pharmacy benefit managers on behalf of ERISA plan members who purchased and paid for EpiPen or EpiPen Jr. Plaintiffs allege that the pharmacy benefit managers are ERISA fiduciaries to plan members and have violated ERISA by allegedly causing higher inflated prices for EpiPen through the process of negotiating increased rebates from EpiPen manufacturer, Mylan. The Company is defending this lawsuit.
- *Medicare Part D Civil Investigative Demand*. In May 2017, the United States Attorney's Office for the Southern District of New York issued a Civil Investigative Demand to the Company concerning possible false claims submitted to Medicare in connection with reimbursements for prescription drugs under the Medicare Part D program. The Company has been cooperating with the government and providing documents and information in response to the Civil Investigative Demand.
- *Shareholder Matters*. In August and September 2017, four complaints were filed by putative derivative plaintiffs against certain officers and directors of the Company. Three of those actions, *Sherman v. Merlo, et al.*, *Feghali v. Merlo, et al.*, and *Banchalter v. Merlo, et al.*, were filed in the U.S. District Court for the District of Rhode Island. A fourth, *Boron v. Bracken, et al.*, was filed in Rhode Island Superior Court. These matters assert a variety of causes of action, including breach of fiduciary duty, waste of corporate assets, unjust enrichment, civil conspiracy and violation of Section 14(a) of the Exchange Act, and are premised on the allegation that the defendants approved business plans that exposed the Company to various litigations and investigations. The three federal matters have been stayed pending resolution of certain of the underlying matters, and the Company has filed a motion to stay the state court action.
- *MSP Recovery Claims Series, LLC , et al. v. CVS Health Corporation , et al.* (U.S. District Court for the Western District of Texas). In September 2017, a putative class action complaint was filed against the company, Express Scripts, Inc., and the manufacturers of insulin on behalf of assignees of claims of Medicare Advantage Organizations. Plaintiffs assert that the PBMs and manufacturers have engaged in a conspiracy whereby the PBMs sell access to their formularies by demanding the highest rebates, which in turn causes increased list prices for insulin. The plaintiffs assert claims on behalf of two putative classes: (1) all Medicare C payors and (2) all Medicare D payors. The complaint asserts claims under RICO, and for common law fraud and unjust enrichment.

The Company is also a party to other legal proceedings, government investigations, inquiries and audits, and has received and is cooperating with subpoenas or similar process from various governmental agencies requesting information, all arising in the normal course of its business, none of which is expected to be material to the Company. The Company can give no assurance, however, that its business, financial condition and results of operations will not be materially adversely affected, or that the Company will not be required to materially change its business practices, based on: (i) future enactment of new health care or other laws or regulations; (ii) the interpretation or application of existing laws or regulations as they may relate to the Company's business, the pharmacy services, specialty pharmacy, retail pharmacy, long-term care pharmacy or retail clinic industries or to the health care industry generally; (iii) pending or future federal or state governmental investigations of the Company's business or the pharmacy services, specialty pharmacy, retail pharmacy, long-term care pharmacy or retail clinic industry or of the health care industry generally; (iv) pending or future government enforcement actions against the Company; (v) adverse developments in any pending *qui tam* lawsuit against the Company, whether sealed or unsealed, or in any future *qui tam* lawsuit that may be filed against the Company; or (vi) adverse developments in pending or future legal proceedings against the Company or affecting the pharmacy services, specialty pharmacy, retail pharmacy, long-term care pharmacy or retail clinic industry or the health care industry generally.

13 Segment Reporting

The Company currently has three reportable segments: Pharmacy Services, Retail/LTC and Corporate. The Retail/LTC Segment includes the operating results of the Company's Retail Pharmacy and LTC/RxCrossroads operating segments as the operations and economics characteristics are similar. The Company's segments maintain separate financial information for which operating results are evaluated on a regular basis by the Company's chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Company evaluates its Pharmacy Services and Retail/LTC segments' performance based on net revenue, gross profit and operating profit before the effect of nonrecurring charges and gains and certain intersegment activities. The Company evaluates the performance of its Corporate Segment based on operating expenses before the effect of nonrecurring charges and gains and certain intersegment activities. The chief operating decision maker does not use total assets by segment to make decisions regarding resources, therefore the total asset disclosure by segment has not been included. See Note 1 "Significant Accounting Policies" for a description of the Pharmacy Services, Retail/LTC and Corporate segments and related significant accounting policies.

In 2017, 2016 and 2015, approximately 12.3%, 11.7% and 10.0%, respectively, of the Company's consolidated net revenues were from Aetna, a Pharmacy Services Segment client. More than 99% of the Company's consolidated net revenues are earned in, and long-lived assets are located in the United States.

Notes to Consolidated Financial Statements (continued)

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

<i>In millions</i>	Pharmacy Services Segment ⁽⁴⁾⁽²⁾	Retail/LTC Segment ⁽²⁾	Corporate Segment	Intersegment Eliminations ⁽²⁾	Consolidated Totals
2017:					
Net revenues	\$ 130,596	\$ 79,398	\$ —	\$ (25,229)	\$ 184,765
Gross profit ⁽³⁾	6,040	23,317	—	(812)	28,545
Operating profit (loss) ⁽⁴⁾⁽⁵⁾	4,755	6,469	(966)	(741)	9,517
Depreciation and amortization	712	1,651	117	—	2,480
Additions to property and equipment	311	1,398	340	—	2,049
2016:					
Net revenues	119,963	81,100	—	(23,537)	\$ 177,526
Gross profit ⁽³⁾	5,901	23,738	—	(782)	28,857
Operating profit (loss) ⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	4,676	7,302	(891)	(721)	10,366
Depreciation and amortization	714	1,642	119	—	2,475
Additions to property and equipment	295	1,732	252	—	2,279
2015:					
Net revenues	100,363	72,007	—	(19,080)	\$ 153,290
Gross profit	5,227	21,992	—	(691)	26,528
Operating profit (loss) ⁽⁴⁾⁽⁵⁾⁽⁷⁾	3,992	7,146	(1,035)	(628)	9,475
Depreciation and amortization	654	1,336	102	—	2,092
Additions to property and equipment	359	1,883	125	—	2,367

- (5) Net revenues of the Pharmacy Services Segment include approximately \$10.8 billion, \$10.5 billion and \$8.9 billion of Retail Co-Payments for 2017, 2016 and 2015, respectively. See Note 1 "Significant Accounting Policies" to the consolidated financial statements for additional information about Retail Co-Payments.
- (6) Intersegment eliminations relate to intersegment revenue generating activities that occur between the Pharmacy Services Segment and the Retail/LTC Segment. These occur in the following ways: when members of Pharmacy Services Segment clients ("members") fill prescriptions at the Company's retail pharmacies to purchase covered products, when members enrolled in programs such as Maintenance Choice *elect to pick up maintenance prescriptions at one of the Company's retail pharmacies instead of receiving them through the mail, or when members have prescriptions filled at the Company's long-term care pharmacies. When these occur, both the Pharmacy Services and Retail/LTC segments record the revenues, gross profit and operating profit on a standalone basis.
- (7) The Retail/LTC Segment gross profit for the years ended December 31, 2017 and 2016 includes \$2 million and \$46 million, respectively of acquisition-related integration costs. The integration costs in 2017 are related to the acquisition of Omnicare and the integration costs in 2016 are related to the acquisitions of Omnicare and the pharmacies and clinics of Target.
- (8) The Retail/LTC Segment operating profit for the year ended December 31, 2017 includes \$215 million of charges associated with store closures and \$181 million of goodwill impairment charges related to its RxCrossroads reporting unit. The Retail/LTC Segment operating profit for the year ended December 31, 2016 includes a \$34 million asset impairment charge in connection with planned store closures in 2017 related to the Company's enterprise streamlining initiative. The Retail/LTC Segment operating profit for the years ended December 31, 2017, 2016 and 2015, include \$34 million, \$281 million and \$64 million, respectively, of acquisition-related integration costs. The integration costs in 2017 are related to the acquisition of Omnicare and the integration costs in 2016 are related to the acquisitions of Omnicare and the pharmacies and clinics of Target.
- (9) The Corporate Segment operating loss for the year ended December 31, 2017 includes a \$3 million reduction in integration costs for a change in estimate related to the acquisition of Omnicare. In addition, the Corporate Segment operating loss for the year ended December 31, 2017 includes \$34 million in acquisition-related transaction costs related to the proposed Aetna acquisition and \$9 million of transaction costs related to the divestiture of RxCrossroads. For the year ended December 31, 2016, the Corporate Segment operating loss includes \$10 million of integration costs related to the acquisitions of Omnicare and the pharmacies and clinics of Target. For the year ended December 31, 2015, the Corporate Segment operating loss includes \$156 million of acquisition-related transaction and integration costs related to the acquisitions of Omnicare and the pharmacies and clinics of Target. The Corporate Segment operating loss for 2015 also includes a \$90 million charge related to a legacy lawsuit challenging the 1999 legal settlement by MedPartners of various securities class actions and a related derivative claim.
- (10) The Pharmacy Services Segment operating profit for the year ended December 31, 2016 includes the reversal of an accrual of \$88 million in connection with a legal settlement.
- (11) Amounts revised to reflect the adoption of ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which increased consolidated operating profit by \$28 and \$21 million for the years ended December 31, 2016 and 2015, respectively.

Notes to Consolidated Financial Statements (continued)

14 Earnings Per Share

The following is a reconciliation of basic and diluted earnings per share from continuing operations for the years ended December 31:

<i><u>In millions, except per share amounts</u></i>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Numerator for earnings per share calculation:			
Income from continuing operations	\$ 6,631	\$ 5,320	\$ 5,230
Income allocated to participating securities	(24)	(27)	(26)
Net income attributable to noncontrolling interest	(1)	(2)	(2)
Income from continuing operations attributable to CVS Health	<u>\$ 6,606</u>	<u>\$ 5,291</u>	<u>\$ 5,202</u>
Denominator for earnings per share calculation:			
Weighted average shares, basic	1,020	1,073	1,118
Effect of dilutive securities	4	6	8
Weighted average shares, diluted	<u>1,024</u>	<u>1,079</u>	<u>1,126</u>
Earnings per share from continuing operations:			
Basic	\$ 6.48	\$ 4.93	\$ 4.65
Diluted	\$ 6.45	\$ 4.91	\$ 4.62

Notes to Consolidated Financial Statements (continued)

15 Quarterly Financial Information (Unaudited)

<i>In millions, except per share amounts</i>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Year</u>
2017:					
Net revenues	\$ 44,514	\$ 45,685	\$ 46,181	\$ 48,385	\$ 184,765
Gross profit	6,580	6,935	7,126	7,904	28,545
Operating profit	1,793	2,117	2,499	3,108	9,517
Income from continuing operations	962	1,097	1,285	3,287	6,631
Income (loss) from discontinued operations, net of tax	(9)	1	—	—	(8)
Net income attributable to CVS Health	952	1,098	1,285	3,287	6,622
Basic earnings per share:					
Income from continuing operations attributable to CVS Health	\$ 0.93	\$ 1.07	\$ 1.26	\$ 3.23	\$ 6.48
Income (loss) from discontinued operations attributable to CVS Health	\$ (0.01)	\$ —	\$ —	\$ —	\$ (0.01)
Net income attributable to CVS Health	\$ 0.92	\$ 1.07	\$ 1.26	\$ 3.23	\$ 6.47
Diluted earnings per share:					
Income from continuing operations attributable to CVS Health	\$ 0.92	\$ 1.07	\$ 1.26	\$ 3.22	\$ 6.45
Income (loss) from discontinued operations attributable to CVS Health	\$ (0.01)	\$ —	\$ —	\$ —	\$ (0.01)
Net income attributable to CVS Health	\$ 0.92	\$ 1.07	\$ 1.26	\$ 3.22	\$ 6.44
Dividends per share	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.50	\$ 2.00
Stock price: (New York Stock Exchange)					
High	\$ 83.92	\$ 82.79	\$ 83.31	\$ 80.91	\$ 83.92
Low	\$ 74.80	\$ 75.95	\$ 75.35	\$ 66.80	\$ 66.80

Notes to Consolidated Financial Statements (continued)

<i>In millions, except per share amounts</i>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Year</u>
2016:					
Net revenues	\$ 43,215	\$ 43,725	\$ 44,615	\$ 45,971	\$ 177,526
Gross profit	6,744	7,015	7,492	7,606	28,857
Operating profit	2,185	2,357	2,824	3,000	10,366
Income from continuing operations	1,147	924	1,542	1,707	5,320
Loss from discontinued operations, net of tax	—	—	(1)	—	(1)
Net income attributable to CVS Health	1,146	924	1,540	1,707	5,317
Basic earnings per share:					
Income from continuing operations attributable to CVS Health	\$ 1.04	\$ 0.86	\$ 1.44	\$ 1.60	\$ 4.93
Income (loss) from discontinued operations attributable to CVS Health	\$ —	\$ —	\$ —	\$ —	\$ —
Net income attributable to CVS Health	\$ 1.04	\$ 0.86	\$ 1.44	\$ 1.60	\$ 4.93
Diluted earnings per share:					
Income from continuing operations attributable to CVS Health	\$ 1.04	\$ 0.86	\$ 1.43	\$ 1.59	\$ 4.91
Income (loss) from discontinued operations attributable to CVS Health	\$ —	\$ —	\$ —	\$ —	\$ —
Net income attributable to CVS Health	\$ 1.04	\$ 0.86	\$ 1.43	\$ 1.59	\$ 4.90
Dividends per share	\$ 0.425	\$ 0.425	\$ 0.425	\$ 0.425	\$ 1.70
Stock price: (New York Stock Exchange)					
High	\$ 104.05	\$ 106.10	\$ 98.06	\$ 88.80	\$ 106.10
Low	\$ 89.65	\$ 93.21	\$ 88.99	\$ 73.53	\$ 73.53

Five-Year Financial Summary

<i>In millions, except per share amounts</i>	2017	2016	2015	2014	2013
Statement of operations data:					
Net revenues	\$ 184,765	\$ 177,526	\$ 153,290	\$ 139,367	\$ 126,761
Gross profit	28,545	28,857	26,528	25,367	23,783
Operating expenses ⁽¹⁾	19,028	18,491	17,053	16,545	15,713
Operating profit	9,517	10,366	9,475	8,822	8,070
Interest expense, net	1,041	1,058	838	600	509
Loss on early extinguishment of debt	—	643	—	521	—
Other expense ⁽¹⁾	208	28	21	23	33
Income tax provision	1,637	3,317	3,386	3,033	2,928
Income from continuing operations	6,631	5,320	5,230	4,645	4,600
Income (loss) from discontinued operations, net of tax	(8)	(1)	9	(1)	(8)
Net income	6,623	5,319	5,239	4,644	4,592
Net income attributable to noncontrolling interest	(1)	(2)	(2)	—	—
Net income attributable to CVS Health	\$ 6,622	\$ 5,317	\$ 5,237	\$ 4,644	\$ 4,592
Per share data:					
Basic earnings per share:					
Income from continuing operations attributable to CVS Health	\$ 6.48	\$ 4.93	\$ 4.65	\$ 3.98	\$ 3.78
Income (loss) from discontinued operations attributable to CVS Health	\$ (0.01)	\$ —	\$ 0.01	\$ —	\$ (0.01)
Net income attributable to CVS Health	\$ 6.47	\$ 4.93	\$ 4.66	\$ 3.98	\$ 3.77
Diluted earnings per share:					
Income from continuing operations attributable to CVS Health	\$ 6.45	\$ 4.91	\$ 4.62	\$ 3.96	\$ 3.75
Income (loss) from discontinued operations attributable to CVS Health	\$ (0.01)	\$ —	\$ 0.01	\$ —	\$ (0.01)
Net income attributable to CVS Health	\$ 6.44	\$ 4.90	\$ 4.63	\$ 3.96	\$ 3.74
Cash dividends per share	\$ 2.00	\$ 1.70	\$ 1.40	\$ 1.10	\$ 0.90
Balance sheet and other data:					
Total assets	\$ 95,131	\$ 94,462	\$ 92,437	\$ 73,202	\$ 70,550
Long-term debt	\$ 22,181	\$ 25,615	\$ 26,267	\$ 11,630	\$ 12,767
Total shareholders' equity	\$ 37,695	\$ 36,834	\$ 37,203	\$ 37,963	\$ 37,938
Number of stores (at end of year)	9,846	9,750	9,681	7,866	7,702

- (1) As of January 1, 2017, the Company adopted Accounting Standards Update ("ASU") 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which resulted in a retrospective reclassification of \$28 million, \$21 million, \$23 million and \$33 million of net benefit costs from operating expenses to other expense in the years ended December 31, 2016, 2015, 2014, and 2013, respectively.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of CVS Health Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of CVS Health Corporation (the Company) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 14, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2007.

Boston, Massachusetts
February 14, 2018

SUBSIDIARIES OF THE REGISTRANT

As of December 31, 2017, CVS Health Corporation had the following significant subsidiaries:

Caremark, L.L.C. (a California limited liability company)
CaremarkPCS Health, L.L.C. (a Delaware limited liability company)
Caremark Rx, L.L.C. (a Delaware limited liability company)⁽¹⁾
CVS Caremark Part D Services, L.L.C. (a Delaware limited liability company)
CVS Pharmacy, Inc. (a Rhode Island corporation)⁽²⁾
Omnicare, Inc. (a Delaware corporation)⁽³⁾
SilverScript Insurance Company (a Tennessee corporation)

- (1) Caremark Rx, L.L.C., the parent of the Registrant's pharmacy services subsidiaries, is the immediate or indirect parent of many mail order, pharmacy benefit management, infusion, Medicare Part D, insurance, specialty mail and retail specialty pharmacy subsidiaries, all of which operate in the United States and its territories.
- (2) CVS Pharmacy, Inc. is the immediate or indirect parent of approximately 60 entities that operate drugstores, all of which drugstores are in the United States and its territories except approximately 42 drugstores that are operated by Drogaria Onofre Ltda., a Brazil limited liability company that is an indirect subsidiary of CVS Pharmacy, Inc.
- (3) Omnicare, Inc., the parent of the Registrant's long-term care subsidiaries, is the immediate or indirect parent of many long-term care and specialty subsidiaries, all of which operate in the United States and its territories.

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-3ASR No. 333-217596) of CVS Health Corporation,
- (2) Registration Statement (Form S-4 No 333-222412) of CVS Health Corporation, and
- (3) Registration Statements (Form S-8 Nos. 333-49407, 333-34927, 333-28043, 333-91253, 333-63664, 333-139470, 333-141481, 333-167746, 333-208805, and 333-217853) of CVS Health Corporation;
of our reports dated February 14, 2018, with respect to the consolidated financial statements of CVS Health Corporation and the effectiveness of internal control over financial reporting of CVS Health Corporation incorporated by reference in this Annual Report (Form 10-K) of CVS Health Corporation for the year ended December 31, 2017.

Boston, Massachusetts
February 14, 2018

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

I, Larry J. Merlo, President and Chief Executive Officer of CVS Health Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of CVS Health Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2018

By: _____ / s/ LARRY J. MERLO
Larry J. Merlo
President and
Chief Executive Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The certification set forth below is being submitted in connection with the Annual Report of CVS Health Corporation (the "Company") on Form 10-K for the period ended December 31, 2017 (the "Report"), for the purpose of complying with Rule 13(a)-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, Larry J. Merlo, President and Chief Executive Officer of the Company, certify that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

February 14, 2018

/s/ LARRY J. MERLO

**Larry J. Merlo
President and
Chief Executive Officer**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The certification set forth below is being submitted in connection with the Annual Report of CVS Health Corporation (the "Company") on Form 10-K for the period ended December 31, 2017 (the "Report"), for the purpose of complying with Rule 13(a)-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, David M. Denton, Executive Vice President and Chief Financial Officer of the Company, certify that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

February 14, 2018

/ s/ DAVID M. DENTON

David M. Denton
Executive Vice President and Chief Financial Officer

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2016**

OR

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission file number 001-01011**



CVS HEALTH CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

05-0494040

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

One CVS Drive, Woonsocket, Rhode Island

(Address of principal executive offices)

02895

(Zip Code)

(401) 765-1500

(Registrant's telephone number, including area code)

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

Common Stock, par value \$0.01 per share

Title of each class

New York Stock Exchange

Name of each exchange on which registered

Securities registered pursuant to Section 12(g) of the Exchange Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the registrant's common stock held by non-affiliates was approximately \$101,661,618,666 as of June 30, 2016, based on the closing price of the common stock on the New York Stock Exchange. For purposes of this calculation, only executive officers and directors are deemed to be the affiliates of the registrant.

As of February 3, 2017, the registrant had 1,025,699,605 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

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

· Portions of our Annual Report to Stockholders for the fiscal year ended December 31, 2016 are incorporated by reference in our response to Items 7, 8 and 9 of Part II.

· Information contained in our Proxy Statement for the 2017 Annual Meeting of Stockholders is incorporated by reference in our response to Items 10 through 14 of Part III.

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PART I

Item 1. Business

Overview

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

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

Through more than 9,700 retail locations, more than 1,100 walk-in health care clinics, a leading pharmacy benefits manager with nearly 90 million plan members, a dedicated senior pharmacy care business serving more than one million patients per year, expanding specialty pharmacy services and a leading stand-alone Medicare Part D prescription drug plan, we enable people, businesses, and communities to manage health in more affordable, effective ways. We are delivering break-through products and services, from advising patients on their medications at our CVS Pharmacy[®] locations, to introducing unique programs to help control costs for our clients at CVS Caremark[®], to innovating how care is delivered to our patients with complex conditions through CVS Specialty[™], to improving pharmacy care for the senior community through Omnicare[®], or by expanding access to high-quality, low-cost care at CVS MinuteClinic[®].

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

Pharmacy Services Segment

The Pharmacy Services Segment provides a full range of pharmacy benefit management (“PBM”) solutions, as described more fully below, to our clients consisting primarily of employers, insurance companies, unions, government employee groups, health plans, Medicare Part D plans, Managed Medicaid plans, plans offered on the public and private exchanges, other sponsors of health benefit plans and individuals throughout the United States. In addition, through our SilverScript Insurance Company (“SilverScript”) subsidiary, we are a national provider of drug benefits to eligible beneficiaries under the federal government’s Medicare Part D program. The Pharmacy Services Segment operates under the CVS Caremark[®] Pharmacy Services, Caremark[®], CVS Caremark[®], CarePlus CVS Pharmacy[™], CVS Specialty[™], Accordant[®], SilverScript[®], NovoLogix[®], Coram[®], Navarro[®] Health Services and ACS Pharmacy names. As of December 31, 2016, the Pharmacy Services Segment operated 23 retail specialty pharmacy stores, 13 specialty mail order pharmacies and four mail order dispensing pharmacies, and 84 branches for infusion and enteral services, including approximately 73 ambulatory infusion suites and three centers of excellence, located in 41 states, Puerto Rico and the District of Columbia. During the year ended December 31, 2016, our PBM filled or managed approximately 1.2 billion prescriptions (which equates to 1.6 billion prescriptions when counting 90-day prescriptions as three prescriptions).

Pharmacy Services Business Strategy - Our business strategy centers on providing innovative tools and strategies, as well as quality client service in order to help improve clinical outcomes for our clients’ health benefit plan members while assisting our clients and their plan members in better managing overall health care costs. Our goal is to produce superior results for our clients and their plan members by leveraging our expertise in core PBM services, including: plan design offerings and administration, formulary management, Medicare Part D services, mail order, specialty pharmacy and infusion services, retail pharmacy network management services, prescription management systems, clinical services, disease management services and medical spend management.

In addition, as a fully integrated pharmacy services company, we are able to offer our clients and their plan members a variety of programs and tools, including plan design offerings, that benefit from our integrated systems and the ability of our almost 36,000 pharmacists, nurses, nurse practitioners and physician assistants to interact personally with the many plan members. Through our multiple member touch points (retail stores, mail order, infusion, long-term care and specialty pharmacies, retail clinics, digital resources and cost management tools), we seek to engage plan members in behaviors that help lower cost and improve health care outcomes. Examples of these programs and services include: Maintenance Choice[®], a program where eligible client plan members can elect to fill their maintenance prescriptions at our CVS Pharmacy retail stores for the same price as mail order; Pharmacy Advisor[®], a program that facilitates face-to-face and telephone counseling by our pharmacists to help participating plan members with certain chronic diseases, such as diabetes and cardiovascular conditions, to

identify gaps in care, adhere to their prescribed medications and manage their health conditions; compliance and persistency programs designed to help ensure that patients take their medications in the proper manner; enhanced disease management programs that are targeted at managing chronic disease states; Specialty Connect[®], our integrated specialty pharmacy offering which integrates specialty mail and retail capabilities, providing members with disease-state specific counseling from our experienced specialty pharmacists and the choice to bring their specialty prescriptions to a CVS Pharmacy location or submit it through our specialty mail order pharmacies; and an ExtraCare[®] Health Card program which offers discounts to eligible plan members on certain over-the-counter health care products sold in our CVS Pharmacy stores. In addition, MinuteClinic[®] is an important and differentiated part of the enterprise that offers certain capabilities to PBM clients and their members. For example, we offer plan-sponsored co-pay reductions to encourage use of MinuteClinic, thereby helping to reduce emergency room visits and to lower overall health care costs. Other ways we are working with our clients include partnerships with health plan clients sponsoring patient centered medical homes, biometric screenings for plan members, closing gaps in care, and onsite clinics at client corporate headquarters.

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

Plan Design Offerings and Administration - Our clients sponsor pharmacy benefit plans that facilitate the ability of eligible members in these plans to receive prescribed medications. We assist our clients in designing pharmacy benefit plans that help minimize the costs to the client while helping improve health outcomes. We also administer these benefit plans selected by our clients and assist them in monitoring the effectiveness of these plans through frequent, informal communications, their use of our proprietary software, as well as through a formal annual client review.

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

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

Medicare Part D Services - We participate in the administration of the drug benefit added to the Medicare program under Part D of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (“MMA”) through the provision of PBM services to those of our health plan clients and other clients that have qualified as a Medicare Part D prescription drug plans (“PDP”) or as a Medicare Advantage prescription drug plan (“MA-PD”) and by offering Medicare Part D pharmacy benefits through SilverScript, a PDP that has contracted with the United States Centers for Medicare and Medicaid Services (“CMS”). We also assist employer, union and other health plan clients that qualify for the retiree drug subsidy made available under the MMA by collecting and submitting eligibility and/or drug cost data to CMS in order for them to obtain the subsidy and offer Medicare Part D pharmacy benefits to such clients' retirees through SilverScript-sponsored Employer Group Waiver Plans (“EGWPs”).

Mail Order Pharmacy - As of December 31, 2016, we operated four mail order dispensing pharmacies in the United States. Plan members or their prescribers submit prescriptions or refill requests, primarily for maintenance medications, to these pharmacies via mail, telephone, fax, e-prescribing or the Internet. We also offer Maintenance Choice[®], a program in which eligible client plan members in most states can elect to fill their maintenance prescriptions at our CVS Pharmacy retail stores for the same price as mail order, and operate a network of smaller mail order specialty pharmacies described below. Our staff pharmacists review mail order prescriptions and refill requests with the assistance of our prescription management systems. This review may involve communications with the prescriber and, with the prescriber’s approval when required, can result in generic substitution, therapeutic interchange or other actions designed to help reduce cost and/or improve quality of treatment. These pharmacies have been awarded Mail Order Pharmacy accreditation from Utilization Review Accreditation Commission (“URAC”), a Washington DC-based health care accrediting organization that establishes quality standards for the health care industry.

Specialty Pharmacy - Our specialty pharmacies support individuals who require complex and expensive drug therapies. As of December 31, 2016, our specialty pharmacy operations included 13 specialty mail order pharmacies located throughout the United States that are used for delivery of advanced medications to individuals with chronic or genetic diseases and disorders. These pharmacies have also been awarded Specialty Pharmacy accreditation from URAC. As of December 31, 2016, the Company operated a network of 23 retail specialty pharmacy stores, which operate under the CarePlus CVS Pharmacy™ and Navarro® Health Services names. These stores average 1,100 square feet in size and sell prescription drugs and a limited assortment of front store items such as alternative medications, homeopathic remedies and vitamins. Through our affiliate Coram LLC and its subsidiaries (collectively, “Coram”), one of the nation’s largest providers of comprehensive infusion services, we care for approximately 146,000 patients annually, providing specialty infusion and enteral nutrition services. Our Specialty Connect® product, which integrates our specialty pharmacy mail and retail capabilities, provides members with disease-state specific counseling from our experienced specialty pharmacists and the choice to bring their specialty prescriptions to a CVS Pharmacy location. Whether submitted through our specialty mail order pharmacy or at a CVS Pharmacy, all prescriptions are filled through our specialty mail order pharmacies, so all revenue from this specialty prescription services program is recorded within the Pharmacy Services Segment. Members then can choose to pick up their medication at their local CVS Pharmacy, except in three states that do not allow retail pick-up, or have it sent to their home through the mail. Additionally, with the acquisition of Omnicare, Inc. (“Omnicare”), we expanded our specialty pharmacy to include the specialty pharmacy operations of Omnicare which operates under the name ACS Pharmacy.

Retail Pharmacy Network Management - We maintain a national network of more than 68,000 retail pharmacies, consisting of approximately 41,000 chain pharmacies (which includes our CVS Pharmacy locations) and 27,000 independent pharmacies, in the United States, Puerto Rico, District of Columbia, Guam and the Virgin Islands. When a customer fills a prescription in a retail pharmacy, the pharmacy sends prescription data electronically to us from the point-of-sale. This data interfaces with our proprietary prescription management systems, which verify relevant plan member data and eligibility, while also performing a drug utilization review to help evaluate clinical appropriateness and safety and confirming that the pharmacy will receive payment for the prescription. We are also able to build client-specific networks and narrow networks to further drive savings for our clients.

Prescription Management Systems - We dispense prescription drugs both directly, through one of our mail order or specialty pharmacies, or through a network of retail pharmacies, described above. All prescriptions processed through our systems, whether they are filled through one of our mail order or specialty dispensing pharmacies or through a pharmacy in our retail network, are analyzed, processed and documented by our proprietary prescription management systems. These systems provide essential features and functionality to allow a plan member to use their prescription drug benefit. These systems also streamline the process by which prescriptions are processed by staff and network pharmacists, by enhancing review of various items through automation, including, but not limited to, plan eligibility, early refills, duplicate dispensing, appropriateness of dosage, drug interactions or allergies, over-utilization and potential fraud.

Clinical Services - We offer multiple clinical programs and services to help clients manage overall pharmacy and health care costs in a clinically appropriate manner. Our programs are primarily designed to promote good health outcomes, and to help target inappropriate utilization and non-adherence to medication, each of which may result in adverse medical events that negatively impact member health and client pharmacy and medical spend. In this regard, we offer various utilization management, medication management, quality assurance, adherence and counseling programs to complement the client’s plan design and clinical strategies.

Disease Management Programs - Our clinical services utilize advanced protocols and offer clients convenience in working with health care providers and other third parties. Our Accordant® programs include integrated rare disease management programs, which cover diseases such as rheumatoid arthritis, Parkinson’s disease, seizure disorders and multiple sclerosis. The majority of these integrated programs are accredited by the National Committee for Quality Assurance (“NCQA”), a private, not-for-profit organization that evaluates, accredits and certifies a wide range of health care organizations. They have also been awarded Case Management Accreditation from URAC.

Medical Pharmacy Management - We offer a technology platform, NovoLogix®, an online preauthorization tool that helps identify and capture cost savings opportunities for specialty drugs billed under the medical benefit by identifying outliers to appropriate dosages and costs, and helps to ensure appropriate clinical use of these drugs.

Pharmacy Services Information Systems - We currently operate and support a small number of claim adjudication platforms to support our Pharmacy Services Segment. However, the majority of our clients have migrated to one platform. These information systems incorporate architecture that centralizes the data generated from filling mail order prescriptions, adjudicating retail pharmacy claims and delivering other solutions to our PBM clients. Our Health Engagement Engine™ technology and proprietary clinical algorithms help enable our mail and specialty pharmacists provide quality care, and our

enterprise digital strategy and integrated digital offerings help patients seamlessly manage mail, specialty and retail prescriptions.

Pharmacy Services Clients - Our clients are primarily employers, insurance companies, unions, government employee groups, health plans, Medicare Part D plans, Managed Medicaid plans and plans offered on public and private exchanges, other sponsors of health benefit plans and individuals located throughout the United States. We provide pharmaceuticals to eligible members in benefit plans maintained by our clients and utilize our information systems, among other things, to help perform safety checks, drug interaction screening and identify opportunities for generic substitution. We generate substantially all of our Pharmacy Services Segment net revenue from dispensing and managing prescription drugs to eligible members in benefit plans maintained by our clients. In 2016, net revenues from Aetna accounted for approximately 11.2% of our consolidated net revenues. In 2015 and 2014, no single PBM client accounted for 10% or more of our consolidated net revenues.

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

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

Retail/LTC Segment

As of December 31, 2016, the Retail/LTC Segment included 9,709 retail locations (of which 7,980 were our stores that operated a pharmacy and 1,674 were our pharmacies located within Target Corporation ("Target") stores), our online retail pharmacy websites, CVS.com[®], Navarro.com[™] and Onofre.com.br[™], 38 onsite pharmacy stores, our long-term care pharmacy operations and our retail health care clinics. The retail locations are in 49 states, the District of Columbia, Puerto Rico and Brazil operating primarily under the CVS Pharmacy[®], CVS[®], CVS Pharmacy y más[®], Longs Drugs[®], Navarro Discount Pharmacy[®] and Drogeria Onofre[™] names. With the addition of the pharmacies of Target, we currently operate in all of the top 100 United States drugstore markets. The CVS Pharmacy retail drugstores sell prescription drugs and a wide assortment of over-the-counter and personal care products, beauty and cosmetic products, and general merchandise, which we refer to as "front store" products. The pharmacies within Target stores sell prescription drugs and over-the-counter drugs that are required to be held behind the counter. Existing retail stores range in size from approximately 5,000 to 30,000 square feet, although most new stores range in size from approximately 11,000 to 15,000 square feet and typically include a drive-thru pharmacy. The pharmacies within Target stores range in size from approximately 450 to 1,100 square feet. During 2016, our Retail/LTC Segment filled approximately 1.2 billion prescriptions (counting 90-day prescriptions as three prescriptions), and we held approximately 23.8% of the United States retail pharmacy market.

Our acquisition of Omnicare broadened our base of pharmacy care to an additional dispensing channel, long-term care pharmacy. Omnicare's long-term care ("LTC") operations include the distribution of pharmaceuticals, related pharmacy consulting and other ancillary services to chronic care facilities and other care settings. Omnicare also provides commercialization services under the name RxCrossroads[®]. LTC is comprised of 152 spoke pharmacies that primarily handle new prescription orders, of which 32 are also hub pharmacies that use automation to support spoke pharmacies with refill prescriptions. LTC primarily operates under the Omnicare[®] and NeighborCare[®] names. With the addition of the LTC operations, we are continuing to enhance our service offerings to further address the needs of an aging population throughout the continuum of senior care.

Retail Pharmacy Business Strategy - Our integrated pharmacy services model has enhanced the ability of our retail pharmacy stores to expand customer access to care while helping to lower overall health care costs and improve health outcomes. In that regard, the role of our retail pharmacist is shifting from primarily dispensing prescriptions to also providing services, including flu vaccinations as well as face-to-face patient counseling with respect to adherence to drug therapies, closing gaps in care and

recommending more cost effective drug therapies. We also provide a broad assortment of quality merchandise at competitive prices using a retail format that emphasizes service, innovation and convenience. One of the keys to our strategy is technology, which allows us to focus on constantly improving service and exploring ways to provide more personalized product offerings and services. We are leveraging digital to empower our customers and patients by making the full breadth of health care and pharmacy services available to them anytime, anywhere. We are introducing digital tools to make it easier for people to save time and money and to live healthier lives. In 2016, we rolled out CVS Pay™ nationwide, an end-to-end mobile payment solution that integrates payment, prescription pick-up and our ExtraCare® loyalty program into one spot at checkout. We believe that continuing to innovate with new and unique products and services, using innovative marketing and adjusting our mix of merchandise to match our customers' needs and preferences is very important to our ability to continue to improve customer satisfaction.

Retail/LTC Products and Services - A typical retail store sells prescription drugs and a wide assortment of high-quality, nationally advertised brand name and proprietary brand merchandise. Front store categories include over-the-counter drugs, beauty products and cosmetics, personal care products, convenience foods, photo finishing services, seasonal merchandise and greeting cards. The pharmacies within Target stores sell prescription drugs and over-the-counter drugs that are required to be held behind the counter. The LTC operations include distribution of pharmaceuticals and related consulting and ancillary services. We purchase our merchandise from numerous manufacturers and distributors. We believe that competitive sources are readily available for substantially all of the products we carry and the loss of any one supplier would not likely have a material effect on the business. Our clinics offer a variety of health care services by nurse practitioners and physician assistants.

Retail/LTC net revenues by major product group are as follows:

	Percentage of Net Revenues ⁽¹⁾		
	2016	2015	2014
Prescription drugs ⁽²⁾	75.0%	72.9%	70.7%
Over-the-counter and personal care	10.0	10.9	11.0
Beauty/cosmetics	4.2	4.5	4.7
General merchandise and other	10.8	11.7	13.6
	100.0%	100.0%	100.0%

(1) Percentages are estimates based on store point-of-sale data for the stores and revenue system data for sales outside the stores.

(2) In 2016 and 2015, prescription drugs include LTC sales and sales in pharmacies within Target stores.

Pharmacy - Pharmacy revenues represented more than two-thirds of Retail Pharmacy revenues in each of 2016, 2015 and 2014. We believe that our pharmacy operations will continue to represent a critical part of our business due to industry demographics, e.g., an aging American population consuming a greater number of prescription drugs, pharmaceuticals being used more often as the first line of defense for managing illness, the introduction of new pharmaceutical products, and Medicare Part D. We believe our pharmacy business benefits from our investment in both people and technology, as well as our innovative partnerships with health plans, PBMs and providers. Given the nature of prescriptions, people want their prescriptions filled accurately by professional pharmacists using the latest tools and technology, and ready when promised. Consumers need medication management programs and better information to help them get the most out of their health care dollars. To assist our customers with these needs, we have introduced integrated pharmacy health care services that provide an earlier, easier and more effective approach to engaging them in behaviors that can help lower costs, improve health, and save lives. Examples include: our Patient Care Initiative, an enhanced medication adherence program; Maintenance Choice®, a program where eligible client plan members can elect to fill their maintenance prescriptions at our retail pharmacy stores for the same price as mail order; Pharmacy Advisor®, our program that facilitates pharmacist counseling, both face-to-face and over the telephone, to help participating plan members with certain chronic diseases, such as diabetes and cardiovascular conditions, to identify gaps in care, adhere to their prescribed medications and manage their health conditions; Specialty Connect®, our integrated specialty pharmacy offering which integrates specialty mail and retail capabilities, providing members with disease-state specific counseling from our experienced specialty pharmacists and the choice to bring their specialty prescriptions to a CVS Pharmacy location or submit it through our specialty mail order pharmacies; as well as ScriptSync®, a service that enables patients with multiple medications to pick up their eligible maintenance prescriptions in a single monthly CVS Pharmacy visit. Maintenance Choice, Pharmacy Advisor, Specialty Connect and ScriptSync are all programs that demonstrate our ability to enhance the customer experience through our integrated enterprise products and services. Further evidencing our belief in the importance of pharmacy service is our continuing investment in technology, such as our Drug Utilization Review system that helps check for harmful interactions between prescription drugs and patient identified over-the-counter products, vitamins and herbal remedies; RxConnect, our proprietary pharmacy system that integrates our product delivery and clinical workflows as well as advanced patient safety functionality such as drug utilization review; our prescription refill program, ReadyFill®; and our online retail businesses, CVS.com, Navarro.com and Onofre.com.br. In December 2015, we expanded our pharmacy offering with the

acquisition of the pharmacies within Target stores. Now that the system integration is complete, we will offer all the same pharmacy services available in our retail drugstores and online at our pharmacies within Target stores.

Front Store - Front store revenues benefited from our strategy to innovate with new and unique products and services, using innovative personalized marketing and adjusting our mix of merchandise to match our customers' needs and preferences. A key component of our front store strategy is our ExtraCare[®] card program, which is helping us continue to build our loyal customer base. The ExtraCare program is one of the largest and most successful retail loyalty programs in the United States. The ExtraCare program allows us to balance our marketing efforts so we can reward our best customers by providing them automatic sale prices, customized coupons, ExtraBucks[®] rewards and other benefits. We continue to launch and enhance new and exclusive brands to create unmatched offerings in beauty. Another component of our front store strategy is our unique product offerings, which include a full range of high-quality CVS Pharmacy[®] and proprietary brand products that are only available through CVS Pharmacy stores. We currently carry approximately 7,000 CVS Pharmacy and proprietary brand products, which accounted for approximately 22.6% of our front store revenues during 2016. These products include expanded offerings of healthy foods and vitamins. Furthermore, we are tailoring certain groups of stores, such as suburban area stores, to better meet the needs of our customers. This includes the launch of CVS Curbside in late 2016. Developed in partnership with industry leader Curbside, customers can use the CVS Pharmacy app to have front store purchases delivered to their car when they pull up to our store.

MinuteClinic - As of December 31, 2016, we operated 1,139 MinuteClinic[®] locations in 33 states and the District of Columbia, of which 1,053 were located in our retail pharmacy stores, 79 were located in Target stores and seven were located in corporate campuses or other locations. We opened seven new clinics during 2016. Our clinics are staffed by nurse practitioners and physician assistants who utilize nationally established guidelines to diagnose and treat minor health conditions, perform health screenings, monitor chronic conditions, provide wellness services and deliver vaccinations. Insurers value our clinics because they provide convenient, high-quality, cost-effective care, in many cases offering an attractive alternative to more expensive sites of care. As a result, visits paid for by employers, health insurers or other third parties accounted for approximately 91% of MinuteClinic's total revenues in 2016. MinuteClinic is collaborating with our Pharmacy Services Segment to help meet the needs of CVS Caremark's client plan members by offering programs that can improve member health and lower costs. MinuteClinic is now affiliated with more than 70 major health systems and continues to build a platform that supports primary care.

Long-term Care - Through our Omnicare business, we provide the distribution of pharmaceuticals, related pharmacy consulting and other ancillary services to chronic care facilities and other care settings. LTC's customers consist of skilled nursing facilities, assisted living facilities, independent living communities, hospitals, correctional facilities, and other health care service providers. We provide pharmacy consulting, including monthly patient drug therapy evaluations, assist in compliance with state and federal regulations and provide proprietary clinical and health management programs. We also provide pharmaceutical case management services for retirees, employees and dependents who have drug benefits under corporate-sponsored health care programs.

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

Retail Pharmacy Drugstore Development - The addition of new stores has played, and will continue to play, a key role in our continued growth and success. Our store development program focuses on three areas: entering new markets, adding stores within existing markets and relocating stores to more convenient sites. During 2016, we opened 130 new and acquired retail stores, relocated 50 stores and closed 46 stores. During the last five years, we opened more than 1,100 new and relocated stores, and acquired 1,841 stores including the pharmacies acquired from Target. We believe that continuing to grow our store base and locating stores in more accessible markets are essential components to compete effectively in the current health care environment. As a result, we believe that our store development program is an integral part of our ability to maintain our leadership position given the changing health care landscape and to meet the increasing needs of our customers.

Retail/LTC Information Systems - We have continued to invest in information systems to enable us to deliver exceptional customer service, enhance safety and quality, and expand our patient care services while lowering operating costs. Leveraging our retail pharmacy fulfillment system, RxConnect and our proprietary WeCARE Workflow, supports our pharmacy teams by prioritizing work to meet customer expectations, facilitating prescriber outreach, and seamlessly integrating our clinical programs. This solution delivers improved efficiency and enhances the customer experience, as well as providing a framework to accommodate the evolution of pharmacy practice and the expansion of our clinical programs. Our Health Engagement Engine[™] technology and proprietary clinical algorithms enable us to help identify opportunities for our pharmacists to deliver face-to-face counseling regarding patient health and safety matters, including adherence issues, gaps in care and management

of certain chronic health conditions. Our digital strategy empowers the consumer to navigate their pharmacy experience and manage their condition through our on-line and mobile tools that offer utility and convenience. This includes the ability to schedule an appointment at MinuteClinic, get next-in line alerts or health reminders and appointment updates via text messages. Our integrated digital offerings help patients seamlessly manage retail, mail and specialty prescriptions dispensed by a CVS Pharmacy or long-term care location and enhance front store personalization to drive value for customers. We experienced strong adoption of our digital solutions with our mobile app receiving critical acclaim for ease of use and our text message program experiencing significant growth. LTC's Digital Technology suite, Omniview[®], improves the efficiency of customers' operations with tools that include executive dashboards, pre-admission pricing, electronic ordering of prescription refills, proof-of-delivery tracking, access to patient profiles, receipt and management of facility bills, and real-time validation of Medicare Part D coverage, among other capabilities.

Retail/LTC Customers - The success of our retail drugstore and long-term care businesses is dependent upon our ability to establish and maintain contractual relationships with pharmacy benefit managers and other payors on acceptable terms. Pharmacy benefit managers, managed care organizations, government-funded health care programs, commercial employers and other third party payors accounted for 98.9% of our 2016 pharmacy revenues. No single Retail/LTC payor accounts for 10% or more of our annual consolidated net revenues.

Retail/LTC Seasonality - The majority of our revenues, particularly pharmacy revenues, are generally not seasonal in nature. However, retail front store revenues tend to be higher during the December holiday season. In addition, both pharmacy and retail front store revenues are affected by the timing and severity of the cough, cold and flu season. For additional information, we refer you to "Risks related to the seasonality of our business" in Item 1A. Risk Factors.

Retail/LTC Competition - The retail drugstore business is highly competitive. We believe that we compete principally on the basis of: (i) store location and convenience, (ii) customer service and satisfaction, (iii) product selection and variety, and (iv) price. In the markets we serve, we compete with other drugstore chains (e.g., Walgreens and Rite Aid), supermarkets, discount retailers (e.g., Wal-Mart), independent pharmacies, restrictive pharmacy networks, membership clubs, Internet companies, and retail health clinics (including urgent care centers), as well as other mail order pharmacies.

LTC pharmaceutical services are highly regional or local in nature and within a given geographic area of operation, highly competitive. Our largest competitor nationally is PharMerica. We also compete with numerous local and regional institutional pharmacies, pharmacies owned by long-term care facilities and local retail pharmacies. Some states have enacted "freedom of choice" or "any willing provider" requirements as part of their state medicaid programs or in separate legislation, which may increase the competition that we face in providing services to long-term care facility residents in these states.

Corporate Segment

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

Generic Sourcing Venture

In 2014, the Company and Cardinal Health, Inc. ("Cardinal") established Red Oak Sourcing, LLC ("Red Oak"), a generic pharmaceutical sourcing entity in which the Company and Cardinal each own 50%. Under this arrangement, the Company and Cardinal contributed their sourcing and supply chain expertise to Red Oak and agreed to source and negotiate generic pharmaceutical supply contracts for both companies through Red Oak; however, Red Oak does not own or hold inventory on behalf of either company.

Working Capital Practices

We fund the growth of our business through a combination of cash flow from operations, commercial paper and other short-term borrowings, proceeds from sale-leaseback transactions and long-term borrowings. For additional information on our working capital practices, we refer you to the caption "Management's Discussion and Analysis - Liquidity and Capital Resources" in our Annual Report to Stockholders for the year ended December 31, 2016, which section is incorporated by reference herein. The majority of our non-pharmacy revenues are paid in cash, or with debit or credit cards. Managed care organizations, pharmacy benefit managers, government-funded health care programs, commercial employers and other third party insurance programs, which represent the vast majority of our consolidated pharmacy revenues, typically settle in less than 30 days. With the exception of our Medicare Part D services, the remainder of our consolidated pharmacy revenues are paid in cash, or with debit or credit cards. As a provider of Medicare Part D services, we contract annually with CMS. Utilization of

services each plan year results in the accumulation of either a receivable from or a payable to CMS. The timing of settlement of the receivable or payable with CMS may take several quarters which impacts our working capital from year to year.

Colleague Development

As of December 31, 2016, we employed approximately 250,000 colleagues, which included approximately 36,000 pharmacists, nurses, nurse practitioners and physician assistants. The total included approximately 92,000 part-time colleagues who work less than 30 hours per week. To deliver the highest levels of service to our customers, we devote considerable time and attention to our people and service standards. We emphasize attracting and training knowledgeable, friendly and helpful associates to work in our organization.

Intellectual Property

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

Government Regulation

Overview - Much of our business is subject to federal and state laws and regulations. In addition, many of our PBM clients and our payors in the Retail/LTC Segment, including insurers, Medicare Part D plans, Managed Medicaid plans and managed care organizations (“MCOs”), are themselves subject to extensive regulations that affect the design and implementation of prescription drug benefit plans that they sponsor. Similarly, our LTC clients, such as skilled nursing facilities, are subject to government regulations, including many of the same government regulations to which we are subject. The application of these complex legal and regulatory requirements to the detailed operation of our business creates areas of uncertainty. Further, there are numerous proposed health care laws and regulations at the federal and state levels, some of which could adversely affect our business if they are enacted. We are unable to predict what federal or state legislation or regulatory initiatives may be enacted in the future relating to our business or the health care industry in general, or what effect any such legislation or regulations might have on our business. Any failure or alleged failure to comply with applicable laws and regulations as summarized below, or any adverse applications of, or changes in, the laws and regulations affecting our business, could have a material adverse effect on our operating results and/or financial condition. See Item 3, “Legal Proceedings” for further information.

Although we believe that we are in material compliance with existing laws and regulations applicable to our various business lines, we cannot give any assurances that our business, financial condition and results of operations will not be materially adversely affected, or that we will not be required to materially change our business practices, based on: (i) future enactment of new health care or other laws or regulations; (ii) the interpretation or application of existing laws or regulations, including the laws and regulations described in this Government Regulation section, as they may relate to our business, the pharmacy services, retail pharmacy, long-term care or retail clinic industry or to the health care industry generally; (iii) pending or future federal or state governmental investigations of our business or the pharmacy services, retail pharmacy, long-term care or retail clinic industry or of the health care industry generally; (iv) institution of government enforcement actions against us; (v) adverse developments in any pending *qui tam* lawsuit against us, whether sealed or unsealed, or in any future *qui tam* lawsuit that may be filed against us; or (vi) adverse developments in other pending or future legal proceedings against us or affecting the pharmacy services, retail pharmacy, long-term care or retail clinic industry or the health care industry generally.

Laws and Regulations Related to Each Operating Segment of Our Business

Laws Related to Reimbursement by Government Programs - We are subject to various state and federal laws concerning our submission of claims for reimbursement by Medicare, Medicaid and other government-sponsored health care programs. Potential sanctions for violating these laws include recoupment or reduction of government reimbursement amounts, civil penalties, multiples damages, and exclusion from participation in government health care programs. Such laws include the federal False Claims Act (“FCA”), the federal Anti-Kickback statute, various state false claims acts and anti-kickback statutes, the federal “Stark Law” and related state laws. In particular, the FCA prohibits intentionally submitting, conspiring to submit, or causing to be submitted, false claims, records, or statements to the federal government, or intentionally failing to return overpayments, in connection with reimbursement by federal government programs. As part of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, “ACA”), the federal Anti-Kickback Statute was amended in 2010 to provide that any claim for government reimbursement violates the FCA where it results from a

violation of the Anti-Kickback Statute. Most states have enacted false claims laws analogous to the FCA, and both federal and state false claims laws permit private individuals to file *qui tam* or “whistleblower” lawsuits on behalf of the federal or state government. Further, the federal Stark Law generally prohibits physicians from referring Medicare or Medicaid beneficiaries for certain services, including outpatient prescription drugs, to any entity with which the physician, or an immediate family member of the physician, has a financial relationship. The Stark Law further prohibits the entity receiving a prohibited referral from presenting a claim for reimbursement by Medicare or Medicaid for services furnished pursuant to the prohibited referral. Various states have enacted similar laws.

The 21st Century Cures Act (“Cures Act”), enacted in December 2016, among other things shifted payment for Medicare Part B durable medical equipment (“DME”) infused drugs from one pricing benchmark to another as of January 1, 2017. This change, depending upon the particular drug, is expected to cause both increases and decreases in reimbursement, although the overall impact is expected to be negative. In addition, the change in presidential administration has caused uncertainty regarding the implementation of the Cures Act, meaning that the full impact of this new law on the Company is uncertain.

Anti-Remuneration Laws - Federal law prohibits, among other things, an entity from knowingly and willfully offering, paying, soliciting or receiving, subject to certain exceptions and “safe harbors,” any remuneration to induce the referral of individuals or the purchase, lease or order of items or services for which payment may be made under Medicare, Medicaid or certain other federal health care programs. A number of states have similar laws, some of which are not limited to services paid for with government funds. Sanctions for violating these federal and state anti-remuneration laws may include imprisonment, criminal and civil fines, and exclusion from participation in Medicare, Medicaid and other government-sponsored health care programs.

Antitrust and Unfair Competition - The Federal Trade Commission (“FTC”) has authority under Section 5 of the Federal Trade Commission Act (“FTCA”) to investigate and prosecute practices that are “unfair trade practices” or “unfair methods of competition.” Numerous lawsuits have been filed throughout the United States against pharmaceutical manufacturers, retail pharmacies and/or PBMs under various state and federal antitrust and unfair competition laws challenging, among other things: (i) brand drug pricing practices of pharmaceutical manufacturers, (ii) the maintenance of retail or specialty pharmacy networks by PBMs, and (iii) various other business practices of PBMs and retail pharmacies. To the extent that we appear to have actual or potential market power in a relevant market or CVS Pharmacy or CVS Specialty plays a unique or expanded role in a PBM product offering, our business arrangements and uses of confidential information may be subject to heightened scrutiny from an anti-competitive perspective and possible challenge by state or federal regulators or private parties.

Privacy and Confidentiality Requirements - Many of our activities involve the receipt, use and disclosure by us of personally identifiable information (“PII”) as permitted in accordance with applicable federal and state privacy and data security laws, which require organizations to provide appropriate privacy and security safeguards for such information. In addition to PII, we use and disclose de-identified data for analytical and other purposes when permitted. Additionally, there are industry standards for handling credit card data known as the Payment Card Industry Data Security Standard, which are a set of requirements designed to help ensure that entities that process, store or transmit credit card information maintain a secure environment. Certain states have recently incorporated these requirements into state laws.

The federal Health Insurance Portability and Accountability Act of 1996 and the regulations issued thereunder (collectively, “HIPAA”) impose extensive requirements on the way in which health plans, health care providers, health care clearinghouses (known as “covered entities”) and their business associates use, disclose and safeguard protected health information (“PHI”). Criminal penalties and civil sanctions may be imposed for failing to comply with HIPAA standards. The Health Information Technology for Economic and Clinical Health Act (the “HITECH Act”), enacted as part of the American Recovery and Reinvestment Act of 2009, amended HIPAA to impose additional restrictions on third-party funded communications using PHI and the receipt of remuneration in exchange for PHI. It also extended HIPAA privacy and security requirements and penalties directly to business associates. In addition to HIPAA, state health privacy laws apply to the extent they are more protective of individual privacy than is HIPAA.

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

Consumer Protection Laws - The federal government has many consumer protection laws, such as the FTCA, the Federal Postal Service Act and the FTC’s Telemarketing Sales Rule. Most states also have similar consumer protection laws. These laws have been the basis for investigations, lawsuits and multi-state settlements relating to, among other matters, the marketing

of loyalty programs and health care services, pricing accuracy, expired front store products, financial incentives provided by drug manufacturers to pharmacies in connection with therapeutic interchange programs and disclosures related to how personal data is used and protected.

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

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

Health Reform Legislation - Passed in 2010, ACA affects virtually every aspect of health care in the country. In addition to establishing the framework for every individual to have health coverage, ACA enacted a number of significant health care reforms. Many of these reforms affect the coverage and plan designs that are provided by our health plan clients. As a result, these reforms impact a number of our services and business practices. Some significant ACA provisions are still being finalized (e.g., nondiscrimination in health programs and activities, excise tax on high-cost employer-sponsored health coverage) and all or parts of ACA may be repealed or replaced, so the full impact of ACA on our Company is still uncertain.

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

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

Laws and Regulations Related to Our Pharmacy Services Segment

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

PBM Laws and Regulation - Legislation seeking to regulate PBM activities in a comprehensive manner has been introduced or enacted in a number of states. This legislation could adversely impact our ability to conduct business on commercially reasonable terms in states where the legislation is in effect.

In addition, certain quasi-regulatory organizations, including the National Association of Boards of Pharmacy and the National Association of Insurance Commissioners (“NAIC”) have issued model regulations or may propose future regulations concerning PBMs and/or PBM activities. Similarly, credentialing organizations such as NCQA and URAC may establish voluntary standards regarding PBM, mail or specialty pharmacy activities. While the actions of these quasi-regulatory or standard-setting organizations do not have the force of law, they may influence states to adopt their requirements or recommendations and influence client requirements for PBM or specialty pharmacy services. Moreover, any standards established by these organizations could also impact our health plan clients and/or the services we provide to them.

Medicare Part D - The Medicare Part D program, which makes prescription drug coverage available to eligible Medicare beneficiaries through private insurers, regulates all aspects of the provision of Medicare drug coverage, including enrollment, formularies, pharmacy networks, marketing, and claims processing. The Medicare Part D program has undergone significant legislative and regulatory changes since its inception, and continues to attract a high degree of legislative and regulatory scrutiny. The applicable government rules and regulations continue to evolve. CMS has imposed restrictions and issued new requirements to protect Medicare Part D beneficiaries and has used its authority to sanction and impose civil monetary penalties on plans for non-compliance.

Network Access Legislation - Medicare Part D and a majority of states now have some form of legislation affecting the ability to limit access to a pharmacy provider network or remove network providers. For example, certain “any willing provider” legislation may require us or our clients to admit a non-participating pharmacy if such pharmacy is willing and able to meet the plan’s price and other applicable terms and conditions for network participation. These laws could negatively impact the services and economic benefits achievable through a limited pharmacy provider network.

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

Contract Audits - We are subject to audits of many of our contracts, including our PBM client contracts, our PBM rebate contracts, our PBM network contracts, our contracts relating to Medicare Part D and the agreements our pharmacies enter into with other payors. Because some of our contracts are with state or federal governments or with entities contracted with state or federal agencies, audits of these agreements are often regulated by the federal or state agencies responsible for administering federal or state benefits programs, including those which operate Medicaid fee for service plans, Managed Medicaid plans, Medicare Part D plans or Medicare Advantage organizations.

Federal Employee Health Benefits Program - We have a contractual arrangement with carriers for the Federal Employee Health Benefits Program, such as the BlueCross BlueShield Association, to provide pharmacy services to federal employees, postal workers, annuitants, and their dependents under the Government-wide Service Benefit Plan, as authorized by the Federal Employees Health Benefits Act (“FEHBA”) and as part of the Federal Employees Health Benefits Program. These arrangements subjects us to certain aspects of FEHBA, and other federal regulations, such as the Federal Employees Health Benefits Acquisition Regulation, that otherwise are not applicable to us.

State Insurance Laws - PDPs and our PBM service contracts, including those in which we assume certain risks under performance guarantees or similar arrangements, are generally not subject to insurance regulation by the states. However, state

departments of insurance are increasing their oversight of PBM activities due to legislation passing in several states requiring PBMs to register or obtain a license with the department. Rulemaking is either underway or has already taken place in a few states with the areas of focus on licensure requirements, pharmacy reimbursement for generics (MAC reimbursement) and pharmacy audits - most of which fall under the state insurance code. Additionally, some states have laws that prohibit submitting a false claim or making a false record or statement in order to secure reimbursement from an insurance company. These state laws vary, and violation of them may lead to the imposition of civil or criminal penalties.

As a PDP, SilverScript is subject to state insurance laws limited to licensure and solvency. In addition, PBM offerings of prescription drug coverage under certain risk arrangements may be subject to laws and regulations in various states. Such laws may require that the party at risk become licensed as an insurer, establish reserves or otherwise demonstrate financial viability. Laws that may apply in such cases include insurance laws and laws governing MCOs and limited prepaid health service plans.

ERISA Regulation - The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), provides for comprehensive federal regulation of certain employee pension and benefit plans, including private employer and union sponsored health plans and certain other plans that contract with us to provide PBM services. In general, we assist plan sponsors in the administration of the prescription drug portion of their health benefit plans in accordance with the plan designs adopted by the plan sponsors. We do not believe that the conduct of our business subjects us to the fiduciary obligations of ERISA, except when we have specifically contracted with a plan sponsor to accept limited fiduciary responsibility, such as for the adjudication of initial prescription drug benefit claims and/or the appeals of denied claims under a plan, and with respect to the Contraceptive Coverage Mandate, one of the health reforms presently included in ACA.

In addition to its fiduciary provisions, ERISA imposes civil and criminal liability on service providers to health plans and certain other persons if certain forms of illegal remuneration are made or received. These provisions of ERISA are broadly written and their application to specific business practices is often uncertain.

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

Managed Care Reform - In addition to health reforms enacted by ACA, proposed legislation has been considered at the state level, and legislation has been enacted in several states, aimed primarily at providing additional rights and access to drugs to individuals enrolled in managed care plans. This legislation may impact the design and implementation of prescription drug benefit plans sponsored by our PBM health plan clients and/or the services we provide to them. Both the scope of the managed care reform proposals considered by state legislatures and reforms enacted by states to date vary greatly, and the scope of future legislation that may be enacted is uncertain.

Disease Management Services Regulation - We provide disease management programs to PBM plan members for rare medical conditions and arrange for them to receive disease management programs for common medical conditions. State laws regulate the practice of medicine, the practice of pharmacy and the practice of nursing. Clinicians engaged in a professional practice in connection with the provision of disease management services must satisfy applicable state licensing requirements and must act within their scope of practice.

Third Party Administration and Other State Licensure Laws - Many states have licensure or registration laws governing certain types of administrative organizations, such as preferred provider organizations, third party administrators and companies that provide utilization review services. Several states also have licensure or registration laws governing the organizations that provide or administer consumer card programs (also known as cash card or discount card programs).

Laws and Regulations Related to Our Retail/LTC Segment

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

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

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

Available Information

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

Item 1A. Risk Factors

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

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

The PBM industry has been experiencing margin pressure as a result of competitive pressures and increased client demands for lower prices, increased revenue sharing, enhanced service offerings and/or higher service levels. In that regard, we maintain contractual relationships with generic pharmaceutical manufacturers and brand name pharmaceutical manufacturers that provide for purchase discounts and/or rebates on drugs dispensed by pharmacies in our retail network and by our specialty and mail order pharmacies (all or a portion of which may be passed on to clients). Manufacturer rebates often depend on a PBM's ability to meet contractual market share or other requirements, including in some cases the placement of a manufacturer's products on the PBM's formularies. If we lose our relationship with one or more pharmaceutical manufacturers, or if the discounts or rebates provided by pharmaceutical manufacturers decline, our business and financial results could be adversely affected. Further, competitive pressures in the PBM industry have resulted in our clients sharing in a larger portion of rebates and/or discounts received from pharmaceutical manufacturers. Market dynamics and regulatory changes have impacted our ability to offer plan sponsors pricing that includes the use of retail "differential" or "spread", which could negatively impact our future profitability. Further, changes in existing federal or state laws or regulations or the adoption of new laws or regulations relating to patent term extensions, purchase discount and rebate arrangements with pharmaceutical manufacturers, or to formulary management or other PBM services could also reduce the discounts or rebates we receive. In addition, changes in federal or state laws or regulations or the adoption of new laws or regulations relating to claims processing and billing, including our ability to use MAC lists and collect transmission fees, could adversely impact our profitability.

Our retail pharmacy, specialty pharmacy and LTC pharmacy operations have also been affected by the margin pressures described above, including client demands for lower prices, generic pricing and network reimbursement pressure. In addition, as competition increases in the markets in which we operate, a significant increase in general pricing pressures could occur, and this could require us to reevaluate our pricing structures to remain competitive. A shift in the mix of our pharmacy prescription volume towards programs offering lower reimbursement rates could adversely affect our margins, including the shift in pharmacy mix towards 90-day prescriptions at retail and the shift in pharmacy mix towards Medicare Part D prescriptions.

Finally, the margins of our LTC business are further affected by the increased efforts of health care payors to negotiate reduced or capitated pricing arrangements. These actions could also adversely affect the margins of our LTC business.

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

The continued efforts of health maintenance organizations, managed care organizations, PBMs, government entities, and other third party payors to reduce prescription drug costs and pharmacy reimbursement rates, as well as litigation and other legal proceedings relating to how drugs are priced, may impact our profitability. In particular, increased utilization of generic pharmaceuticals (which normally yield a higher gross profit rate than equivalent brand named drugs) has resulted in pressure to decrease reimbursement payments to retail, specialty, LTC and mail order pharmacies for generic drugs, causing a reduction in the generic profit rate. Historically, the effect of this trend on generic profitability has been mitigated by our efforts to negotiate reduced acquisition costs of generic pharmaceuticals with manufacturers. However, in recent years, there has been significant consolidation within the generic manufacturing industry, and it is possible that this and other external factors may enhance the ability of manufacturers to sustain or increase pricing of generic pharmaceuticals and diminish our ability to negotiate reduced acquisition costs. Any inability to offset increased costs or to modify our activities to lessen the impact could have a significant adverse effect on our results of operations.

In addition, during the past several years, the United States health care industry has been subject to an increase in governmental regulation and audits at both the federal and state levels. Efforts to control health care costs, including prescription drug costs, are continuing at the federal and state government levels. Changing political, economic and regulatory influences may significantly affect health care financing and reimbursement practices. For example, we anticipate that federal and state governments will continue to review and assess alternative health care delivery systems, payment methodologies and operational requirements for health care providers, including LTC facilities and pharmacies. A change in the composition of pharmacy prescription volume toward programs offering lower reimbursement rates could negatively impact our profitability. Any action taken to repeal or replace all or significant parts of ACA could also impact our profitability, though it is unclear at this time what the full effects will be.

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

A highly competitive business environment.

Each of our retail pharmacy, LTC pharmacy, retail health clinic and pharmacy services operations currently operates in a highly competitive and evolving health care environment.

The competitive success of our retail pharmacy business, as well as our specialty pharmacy operations with non-Caremark payors, is derived by their ability to establish and maintain contractual relationships with PBMs and other payors on acceptable terms in an environment where some PBM clients are considering adopting narrow or restricted retail pharmacy networks. As a pharmacy retail business, we compete with other drugstore chains, supermarkets, on-line and other discount retailers, independent pharmacies, membership clubs, convenience stores and mass merchants, some of which are aggressively expanding into markets we serve. We also face competition from other retail health clinics, as well as other mail order pharmacies and PBMs. Competition may also come from other sources in the future. Changes in market dynamics or the actions of competitors or manufacturers, including industry consolidation, the emergence of new competitors and strategic alliances, and the exclusion from new narrow or restricted networks, could materially and adversely impact us.

We could also be adversely affected if we fail to identify or effectively respond to changes in market dynamics. For example, specialty pharmacy represents a significant and growing proportion of prescription drug spending in the United States, a significant portion of which is dispensed outside of traditional retail pharmacies. Because our specialty pharmacy operations focuses on complex and high-cost medications that serve a relatively limited universe of patients, the future growth of this business depends to a significant extent upon expanding our ability to access key drugs and successfully penetrate key treatment categories.

The competitive success of our LTC pharmacy operations is dependent upon our ability to compete in each geographic region where we have operations. In the geographic regions we serve, we compete with PharMerica Corporation, our largest

competitor, as well as with numerous local and regional institutional pharmacies, pharmacies owned by LTC facilities and local retail pharmacies.

The competitive success of our pharmacy services business is impacted by its ability to establish and maintain contractual relationships with network pharmacies in an environment where some PBM clients are considering adopting narrow or restricted retail pharmacy networks. Competitors in the PBM industry (e.g., Express Scripts, OptumRx, Prime Therapeutics, MedImpact and Humana), include large, national PBM companies, PBMs owned by large national health plans and smaller standalone PBMs. Competition may also come from other sources in the future. In addition, changes in the overall composition of our pharmacy networks, or reduced pharmacy access under our networks, could adversely affect our claims volume and/or our competitiveness generally.

Competitors in each of our business areas may offer services and pricing terms that we may not be willing or able to offer. Strong competition in the PBM marketplace has generated greater client demand for lower pricing, increased revenue sharing and enhanced product and service offerings. Unless we can demonstrate enhanced value to our clients through innovative product and service offerings, particularly in a rapidly changing health care industry, we may be unable to remain competitive.

Changes in U.S. policy, laws and regulations, including reform of the United States health care system.

The results of the November 2016 elections have generated uncertainty with respect to, and could result in, significant changes in legislation, regulation and government policy that could significantly impact our business and the health care and retail industries. While it is not possible to predict whether and when any such changes will occur or what form any such changes may take (including through the use of Executive Orders), specific proposals discussed during and after the election that could have a material adverse effect on our business, liquidity and results of operations include, but are not limited to, immigration policies, the repeal of all or part of ACA and other significant changes to health care system legislation as well as changes with respect to tax and trade policies, tariffs and other government regulations affecting trade between the United States and other countries.

The repeal of all or part of the ACA, significant changes to Medicaid funding or even significant destabilization of the Health Insurance Marketplaces could impact the number of Americans with health insurance and, consequently, prescription drug coverage. Even if ACA remains, significant provisions of ACA have not yet been finalized (e.g., nondiscrimination in health programs and activities, excise tax on high-cost employer-sponsored health coverage) and it is uncertain whether or in what form these provisions will be finalized. We cannot predict the effect, if any, a repeal of all or part of ACA, the implementation or failure to implement the outstanding provisions of ACA, or the enactment of new health care system legislation to replace current legislation may have on our retail pharmacy, LTC pharmacy and pharmacy services operations.

In addition, much of the branded and generic drug product that we sell in our retail, mail and specialty pharmacies, and much of the other merchandise we sell, is manufactured in whole or in substantial part outside of the United States. In most cases, the products or merchandise are imported by others and sold to us. As a result, significant changes in tax or trade policies, tariffs or trade relations between the United States and other countries, such as the disallowance of tax deductions for imported merchandise or the imposition of unilateral tariffs on imported products, could result in significant increases in our costs, restrict our access to suppliers, depress economic activity, and have a material impact on our business, liquidity and results of operations. In addition, other countries may change their business and trade policies and such changes as well as any negative sentiments towards the United States in response to increased import tariffs and other changes in U.S. trade regulations could adversely affect our business.

Finally, comprehensive tax reform is likely to be considered in the current political environment. We expect that tax reform, if enacted, could have a significant impact on the Company. Current proposals aim to lower the U.S. corporate tax rate from 35% to as low as 15% or 20%, but generally broaden the base to which the lower tax rate would apply. Many aspects of tax reform plans remain unknown though, and no proposed legislation has been filed. We cannot say with certainty if tax reform will be enacted, or how it would impact the Company.

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

Our business is subject to numerous federal, state and local laws and regulations. See “Business - Government Regulation.” In addition, during the past several years, the United States health care industry has been subject to an increase in governmental regulation and enforcement activity at both the federal and state levels. Further, uncertainties exist regarding the application of many of these legal requirements to our business. In addition, it is possible that all, or certain provision of the current health care reform legislation may be modified, repealed or otherwise invalidated. Changes in these laws and regulations and the related interpretations and enforcement practices may require extensive system and operating changes that may be difficult to

implement. Untimely compliance or noncompliance with applicable laws and regulations could adversely affect the continued operation of our business, including, but not limited to: imposition of civil or criminal penalties; significant fines or monetary penalties; suspension or disgorgement of payments from government programs; loss of required government certifications or approvals; loss of authorizations to participate in or exclusion from government reimbursement programs, such as the Medicare and Medicaid programs; or loss of registrations or licensure. The regulations to which we are subject include, but are not limited to: the laws and regulations described in the Government Regulation section; accounting standards; financial disclosure; securities laws and regulations; federal anti-trust laws; tax laws and regulations and their possible reform; laws and regulations relating to the protection of the environment and health and safety matters, including those governing exposure to, and the management and disposal of, hazardous materials and wastes; and laws and regulations of the FTC, the FCC, and the Consumer Product Safety Commission, as well as state regulatory authorities, governing the sale, advertisement and promotion of products that we sell, such as Boards of Pharmacy. The FDA, DEA and various states regulate the distribution of pharmaceuticals and controlled substances. We are required to hold valid DEA and state-level registrations and licenses, meet various security and operating standards and comply with the federal and various states' controlled substances acts and their accompanying regulations governing the sale, marketing, packaging, holding and distribution of controlled substances. The DEA, FDA and state regulatory authorities have broad enforcement powers, including the ability to suspend our registrations and licenses, seize or recall products and impose significant criminal, civil and administrative sanctions for violations of these laws and regulations. In addition, our business interests outside of the United States are subject to the Foreign Corrupt Practices Act and other applicable domestic and international laws and regulations. We are also subject to the terms of various government agreements and mandates, including those described in the Government Regulation section. In that regard, our business, financial position and results of operations could be adversely affected by existing and new government legislative, regulatory action and enforcement activity, including, without limitation, any one or more of the following:

- federal and state laws and regulations concerning the submission of claims for reimbursement by Medicare, Medicaid and other government programs, whether at retail, mail, specialty or LTC;
- federal and state laws and regulations governing the purchase, distribution, tracking, management, compounding, dispensing and reimbursement of prescription drugs and related services, whether at retail, mail, specialty or LTC, and applicable registration or licensing requirements;
- heightened enforcement of controlled substances regulations;
- the effect of the expiration of patents covering brand name drugs and the introduction of generic products;
- the frequency and rate of approvals by the FDA of new brand name and generic drugs, or of over-the-counter status for brand name drugs;
- rules and regulations issued pursuant to HIPAA and the HITECH Act; and other federal and state laws affecting the collection, use, disclosure and transmission of health or other personal information, such as federal laws on information privacy precipitated by concerns about information collection through the Internet, state security breach laws and state laws limiting the use and disclosure of prescriber information;
- health care fraud and abuse laws regulations;
- consumer protection laws affecting our health care services, our loyalty programs, our drug discount card programs, the products we sell, the informational calls we make and/or the marketing of our goods and services;
- federal, state and local environmental, health and safety laws and regulations applicable to our business, including the management of hazardous substances, storage and transportation of hazardous materials, and various recordkeeping disclosure and procedure requirements promulgated by the Occupational Safety and Health Administration that may apply to our operations;
- health care reform, managed care reform and plan design legislation;
- laws against the corporate practice of medicine;
- FDA regulation affecting the retail, LTC, specialty or PBM industry;
- government regulation of the development, administration, review and updating of formularies and drug lists including requirements and/or limitations around formulary tiering and patient cost sharing;
- state laws and regulations related to increased oversight of PBM activities by state departments of insurance pharmacy reimbursement for generics and pharmacy audits;
- drug pricing legislation, including "most favored nation" pricing;
- federal and state laws and regulations establishing or changing prompt payment requirements for payments to retail pharmacies;
- impact of network access legislation or regulations, including "any willing provider" laws, on our ability to manage pharmacy networks;
- ERISA and related regulations;
- administration of Medicare Part D, including legislative changes and/or CMS rulemaking and interpretation;
- Medicare and Medicaid regulations applicable to our business, in particular our LTC pharmacies and those of our client's facilities;

- ongoing compliance with consent decrees, corporate integrity agreements, corrective action plans and other agreements with government agencies;
- insurance licensing and other insurance regulatory requirements applicable to offering Medicare Part D programs and services or other health care services; and
- direct regulation of pharmacies or PBMs by regulatory and quasi-regulatory bodies.

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

Our PBM business generates net revenues primarily by contracting with clients to provide prescription drugs and related health care services to plan members. PBM client contracts often have terms of approximately three years in duration, so approximately one third of a PBM's client base typically is subject to renewal each year. In some cases, however, PBM clients may negotiate a shorter or longer contract term or may require early or periodic renegotiation of pricing prior to expiration of a contract. Our clients are generally well informed and organized, can easily move between our competitors and often seek competing bids prior to expiration of their contracts. In addition, the reputational impact of a service-related incident could negatively affect our business. These factors, together with the impact of competitive pressures, could make it difficult for us to attract new clients, retain existing clients and cross-sell additional services. Further, the PBM industry has been affected by consolidation activity that may continue in the future. In the event one or more of our PBM clients is acquired by an entity that is not also our client, we may be unable to retain all or a portion of the acquired business. These circumstances, either individually or in the aggregate, could result in an adverse effect on our business and financial results. Therefore, we continually face challenges in competing for new PBM business and retaining or renewing our existing PBM business. With respect to our LTC business, reimbursement from skilled nursing facilities for prescriptions we dispense is determined pursuant to our agreements with those skilled nursing facilities. The termination of these agreements generally causes our ability to provide services to any of the residents of that facility to cease, resulting in the loss of revenue from any source for those residents. There can be no assurance that we will be able to win new business or secure renewal business on terms as favorable to us as the present terms.

Additionally, with respect to our retail and LTC pharmacy businesses, reimbursement under Medicare Part D, as well as reimbursement from certain private third-party payors, is determined pursuant to agreements that we negotiate with those payors or their pharmacy benefit manager representatives. The loss of those agreements, or a material change in the terms of those agreements, could negatively impact the Company. In addition, restricted networks that exclude our retail or specialty pharmacies negatively impact those businesses.

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

The profitability of our business is dependent upon the utilization of prescription drug products. Utilization trends are affected by, among other factors, the introduction of new and successful prescription pharmaceuticals as well as lower-priced generic alternatives to existing brand name products, as the sale of generic alternatives normally yield higher gross margins than brand name equivalents. In addition, inflation in the price of the brand name drugs can affect utilization, particularly given the increase in high deductible health plans. Accordingly, our business could be impacted by a slowdown or delay in the number or magnitude of new and successful prescription pharmaceuticals and/or generic alternatives, as well as the pricing of brand name drugs.

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

Our business is affected by the economy and consumer confidence in general, including various economic factors, inflation and changes in consumer purchasing power, preferences and/or spending patterns. It is possible that an unfavorable, uncertain or volatile economic environment will cause a decline in drug and health care services utilization and dampen demand for pharmacy benefit management services as well as consumer demand for products sold in our retail stores. Further economic conditions including interest rate fluctuations, changes in capital market conditions and regulatory changes may affect our ability to obtain necessary financing on acceptable terms, our ability to secure suitable store locations under acceptable terms and our ability to execute sale-leaseback transactions under acceptable terms. These changes in conditions could result in an adverse effect on our business and financial results. This could be further exacerbated by the increasing prevalence of high deductible health plans and health plan designs favoring co-insurance over co-payments.

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

Many aspects of our operations are dependent on our information systems and the information collected, processed, stored, and handled by these systems. We rely heavily on our computer systems to manage our ordering, pricing, point-of-sale, pharmacy fulfillment, inventory replenishment, claims processing, ExtraCare customer loyalty program, finance, human resource and other processes. Throughout our operations, we receive, retain and transmit certain confidential information, including PII that our customers and clients provide to purchase products or services, enroll in programs or services, register on our websites, interact with our personnel, or otherwise communicate with us. In addition, for these operations, we depend in part on the secure transmission of confidential information over public networks. Our information systems are subject to damage or interruption from power outages, facility damage, computer and telecommunications failures, computer viruses, security breaches including credit card or personally identifiable information breaches, coordinated cyber attacks, vandalism, catastrophic events and human error. Although we deploy a layered approach to address information security threats and vulnerabilities, including ones from a cyber security standpoint, designed to protect confidential information against data security breaches, a compromise of our information security controls or of those businesses with whom we interact, which results in confidential information being accessed, obtained, damaged, or used by unauthorized or improper persons, could harm our reputation and expose us to regulatory actions and claims from customers and clients, financial institutions, payment card associations and other persons, any of which could adversely affect our business, financial position, and results of operations. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may not immediately produce signs of intrusion, we may be unable to anticipate these techniques or to implement adequate preventative measures. Moreover, a data security breach could require that we expend significant resources related to our information systems and infrastructure, and could distract management and other key personnel from performing their primary operational duties. We also could be adversely affected by any significant disruption in the systems of third parties we interact with, including key payors and vendors.

If our information systems are damaged, fail to work properly or otherwise become unavailable, or if we are unable to successfully complete our planned consolidation of our PBM claims adjudication platforms, we may incur substantial costs to repair or replace them, and may experience reputational damage, loss of critical information, customer disruption and interruptions or delays in our ability to perform essential functions and implement new and innovative services. In addition, compliance with changes in privacy and information security laws and standards may result in considerable expense due to increased investment in technology and the development of new operational processes.

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

We dispense significant volumes of brand-name and generic drugs from our retail, LTC, specialty and mail-order pharmacies and through our PBM's network of retail pharmacies. When increased safety risk profiles or manufacturing or other supply issues of specific drugs or classes of drugs occur, or drugs become subject to greater restrictions as controlled substances, physicians may cease writing prescriptions for these drugs or the utilization of these drugs may be otherwise reduced.

Additionally, adverse publicity regarding drugs with higher safety risk profiles may result in reduced consumer demand for such drugs. On occasion, products are withdrawn by their manufacturers or transition to over-the-counter products, which can result in lower prescription utilization. In addition, future FDA rulings could restrict the supply or increase the cost of products sold to our customers. Our volumes, net revenues, profitability and cash flows may decline as a result of such regulatory rulings or market changes.

Further, we acquire a substantial amount of our mail and specialty pharmacies' prescription drug supply from a limited number of suppliers. Our agreements with these suppliers are often short-term and easily cancelable by either party without cause. In addition, these agreements may limit our ability to provide services for competing drugs during the term of the agreement and may allow the supplier to distribute through channels other than ours. Certain of these agreements also allow pricing and other terms to be adjusted periodically for changing market conditions or required service levels. A termination or modification to any of these relationships could have a material adverse effect on our business, financial condition and results of operations. Moreover, many products distributed by our specialty pharmacy business are manufactured with ingredients that are susceptible to supply shortages.

A disruption in our business operations could occur as a result of contamination of drugs, a failure to maintain necessary shipment and storage conditions, errors in mail order processing, the unavailability of prescription drugs provided by suppliers, labor disruptions or other unanticipated disruptions at our mail order facilities, call centers, data centers or corporate facilities, among other factors. Such disruption could reduce our ability to process and dispense prescriptions and provide products and services to our customers.

In the event any products we distribute are in limited supply for significant periods of time, our financial condition and results of operations could be materially and adversely affected.

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

Medicare Part D has resulted in increased utilization and puts pressure on pharmacy gross margin rates due to regulatory and competitive pressures. Further, as a result of ACA and changes to the retiree drug subsidy rules, our PBM clients could decide to discontinue providing prescription drug benefits to their Medicare-eligible members. To the extent this occurs, the adverse effects of increasing customer migration into Medicare Part D may outweigh the benefits we realize from growth of our Medicare Part D business. In addition, if the cost and complexity of Medicare Part D exceed management's expectations or prevent effective program implementation or administration; if changes to the regulations regarding how drug costs are reported for Medicare Part D are implemented in a manner that impacts the profitability of our Medicare Part D business; if changes to the regulations impact our ability to retain fees from third parties including network pharmacies; if the government alters Medicare program requirements or reduces funding because of the higher-than-anticipated cost to taxpayers of Medicare Part D or for other reasons; if Congress acts to reduce reinsurance thresholds from 80% to 20%; if we fail to design and maintain programs that are attractive to Medicare participants; if CMS imposes restrictions on our Medicare Part D business as a result of audits or other regulatory actions; if we fail to successfully implement corrective action or other remedial measures sufficient to prevent or remove any applicable restrictions that may be imposed by CMS; or if we are not successful in retaining enrollees, or winning contract renewals or new contracts under Medicare Part D's competitive bidding process, our Medicare Part D services and the ability to expand our Medicare Part D services could be negatively impacted.

Possible changes in industry pricing benchmarks and drug pricing generally.

It is possible that the pharmaceutical industry or regulators may evaluate and/or develop an alternative pricing reference to replace Average Wholesale Price ("AWP") or Wholesale Acquisition Cost ("WAC"), which are the pricing references used for many of our PBM and LTC client contracts, pharmaceutical purchase agreements, retail network contracts, specialty payor agreements and other contracts with third party payors in connection with the reimbursement of drug payments. In addition, many state Medicaid fee-for-service programs ("FFS Medicaid") are expected to establish pharmacy network payments on the basis of Actual Acquisition Cost ("AAC") by April 1, 2017. This move to an AAC basis in FFS Medicaid could have an impact in reimbursement practices in other commercial and government segments. Future changes to the use of AWP, WAC or to other published pricing benchmarks used to establish pharmaceutical pricing, including changes in the basis for calculating reimbursement by federal and state health programs and/or other payors, could impact the reimbursement we receive from Medicare and Medicaid programs, the reimbursement we receive from PBM clients and other payors and/or our ability to negotiate rebates and/or discounts with pharmaceutical manufacturers, wholesalers, PBMs and retail pharmacies. A failure or inability to fully offset any increased prices or costs or to modify our operations to mitigate the impact of such increases could have an adverse effect on our results of operations. Additionally, any future changes in drug prices could be significantly different than our projections. The effect of these possible changes on our business cannot be predicted at this time.

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

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

Relationship with our retail and specialty pharmacy customers and the demand for our products and services, including proprietary brands.

The success of our business depends in part on customer loyalty, superior customer service and our ability to persuade customers to frequent our retail stores and online sites and to purchase products in additional categories and our proprietary brands. Failure to timely identify or effectively respond to changing consumer preferences and spending patterns, and evolving demographic mixes in our markets, an inability to expand the products being purchased by our clients and customers, or the

failure or inability to obtain or offer particular categories of products could negatively affect our relationship with our clients and customers and the demand for our products and services and could result in excess inventories of products.

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

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

Finally, our specialty pharmacy business focuses on complex and high-cost medications, many of which are made available by manufacturers to a limited number of pharmacies (so-called limited distribution drugs), that serve a relatively limited universe of patients. As a result, the future growth of our specialty pharmacy business is dependent largely upon expanding our base of drugs or penetration in certain treatment categories. Any contraction of our base of patients or reduction in demand for the prescriptions we currently dispense could have an adverse effect on our business, financial condition and results of operations.

We are subject to payment-related risks that could increase our operating costs, expose us to fraud or theft, subject us to potential liability and disrupt our business operations.

We accept payments using a variety of methods, including cash, checks, credit cards, debit cards, gift cards, mobile payments and potentially other technologies in the future. Acceptance of these payment methods subjects us to rules, regulations, contractual obligations and compliance requirements, including payment network rules and operating guidelines, data security standards and certification requirements, and rules governing electronic funds transfers. These requirements may change in the future, which could make compliance more difficult or costly. For certain payment options, including credit and debit cards, we pay interchange and other fees, which could increase periodically thereby raising our operating costs. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards, and various other forms of electronic payment. If these companies are unable to provide these services to us, or if their systems are compromised, our operations could be disrupted. The payment methods that we offer also expose us to potential fraud and theft by persons seeking to obtain unauthorized access to, or exploit any weaknesses in, the payment systems. If we fail to abide by applicable rules or requirements, or if data relating to our payment systems is compromised due to a breach or misuse, we may be responsible for any costs incurred by payment card issuing banks and other third parties or subject to fines and higher transaction fees. In addition, our reputation and ability to accept certain types of payments could each be harmed resulting in reduced sales and adverse effects on our results of operations.

We may be unable to successfully integrate companies acquired by us.

Upon the closing of any acquisition we complete, we will need to successfully integrate the products, services and related assets, as well as internal controls into our business operations. If an acquisition is consummated, the integration of the acquired business, its products, services and related assets into our company may also be complex and time-consuming and, if the integration is not fully successful, we may not achieve the anticipated benefits, operating and cost synergies or growth opportunities of an acquisition. Potential difficulties that may be encountered in the integration process include the following:

- Integrating personnel, operations and systems, while maintaining focus on producing and delivering consistent, high quality products and services;
- Coordinating geographically dispersed organizations;
- Disruption of management's attention from our ongoing business operations;
- Retaining existing customers and attracting new customers; and

- Managing inefficiencies associated with integrating our operations.

An inability to realize the full extent of the anticipated benefits, operating and cost synergies, innovations and operations efficiencies or growth opportunities of an acquisition, as well as any delays encountered in the integration process, could have a material adverse effect on our business and results of operation. Furthermore, these acquisitions, even if successfully integrated, may fail to further our business strategy as anticipated, expose us to increased competition or challenges with respect to our products, services or geographic markets, and expose us to additional liabilities associated with an acquired business including risks and liabilities associated with litigation involving the acquired business. Any one of these challenges or risks could impair our ability to realize any benefit from our acquisitions after we have expended resources on them.

Our outstanding debt and associated payment obligations could, among other things, limit our ability to make incremental investments in our business.

Our current debt service costs associated with our increased debt levels may dampen incremental investments in our business and limit our flexibility to respond to industry changes and market conditions. In addition, our debt level and related debt service obligations could make it more difficult or expensive for us to obtain any required future financing for working capital, capital expenditures, acquisitions or other purposes. Moreover, we may be unable to refinance existing indebtedness or otherwise access the capital markets for any reason, whether due to market conditions or otherwise. These circumstances could have a material adverse effect on our business operations and financial condition.

Risks related to the seasonality of our business.

Although the majority of our revenues, particularly pharmacy revenues, are generally not seasonal in nature, front store revenues tend to be higher during the December holiday season. Uncharacteristic or extreme weather conditions can adversely impact consumer shopping patterns as well. This could lead to lost sales, as well as increased snow removal and other costs, thereby negatively affecting our short-term results of operations. In addition, both pharmacy and front store revenues are affected by the timing and severity of the cough, cold and flu season, which is susceptible to large fluctuations from year to year, and our quarterly earnings and operating cash flows are impacted by the Medicare Part D benefit design and changes in the composition of our membership. See “Business - Pharmacy Services Seasonality.”

Risks related to litigation and other legal proceedings.

Pharmacy services, retail pharmacy and LTC pharmacy are highly regulated and litigious industries. We are currently subject to various litigation matters, investigations, audits, inspections, government inquiries, and regulatory and legal proceedings. Litigation, and particularly securities and collective or class action litigation, is often expensive and disruptive. Further, under the *qui tam* or “whistleblower” provisions of the federal and various state false claims acts, private citizens may bring lawsuits alleging that a violation of the federal anti-kickback statute or similar laws has resulted in the submission of “false” claims to federal and/or state health care programs, including Medicare and Medicaid. Litigation related to our provision of professional services in our pharmacies, specialty pharmacies, clinics and LTC facilities has also increased as we expand our services along the continuum of health care. We cannot predict the outcome of any of these matters, and the costs incurred may be substantial regardless of outcome. Our business, financial condition and results of operations may be adversely affected, or we may be required to materially change our business practices, as a result of such proceedings. We refer you to Item 3, “Legal Proceedings” for additional information.

The foregoing is not a comprehensive listing of all possible risks and there can be no assurance that we have correctly identified and appropriately assessed all factors affecting the business. As such, we refer you to “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” which includes our “Cautionary Statement Concerning Forward-Looking Statements” at the end of such section, of our Annual Report to Stockholders for the year ended December 31, 2016, which section is incorporated by reference herein.

Item 1B. Unresolved Staff Comments

There are no unresolved SEC Staff Comments.

Item 2. Properties

We lease most of our stores under long-term leases that vary as to rental amounts, expiration dates, renewal options and other rental provisions. For additional information on the amount of our rental obligations for our leases, we refer you to Note 6 “Leases” in our Annual Report to Stockholders for the year ended December 31, 2016, which section is incorporated by reference herein.

As of December 31, 2016, we owned approximately 5% of our 8,035 retail stores. Net selling space for our retail stores was approximately 79.2 million square feet as of December 31, 2016. Approximately 20% of our store base was opened or significantly remodeled within the last five years.

We lease 1,674 retail pharmacies and 79 clinics in Target stores located in 47 states and the District of Columbia.

We own nine distribution centers located in Alabama, California, Hawaii, New York, Rhode Island, South Carolina, Tennessee and Texas and lease 11 additional distribution facilities located in Arizona, Florida, Indiana, Michigan, New Jersey, Pennsylvania, Texas, Virginia and Brazil. The 20 distribution centers total approximately 9.6 million square feet as of December 31, 2016.

As of December 31, 2016, we owned five and leased 147 LTC pharmacies in 43 states and owned one LTC repackaging facility in Kentucky.

As of December 31, 2016, we owned one mail service dispensing pharmacy located in Texas and leased three additional mail order dispensing pharmacies located in Hawaii, Illinois and Pennsylvania; we leased call centers located in Missouri, Pennsylvania, Tennessee and Texas; we leased 38 onsite pharmacy stores and 23 specialty pharmacy stores, and leased 13 specialty mail order pharmacies; we leased 84 branches for infusion and enteral services, including approximately 73 ambulatory infusion suites and three centers of excellence.

We own our corporate offices located in Woonsocket, Rhode Island, which totals approximately one million square feet. In addition, we lease corporate offices in Scottsdale, Arizona, Northbrook, Illinois, Cincinnati, Ohio, Monroeville, Pennsylvania, Irving, Texas, and Sao Paulo, Brazil.

In connection with certain business dispositions completed between 1991 and 1997, we continue to guarantee lease obligations for approximately 87 former stores. We are indemnified for these guarantee obligations by the respective purchasers. These guarantees generally remain in effect for the initial lease term and any extension thereof pursuant to a renewal option provided for in the lease prior to the time of the disposition. For additional information, we refer you to Note 11 “Commitments and Contingencies” in our Annual Report to Stockholders for the year ended December 31, 2016, which section is incorporated by reference herein.

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

The following is a breakdown by state, District of Columbia, Puerto Rico and Brazil of our retail stores, pharmacies and clinics in Target stores, LTC hub and spoke pharmacies, onsite pharmacy stores, specialty pharmacy stores, specialty mail order pharmacies, mail order dispensing pharmacies and branches and centers of excellence for infusion and enteral services as of December 31, 2016 :

	Retail Stores	Pharmacies within Target	LTC Hub & Spoke Pharmacies	Onsite Pharmacy Stores	Specialty Pharmacy Stores	Specialty Mail Order Pharmacies	Mail Order Dispensing Pharmacies	Infusion & Enteral Services Locations	Total
United States:									
Alabama	159	22	2	1	1	—	—	1	186
Alaska	—	3	—	—	—	—	—	—	3
Arizona	152	45	2	—	1	1	—	3	204
Arkansas	15	8	2	—	—	—	—	1	26
California	878	250	9	—	3	1	—	8	1,149
Colorado	—	39	3	—	1	—	—	1	44
Connecticut	153	20	1	1	—	—	—	1	176
Delaware	17	3	—	—	—	—	—	—	20
District of Columbia	59	1	—	—	1	—	—	—	61
Florida	756	121	6	1	2	2	—	7	895
Georgia	312	42	2	3	1	—	—	1	361
Hawaii	63	6	—	—	1	—	1	—	71
Idaho	—	2	1	—	—	—	—	1	4
Illinois	282	88	7	1	—	1	1	2	382
Indiana	303	30	4	—	—	—	—	3	340
Iowa	20	18	2	—	—	—	—	1	41
Kansas	40	14	2	—	—	1	—	2	59
Kentucky	68	9	9	—	—	—	—	—	86
Louisiana	119	15	3	—	—	—	—	1	138
Maine	22	5	1	—	—	—	—	1	29
Maryland	182	39	2	5	—	—	—	1	229
Massachusetts	357	39	2	2	2	1	—	1	404
Michigan	250	51	4	1	—	1	—	2	309
Minnesota	61	74	6	1	—	—	—	2	144
Mississippi	52	5	1	1	—	—	—	1	60
Missouri	95	33	6	1	—	—	—	1	136
Montana	14	2	1	—	—	—	—	—	17
Nebraska	19	11	1	—	—	—	—	1	32
Nevada	87	15	2	—	—	—	—	2	106
New Hampshire	40	9	1	—	—	—	—	—	50
New Jersey	293	45	3	4	—	1	—	1	347
New Mexico	19	6	1	—	—	—	—	1	27
New York	487	73	7	—	1	—	—	7	575
North Carolina	314	49	4	2	1	1	—	3	374
North Dakota	6	—	—	—	—	—	—	—	6
Ohio	320	59	7	1	—	—	—	4	391
Oklahoma	62	15	2	—	—	—	—	1	80
Oregon	—	18	2	—	1	—	—	1	22
Pennsylvania	410	64	6	3	1	1	1	2	488
Puerto Rico	24	—	—	—	—	1	—	—	25
Rhode Island	63	4	1	—	1	—	—	1	70
South Carolina	191	19	3	1	1	—	—	2	217
South Dakota	—	3	1	—	—	—	—	—	4
Tennessee	135	27	3	1	—	1	—	3	170
Texas	684	133	10	3	2	—	1	5	838
Utah	12	13	2	—	—	—	—	1	28
Vermont	10	—	—	—	—	—	—	—	10
Virginia	283	58	7	4	1	—	—	2	355

Washington	8	30	4	—	1	—	—	2	45
West Virginia	51	6	2	—	—	—	—	—	59
Wisconsin	51	33	5	1	—	—	—	1	91
Wyoming	—	—	—	—	—	—	—	2	2
Total United States	7,998	1,674	152	38	23	13	4	84	9,986
Brazil	37	—	—	—	—	—	—	—	37
Total	8,035	1,674	152	38	23	13	4	84	10,023

Item 3. Legal Proceedings

I. Legal Proceedings

We refer you to the Note 11 “Commitments and Contingencies” contained in the “Notes to the Consolidated Financial Statements” of our Annual Report to Stockholders for the year ended December 31, 2016 , which section is incorporated by reference herein.

II. Environmental Matters

Item 103 of SEC Regulation S-K requires disclosure of certain environmental legal proceedings if management reasonably believes that the proceedings involve potential monetary sanctions of \$100,000 or more. The Company is in the process of negotiating with United States Environmental Protection Agency, Region 2 and the United States Department of Justice to resolve claims of alleged historical noncompliance with hazardous waste regulations in connection with three retail pharmacy locations in Puerto Rico. These proceedings are not material to the Company's business or financial position.

Item 4. Mine Safety Disclosures

Not applicable.

Executive Officers of the Registrant

Executive Officers of the Registrant

The following sets forth the name, age and biographical information for each of our executive officers as of February 9, 2017. In each case the officer's term of office extends to the date of the board of directors meeting following the next annual meeting of stockholders of the Company. Previous positions and responsibilities held by each of the executive officers over the past five years are indicated below:

Lisa G. Bisaccia, age 60, Executive Vice President of CVS Health Corporation since March 2015 and Chief Human Resources Officer of CVS Health Corporation since January 2010; Senior Vice President of CVS Health Corporation from January 2010 through February 2015; Vice President, Human Resources of CVS Pharmacy, Inc. from September 2004 through December 2009. Ms. Bisaccia is also a member of the Board of Directors of Aramark, a leading global provider of food, facilities and uniform services.

Eva C. Boratto, age 50, Senior Vice President - Controller and Chief Accounting Officer of CVS Health Corporation since July 2013; Senior Vice President of PBM Finance from July 2010 through June 2013; Vice President, U.S. Market Finance Leader of Merck & Co., Inc. from June 2009 through June 2010.

Troyen A. Brennan, M.D., age 62, Executive Vice President and Chief Medical Officer of CVS Health Corporation since November 2008; Executive Vice President and Chief Medical Officer of Aetna, Inc. from February 2006 through November 2008.

David M. Denton, age 51, Executive Vice President and Chief Financial Officer of CVS Health Corporation since January 2010; Senior Vice President and Controller/Chief Accounting Officer of CVS Health Corporation from March 2008 until December 2009; Senior Vice President, Financial Administration of CVS Health Corporation and CVS Pharmacy, Inc. from April 2007 to March 2008. Mr. Denton is also a member of the Board of Directors of Coach, Inc., a leading retailer of premium bags and luxury accessories.

Helena B. Foulkes, age 52, Executive Vice President of CVS Health Corporation and President of CVS Pharmacy since January 2014; Executive Vice President and Chief Health Care Strategy and Marketing Officer of CVS Health Corporation from March 2011 through December 2013; Executive Vice President and Chief Marketing Officer of CVS Health Corporation from January 2009 through February 2011. Ms. Foulkes is also a member of the Board of Directors of The Home Depot, Inc., a leading home improvement retailer.

Stephen J. Gold, age 57, Executive Vice President of CVS Health Corporation since March 2015 and Chief Information Officer of CVS Health Corporation since July 2012; Senior Vice President of CVS Health Corporation from July 2012 through February 2015; Senior Vice President and Chief Information Officer of Avaya, Inc. from May 2010 through June 2012; Executive Vice President, Chief Information Officer and Chief Technology Officer of GSI Commerce, Inc. from February 2005 through April 2010.

J. David Joyner, age 52, Executive Vice President of CVS Health Corporation since March 2011 and Executive Vice President of Sales and Account Services, CVS Caremark since March 2004.

Robert O. Kraft, age 46, Executive Vice President of CVS Health Corporation and President - Omnicare since August 2015; Senior Vice President and Chief Financial Officer of Omnicare from September 2012 through August 2015; Senior Vice President - Finance of Omnicare from November 2010 through September 2012; PricewaterhouseCoopers LLP from September 1992 to November 2010, where he was a partner. Mr. Kraft is also a member of the Board of Directors of Medpace Holdings, Inc. a global clinical contract research organization providing Phase I-IV clinical development services to the biotechnology, pharmaceutical and medical device industries.

Larry J. Merlo, age 61, President and Chief Executive Officer of CVS Health Corporation since March 2011; President and Chief Operating Officer of CVS Health Corporation from May 2010 through March 2011; President of CVS Pharmacy from January 2007 through August 2011; Executive Vice President of CVS Health Corporation from January 2007 through May 2010; also a director of CVS Health Corporation since May 2010.

Thomas M. Moriarty, age 53, Executive Vice President and General Counsel of CVS Health Corporation since October 2012 and Chief Strategy Officer since March 2014; General Counsel of Celgene Corporation, a global biopharmaceutical company, from May 2012 through September 2012; General Counsel and Corporate Secretary of Medco

Health Solutions, Inc. (“Medco”), a pharmacy benefit management company, from March 2008 through April 2012; also President of Global Pharmaceutical Strategies of Medco from March 2011 through April 2012; Senior Vice President, Pharmaceutical Strategies and Solutions of Medco from September 2007 through March 2011.

Jonathan C. Roberts, age 61, Executive Vice President of CVS Health Corporation and President of CVS Caremark since September 2012; Executive Vice President of CVS Health Corporation and Chief Operating Officer of CVS Caremark from October 2010 through August 2011; Executive Vice President, Rx Purchasing, Pricing and Network Relations of CVS Health Corporation from January 2009 through October 2010.

Andrew J. Sussman, M.D., age 51, Executive Vice President of CVS Health Corporation since March 2015, Associate Chief Medical Officer of CVS Health Corporation since March 2011 and President of CVS MinuteClinic since September 2009; Senior Vice President of CVS Health Corporation from March 2011 through March 2015; Executive Vice President and Chief Operating Officer of the University of Massachusetts Memorial Medical Center, the major teaching affiliate of UMass Medical School, from May 2004 through August 2009.

PART II

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

Our common stock is listed on the New York Stock Exchange under the symbol “CVS.” The table below sets forth the high and low closing prices of our common stock on the New York Stock Exchange Composite Tape and the quarterly cash dividends declared per share of common stock during the periods indicated.

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Year</u>
2016 High	\$ 104.05	\$ 106.10	\$ 98.06	\$ 88.80	\$ 106.10
Low	\$ 89.65	\$ 93.21	\$ 88.99	\$ 73.53	\$ 73.53
Cash dividends per common share	\$ 0.425	\$ 0.425	\$ 0.425	\$ 0.425	\$ 1.70
2015 High	\$ 104.56	\$ 106.47	\$ 113.45	\$ 105.29	\$ 113.45
Low	\$ 94.16	\$ 98.74	\$ 95.12	\$ 91.56	\$ 91.56
Cash dividends per common share	\$ 0.350	\$ 0.350	\$ 0.350	\$ 0.350	\$ 1.40

CVS Health has paid cash dividends every quarter since becoming a public company. Future dividend payments will depend on the Company’s earnings, capital requirements, financial condition and other factors considered relevant by the Company’s Board of Directors. As of February 3, 2017, there were 22,164 registered shareholders according to the records maintained by our transfer agent.

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

<u>In billions</u>	<u>Authorized</u>	<u>Remaining</u>
<u>Authorization Date</u>		
November 2, 2016 (“2016 Repurchase Program”)	\$ 15.0	\$ 15.0
December 15, 2014 (“2014 Repurchase Program”)	\$ 10.0	\$ 3.2
December 17, 2013 (“2013 Repurchase Program”)	\$ 6.0	—

The share Repurchase Programs, each of which was effective immediately, permit the Company to effect repurchases from time to time through a combination of open market repurchases, privately negotiated transactions, accelerated share repurchase (“ASR”) transactions, and/or other derivative transactions. The 2016 and 2014 Repurchase Programs may be modified or terminated by the Board of Directors at any time.

Pursuant to the authorization under the 2014 Repurchase Program, effective August 29, 2016, the Company entered into two fixed dollar ASRs with Barclays Bank PLC (“Barclays”) for a total of \$3.6 billion. Upon payment of the \$3.6 billion purchase price on January 6, 2017, the Company received a number of shares of its common stock equal to 80% of the \$3.6 billion notional amount of the ASRs or approximately 36.1 million shares at a price of \$80.34 per share, which were placed into treasury stock in January 2017. At the conclusion of the ASRs, the Company may receive additional shares equal to the remaining 20% of the \$3.6 billion notional amount. The ultimate number of shares the Company may receive will fluctuate based on changes in the daily volume-weighted average price of the Company’s stock over a period beginning on January 6, 2017 and ending on or before July 6, 2017. If the mean daily volume-weighted average price of the Company’s common stock, less a discount (the “forward price”), during the ASRs falls below \$80.34 per share, the Company will receive a higher number of shares from Barclays. If the forward price rises above \$80.34 per share, the Company will either receive fewer shares from Barclays or, potentially have an obligation to Barclays which, at the Company’s option, could be settled in additional cash or by issuing shares. Under the terms of the ASRs, the maximum number of shares that could be received or delivered is 90.1 million.

Pursuant to the authorization under the 2014 Repurchase Program, effective December 11, 2015, the Company entered into a \$725 million fixed dollar ASR with Barclays. Upon payment of the \$725 million purchase price on December 14, 2015, the Company received a number of shares of its common stock equal to 80% of the \$725 million notional amount of the ASR or approximately 6.2 million shares. The initial 6.2 million shares of common stock delivered to the Company by Barclays were placed into treasury stock in December 2015. The ASR was accounted for as an initial treasury stock transaction of \$580 million and a forward contract of \$145 million. The forward contract was classified as an equity instrument and was recorded

within capital surplus on the consolidated balance sheet. On January 28, 2016, the Company received 1.4 million shares of common stock, representing the remaining 20% of the \$725 million notional amount of the ASR, thereby concluding the ASR. The remaining 1.4 million shares of common stock delivered to the Company by Barclays were placed into treasury stock in January 2016 and the forward contract was reclassified from capital surplus to treasury stock.

Pursuant to the authorization under the 2013 Repurchase Program, effective January 2, 2015, the Company entered into a \$2.0 billion fixed dollar ASR agreement with J.P. Morgan Chase Bank (“JP Morgan”). Upon payment of the \$2.0 billion purchase price on January 5, 2015, the Company received a number of shares of its common stock equal to 80% of the \$2.0 billion notional amount of the ASR agreement or approximately 16.8 million shares, which were placed into treasury stock in January 2015. On May 1, 2015, the Company received approximately 3.1 million shares of common stock, representing the remaining 20% of the \$2.0 billion notional amount of the ASR, thereby concluding the ASR. The remaining 3.1 million shares of common stock delivered to the Company by JP Morgan were placed into treasury stock in May 2015. The ASR was accounted for as an initial treasury stock transaction of \$1.6 billion and a forward contract of \$0.4 billion. The forward contract was classified as an equity instrument and was initially recorded within capital surplus on the consolidated balance sheet and was reclassified to treasury stock upon the settlement of the ASR in May 2015.

In the ASR transactions described above, the initial repurchase of the shares and delivery of the remainder of the shares to conclude the ASR, resulted in an immediate reduction of the outstanding shares used to calculate the weighted average common shares outstanding for basic and diluted earnings per share.

During the year ended December 31, 2016, the Company repurchased an aggregate of 47.5 million shares of common stock for approximately \$4.5 billion under the 2014 Repurchase Program. As of December 31, 2016, there remained an aggregate of approximately \$18.2 billion available for future repurchases under the 2016 and 2014 Repurchase Programs, \$3.6 billion of which was used for the ASR effective January 6, 2017 described previously. As of December 31, 2015, the 2013 Repurchase Program was complete.

Fiscal Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2016 through October 31, 2016	—	\$ —	—	\$ 3,691,002,299
November 1, 2016 through November 30, 2016	5,425,000	\$ 75.11	5,425,000	\$ 18,283,540,767
December 1, 2016 through December 31, 2016	700,000	\$ 75.91	700,000	\$ 18,230,407,177
	<u>6,125,000</u>		<u>6,125,000</u>	

Item 6. Selected Financial Data

The selected consolidated financial data of CVS Health Corporation as of and for the periods indicated in the five-year period ended December 31, 2016 have been derived from the consolidated financial statements of CVS Health Corporation. The selected consolidated financial data should be read in conjunction with the consolidated financial statements and the audit reports of Ernst & Young LLP, which are incorporated elsewhere herein.

In millions, except per share amounts	2016	2015	2014	2013	2012
Statement of operations data:					
Net revenues	\$ 177,526	\$ 153,290	\$ 139,367	\$ 126,761	\$ 123,120
Gross profit	28,857	26,528	25,367	23,783	22,488
Operating expenses	18,519	17,074	16,568	15,746	15,278
Operating profit	10,338	9,454	8,799	8,037	7,210
Interest expense, net	1,058	838	600	509	557
Loss on early extinguishment of debt	643	—	521	—	348
Income tax provision	3,317	3,386	3,033	2,928	2,436
Income from continuing operations	5,320	5,230	4,645	4,600	3,869
Income (loss) from discontinued operations, net of tax	(1)	9	(1)	(8)	(7)
Net income	5,319	5,239	4,644	4,592	3,862
Net (income) loss attributable to noncontrolling interest	(2)	(2)	—	—	2
Net income attributable to CVS Health	\$ 5,317	\$ 5,237	\$ 4,644	\$ 4,592	\$ 3,864
Per common share data:					
Basic earnings per common share:					
Income from continuing operations attributable to CVS Health	\$ 4.93	\$ 4.65	\$ 3.98	\$ 3.78	\$ 3.05
Income (loss) from discontinued operations attributable to CVS Health	\$ —	\$ 0.01	\$ —	\$ (0.01)	\$ (0.01)
Net income attributable to CVS Health	\$ 4.93	\$ 4.66	\$ 3.98	\$ 3.77	\$ 3.04
Diluted earnings per common share:					
Income from continuing operations attributable to CVS Health	\$ 4.91	\$ 4.62	\$ 3.96	\$ 3.75	\$ 3.02
Income (loss) from discontinued operations attributable to CVS Health	\$ —	\$ 0.01	\$ —	\$ (0.01)	\$ (0.01)
Net income attributable to CVS Health	\$ 4.90	\$ 4.63	\$ 3.96	\$ 3.74	\$ 3.02
Cash dividends per common share	\$ 1.70	\$ 1.40	\$ 1.10	\$ 0.90	\$ 0.65
Balance sheet and other data:					
Total assets ⁽¹⁾	\$ 94,462	\$ 92,437	\$ 73,202	\$ 70,550	\$ 65,474
Long-term debt	\$ 25,615	\$ 26,267	\$ 11,630	\$ 12,767	\$ 9,079
Total shareholders' equity	\$ 36,834	\$ 37,203	\$ 37,963	\$ 37,938	\$ 37,653
Number of stores (at end of year)	9,750	9,681	7,866	7,702	7,508

(1) As of January 1, 2016, the Company early adopted Accounting Standard Update No. 2015-17, *Income Taxes* (Topic 740) issued by the Financial Accounting Standards Board in November 2015. The effect of the retrospective adoption on the Company's historical consolidated balance sheets is a reduction in current assets and deferred income taxes of \$1.2 billion, \$985 million, \$902 million and \$693 million as of December 31, 2015, 2014, 2013 and 2012, respectively.

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

We refer you to “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” which includes our “Cautionary Statement Concerning Forward-Looking Statements” at the end of such section of our Annual Report to Stockholders for the year ended December 31, 2016 , which section is incorporated by reference herein.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

As of December 31, 2016 , the Company did not have any interest rate, foreign currency exchange rate or commodity derivative instruments in place and believes that as of December 31, 2016 its exposure to interest rate risk (inherent in the Company's debt portfolio), foreign currency exchange rate risk and commodity price risk is not material.

Item 8. Financial Statements and Supplementary Data

We refer you to the “Consolidated Statements of Income,” “Consolidated Statements of Comprehensive Income,” “Consolidated Balance Sheets,” “Consolidated Statements of Shareholders’ Equity,” “Consolidated Statements of Cash Flows,” “Notes to Consolidated Financial Statements,” and “Report of Independent Registered Public Accounting Firm” of our Annual Report to Stockholders for the year ended December 31, 2016 , which sections are incorporated by reference herein.

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

None.

Item 9A. Controls and Procedures

Evaluation of disclosure controls and procedures: The Company’s Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rules 13a-15 (f) and 15d-15(f) under the Securities Exchange Act of 1934) as of December 31, 2016 , have concluded that as of such date the Company’s disclosure controls and procedures were adequate and effective at a reasonable assurance level and designed to ensure that material information relating to the Company and its subsidiaries would be made known to such officers on a timely basis.

Internal control over financial reporting: We refer you to “Management’s Report on Internal Control Over Financial Reporting” and “Report of Independent Registered Public Accounting Firm” of our Annual Report to Stockholders for the fiscal year ended December 31, 2016 , which are incorporated by reference herein, for management’s report on the Company’s internal control over financial reporting and the Independent Registered Public Accounting Firm’s report with respect to the effectiveness of internal control over financial reporting.

Changes in internal control over financial reporting: On August 18, 2015, the Company completed its acquisition of Omnicare and on December 16, 2015, the Company completed its acquisition of the pharmacies and clinics of Target. During the three months ended December 31, 2016, the Company completed the process of integrating the applicable internal controls for each business into its internal control over financial reporting for the rest of the Company. Other than the foregoing, there have been no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Securities Exchange Act Rule 13a-15 or Rule 15d-15 that occurred in the three months ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

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

PART III

Item 10. Directors, Executive Officers and Corporate Governance

We refer you to our Proxy Statement for the 2017 Annual Meeting of Stockholders under the captions “Committees of the Board,” “Code of Conduct,” “Director Nominations,” “Audit Committee Report,” “Biographies of our Board Nominees,” and “Section 16(a) Beneficial Ownership Reporting Compliance,” which sections are incorporated by reference herein. Biographical information on our executive officers is contained in Part I of this Annual Report on Form 10-K.

Item 11. Executive Compensation

We refer you to our Proxy Statement for the 2017 Annual Meeting of Stockholders under the captions “Executive Compensation and Related Matters,” including “Compensation Discussion & Analysis” and “Management Planning and Development Committee Report,” which sections are incorporated by reference herein.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

We refer you to our Proxy Statement for the 2017 Annual Meeting of Stockholders under the captions “Share Ownership of Directors and Certain Executive Officers,” and “Share Ownership of Principal Stockholders” which sections are incorporated by reference herein, for information concerning security ownership of certain beneficial owners and management and related stockholder matters.

The following table summarizes information about the Company’s common stock that may be issued upon the exercise of options, warrants and rights under all of our equity compensation plans as of December 31, 2016 .

	Number of securities to be issued upon exercise of outstanding options, warrants and rights ⁽¹⁾	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column) ⁽¹⁾
Equity compensation plans approved by stockholders	23,275	\$ 68.60	17,645
Equity compensation plans not approved by stockholders	—	—	—
Total	23,275	\$ 68.60	17,645

(1) Shares in thousands.

Item 13. Certain Relationships and Related Transactions and Director Independence

We refer you to our Proxy Statement for the 2017 Annual Meeting of Stockholders under the caption “Independence Determinations for Directors” and “Certain Transactions with Directors and Officers,” which sections are incorporated by reference herein.

Item 14. Principal Accountant Fees and Services

We refer you to our Proxy Statement for the 2017 Annual Meeting of Stockholders under the caption “Item 2: Ratification of Appointment of Independent Registered Public Accounting Firm,” which section is incorporated by reference herein.

PART IV

Item 15. Exhibits and Financial Statement Schedules

A. Documents filed as part of this report:

1. Financial Statements:

The following financial statements are incorporated by reference from our Annual Report to Stockholders for the fiscal year ended December 31, 2016, as provided in Item 8 hereof:

Consolidated Statements of Income for the Years Ended December 31, 2016, 2015 and 2014	70
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2016, 2015 and 2014	71
Consolidated Balance Sheets as of December 31, 2016 and 2015	72
Consolidated Statements of Cash Flows for the Years Ended December 31, 2016, 2015 and 2014	73
Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2016, 2015 and 2014	74
Notes to Consolidated Financial Statements	75
Report of Independent Registered Public Accounting Firm	111

2. Financial Statement Schedules

All financial statement schedules are omitted because they are not applicable, not required under the instructions, or the information is included in the consolidated financial statements or related notes.

B. Exhibits

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

<u>Exhibit</u>	<u>Description</u>
2.1*	Agreement and Plan of Merger dated as of November 1, 2006 among, the Registrant, Caremark Rx, Inc. and Twain MergerSub Corp. (incorporated by reference to Exhibit 2.1 to the Registrant's Registration Statement No. 333-139470 on Form S-4 filed December 19, 2006).
2.2*	Amendment No. 1 dated as of January 16, 2007 to the Agreement and Plan of Merger dated as of November 1, 2006 among the Registrant, Caremark Rx, Inc. and Twain Merger Sub Corp. (incorporated by reference to Exhibit 2.2 to the Registrant's Registration Statement No. 333-139470 on Form S-4/A filed January 16, 2007).
2.3*	Waiver Agreement dated as of January 16, 2007 between the Registrant and Caremark Rx, Inc. with respect to the Agreement and Plan Merger dated as of November 1, 2006 by and between Registrant and Caremark Rx, Inc (incorporated by reference to Exhibit 2.3 to the Registrant's Registration Statement No. 333-139470 on Form S-4/A filed January 16, 2007).
2.4*	Amendment to Waiver Agreement, dated as of February 12, 2007, between Registrant and Caremark Rx, Inc. (incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K dated February 13, 2007; Commission File No. 001-01011).
2.5*	Amendment to Waiver Agreement, dated as of March 8, 2007, between Registrant and Caremark Rx, Inc. (incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K dated March 8, 2007; Commission File No. 001-01011).
2.6*	Agreement and Plan of Merger dated as of August 12, 2008, among the Registrant, Longs Drug Stores Corporation and Blue MergerSub Corp. (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated August 13, 2008; Commission File No. 001-01011).
2.7*	Agreement and Plan of Merger, dated as of May 20, 2015, among CVS Pharmacy, Inc., Tree Merger Sub, Inc. and Omnicare, Inc. (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated May 21, 2015; Commission File No. 001-01011).

- 3.1* Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1996; Commission File No. 001-01011).
- 3.1A* Certificate of Amendment to the Amended and Restated Certificate of Incorporation, effective May 13, 1998 (incorporated by reference to Exhibit 4.1A to Registrant's Registration Statement No. 333-52055 on Form S-3/A dated May 18, 1998).
- 3.1B* Certificate of Amendment to the Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K dated March 22, 2007; Commission File No. 001-01011).
- 3.1C* Certificate of Merger dated May 9, 2007 (incorporated by reference to Exhibit 3.1C to Registrant's Quarterly Report on Form 10-Q dated November 1, 2007; Commission File No. 001-01011).
- 3.1D* Certificate of Amendment to the Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K dated May 13, 2010; Commission File No. 001-01011).
- 3.1E* Certificate of Amendment to the Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report On Form 8-K dated May 10, 2012; Commission File No. 001-01011).
- 3.1F* Certificate of Amendment to the Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report On Form 8-K dated May 13, 2013; Commission File No. 001-01011).
- 3.1G* Certificate of Amendment to the Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated September 3, 2014 (Commission File No. 001-01011)).
- 3.2* By-laws of the Registrant, as amended and restated (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K dated January 26, 2016; Commission File No. 001-01011).
- 4 Pursuant to Regulation S-K, Item 601(b)(4)(iii)(A), no instrument which defines the rights of holders of long-term debt of the Registrant and its subsidiaries is filed with this report. The Registrant hereby agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.
- 4.1* Specimen common stock certificate (incorporated by reference to Exhibit 4.1 to the Registration Statement of the Registrant on Form 8-B dated November 4, 1996; Commission File No. 001-01011).
- 10.1* Stock Purchase Agreement dated as of October 14, 1995 between The TJX Companies, Inc. and Melville Corporation, as amended November 17, 1995 (incorporated by reference to Exhibits 2.1 and 2.2 to Melville's Current Report on Form 8-K dated December 4, 1995; Commission File No. 001-01011).
- 10.2* Stock Purchase Agreement dated as of March 25, 1996 between Melville Corporation and Consolidated Stores Corporation, as amended May 3, 1996 (incorporated by reference to Exhibits 2.1 and 2.2 to Melville's Current Report on Form 8-K dated May 5, 1996; Commission File No. 001-01011).
- 10.3* Distribution Agreement dated as of September 24, 1996 among Melville Corporation, Footstar, Inc. and Footstar Center, Inc. (incorporated by reference to Exhibit 99.1 to Melville's Current Report on Form 8-K dated October 28, 1996; Commission File No. 001-01011).
- 10.4* Tax Disaffiliation Agreement dated as of September 24, 1996 among Melville Corporation, Footstar, Inc. and certain subsidiaries named therein (incorporated by reference to Exhibit 99.2 to Melville's Current Report on Form 8-K dated October 28, 1996; Commission File No. 001-01011).
- 10.5* Stockholder Agreement dated as of December 2, 1996 between the Registrant, Nashua Hollis CVS, Inc. and Linens 'n Things, Inc. (incorporated by reference to Exhibit 10(i)(6) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997; Commission File No. 001-01011).
- 10.6* Tax Disaffiliation Agreement dated as of December 2, 1996 between the Registrant and Linens 'n Things, Inc. and certain of their respective affiliates (incorporated by reference to Exhibit 10(i)(7) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997; Commission File No. 001-01011).

- 10.7* Four Year Credit Agreement dated as of May 12, 2011 by and among the Registrant, the lenders party thereto, Barclays Capital and JP Morgan Chase Bank, N.A., as Co-Syndication Agents, Bank of America, N.A. and Wells Fargo Bank, N.A., as Co-Documentation Agents, and the Bank of New York Mellon, as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2011; Commission File No. 001-01011).
- 10.8* Amendment No. 1, dated as of November 22, 2011, to the Credit Agreement dated as of May 12, 2011 by and among the Registrant, the Lenders party thereto, the Co-Syndication Agents and Co-Documentation Agents named therein, and The Bank of New York Mellon, as Administrative Agent (incorporated by reference to Exhibit 10.45 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011; Commission File No. 001-01011).
- 10.9* Credit Agreement dated as of May 23, 2013, by and among the Registrant, the lenders party thereto, Barclays Bank PLC and JPMorgan Chase Bank, N.A., as Co-Syndication Agents, Bank of America, N.A. and Wells Fargo Bank, N.A., as Co-Documentation Agents, and The Bank of New York Mellon, as Administrative Agent. (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2013 (Commission File No. 001-01011).
- 10.10* Amendment No. 2, dated as of May 23, 2013, to the Credit Agreement dated as of May 12, 2011, by and among the Registrant, the lenders party thereto, Barclays Capital and JPMorgan Chase Bank, N.A., as Co-Syndication Agents, Bank of America, N.A. and Wells Fargo Bank, N.A., as Co-Documentation Agents, and The Bank of America, N.A. and Wells Fargo Bank, N.A., as Co-Documentation Agents, and The Bank of New York Mellon, as Administrative Agent, as previously amended by Amendment No. 1, dated as of November 22, 2011 (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2013 (Commission File No. 001-01011).
- 10.11* Second Amended and Restated Credit Agreement, dated as of July 24, 2014, by and among the Registrant, the lenders party thereto, Barclays Bank PLC and JPMorgan Chase Bank, N.A., as Co-Syndication Agents, Bank of America, N.A. and Wells Fargo Bank, N.A., as Co-Documentation Agents, and The Bank of New York Mellon, as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 (Commission File No. 001-01011).
- 10.12* Five Year Credit Agreement dated as of July 1, 2015, by and among the Registrant, the lenders party thereto, Barclays Bank PLC and JPMorgan Chase Bank, N.A., as Co-Syndication Agents, Bank of America, N.A. and Wells Fargo Bank, N.A., as Co-Documentation Agents, and The Bank of New York Mellon, as Administrative Agent (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2015 (Commission File No. 001-01011).
- 10.13 Credit Agreement dated as of January 3, 2017, by and among the Registrant, the lenders party thereto, and Barclays Bank PLC, as Administrative Agent.
- 10.14* The Registrant's Supplemental Retirement Plan for Select Senior Management I as amended and restated in December 2008 (incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009; Commission File No. 001-01011).
- 10.15* The Registrant's 1996 Directors Stock Plan, as amended and restated November 5, 2002 (incorporated by reference to Exhibit 10.18 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 28, 2002; Commission File No. 001-01011).
- 10.16* The Registrant's 1997 Incentive Compensation Plan as amended through December 2008 (incorporated by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009; Commission File No. 001-01011).
- 10.17* Caremark Rx, Inc. 2004 Incentive Stock Plan (incorporated by reference to Exhibit 99.2 of the Registrant's Registration Statement No. 333-141481 on Form S-8 filed March 22, 2007; Commission File No. 011-01011).
- 10.18* The Registrant's Deferred Stock Compensation Plan, as amended (incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015; Commission File No. 001-01011).
- 10.19 The Registrant's Deferred Compensation Plan, as amended.

- 10.20* The Registrant's 2010 Incentive Compensation Plan, as amended through January 15, 2013 (incorporated by reference to Exhibit A to the Registrant's Definitive Proxy Statement on Form 14A filed March 27, 2015; Commission File No. 001-01011).
- 10.21* The Registrant's 2007 Employee Stock Purchase Plan, as amended (incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015; Commission File No. 001-01011).
- 10.22 The Registrant's 2016 Management Incentive Plan.
- 10.23 The Registrant's 2016 Executive Incentive Plan.
- 10.24* The Registrant's Long-Term Incentive Plan (incorporated by reference to Exhibit 10.21 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2013; Commission File No. 001-01011).
- 10.25 The Registrant's Partnership Equity Program, as amended.
- 10.26* The Registrant's Severance Plan for Non-Store Employees amended as of January 2015 (incorporated by reference to Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015; Commission File No. 001-01011).
- 10.27 The Registrant's Performance-Based Restricted Stock Unit Plan, as amended.
- 10.28* Form of Enterprise Non-Competition, Non-Disclosure and Developments Agreement between the Registrant and certain of the Registrant's executive officers (incorporated by reference to Exhibit 10.25 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013; Commission File No. 001-01011).
- 10.29* Universal 409A Definition Document, as amended (incorporated by reference to Exhibit 10.28 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015; Commission File No. 001-01011).
- 10.30* Form of Non-Qualified Stock Option Agreement between the Registrant and selected employees of the Registrant (incorporated by reference to Exhibit 10.29 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011).
- 10.31* Form of Restricted Stock Unit Agreement - Annual Grant - between the Registrant and selected employees of the Registrant (incorporated by reference to Exhibit 10.30 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011).
- 10.32* Form of Performance-Based Restricted Stock Unit Agreement between the Registrant and selected employees of the Registrant (incorporated by reference to Exhibit 10.31 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011).
- 10.33* Form of Partnership Equity Program Participant Purchased RSUs, Company Matching RSUs and Company Matching Options Agreement (Pre-Tax) (incorporated by reference to Exhibit 10.32 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011).
- 10.34* Form of Partnership Equity Program Participant Purchased RSUs, Company Matching RSUs and Company Matching Options Agreement (Post-Tax) (incorporated by reference to Exhibit 10.33 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011).
- 10.35* Amended and Restated Employment Agreement dated as of December 22, 2008 between the Registrant and the Registrant's President and Chief Executive Officer (incorporated by reference to Exhibit 10.38 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008; Commission File No. 001-01011).
- 10.36* Amendment dated December 21, 2012 to the Amended and Restated Employment Agreement dated as of December 22, 2008 between the Registrant and the Registrant's President and Chief Executive Officer (incorporated by reference to Exhibit 10.31 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012; Commission File No. 001-01011).

- 10.37 Form of Non-Qualified Stock Option Agreement between the Registrant and the Registrant's President and Chief Executive Officer.
- 10.38 Form of Restricted Stock Unit Agreement between the Registrant and the Registrant's President and Chief Executive Officer.
- 10.39* Amendment dated January 22, 2015 to Nonqualified Stock Option Agreements between the Registrant and the Registrant's President and Chief Executive Officer (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated January 20, 2015; Commission File No. 001-01011).
- 10.40* Change in Control Agreement dated December 22, 2008 between the Registrant and the Registrant's Executive Vice President and Chief Financial Officer (incorporated by reference to Exhibit 10.39 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010; Commission File No. 001-01011).
- 10.41* Amendment dated as of December 31, 2012 to the Change in Control Agreement dated December 22, 2008 between the Registrant and the Registrant's Executive Vice President and Chief Financial Officer (incorporated by reference to Exhibit 10.32 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012; Commission File No. 001-01011).
- 10.42* Change in Control Agreement dated December 22, 2008 between the Registrant and the Registrant's Executive Vice President and President of CVS Caremark (incorporated by reference to Exhibit 10.33 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012; Commission File No. 001-01011).
- 10.43* Amendment dated as of December 31, 2012 to the Change in Control Agreement dated December 22, 2008 between the Registrant and the Registrant's Executive Vice President and President of CVS Caremark (incorporated by reference to Exhibit 10.34 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012; Commission File No. 001-01011).
- 10.44 Restricted Stock Unit Agreement dated April 1, 2016 between the Registrant and the Registrant's Executive Vice President and President of CVS Caremark.
- 10.45 Restrictive Covenant Agreement dated May 20, 2016 between the Registrant and the Registrant's Executive Vice President and President of CVS Caremark.
- 10.46* Change in Control Agreement dated December 22, 2008 between the Registrant and the Registrant's Executive Vice President and President of CVS Pharmacy (incorporated by reference to Exhibit 10.43 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011).
- 10.47* Amendment dated as of December 31, 2012 to the Change in Control Agreement between the Registrant and the Registrant's Executive Vice President and President of CVS Pharmacy (incorporated by reference to Exhibit 10.44 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011).
- 10.48* Change in Control Agreement dated October 1, 2012 between the Registrant and the Registrant's Executive Vice President, Chief Strategy Officer and General Counsel (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2015; Commission File No. 001-01011).
- 10.49* Restrictive Covenant Agreement dated June 1, 2014 between the Registrant and the Registrant's Executive Vice President, Chief Strategy Officer and General Counsel (incorporated by reference to Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2015; Commission File No. 001-01011).
- 13 Portions of the 2016 Annual Report to Stockholders of CVS Health Corporation, which are specifically designated in this Form 10-K as being incorporated by reference.
- 21 Subsidiaries of the Registrant.
- 23 Consent of Ernst & Young LLP.

- 31.1 Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification by the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following materials from the CVS Health Corporation Annual Report on Form 10-K for the year ended December 31, 2016 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Income, (ii) the Consolidated Balance Sheets, (iii) the Consolidated Statements of Cash Flows and (iv) related notes.

SIGNATURES

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

CVS HEALTH CORPORATION

Date: February 9, 2017

By: _____ /s/ DAVID M. DENTON

David M. Denton
Executive Vice President and Chief Financial Officer

CREDIT AGREEMENT

by and among

**CVS HEALTH CORPORATION,
THE LENDERS PARTY HERETO,**

and

**BARCLAYS BANK PLC,
as Administrative Agent**

Dated as of January 3, 2017

**BARCLAYS BANK PLC,
as Sole Lead Arranger and Sole Bookrunner**

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EXHIBITS

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(iv)

CVS Health Corporation 2017 Credit Agreement

008330-0373-Active.20553774

CREDIT AGREEMENT , dated as of January 3, 2017, by and among **CVS HEALTH CORPORATION** , a Delaware corporation (the “ **Borrower** ”), the lenders party hereto from time to time (each a “ **Lender** ” and, collectively, the “ **Lenders** ”), and **BARCLAYS BANK PLC** (“ **Barclays** ”), as administrative agent for the Lenders (in such capacity, the “ **Administrative Agent** ”).

1. *DEFINITIONS AND PRINCIPLES OF CONSTRUCTION*

1.1 Definitions

When used in any Loan Document (as defined below), each of the following terms shall have the meaning ascribed thereto unless the context otherwise specifically requires:

“*ABR Advances*” : the Revolving Credit Loans (or any portions thereof) at such time as they (or such portions) are made or are being maintained at a rate of interest based upon the Alternate Base Rate.

“*Acquisition*” : with respect to any Person, the purchase or other acquisition by such Person, by any means whatsoever, of (a) stock of, or other equity securities of, any other Person if, immediately thereafter, such other Person would be either a consolidated subsidiary of such Person or otherwise under the control of such Person, or (b) any business, going concern or division or segment thereof, or all or substantially all of the assets thereof; *provided* that no redemption, retirement, purchase or acquisition by any Person of the stock or other equity securities of such Person shall be deemed to constitute an Acquisition.

“*Administrative Agent*” : as defined in the preamble.

“*Administrative Questionnaire*” : an Administrative Questionnaire in a form supplied by the Administrative Agent.

“*Affiliate*” : with respect to any Person at any time and from time to time, any other Person (other than a wholly-owned subsidiary of such Person) which, at such time (a) controls such Person, (b) is controlled by such Person or (c) is under common control with such Person. The term “ control ”, as used in this definition with respect to any Person, means the power, whether direct or indirect through one or more intermediaries, to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or other interests, by contract or otherwise.

“*Aggregate Commitment Amount*” : at any time, the sum of the Commitment Amounts of the Lenders at such time under this Agreement. The Aggregate Commitment Amount on the Effective Date is \$2,500,000,000.

“*Aggregate Credit Exposure*” : at any time, the sum at such time of the aggregate Committed Credit Exposure of the Lenders at such time under this Agreement.

“*Agreement*” : this Credit Agreement, as the same may be amended, amended and restated, supplemented or otherwise modified from time to time.

“Alternate Base Rate” : for any day, a rate per annum equal to the greatest of (1) the Prime Rate in effect on such day, (1) 0.50% plus the Federal Funds Effective Rate (rounded, if necessary, to the nearest 1/100th of 1% or, if there is no nearest 1/100th of 1%, then to the next higher 1/100th of 1%) in effect on such day, and (1) the Eurodollar Rate in effect on such day for a one month interest period commencing on such day (or if such day is not a Domestic Business Day, the immediately preceding Domestic Business Day), calculated in the manner provided in the definition of “Eurodollar Rate”, plus 1%. Any change in the Alternate Base Rate due to a change in the Prime Rate, the Federal Funds Effective Rate or the Eurodollar Rate shall be effective from and including the effective date of such change in the Prime Rate, the Federal Funds Effective Rate or the Eurodollar Rate, respectively. If for any reason the Administrative Agent shall determine (which determination shall be conclusive absent clearly demonstrable error) that it is unable to ascertain the Federal Funds Effective Rate for any reason, including the inability or failure of the Administrative Agent to obtain sufficient quotations in accordance with the terms hereof, the Alternate Base Rate shall be determined without regard to clause (b) until the circumstances giving rise to such inability no longer exist.

“Anti-Corruption Laws” : all laws, rules, and regulations of any jurisdiction applicable to the Borrower or the Subsidiaries from time to time concerning or relating to bribery or corruption.

“Applicable Margin” : (i) with respect to the unpaid principal balance of ABR Advances, the applicable percentage set forth below in the column entitled “ABR Advances”, (ii) with respect to the unpaid principal balance of Eurodollar Advances, the applicable percentage set forth below in the column entitled “Eurodollar Advances”, and (iii) with respect to the Facility Fee, the applicable percentage set forth below in the column entitled “Facility Fee”, in each case opposite the applicable Pricing Level:

Pricing Level	ABR Advances	Eurodollar Advances	Facility Fee
Pricing Level I	0.000%	0.795%	0.080%
Pricing Level II	0.000%	0.900%	0.100%
Pricing Level III	0.000%	1.000%	0.125%
Pricing Level IV	0.100%	1.100%	0.150%
Pricing Level V	0.300%	1.300%	0.200%
Pricing Level VI	0.500%	1.500%	0.250%

Decreases in the Applicable Margin resulting from a change in Pricing Level shall become effective upon the delivery by the Borrower to the Administrative Agent of a notice pursuant to Section 7.7(d). Increases in the Applicable Margin resulting from a change in Pricing Level shall become effective on the effective date of any downgrade or withdrawal in the rating by Moody’s or S&P of the senior unsecured long term debt rating of the Borrower.

“Approved Fund” : any Person (other than a natural person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business that is administered or managed by a Lender, (1) an Affiliate of a Lender or (1) an entity or an Affiliate of an entity that administers or manages a Lender.

“Assignment and Assumption” : an assignment and assumption entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 11.7(b)), and accepted by the Administrative Agent, in substantially the form of Exhibit E or any other form approved by the Administrative Agent.

“Bail-In Action” : the exercise of any Write-Down and Conversion Powers by the applicable EEA Resolution Authority in respect of any liability of an EEA Financial Institution.

“Bail-In Legislation” : with respect to any EEA Member Country implementing Article 55 of Directive 2014/59/EU of the European Parliament and of the Council of the European Union, the implementing law for such EEA Member Country from time to time which is described in the EU Bail-In Legislation Schedule.

“Barclays” : as defined in the preamble.

“Benefited Lender” : as defined in Section 11.9(b).

“Borrower” : as defined in the preamble.

“Borrower Materials” : as defined in Section 7.7.

“Borrowing Date” : in respect of Revolving Credit Loans, any Domestic Business Day or Eurodollar Business Day, as the case may be, on which the Lenders shall make Revolving Credit Loans pursuant to a Borrowing Request.

“Borrowing Request” : a request for Revolving Credit Loans in the form of Exhibit C.

“Change of Control” : any of the following:

(i) any Person or group (as such term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended), (a) shall have or acquire beneficial ownership of securities having 35% or more of the ordinary voting power of the Borrower or (b) shall possess, directly or indirectly, the power to direct or cause the direction of the management and policies of the Borrower, whether through the ownership of voting securities, by contract or otherwise; or

(ii) the Continuing Directors shall cease for any reason to constitute a majority of the board of directors of the Borrower then in office.

“Commitment” : in respect of any Lender, such Lender’s undertaking to make Revolving Credit Loans, subject to the terms and conditions hereof, in an aggregate outstanding principal amount not to exceed the Commitment Amount of such Lender.

“Commitment Amount” : at any time and with respect to any Lender, the amount set forth adjacent to such Lender’s name under the heading “ Commitment Amount ” in Exhibit A at such time or, in the event that such Lender is not listed on Exhibit A, the “ Commitment Amount ” which such Lender shall have assumed from another Lender in accordance with Section 11.7 on or prior to such time, as the same may be adjusted from time to time pursuant to Section 2.6 and Section 11.7.

“Commitment Percentage” : at any time and with respect to any Lender, a fraction the numerator of which is such Lender’s Commitment Amount at such time, and the denominator of which is the Aggregate Commitment Amount at such time.

“Commitment Period” : the period commencing on the Effective Date and ending on the Commitment Termination Date, or on such earlier date as all of the Commitments shall have been terminated in accordance with the terms hereof.

“Commitment Reduction Date” : as defined in Section 2.6(c).

“Commitment Termination Date” : the earlier of (i) December 31, 2017 and (ii) the date on which the Loans shall become due and payable, whether by acceleration, notice of intention to prepay or otherwise.

“Committed Credit Exposure” : with respect to any Lender at any time, the outstanding principal balance of such Lender’s Revolving Credit Loans.

“Compensatory Interest Payment” : as defined in Section 3.4(c).

“Consolidated” : the Borrower and the Subsidiaries on a consolidated basis in accordance with GAAP.

“Contingent Obligation” : as to any Person (the “ secondary obligor ”), any obligation of such secondary obligor (a) guaranteeing or in effect guaranteeing any return on any investment made by another Person, or (b) guaranteeing or in effect guaranteeing any Indebtedness, lease, dividend or other obligation (“ primary obligation ”) of any other Person (the “ primary obligor ”) in any manner, whether directly or indirectly, including any obligation of such secondary obligor, whether or not contingent, (i) to purchase any such primary obligation or any Property constituting direct or indirect security therefor, (ii) to advance or supply funds (A) for the purchase or payment of any such primary obligation or (B) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (iii) to purchase Property, securities or services primarily for the purpose of assuring the beneficiary of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation, (iv) otherwise to assure or hold harmless the beneficiary of such primary obligation against loss in respect thereof, and (v) in respect of the Indebtedness of any partnership in which such secondary obligor is a general partner, except to the extent that such Indebtedness of such partnership is nonrecourse to such secondary obligor and its separate Property; *provided* that the term “ Contingent Obligation ” shall not include the indorsement of instruments for deposit or collection in the ordinary course of business.

“Continuing Director” : any member of the board of directors of the Borrower who (i) is a member of that board of directors on the Effective Date or (ii) was nominated for election by the board of directors a majority of whom were directors on the Effective Date or whose election or nomination for election was previously approved by one or more of such directors.

“Control Person” : as defined in Section 3.6.

“Convert”, *“Conversion”* and *“Converted”* : each, a reference to a conversion pursuant to Section 3.3 of one Type of Revolving Credit Loan into another Type of Revolving Credit Loan.

“Costs” : as defined in Section 3.6.

“Credit Exposure” : with respect to any Lender at any time, the Committed Credit Exposure of such Lender at such time under this Agreement.

“Credit Parties” means the Administrative Agent and the Lenders.

“Default” : any of the events specified in Section 9.1, whether any requirement for the giving of notice, the lapse of time, or both, or any other condition, has been satisfied.

“Defaulting Lender”: any Lender, as reasonably determined by the Administrative Agent, that has (1) failed to fund any portion of its Loans within two Domestic Business Days of the date required to be funded by it hereunder, unless such Lender notifies the Administrative Agent and the Borrower in writing that such failure is the result of such Lender’s determination that one or more conditions precedent to funding (each of which conditions precedent, together with any applicable default, shall be specifically identified in such writing) has not been satisfied, (1) notified the Borrower or any Credit Party in writing that it does not intend to comply with any of its funding obligations under this Agreement or has made a public statement to the effect that it does not intend to comply with its funding obligations under this Agreement or generally under other agreements in which it commits to extend credit, unless such writing or public statement relates to such Lender’s obligation to fund a Loan hereunder and states that such position is based on such Lender’s determination that a condition precedent to funding (which condition precedent, together with any applicable default, shall be specifically identified in such writing or public statement) cannot be satisfied, (1) failed, two Domestic Business Days after written request by the Administrative Agent (based on the reasonable belief that it may not fulfill its funding obligation), to confirm that it will comply with the terms of this Agreement relating to its obligations to fund prospective Loans; *provided* that such Lender shall cease to be a Defaulting Lender under this clause (c) upon receipt by the Administrative Agent of such confirmation, (1) otherwise failed to pay over to the Administrative Agent or any other Lender any other amount required to be paid by it hereunder within two Domestic Business Days of the date when due, unless the subject of a good faith dispute, or (1) (1) become or is insolvent or has a parent company that has become or is insolvent, (1) become the subject of a bankruptcy or insolvency proceeding, or has had a receiver, interim receiver, receiver and manager, administrator, liquidator, conservator, trustee or custodian appointed for it, or has taken any action in furtherance of, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment or has a parent company that has become the subject of a bankruptcy

or insolvency proceeding, or has had a receiver, interim receiver, receiver and manager, administrator, liquidator, conservator, trustee or custodian appointed for it, or has taken any action in furtherance of, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment or (iii) become or has had a direct or indirect parent become the subject of a Bail-In Action; *provided* that a Lender shall not qualify as a Defaulting Lender solely as a result of the acquisition or maintenance of an ownership interest in such Lender or its parent company, or of the exercise of control over such Lender or any Person controlling such Lender, by a Governmental Authority or instrumentality thereof so long as such ownership interest does not result in or provide such Lender with immunity from the jurisdiction of courts within the United States of America or from the enforcement of judgments or writs of attachment on its assets or permit such Lender (or such Governmental Authority) to reject, repudiate, disavow or disaffirm any agreements made by such Lender.

“Disposition” : with respect to any Person, any sale, assignment, transfer or other disposition by such Person by any means, of:

- (a) the stock of, or other equity interests of, any other Person,
- (b) any business, operating entity, division or segment thereof, or
- (c) any other Property of such Person, other than (i) the sale of inventory (other than in connection with bulk transfers), (ii) the disposition of equipment and (iii) the sale of cash investments.

“Dividend Restrictions” : as defined in Section 8.7(b).

“Dollar” or “\$” : lawful currency of the United States of America.

“Domestic Business Day” : any day other than a Saturday, Sunday or a day which in New York City is a legal holiday or a day on which banking institutions are authorized or required by law or other governmental action to close.

“EEA Financial Institution” : (a) any credit institution or investment firm established in any EEA Member Country which is subject to the supervision of an EEA Resolution Authority, (b) any entity established in an EEA Member Country which is a parent of an institution described in clause (a) of this definition, or (c) any financial institution established in an EEA Member Country which is a subsidiary of an institution described in clauses (a) or (b) of this definition and is subject to consolidated supervision with its parent.

“EEA Member Country” : any of the member states of the European Union, Iceland, Liechtenstein, and Norway.

“EEA Resolution Authority” : any public administrative authority or any person entrusted with public administrative authority of any EEA Member Country (including any delegee) having responsibility for the resolution of any EEA Financial Institution.

“Effective Date” : as defined in Section 5.

“*Eligible Assignee*”: a Person that is a permitted assignee under Section 11.7(b) that has received the consent of each party whose consent is required under Section 11.7(b).

“*Employee Benefit Plan*”: an employee benefit plan, within the meaning of Section 3(3) of ERISA, maintained, sponsored or contributed to by the Borrower, any Subsidiary or any ERISA Affiliate.

“*Environmental Laws*”: all laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by any Governmental Authority, relating in any way to the environment, preservation or reclamation of natural resources, the management, release or threatened release of any Hazardous Material or to health and safety matters.

“*Environmental Liability*”: as to any Person, any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of such Person directly or indirectly resulting from or based upon (1) violation of any Environmental Law, (1) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (1) exposure to any Hazardous Materials, (1) the release or threatened release of any Hazardous Materials into the environment or (1) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

“*ERISA*”: the Employee Retirement Income Security Act of 1974, as amended from time to time, or any successor thereto, and the rules and regulations issued thereunder, as from time to time in effect.

“*ERISA Affiliate*”: when used with respect to an Employee Benefit Plan, ERISA, the PBGC or a provision of the Internal Revenue Code pertaining to employee benefit plans, any Person that is a member of any group of organizations within the meaning of Sections 414(b) or (c) of the Internal Revenue Code or, solely with respect to the applicable provisions of the Internal Revenue Code, Sections 414(m) or (o) of the Internal Revenue Code, of which the Borrower or any Subsidiary is a member.

“*EU Bail-In Legislation Schedule*”: the EU Bail-In Legislation Schedule published by the Loan Market Association (or any successor Person), as in effect from time to time.

“*Eurodollar Advance*”: a portion of the Revolving Credit Loans selected by the Borrower to bear interest during a Eurodollar Interest Period selected by the Borrower at a rate per annum based upon a Eurodollar Rate determined with reference to such Eurodollar Interest Period, all pursuant to and in accordance with Section 2.1 or Section 3.3.

“*Eurodollar Business Day*”: any Domestic Business Day, other than a Domestic Business Day on which banks are not open for dealings in Dollar deposits in the interbank eurodollar market.

“*Eurodollar Interest Period*” : the period commencing on any Eurodollar Business Day selected by the Borrower in accordance with Section 2.3 or Section 3.3 and ending one, two, three or six months thereafter, as selected by the Borrower in accordance with either such Sections, subject to the following:

(i) if any Eurodollar Interest Period would otherwise end on a day which is not a Eurodollar Business Day, such Eurodollar Interest Period shall be extended to the immediately succeeding Eurodollar Business Day unless the result of such extension would be to carry the end of such Eurodollar Interest Period into another calendar month, in which event such Eurodollar Interest Period shall end on the Eurodollar Business Day immediately preceding such day; and

(ii) if any Eurodollar Interest Period shall begin on the last Eurodollar Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Eurodollar Interest Period), such Eurodollar Interest Period shall end on the last Eurodollar Business Day of such latter calendar month.

“*Eurodollar Rate*” : with respect to any Eurodollar Advance or any ABR Advance, to the extent such ABR Advance is based on a Eurodollar Rate, for any Interest Period, an interest rate per annum equal to (a) the LIBO Rate for such Interest Period multiplied by (b) the Statutory Reserve Rate.

“*Event of Default*” : any of the events specified in Section 9.1, *provided* that any requirement for the giving of notice, the lapse of time, or both, or any other condition has been satisfied.

“*Excluded Taxes*” : with respect to the Administrative Agent, any Lender or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder or any other Loan Document, (a) Taxes imposed on or measured by its net income (however denominated), and franchise Taxes, in each case, (i) imposed on it by the jurisdiction (or any political subdivision thereof) under the laws of which it is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located, or (ii) that are Other Connection Taxes, (b) any branch profits Taxes imposed by the United States of America or that are Other Connection Taxes, (c) in the case of a Lender (other than an assignee pursuant to a request by the Borrower under Section 3.13), any withholding Tax that (i) is imposed on amounts payable to such Lender at the time such Lender becomes a party hereto (or designates a new lending office), (ii) is attributable to such Lender’s failure or inability (other than as a result of a Regulatory Change) to comply with Section 3.10, except to the extent that such Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the Borrower with respect to such withholding Tax pursuant to Section 3.10, or (iii) is attributable to such Lender’s failure or inability (other than as a result of a Regulatory Change, except for a Regulatory Change relating to the implementation of FATCA) to comply with Section 3.10 and (d) any Taxes imposed under FATCA.

“*Existing 2013 Credit Agreement*” : the Credit Agreement, dated as of May 23, 2013, by and among the Borrower, the lenders party thereto from time to time, Barclays Bank PLC and

JPMorgan Chase Bank, N.A., as co-syndication agents, Bank of America, N.A. and Wells Fargo Bank, N.A., as co-documentation agents, and The Bank of New York Mellon, as administrative agent, as the same may be amended, amended and restated, supplemented, replaced or otherwise modified from time to time.

“Existing 2014 Credit Agreement” : the Second Amended and Restated Credit Agreement, dated as of July 24, 2014, by and among the Borrower, the lenders party thereto from time to time, Barclays Bank PLC and JPMorgan Chase Bank, N.A., as co-syndication agents, Bank of America, N.A. and Wells Fargo Bank, N.A., as co-documentation agents, and The Bank of New York Mellon, as administrative agent, as the same may be amended, amended and restated, supplemented, replaced or otherwise modified from time to time.

“Existing 2015 Credit Agreement” : the Credit Agreement, dated as of July 1, 2015, by and among the Borrower, the lenders party thereto from time to time, Barclays Bank PLC and JPMorgan Chase Bank, N.A., as co-syndication agents, Bank of America, N.A. and Wells Fargo Bank, N.A., as co-documentation agents, and The Bank of New York Mellon, as administrative agent, as the same may be amended, amended and restated, supplemented, replaced or otherwise modified from time to time.

“Expiration Date” : the first date, occurring on or after the date the Commitments shall have terminated or been terminated in accordance herewith, upon which there shall be no Loans outstanding.

“Facility Fee” : as defined in Section 3.11.

“FATCA” : Sections 1471 through 1474 of the Internal Revenue Code, as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof, any agreements entered into pursuant to Section 1471(b)(1) of the Internal Revenue Code, any applicable intergovernmental agreements with respect thereto, and any treaty, law, regulations, or other official guidance enacted in any other jurisdiction relating to such intergovernmental agreement.

“Federal Funds Effective Rate” : for any day, the rate calculated by the Federal Reserve Bank of New York based on such day’s federal funds transactions by depository institutions (as determined in such manner as the Federal Reserve Bank of New York shall set forth on its public website from time to time) and published on the next succeeding Business Day by the Federal Reserve Bank of New York as the federal funds effective rate; provided, that if the Federal Funds Effective Rate for any day is less than zero, the Federal Funds Effective Rate for such day will be deemed to be zero.

“Fees” : as defined in Section 3.2(a).

“Financial Statements” : as defined in Section 4.13.

“Foreign Lender” : any Lender that is not a United States person within the meaning of Section 7701(a)(30) of the Internal Revenue Code.

“GAAP” : generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or such other principles as may be approved by a significant segment of the accounting profession, which are applicable to the circumstances as of the date of determination, consistently applied.

“Governmental Authority” : any foreign, federal, state, municipal or other government, or any department, commission, board, bureau, agency, public authority or instrumentality thereof, or any court, arbitrator, regulatory body or central bank (including any supra-national bodies such as the European Union or the European Central Bank).

“Hazardous Materials” : all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

“Highest Lawful Rate” : as to any Lender, the maximum rate of interest, if any, which at any time or from time to time may be contracted for, taken, charged or received on the Loans or the Notes or which may be owing to such Lender pursuant to this Agreement under the laws applicable to such Lender and this Agreement.

“Indebtedness” : as to any Person at a particular time, all items of such Person which constitute, without duplication, (a) indebtedness for borrowed money or the deferred purchase price of Property (other than trade payables and accrued expenses incurred in the ordinary course of business), (b) indebtedness evidenced by notes, bonds, debentures or similar instruments, (c) indebtedness with respect to any conditional sale or other title retention agreement, (d) indebtedness arising under acceptance facilities and the amount available to be drawn under all letters of credit (excluding for purposes of Section 8.1 and Section 8.9 letters of credit obtained in the ordinary course of business by the Borrower or any Subsidiary) issued for the account of such Person and, without duplication, all drafts drawn thereunder to the extent such Person shall not have reimbursed the issuer in respect of the issuer’s payment of such drafts, (e) that portion of any obligation of such Person, as lessee, which in accordance with GAAP is required to be capitalized on a balance sheet of such Person, (f) all indebtedness described in (a) - (e) above secured by any Lien on any Property owned by such Person even though such Person shall not have assumed or otherwise become liable for the payment thereof (other than carriers’, warehousemen’s, mechanics’, repairmen’s or other like non-consensual Liens arising in the ordinary course of business), and (g) Contingent Obligations in respect of any indebtedness described in items (a) - (f) above; *provided* that, for purposes of this definition, Indebtedness shall not include Intercompany Debt and obligations in respect of interest rate caps, collars, exchanges, swaps or other, similar agreements.

“Indemnified Liabilities” : as defined in Section 11.5.

“Indemnified Person” : as defined in Section 11.10(a).

“Indemnified Taxes” : Taxes other than Excluded Taxes and Other Taxes.

“Information” : as defined in Section 11.14(b).

“Intangible Assets” : at any date, the value, as shown on the most recent Consolidated balance sheet of the Borrower and the Subsidiaries as at the end of the fiscal quarter ending not more than 135 days prior to such date, prepared in accordance with GAAP, of: (i) all trade names, trademarks, licenses, patents, copyrights, service marks, goodwill and other like intangibles, (ii) organizational and development costs, (iii) deferred charges (other than prepaid items, such as insurance, taxes, interest, commissions, rents, pensions, compensation and similar items and tangible assets being amortized), and (iv) unamortized debt discount and expense, less unamortized premium.

“Intercompany Debt” : (i) Indebtedness of the Borrower to one or more of the Subsidiaries of the Borrower and (ii) Indebtedness of one or more of the Subsidiaries of the Borrower to the Borrower or any one or more of the other Subsidiaries of the Borrower.

“Intercompany Disposition” : a Disposition by the Borrower or any of the Subsidiaries of the Borrower to the Borrower or to any of the other Subsidiaries of the Borrower.

“Interest Payment Date” : (i) as to any ABR Advance, the last day of each March, June, September and December, commencing on the first of such days to occur after such ABR Advance is made or any Eurodollar Advance is converted to an ABR Advance, (ii) [reserved], (iii) as to any Eurodollar Advance in respect of which the Borrower has selected a Eurodollar Interest Period of one, two or three months, the last day of such Eurodollar Interest Period, (iv) [reserved] and (v) as to any Eurodollar Advance in respect of which the Borrower has selected an Interest Period greater than three months or 90 days, as the case may be, the last day of the third month or the 90th day, as the case may be, of such Interest Period and the last day of such Interest Period.

“Interest Period” : a Eurodollar Interest Period.

“Internal Revenue Code” : the Internal Revenue Code of 1986, as amended from time to time, or any successor thereto, and the rules and regulations issued thereunder, as from time to time in effect.

“Interpolated Rate” : in relation to the LIBO Screen Rate, the rate which results from interpolating on a linear basis between:

- (a) the applicable LIBO Screen Rate for the longest period (for which that LIBO Screen Rate is available) which is less than the Interest Period of that Loan; and
- (b) the applicable LIBO Screen Rate for the shortest period (for which that LIBO Screen Rate is available) which exceeds the Interest Period of that Loan,

each as of approximately 11:00 a.m. (London, England time) two Business Days prior to the commencement of such Interest Period of that Loan.

“*Lender*” and “*Lenders*” : as defined in the preamble.

“*LIBO Rate*” : (i) the rate per annum determined by the Administrative Agent to be the offered rate which appears on the page of the Reuters Screen which displays the London interbank offered rate administered by ICE Benchmark Administration Limited (such page currently being the LIBOR01 page) (the “*LIBO Screen Rate*”) for deposits (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period in Dollars, determined as of approximately 11:00 a.m. (London, England time), two Business Days prior to the commencement of such Interest Period, or (ii) in the event the rate referenced in the preceding clause (i) does not appear on such page or service or if such page or service shall cease to be available, the rate determined by the Administrative Agent to be the offered rate on such other page or other service which displays the LIBO Screen Rate for deposits (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period in Dollars, determined as of approximately 11:00 a.m. (London, England time) two Business Days prior to the commencement of such Interest Period; *provided* that if LIBO Screen Rates are quoted under either of the preceding clauses (i) or (ii), but there is no such quotation for the Interest Period elected, the LIBO Screen Rate shall be equal to the Interpolated Rate; and *provided, further*, that if any such rate determined pursuant to the preceding clauses (i) or (ii) is less than zero, the Eurodollar Rate will be deemed to be zero.

“*LIBO Screen Rate*” : has the meaning assigned to it in the definition of “*LIBO Rate*”.

“*Lien*” : any mortgage, pledge, hypothecation, assignment, lien, deposit arrangement, charge, encumbrance or other security arrangement or security interest of any kind, or the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement.

“*Loan*” : a Revolving Credit Loan.

“*Loan Documents*” : this Agreement and, upon the execution and delivery thereof, the Notes, if any.

“*Loans*” : the Revolving Credit Loans.

“*Margin Stock*” : any “margin stock”, as said term is defined in Regulation U of the Board of Governors of the Federal Reserve System, as the same may be amended or supplemented from time to time.

“*Material Adverse*” : with respect to any change or effect, a material adverse change in, or effect on, as the case may be, (i) the financial condition, operations, business, or Property of the Borrower and the Subsidiaries taken as a whole, (ii) the ability of the Borrower to perform its obligations under the Loan Documents, or (iii) the ability of the Administrative Agent or any Lender to enforce the Loan Documents.

“*Moody’s*” : Moody’s Investors Service, Inc., or any successor thereto.

“*Multiemployer Plan*” : a Pension Plan which is a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

“*Net Tangible Assets*” : at any date, the total assets as shown on the most recent Consolidated balance sheet of the Borrower and the Subsidiaries as at the end of the fiscal quarter ending not more than 135 days prior to such date, prepared in accordance with GAAP, less (i) all current liabilities (due within one year) as shown on such balance sheet and (ii) Intangible Assets and liabilities relating thereto.

“*Note*” : with respect to each Lender that has requested one, a promissory note evidencing such Lender’s Loans payable to the order of such Lender (or, if required by such Lender, to such Lender and its registered assigns), substantially in the form of Exhibit B.

“*Other Connection Taxes*” : with respect to the Administrative Agent, any Lender or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder or any other Loan Document, Taxes imposed as a result of a present or former connection between such recipient and the jurisdiction imposing such Tax (other than connections arising from such recipient having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, engaged in any other transaction pursuant to, enforced any Loan Document, or sold or assigned an interest in any Loan or Loan Document).

“*Other Taxes*” : all present or future stamp, court or documentary Taxes or any other excise or property Taxes, charges or similar levies arising from any payment made hereunder or under any other Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document, except any such Taxes that are Other Connection Taxes imposed with respect to an assignment (other than an assignment made pursuant to Section 3.13).

“*Participant*” : as defined in Section 11.7(d).

“*Participant Register*” : as defined in Section 11.7(d).

“*Patriot Act*” : as defined in Section 11.20.

“*PBGC*” : the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA, or any Governmental Authority succeeding to the functions thereof.

“*Pension Plan*” : at any time, any Employee Benefit Plan (including a Multiemployer Plan) subject to Section 302 of ERISA or Section 412 of the Internal Revenue Code, the funding requirements of which are, or at any time within the six years immediately preceding the time in question were, in whole or in part, the responsibility of the Borrower, any Subsidiary or an ERISA Affiliate.

“Person” : any individual, firm, partnership, limited liability company, joint venture, corporation, association, business trust, joint stock company, unincorporated association, trust, Governmental Authority or any other entity, whether acting in an individual, fiduciary, or other capacity, and for the purpose of the definition of “ERISA Affiliate”, a trade or business.

“Platform” : as defined in Section 7.7.

“Pricing Level” : Pricing Level I, Pricing Level II, Pricing Level III, Pricing Level IV, Pricing Level V or Pricing Level VI, as the case may be.

“Pricing Level I” : any time when the senior unsecured long term debt rating of the Borrower by (x) S&P is A or higher or (y) Moody’s is A2 or higher.

“Pricing Level II” : any time when (i) the senior unsecured long term debt rating of the Borrower by (x) S&P is A- or higher or (y) Moody’s is A3 or higher and (ii) Pricing Level I does not apply.

“Pricing Level III” : any time when (i) the senior unsecured long term debt rating of the Borrower by (x) S&P is BBB+ or higher or (y) Moody’s is Baa1 or higher and (ii) neither Pricing Level I nor Pricing Level II applies.

“Pricing Level IV” : any time when (i) the senior unsecured long term debt rating of the Borrower by (x) S&P is BBB or higher or (y) Moody’s is Baa2 or higher and (ii) none of Pricing Level I, Pricing Level II or Pricing Level III applies.

“Pricing Level V” : any time when (i) the senior unsecured long term debt rating of the Borrower by (x) S&P is BBB- or higher or (y) Moody’s is Baa3 or higher and (ii) none of Pricing Level I, Pricing Level II, Pricing Level III or Pricing Level IV applies.

“Pricing Level VI” : any time when none of Pricing Level I, Pricing Level II, Pricing Level III, Pricing Level IV or Pricing Level V applies.

Notwithstanding each definition of Pricing Level set forth above, if at any time the senior unsecured long term debt ratings of the Borrower by S&P and Moody’s differ by more than one equivalent rating level, then the applicable Pricing Level shall be determined based upon the lower such rating adjusted upwards to the next higher rating level.

“Prime Rate” : the rate of interest last quoted by The Wall Street Journal as the “Prime Rate” in the U.S. or, if The Wall Street Journal ceases to quote such rate, the highest per annum interest rate published by the Board of Governors of Federal Reserve System in Federal Reserve Statistical Release H.15 (519) (Selected Interest Rates) as the “bank prime loan” rate or, if such rate is no longer quoted therein, any similar rate quoted therein (as reasonably determined by the Administrative Agent) or any similar release by the Board of Governors of Federal Reserve System (as reasonably determined by the Administrative Agent).

“Proceeding” : as defined in Section 11.10(a).

“Prohibited Transaction” : a transaction that is prohibited under Section 4975 of the Internal Revenue Code or Section 406 of ERISA and not exempt under Section 4975 of the Internal Revenue Code, Section 408 of ERISA or any applicable administrative exemptions.

“Property” : in respect of any Person, all types of real, personal or mixed property and all types of tangible or intangible property owned or leased by such Person.

“Regulatory Change” : the occurrence, after the date hereof, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation or application thereof by any Governmental Authority or (c) the making or issuance of any request, guideline or directive (whether or not having the force of law) by any Governmental Authority; *provided* that, notwithstanding anything herein to the contrary, (i) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (ii) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case, pursuant to Basel III, in the case of each of clauses (i) and (ii), shall be deemed to be a “Regulatory Change”, regardless of the date enacted, adopted or issued, but only if any such requirements are generally applicable to (and for which reimbursement is generally being sought by the Lenders in respect of) credit transactions similar to this transaction from similarly situated borrowers (which are parties to credit or loan documentation containing a provision similar to this definition), as determined by the Lenders in their respective reasonable discretion.

“Register” : as defined in Section 11.7(c).

“Related Parties” : with respect to any specified Person, such Person’s Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person’s Affiliates.

“Replaced Lender” : as defined in Section 3.13.

“Replacement Lender” : as defined in Section 3.13.

“Reportable Event” : with respect to any Pension Plan, (a) any event set forth in Sections 4043(c) (other than a Reportable Event as to which the 30 day notice requirement is waived by the PBGC under applicable regulations), 4062(e) or 4063(a) of ERISA, or the regulations thereunder, (b) an event requiring the Borrower, any Subsidiary or any ERISA Affiliate to provide security to a Pension Plan under Section 401(a)(29) of the Internal Revenue Code, or (c) the failure to make any payment required by Section 412(m) of the Internal Revenue Code.

“Required Lenders” : (a) at any time prior to the Commitment Termination Date or such earlier date as all of the Commitments shall have terminated or been terminated in accordance herewith, Lenders having Commitment Amounts equal to or more than 51% of the Aggregate Commitment Amount, and (b) at all other times, Lenders having Credit Exposure equal to or more than 51% of the Aggregate Credit Exposure.

“Restricted Payment” : with respect to any Person, any of the following, whether direct or indirect: (a) the declaration or payment by such Person of any dividend or distribution on any class of stock of such Person, other than a dividend payable solely in shares of that class of stock to the holders of such class, (b) the declaration or payment by such Person of any distribution on any other type or class of equity interest or equity investment in such Person, and (c) any redemption, retirement, purchase or acquisition of, or sinking fund or other similar payment in respect of, any class of stock of, or other type or class of equity interest or equity investment in, such Person.

“Restrictive Agreement” : as defined in Section 8.7.

“Revolving Credit Loan” and *“Revolving Credit Loans”* : as defined in Section 2.1(a).

“Sanctioned Country” : at any time, a country or territory which is the subject or target of any Sanctions.

“Sanctioned Person” : at any time, (a) any Person listed in any Sanctions-related list of designated Persons maintained by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the U.S. Department of State, (b) any Person operating, organized or resident in a Sanctioned Country or (c) any Person controlled by any such Person or Persons described in the foregoing clauses (a) or (b).

“Sanctions” : economic or financial sanctions or trade embargoes imposed, administered or enforced from time to time by the U.S. government, including those administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the U.S. Department of State.

“S&P” : Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business, or any successor thereto.

“Special Counsel” : such counsel as the Administrative Agent may engage from time to time.

“Statutory Reserve Rate” : a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board of Governors of the Federal Reserve System to which the Administrative Agent is subject for eurocurrency funding (currently referred to as “Eurocurrency liabilities” in Regulation D of the Board of Governors of the Federal Reserve System, as amended). Such reserve percentages shall include those imposed pursuant to said Regulation D. Eurodollar Loans shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under said Regulation D or any comparable regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

“*Subsidiary*” : at any time and from time to time, any corporation, partnership, limited liability company, joint venture or other business entity of which the Borrower and/or any Subsidiary of the Borrower, directly or indirectly at such time, either (a) in respect of a corporation, owns or controls more than 50% of the outstanding stock having ordinary voting power to elect a majority of the board of directors or similar managing body, irrespective of whether a class or classes shall or might have voting power by reason of the happening of any contingency, or (b) in respect of a partnership, limited liability company, joint venture or other business entity, is entitled to share in more than 50% of the profits and losses, however determined.

“*Taxes*” : all present or future taxes, levies, imposts, duties, deductions, withholdings, assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

“*Termination Event*” : with respect to any Pension Plan, (a) a Reportable Event, (b) the termination of a Pension Plan under Section 4041(c) of ERISA, or the filing of a notice of intent to terminate a Pension Plan under Section 4041(c) of ERISA, or the treatment of a Pension Plan amendment as a termination under Section 4041(e) of ERISA (except an amendment made after such Pension Plan satisfies the requirement for a standard termination under Section 4041(b) of ERISA), (c) the institution of proceedings by the PBGC to terminate a Pension Plan under Section 4042 of ERISA, or (d) the appointment of a trustee to administer any Pension Plan under Section 4042 of ERISA.

“*Total Capitalization*” : at any date, the sum of the Borrower’s Consolidated Indebtedness and shareholders’ equity on such date, determined in accordance with GAAP.

“*Type*” : with respect to any Revolving Credit Loan, the characteristic of such Loan as an ABR Advance or a Eurodollar Advance, each of which constitutes a Type of Revolving Credit Loan.

“*Unqualified Amount*” : as defined in Section 3.4(c).

“*Upstream Dividends*” : as defined in Section 8.7(a).

“*U.S. Lender*” : as defined in Section 3.10(e).

“*United States Tax Compliance Certificate*” : as defined in Section 3.10(e)(iii).

“*Write-Down and Conversion Powers*” : with respect to any EEA Resolution Authority, the write-down and conversion powers of such EEA Resolution Authority from time to time under the Bail-In Legislation for the applicable EEA Member Country, which write-down and conversion powers are described in the EU Bail-In Legislation Schedule.

1.2 *Principles of Construction*

(a) All capitalized terms defined in this Agreement shall have the meanings given to such capitalized terms herein when used in the other Loan Documents or in any certificate, opinion

or other document made or delivered pursuant hereto or thereto, unless otherwise expressly provided therein.

(b) Unless otherwise expressly provided herein, the word “*fiscal*” when used herein shall refer to the relevant fiscal period of the Borrower. As used in the Loan Documents and in any certificate, opinion or other document made or delivered pursuant thereto, accounting terms not defined in Section 1.1, and accounting terms partly defined in Section 1.1, to the extent not defined, shall have the respective meanings given to them under GAAP as in effect from time to time; *provided* that, if the Borrower notifies the Administrative Agent that the Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date hereof in GAAP or in the application thereof on the operation of such provision (or if the Administrative Agent notifies the Borrower that the Required Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of, and any accounting term related thereto shall have the respective meaning given to it under, GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith.

(c) The words “*hereof*”, “*herein*”, “*hereto*” and “*hereunder*” and similar words when used in each Loan Document shall refer to such Loan Document as a whole and not to any particular provision of such Loan Document, and Section, schedule and exhibit references contained therein shall refer to Sections thereof or schedules or exhibits thereto unless otherwise expressly provided therein.

(d) All references herein to a time of day shall mean the then applicable time in New York, New York, unless otherwise expressly provided herein.

(e) Section headings have been inserted in the Loan Documents for convenience only and shall not be construed to be a part thereof. Unless the context otherwise requires, words in the singular number include the plural, and words in the plural include the singular.

(f) Whenever in any Loan Document or in any certificate or other document made or delivered pursuant thereto, the terms thereof require that a Person sign or execute the same or refer to the same as having been so signed or executed, such terms shall mean that the same shall be, or was, duly signed or executed by (i) in respect of any Person that is a corporation, any duly authorized officer thereof, and (ii) in respect of any other Person (other than an individual), any analogous counterpart thereof.

(g) The words “include” and “including”, when used in each Loan Document, shall mean that the same shall be included “without limitation”, unless otherwise specifically provided.

2. AMOUNT AND TERMS OF LOANS

2.1 *Revolving Credit Loans*

(a) Subject to the terms and conditions hereof, each Lender severally (and not jointly) agrees to make loans denominated in Dollars under this Agreement (each a “*Revolving Credit Loan*” and, collectively with each other Revolving Credit Loan of such Lender and/or with each Revolving Credit Loan of each other Lender, the “*Revolving Credit Loans*”) to the Borrower from time to time during the Commitment Period, during which period the Borrower may borrow, prepay and reborrow in accordance with the provisions hereof. Immediately after making each Revolving Credit Loan, the Aggregate Credit Exposure will not exceed the Aggregate Commitment Amount. With respect to each Lender, at the time of the making of any Revolving Credit Loan, the sum of (I) the principal amount of such Lender’s Revolving Credit Loan constituting a part of the Revolving Credit Loans to be made and (II) the aggregate principal balance of all other Revolving Credit Loans (exclusive of Revolving Credit Loans which are repaid with the proceeds of, and simultaneously with the incidence of, the Revolving Credit Loans to be made) then outstanding from such Lender, will not exceed the Commitment of such Lender at such time. At the option of the Borrower, indicated in a Borrowing Request, Revolving Credit Loans may be made as ABR Advances or Eurodollar Advances.

(b) The aggregate outstanding principal balance of all Revolving Credit Loans shall be due and payable on the Commitment Termination Date or on such earlier date upon which all of the Commitments shall have been terminated in accordance with [Section 2.6](#).

2.2 *[Reserved]*

2.3 *Notice of Borrowing Revolving Credit Loans*

The Borrower agrees to notify the Administrative Agent, which notification shall be irrevocable, no later than (a) 11:00 A.M. on the proposed Borrowing Date in the case of Revolving Credit Loans to consist of ABR Advances and (b) 11:00 A.M. at least three Eurodollar Business Days (or in the case of Eurodollar Advances to be made on the Effective Date, one Eurodollar Business Day) prior to the proposed Borrowing Date in the case of Revolving Credit Loans to consist of Eurodollar Advances. Each such notice shall specify (i) the aggregate amount requested to be borrowed under the Commitments, (ii) the proposed Borrowing Date, (iii) whether a borrowing of Revolving Credit Loans is to be of ABR Advances or Eurodollar Advances, and the amount of each thereof and (iv) the Eurodollar Interest Period for such Eurodollar Advances. Each such notice shall be promptly confirmed by delivery to the Administrative Agent of a Borrowing Request. Each Eurodollar Advance to be made on a Borrowing Date, when aggregated with all amounts to be Converted to Eurodollar Advances on such date and having the same Interest Period as such Eurodollar Advance, shall equal no less than \$10,000,000, or an integral multiple of \$1,000,000 in excess thereof. Each ABR Advance made on each Borrowing Date shall equal no less than \$5,000,000 or an integral multiple of \$500,000 in excess thereof. The Administrative Agent shall promptly notify each Lender (by telephone or otherwise, such notification to be confirmed by fax, email or other writing) of each such Borrowing Request. Subject to its receipt of each such notice from the Administrative Agent and subject to the terms and conditions hereof, each Lender shall make immediately available funds available to the Administrative Agent at the address therefor set forth in [Section 11.2](#) not later than 1:00 P.M. on each Borrowing Date in an amount equal to such

Lender's Commitment Percentage of the Revolving Credit Loans requested by the Borrower on such Borrowing Date.

2.4 *[Reserved]*

2.5 *Use of Proceeds*

The Borrower agrees that the proceeds of the Loans shall be used solely for its general corporate purposes (including the repurchase of equity interests of the Borrower), but not inconsistent with this Section 2.5. Notwithstanding anything to the contrary contained in any Loan Document, the Borrower further agrees that no part of the proceeds of any Loan will be used, directly or indirectly, and whether immediately, incidentally or ultimately (i) for a purpose which violates any law, rule or regulation of any Governmental Authority, including the provisions of Regulations U or X of the Board of Governors of the Federal Reserve System, as amended, or any provision of this Agreement, including, without limitation, the provisions of Section 4.9 and (ii) to make a loan to any director or executive officer of the Borrower or any Subsidiary.

2.6 *Termination or Reduction of Commitments*

(a) *Termination on Commitment Termination Date* . Unless previously terminated, the Commitments shall terminate on the Commitment Termination Date.

(b) *Voluntary Termination or Reductions* . At the Borrower's option and upon at least one Domestic Business Day's prior irrevocable notice to the Administrative Agent, the Borrower may (i) terminate the Commitments at any time, or (ii) permanently reduce the Aggregate Commitment Amount in part at any time and from time to time, *provided* that (1) each such partial reduction shall be in an amount equal to at least \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof, and (2) immediately after giving effect to each such reduction, the Aggregate Commitment Amount shall equal or exceed the Aggregate Credit Exposure, and *provided, further* that a notice of termination of the Commitments delivered by the Borrower may state that such notice is conditioned upon the effectiveness of other credit facilities (such notice to specify the proposed effective date), in which case such notice may be revoked by the Borrower (by notice to the Administrative Agent on or prior to such specified effective date) if such condition is not satisfied and the Borrower shall indemnify the Lenders in accordance with Section 3.5, if applicable.

(c) *Mandatory Termination and Reduction* . Prior to the Commitment Termination Date, the Aggregate Commitment Amount shall be automatically and permanently reduced on the dates set forth below (each such date, a "*Commitment Reduction Date*") in the amounts set forth below opposite such dates:

Commitment Reduction Date	Amount of Reduction of Aggregate Commitment Amount
March 31, 2017	\$750,000,000
June 30, 2017	\$750,000,000
September 30, 2017	\$500,000,000

provided that if on any Commitment Reduction Date, immediately after giving effect to any such reduction described in this clause (c), the Aggregate Credit Exposure would exceed the Aggregate Commitment Amount, the Borrower shall, no later than the applicable Commitment Reduction Date, prepay Loans in accordance with the terms of Section 2.7 in an aggregate principal amount sufficient to cause the Aggregate Commitment Amount to equal or exceed the Aggregate Credit Exposure.

(d) *In General* . Each reduction of the Aggregate Commitment Amount shall be made by reducing each Lender's Commitment Amount by a sum equal to such Lender's Commitment Percentage of the amount of such reduction.

2.7 *Prepayments of Loans*

(a) *Voluntary Prepayments* . The Borrower may prepay Revolving Credit Loans , in whole or in part, without premium or penalty, but subject to Section 3.5 at any time and from time to time, by notifying the Administrative Agent, which notification shall be irrevocable, at least two Eurodollar Business Days, in the case of a prepayment of Eurodollar Advances, or one Domestic Business Day, in the case of a prepayment of ABR Advances, prior to the proposed prepayment date specifying (i) the Loans to be prepaid, (ii) the amount to be prepaid, and (iii) the date of prepayment. Upon receipt of each such notice, the Administrative Agent shall promptly notify each Lender thereof. Each such notice given by the Borrower pursuant to this Section 2.7 shall be irrevocable, *provided* that, if a notice of prepayment is given in connection with a conditional notice of termination of the Commitments as contemplated by Section 2.6, then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.6, and the Borrower shall indemnify the Lenders in accordance with Section 3.5. Each partial prepayment under this Section 2.7 shall be (A) in the case of Eurodollar Advances, in a minimum amount of \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof, and (B) in the case of ABR Advances, \$1,000,000 or an integral multiple of \$100,000 in excess thereof.

(b) *In General* . Simultaneously with each prepayment hereunder, the Borrower shall prepay all accrued interest on the amount prepaid through the date of prepayment and indemnify the Lenders in accordance with Section 3.5.

2.8 *[Reserved]*

2.9 *[Reserved]*

2.10 *[Reserved]*

2.11 *Notes*

Any Lender may request that the Loans made by it be evidenced by a Note. In such event, the Borrower shall prepare, execute and deliver to such Lender a Note payable to such Person or, if requested by such Person, such Person and its registered assigns. Thereafter, all Loans evidenced by such Note and interest thereon shall at all times (including after assignment pursuant to Section 11.7) be represented by a Note in like form payable to the payee named therein and its registered assigns.

2.12 *[Reserved]*

2.13 *Defaulting Lenders*

Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes a Defaulting Lender, then the following provisions shall apply for so long as such Lender is a Defaulting Lender:

(a) Facility Fees shall cease to accrue on the unfunded portion of the Commitment of such Defaulting Lender pursuant to Section 3.11;

(b) the Commitment and Committed Credit Exposure of such Defaulting Lender shall not be included in determining whether all Lenders or the Required Lenders have taken or may take any action hereunder (including any consent to any amendment or waiver pursuant to Section 11.1); *provided* that any waiver, amendment or modification requiring the consent of all Lenders or each affected Lender which affects such Defaulting Lender differently than other affected Lenders, an increase, or extension of the Commitment Period, of the Commitment of a Defaulting Lender, a reduction in the principal amount owed to such Defaulting Lender (other than by payment thereof) or an extension of the final maturity thereof, or a modification of this clause shall require the consent of such Defaulting Lender;

(c) [reserved];

(d) [reserved];

(e) any amount payable to such Defaulting Lender hereunder (whether on account of principal, interest, fees or otherwise and including any amount that would otherwise be payable to such Defaulting Lender pursuant to Section 11.9 but excluding Section 3.13) shall, in lieu of being distributed to such Defaulting Lender, be retained by the Administrative Agent in a segregated account and, subject to any applicable requirements of law, be applied at such time or times as may be determined by the Administrative Agent (2) first, to the payment of any amounts owing by such Defaulting Lender to the Administrative Agent hereunder, (2) second, [reserved], (2) third, [reserved], (2) fourth, to the funding of any Revolving Credit Loan in respect of which such Defaulting Lender has failed to fund its portion thereof as required by this Agreement, as determined by the Administrative Agent, (2) fifth, if so determined by the Administrative Agent

and the Borrower, held in such account as cash collateral for future funding obligations of the Defaulting Lender in respect of any Revolving Credit Loans under this Agreement, (2) sixth, to the payment of any amounts owing to the Lenders as a result of any final and non-appealable judgment of a court of competent jurisdiction obtained by any Lender against such Defaulting Lender as a result of such Defaulting Lender's breach of its obligations under this Agreement, (2) seventh, to the payment of any amounts owing to the Borrower as a result of any final and non-appealable judgment of a court of competent jurisdiction obtained by the Borrower against such Defaulting Lender as a result of such Defaulting Lender's breach of its obligations under this Agreement, and (2) eighth, to such Defaulting Lender or as otherwise directed by a court of competent jurisdiction; *provided* that if such payment is (x) a prepayment of the principal amount of any Revolving Credit Loan and (y) made at a time when the conditions set forth in Section 6 are satisfied or waived, such payment shall be applied solely to prepay the Revolving Credit Loans of all non-Defaulting Lenders pro rata prior to being applied to the prepayment of any Loans owed to any Defaulting Lender; and

(f) The Borrower shall have the right at any time during which a Lender is a Defaulting Lender to replace such Defaulting Lender pursuant to Section 3.13.

3. *PROCEEDS, PAYMENTS, CONVERSIONS, INTEREST, YIELD PROTECTION AND FEES*

3.1 *Disbursement of the Proceeds of the Loans*

The Administrative Agent shall disburse the proceeds of the Loans at its office specified in Section 11.2 by crediting to the Borrower the funds received from each Lender. Unless the Administrative Agent shall have received prior notice from a Lender (by telephone or otherwise, such notice to be confirmed by fax, email or other writing) that such Lender will not make available to the Administrative Agent such Lender's Commitment Percentage of the Revolving Credit Loans to be made by it on a Borrowing Date, the Administrative Agent may assume that such Lender has made such amount available to the Administrative Agent on such Borrowing Date in accordance with this Section 3.1, *provided* that, in the case of a Revolving Credit Loan, such Lender received notice thereof from the Administrative Agent in accordance with the terms hereof, and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such Borrowing Date a corresponding amount. If and to the extent such Lender shall not have so made such amount available to the Administrative Agent, such Lender and the Borrower severally agree to pay to the Administrative Agent, forthwith on demand, such corresponding amount (to the extent not previously paid by the other), together with interest thereon for each day from the date such amount is made available to the Borrower until the date such amount is paid to the Administrative Agent, at a rate per annum equal to, in the case of the Borrower, the applicable interest rate set forth in Section 3.4(a) and, in the case of such Lender, the Federal Funds Effective Rate from the date such payment is due until the third day after such date and, thereafter, at the Federal Funds Effective Rate *plus* 2%. Any such payment by the Borrower shall be without prejudice to its rights against such Lender. If such Lender shall pay to the Administrative Agent such corresponding amount, such amount so paid shall constitute such Lender's Loan as part of such Loans for purposes of this Agreement, which Loan shall be deemed to have been made by such Lender on the Borrowing Date applicable to such Loans.

3.2 *Payments*

(a) Each payment, including each prepayment, of principal and interest on the Loans and of the Facility Fee (collectively, together with all of the other fees to be paid to the Administrative Agent and the Lenders in connection with the Loan Documents, the “*Fees*”), and of all of the other amounts to be paid to the Administrative Agent and the Lenders in connection with the Loan Documents shall be made by the Borrower to the Administrative Agent at its office specified in Section 11.2 without setoff, deduction or counterclaim in funds immediately available in New York by 1:00 P.M. on the due date for such payment. The failure of the Borrower to make any such payment by such time shall not constitute a default hereunder, *provided* that such payment is made on such due date, but any such payment made after 1:00 P.M. on such due date shall be deemed to have been made on the next Domestic Business Day or Eurodollar Business Day, as the case may be, for the purpose of calculating interest on amounts outstanding on the Loans. If the Borrower has not made any such payment prior to 1:00 P.M., the Borrower hereby authorizes the Administrative Agent to deduct the amount of any such payment from such account(s) as the Borrower may from time to time designate in writing to the Administrative Agent, upon which the Administrative Agent shall apply the amount of such deduction to such payment. Promptly upon receipt thereof by the Administrative Agent, each payment of principal and interest on the Revolving Credit Loans shall be remitted by the Administrative Agent in like funds as received to each Lender (a) first, pro rata according to the amount of interest which is then due and payable to the Lenders, and (b) second, pro rata according to the amount of principal which is then due and payable to the Lenders. Each payment of the Facility Fee payable to the Lenders shall be promptly transmitted by the Administrative Agent in like funds as received to each Lender pro rata according to such Lender’s Commitment Amount or, if the Commitments shall have terminated or been terminated, according to the outstanding principal amount of such Lender’s Revolving Credit Loans.

(b) If any payment hereunder or under the Loans shall be due and payable on a day which is not a Domestic Business Day or Eurodollar Business Day, as the case may be, the due date thereof (except as otherwise provided in the definition of Eurodollar Interest Period) shall be extended to the next Domestic Business Day or Eurodollar Business Day, as the case may be, and (except with respect to payments in respect of the Facility Fee) interest shall be payable at the applicable rate specified herein during such extension.

3.3 *Conversions; Other Matters*

(a) The Borrower may elect at any time and from time to time to Convert one or more Eurodollar Advances to an ABR Advance by giving the Administrative Agent at least one Domestic Business Day’s prior irrevocable notice of such election, specifying the amount to be so Converted. In addition, the Borrower may elect at any time and from time to time to Convert an ABR Advance to any one or more new Eurodollar Advances or to Convert any one or more existing Eurodollar Advances to any one or more new Eurodollar Advances by giving the Administrative Agent no later than 10:00 a.m. at least two Eurodollar Business Days’ prior irrevocable notice, in the case of a Conversion to Eurodollar Advances, of such election, specifying the amount to be so Converted and the initial Interest Period relating thereto, *provided* that any Conversion of an ABR Advance to Eurodollar Advances shall only be made on a Eurodollar Business Day. The

Administrative Agent shall promptly provide the Lenders with notice of each such election. Each Conversion of Loans from one Type to another shall be made pro rata according to the outstanding principal amount of the Loans of each Lender. ABR Advances and Eurodollar Advances may be Converted pursuant to this Section 3.3 in whole or in part, *provided* that the amount to be Converted to each Eurodollar Advance, when aggregated with any Eurodollar Advance to be made on such date in accordance with Section 2.1 and having the same Interest Period as such first Eurodollar Advance, shall equal no less than \$10,000,000 or an integral multiple of \$1,000,000 in excess thereof.

(b) Notwithstanding anything in this Agreement to the contrary, the Borrower shall not have the right to elect to Convert any existing ABR Advance to a new Eurodollar Advance or to Convert any existing Eurodollar Advance to a new Eurodollar Advance if (i) a Default or Event of Default under Section 9.1(a), Section 9.1(b), Section 9.1(h), Section 9.1(i) or Section 9.1(j) shall then exist, or (ii) any other Event of Default shall then exist and the Administrative Agent shall have notified the Borrower at the request of the Required Lenders that no ABR Advance or Eurodollar Advance may be Converted to a new Eurodollar Advance. In such event, such ABR Advance shall be automatically continued as an ABR Advance or such Eurodollar Advance shall be automatically Converted to an ABR Advance on the last day of the Interest Period applicable to such Eurodollar Advance. The foregoing shall not affect any other rights or remedies that the Administrative Agent or any Lender may have under this Agreement or any other Loan Document.

(c) Each Conversion shall be effected by each Lender by applying the proceeds of each new ABR Advance or Eurodollar Advance, as the case may be, to the existing Advance (or portion thereof) being Converted (it being understood that such Conversion shall not constitute a borrowing for purposes of Section 4 or Section 6).

(d) Notwithstanding any other provision of any Loan Document:

(i) if the Borrower shall have failed to elect a Eurodollar Advance under Section 2.3 or this Section 3.3, as the case may be, in connection with any borrowing of new Revolving Credit Loans or expiration of an Interest Period with respect to any existing Eurodollar Advance, the amount of the Revolving Credit Loans subject to such borrowing or such existing Eurodollar Advance shall thereafter be an ABR Advance until such time, if any, as the Borrower shall elect a new Eurodollar Advance pursuant to this Section 3.3,

(ii) the Borrower shall not be permitted to select a Eurodollar Advance the Interest Period in respect of which ends later than the Commitment Termination Date or such earlier date upon which all of the Commitments shall have been terminated in accordance with Section 2.6, and

(iii) the Borrower shall not be permitted to have more than 15 Eurodollar Advances, in the aggregate, outstanding at any one time, it being understood and agreed that each borrowing of Eurodollar Advances pursuant to a single Borrowing Request shall constitute the making of one Eurodollar Advance for the purpose of calculating such limitation.

3.4 *Interest Rates and Payment Dates*

(a) *Prior to Maturity* . Except as otherwise provided in Section 3.4(b) and Section 3.4(c), the Loans shall bear interest on the unpaid principal balance thereof at the applicable interest rate or rates per annum set forth below:

LOANS	RATE
Revolving Credit Loans constituting ABR Advances	Alternate Base Rate applicable thereto <i>plus</i> the Applicable Margin.
Revolving Credit Loans constituting Eurodollar Advances	Eurodollar Rate applicable thereto <i>plus</i> the Applicable Margin.

(b) *After Maturity, Late Payment Rate* . After maturity, whether by acceleration, notice of intention to prepay or otherwise, the outstanding principal balance of each Loan shall bear interest at the applicable interest rate on such Loan *plus* 2% per annum until paid (whether before or after the entry of any judgment thereon). Any payment of principal or interest on the Loans, Fees or other amounts payable by the Borrower under the Loan Documents not paid on the date when due and payable shall bear interest, in the case of principal or interest on a Loan, at the applicable interest rate on such Loan *plus* 2% per annum and, in the case of any Fees or other amounts, at the Alternate Base Rate *plus* the Applicable Margin *plus* 2% per annum, in each case from the due date thereof until the date such payment is made (whether before or after the entry of any judgment thereon).

(c) *Highest Lawful Rate* . Notwithstanding anything to the contrary contained in this Agreement, at no time shall the interest rate payable to any Lender on any of its Loans, together with the Fees and all other amounts payable hereunder to such Lender to the extent the same constitute or are deemed to constitute interest, exceed the Highest Lawful Rate. If in respect of any period during the term of this Agreement, any amount paid to any Lender hereunder, to the extent the same shall (but for the provisions of this Section 3.4) constitute or be deemed to constitute interest, would exceed the maximum amount of interest permitted by the Highest Lawful Rate during such period (such amount being hereinafter referred to as an “*Unqualified Amount*”), then (i) such Unqualified Amount shall be applied or shall be deemed to have been applied as a prepayment of the Loans of such Lender, and (ii) if, in any subsequent period during the term of this Agreement, all amounts payable hereunder to such Lender in respect of such period which constitute or shall be deemed to constitute interest shall be less than the maximum amount of interest permitted by the Highest Lawful Rate during such period, then the Borrower shall pay to such Lender in respect of such period an amount (each a “*Compensatory Interest Payment*”) equal to the lesser of (x) a sum which, when added to all such amounts, would equal the maximum amount of interest permitted by the Highest Lawful Rate during such period, and (y) an amount equal to the aggregate sum of all Unqualified Amounts *less* all other Compensatory Interest Payments.

(d) *General* . Interest shall be payable in arrears on each Interest Payment Date, on the Commitment Termination Date and, to the extent provided in Section 2.7(b), upon each

prepayment of the Loans. Any change in the interest rate on the Loans resulting from an increase or a decrease in the Alternate Base Rate or any reserve requirement shall become effective as of the opening of business on the day on which such change shall become effective. The Administrative Agent shall, as soon as practicable, notify the Borrower and the Lenders of the effective date and the amount of each change in the Prime Rate, but any failure to so notify shall not in any manner affect the obligation of the Borrower to pay interest on the Loans in the amounts and on the dates set forth herein. Each determination by the Administrative Agent of the Alternate Base Rate and the Eurodollar Rate pursuant to this Agreement shall be conclusive and binding on the Borrower absent manifest error. The Borrower acknowledges that to the extent interest payable on the Loans is based on the Alternate Base Rate, such rate is only one of the bases for computing interest on loans made by the Lenders, and by basing interest payable on ABR Advances on the Alternate Base Rate, the Lenders have not committed to charge, and the Borrower has not in any way bargained for, interest based on a lower or the lowest rate at which the Lenders may now or in the future make extensions of credit to other Persons. All interest (other than interest calculated with reference to the Prime Rate) shall be calculated on the basis of a 360-day year for the actual number of days elapsed, and all interest determined with reference to the Prime Rate shall be calculated on the basis of a 365/366-day year for the actual number of days elapsed.

3.5 *Indemnification for Loss*

Notwithstanding anything contained herein to the contrary, if: (i) the Borrower shall fail to borrow a Eurodollar Advance or if the Borrower shall fail to Convert a Eurodollar Advance after it shall have given notice to do so in which it shall have requested a Eurodollar Advance pursuant to Section 2.3 or Section 3.3, as the case may be, (ii) [reserved], (iii) a Eurodollar Advance shall be terminated for any reason prior to the last day of the Interest Period applicable thereto, (iv) any repayment or prepayment of the principal amount of a Eurodollar Advance is made for any reason on a date which is prior to the last day of the Interest Period applicable thereto, (v) the Borrower shall have revoked a notice of prepayment or notice of termination of the Commitments that was conditioned upon the effectiveness of other credit facilities pursuant to Section 2.6 or Section 2.7, or (vi) a Eurodollar Advance is assigned other than on the last day of the Interest Period applicable thereto as a result of a replacement of a Lender pursuant to clause (x) or (z) of Section 3.13, then the Borrower agrees to indemnify each Lender against, and to pay on demand directly to such Lender the amount (calculated by such Lender using any method chosen by such Lender which is customarily used by such Lender for such purpose for borrowers similar to the Borrower) equal to any loss or expense suffered by such Lender as a result of such failure to borrow or Convert, or such termination, repayment, prepayment or revocation, including any loss, cost or expense suffered by such Lender in liquidating or employing deposits acquired to fund or maintain the funding of such Eurodollar Advance or redeploying funds prepaid or repaid, in amounts which correspond to such Eurodollar Advance and any reasonable internal processing charge customarily charged by such Lender in connection therewith for borrowers similar to the Borrower.

3.6 *Reimbursement for Costs, Etc.*

If at any time or from time to time there shall occur a Regulatory Change and any Lender shall have reasonably determined that such Regulatory Change (i) shall have had or will thereafter have the effect of reducing (A) the rate of return on such Lender's capital or liquidity or the capital or liquidity of any Person directly or indirectly owning or controlling such Lender (each a "Control Person"), or (B) the asset value (for capital or liquidity purposes) to the such Lender or such Control Person, as applicable, of the Loans, or any participation therein, in any case to a level below that which such Lender or such Control Person could have achieved or would thereafter be able to achieve but for such Regulatory Change (after taking into account such Lender's or such Control Person's policies regarding capital), (ii) will impose, modify or deem applicable any reserve, asset, special deposit or special assessment requirements on deposits obtained in the interbank eurodollar market in connection with the Loan Documents (excluding, with respect to any Eurodollar Advance, any such requirement which is included in the determination of the rate applicable thereto), or (iii) will subject such Lender or such Control Person, as applicable, to any tax (documentary, stamp or otherwise) with respect to this Agreement or any Note (except, in the case of clause (iii) above, for any Indemnified Taxes, Excluded Taxes or Other Taxes) then, in each such case, within ten days after demand by such Lender, the Borrower shall pay to such Lender or such Control Person, as the case may be, such additional amount or amounts as shall be sufficient to compensate such Lender or such Control Person, as the case may be, for any such reduction, reserve or other requirement, tax, loss, cost or expense (excluding general administrative and overhead costs) (collectively, "Costs") attributable to such Lender's or such Control Person's compliance during the term hereof with such Regulatory Change, but only if such Costs are generally applicable to (and for which reimbursement is generally being sought by such Lender or such Control Person, as applicable, in respect of) credit transactions similar to this transaction from similarly situated borrowers (which are parties to credit or loan documentation containing a provision similar to this Section 3.6), as determined by such Lender in its reasonable discretion. Each Lender may make multiple requests for compensation under this Section 3.6.

Notwithstanding the foregoing, the Borrower will not be required to compensate any Lender for any Costs under this Section 3.6 arising prior to 45 days preceding the date of demand, unless the applicable Regulatory Change giving rise to such Costs

is imposed retroactively. In the case of retroactivity, such notice shall be provided to the Borrower not later than 45 days from the date that such Lender learned of such Regulatory Change. The Borrower's obligation to compensate such Lender shall be contingent upon the provision of such timely notice (but any failure by such Lender to provide such timely notice shall not affect the Borrower's obligations with respect to (i) Costs incurred from the date as of which such Regulatory Change became effective to the date that is 45 days after the date such Lender reasonably should have learned of such Regulatory Change and (ii) Costs incurred following the provision of such notice).

3.7 *Illegality of Funding*

Notwithstanding any other provision hereof, if any Lender shall reasonably determine that any law, regulation, treaty or directive, or any change therein or in the interpretation or application thereof, shall make it unlawful for such Lender to make or maintain any Eurodollar Advance as contemplated by this Agreement, such Lender shall promptly notify the Borrower and the Administrative Agent thereof, and (a) the commitment of such Lender to make such Eurodollar Advances or Convert ABR Advances to such Eurodollar Advances shall forthwith be suspended, (b) such Lender shall fund its portion of each requested Eurodollar Advance as an ABR Advance and (c) such Lender's Loans then outstanding as such Eurodollar Advances, if any, shall be Converted automatically to an ABR Advance on the last day of the then current Interest Period applicable thereto or at such earlier time as may be required. If the commitment of any Lender with respect to Eurodollar Advances is suspended pursuant to this Section 3.7 and such Lender shall have obtained actual knowledge that it is once again legal for such Lender to make or maintain Eurodollar Advances, such Lender shall promptly notify the Administrative Agent and the Borrower thereof and, upon receipt of such notice by each of the Administrative Agent and the Borrower, such Lender's commitment to make or maintain Eurodollar Advances shall be reinstated. If the commitment of any Lender with respect to Eurodollar Advances is suspended pursuant to this Section 3.7, such suspension shall not otherwise affect such Lender's Commitment.

3.8 *[Reserved]*

3.9 *Certificates of Payment and Reimbursement*

Each Lender agrees, in connection with any request by it for payment or reimbursement pursuant to Section 3.5 or Section 3.6, to provide the Borrower with a certificate, signed by an officer of such Lender, setting forth a description in reasonable detail of any such payment or reimbursement and the applicable Section of this Agreement pursuant to and in accordance with which such request is made. Each determination by each Lender of such payment or reimbursement shall be conclusive absent manifest error.

3.10 *Taxes; Net Payments*

(a) Payments Free of Taxes. Any and all payments by or on account of any obligation of the Borrower hereunder or under any other Loan Document shall be made free and clear of and without reduction or withholding for any Indemnified Taxes or Other Taxes, *provided* that if any withholding agent shall be required by applicable law to deduct any Indemnified Taxes (including any Other Taxes) from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 3.10) the Administrative Agent or the applicable Lender, as the case may be, receives an amount equal to the sum it would have received had no such deductions for Indemnified Taxes or Other Taxes been made, (ii) such withholding agent shall make such deductions and (iii) such withholding agent shall timely pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) Payment of Other Taxes by the Borrower. Without limiting the provisions of paragraph (a) above, the Borrower shall timely pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) Indemnification by the Borrower. The Borrower shall indemnify the Administrative Agent and each Lender, within 30 days after demand therefor, for the full amount of any Indemnified Taxes imposed on or with respect to any payment made by or on account of any obligation of the Borrower under any Loan Document or Other Taxes (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section 3.10) paid by the Administrative Agent or such Lender, as the case may be, and, without duplication, any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by such Lender (with a copy to the Administrative Agent), or by the Administrative Agent on its own behalf or on behalf of such Lender, shall be conclusive absent manifest error. After any Lender learns of the imposition of any Indemnified Taxes or Other Taxes, such Lender will as soon as reasonably practicable notify the Borrower thereof; *provided* that the failure to provide Borrower with such notice shall not release the Borrower from its indemnification obligations under this Section 3.10.

(d) Evidence of Payments. As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the

Borrower to a Governmental Authority, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Status of Lenders. Any Lender that is entitled to an exemption from or reduction of withholding Tax under the law of the jurisdiction in which the Borrower is resident for Tax purposes, or any treaty to which such jurisdiction is a party, with respect to payments hereunder or under any other Loan Document shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent, such properly completed and executed documentation prescribed by applicable law as will permit such payments to be made without withholding or at a reduced rate of withholding. In addition, any Lender, if requested by the Borrower or the Administrative Agent, shall deliver such other documentation prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent as will enable the Borrower or the Administrative Agent to determine whether or not such Lender is subject to backup withholding or information reporting requirements.

Without limiting the generality of the foregoing, any Foreign Lender shall deliver to the Borrower and the Administrative Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter (i) if such Foreign Lender shall determine that any applicable form or certification has expired or will then expire or has or will then become obsolete or incorrect or that an event has occurred that requires or will then require a change in the most recent form or certification previously delivered by it to the Borrower and the Administrative Agent and (ii) upon the request of the Borrower or the Administrative Agent, but only if such Foreign Lender is legally entitled to do so), whichever of the following is applicable:

(i) duly completed copies of Internal Revenue Service Form W-8BEN or Form W-8BEN-E claiming eligibility for benefits of an income Tax treaty to which the United States of America is a party,

(ii) duly completed copies of Internal Revenue Service Form W-8ECI,

(iii) in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under Section 881(c) of the Internal Revenue Code, (x) a certificate (a “*United States Tax Compliance Certificate*”) to the effect that such Foreign Lender is not (A) a “bank” within the meaning of Section 881(c)(3)(A) of the Internal Revenue Code, (B) a “10 percent shareholder” of the Borrower within the meaning of Section 881(c)(3)(B) of the Internal Revenue Code, (C) a “controlled foreign corporation” described in Section 881(c)(3)(C) of the Internal Revenue Code or (D) engaged in the conduct of a trade or business within the United States to which the interest payment is effectively connected and (y) duly completed copies of Internal Revenue Service Form W-8BEN or Form W-8BEN-E,

(iv) to the extent a Foreign Lender is not the beneficial owner (for example, where the Foreign Lender is a partnership or participating Lender granting a typical participation), a complete and executed IRS Form W-8IMY, accompanied by a Form W-8ECI, Form W-8BEN, Form W-8BEN-E, a United States Tax Compliance Certificate, IRS Form W-9 and/or other certification documents from each beneficial owner, as applicable; *provided* that, if the Foreign Lender is a partnership (and not a participating Lender) and one or more partners of such Foreign Lender are claiming the portfolio interest exemption, such Foreign Lender shall provide a United States Tax Compliance Certificate, on behalf of such beneficial owner(s) in lieu of requiring each beneficial owner to provide its own certificate, or

(v) any other form prescribed by applicable law as a basis for claiming exemption from or a reduction in U.S. federal withholding Tax duly completed together with such supplementary documentation as may be prescribed by applicable law to permit the Borrower to determine the withholding or deduction required to be made.

If a payment made to a Lender under any Loan Document would be subject to U.S. federal withholding Tax imposed by FATCA if such Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Internal Revenue Code, as applicable), such Lender shall deliver to the Borrower and the Administrative Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Administrative Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C) of the Internal Revenue Code) and such additional documentation reasonably requested by the Borrower or the Administrative Agent as may be necessary for the Borrower and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender’s obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause, “FATCA” shall include any amendments made to FATCA after the date of this Agreement.

Without limiting the foregoing, upon request of the Administrative Agent or the Borrower, each Lender that is a “United States person” within the meaning of Section 7701(a)(30) of the Internal Revenue Code that lends to the Borrower (each, a

“U.S. Lender”) shall deliver to the Administrative Agent and the Borrower two duly signed, properly completed copies of IRS Form W-9 on or prior to the Effective Date (or on or prior to the date it becomes a party to this Agreement), certifying that such U.S. Lender is entitled to an exemption from United States backup withholding, or any successor form.

(f) Treatment of Certain Refunds. If the Administrative Agent or a Lender determines, in its sole discretion exercised in good faith, that it has received a refund of any Taxes or Other Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 3.10, it shall pay to the Borrower an amount equal to such refund (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this Section 3.10 with respect to the Taxes or Other Taxes giving rise to such refund), net of all reasonable and documented out-of-pocket expenses of the Administrative Agent, such Lender, and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund), *provided* that the Borrower, upon the request of the Administrative Agent or such Lender, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Administrative Agent or such Lender in the event the Administrative Agent or such Lender is required to repay such refund to such Governmental Authority. This paragraph shall not be construed to require the Administrative Agent or any Lender to make available its Tax returns (or any other information relating to its taxes that it deems confidential) to the Borrower or any other Person.

(g) Designation of a Different Lending Office. If any Lender requests compensation under Section 3.6, or requires the Borrower to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to this Section 3.10, then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 3.6 or this Section 3.10, as the case may be, in the future and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all reasonable and documented out-of-pocket costs and expenses incurred by any Lender in connection with any such designation or assignment.

3.11 *Facility Fees*

The Borrower agrees to pay to the Administrative Agent for the pro rata account of each Lender a fee (the “*Facility Fee*”) during the period commencing on the Effective Date and ending on the Expiration Date, payable quarterly in arrears on the last day of March, June, September and December of the year, commencing on the last day of the calendar quarter during which the Facility Fee shall commence to accrue, and on the Expiration Date, at a rate per annum equal to the Applicable Margin of (a) prior to the Commitment Termination Date or such earlier date upon which all of the Commitments shall have been terminated in accordance with Section 2.6, the Commitment Amount of such Lender (whether used or unused), and (b) thereafter, the sum of the outstanding principal balance of all Revolving Credit Loans of such Lender. Notwithstanding anything to the contrary contained in this Section 3.11, on and after the Commitment Termination Date, the Facility Fee shall be payable upon demand. In addition, upon each reduction of the Aggregate Commitment Amount, the Borrower shall pay the Facility Fee accrued on the amount of such reduction to the date of such reduction. The Facility Fee shall be computed on the basis of a 360-day year for the actual number of days elapsed.

3.12 *[Reserved]*

3.13 *Replacement of Lender*

If (x) the Borrower is obligated to pay to any Lender any amount under Section 3.6 or Section 3.10, the Borrower shall have the right within 90 days thereafter, or (y) any Lender shall be a Defaulting Lender, the Borrower shall have the right at any time during which such Lender shall remain a Defaulting Lender, in each case in accordance with the requirements of Section 11.7(b) and only if no Default or Event of Default shall exist, to replace such Lender (the “*Replaced Lender*”) with one or more Eligible Assignees (each a “*Replacement Lender*”), reasonably acceptable to the Administrative Agent, *provided* that (i) at the time of any replacement pursuant to this Section 3.13, the Replacement Lender shall enter into one or more Assignment and Assumptions pursuant to Section 11.7(b) (with the processing and recordation fee referred to in Section 11.7(b) payable pursuant to said Section 11.7(b) to be paid by the Replacement Lender) pursuant to which the Replacement Lender shall acquire the Commitment and the outstanding Loans of the Replaced Lender and, in connection therewith, shall pay the following: (a) to the Replaced Lender, an amount equal to the sum of (A) an amount equal to the principal of, and all accrued interest on, all outstanding Loans of the Replaced Lender, (B) [reserved], and (C) an amount equal to all accrued, but unpaid, fees owing to the Replaced Lender, and (b) to the Administrative Agent an amount equal to all amounts owed by such Replaced Lender to the Administrative Agent under this Agreement, including, without limitation, an amount equal to the principal of, and all accrued interest on, all outstanding Loans of the Replaced Lender, a corresponding amount of which was made available by the Administrative Agent to the Borrower pursuant to Section 3.1 and which has not been repaid to the Administrative Agent by such Replaced Lender or the Borrower, and (ii) all obligations of the Borrower owing to the Replaced Lender (other than those specifically described in clause (i) above in respect of

which the assignment purchase price has been, or is concurrently being, paid) shall be paid in full to such Replaced Lender concurrently with such replacement. Upon the execution of the respective Assignment and Acceptance Agreements and the payment of amounts referred to in clauses (i) and (ii) of this Section 3.13, the Replacement Lender shall become a Lender hereunder and the Replaced Lender shall cease to constitute a Lender hereunder, except with respect to indemnification provisions under this Agreement that are intended to survive the termination of the Commitments and the repayment of the Loans which may be applicable to any such Replaced Lender prior to the date of its replacement. Solely for the purpose of calculating break funding payments under Section 3.5, the assignment by any Replaced Lender of any Eurodollar Advance prior to the last day of the Interest Period applicable thereto pursuant to clause (x) or (z) of this Section 3.13 shall be deemed to constitute a prepayment by the Borrower of such Eurodollar Advance.

4. REPRESENTATIONS AND WARRANTIES

In order to induce the Administrative Agent and the Lenders to enter into this Agreement and the Lenders to make the Loans, the Borrower hereby makes the following representations and warranties to the Administrative Agent and the Lenders:

4.1 *Existence and Power*

Each of the Borrower and the Subsidiaries is duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or formation (except, in the case of the Subsidiaries, where the failure to be in such good standing could not reasonably be expected to have a Material Adverse effect), has all requisite corporate power and authority to own its Property and to carry on its business as now conducted, and is qualified to do business as a foreign corporation and is in good standing in each jurisdiction in which it owns or leases real Property or in which the nature of its business requires it to be so qualified (except those jurisdictions where the failure to be so qualified or to be in good standing could not reasonably be expected to have a Material Adverse effect).

4.2 *Authority*

The Borrower has full corporate power and authority to enter into, execute, deliver and perform the terms of the Loan Documents, all of which have been duly authorized by all proper and necessary corporate action and are not in contravention of any applicable law or the terms of its Certificate of Incorporation and By-Laws. No consent or approval of, or other action by, shareholders of the Borrower, any Governmental Authority, or any other Person (which has not already been obtained) is required to authorize in respect of the Borrower, or is required in connection with the execution, delivery, and performance by the Borrower of the Loan Documents or is required as a condition to the enforceability of the Loan Documents against the Borrower.

4.3 *Binding Agreement*

The Loan Documents constitute the valid and legally binding obligations of the Borrower, enforceable in accordance with their respective terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by equitable principles relating to the availability of specific performance as a remedy.

4.4 *Litigation*

As of the Effective Date, there are no actions, suits, arbitration proceedings or claims (whether purportedly on behalf of the Borrower, any Subsidiary or otherwise) pending or, to the knowledge of the Borrower, threatened against the Borrower or any Subsidiary or any of their respective Properties, or maintained by the Borrower or any Subsidiary, at law or in equity, before any Governmental Authority which could reasonably be expected to have a Material Adverse effect. There are no proceedings pending or, to the knowledge of the Borrower, threatened against the Borrower or any Subsidiary (a) which call into question the validity or enforceability of any Loan Document, or otherwise seek to invalidate, any Loan Document, or (b) which might, individually or in the aggregate, materially and adversely affect any of the transactions contemplated by any Loan Document.

4.5 *No Conflicting Agreements*

(a) Neither the Borrower nor any Subsidiary is in default under any agreement to which it is a party or by which it or any of its Property is bound the effect of which could reasonably be expected to have a Material Adverse effect. No notice to, or filing with, any Governmental Authority is required for the due execution, delivery and performance by the Borrower of the Loan Documents.

(b) No provision of any existing material mortgage, material indenture, material contract or material agreement or of any existing statute, rule, regulation, judgment, decree or order binding on the Borrower or any Subsidiary or affecting the Property of the Borrower or any Subsidiary conflicts with, or requires any consent which has not already been obtained under, or would in any way prevent the execution, delivery or performance by the Borrower of the terms of, any Loan Document. The execution, delivery or performance by the Borrower of the terms of each Loan Document will not constitute a default under, or result in the creation or imposition of, or obligation to create, any Lien upon the Property of the Borrower or any Subsidiary pursuant to the terms of any such mortgage, indenture, contract or agreement.

4.6 *Taxes*

The Borrower and each Subsidiary has filed or caused to be filed all tax returns, and has paid, or has made adequate provision for the payment of, all taxes shown to be due and payable on said returns or in any assessments made against them, the failure of which to file or pay could reasonably be expected to have a Material Adverse effect, and no tax Liens (other than Liens permitted under Section 8.2) have been filed against the Borrower or any Subsidiary and no claims are being asserted with respect to such taxes which are required by GAAP to be reflected in the Financial Statements and are not so reflected, except for taxes which have been assessed but which are not yet due and payable. The charges, accruals and reserves on the books of the Borrower and each Subsidiary with respect to all federal, state, local and other taxes are considered by the management of the Borrower to be adequate, and the Borrower knows of no unpaid assessment which (a) could reasonably be expected to have a Material Adverse effect, or (b) is or might be due and payable against it or any Subsidiary or any Property of the Borrower or any Subsidiary, except such thereof as are being contested in good faith and by appropriate proceedings diligently conducted, and for which adequate reserves have been set aside in accordance with GAAP or which have been assessed but are not yet due and payable.

4.7 *Compliance with Applicable Laws; Filings*

Neither the Borrower nor any Subsidiary is in default with respect to any judgment, order, writ, injunction, decree or decision of any Governmental Authority which default could reasonably be expected to have a Material Adverse effect. The Borrower and each Subsidiary is complying with all applicable statutes, rules and regulations of all Governmental Authorities, a violation of which could reasonably be expected to have a Material Adverse effect. The Borrower and each Subsidiary has filed or caused to be filed with all Governmental Authorities all reports, applications, documents, instruments and information required to be filed pursuant to all applicable laws, rules, regulations and requests which, if not so filed, could reasonably be expected to have a Material Adverse effect.

4.8 *Governmental Regulations*

The Borrower is not subject to regulation under the Investment Company Act of 1940, as amended.

4.9 *Federal Reserve Regulations; Use of Proceeds*

The Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any Margin Stock. No part of the proceeds of the Loans has been or will be used, directly or indirectly, and whether immediately, incidentally or ultimately, for a purpose which violates the provisions of Regulations T, U or X of the Board of Governors of the Federal Reserve System, as amended. Anything in this Agreement to the contrary notwithstanding, no Lender shall be obligated to extend credit to or on behalf of the Borrower in violation of any limitation or prohibition provided by any applicable law, regulation or statute, including said Regulation U. Following application of the proceeds of each Loan, not more than 25% (or such greater or lesser percentage as is provided in the exclusions from the definition of “ Indirectly Secured ” contained in said Regulation U as in effect at the time of the making of such Loan) of the value of the assets of the Borrower and the Subsidiaries on a Consolidated basis that are subject to Section 8.2 will be Margin Stock. In addition, no part of the proceeds of any Loan will be used, whether directly or indirectly, and whether immediately, incidentally or ultimately, to make a loan to any director or executive officer of the Borrower or any Subsidiary.

4.10 *No Misrepresentation*

No representation or warranty contained in any Loan Document and no certificate or written report furnished by the Borrower to the Administrative Agent or any Lender pursuant to any Loan Document contains, as of its date, a misstatement of a material fact, or omits to state, as of its date, a material fact required to be stated in order to make the statements therein contained, when taken as a whole, not materially misleading (*provided* that any representation, warranty, statement or written report that is qualified as to “materiality”, “Material Adverse” or similar language shall be true and correct (after giving effect to any qualification therein) in all respects on such date) in the light of the circumstances under which made (after giving effect to all supplements and updates with respect thereto) (it being understood that the Borrower makes no representation or warranty hereunder with respect to any projections or other forward looking information).

4.11 *Plans*

The Borrower, each Subsidiary and each ERISA Affiliate have complied with the material requirements of Section 515 of ERISA with respect to each Pension Plan which is a Multiemployer Plan, except where the failure to so comply could not reasonably be expected to have a Material Adverse effect. The Borrower, each Subsidiary and each ERISA Affiliate has, as of the date hereof, made all contributions or payments to or under each Pension Plan required by law or the terms of such Pension Plan or any contract or agreement, except where the failure to make such contributions or payments could not reasonably be expected to have a Material Adverse effect. No liability to the PBGC has been, or is reasonably expected by the Borrower, any Subsidiary or any ERISA Affiliate to be, incurred by the Borrower, any Subsidiary or any ERISA Affiliate that could reasonably be expected to have a Material Adverse effect. Liability, as referred to in this Section 4.11, includes any joint and several liability, but excludes any current or, to the extent it represents future liability in the ordinary course, any future liability for premiums under Section 4007 of ERISA.

4.12 *Environmental Matters*

Neither the Borrower nor any Subsidiary (a) has received written notice or otherwise learned of any claim, demand, action, event, condition, report or investigation indicating or concerning any potential or actual liability which individually or in the aggregate could reasonably be expected to have a Material Adverse effect, arising in connection with (i) any non-compliance with or violation of the requirements of any applicable Environmental Law, or (ii) the release or threatened release of any Hazardous Material, (b) to the best knowledge of the Borrower, has any threatened or actual liability in connection with the release or threatened release of any Hazardous Material into the environment which individually or in the aggregate could reasonably be expected to have a Material Adverse effect, (c) has received notice of any federal or state investigation evaluating whether any remedial action is needed to respond to a release or threatened release of any Hazardous Material into the environment for which the Borrower or any Subsidiary is or would be liable, which liability would reasonably be expected to have a Material Adverse effect, or (d) has received notice that the Borrower or any Subsidiary is or may be liable to any Person under the Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 U.S.C. Section 9601 *et seq.*, or any analogous state law, which liability would reasonably be expected to have a Material Adverse effect. The Borrower and each Subsidiary is in compliance with the financial responsibility requirements of federal and state Environmental Laws to the extent applicable, including those contained in 40 C.F.R., parts 264 and 265, subpart H, and any analogous state law, except in those cases in which the failure so to comply would not reasonably be expected to have a Material Adverse effect.

4.13 *Financial Statements*

The Borrower has heretofore delivered to the Lenders through the Administrative Agent copies of the audited Consolidated Balance Sheet of the Borrower and its Subsidiaries as of December 31, 2015, and the related Consolidated Statements of Income, Comprehensive Income, Shareholders' Equity and Cash Flows for the fiscal year then ended. The financial statements referred to immediately above, including all related notes and schedules, are herein referred to collectively as the "*Financial Statements*". The Financial Statements fairly present, in all material respects, the Consolidated financial condition and results of the operations of the Borrower and the Subsidiaries as of the dates and for the periods indicated therein and, except as noted therein, have been prepared in conformity with GAAP as then in effect. Neither the Borrower nor any of the Subsidiaries has any material obligation or liability of any kind (whether fixed, accrued, contingent, unmatured or otherwise) which, in accordance with GAAP as then in effect, should have been disclosed in the Financial Statements and was not. During the period from January 1, 2016 to and including the Effective Date, there was no Material Adverse change, including as a result of any change in law, in the consolidated financial condition, operations, business or Property of the Borrower and the Subsidiaries taken as a whole.

4.14 *Anti-Corruption Laws and Sanctions*

The Borrower has implemented and maintains in effect policies and procedures designed to ensure compliance by the Borrower, the Subsidiaries and their respective directors, officers, employees and agents with Anti-Corruption Laws and applicable Sanctions, and the Borrower, the Subsidiaries and their respective officers and employees and, to the knowledge of the Borrower, its directors and agents are in compliance with Anti-Corruption Laws and applicable Sanctions in all material respects. None of (a) the Borrower, any Subsidiary or, to the knowledge of the Borrower or such Subsidiary, any of their respective directors, officers or employees, or (b) to the knowledge of the Borrower, any agent of the Borrower or any Subsidiary that will act in any capacity in connection with or benefit from the credit facility established hereby, is a Sanctioned Person. No Loan, use of proceeds or other transaction contemplated by this Agreement will violate Anti-Corruption Laws or applicable Sanctions.

5. *CONDITIONS TO EFFECTIVENESS*

This Agreement shall become effective on and as of the date (the "*Effective Date*") that the following conditions shall have been satisfied:

5.1 *Agreement*

The Administrative Agent shall have received counterparts of this Agreement executed by the Borrower, the Administrative Agent and each Lender.

5.2 *Notes*

The Administrative Agent shall have received a Note, executed by the Borrower, for each Lender that shall have given at least three Domestic Business Days' prior written notice of its request for a Note.

5.3 *Corporate Action*

The Administrative Agent shall have received a certificate, dated the Effective Date, of the Secretary or an Assistant Secretary of the Borrower (i) attaching a true and complete copy of the resolutions of its Board of Directors and of all documents evidencing all other necessary corporate action (in form and substance reasonably satisfactory to the Administrative Agent) taken by the Borrower to authorize this Agreement, the Loan Documents and the transactions contemplated hereby and thereby, (ii) attaching a true and complete copy of its Certificate of Incorporation and By-Laws, (iii) setting forth the incumbency of the officer or officers of the Borrower who may sign this Agreement and the Loan Documents, and any other certificates, requests, notices or other documents required hereunder or thereunder, and (iv) attaching a certificate of good standing of the Secretary of State of the State of Delaware.

5.4 *Opinion of Counsel to the Borrower*

The Administrative Agent shall have received an opinion of Thomas Moffatt, assistant general counsel of the Borrower, dated the Effective Date, in the form of Exhibit D.

5.5 *[Reserved]*

5.6 *No Default and Representations and Warranties*

The Administrative Agent shall have received a certificate, dated the Effective Date, of the Senior Vice President and Treasurer of the Borrower certifying that there shall exist no Default or Event of Default and that the representations and warranties contained in this Agreement shall be true and correct in all material respects (provided that any representation and warranty that is

qualified as to “materiality”, “Material Adverse” or similar language shall be true and correct (after giving effect to any qualification therein) in all respects on the Effective Date), except those which are expressly specified to be made as of an earlier date.

5.7 *Fees*

The Administrative Agent shall have received all fees and other amounts due and payable to it, including the upfront fees payable to the Lenders in respect of this Agreement, on or prior to the Effective Date.

6. *CONDITIONS OF LENDING - ALL LOANS*

The obligation of each Lender on any Borrowing Date to make each Revolving Credit Loan are subject to the fulfillment of the following conditions precedent:

6.1 *Compliance*

On each Borrowing Date, and after giving effect to the Loans to be made on such Borrowing Date, (a) there shall exist no Default or Event of Default, and (b) the representations and warranties contained in this Agreement shall be true and correct in all material respects with the same effect as though such representations and warranties had been made on such Borrowing Date (*provided* that any representation and warranty that is qualified as to “materiality”, “Material Adverse” or similar language shall be true and correct (after giving effect to any qualification therein) in all respects on such Borrowing Date), except those which are expressly specified to be made as of an earlier date.

6.2 *Requests*

The Administrative Agent shall have timely received from the Borrower on or before such Borrowing Date, as applicable, a duly executed Borrowing Request.

7. *AFFIRMATIVE COVENANTS*

The Borrower covenants and agrees that on and after the Effective Date and until the later to occur of (a) the Commitment Termination Date and (b) the payment in full of the Loans, the Fees and all other sums payable under the Loan Documents, the Borrower will:

7.1 *Legal Existence*

Except as may otherwise be permitted by Section 8.3 and Section 8.4, maintain, and cause each Subsidiary to maintain, its corporate existence in good standing in the jurisdiction of its incorporation or formation and in each other jurisdiction in which the failure so to do could reasonably be expected to have a Material Adverse effect, except that the corporate existence of Subsidiaries may be terminated if (i) such Subsidiaries operate closing or discontinued operations or (ii) if the Borrower determines in good faith that such termination is in the best interests of the Borrower and is not materially disadvantageous to the Lenders.

7.2 *Taxes*

Pay and discharge when due, and cause each Subsidiary so to do, all taxes, assessments, governmental charges, license fees and levies upon or with respect to the Borrower and such Subsidiary, and upon the income, profits and Property thereof unless, and only to the extent, that either (i)(a) such taxes, assessments, governmental charges, license fees and levies shall be contested in good faith and by appropriate proceedings diligently conducted by the Borrower or such Subsidiary, and (b) such reserve or other appropriate provision as shall be required by GAAP shall have been made therefor, or (ii) the failure to pay or discharge such taxes, assessments, governmental charges, license fees and levies could not reasonably be expected to have a Material Adverse effect.

7.3 *Insurance*

Keep, and cause each Subsidiary to keep, insurance with responsible insurance companies in such amounts and against such risks as is usually carried by the Borrower or such Subsidiary.

7.4 *Performance of Obligations*

Pay and discharge when due, and cause each Subsidiary so to do, all lawful Indebtedness, obligations and claims for labor, materials and supplies or otherwise which, if unpaid, could reasonably be expected to (a) have a Material Adverse effect, or (b) become a Lien on the Property of the Borrower or any Subsidiary, except those Liens permitted under Section 8.2, *provided* that neither the Borrower nor such Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such

Indebtedness, obligation or claim so long as (i) the validity thereof shall be contested in good faith and by appropriate proceedings diligently conducted by the Borrower or such Subsidiary, and (ii) such reserve or other appropriate provision as shall be required by GAAP shall have been made therefor.

7.5 *Condition of Property*

Except for ordinary wear and tear, at all times, maintain, protect and keep in good repair, working order and condition, all material Property necessary for the operation of its business (other than Property which is replaced with similar Property) as then being operated, and cause each Subsidiary so to do.

7.6 *Observance of Legal Requirements*

(a) Observe and comply in all material respects, and cause each Subsidiary so to do, with all laws, ordinances, orders, judgments, rules, regulations, certifications, franchises, permits, licenses, directions and requirements of all Governmental Authorities, which now or at any time hereafter may be applicable to it or to such Subsidiary, a violation of which could reasonably be expected to have a Material Adverse effect; and

(b) Maintain in effect and enforce policies and procedures designed to ensure compliance by the Borrower, the Subsidiaries and their respective directors, officers, employees and agents with Anti-Corruption Laws and applicable Sanctions.

7.7 *Financial Statements and Other Information*

Maintain, and cause each Subsidiary to maintain, a standard system of accounting in accordance with GAAP, and furnish to the Administrative Agent for distribution to the Lenders:

(a) As soon as available and, in any event, within 90 days after the close of each fiscal year, a copy of (x) the Borrower's 10-K in respect of such fiscal year, and (y) (i) the Borrower's Consolidated Balance Sheet as of the end of such fiscal year, and (ii) the related Consolidated Statements of Income, Comprehensive Income, Shareholders' Equity and Cash Flows, as of and through the end of such fiscal year, setting forth in each case in comparative form the corresponding figures in respect of the previous fiscal year, all in reasonable detail, and accompanied by a report of the Borrower's auditors, which report shall state that (A) such auditors audited such financial statements, (B) such audit was made in accordance with generally accepted auditing standards in effect at the time and provides a reasonable basis for such opinion, and (C) said financial statements have been prepared in accordance with GAAP;

(b) As soon as available, and in any event within 45 days after the end of each of the first three fiscal quarters of each fiscal year, a copy of (x) the Borrower's 10-Q in respect of such fiscal quarter, and (y) (i) the Borrower's Condensed Consolidated Balance Sheet as of the end of such quarter and (ii) the related Condensed Consolidated Statements of Income, Comprehensive Income, Shareholders' Equity and Cash Flows for (A) such quarter and (B) the period from the beginning of the then current fiscal year to the end of such quarter, in each case in comparable form with the prior fiscal year, all in reasonable detail and prepared in accordance with GAAP (without footnotes and subject to year-end adjustments);

(c) Simultaneously with the delivery of the financial statements required by clauses (a) and (b) above, a certificate of the chief financial officer or treasurer of the Borrower certifying that no Default or Event of Default shall have occurred or be continuing or, if so, specifying in such certificate all such Defaults and Events of Default, and setting forth computations in reasonable detail demonstrating compliance with Section 8.1 and Section 8.9.

(d) Prompt notice upon the Borrower becoming aware of any change in a Pricing Level;

(e) As soon as practicable after becoming available, copies of all regular or periodic reports (including current reports on Form 8-K) which the Borrower or any Subsidiary may now or hereafter be required to file with or deliver to the U.S. Securities and Exchange Commission, or any other Governmental Authority succeeding to the functions thereof;

(f) Prompt written notice of: (i) any citation, summons, subpoena, order to show cause or other order naming the Borrower or any Subsidiary a party to any proceeding before any Governmental Authority which could reasonably be expected to have a Material Adverse effect, and include with such notice a copy of such citation, summons, subpoena, order to show cause or other order, (ii) any lapse or other termination of any license, permit, franchise or other authorization issued to the Borrower or any Subsidiary by any Governmental Authority, (iii) any refusal by any Governmental Authority to renew or extend any license, permit, franchise or other authorization, and (iv) any dispute between the Borrower or any Subsidiary and any Governmental Authority, which lapse, termination, refusal or dispute, referred to in clause (ii), (iii) or (iv) above, could reasonably be expected to have a Material Adverse effect;

(g) Prompt written notice of the occurrence of (i) each Default, (ii) each Event of Default and (iii) each Material Adverse change;

(h) As soon as practicable following receipt thereof, copies of any audit reports delivered in connection with the statements referred to in Section 7.7(a);

(i) From time to time, such other information regarding the financial position or business of the Borrower and the Subsidiaries as the Administrative Agent, at the request of any Lender, may reasonably request; and

(j) Prompt written notice of such other information with documentation required by bank regulatory authorities under applicable “know your customer” and anti-money laundering laws, rules and regulations (including, without limitation, the Patriot Act), as from time to time may be reasonably requested by the Administrative Agent or any Lender.

Information required to be delivered pursuant to (x) this Section 7.7 shall be deemed to have been delivered if such information shall have been posted by the Administrative Agent on a Debtdomain, IntraLinks, Syndtrak or similar electronic system (the “*Platform*”) to which each Lender has been granted access and (y) clauses (a), (b) and (e) of this Section 7.7 shall be deemed delivered to the Administrative Agent and to the Lenders when available on the Borrower’s website at <http://www.cvshealth.com> or the website of the U.S. Securities and Exchange Commission at <http://www.sec.gov>. Information delivered pursuant to Section 7.7 may also be delivered by electronic communications pursuant to procedures approved by the Administrative Agent.

The Borrower hereby acknowledges that the Administrative Agent and/or the Sole Lead Arranger and Sole Bookrunner named on the cover page hereof will make available to the Lenders materials and/or information provided by or on behalf of the Borrower hereunder (collectively, “*Borrower Materials*”) by posting the Borrower Materials on the Platform.

7.8 *Records*

Upon reasonable notice and during normal business hours and, if no Event of Default has occurred and is continuing, not more than once in each fiscal year, permit representatives of the Administrative Agent and each Lender to visit the offices of the Borrower and each Subsidiary, to examine the books and records (other than tax returns and work papers related to tax returns) thereof and auditors’ reports relating thereto, to discuss the affairs of the Borrower and each Subsidiary with the respective officers thereof, and to meet and discuss the affairs of the Borrower and each Subsidiary with the Borrower’s auditors.

7.9 *Authorizations*

Maintain and cause each Subsidiary to maintain, in full force and effect, all copyrights, patents, trademarks, trade names, franchises, licenses, permits, applications, reports, and other authorizations and rights, which, if not so maintained, would individually or in the aggregate have a Material Adverse effect.

8. *NEGATIVE COVENANTS*

The Borrower covenants and agrees that on and after the Effective Date and until the later to occur of (a) the Commitment Termination Date and (b) the payment in full of the Loans, the Fees and all other sums which are payable under the Loan Documents, the Borrower will not:

8.1 *Subsidiary Indebtedness*

Permit the Indebtedness of all Subsidiaries (excluding Indebtedness under capital leases incurred in connection with a sale leaseback transaction) to exceed (on a combined basis) 15% of Net Tangible Assets.

8.2 *Liens*

Create, incur, assume or suffer to exist any Lien against or on any Property now owned or hereafter acquired by the Borrower or any of the Subsidiaries, or permit any of the Subsidiaries so to do, except any one or more of the following types of Liens: (a) Liens in connection with workers’ compensation, unemployment insurance or other social security obligations (which phrase shall not be construed to refer to ERISA or the minimum funding obligations under Section 412 of the Internal Revenue Code), (b) Liens to secure the performance of bids, tenders, letters of credit, contracts (other than contracts for the payment of Indebtedness), leases, statutory obligations, surety, customs, appeal, performance and payment bonds and other obligations of like nature, or to qualify to do business, maintain insurance or obtain other benefits, in each such case arising in the ordinary course of business, (c) mechanics’, workmen’s, carriers’, warehousemen’s, materialmen’s, landlords’ or other like Liens arising in the ordinary course of business with respect to obligations which are not due or which are being contested in good faith and by appropriate proceedings diligently conducted, (d) Liens for taxes, assessments, fees or governmental charges the payment of which is not

required by Section 7.2 or Section 7.4, (e) easements, rights of way, restrictions, leases of Property to others, easements for installations of public utilities, title imperfections and restrictions, zoning ordinances and other similar encumbrances affecting Property which in the aggregate do not materially impair its use for the operation of the business of the Borrower or such Subsidiary, (f) Liens on Property of the Subsidiaries under capital leases and Liens on Property (including on the capital stock or other equity interests) of the Subsidiaries acquired (whether as a result of purchase, capital lease, merger or other acquisition) and either existing on such Property when acquired, or created contemporaneously with or within 12 months of such acquisition to secure the payment or financing of the purchase price of such Property (including the construction, development, substantial repair, alteration or improvement thereof), and any renewals thereof, *provided* that such Liens attach only to the Property so purchased or acquired (including any such construction, development, substantial repair, alteration or improvement thereof) and *provided further* that the Indebtedness secured by such Liens is permitted by Section 8.1, (g) statutory Liens in favor of lessors arising in connection with Property leased to the Borrower or any of the Subsidiaries, (h) Liens of attachments, judgments or awards against the Borrower or any of the Subsidiaries with respect to which an appeal or proceeding for review shall be pending or a stay of execution or bond shall have been obtained, or which are otherwise being contested in good faith and by appropriate proceedings diligently conducted, and in respect of which adequate reserves shall have been established in accordance with GAAP on the books of the Borrower or such Subsidiary, (i) Liens securing Indebtedness of a Subsidiary to the Borrower or another Subsidiary, (j) Liens (other than Liens permitted by any of the foregoing clauses) arising in the ordinary course of its business which do not secure Indebtedness and do not, in the aggregate, materially detract from the value of the business of the Borrower and its Subsidiaries, taken as a whole, (k) Liens in favor of the United States of America, or any state thereof, to secure partial, progress, advance or other payments pursuant to any contract or provisions of any statute, and (l) additional Liens securing Indebtedness of the Borrower and the Subsidiaries in an aggregate outstanding Consolidated principal amount not exceeding 15% of Net Tangible Assets.

8.3 *Dispositions*

Make any Disposition, or permit any of its Subsidiaries so to do, of all or substantially all of the assets of the Borrower and the Subsidiaries on a Consolidated basis.

8.4 *Merger or Consolidation, Etc.*

Consolidate with, be acquired by, or merge into or with any Person unless (x) immediately after giving effect thereto no Default or Event of Default shall or would exist and (y) either (i) the Borrower or (ii) a corporation organized and existing under the laws of one of the States of the United States of America shall be the survivor of such consolidation or merger, *provided* that if the Borrower is not the survivor, the corporation which is the survivor shall expressly assume, pursuant to an instrument executed and delivered to the Administrative Agent, and in form and substance reasonably satisfactory to the Administrative Agent, all obligations of the Borrower under the Loan Documents and the Administrative Agent shall have received such documents, opinions and certificates as it shall have reasonable requested in connection therewith.

8.5 *Acquisitions*

Make any Acquisition, or permit any of the Subsidiaries so to do, except any one or more of the following: (a) Intercompany Dispositions not prohibited by Section 8.3 and (b) Acquisitions by the Borrower or any of the Subsidiaries, *provided* that immediately before and after giving effect to each such Acquisition no Event of Default shall or would exist.

8.6 *Restricted Payments*

Make any Restricted Payment or permit any of the Subsidiaries so to do, except any one or more of the following Restricted Payments: (a) any direct or indirect Subsidiary may make dividends or other distributions to the Borrower or to any other direct or indirect Subsidiary or otherwise ratably with respect to its stock or other equity interests, and (b) the Borrower may make Restricted Payments, *provided* that, in the case of this clause (b), immediately before and after giving effect thereto, no Event of Default shall or would exist.

8.7 *Limitation on Upstream Dividends by Subsidiaries*

Permit or cause any of the Subsidiaries to enter into or agree, or otherwise be or become subject, to any agreement, contract or other arrangement (other than this Agreement) with any Person (each a "*Restrictive Agreement*") pursuant to the terms of which (a) such Subsidiary is or would be prohibited from declaring or paying any cash dividends on any class of its stock owned directly or indirectly by the Borrower or any of the other Subsidiaries or from making any other distribution on account of any class of any such stock (herein referred to as "*Upstream Dividends*"), or (b) the declaration or payment of Upstream Dividends by a Subsidiary to the Borrower or another Subsidiary, on an annual or cumulative basis, is or would be otherwise limited or restricted ("*Dividend Restrictions*"). Notwithstanding the foregoing, nothing in this Section 8.7 shall prohibit:

(i) Dividend Restrictions set forth in any Restrictive Agreement in effect on the date hereof and any extensions, refinancings, renewals or replacements thereof; *provided* that the Dividend Restrictions in any such extensions, refinancings, renewals or replacements are no less favorable in any material respect to the Lenders than those Dividend Restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

(ii) Dividend Restrictions existing with respect to any Person acquired by the Borrower or any Subsidiary and existing at the time of such acquisition, which Dividend Restrictions are not applicable to any Person or the property or assets of any Person other than such Person or its property or assets acquired, and any extensions, refinancings, renewals or replacements of any of the foregoing; *provided* that the Dividend Restrictions in any such extensions, refinancings, renewals or replacements are no less favorable in any material respect to the Lenders than those Dividend Restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

(iii) Dividend Restrictions consisting of customary net worth, leverage and other financial covenants, customary covenants regarding the merger of or sale of stock or assets of a Subsidiary, customary restrictions on transactions with affiliates, and customary subordination provisions governing Indebtedness owed to the Borrower or any Subsidiary, in each case contained in, or required by, any agreement governing Indebtedness incurred by a Subsidiary in accordance with Section 8.1; or

(iv) Dividend Restrictions contained in any other credit agreement so long as such Dividend Restrictions are no more restrictive than those contained in this Agreement (including Dividend Restrictions contained in the Existing 2013 Credit Agreement, the Existing 2014 Credit Agreement and the Existing 2015 Credit Agreement).

8.8 *Limitation on Negative Pledges*

Enter into any agreement (other than (i) this Agreement, (ii) any other credit agreement that is substantially similar to this Agreement, (iii) purchase money financings or capital leases permitted by this Agreement (in which cases, any prohibition or limitation shall only be effective against the assets financed thereby), (iv) customary restrictions and conditions contained in agreements relating to the Disposition of a Subsidiary, property or assets pending such Disposition, *provided* such restrictions and conditions apply only to such Subsidiary, property or assets, (v) restrictions and conditions contained in documentation relating to a Subsidiary acquired after the Effective Date, *provided* that such restriction or condition (x) existed at the time such Person became a Subsidiary and was not created in contemplation of or in connection with such Person becoming a Subsidiary and (y) applies only to such Subsidiary, and (vi) customary provisions in joint venture agreements, leases, licenses and other contracts restricting or conditioning the assignment or encumbrance thereof, including, without limitation, licenses and sublicenses of patents, trademarks, copyrights and similar intellectually property rights) or permit any Subsidiary so to do, which prohibits or limits the ability of the Borrower or such Subsidiary to create, incur, assume or suffer to exist any Lien upon any of its Property or revenues, whether now owned or hereafter acquired, to secure the obligations of the Borrower hereunder.

8.9 *Ratio of Consolidated Indebtedness to Total Capitalization*

Permit its ratio of Consolidated Indebtedness to Total Capitalization at the end of any fiscal quarter to exceed 0.6 : 1.0.

9. *DEFAULT*

9.1 *Events of Default*

The following shall each constitute an “*Event of Default*” hereunder:

(a) The failure of the Borrower to make any payment of principal on any Loan when due and payable; or

(b) The failure of the Borrower to make any payment of interest on any Loan or of any Fee on any date when due and payable and such default shall continue unremedied for a period of 5 Domestic Business Days after the same shall be due and payable; or

(c) The failure of the Borrower to observe or perform any covenant or agreement contained in Section 2.5, Section 7.1 or in Section 8; or

(d) The failure of the Borrower to observe or perform any other covenant or agreement contained in this Agreement, and such failure shall have continued unremedied for a period of 30 days after the Borrower shall have become aware of such failure; or

(e) [Reserved]; or

(f) Any representation or warranty of the Borrower (or of any of its officers on its behalf) made in any Loan Document, or made in any certificate, report, opinion (other than an opinion of counsel) or other document delivered on or after the date hereof shall in any such case prove to have been incorrect or misleading (whether because of misstatement or omission) in any material respect when made; or

(g) (i) Obligations in an aggregate Consolidated amount in excess of \$75,000,000 of the Borrower (other than its obligations hereunder and under the Notes) and the Subsidiaries, whether as principal, guarantor, surety or other obligor, for the payment of any Indebtedness or any net liability under interest rate swap, collar, exchange or cap agreements, (A) shall become or shall be declared to be due and payable prior to the expressed maturity thereof, or (B) shall not be paid when due or within any grace period for the payment thereof, or (ii) any holder of any such obligations shall have the right to declare the Indebtedness evidenced thereby due and payable prior to its stated maturity; or

(h) An involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of the Borrower or any Subsidiary or its debts, or of a substantial part of its assets, under any federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Subsidiary or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered; or

(i) The Borrower or any Subsidiary shall (9) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (9) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (h) of this Section 9.1, (9) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Subsidiary or for a substantial part of its assets, (9) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (9) make a general assignment for the benefit of creditors or (9) take any action for the purpose of effecting any of the foregoing; or

(j) The Borrower or any Subsidiary shall (i) generally not be paying its debts as such debts become due or (ii) admit in writing its inability to pay its debts as they become due; or

(k) Judgments or decrees in an aggregate Consolidated amount in excess of \$75,000,000 against the Borrower and the Subsidiaries shall remain unpaid, unstayed on appeal, undischarged, unbonded or undismissed for a period of 60 days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to attach or levy upon any assets of the Borrower or any Subsidiary to enforce any such judgment; or

(l) After the Effective Date a Change of Control shall occur; or

(m) (i) Any Termination Event shall occur (x) with respect to any Pension Plan (other than a Multiemployer Plan) or (y) with respect to any other retirement plan subject to Section 302 of ERISA or Section 412 of the Internal Revenue Code, which plan, during the five year period prior to such Termination Event, was the responsibility in whole or in part of the Borrower, any Subsidiary or any ERISA Affiliate, provided that this clause (y) shall only apply if, in connection with such Termination Event, it is reasonably likely that liability in an aggregate Consolidated amount in excess of \$100,000,000 will be imposed upon the Borrower; (ii) any failure to satisfy the minimum funding standards (within the meaning of Section 412 of the Code or Section 302 of ERISA), whether or not waived, as of the end of the applicable grace period for contributions to a Pension Plan for the applicable plan year of such Pension Plan (other than with respect to a Multiemployer Plan) in an aggregate Consolidated amount in excess of \$75,000,000; (iii) any Person shall engage in a Prohibited Transaction involving any Employee Benefit Plan in respect of which it is reasonably likely that liability in an aggregate Consolidated amount in excess of \$75,000,000 will be imposed upon the Borrower; (iv) the Borrower shall fail to pay when due an amount which is payable by it to the PBGC or to a Pension Plan (including a Multiemployer Plan) under Title IV of ERISA; (v) the imposition on the Borrower of any tax under Section 4980(B)(a) of the Internal Revenue Code; or (vi) the assessment of a civil penalty on the Borrower with respect to any Employee Benefit Plan under Section 502(c) of ERISA; in each case, to the extent such event or condition would have a Material Adverse effect. In determining the Consolidated amount for any purpose pursuant to this Section 9.1(m), the liabilities, funding amounts, taxes and penalties referenced in the foregoing clauses of this Section 9.1(m) shall include those of the Subsidiaries and ERISA Affiliates of the Borrower to the extent the Borrower is obligated to pay any such liabilities, funding amounts, taxes and penalties.

9.2 Remedies

(a) Upon the occurrence of an Event of Default or at any time thereafter during the continuance of an Event of Default, the Administrative Agent, at the written request of the Required Lenders, shall notify the Borrower that the Commitments

have been terminated and/or that all of the Loans and the Notes and all accrued and unpaid interest on any thereof and all other amounts owing under the Loan Documents have been declared immediately due and payable, *provided* that upon the occurrence of an Event of Default under Section 9.1(h), (i) or (j) with respect to the Borrower, the Commitments shall automatically terminate and all of the Loans and the Notes and all accrued and unpaid interest on any thereof and all other amounts owing under the Loan Documents shall become immediately due and payable without declaration or notice to the Borrower. To the fullest extent not prohibited by law, except for the notice provided for in the preceding sentence, the Borrower expressly waives any presentment, demand, protest, notice of protest or other notice of any kind in connection with the Loan Documents and its obligations thereunder. To the fullest extent not prohibited by law, the Borrower further expressly waives and covenants not to assert any appraisal, valuation, stay, extension, redemption or similar law, now or at any time hereafter in force which might delay, prevent or otherwise impede the performance or enforcement of the Loan Documents.

(b) In the event that the Commitments shall have been terminated or all of the Loans and the Notes shall have been declared due and payable pursuant to the provisions of this Section 9.2, the Administrative Agent and the Lenders agree, among themselves, that any funds received from or on behalf of the Borrower under any Loan Document by any Lender (except funds received by any Lender as a result of a purchase from such Lender pursuant to the provisions of Section 11.9(b)) shall be remitted to the Administrative Agent, and shall be applied by the Administrative Agent in payment of the Loans and the other obligations of the Borrower under the Loan Documents in the following manner and order: (1) first, to the payment or reimbursement of the Administrative Agent and the Lenders, in that order, for any fees, expenses or amounts due from the Borrower pursuant to the provisions of Section 11.5, (2) second, to the payment of the Fees, (3) third, to the payment of any other fees, expenses or amounts (other than the principal of and interest on the Loans and the Notes) payable by the Borrower to the Administrative Agent or any of the Lenders under the Loan Documents, (4) fourth, to the payment, pro rata according to the outstanding principal balance of the Loans of each Lender, of interest due on the Loans, (5) fifth, to the payment, pro rata according to the aggregate outstanding principal balance of the Loans of each Lender, of the aggregate outstanding principal balance of the Loans, and (6) sixth, any remaining funds shall be paid to whosoever shall be entitled thereto or as a court of competent jurisdiction shall direct.

(c) In the event that the Loans and the Notes shall have been declared due and payable pursuant to the provisions of this Section 9.2, the Administrative Agent upon the written request of the Required Lenders, shall proceed to enforce the rights of the holders of the Loans and the Notes by suit in equity, action at law and/or other appropriate proceedings, whether for payment or the specific performance of any covenant or agreement contained in the Loan Documents. In the event that the Administrative Agent shall fail or refuse so to proceed, each Lender shall be entitled to take such action as the Required Lenders shall deem appropriate to enforce its rights under the Loan Documents.

10. AGENT

10.1 Appointment and Authority

Each Credit Party hereby irrevocably appoints Barclays to act on its behalf as the Administrative Agent hereunder and under the other Loan Documents and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms hereof or thereof, together with such actions and powers as are reasonably incidental thereto. The provisions of this Section 10 are solely for the benefit of the Administrative Agent and the Credit Parties and the Borrower shall have no rights as a third party beneficiary of any of such provisions.

10.2 Rights as a Lender

The Person serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated or unless the context otherwise requires, include the Person serving as the Administrative Agent hereunder in its individual capacity. Such Person and its Affiliates may accept deposits from, lend money to, act as the financial advisor or in any other advisory capacity for and generally engage in any kind of business with the Borrower, any of its Subsidiaries or any other Affiliate thereof as if such Person were not the Administrative Agent hereunder and without any duty to account therefor to the Lenders.

10.3 Exculpatory Provisions

(a) The Administrative Agent shall not have any duties or obligations except those expressly set forth herein and in the other Loan Documents. Without limiting the generality of the foregoing, the Administrative Agent:

(1) shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing;

(2) shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby or by the other Loan Documents that the Administrative Agent is required to exercise as directed in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be expressly provided for herein or in the other Loan Documents); provided that the Administrative Agent shall not be required to take any action that, in its opinion or the opinion of its counsel, may expose the Administrative Agent to liability or that is contrary to any Loan Document or applicable law; and

(3) shall not, except as expressly set forth herein and in the other Loan Documents, have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower, any of its Subsidiaries or any Affiliate thereof that is communicated to or obtained by the Person serving as the Administrative Agent or any of its Affiliates in any capacity.

(b) The Administrative Agent shall not be liable for any action taken or not taken by it (i) with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary, or as the Administrative Agent shall believe in good faith shall be necessary, under the circumstances as provided in Section 11.1 and Section 9) or (ii) in the absence of its own gross negligence or willful misconduct as determined by a court of competent jurisdiction by a final and non-appealable judgment. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until notice describing such Default is given to the Administrative Agent by the Borrower or a Lender.

(c) The Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (10) any statement, warranty or representation made in or in connection with this Agreement or any other Loan Document, (10) the contents of any certificate, report or other document delivered hereunder or thereunder or in connection herewith or therewith, (10) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein or therein or the occurrence of any Default, (10) the validity, enforceability, effectiveness or genuineness of this Agreement, any other Loan Document or any other agreement, instrument or document or (10) the satisfaction of any condition set forth in Section 5 or Section 6 or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

10.4 *Reliance by Administrative Agent*

The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing (including any electronic message, internet or intranet website posting or other distribution) believed by it to be genuine and to have been signed, sent or otherwise authenticated by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to have been made by the proper Person, and shall not incur any liability for relying thereon. In determining compliance with any condition hereunder to the making of a Loan, that by its terms must be fulfilled to the satisfaction of a Lender, the Administrative Agent may presume that such condition is satisfactory to such Lender unless the Administrative Agent shall have received notice to the contrary from such Lender. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent public accounting firm and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accounting firm or experts.

10.5 *Delegation of Duties*

The Administrative Agent may perform any and all of its duties and exercise its rights and powers hereunder or under any other Loan Document by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all of its duties and exercise its rights and powers by or through their respective Related Parties. The exculpatory provisions of this Section 10 shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as the Administrative Agent.

10.6 *Resignation of Administrative Agent*

The Administrative Agent may at any time give notice of its resignation to the Credit Parties and the Borrower. Upon receipt of any such notice of resignation, the Required Lenders shall have the right, subject to, so long as no Default or Event of Default has occurred and is continuing, the consent of the Borrower (such consent not to be unreasonably withheld or delayed), to appoint a successor, which shall be a bank with an office in New York, New York, or an Affiliate of any such bank with an office in New York, New York. If no such successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may on behalf of the Credit Parties, appoint a successor Administrative Agent meeting the qualifications set forth above, subject to, so long as no Default or Event of Default has occurred and is continuing, the consent of the Borrower (such consent not to be unreasonably withheld or delayed); *provided* that if the Administrative Agent shall notify the Borrower and the Credit Parties that

no qualifying Person has accepted such appointment, then such resignation shall nonetheless become effective in accordance with such notice and (10) the retiring Administrative Agent shall be discharged from its duties and obligations hereunder and under the other Loan Documents and (10) all payments, communications and determinations provided to be made by, to or through the Administrative Agent shall instead be made by or to each Credit Party directly, until such time as the Required Lenders appoint a successor Administrative Agent as provided for above in this paragraph. Upon the acceptance of a successor's appointment as Administrative Agent hereunder, such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring (or retired) Administrative Agent, and the retiring Administrative Agent shall be discharged from all of its duties and obligations hereunder or under the other Loan Documents (if not already discharged therefrom as provided above in this paragraph). The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the retiring Administrative Agent's resignation hereunder and under the other Loan Documents, the provisions of this Section 10 and Section 11.5 shall continue in effect for the benefit of such retiring Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while the retiring Administrative Agent was acting as Administrative Agent.

10.7 *Non-Reliance on Administrative Agent and Other Credit Parties*

Each Credit Party acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Credit Party or any of their Related Parties and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Credit Party also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Credit Party or any of their Related Parties and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or any related agreement or any document furnished hereunder or thereunder.

10.8 *No Other Duties, etc.*

Anything herein to the contrary notwithstanding, none of the Sole Bookrunner, or the Sole Lead Arranger listed on the cover page hereof shall have any powers, duties or responsibilities under this Agreement or any of the other Loan Documents, except in its capacity, as applicable, as the Administrative Agent or a Lender hereunder.

11. *OTHER PROVISIONS*

11.1 *Amendments, Waivers, Etc.*

With the written consent of the Required Lenders, the Administrative Agent and the Borrower may, from time to time, enter into written amendments, supplements or modifications of the Loan Documents and, with the written consent of the Required Lenders, the Administrative Agent on behalf of the Lenders may execute and deliver to any such parties a written instrument waiving or consenting to the departure from, on such terms and conditions as the Administrative Agent may specify in such instrument, any of the requirements of the Loan Documents or any Default or Event of Default and its consequences, *provided* that no such amendment, supplement, modification, waiver or consent shall (i) increase the Commitment Amount of any Lender without the consent of such Lender (*provided* that no waiver of a Default or Event of Default shall be deemed to constitute such an increase), (ii) extend the Commitment Period without the consent of each Lender directly affected thereby, (iii) reduce the amount, or extend the time of payment, of the Fees without the consent of each Lender directly affected thereby, (iv) reduce the rate, or extend the time of payment of, interest on any Revolving Credit Loan or any Note (other than the applicability of any post-default increase in such rate of interest) without the consent of each Lender directly affected thereby, (v) reduce the amount, or extend the time of payment of any payment of principal on any Revolving Credit Loan or any Note without the consent of each Lender directly affected thereby, (vi) decrease or forgive the principal amount of any Revolving Credit Loan or any Note without the consent of each Lender directly affected thereby, (vii) consent to any assignment or delegation by the Borrower of any of its rights or obligations under any Loan Document without the consent of each Lender, (viii) change the provisions of this Section 11.1 without the consent of each Lender, (ix) change the definition of Required Lenders without the consent of each Lender, (x) change the several nature of the obligations of the Lenders without the consent of each Lender, or (xi) change the sharing provisions among Lenders without the consent of each Lender directly affected thereby. Notwithstanding the foregoing, no such amendment, supplement, modification, waiver or consent shall amend, modify or waive any provision of Section 10 or otherwise change any of the rights or obligations of the Administrative Agent under any Loan Document without the written consent of the Administrative Agent. Any such amendment, supplement, modification, waiver or consent shall apply equally to each of the Lenders and shall be binding upon the parties to the applicable Loan Document, the Lenders, the Administrative Agent and all future holders of the Loans and the Notes. In the case of any waiver, the Borrower, the Lenders and the Administrative Agent shall be restored to their former position and rights under the Loan Documents, but any Default or Event of Default waived shall not extend to any subsequent or other Default or Event of Default, or impair any right consequent thereon.

11.2 *Notices*

(a) *Notices Generally.* Except in the case of notices and other communications expressly permitted to be given by telephone, all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by facsimile or email, as follows:

If to the Borrower :

CVS Health Corporation
1 CVS Drive
Woonsocket, Rhode Island 02895
Attention: Carol A. DeNale
Treasury Department
Facsimile: (401) 770-5768
Telephone: (401) 770-4407
Email: carol.denale@cvshealth.com

with a copy, in the case of a notice of Default or Event of Default, to:

CVS Health Corporation
1 CVS Drive
Woonsocket, Rhode Island 02895
Attention: Tom Moffatt
Vice President, Assistant Secretary and Assistant General Counsel – Corporate Services
Facsimile: (401) 216-3758
Telephone: (401) 770-5409
Email: thomas.moffatt@cvshealth.com

If to the Administrative Agent :

in the case of each Borrowing Request, each notice of Conversion, each notice of continuation and each notice of prepayment under Section 2.7:

Barclays Bank PLC
Loan Operations
700 Prides Crossing
Newark, Delaware 19713
Attention: Agency Services – CVS Health Corporation – Jason Jones
Facsimile: 917-522-0569
Telephone: 302-286-2319
Email: 12145455230@TLS.LDSPROD.com
and
jason.jones@barclays.com

For any other purpose:

Barclays Bank PLC
745 Seventh Avenue
New York, New York 10019
Attention: Sean Duggan
Facsimile: 212-526-5115
Telephone: 212-320-6116
Email: sean.duggan@barclays.com

If to any Lender : to it at its address (or facsimile number or email address) set forth in its Administrative Questionnaire.

(b) *Electronic Communications .* Notices and other communications to the Credit Parties hereunder may be delivered or furnished by electronic communication (including email and internet or intranet websites) pursuant to procedures approved by the Administrative Agent; *provided* that the foregoing shall not apply to notices to any Credit Party pursuant to

Section 2 and Section 3.3 if such Credit Party has notified the Administrative Agent that it is incapable of receiving notices under such Sections by electronic communication. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; *provided* that approval of such procedures may be limited to particular notices or communications.

Unless the Administrative Agent otherwise prescribes, (i) notices and other communications sent to an email address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" or "read requested" function, as available, return email or other written acknowledgement); *provided* that if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next Domestic Business Day for the recipient, and (ii) notices or communications posted to an internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its email address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefor.

(c) *Change of Address.* Any party hereto may change its address, facsimile number or email address for notices and other communications hereunder by notice to the other parties hereto (or, in the case of any Lender, by notice to the Administrative Agent and the Borrower). All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt; *provided* that any such notice or communication that is not received on a Domestic Business Day during the normal business hours of the recipient shall be deemed received at the opening of business on the next Domestic Business Day.

11.3 *No Waiver; Cumulative Remedies*

No failure to exercise and no delay in exercising, on the part of the Administrative Agent or any Lender, any right, remedy, power or privilege under any Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege under any Loan Document preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges under the Loan Documents are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

11.4 *Survival of Representations and Warranties*

All representations and warranties made in the Loan Documents and in any document, certificate or statement delivered pursuant thereto or in connection therewith shall survive the execution and delivery of the Loan Documents.

11.5 *Payment of Expenses; Indemnified Liabilities*

The Borrower agrees, as soon as practicable following presentation of a statement or invoice therefor setting forth in reasonable detail the items thereof, and whether any Loan is made, (a) to pay or reimburse the Administrative Agent and its Affiliates for all its reasonable and documented out-of-pocket costs and expenses actually incurred in connection with the development, syndication, preparation and execution of, and any amendment, waiver, consent, supplement or modification to, the Loan Documents, any documents prepared in connection therewith and the consummation of the transactions contemplated thereby, whether such Loan Documents or any such amendment, waiver, consent, supplement or modification to the Loan Documents or any documents prepared in connection therewith are executed and whether the transactions contemplated thereby are consummated, including the reasonable and documented out-of-pocket fees and disbursements of Special Counsel, (b) to pay, indemnify, and hold the Administrative Agent and the Lenders harmless from any and all recording and filing fees and any and all liabilities and penalties with respect to, or resulting from any delay (other than penalties to the extent attributable to the negligence of the Administrative Agent or the Lenders, as the case may be, in failing to pay such fees, liabilities or penalties when due) which may be payable or determined to be payable in connection with the execution and delivery of, or consummation of any of the transactions contemplated by, or any amendment, supplement or modification of, or any waiver or consent under or in respect of, the Loan Documents or any documents prepared in connection therewith, and (c) to pay, reimburse, indemnify and hold each Indemnified Person harmless from and against any and all other liabilities, obligations, claims, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements of any kind or nature whatsoever (including the reasonable and documented out-of-pocket fees and disbursements of one counsel representing all of the Indemnified Persons, taken as a whole, and, if reasonably necessary, of a single local counsel for each applicable jurisdiction (and, if reasonably necessary, one specialty counsel for each applicable specialty), representing all of the Indemnified Persons, taken as a whole (and, in the case of any actual or perceived conflict of interest where the Indemnified Person affected by such conflict notifies the Borrower of the existence of such conflict and thereafter retains its own counsel, of another firm of counsel (and, if reasonably necessary, a single local counsel for each applicable jurisdiction (and, if reasonably necessary, one specialty counsel for each applicable specialty), for each such affected Indemnified Party))) actually incurred with respect to the enforcement, performance of, and preservation of rights under, the Loan Documents (all the foregoing, collectively, the "*Indemnified Liabilities*") and, if and to the extent that the foregoing indemnity may be unenforceable for any reason, the Borrower agrees to

make the maximum payment permitted under applicable law; *provided* that the Borrower shall have no obligation hereunder to pay Indemnified Liabilities to an Indemnified Person to the extent (A) arising from the gross negligence, willful misconduct, fraud or bad faith of such Indemnified Person, (B) from a material breach of the obligations hereunder of such Indemnified Person, or (C) out of or in connection with any claim, litigation, investigation or proceeding that does not involve an act or omission of the Borrower or any of its Affiliates and that is brought by an Indemnified Person against any other Indemnified Person (other than the Sole Bookrunner or Sole Lead Arranger named on the cover page hereof or the Administrative Agent, in its capacity as such), in each case under the foregoing clauses (A) through (C), to the extent determined by a court of competent jurisdiction by a final and non-appealable judgment. The agreements in this Section 11.5 shall survive the termination of the Commitments and the payment of the Loans and the Notes and all other amounts payable under the Loan Documents.

11.6 *Lending Offices*

Each Lender shall have the right at any time and from time to time to transfer any Loan to a different office of such Lender, subject to Section 3.10.

11.7 *Successors and Assigns*

(a) *Successors and Assigns Generally* . The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of the Administrative Agent and each Lender and no Lender may assign or otherwise transfer any of its rights or obligations hereunder except (1) to an assignee in accordance with the provisions of paragraph (b) of this Section 11.7, (11) by way of participation in accordance with the provisions of paragraph (d) of this Section 11.7 or (11) by way of pledge or assignment of a security interest subject to the restrictions of paragraph (f) of this Section 11.7 (and any other attempted assignment or transfer by any party hereto shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, the Participants to the extent provided in paragraph (d) of this Section 11.7 and, to the extent expressly contemplated hereby, the Related Parties of each Credit Party) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) *Assignments by Lenders* . Any Lender may at any time assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it); *provided* that any such assignment shall be subject to the following conditions:

(1) *Minimum Amounts* .

(A) in the case of an assignment of the entire remaining amount of the assigning Lender's Commitment Amount and the Loans at the time owing to it or in the case of an assignment to a Lender, an Affiliate of a Lender or an Approved Fund, no minimum amount need be assigned; and

(B) in any case not described in paragraph (b)(1)(A) of this Section 11.7, the Commitment Amount (which for this purpose includes the Loans of the assigning Lender outstanding thereunder) or, if the Commitment of the assigning Lender is not then in effect, the principal outstanding balance of the Loans of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent or, if a "Trade Date" is specified in the Assignment and Assumption, as of such "Trade Date") shall not be less than \$5,000,000, unless each of the Administrative Agent and, so long as no Event of Default has occurred and is continuing, the Borrower otherwise consents (each such consent not to be unreasonably withheld or delayed).

(2) *Proportionate Amounts* . Each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement with respect to the Loans or the Commitment assigned.

(3) *Required Consents* . No consent shall be required for any assignment except to the extent required by paragraph (b)(1)(B) of this Section 11.7 and, in addition:

(A) the consent of the Borrower (such consent not to be unreasonably withheld or delayed) shall be required unless (x) an Event of Default has occurred and is continuing at the time of such assignment or (y) such assignment is to a Lender, an Affiliate of a Lender or an Approved Fund; and

(B) the consent of the Administrative Agent (such consent not to be unreasonably withheld or delayed) shall be required for assignments in respect of an unfunded or revolving facility hereunder if such assignment is to a Person that is not a Lender with a Commitment in respect of such facility, an Affiliate of such Lender or an Approved Fund with respect to

such Lender.

(4) *Assignment and Assumption* . The parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee of \$4,500 (\$7,500 in the case of an assignment by a Defaulting Lender) (which fee may be waived or reduced in the sole discretion of the Administrative Agent), and the assignee, if it is not a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire.

(5) *No Assignment to Certain Parties* . No such assignment shall be made to the Borrower, any of its Subsidiaries or any of their respective Affiliates.

(6) *No Assignment to Natural Persons* . No such assignment shall be made to a natural person.

Subject to acceptance and recording thereof by the Administrative Agent pursuant to paragraph (c) of this Section 11.7, from and after the effective date specified in each Assignment and Assumption, the assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits of Section 3.6, Section 3.7, and Section 11.10 with respect to facts and circumstances occurring prior to the effective date of such assignment. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this paragraph shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (d) of this Section 11.7.

(c) *Register* . The Administrative Agent, acting solely for this purpose as a non-fiduciary agent of the Borrower, shall maintain at one of its offices in New York, New York a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitments of, and principal amounts (and stated interest) of the Loans owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Borrower, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(d) *Participations* . Any Lender may at any time, without the consent of, or notice to, the Borrower or the Administrative Agent, sell participations to any Person (other than a natural person, the Borrower, any of its Subsidiaries or any of their respective Affiliates) (each, a "*Participant*") in all or a portion of such Lender's rights and/or obligations under this Agreement (including all or a portion of its Commitment and/or the Loans owing to it); *provided* that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Borrower, the Administrative Agent and each Credit Party shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; *provided* that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver which requires the consent of all Lenders or all affected Lenders that directly affects such Participant. Subject to paragraph (e) of this Section 11.7, the Borrower agrees that each Participant shall be entitled to the benefits of Section 3.5, Section 3.6, Section 3.7 and Section 3.10 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section 11.7. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 11.9(a) as though it were a Lender, *provided* that such Participant agrees to be subject to Section 11.9(b) as though it were a Lender. Each Lender that sells a participation with respect to a Commitment or Loan to the Borrower shall, solely for the purposes of complying with the rules regarding registered form in the Internal Revenue Code, act as a non-fiduciary agent of the Borrower, maintaining a register on which it enters the name and address of each Participant and the principal amounts (and related interest amounts) of each Participant's interest in the Commitment and/or Loan (the "*Participant Register*"). The entries in the Participant Register shall be conclusive, absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary. No Lender shall be required to disclose the existence of, or any of the information contained in, any Participant Register maintained by it to the Borrower or any other Person unless requested in writing by the Borrower, and only to the Internal Revenue Service to the extent such disclosure is required in order to comply with the rules requiring registered form pursuant to the Internal Revenue Code.

(e) *Limitations upon Participant Rights* . A Participant shall not be entitled to receive any greater payment under Section 3.6, Section 3.7 or Section 3.10 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written

consent. A Participant shall not be entitled to the benefits of Section 3.10 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 3.10(e) as though it were a Lender.

(f) *Certain Pledges* . Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank or other central bank having jurisdiction over such Lender; *provided* that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

11.8 *Counterparts; Electronic Execution of Assignments*

(a) *Counterparts* . Each of the Loan Documents (other than the Notes) may be executed on any number of separate counterparts and all of said counterparts taken together shall be deemed to constitute one and the same agreement. It shall not be necessary in making proof of any Loan Document to produce or account for more than one counterpart signed by the party to be charged. A set of the copies of this Agreement signed by all of the parties hereto shall be lodged with each of the Borrower and the Administrative Agent. Delivery of an executed counterpart of a signature page of any Loan Document by fax or other electronic means (e.g., “.pdf” or “.tif”) shall be effective as delivery of a manually executed counterpart of such Loan Document.

(b) *Electronic Execution of Assignments* . The words “execution,” “signed,” “signature,” and words of like import in any Assignment and Assumption shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act.

11.9 *Set-off and Sharing of Payments*

(a) In addition to any rights and remedies of the Lenders provided by law, upon the occurrence of an Event of Default under Section 9.1(a) or Section 9.1(b) or upon the acceleration of the Loans, each Lender shall have the right, without prior notice to the Borrower, any such notice being expressly waived by the Borrower, to set-off and apply against any indebtedness or other liability, whether matured or unmatured, of the Borrower to such Lender arising under the Loan Documents, any amount owing from such Lender to the Borrower. To the extent permitted by applicable law, the aforesaid right of set-off may be exercised by such Lender against the Borrower or against any trustee in bankruptcy, custodian, debtor in possession, assignee for the benefit of creditors, receiver, or execution, judgment or attachment creditor of the Borrower, or against anyone else claiming through or against the Borrower or such trustee in bankruptcy, custodian, debtor in possession, assignee for the benefit of creditors, receivers, or execution, judgment or attachment creditor, notwithstanding the fact that such right of set-off shall not have been exercised by such Lender prior to the making, filing or issuance of, service upon such Lender of, or notice to such Lender of, any petition, assignment for the benefit of creditors, appointment or application for the appointment of a receiver, or issuance of execution, subpoena, order or warrant. Each Lender agrees promptly to notify the Borrower and the Administrative Agent after each such set-off and application made by such Lender, *provided* that the failure to give such notice shall not affect the validity of such set-off and application.

(b) If any Lender (each a “*Benefited Lender*”) shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) on account of its Loans or its Notes in excess of its pro rata share (in accordance with the outstanding principal balance of all Loans) of payments then due and payable on account of the Loans and Notes received by all the Lenders, such Lender shall forthwith purchase, without recourse, for cash, from the other Lenders such participations in their Loans and Notes as shall be necessary to cause such purchasing Lender to share the excess payment with each of them according to their pro rata share (in accordance with the outstanding principal balance of all Loans); *provided* that if all or any portion of such excess payment is thereafter recovered from such purchasing Lender, such purchase from each Lender shall be rescinded and each such Lender shall repay to the purchasing Lender the purchase price to the extent of such recovery, together with an amount equal to such Lender’s pro rata share (according to the proportion of (i) the amount of such Lender’s required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. The Borrower agrees, to the fullest extent permitted by law, that any Lender so purchasing a participation from another Lender pursuant to this Section 11.9 may exercise such rights to payment (including the right of set-off) with respect to such participation as fully as if such Lender were the direct creditor of the Borrower in the amount of such participation.

11.10 *Indemnity*

(a) The Borrower shall indemnify each Credit Party, each of the Sole Bookrunner and Sole Lead Arranger named

on the cover page hereof, and each Related Party thereof (each such Person being called an “*Indemnified Person*”) against, and hold each Indemnified Person harmless from, any and all losses, claims, damages, liabilities and related expenses, including the reasonable and documented out-of-pocket fees and disbursements of one counsel representing all of the Indemnified Persons, taken as a whole, and, if reasonably necessary, of a single local counsel for each applicable jurisdiction (and, if reasonably necessary, one specialty counsel for each applicable specialty), representing all of the Indemnified Persons, taken as a whole (and, in the case of any actual or perceived conflict of interest where the Indemnified Person affected by such conflict notifies the Borrower of the existence of such conflict and thereafter retains its own counsel, of another firm of counsel (and, if reasonably necessary, a single local counsel for each applicable jurisdiction (and, if reasonably necessary, one specialty counsel for each applicable specialty), for each such affected Indemnified Person)), actually incurred by any Indemnified Person arising out of, in connection with, or as a result of (11) the execution or delivery of any Loan Document or any agreement or instrument contemplated thereby, the performance by the parties to the Loan Documents of their respective obligations thereunder or the consummation of the transactions contemplated hereby or any other transactions contemplated thereby, (11) any Loan or the use of the proceeds thereof, (11) any actual or alleged presence or release of Hazardous Materials on or from any property owned or operated by the Borrower or any of the Subsidiaries, or any Environmental Liability related in any way to the Borrower or any of the Subsidiaries or (11) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnified Person is a party thereto. Notwithstanding anything to the contrary contained in this Section 11.10(a), the foregoing indemnity will not, as to any Indemnified Person, apply to any losses, claims, damages, liabilities and related expenses to the extent arising (A) from the willful misconduct, gross negligence, fraud or bad faith of such Indemnified Person, (B) from a material breach of the obligations hereunder of such Indemnified Person, or (C) out of or in connection with any claim, litigation, investigation or proceeding that does not involve an act or omission of the Borrower or any of its Affiliates and that is brought by an Indemnified Party against any other Indemnified Party (other than the Sole Bookrunner or Sole Lead Arranger named on the cover page hereof or the Administrative Agent, in its capacity as such), in each case under clauses (A) through (C), to the extent determined by a final and non-appealable judgment of a court of competent jurisdiction. The Borrower shall not be liable for any settlement of any investigation, litigation or proceeding to which the indemnity in this Section 11.10(a) applies (any of the foregoing, a “*Proceeding*”) effected without the Borrower’s prior written consent (which consent shall not be unreasonably withheld or delayed, it being understood and agreed that the withholding or delaying of the Borrower’s consent in connection with a settlement which does not include an unconditional release of the Borrower and the Subsidiaries from all liability or claims that are the subject matter of such Proceeding or which includes a statement as to any admission of fault by or on behalf of the Borrower or any Subsidiary shall not be deemed unreasonable), but if settled with the Borrower’s prior written consent or if there is a final judgment for the plaintiff in any such Proceeding, the Borrower agrees to indemnify and hold harmless each Indemnified Person from and against any and all losses, claims, damages, liabilities and expenses by reason of such settlement or judgment in accordance with this Section 11.10(a). The Borrower shall not, without the prior written consent of an Indemnified Person, effect any settlement of any pending or threatened Proceeding against such Indemnified Person in respect of which indemnity could have been sought hereunder by such Indemnified Person unless such settlement (x) includes an unconditional release of such Indemnified Person from all liability or claims that are the subject matter of such Proceeding and (y) does not include any statement as to any admission of fault by or on behalf of such Indemnified Person. Notwithstanding the above, the Borrower shall have no liability under clause (i) of this Section 11.10(a) to indemnify or hold harmless any Indemnified Person for any losses, claims, damages, liabilities and related expenses relating to income or withholding taxes or any tax in lieu of such taxes.

(b) To the extent that the Borrower fails to pay as soon as practicable any amount required to be paid by it to the Administrative Agent under subsection (a) of this Section 11.10, each Lender severally agrees to pay to the Administrative Agent an amount equal to the product of such unpaid amount *multiplied by* (i) at any time when no Loans are outstanding, its Commitment Percentage, or if no Commitments then exist, its Commitment Percentage on the last day on which Commitments did exist, and (ii) at any time when Loans are outstanding (x) if the Commitments then exist, its Commitment Percentage or (y) if the Commitments have been terminated or otherwise no longer exist, the percentage equal to the fraction, (A) the numerator of which is the sum of such Lender’s Credit Exposure and (B) the denominator of which is the sum of the Aggregate Credit Exposure (in each case determined as of the time that the applicable unreimbursed expense or indemnity payment is sought), *provided* that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as applicable, was incurred by or asserted against the Administrative Agent in its capacity as such.

(c) The obligations of the Borrower and the Lenders under this Section 11.10 shall survive the termination of the Commitments and the payment of the Loans and the Notes and all other amounts payable under the Loan Documents.

(d) To the extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnified Person, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct and actual damages) arising out of, in connection with, or as a result of, any Loan Document or any agreement, instrument or other document contemplated thereby, the transactions contemplated hereby or any Loan or the use of the proceeds thereof.

11.11 *Governing Law*

The Loan Documents and the rights and obligations of the parties thereto shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York.

11.12 *Severability*

Every provision of the Loan Documents is intended to be severable, and if any term or provision thereof shall be invalid, illegal or unenforceable for any reason, the validity, legality and enforceability of the remaining provisions thereof shall not be affected or impaired thereby, and any invalidity, illegality or unenforceability in any jurisdiction shall not affect the validity, legality or enforceability of any such term or provision in any other jurisdiction.

11.13 *Integration*

All exhibits to the Loan Documents shall be deemed to be a part thereof. Each Loan Document embodies the entire agreement and understanding between or among the parties thereto with respect to the subject matter thereof and supersedes all prior agreements and understandings between or among the parties thereto with respect to the subject matter thereof.

11.14 *Treatment of Certain Information*

(a) Each Credit Party agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (11) to its Affiliates and to its and its Affiliates' respective partners, directors, officers, employees, agents, advisors and other representatives (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (11) to the extent requested by any regulatory authority purporting to have jurisdiction over it (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (11) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (11) to any other party hereto, (11) in connection with the exercise of any remedies hereunder or under any other Loan Document or any action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (11) subject to an agreement containing provisions substantially the same as those of this Section 11.14, to (A) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement or (B) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to the Borrower and its obligations, (11) to Gold Sheets and other similar bank trade publications, such information to consist of deal terms and other information customarily found in such publications, (11) with the consent of the Borrower or (11) to the extent such Information (x) becomes publicly available other than as a result of a breach of this Section 11.14 or (y) becomes available to the Administrative Agent, any Credit Party or any of their respective Affiliates on a non-confidential basis from a source other than the Borrower not known to such Credit Party to be prohibited from disclosing such Information.

(b) For purposes of this Section 11.14, "Information" means all information received from the Borrower or any of its Subsidiaries relating to the Borrower or any of its Subsidiaries or any of their respective businesses, other than any such information that is available to the Administrative Agent or any other Credit Party on a non-confidential basis prior to disclosure by the Borrower or any of its Subsidiaries.

11.15 *Acknowledgments*

The Borrower acknowledges that (a) it has been advised by counsel in the negotiation, execution and delivery of the Loan Documents, (b) by virtue of the Loan Documents, none of the Administrative Agent or any Lender has any fiduciary relationship to the Borrower, and the relationship between the Administrative Agent and the Lenders, on the one hand, and the Borrower, on the other hand, is solely that of debtor and creditor, and (c) by virtue of the Loan Documents, no joint venture exists among the Lenders or among the Borrower and the Lenders.

11.16 *Consent to Jurisdiction*

The Borrower irrevocably submits to the exclusive jurisdiction of any New York State or Federal Court sitting in the City of New York, Borough of Manhattan, over any suit, action or proceeding arising out of or relating to the Loan Documents. The Borrower irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in such a court and any claim that any such suit, action or proceeding brought in such a court has been brought in an inconvenient forum. The Borrower agrees that a final judgment in any such suit, action or proceeding brought in such a court, after all appropriate appeals, shall be conclusive and binding upon it.

11.17 *Service of Process*

The Borrower agrees that process may be served against it in any suit, action or proceeding referred to in Section 11.16 by sending the same by first class mail, return receipt requested or by overnight courier service, with receipt acknowledged, to the address of the Borrower set forth in Section 11.2. The Borrower agrees that any such service (i) shall be deemed in every respect effective service of process upon it in any such suit, action, or proceeding, and (ii) shall to the fullest extent enforceable by law, be taken and held to be valid personal service upon and personal delivery to it.

11.18 *No Limitation on Service or Suit*

Nothing in the Loan Documents or any modification, waiver, or amendment thereto shall affect the right of the Administrative Agent or any Lender to serve process in any manner permitted by law or limit the right of the Administrative Agent or any Lender to bring proceedings against the Borrower in the courts of any jurisdiction or jurisdictions.

11.19 *WAIVER OF TRIAL BY JURY*

EACH OF THE CREDIT PARTIES AND THE BORROWER KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION ARISING OUT OF, UNDER OR IN CONNECTION WITH THE LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED THEREBY. FURTHER, THE BORROWER HEREBY CERTIFIES THAT NO REPRESENTATIVE OR AGENT OF ANY OF THE CREDIT PARTIES, OR COUNSEL TO ANY OF THE CREDIT PARTIES, HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT ANY OF THE CREDIT PARTIES WOULD NOT, IN THE EVENT OF SUCH LITIGATION, SEEK TO ENFORCE THIS WAIVER OF RIGHT TO JURY TRIAL PROVISION. THE BORROWER ACKNOWLEDGES THAT THE CREDIT PARTIES HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, *INTER ALIA*, THE PROVISIONS OF THIS SECTION 11.19.

11.20 *Patriot Act Notice*

Each Lender and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Borrower that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001), as amended from time to time) (the "*Patriot Act*"), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender or the Administrative Agent, as applicable, to identify the Borrower in accordance with the Patriot Act.

11.21 *No Fiduciary Duty*

The Borrower agrees that in connection with all aspects of the transactions contemplated hereby and any communications in connection therewith, the Borrower and its Affiliates, on the one hand, and the Credit Parties and the Sole Lead Arranger and Sole Bookrunner named on the cover page hereof, and their respective Affiliates, on the other hand, will have a business relationship that does not create, by implication or otherwise, any fiduciary duty on the part of the Credit Parties and such Sole Lead Arranger and Sole Bookrunner, or their respective Affiliates, and no such duty will be deemed to have arisen in connection with any such transactions or communications.

11.22 *Acknowledgement and Consent to Bail-In of EEA Financial Institutions*

Solely to the extent the Administrative Agent or any Lender is an EEA Financial Institution and is a party to this Agreement, and notwithstanding anything to the contrary in any Loan Document or in any other agreement, arrangement or understanding among any such parties, each party hereto acknowledges that any liability of any EEA Financial Institution arising under any Loan Document, to the extent such liability is unsecured, may be subject to the Write-Down and Conversion Powers of an EEA Resolution Authority and agrees and consents to, and acknowledges and agrees to be bound by:

(a) the application of any Write-Down and Conversion Powers by an EEA Resolution Authority to any such liabilities arising hereunder which may be payable to it by the Administrative Agent or any Lender that is an EEA Financial Institution; and

(b) the effects of any Bail-in Action on any such liability, including, if applicable:

(1) a reduction in full or in part or cancellation of any such liability;

(2) a conversion of all, or a portion of, such liability into shares or other instruments of ownership in such EEA Financial Institution, its parent undertaking, or a bridge institution that may be issued to it or otherwise conferred on it, and that such shares or other instruments of ownership will be accepted by it in lieu of any rights with respect to any such liability under this Agreement or any other Loan Document; or

(3) the variation of the terms of such liability in connection with the exercise of the Write-Down and Conversion Powers of any EEA Resolution Authority.

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AS EVIDENCE of the agreement by the parties hereto to the terms and conditions herein contained, each such party has caused this Agreement to be executed on its behalf.

CVS HEALTH CORPORATION

By: /s/ Carol A. DeNale

Name: Carol A. DeNale

Title: Senior Vice President and Treasurer

**BARCLAYS BANK PLC,
as Administrative Agent and as a Lender**

By: /s/ Ritam Bhalla
Name: Ritam Bhalla
Title: Director

2017 CREDIT AGREEMENT

EXHIBIT A

LIST OF COMMITMENTS

Lender	Commitment Amount
Barclays Bank PLC	\$2,500,000,000
TOTAL	\$2,500,000,000

CVS Health Corporation List of Commitments

008330-0373-Active.20553774

CVS HEALTH CORPORATION

DEFERRED COMPENSATION PLAN

Amended and Restated Effective November 1, 2016

CVS HEALTH CORPORATION

Deferred Compensation Plan

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1.1 Name of Plan.

CVS Health Corporation (the “Company”) hereby adopts the CVS Health Deferred Compensation Plan as amended and restated as of November 1, 2016 (the “Plan”).

1.2 Purpose of Plan.

The purpose of the Plan is to provide certain eligible employees of the Company or an Affiliate authorized by the Committee to participate in the Plan the opportunity to defer elements of his or her compensation which might not otherwise be deferrable under other plans maintained by the Company or an Affiliate and to make deferrals and receive contributions that would be obtainable under the 401(k) and Employee Stock Ownership Plan of CVS Health Corporation and Affiliated Companies ("Future Fund") in the absence of certain restrictions and limitations in the Internal Revenue Code.

1.3 "Top Hat" Pension Benefit Plan.

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

1.4 Funding.

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

1.5 Effective Date.

The Plan was originally effective as of January 1, 1997, and amended and restated in its entirety effective as of December 31, 2008, to comply with the provisions of Section 409A of the Internal Revenue Code and regulations promulgated thereunder and as of December 17, 2014 and October 1, 2015 to reflect certain design and administrative changes desired by the Company.

1.6 Administration.

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

1.7 Number and Gender.

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

1.8 Headings.

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

ARTICLE II – DEFINITIONS

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

2.1 Account.

The Company Account, Deferral Account, Grandfathered Company Account, and the Grandfathered Deferral Account maintained by the Company on behalf of each Participant pursuant to the Plan.

2.2 Affiliate.

A subsidiary of the Company, as defined in the Company's Universal 409A Definition Document.

2.3 Annual Cash Incentive.

The amount awarded to a Participant in cash for a Plan Year under a regular (annual) incentive plan (other than an exceptional performance award program or a one-time incentive plan or program) maintained by the Company or an Affiliate, and any other amount otherwise included in Annual Cash Incentive for purposes of the Plan under rules as are adopted by the Committee.

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

2.4 Annual Cash Incentive Deferral.

The amount of a Participant's Annual Cash Incentive which a Participant elects to have withheld on a pre-tax basis from his or her Annual Cash Incentive and credited to his or her Deferral Account pursuant to the Plan.

2.5 Base Salary.

The base rate of cash compensation paid by the Company or an Affiliate to or for the benefit of a Participant for services rendered or labor

performed while a Participant, including deferrals pursuant to the Plan and any pre-tax contribution to be made on the Participant's behalf to any qualified plan maintained by the Company or an Affiliate pursuant to a cash or deferred arrangement maintained by the Company or an Affiliate (as defined under Section 401(k) of the Code) or under any cafeteria plan (as defined under Section 125 of the Code) or under a qualified transportation fringe (as defined under Section 132(f) of the Code). Base Salary shall exclude any overtime, premium pay, shift differentials, bonuses, commissions or any other form of supplemental cash compensation, except to the extent otherwise deemed "Base Salary" for purposes of the Plan under rules as are adopted by the Committee.

2.6 Base Salary Deferral.

The amount of a Participant's Base Salary which the Participant elects to have withheld on a pre-tax basis from his or her Base Salary and credited to his or her Deferral Account pursuant to the Plan.

2.7 Beneficiary.

The person or persons (which may include trusts) designated in writing (either by hand or electronic submission) by the Participant on the beneficiary designation form prescribed by the Plan Administrator to receive the amounts, if any, payable under the Plan upon the death of the Participant. In the absence of such written designation by the Participant, the Beneficiary shall mean, in the following order, the Participant's spouse, if any; the person named as the Participant's beneficiary under the Company's life insurance program; or the Participant's estate.

2.8 Board.

The Board of Directors of the Company.

2.9 Change in Control.

"Change in Control" as such term is defined in the Universal 409A Definition Document.

2.10 Code.

The Internal Revenue Code of 1986, as amended. References to any provision of the Code or regulation (including a proposed regulation) thereunder shall include any successor provisions or regulations.

2.11 Commissions.

The amount of a Participant's sales commissions or other commissions payable under a sales commissions or other commissions plan maintained by the Company or an Affiliate. (Sales commissions for purposes of the Plan shall mean sales commissions as defined in Treas. Reg. Section 1.409A-2(a)(12)(i) and any subsequent guidance and such sales commissions are considered to be earned in the taxable year of the Participant in which the sale is completed.)

2.12 Commissions Deferral.

The amount of a Participant's Commissions that a Participant elects to have withheld on a pre-tax basis from his or her Commissions and credited to his or her Deferral Account pursuant to the Plan.

2.13 Committee.

The Management Planning and Development Committee of the Board of Directors of the Company or any other directors of the Company designated as the Committee.

2.14 Company Account.

The bookkeeping account (or subaccount(s) thereof) maintained for each Participant to record the amount of Company Contributions that are either (i) credited on his or her behalf under Section 4.4 on or after January 1, 2005 or (ii) were credited on his or her behalf under Section 4.4 prior to January 1, 2005, but became vested on or after January 1, 2005, as adjusted pursuant to Section 5.6.

2.15 Company Contribution.

The amount, as determined by the Company on an annual basis based on the provisions of the Plan, which is credited on the Participant's behalf by the Company to his or her Company Account pursuant to the provisions of Section 4.4(a) of the Plan.

2.16 CVS Caremark Retention Payment.

The amount granted to an Eligible Executive, as defined in and provided for under the provisions of the employment term sheet agreement entered into between the Company or an Affiliate and said Eligible Executive, as a former employee of Caremark Rx, Inc., in connection with the merger involving Caremark, Rx, Inc. and the Company.

2.17 Deferrals.

The amount of deferrals credited to a Participant pursuant to Section 4.1.

2.18 Deferral Account.

The bookkeeping account (or subaccount(s) thereof) maintained for each Participant to record any and all deferrals made under the Plan.

2.19 Deferred Compensation Election.

The written election (either by hand or electronic submission) including any amendments, attachments and appendices thereto as prescribed by the Plan Administrator, regardless of how it may be titled, under which the Participant agrees to defer a portion of his or her Base Salary and/or Annual Cash Incentive or Commissions under the Plan (or any other cash remuneration payable to a Participant that he or she may elect to defer under the provisions of the Plan, including but not limited to awards under the Company's Long Term Incentive Plan (LTIP). This election as to deferral and the related form and timing of distribution is made by the Participant and constitutes the agreement entered into between the Company and a Participant for participation in the Plan. The Participant elects the terms of his or her deferral pursuant to the provisions of this Plan and the administrative procedures established by the Plan Administrator.

2.20 Disability.

"Disability" as defined in the Company's Long-Term Disability Plan.

2.21 Distribution Date.

The date on which a Participant's distribution is scheduled to be paid with respect to his or her Account under the Plan pursuant to his or her Deferred Compensation Election, which date shall take into account any processing period.

2.22 Effective Date.

January 1, 1997.

2.23 Elective Deferrals.

Elective Deferrals as defined in Section 3.02 of Future Fund.

2.24 Eligible Executive.

An Executive who is eligible to participate in the Plan as provided in Section 3.1(a).

2.25 Employee.

Any common-law full-time salaried exempt employee of the Company or an Affiliate who has been authorized by the Committee to participate in the Plan.

2.26 ERISA.

The Employee Retirement Income Security Act of 1974, as amended.

2.27 Executive.

An Employee whose Base Salary (determined on the basis of a maximum forty (40) hour work week) equals or exceeds \$150,000 (as adjusted from time to time by the Committee).

2.28 Future Fund.

The 401(k) Plan and the Employee Stock Ownership Plan of CVS Health Corporation and Affiliated Companies.

2.29 Grandfathered Company Account.

The bookkeeping account (or subaccount(s)) maintained for each Participant to record the amount of Company Contributions credited on a Participant's behalf under Section 4.4, which were vested as of December 31, 2004, adjusted as provided in Section 5.6.

2.30 Grandfathered Deferral Account.

The bookkeeping account (or subaccount(s)) maintained for each Participant to record (i) the amount of Base Salary and/or Annual Cash Incentive or Commissions deferred in accordance with Section 4.1, (ii) the amount of LTIP deferrals deferred in accordance with Section 4.4, and/or (iii) the amount of cash retention award deferrals deferred in accordance with Section 4.4, as of December 31, 2004, adjusted pursuant to Section 5.6.

2.31 Lost Matching Contributions.

The amounts credited on a Participant's behalf to his or her Company Account pursuant to the provisions of Section 4.4(a).

2.32 Participant.

Each Eligible Executive participating in the Plan as set forth in Section 3.2.

2.33 Plan Administrator.

The Deferred Compensation Plans Committee appointed pursuant to Section 7.1 to administer the Plan.

2.34 Plan Year.

A calendar year ending on December 31.

2.35 Qualified Future Fund Matching Contribution.

The total of all matching contributions made (or that would have been made) by the Company or an Affiliate with respect to a Plan Year for the benefit of a Participant under and in accordance with the terms of Future Fund.

2.36 Retirement.

Termination of Employment with the Company and all Affiliates on or after (i) age fifty-five (55) and the completion of ten (10) or more Years of Service or, if earlier, (ii) age sixty (60) and the completion of five (5) or more Years of Service.

2.37 Specified Employee.

"Specified Employee" as such term is defined in the Universal 409A Definition Document.

2.38 Specific Future Year.

A calendar year in the future elected by a Participant with respect to the distribution of his or her Account(s) (or subaccount(s) thereof) pursuant to the Plan.

2.39 Termination of Employment.

"Termination of employment" as such term is defined in the Universal 409A Definition Document.

2.40 Universal 409A Definition Document.

The document developed by the Company for the purpose of defining terms relating to benefits or amounts in all plans covered by Section 409A of the Code and sponsored by the Company or any Affiliate.

2.41 Valuation Date.

The date on which an Account is valued under the Plan, as determined by the Committee, by reference to the New York Stock Exchange.

2.42 Year of Service.

Vesting Service as defined in Future Fund.

ARTICLE III – ELIGIBILITY AND PARTICIPATION

3.1 Eligibility.

- (a) An Employee who is an Executive on October 1st of a calendar year (or such other date in the calendar year as designated by the Committee) shall be eligible to participate in the Plan. The Committee may, in its sole discretion, designate other key employees of the Company or an Affiliate who are members of a select group of management or highly compensated employees as eligible to participate in the Plan.
- (b) Notwithstanding any Plan provision to the contrary, Employees must also be subject to the income tax laws of the United States in order to be eligible for participation in the Plan.
- (c) Subject to the provisions of Sections 3.3 and Section 4.1, an Eligible Executive shall remain eligible to continue participation in the Plan for each Plan Year following his or her initial year of participation in the Plan.

3.2 Commencement of Participation.

An Eligible Executive shall become a Participant effective as of the date that the Eligible Executive's first Deferred Compensation Election becomes effective, provided that the Eligible Executive has provided such information as the Plan Administrator deems necessary to properly administer the Plan.

3.3 Termination of Participation.

- (a) Participation shall cease when the benefits that have been credited to a Participant's Deferral Account have been distributed to him or her.
- (b) Subject to the provisions of Section 4.3(c), a Participant shall only be eligible to make Deferrals under the Plan for as long as he or she remains an Eligible Executive.
- (c) If a former Participant who has incurred a Termination of Employment with the Company and all Affiliates and whose participation in the Plan ceased under Section 3.3(a) is reemployed as an Executive, the former Participant may again become eligible to participate in accordance with the provisions of Section 3.1(a).

ARTICLE IV – DEFERRALS & COMPANY CONTRIBUTIONS

4.1 Deferrals.

- (a) Subject to the following provisions of this Article IV, an Eligible Executive may defer for any Plan Year, (i) up to fifty percent (50%) of Base Salary otherwise earned and payable in that Plan Year, and/or (ii) up to one hundred percent (100%) of Annual Cash Incentive otherwise earned in that Plan Year and payable in that Plan Year or in the first calendar quarter of the following Plan Year, and/or (iii) up to one hundred percent (100%) of Commissions otherwise earned in that Plan Year and payable in that Plan Year or in the first calendar quarter of the following Plan Year. The Plan Administrator may, as it deems appropriate, establish maximum or minimum limits on the amounts which may be deferred for a Plan Year and/or the times of such Deferred Compensation Elections. An Eligible Executive shall be given advance notice of any such limits. Notwithstanding anything in the Plan to the contrary, a previously submitted Participant's Deferred Compensation Election (with respect to Base Salary, Annual Cash Incentive and/or Commissions) shall be disregarded following the Participant's Termination of Employment.
- (b) Deferrals under the Plan shall be calculated with respect to the gross cash compensation payable to the Participant prior to any deductions (e.g., 401(k) deferrals) or withholdings. However, the Deferrals shall be reduced by the Plan Administrator as necessary if it is later determined, after Deferrals are made under the Plan and after additional deduction of all required income and employment taxes, 401(k) and other employee benefit deductions, and other deductions required by law, that all such total deferrals will exceed one hundred percent (100%) of the cash compensation of the Participant available under Section 4.1(a). Changes to payroll withholdings that affect the amount of compensation being deferred to the Plan shall be allowed only to the extent permissible under Section 409A of the Code.

4.2 Filing Requirements of Deferred Compensation Elections.

Subject to the following provisions of this Section, during an annual enrollment period established by the Plan Administrator in any Plan Year, an Eligible Executive described in Section 3.1 may elect, subject to Section 4.1 above, to defer a portion of his or her Base Salary that is otherwise earned and payable in the next Plan Year and/or all or a portion of his or her Annual Cash Incentive or Commissions otherwise earned in the next Plan Year and payable in that Plan Year or in the first calendar quarter of the subsequent Plan Year by submitting a Deferred Compensation Election during such annual enrollment period. If an Executive becomes an Eligible Executive after October 1 (or such later date as prescribed by the Plan Administrator) in any calendar year, he or she may not make a Deferred Compensation Election for Base Salary, Annual Cash Incentive or Commissions earned in the next Plan Year.

A Participant shall submit a Deferred Compensation Election in the manner specified by the Plan Administrator and a Deferred Compensation Election that is not timely filed shall be considered void and have no effect. If a Participant does not file a Deferred Compensation Election applicable to his or her Base Salary, Annual Cash Incentive or Commissions earned in a Plan Year on or before the close of the applicable annual enrollment period (or such later date prescribed by the Plan Administrator), the Participant shall be deemed to have elected not to make a Deferred Compensation Election for such Plan Year. The Plan Administrator shall establish procedures that govern deferral elections under the Plan, including the ability to make separate elections for Base Salary, Annual Cash Incentive or Commissions, and any other cash remuneration payable to the Participant that the Committee or Plan Administrator permits a Participant to defer under the Plan.

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

4.3 Modification or Revocation of Election by Participant.

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

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

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

- (b) If a Participant's Deferred Compensation Election applicable to his or her Base Salary and/or Annual Cash Incentive or Commissions is cancelled for a Plan Year, he or she will not be permitted to elect to make Deferrals again until the next Plan Year.
- (c) If a Participant ceases to be an Executive after the date a Deferred Compensation Election becomes effective but continues to be employed by the Company or an Affiliate, he or she shall continue to be a Participant and his or her Deferred Compensation Election currently in effect shall remain in force, but such Participant shall not be eligible to make any further Deferred Compensation Elections until such time as he or she shall once again become an Eligible Executive.
- (d) Notwithstanding anything in the Plan to the contrary, if an Eligible Executive:
- i. receives a withdrawal of deferred cash contributions on account of hardship from any plan which is maintained by the Company or an Affiliate and which meets the requirements of Section 401(k) of the Code (or any successor thereto); and
 - ii. is precluded from making contributions to such 401(k) plan for at least six (6) months after receipt of the hardship withdrawal,

the Eligible Executive's Deferred Compensation Election with respect to Base Salary, Annual Cash Incentive or Commissions in effect at that time shall be cancelled. Any Base Salary, Annual Cash Incentive or Commissions payment which would have been deferred pursuant to that Deferred Compensation Election but for the application of this Section 4.3(d) shall be paid to the Eligible Executive as if he or she had not made that election.

4.4 Company Contributions and Other Deferrals.

- (a) *Company Contributions - Restoration of Lost Matching Contribution*. The amount of Lost Matching Contributions credited under the Plan on a Participant's behalf each calendar year shall be equal to (i) minus (ii) where:
- i. is the total Qualified Future Fund Matching Contribution that would have been allocated on the Participant's behalf under Future Fund, without giving effect to any

reductions or limitations required by Sections 401(a)(17), 401(k), 402(g) and/or 415 of the Code, for the Plan Year based on the aggregate of the Participant's Elective Deferrals to Future Fund, his or her deferrals to any other qualified defined contribution plan maintained by the Company or an Affiliate, and his or her Deferral under Section 4.1 for the Plan Year, disregarding, in all cases, any deferrals made with respect to Base Salary, Annual Cash Incentives and Commissions otherwise payable prior to the first payroll period commencing in the month following date the Participant's completion of one (1) Year of Service; and

- ii. If the Participant is eligible to contribute to Future Fund (whether pre-tax or after-tax) during the Plan Year, the actual matching contributions made on the Participant's behalf to Future Fund or any other qualified defined contribution plan maintained by the Company or any Affiliate for that Plan Year.

In addition, if the Participant is not eligible to contribute to Future Fund during the Plan Year but is eligible to contribute to another qualified defined contribution plan (whether pre-tax or after-tax) maintained by the Company or an Affiliate during that Plan Year, the amount under this clause (ii) shall equal, unless otherwise provided by the Committee, the maximum amount of matching contributions the Participant would have received under the provisions of Future Fund for that Plan Year had he or she been eligible to contribute to Future Fund during that Plan Year, based on his or her Base Salary and/or Annual Cash Incentive or Commissions otherwise earned and payable in that Plan Year, and his or her contributions to such other qualified defined contribution plan for that Plan Year had been made to Future Fund.

Notwithstanding the foregoing, for purposes of determining the Lost Matching Contributions to be credited under this Section 4.4(a), Years of Service with respect to a Participant employed by Red Oak Sourcing, LLC, the limited liability corporation formed pursuant to the Framework Agreement between CVS Pharmacy, Inc. and Cardinal Health 110 Inc., dated December 10, 2013 ("Cardinal"), who immediately prior to becoming employed by Red Oak Sourcing, LLC was employed by Cardinal, shall include the period of such Participant's employment rendered with Cardinal.

Lost Matching Contributions shall be credited under this Section 4.4(a) with respect to a Participant who made a Bonus Deferral Contribution election under the Omnicare, Inc. Deferred Compensation Plan with respect to the 2016 Plan Year but such Lost Matching Contributions shall be subject to the Participant's distribution election and the distribution provisions of the Omnicare, Inc. Deferred Compensation Plan in effect on the date of such Participant's election.

Notwithstanding anything in the Plan to the contrary, a Participant shall not be eligible to receive a Lost Matching Contribution following the Participant's Termination of Employment.

(b) *LTIP Deferrals* .

At the sole discretion of the Committee, all or a portion of a Participant's cash award under the LTIP may be deferred under the Plan. Such election shall be made in accordance with the procedures established by the Plan Administrator. The deferral election applicable to an LTIP cash award shall be made prior to the close of the calendar year preceding the first day of the performance period applicable to that award. Notwithstanding the foregoing, such election shall become irrevocable as of the close of business of the last day of the calendar year preceding the first day of the performance period applicable to that award. However, if such award meets the definition of performance-based compensation (as defined under Treas. Reg. Section 1.409A-1(e) and any subsequent guidance), the Plan Administrator may permit such election to be made in accordance with the provisions under Treas. Reg.

Section 1.409A-2(a)(8) and subsequent guidance. Notwithstanding anything in the Plan to the contrary, a previously submitted deferral election of a Participant's cash award under the LTIP shall be disregarded following the Participant's Termination of Employment.

(c) *Cash Retention Award Deferrals.*

At the sole discretion of the Committee and subject to the procedures established by the Plan Administrator, an Eligible Executive may elect to defer all or a portion of a cash retention award that may be otherwise paid under a cash retention program maintained by the Company or an Affiliate. The deferral election applicable to such cash retention award shall be made in accordance with the provisions of Treasury Regulations Section 1.409A-2(a)(5). Notwithstanding anything in the Plan to the contrary, a previously submitted deferral election of a Participant's cash retention award shall be disregarded following the Participant's Termination of Employment.

4.5 Deferral and Contribution Timing.

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

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

Company Contributions for the Restoration of Lost Matching Contribution pursuant to Section 4.4(a) above will generally be credited to the Participant's Company Account as of the day on which said Lost Matching Contribution would otherwise have been credited to the Participant's account under Future Fund (generally following one Year of Participation Service).

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

Cash retention awards Deferrals will be credited to the Account of the Participant as of the day on which such cash retention award otherwise would have been paid to the Participant in cash.

ARTICLE V – ACCOUNTS

5.1 Establishment of Bookkeeping Accounts.

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

5.2 Subaccounts.

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

5.3 Hypothetical Nature of Accounts.

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

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

5.4 Vesting.

Deferral Account . A Participant shall be one hundred percent (100%) vested in his or her Deferral Account and Grandfathered Deferral Account at all times. A Participant shall be one hundred percent (100%) vested in the LTIP deferrals credited on his or her behalf pursuant to Section 4.4(b) and any cash retention award deferrals credited on his or her behalf pursuant to Section 4.4(c).

Company Account . A Participant shall be one hundred percent (100%) vested in his or her Company Account and Grandfathered Company Account at all times.

5.5 Deferral Crediting Options.

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

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

In the event the Plan Administrator designates more than one Deferral Crediting Option, each Participant shall electronically submit a Deferral Crediting Option election during each annual

enrollment period, which shall be used to measure the hypothetical investment performance of his or her Accounts, within such time period and on such form as the Plan Administrator may prescribe. The designation of a Deferral Crediting Option shall not require the Company to invest or earmark their general assets in any manner. If a Participant fails to make a Deferral Crediting Option, his or her Accounts shall be deemed invested in a Deferral Crediting Option as determined by the Plan Administrator.

A Participant may change his or her election of a Deferral Crediting Option used to measure the hypothetical investment performance of his or her Account balance within such time periods and in such manner prescribed by the Plan Administrator. The election shall be effective as soon as administratively practicable after the date on which the election is submitted in the manner specified by the Plan Administrator.

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

5.6 Hypothetical Gains or Losses.

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

The gain or loss on Participant Accounts will be calculated each Valuation Date. The Unit Price shall determine each Deferral Crediting Option's hypothetical value, based on the number of units within the Account for any given Deferral Crediting Option. Account balances on a given day will be based on the previous day's New York Stock Exchange closing price.

ARTICLE VI – DISTRIBUTION OF ACCOUNT

6.1 Distribution Elections – Timing of Payment.

- (a) Subject to the limitations set forth in this Article VI, each time a Participant makes a Deferred Compensation Election with respect to a Plan Year beginning on or after January 1, 2016, the Participant shall designate on that applicable Deferred Compensation Election, separately for Participant deferrals and Company Contributions, as adjusted pursuant to Article V, that the distribution of such deferrals shall be made or commence, as the case may be, pursuant to Section 6.6, as of (i) the Participant's Retirement; or (ii) a Specific Future Year not later than the Plan Year in which the Participant attains age seventy-one (71).

A Participant may choose different options with respect to each Deferred Compensation Election. A Participant may not change the election made pursuant to the provisions of this Section 6.1, except as otherwise provided in Section 6.7 below.

- i. *Retirement* . The distribution of the portion of a Participant's Deferral or Company Account (or subaccount(s)) that is deferred to Retirement under this Section shall commence on the first business day in the January next following his or her Retirement, pursuant to the provisions of Section 6.6, provided, however, that with respect to a Participant who is a Specified Employee as of the date of his or her Retirement, payment of any portion of his or her Deferral or Company Account (or any subaccount(s) thereof) that is subject to Section 409A of the Code will be delayed until the first business day of the seventh (7th) month following the date such Retirement occurs.
- ii. *Specific Future Year* . In the event a Participant elects to have the distribution of such deferrals made or commence as of a Specific Future Year, subject to rules established by the Plan Administrator, the deferral period must be at least five (5) Plan Years. The distribution of the portion of a Participant's Deferral or Company Account (or subaccount(s)) that is deferred to a Specific Future Year shall commence on the first business day of January in that specific year pursuant to the provisions of Section 6.6.
- (b) Company Contributions shall be distributed pursuant to the Participant's distribution election. In the event a Participant has not made a distribution election for the Company Contributions for that Plan Year, such distribution shall mirror his or her distribution election made with respect to his or her Base Salary Deferral or Annual Cash Incentive or Commissions Deferral for that Plan Year, if any, in such order; otherwise, such distribution shall be made at the Participant's Retirement.

6.2 Disability Distributions.

Notwithstanding the foregoing, if a Participant has a Termination of Employment because he or she has become Disabled, as determined by the Plan Administrator, such Participant will receive the balance of his or her Deferral Account and Company Account paid out in five (5) annual substantially equal installments with the first payment to be made within seventy-five (75) days from the date of the Participant's Termination of Employment. Subsequent annual payments will be paid as of the first business day in January of each subsequent year of the installment period.

6.3 Distributions in the Event of Death.

Notwithstanding the foregoing, in the event of a Participant's death, the Participant's Beneficiary will receive the remaining balance of the Participant's Deferral Account and Company Account paid in two (2) annual installments with the first payment to be made within seventy-five (75) days of the

Participant's date of death. The second annual payment will be paid as of the first business day in January of the subsequent calendar year.

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

Notwithstanding the foregoing, in the event a Participant incurs a Termination of Employment from the Company and all Affiliates for any reason other than Retirement, death or Disability, said Participant will receive his or her entire Deferral Account and Company Account balance in a single lump sum payment. Such payment shall be made within seventy-five (75) days of the date the Participant's Termination of Employment occurs; provided, however, that with respect to a Participant who is a Specified Employee as of the date of his or her Termination of Employment for reasons other than death, payment of any portion of his or her Deferral or Company Account (or any subaccount(s) thereof) pursuant to the provisions of this Section 6.4 will be delayed until the first business day of the seventh (7th) month following the date such Termination of Employment occurs.

6.5 Change in Control.

Notwithstanding the foregoing provisions of this Article VI, upon the occurrence of a Change in Control, a Participant who has a valid change in control election(s) in effect shall automatically receive the balance of his or her Deferral Account and Company Account related to that election, in cash, in a single lump sum payment. Such lump sum payment shall be paid within forty-five (45) business days after the Change in Control occurs. If such Participant dies after such Change in Control event occurs, but before receiving such payment, it shall be made to his or her Beneficiary.

6.6 Form of Payment.

- (a) *Installments* . Subject to the limitations set forth in Article VI, distributions will be made in annual (or quarterly, if the election was made prior to October 1, 2008) installments, as elected by the Participant, for up to, and including, ten (10) years (fifteen (15) years for an election made prior to October 1, 2008). The initial installment of an annual or quarterly payment stream will begin as of the first business day of the January (a) next following the Participant's date of Retirement or (b) of the Specific Future Year, as the case may be, in accordance with the provisions of set forth in Section 6.1. Subsequent annual or quarterly payments will be as of the first business day of each subsequent calendar year or quarter of the installment period.

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

Notwithstanding the foregoing provisions of this paragraph (a), if a Participant dies before receiving payment of the entire balance of his or her Deferral and Company Accounts under the provisions of this Section, the remaining value of such Accounts shall be payable to his or her Beneficiary in accordance with the provisions of Section 6.9.

- (b) *Lump sum* . A Participant may elect distribution in the form of a single lump sum payment. Except for Specified Employees, distribution shall be made as of the first business day of the January (a) next following the Participant's date of Retirement or (b) of the Specific Future Year, as the case may be, in accordance with the provisions of set forth in Section 6.1.
- (c) Distributions to a Participant made pursuant to Section 6.1 will occur pursuant to the Participant's payment elections at the time he or she submits the applicable Deferred Compensation Election. A Participant may choose different forms of payment with respect to each Deferred Compensation Election. Company Contributions, adjusted pursuant to

Article V, shall be distributed pursuant to the Participant's form of payment election made with respect to his or her Company Contributions for that year. If the Participant has not made an election with respect to his or her Company Contributions, the portion of his or her Company Account attributable to such Company contributions will be distributed in accordance with his or her form of payment election with respect to his or her Base Salary Deferral, Annual Cash Incentive or Commissions Deferrals for that year, if any, in that order; otherwise payment will be made in a lump sum payment. In the absence of an election of the form of payment by a Participant on a Deferred Compensation Election, the portion of the Participant's Account deferred pursuant to that Deferred Compensation Election, adjusted pursuant to the provisions of Article V, shall be paid in a single lump sum.

- (d) A Participant shall not change his or her form of payment election, except as otherwise provided in Section 6.7 below.

6.7 Change of Distribution Election.

- (a) In accordance with such procedures as the Plan Administrator may prescribe, a Participant may elect to change his or her Specific Future Year election under Section 6.1(a)(ii) with respect to a portion of his or her Deferral Account (or an Interim Distribution date election applicable to a portion of his or her Deferral Account or Company Account made pursuant to the provisions of the Plan as in effect prior to December 31, 2008) to a later Specific Future Year (or, if applicable, a later Interim Distribution date) by duly completing, executing and filing with the Plan Administrator a new Specific Future Year election (or Interim Distribution date election) applicable to such Deferrals, subject to the following limitations:
- i. such election must be made at least twelve (12) months prior to the Specific Future Year (or Interim Distribution date) then in effect with respect to that portion of his or her Deferral or Company Account (or subaccount(s) thereof), and such election will not become effective until at least twelve (12) months after the date on which the election is made; and
 - ii. the new Specific Future Year (or Interim Distribution date) shall be a calendar year that is not less than five (5) years from the Specific Future Year (or Interim Distribution date) then in effect.

Notwithstanding the foregoing, a Participant may elect to delay his or her distribution from an elected Specific Future Year to the later of Retirement or a new Specific Future Year that is at least five (5) years from the Specific Future Year then in effect, provided the election is made in accordance with the foregoing provisions of this Section 6.7(a). A Participant may elect to delay his or her distribution from an elected Specific Future Year (or Interim Distribution date) pursuant to this Section 6.7(a) more than once, provided that all such elections comply with the provisions of this Section 6.7(a).

- (b) In accordance with such procedures as the Plan Administrator may prescribe, a Participant may elect to delay the payment of a portion of his or her Deferral or Company Account (or any subaccount(s) thereof) scheduled to be paid at his or her Retirement to his or her Retirement plus five (5) calendar years by duly completing, executing and filing with the Plan Administrator a new Retirement election applicable to such deferrals; provided, however such election must be made at least twelve (12) months prior to Retirement and shall not become effective until at least twelve (12) months after the date on which the election is made.
- (c) In accordance with such procedures as the Plan Administrator may prescribe, a Participant may elect to change the form of payment election under Section 6.6 applicable to his or her

distribution under Section 6.1(a)(i) or (ii) by duly completing, executing and filing with the Plan Administrator a new form of payment election applicable to such deferrals, subject to the following limitations:

- i. such election must be made at least twelve (12) months prior to the Specific Future Year then in effect with respect to that portion of his or her Deferral or Company Account (or subaccount(s) thereof), and such election will not become effective until at least twelve (12) months after the date on which the election is made; and
- ii. the distribution of that portion of his or her Deferral or Company Account (or subaccount(s) thereof) shall be deferred for five (5) years from the date such amount would otherwise have been paid absent this election.

(d) It is the Company's intent that the provisions of Sections 6.7(a), (b) and (c) comply with the subsequent election provisions in Section 409A(a)(4)(C) of the Code, related regulations and other applicable guidance, and this Section 6.7 shall be interpreted accordingly. The Plan Administrator may impose additional restrictions or conditions on a Participant's ability to make an election pursuant to this Section 6.7. For avoidance of doubt, a Participant may not elect to alter the distribution of any portion of his or her Deferral or Company Accounts (or any subaccount(s) thereof) from Retirement to a Specific Future Year or, except as provided in paragraph (a) above, from a Specific Future Year to Retirement.

6.8 Account Valuation upon a Distribution.

With respect to a distribution made pursuant to this Article, the Valuation Date of a Participant's Account shall be the day immediately preceding the Distribution Date.

6.9 Designation of Beneficiary.

Each Participant shall have the right to designate a Beneficiary to receive payment of his or her Account in the event of death. Any such designation may be changed at any time by executing and submitting (either by hand or electronic submission) a new designation on a form prescribed by the Plan Administrator.

6.10 Unclaimed Account.

If the Plan Administrator is unable to locate a Participant or Beneficiary to whom an Account is payable, such Account may be forfeited to the Company upon the Plan Administrator's determination. Notwithstanding the foregoing, if subsequent to any such forfeiture, the Participant or Beneficiary to whom such Account is payable makes a valid claim, such forfeited Account shall be restored to the Plan and paid by the Company.

6.11 Hardship Withdrawals.

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

The Plan Administrator shall determine whether an event qualifies as a hardship within this Section, in its sole and absolute discretion. Such request shall be made in a time and manner determined by the Plan Administrator. The payment made from a Participant's Deferral or Company Account (or any subaccount(s) thereof) pursuant to the provisions of this Section 6.11 shall not be in excess of the amount necessary to meet such financial hardship of the Participant, including amounts necessary to pay any federal, state or local income taxes with respect to the payment and shall not be available unless all other financial resources of the Participant have been exhausted. Payment

shall be made in the month following the date the Plan Administrator determines that the Participant has incurred an unforeseeable severe financial hardship and grants the right to a withdrawal pursuant to this Section 6.11.

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

Notwithstanding the foregoing provisions of this Article VI, the distribution from a Participant's Grandfathered Deferral Account and Grandfathered Company Account (or subaccount(s)) shall be made pursuant to the provisions of the Plan as set forth on October 3, 2004, without regard to any amendments after October 3, 2004 which would constitute a material modification for Section 409A of the Code, as modified in Appendix A attached hereto.

ARTICLE VII – ADMINISTRATION

7.1 Plan Administrator.

The Plan shall be administered by the Deferred Compensation Plans Committee, appointed by the Committee as Plan Administrator. The Plan Administrator shall be responsible for the general operation and administration of the Plan and for carrying out the provisions thereof. The Plan Administrator may delegate to others certain aspects of the management and operations of the Plan including the employment of advisors and the delegation of ministerial duties to qualified individuals, provided that such delegation is in writing.

7.2 General Powers of Administration.

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

7.3 Costs of Administration.

The costs of administering the Plan shall be borne by the Company unless and until the Participant receives written notice of the imposition of such administrative costs; with such costs to begin with the next Plan Year and none may be assessed retroactively for prior Plan Years.

Such costs shall be charged against the Participant's Account and shall be uniform or proportional for all Participants. Such costs shall not exceed the standard rates for similarly designed nonqualified plans under administration by high quality third party administrators at the time such costs are initially imposed and thereafter.

7.4 Indemnification.

The Company shall indemnify each director, officer or employee of the Company or any Affiliate and each member of the Committee and Deferred Compensation Plans Committee, including any subcommittee or delegates thereof, against any and all claims, losses, damages, expenses, including attorney's fees, incurred by them, and any liability, including any amounts paid in settlement with their approval, arising from their action or failure to act, except when the same is judicially determined to be attributable to their gross negligence or willful misconduct, as a result of the fact that he or she is or was serving the Plan in any capacity at the request of the Company.

7.5 409A Compliance.

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

ARTICLE VIII – CLAIMS PROCEDURE

8.1 Claims.

A person who believes that he or she is being denied a benefit to which he or she is entitled under the Plan (hereinafter referred to as a "Claimant") may file a written request for such benefit with the Plan Administrator, setting forth his or her claim. The request must be addressed to the Senior Vice President, Compensation and Benefits, at the Company's then principal place of business.

8.2 Claim Decision.

Upon receipt of a claim, the Plan Administrator or its delegate shall review and determine the claim within ninety (90) days. If the Plan Administrator determines that additional time is needed to review the claim, the Plan Administrator will provide the Claimant with a notice of the extension before the end of the initial ninety (90)-day period. The notice of extension will provide the date by which the Plan Administrator expects to make a decision.

If the claim is denied in whole or in part, the Plan Administrator shall notify the Claimant in writing of the following:

- (a) The reason or reasons for such denial;
- (b) The pertinent provisions of the Plan;
- (c) Appropriate information as to the steps to be taken if the Claimant wishes to submit the claim for review; and
- (d) The time limits for requesting a review under this Section.

8.3 Request for Review/Appeal.

Within sixty (60) days after the receipt by the Claimant of the initial written notice of a denial, the Claimant may request in writing that the initial determination be reviewed. Such request must be addressed to the Senior Vice President, Compensation and Benefits, at the Company's then principal place of business. The Claimant or his or her duly authorized representative may, but need not, submit issues and comments in writing for consideration by the Appeals Committee, a subcommittee of the Deferred Compensation Plans Committee. If the Claimant does not request a review of the initial determination within such sixty (60)-day period, he or she shall be barred and stopped from challenging the Plan Administrator's initial determination.

8.4 Review of Decision.

Within sixty (60) days after the Plan Administrator's receipt of a request for review, the Appeals Committee of the Plan Administrator will review the Plan Administrator's initial determination. After considering all materials presented by the Claimant, the Appeals Committee will render a written decision, setting forth the reasons for the decision and containing references to the pertinent provisions of the Plan. If the Appeals Committee requires an extension of the sixty (60)-day time period, the Appeals Committee will so notify the Claimant and will render the decision as soon as possible, but no later than one hundred twenty (120) days after receipt of the request for review.

8.5 Time Limit for Bringing Legal Action.

Any legal action by the Claimant must be brought within ninety (90) days following the date of the decision on the final review under Section 8.4 above.

ARTICLE IX – MISCELLANEOUS

9.1 Not Contract of Employment.

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

9.2 Non-Assignability of Benefits.

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

9.3 Withholding and Deduction and Taxes.

All deferrals and payments provided for hereunder shall be subject to applicable withholding and other deductions as shall be required of the Company under any applicable local, state or federal law. The Company may require that the Participant or Beneficiary making a deferral or receiving payments pay to the Company the amount of any federal, state or local taxes, if any, that the Company or any Affiliate is required to withhold with respect to such deferrals or payments or the Company or any Affiliate may deduct from other wages paid by the Company or any Affiliate the amount of any withholding taxes due with respect to such deferrals or payments. A Participant or Beneficiary shall be solely responsible for any tax consequences related to deferrals or payments made under the Plan. The Company shall have no obligation to make any payment under the Plan until the Company's or any Affiliate's tax withholding obligations have been satisfied by the Participant or Beneficiary.

9.4 Amendment and Termination.

The Committee or its delegate may from time to time, in its discretion, amend, in whole or in part, any or all of the provisions of the Plan; provided, however, that no amendment may be made that would impair the rights of a Participant with respect to amounts already allocated to his or her Account without the Participant's consent. To the extent consistent with the rules relating to plan terminations and liquidations in Treas. Reg. Section 1.409A-3(j)(4)(ix) or otherwise consistent with Section 409A of the Code, the Committee, in its sole discretion, may terminate the Plan and any related Deferred Compensation Election at any time and in that event the Committee may provide that, without the prior written consent of Participants, the Participants' Accounts shall be distributed in a single cash lump sum upon termination of the Plan. Unless so distributed in accordance with the preceding sentence, in the event of a Plan termination, the Plan Administrator shall continue to maintain the Participants' Accounts until distributed pursuant to the terms of the Plan and Participants shall remain one hundred percent (100%) vested in all amounts credited to their Accounts. In the event of a Plan termination, the distribution of a Participant's Grandfathered Deferral Account and Grandfathered Company Account shall be made pursuant to the provisions of the Plan as set forth on October 3, 2004, without regard to any amendments after October 3, 2004 which would constitute a material modification for Section 409A of the Code, as modified in Appendix A attached hereto.

9.5 Compliance with Securities and Other Laws.

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

9.6 No Trust Created.

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

9.7 Unsecured General Creditor Status of Employee.

The payments to the Participant, Beneficiary or any other distributees hereunder shall be made from assets which shall continue, for all purposes, to be a part of the general, unrestricted assets of the Company. No person shall have or acquire any interest in any such assets by virtue of the provisions of the Plan. The Company's obligation hereunder shall be an unfunded and unsecured promise to pay money in the future. To the extent that the Participant, Beneficiary or other distributees acquire a right to receive payments from the Company under the provisions hereof, such right shall be no greater than the right of any unsecured general creditor of the Company. No such person shall have or acquire any legal or equitable right, interest or claim in or to any property or assets of the Company.

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

9.8 Limitation.

A Participant and his or her Beneficiary shall assume all risk in connection with any decrease in value of his or her Account, and neither the Company nor the Committee or the Plan Administrator shall be liable or responsible therefor.

9.9 Payment to Minors and Incompetents.

If any Participant, spouse, or Beneficiary entitled to receive any benefits hereunder is a minor or is deemed by the Plan Administrator or is adjudicated to be legally incapable of giving a valid receipt and discharge for such benefits, the benefits will be paid to the person or entity as the Plan Administrator determines has been appointed or established to receive such payment on behalf of such person. Such payment shall, to the extent made, be deemed a complete discharge of any payment obligation under the Plan.

9.10 Acceleration of or Delay in Payments.

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

may also, in its sole and absolute discretion, delay the time for payment of a benefit owed to the Participant hereunder, to the extent permitted under Treas. Reg. Section 1.409A- 2(b)(7) and any subsequent guidance.

9.11 Severability.

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

9.12 Governing Laws.

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

9.13 Binding Effect.

The terms of the Plan shall be binding on each Participant and his or her heirs and legal representatives and on the Company and its successors and assigns.

APPENDIX A – PROVISIONS APPLICABLE TO A PARTICIPANT’S GRANDFATHERED DEFERRAL ACCOUNT AND GRANDFATHERED COMPANY ACCOUNT

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

ARTICLE I – DEFINITIONS

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

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

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

ARTICLE IV – DEFERRALS AND COMPANY CONTRIBUTIONS

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

ARTICLE V – MAINTENANCE OF ACCOUNTS

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

ARTICLE VI – PAYMENT OF BENEFIT

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

6.2. *Form of Payment*

Effective on or after October 1, 2008, a Participant shall not elect installments in excess of ten (10) years or quarterly installments.

6.3. *Disability Distributions*

A Participant shall be entitled to distribution under this Section if such Participant becomes "Disabled" as such term is defined under Section 6.03 of the Plan.

6.6. *Change of Distribution Election*

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

**APPENDIX B – PROVISIONS APPLICABLE TO A PARTICIPANT’S ACCOUNT
TRANSFERRED FROM THE LONGS DRUG STORES CORPORATION
DEFERRED COMPENSATION PLAN OF 1995**

This Appendix B constitutes an integral part of the Plan and is applicable solely with respect to the accounts transferred to the Plan from the Longs Drug Stores Corporation Deferred Compensation Plan of 1995 (the “Longs Plan”).

The amounts transferred to the Plan from the Longs Plan consists solely of benefits accrued and vested under the Longs Plan on or before December 31, 2004 (including any permitted adjustments) and are ‘grandfathered’ for purposes of Section 409A of the Internal Revenue Code (the “Code”).

Except as otherwise provided below, the Participant’s Grandfathered Transferred Longs Account (as defined below) shall be subject to all the terms and conditions of the Longs Plan as set forth on October 3, 2004, without regard to any amendments after October 3, 2004 which would constitute a material modification for Code Section 409A.

1. The term “Grandfathered Transferred Longs Account” means the bookkeeping account (or subaccount(s) thereof) maintained for each Participant to record the amount transferred to the Plan from the Longs Drug Stores Corporation Deferred Compensation Plan of 1995, as adjusted pursuant to the provisions of Section 5.06 of the Plan.
2. The provisions of Section 5.05 as set forth in the foregoing provisions of the Plan shall be applicable to a Participant’s Grandfathered Transferred Longs Account.
3. The provisions of Section 5.06 as set forth in the foregoing provisions of the Plan shall be applicable to a Participant’s Grandfathered Transferred Longs Account.”

APPENDIX C – PROVISIONS APPLICABLE TO A PARTICIPANT’S ACCOUNT UNDER THE OMNICARE, INC. DEFERRED COMPENSATION PLAN

This Appendix C constitutes an integral part of the Plan and is applicable with respect to a Participant's Account (“Omnicare Account”) under the Omnicare, Inc. Deferred Compensation Plan, effective January 1, 2017. The Participants' Omnicare Accounts are subject to all the terms and conditions of the Omnicare Plan as set forth on January 1, 2013. Section references in this Appendix C correspond to appropriate Sections of the Omnicare Plan as set forth on January 1, 2013.

The notional amounts transferred to the Plan from the Omnicare Plan consists solely of benefits accrued and vested under the Omnicare Plan on or before December 31, 2016 and shall be subject to all the terms and conditions of the Omnicare Plan as set forth on January 1, 2013.

Article 2: Participation

Effective December 31, 2016, there shall be no new Participants in the Plan.

Article 3: Contributions & Deferral Elections

3.1 Elections to Defer Compensation.

Effective December 31, 2016 there shall be no new Elections to defer Compensation.

3.2 Company Contributions.

Effective December 31, 2016 there shall be no Discretionary Company Contributions or Company Matching Contributions.

3.3 Investment Elections.

Effective January 1, 2017, a Participant shall be eligible to designate the investment of his or her Omnicare Account solely in accordance with the Deferral Crediting Options of the CVS Health Corporation Deferred Compensation Plan.



2016 Management Incentive Plan

I. Objectives and Summary

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

The MIP shall be administered by the Management Planning and Development Committee (the "Committee") of the Board of Directors (the "Board") under the provisions herein and of the 2010 Incentive Compensation Plan (the "ICP"), and the Committee may delegate to officers of CVS Health the authority to perform administrative functions of the MIP as the Committee may determine and may appoint officers and others to assist it in administering the MIP.

II. Plan Year

The MIP is a calendar year plan, which runs from January 1 to December 31, 2016 ("Plan Year"). All dates in this document occur during the Plan Year unless otherwise stated.

III. Eligibility

A. Eligibility for Participation

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

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

B. Section 162(m) Eligible Participants

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

C. Newly-Eligible Employees

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

D. Position Change

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

each applicable incentive plan. A position change from one MIP-eligible position to another MIP-eligible position during the Plan Year does not result in a prorata award but rather an award funded on the base salary of the Eligible Participant on December 31 of the Plan Year and the individual award opportunity as of that date.

E. Demotions

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

F. Terminations

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

G. Rehires

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

IV. Target Measurements and Total Pool

A. Consolidated Company Funding

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

1. Operating Profit

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

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

2. PBM Client Satisfaction

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

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

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

3. Retail Customer Service

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

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

COMPANY PERFORMANCE - TARGET MEASUREMENTS

Measurement	Percent Weight	Measurement Tool	Achievement Measured Against	Modifier
Operating Profit	80%	Earnings Before Interest and Taxes ("EBIT")	2016 EBIT Goal	CEO & Committee Discretion ⁽¹⁾ Financial Adjustments
PBM Client Satisfaction	10%	Client Relationship and Loyalty, Customer Care, Mail Service and Specialty Surveys	2016 PBM Client Satisfaction Target	Operating Profit Funding
Retail Customer Service	10%	myCustomer Service Scorecard	2016 myCustomer Experience Target	Operating Profit Funding

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

B. Total Pool Funding

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

The CEO or, in the case of Section 162(m) Eligible Participants, the Committee may adjust the funding of the Total Pool at his or her or its discretion based on (a) input from the PBM and Retail Presidents and Finance regarding their assessment of the overall performance of the Company; and (b) assessment of the achievement of Plan Year performance goals. In no case, however, can the CEO or the Committee increase Total Pool funding due to PBM Client Satisfaction or Retail Customer Service results.

C. Individual Performance

The Total Pool will be available for award to Eligible Participants under the MIP, taking into account the individual contribution of each Eligible Participant. The amount, if any, of the incentive award for an Eligible Participant shall be determined in the sole discretion of the Company, which shall be final, binding and conclusive as to all parties having an interest therein. The amount, if any, of the incentive award for a Section 162(m) Eligible Participant shall be determined in the sole discretion of the Committee, which shall be final, binding and conclusive as to all parties having an interest therein.

V. Earnings and Payout

A. Timing

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

B. Calculations

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

For purposes of proration under the MIP and except as otherwise provided in Section VII, calculations will be based on the number of days that the employee was an Eligible Participant in the MIP during the Plan Year.

C. Award Opportunity

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

D. Obligation to Pay Out Percentage of Total Pool

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

the aggregate of the total awards paid from the MIP be less than 92.5% of the Total Pool. To discourage unmerited litigation, any party or class asserting a challenge or claim against the Company under any provision of the MIP, including this Section V, shall bear their own costs relating to such challenge or claim, and if the challenge or claim is unsuccessful, such party or class shall reimburse the Company for all reasonable costs incurred by the Company in responding to such challenge or claim.

VI. Corrections to Incentive Awards

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

VII. Eligible Participant Status

A. Performance

Subject to the requirements of Section 162(m), the Company has full discretion in determining the amount, if any, of a MIP award to an Eligible Participant, including Eligible Participants whose awards may be based on SGIs, and the Participant's individual performance throughout the Plan Year will be considered by the Company in the final determination of the Eligible Participant's incentive award.

B. Leaves of Absence

An Eligible Participant on a Company-approved leave of absence at any time during the Plan Year who remains employed in an eligible position as of the last day of the Plan Year will earn a prorated incentive award based on the number of days actively worked (including time compensated as vacation, myTime or Paid Time Off ("PTO")) during the Plan Year, provided he or she meets all other eligibility criteria for an incentive award.

C. Reduction in Force, Retirement and Death

1. Reduction in Force

If an Eligible Participant is separated from employment by the Company on or before the last day of the Plan Year due to a reduction in force, he or she may be eligible, at the Company's discretion, to receive a prorated incentive award based on the incentive targets in place immediately before the separation date, provided the Eligible Participant meets all other eligibility criteria for an incentive award.

2. Retirement

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

3. Death

In case of the death of an Eligible Participant, a prorated incentive award may be paid to the Eligible Participant's spouse, if living; otherwise, in equal shares to surviving children of the Eligible Participant. If there are no surviving children, the benefit shall be paid to the Eligible Participant's estate. The incentive award will be prorated based on the number of months the Eligible Participant worked during the Plan Year and incentive targets in place immediately before the termination date, and shall be paid as soon as administratively practicable following the death of the Eligible Participant but no later than March 15 of the year following the Plan Year. For this purpose, if the death of an Eligible Participant occurs on or before the 15th of the month, the month will not be included in the proration calculations, and if the death occurs after the 15th of the month, the month will be included in the proration calculations.

VIII. Miscellaneous

A. No Promise of Continued Employment

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

B. Rights are Non-Assignable

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

C. Compliance with Applicable Law

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

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

D. Change in Control

In the event of a change in control of CVS Health, as defined in the ICP, the MIP shall remain in full force and effect. Any amendments, modifications, termination or dissolution of the MIP by the acquiring entity may only occur prospectively and will not affect incentive targets or awards or eligibility in place immediately before the date of the change in control or such later date as it may be modified or dissolved by the acquiring entity.

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

E. Withholding

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

F. MIP Amendment/Modification/Termination

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

G. MIP Interpretation

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

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

H. Recoupment of Incentive Awards

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

I. Section 409A of the Internal Revenue Code

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

providing for the payment of any amounts or benefits in connection with a termination of employment, references to an Eligible Person's "termination of employment" (and corollary terms) shall be construed to refer to the Eligible Person's "separation from service" with the Company as determined under Section 409A.



2016 Executive Incentive Plan

I. Objectives and Summary

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

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

II. Plan Year

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

III. Eligible Participants

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

IV. Bonus Pool

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

B. Within 90 days of the start of each Plan Year, the Committee will designate a percentage of the Bonus Pool to be allocated to each Participant and a percentage to be reserved in the event the Committee wishes to allocate a percentage to a new Participant, if any, after the first 90 days of the applicable Plan Year. The allocations will be set forth in the Exhibit A for the Plan Year. The maximum allocation that may

be made to any Participant for a Plan Year will be 40%, and in no event shall the allocations, in the aggregate, exceed 100% of the Bonus Pool. Regardless of the foregoing, in no event shall any Participant be entitled to receive more than his or her individual cap as set forth in Exhibit A for the Plan Year.

V. Awards

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

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

VI. Payment of Awards

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

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

C. Calculations for full and partial awards will be based on each Participant's annual base salary and individual target opportunity as of December 31st of the Plan Year. For purposes of proration, the 15th of the month will be used to determine if the month is included or excluded from the incentive calculation, as follows:

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

VII. Retirement and Death

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

B. In the case of the death of a Participant before the end of the Plan Year, a prorated Award may be paid to the Participant's spouse, if living; otherwise, a prorated Award may be paid in equal shares to

surviving children of the Participant. If there are no surviving children, a prorated Award may be paid to the Participant's estate. If an Award is paid, the Award will be prorated based on the number of months the Participant worked during the Plan Year.

VIII. Miscellaneous

A. No Promise of Continued Employment

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

B. Rights are Non-Assignable

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

C. Compliance with Applicable Law

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

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

D. Change in Control

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

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

E. Withholding

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

F. Amendment/Modification/Termination

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

G. Interpretation

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

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

H. Recoupment of Incentive Awards

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

I. Section 409A of the Internal Revenue Code

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



Partnership Equity Program

Partnership Equity Program**Table of Contents**

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I. Purpose and Status of the PEP. The Partnership Equity Program (the “PEP”) has been adopted by the Management Planning & Development Committee (“Committee”) of the Board of Directors of CVS Health Corporation (the “Company”), as a subplan implemented under the Company’s 2010 Incentive Compensation Plan (the “2010 ICP”). The purpose of the PEP is to promote a partnership between the participating executive and the Company through a mutual commitment based on ownership of a proprietary interest in the Company. This is accomplished through an investment by the participating executive in the Company’s common stock and an award by the Company of restricted stock units and stock options. All shares of Stock (as hereinafter defined) issued or delivered in settlement of Participant Purchased RSUs (as hereinafter defined) and Company Matching RSUs (as hereinafter defined) under the PEP or issued upon exercise of Company Matching Options (as hereinafter defined) granted under the PEP shall be shares of Stock reserved and available under the 2010 ICP. All of the terms and conditions of the 2010 ICP are hereby incorporated by reference. Capitalized terms used in the PEP but not defined herein shall have the same meanings as defined in the 2010 ICP Plan. If any provision of the PEP is inconsistent with a provision of the 2010 ICP, the provision of the 2010 ICP shall govern.

II. Eligibility. The Committee shall determine and approve, in its sole discretion, the executives eligible to participate in the PEP.

III. Definitions.

A. “Award” means any Participant Purchased RSUs, Company Matching RSUs, and Company Matching Options granted to a Participant under the PEP.

B. “Beneficiary” has the same meaning as the definition in the 2010 ICP.

C. “Board” means the Company’s Board of Directors.

D. “Change in Control” means Change in Control as defined in the 2010 ICP.

E. “Code” means the Internal Revenue Code of 1986, as amended from time to time, including regulations thereunder and successor provisions and regulations thereto.

F. “Company Matching Option” means a right granted to a Participant under Section VIII(B) of the PEP and 6(b) of the 2010 ICP to purchase Stock at a specified price during a specified time period.

G. “Company Matching RSU” refers to a RSU granted by the Company pursuant to which the Participant has a right to receive under Section VIII(A) of the PEP, at the time of settlement specified in the PEP, the value of one share of Stock.

H. “Eligible Participant” means an employee of the Company and of any subsidiary of the Company who is approved by the Committee to have an opportunity to participate in the PEP.

I. “Fair Market Value” or “**FMV**” means the fair market value of the Stock as determined by the Committee or under procedures established by the Committee. Unless otherwise determined by the Committee, the Fair Market Value shall be the closing price of a share of Stock, as quoted on the composite transactions table on the New York Stock Exchange, on the date on which the determination of Fair Market Value is being made.

J. “Grant Date” means the date an Award is granted, as approved by the Committee.

K. “Grant Price” means the Fair Market Value of a share of Stock of the Company on the Grant Date, as approved by the Committee.

L. “Participant” means an Eligible Participant who has been granted an Award that remains outstanding under the PEP.

M. “Participant Purchased RSUs” means the number of RSUs credited to a designated account representing a Participant’s pre-tax investment in the PEP.

N. “Participant Purchased Shares” means number of shares of Stock credited to a designated brokerage account representing a Participant’s post-tax investment in the PEP.

O. “Post-Tax Investment Date” means the date on which the Participant purchases Stock in the PEP on a post-tax basis or the Grant Date if designating Stock under Section VII(B)(i). The Post-Tax Investment Date must be no more than 30 days following the Grant Date.

P. “RSU” means a restricted stock unit granted under Sections VII(A) and VIII(A) of the PEP and Section 6(d) of the 2010 ICP, in each case represent a right to receive the value of a share of Stock upon the terms and conditions set forth in the PEP, the 2010 ICP and the applicable Award agreement.

Q. “Stock” means the Company’s common stock, \$0.01 par value, and such other securities as may be substituted for Stock pursuant to Section 11 (c) of the 2010 ICP.

IV. Administration.

(A) **Authority of the Committee** . The PEP shall be administered by the Committee. The Committee shall have full and final authority, in each case subject to and consistent with the provisions of the PEP, to select Eligible Participants, grant Awards, determine the type, number and other terms and conditions of, and all other matters relating to, Awards, prescribe Award agreements (which need not be identical for each Participant) and rules and regulations for the administration of the PEP, construe and interpret the PEP and Award agreements and correct defects, supply omissions or reconcile inconsistencies therein, and to make all other decisions and determinations as the Committee may deem necessary or advisable for the administration of the PEP. The Committee, in its sole discretion, may waive the forfeiture provisions applicable to any Participant Purchased RSUs or Company Matching RSUs, provided that those RSUs shall be settled at the same time that they would otherwise have been settled if they had vested in due course under the terms of the PEP and the applicable Award.

(B) **Manner of Exercise of Committee Authority** . The express grant of any specific power to the Committee, and the taking of any action by the Committee, shall not be construed as limiting any power or authority of the Committee. To the extent permitted by applicable law, the Committee may delegate to officers or managers of the Company or any subsidiary, or committees thereof, the authority, subject to such terms as the Committee shall determine, to perform such functions, including administrative functions, as the Committee may determine. The Committee may appoint agents to assist it in administering the PEP.

(C) **Limitation of Liability** . The Committee and each member thereof shall be entitled to, in good faith, rely or act upon any report or other information furnished to him or her by any Participant officer, other officer or employee of the Corporation or a subsidiary, the Company's independent auditors, consultants or any other agents assisting in the administration of the PEP. Members of the Committee and any officer or employee of the Company or a subsidiary acting at the direction or on behalf of the Committee shall not be personally liable for any action or determination taken or made in good faith with respect to the PEP, and shall, to the extent permitted by law, be fully indemnified and protected by the Company with respect to any such action or determination.

V. **Award** . Upon approval by the Committee, an Eligible Participant shall be notified that he or she has been selected to receive an Award, contingent upon the Eligible Participant's decision to invest in the PEP by completion of a PEP participant election form (an "Election Form"). The Award will stipulate the Grant Date and the amount the Eligible Participant may invest in the PEP.

VI. **Participation** . On or before the Grant Date, the Eligible Participant shall be provided an Election Form to indicate (A) the dollar amount to be invested; and (B) the form of participation (pre- and/or post-tax) by the Eligible Participant. In order to become a Participant in the PEP, the Eligible Participant must return the executed Election Form to the Company within the time period designated on such form.

VII. **Form of Participation** . At the determination of the Committee, an Eligible Participant may invest in the PEP in one or in a combination of the following:

(A) **Participant Purchased RSUs** . On a pre-tax basis by electing to use a cash bonus payable to the Participant by the Company to invest in Participant Purchased RSUs, with such investment to occur on the Grant Date (Participant shall pay all applicable FICA taxes on the total dollar value of such pre-tax investment). The Company shall establish and maintain for each Participant an account on its stock administration system for purposes of tracking and administering the Participant Purchased RSUs.

Upon receipt by the Company from the Participant of a commitment to invest an amount in the PEP on a pre-tax basis as set forth on an Election Form, as of the Grant Date the Company will credit to the Participant's account an amount of Participant Purchased RSUs, as follows:

(i) The initial number of Participant Purchased RSUs shall be equal to the Participant's elected investment amount divided by the Fair Market Value of the Stock as of the Grant Date, rounded down to the next whole RSU.

(ii) Each Participant Purchased RSU represents a right to receive, at the time of settlement specified in the PEP, the value of one share of Stock.

(iii) Participant Purchased RSUs are non-transferable.

(B) **Participant Purchased Shares**. On an after-tax basis by designating Stock as follows:

(i) Designation by the Participant of Stock that the Participant owns as Participant Purchased Shares, with such designation as provided on the completed Election Form. The number of shares of Stock designated by the Participant as Participant Purchased Shares shall have a total Fair Market Value as of the Grant Date at least equal to the amount of the approved investment amount set forth in the Award.

(ii) Purchase of Stock by the Participant to be designated as Participant Purchased Shares, with such purchase and investment in the PEP to occur within thirty (30) days of the Grant Date.

(a) The number of shares of Stock purchased by the Participant shall have a total Fair Market Value as of the purchase date at least equal to the investment amount set forth in the applicable Election Form (or, if applicable, at least equal to the difference between the Fair Market Value of the shares of Stock designated by the Participant under Section VII(B)(i) and the investment amount).

(b) The Participant is responsible for the payment of any brokerage fees associated with the purchase of Stock for this purpose.

Under no circumstance may a Participant designate as Participant Purchased Shares any shares not actually owned by the Participant, including shares that are held in any other deferred compensation program sponsored by the Company or any prior employer of the Participant or any shares of Stock that are held in a qualified defined contribution plan as defined by the Code.

In all cases, the Participant shall maintain an account administered by a brokerage firm to hold the Participant Purchased Shares. The Participant is required to demonstrate, on a semi-annual basis and in the form required by the Company, that he or she has maintained ownership of such designated Participant Purchased Shares throughout the required ownership period.

VIII. Company Matching Investments. The Company shall establish and maintain for each Participant an account on its stock administration system for purposes of tracking and administering the Company Matching RSUs and Company Matching Options. As of the Grant Date, the Company shall make a matching Award to the Participant as described below.

(A) **Company Matching RSUs.** The Company Matching RSUs are non-transferable, shall be equal in number to the total Participant Purchased RSUs or to the Participant's investment amount divided by the Fair Market Value as of the Grant Date, and shall be credited to the Participant's account as of the Grant Date.

(B) **Company Matching Option .** The Company Matching Option is non-transferable and shall comprise of an option to purchase a number of shares of Stock equal to ten (10) times the number of Company Matching RSUs and shall be credited to the Participant's account as of the Grant Date.

IX. Restrictions on Disposition of Participant Purchased Shares. Participant Purchased Shares are not subject to restriction on transfer, withdrawal, or other dispositions, except that if the Participant transfers, withdraws, sells or otherwise disposes of Participant Purchased Shares prior to the earlier of the fifth (5th) anniversary of the Grant Date or the date of the settlement of the Company Matching RSUs relating to Participant Purchased Shares, the Participant will immediately forfeit the number of Company Matching RSUs (including additional Company Matching RSUs acquired as a result of dividend reinvestment, as described below) and all or a portion of the Company Matching Options, in each case granted in respect of the Purchased Shares disposed of, determined as follows: such Participant shall forfeit the Company Matching Option to purchase ten (10) shares for each Participant Purchased Share so disposed of, except that only the portion of the Company Matching Option that is not yet exercisable shall be forfeited.

X. Dividends. To the extent that dividends are declared on Stock as of a dividend record date on which Participant Purchased RSUs or Company Matching RSUs remain outstanding and prior to the Settlement Date (as defined below), the Company shall credit as of the dividend payment date, a number of additional Participant Purchased RSUs or Company Matching RSUs to the Participant's account, which shall be determined by multiplying (i) the amount of cash actually paid by the Company as a dividend per share of Stock by (ii) the number of Participant Purchased RSUs and Company Matching RSUs credited to the Participant's account as of the dividend record date and dividing the product by (iii) the FMV per share of Stock on the dividend or dividend equivalent payment date; provided, however, that such additional Participant Purchased RSUs and Company Matching RSUs shall be subject to the same terms and conditions (including vesting) as the underlying award. As necessary to reflect dividend equivalents, a Participant's RSUs account will include fractional Stock units calculated to not less than four decimal places.

XI. Vesting and Settlement of Participant Purchased RSUs and Company Matching RSUs. Except as provided under Section XIII, Company Matching RSUs not previously forfeited shall vest and settle on the fifth anniversary of the Grant Date. Participant Purchased RSUs shall vest immediately on the Grant Date and to the extent not previously forfeited shall settle on the fifth anniversary of the Grant Date.

(A) Pursuant to the rules promulgated by the Committee, the Participant may make a prior election to defer settlement of Participant Purchased RSUs and Company Matching RSUs.

(B) Absent a valid prior election by the Participant to defer settlement of the Stock subject to the Participant Purchased RSUs and Company Matching RSUs, the settlement and delivery of the Stock shall occur as promptly as

practicable, but in any case within fifteen (15) days, following the fifth anniversary of the Grant Date (the “Settlement Date”). On the Settlement Date, the Company shall deliver to the Participant one share of Stock for each Participant Purchased RSU and Company Matching RSU; provided, however, that at the Settlement Date the number of shares of Stock to be delivered by the Company to the Participant shall be reduced by the smallest number of shares of Stock having a FMV at least equal to the dollar amount of Federal, state or local tax withholding required to be withheld by the Company with respect to such Participant Purchased RSUs and Company Matching RSUs on such date. In lieu of having the number of shares of Stock underlying the Participant Purchased RSUs and Company Matching RSU reduced, the Participant may elect to pay the Company for any amounts required to be withheld by the Company in connection with the settlement of the Participant Purchased RSUs and Company Matching RSUs pursuant to the Agreement. Such election may be made electronically at any time prior to the Settlement Date.

If the settlement includes any fractional share of Stock the Company may instead pay cash in lieu of delivery of a fractional share, on such basis as the Committee may determine. Upon settlement, all obligations of the Company in respect of Participant Purchased RSUs and Company Matching RSUs will be terminated, and the shares of Stock so distributed will not be subject to any risk of forfeiture or restriction under the PEP.

The settlement of Participant Purchased RSUs and Company Matching RSUs shall be subject to the settlement timing provisions of Section XIV(C)(ix) of the PEP.

XII. Options to Purchase Common Stock.

(A) Grant of Option. A Participant shall be granted a Company Matching Option in accordance with VIII (B) of the PEP.

(B) Exercise Price. The exercise price per share of Stock under a Company Matching Option shall be the FMV on the Grant Date, unless otherwise determined by the Committee, provided that in no event will the exercise price be less than the FMV of a share of Stock on the Grant Date.

(C) Vesting and Method of Exercise. Unless otherwise determined by the Committee, Company Matching Options will vest as to one-third of the underlying shares of Stock on each of the third, fourth and fifth anniversaries of the Grant Date; provided, however, that the vesting of said Company Matching Option may be accelerated in accordance with the provisions of the PEP Section XIII(D). To the extent vested, a Company Matching Option may be exercised in whole or in part, from time to time, all subject to the limitations on exercise set forth in this Section XII. An exercise shall be accomplished in accordance with Section 6(b) of the 2010 ICP. At the time of exercise, the exercise price of the number of shares as to which the Company Matching Option is being exercised shall be tendered to the Company. The exercise price of such Company Matching Option shall be paid in cash or by check or by surrender to the Company of shares of Stock (valued at their FMV as of the date of exercise) already owned by the Participant, other than shares acquired from the Company by exercise of an option during the preceding six months, or by a combination of cash, check, and surrender of such shares.

(D) Expiration. The Company Matching Option, to the extent it has not been exercised or previously terminated due to forfeiture, shall expire on the tenth (10th) anniversary of the Grant Date.

XIII. Termination of Employment. Except as provided below in this Section XIII, if, for any reason, a Participant’s employment with the Company and any subsidiary of the Company terminates prior to the fifth anniversary of the Grant Date, all Company Matching RSUs not yet vested and all Company Matching Options not yet exercised shall be immediately forfeited as of Participant’s employment termination date. For purposes of this section, “Cause” shall have the same meaning as defined in the Company’s standard change in control agreement. Participant’s transfer of employment from the Company to a subsidiary of the Company, from a subsidiary of the Company to the Company or from one subsidiary of the Company to another subsidiary of the Company shall not be considered a termination of employment.

(A) Involuntary Termination of Participant’s Employment without Cause.

(i) In the event that the Company terminates a Participant’s employment with the Company and its subsidiaries and the Participant receives severance pay, the Participant’s Award shall be treated as follows:

(a) If Participant’s employment with the Company and its subsidiaries terminates prior to the second (2nd) anniversary of the Grant Date as a result of the Participant’s voluntary termination of employment or involuntary termination by the Company or any subsidiary for Cause, the Participant Purchased RSUs shall be immediately forfeited as of the termination date. Other than as stated above in this section XIII(A)(i)(a), Participant Purchased RSUs shall not be subject to any transfer or sale restrictions

(b) any Participant Purchased RSUs not settled at the time of Participant’s employment termination date shall settle in accordance with the regular schedule set forth in the applicable

Award agreement. All applicable taxes due at time of vesting shall be immediately paid by the Participant;

(c) any Company Matching RSUs not vested at the time of Participant's employment termination date but scheduled to vest during the severance period specified in the agreement providing for severance pay shall vest as of the Participant's employment termination date and settle in accordance with the regular schedule set forth in the applicable Award agreement. All applicable taxes due at time of vesting shall be immediately paid by the Participant;

(d) any Company Matching Options not vested at the time of Participant's employment termination date but scheduled to vest during the severance period specified in the agreement providing for severance pay shall be exercisable at any time during the severance period and on or before the ninetieth (90th) day following the last day of the severance period, as long as no government regulations or rules are violated by such continued vesting or exercise period; provided, however, that no Company Matching Option will be exercisable beyond its original term; and

(e) any Company Matching RSUs and Company Matching Options not scheduled to vest during the specified severance period shall be forfeited as of the Participant's employment termination date.

(ii) The Committee shall have the authority, in its sole discretion, to make any interpretations, determinations, and/or take any administrative actions with respect to whether any post-termination payments to the Participant shall be deemed severance pay, the duration of any severance period, and/or whether a termination was without Cause.

- (B) **Retirement of Participant.** "Qualified Retirement" shall mean termination of employment on or after attainment of age fifty-five (55) with at least ten (10) years of continuous service, or attainment of age sixty (60) with at least five (5) years of continuous service, provided that: (i) if the Participant elects to terminate his or her employment voluntarily, the Participant has provided the Company with at least twelve (12) months advance notice of his or her retirement date or such other term of advance notice as is determined by the Chief Human Resources Officer of the Company; or (ii) if the Company elects to terminate the Participant's employment, then such termination is without cause. As of the Participant's retirement date, any Participant Purchased Shares shall not be subject to any transfer or sale restrictions, and any Participant Purchased RSUs shall vest as of the Participant's retirement date and shall settle in accordance with the regular schedule set forth in the applicable Award agreement. The Participant may exercise his or her vested Company Matching Option during the two-year period following the retirement date; any portion of the Company Matching Option which is not vested as of the retirement date shall be forfeited by the Participant as of the retirement date. Any Company Matching RSU or Company Matching Option that is not vested as of the retirement date shall be forfeited by the Participant. In the event the Participant's termination of employment qualifies as a Qualified Retirement and the Participant also enters into a severance agreement with the Company, the terms of Section XIII(A) shall apply with respect to the settlement of Participant Purchased RSUs and the vesting and settlement of Company Matching RSUs and Company Matching Options.
- (C) **Disability of Participant.** In the event a Participant ceases to be employed by the Company, or any subsidiary of the Company, by reason of total and permanent disability (as defined in the Company's Long-Term Disability Plan, or, if not defined in such plan, as defined by the Social Security Administration), any Participant Purchased Shares shall not be subject to any transfer or sale restrictions. In addition, any Participant Purchased RSUs and any Company Matching RSUs shall vest as of Participant's disability date and shall settle in accordance with the regular schedule set forth in the applicable Award agreement and any Company Matching Option shall vest and be exercisable during the twelve (12) month period following Participant's employment termination date, in each case on a pro rata basis in accordance with the Award in effect for the Participant. Notwithstanding the foregoing, a Participant shall be deemed to have ceased employment due to a qualifying disability under this Section XIII (C) only if at the time of such cessation of employment the Participant is disabled within the meaning of Section 409A of the Code pursuant to the regulations thereunder.
- (D) **Death of Participant.** In the event of a Participant's death while employed by the Company or one of its subsidiaries, any Participant Purchased Shares shall not be subject to any transfer or sale restrictions. In addition, all Participant Purchased RSUs and all Company Matching RSUs shall vest and settle on Participant's date of death and Company Matching Options shall become immediately vested in full. The Company Matching Option may be exercised during the twelve (12) month period

following the Participant's date of death, or prior to the Company Matching Option expiration date, whichever occurs first, by the Participant's Beneficiary. At the end of said one-year time period, all rights with respect to any Company Matching Option that is unexercised shall terminate and the unexercised Company Matching Option shall be cancelled.

- (E) **Change In Control.** In the event of a Termination Without Cause or a Constructive Termination Without Cause, in each case within the two-year period following a Change in Control, any Participant Purchased Shares shall not be subject to any transfer or sale restrictions. In addition, all of the Participant's outstanding Participant Purchased RSUs and all Company Matching RSUs shall vest and settle as of the Participant's termination date and Company Matching Options that are not then vested will become immediately vested and exercisable for the remainder of the term of the Company Matching Option but not beyond its original Expiration date provided in Section XII(D). All other terms and conditions governing such Company Matching RSUs, Participant Purchased RSUs and Company Matching Options will be subject to the provisions of the Company's 2010 ICP.
- (F) **Coordination of Provisions.** Notwithstanding anything to the contrary above, to the extent that the circumstances of the termination of a Participant's employment are within the description of more than one of the subparagraphs above in this Section XIII, each portion of a Participant's Company Matching RSU or Company Matching Option under any Award shall be entitled to the more favorable treatment explicitly applicable to such portion of the Participant's Company Matching RSU or Company Matching Option under the provisions of this Section XIII. For example, if a Participant qualifies as Qualified Retiree at the time of the Participant's termination of employment but the Participant receives severance in connection with the Participant's termination as described in Section XIII (A), the Participant's unvested Matching Company Option shall continue to vest during the applicable severance period and any portion of the Company Matching Option that vests during the severance period shall be exercisable on or before the ninetieth (90th) day following the last day of the severance period, while any portion of the Participant's Matching Company Option that is vested as of the Participant's termination may be exercised during the two-year period following the Retirement Date. Similarly, by way of example, if a Participant experiences a termination of employment due to disability following a Change in Control, the treatment described in Section XIII (E) shall apply to the Participant's Awards to the extent that such treatment is more favorable to the Participant than the treatment applicable under Section XIII (C).
- (G) In any case, the settlement of Participant Purchased RSUs and Company Matching RSUs shall be subject to the settlement timing provisions of Section XIV(C)(ix) of the PEP.

XIV. General Provisions.

(A) **Stock Dividends and Stock Splits.** If the Company declares and pays a dividend or distribution in the form of Stock payable on Stock, or if there is a stock split of the Stock, and the record date is prior to the Settlement Date of Participant Purchased and/or Company Matching RSUs, the Company shall credit, as of the dividend payment date, distribution, or split, a number of additional Participant Purchased RSUs and Company Matching RSUs, as the case may be, to the Participant's account equal to the number of shares of Stock paid as a dividend or distribution per share of Stock or distributed as a result of the split per share of Stock multiplied by the number of Participant Purchased RSUs and Company Matching RSUs, as the case may be, credited to the Participant's account at the record date.

(B) **Treatment of Additional Participant Purchased RSUs and Company Matching RSUs Resulting from Dividends or Splits.** Additional Participant Purchased RSUs or Company Matching RSUs will be subject to the same terms, including the risk of forfeiture in the case of Company Matching RSUs, as the Participant Purchased RSUs or Company Matching RSUs in respect of which they were credited. No such additional Company Matching RSUs will be credited to the Participant's account in respect of Company Matching RSUs forfeited on or before the payment date for the dividend, distribution, or split.

(C) **Other Terms.** The following terms and provisions will be applicable to Participant Purchased Shares or RSUs, Company Matching RSUs and Company Matching Options, as applicable.

- (i) **Adjustments.** Participant Purchased Shares or Participant Purchased RSUs, Company Matching RSUs, and Company Matching Options, and the terms and conditions relating thereto, shall be subject to adjustment in accordance with applicable sections of the 2010 ICP.
- (ii) **Nontransferability.** Participant Purchased Shares or Participant Purchased RSUs, Company Matching RSUs, Company Matching Options, and all rights relating thereto, shall not be transferable or assignable by a Participant, other than by will or the laws of descent and distribution (or pursuant to a beneficiary designation if and to the extent authorized by the Committee), and shall not be pledged, hypothecated, or otherwise encumbered in any

way or subject to execution, attachment, or similar process, and any such attempt to transfer such rights shall be considered null and void by the Company.

- (iii) **Certain Other Terms** . Additional terms applicable to Awards under the PEP are set forth in the 2010 ICP.
- (iv) **No Partnership Rights or Rights to Participate** . A Participant's participation in the PEP, investment in Participant Purchased Shares or Participant Purchased RSUs, and grant of an Award under the PEP confers no rights as a partner of a partnership. No Participant has or will have any claim to participate in the PEP, except as selected by the Committee, and the Company will have no obligation to continue the PEP.
- (v) **Changes to the PEP** . The Committee may amend, alter, suspend, discontinue or terminate the PEP without the consent of any Participant; provided, however, that, without the consent of an affected Participant, no such action shall materially and adversely affect the rights of such Participant with respect to an outstanding Award.
- (vi) **Limitation on Repurchase Obligation** . All repurchases of Stock permitted to occur in the ordinary course pursuant to the terms established under the PEP are intended to qualify for the exemption from Section 16(b) of the Exchange Act pursuant to Rule 16b-3(e) promulgated under the Exchange Act and, accordingly, such repurchases are authorized to occur with respect to all Awards under the PEP unless and until the repurchase rights and obligations relating to an Award are explicitly revoked by the Committee.
- (vii) **Agreements and Other Documents** . The Committee shall specify agreements or other documents to evidence rights and obligations under the PEP. A form of agreement that may be used to evidence rights and obligations relating to Participant Purchased Shares and/or Participant Purchased RSUs, Company Matching RSUs and Company Matching Options shall be provided to each Participant.
- (viii) **Governing Law** . The validity, construction, and effect of the PEP, any rules and regulations and any award agreements or related documents hereunder shall be determined in accordance with the Delaware General Corporation Law, without giving effect to principles of conflicts of laws and applicable federal law.
- (ix) **Section 409A Compliance**. The Participant Purchased RSUs and Company Matching RSUs under the PEP are intended to qualify as nonqualified deferred compensation awards which comply with the provisions of Section 409A and the regulations thereunder. The vesting dates shall be the dates fixed under the terms of the PEP as of the Grant Date, subject to acceleration only upon the following permissible events under Section 409A of the Code as specified under the PEP or as otherwise provided by the Committee in its sole discretion: the Participant's death, the Participant's qualifying disability (under Section XIII (C)) or a Change in Control (within the meaning of the 2010 ICP, which includes a definition of change in control that complies with Section 409A of the Code). Any portion of a Participant Purchased RSU and Company Matching RSU that has become vested in accordance with the terms of the PEP shall be settled as provided under the PEP on a date selected by the Company occurring prior to the 15th day of the third calendar month following the applicable vesting date. In the event that a Participant experiences a termination of employment and is granted severance and is therefore permitted to continue to vest in one or more installments of a Participant Purchased RSU or Company Matching RSU Award pursuant to Section XIII (A), such installments shall continue to be subject to settlement only after the vesting date originally applicable to such installments and during the settlement period set forth above in this Section XIV (C). In the event that the Committee exercises its sole discretion to waive the forfeiture provisions applicable to any Participant Purchased RSUs or Company Matching RSUs, those RSUs shall be settled at the same time that they would otherwise have been settled if they had vested in due course under the terms of the PEP and the applicable Award. Notwithstanding the foregoing or any other provision of the PEP or any Award to the contrary, to the extent necessary to comply with the requirements of Section 409A of the Code, any settlement amounts to which a Participant may become entitled under the PEP, which are subject to Section 409A of the Code (and not otherwise exempt from its application), that are payable within six months following the date of termination will be withheld until the first business day of the seventh (7th) month following the date of termination. To the extent any provisions of the PEP or any RSU does not comply with Section 409A of the Code, the Company and any affected Participant will make such changes

with respect to such RSU as are mutually acceptable in order to comply with Section 409A of the Code.

XV. Recoupment Policy. Except as may be specifically provided in the Award agreement, each Award under the PEP shall be subject to the terms of the Company's Recoupment Policy as it exists from time to time, which may require the Participant to immediately repay to the Company the value of any pre-tax economic benefit that he or she may derive from the Award. By accepting an Award under the PEP, Participant acknowledges that the Company's Recoupment Policy has been made available for the Participant's reference.



CVS Health Corporation
Performance-Based Restricted Stock Unit Plan

I. Objectives and Summary

The objective of the CVS Health Corporation (the “Company”) Performance-Based Restricted Stock Unit Plan (“PBRs Plan”) is to reward eligible participants for their role in achieving the Company’s Earnings before Interest and Taxes (“EBIT”) target and to encourage continued employment with the Company and its subsidiaries. PBRs Awards are generally delivered as restricted stock units (“RSUs”) and are based on actual EBIT results measured against a pre-established target.

II. Administration

The PBRs Plan shall be administered by the Management Planning and Development Committee (the “Committee”) of the Board of Directors, or its designee, under the provisions of the 2010 Incentive Compensation Plan, as amended (the “2010 ICP”). The Committee shall have full and final authority, in each case, subject to and consistent with the provisions of the 2010 ICP and the PBRs Plan, to construe and interpret rules and regulations for the administration of the PBRs Plan, correct defects, supply omissions or reconcile inconsistencies therein, and to make all other decisions and determinations as the Committee may deem necessary or advisable for the administration of the PBRs Plan. Capitalized terms not otherwise defined herein shall have the meaning assigned to such terms in the 2010 ICP. In the event of a conflict between the 2010 ICP and the PBRs Plan, the provisions of the 2010 ICP shall control.

III. PBRs Plan Year

The “PBRs Plan Year” commences on January 1 and ends on December 31 of each year, unless otherwise approved by the Committee. All dates in this document occur during the PBRs Plan Year unless otherwise stated.

IV. Eligibility

A. Eligible Employees

The Chief Executive Officer (the “CEO”) or the CEO’s designee determines those employees of the Company and its subsidiaries who are eligible to participate in the PBRs Plan (“Eligible Employees”). In general, Eligible Employees are those employees who are (i) officers of CVS Pharmacy, Inc. who are Vice Presidents or above, and (ii) senior officers of other subsidiaries who have been designated as Eligible Employees by the CEO or his or her designee. Generally, Business Planning Committee (“BPC”) members are not eligible to participate, unless otherwise named as an Eligible Employee by the Committee.

B. Newly-Hired Eligible Employees

A newly-hired employee satisfying the requirements set forth on Paragraph IV(A) is an Eligible Employee and may receive a non-prorated PBRs Award for the PBRs Plan Year in which he or she is hired provided he or she is hired on or before November 1 and remains in an Eligible Employee position through December 31 of the PBRs Plan Year.

C. Participants

Unless the Committee is required to make such determinations under applicable law or the 2010 ICP, the CEO or the CEOs designee shall determine which Eligible Employees will receive an award under the PBRs Plan (a "PBRs Award"). All such determinations, whether by the CEO, the CEOs designee, or the Committee, shall be made no later than March 15 of the calendar year following the PBRs Plan Year. Each Eligible Employee who receives a PBRs Award is a "Participant" and the "PBRs Award Date" shall be the last business day of February of the PBRs Plan Year. No Eligible Employee has any right to receive a PBRs Award, regardless of whether such Eligible Employee is employed on the last day of the PBRs Plan Year, and the determination of whether an Eligible Employee will be a Participant shall be made in the sole discretion of the CEO, the CEOs designee or the Committee, as the case may be.

D. Status Changes

(i) **Promotions**. An employee who is promoted on or before November 1 of the PBRs Plan Year to a position satisfying the requirements set forth on Paragraph IV(A) is an Eligible Employee and may receive a PBRs Award for the year in which the promotion occurs. The salary upon which the Eligible Employee's PBRs Award will be based shall be the base salary as of December 31 of the PBRs Plan Year.

(ii) **Demotions**. An Eligible Employee who is demoted on or after November 1 of the PBRs Plan Year to a position not satisfying the requirements set forth on Paragraph IV(A) will remain an Eligible Employee and may receive a PBRs Award provided such demotion is not the result of voluntarily transfer to a lower level position, is not related to unsatisfactory performance, and is not as a result of a violation of a Company policy or Code of Ethics.

(iii) Termination of Employment During the PBRs Plan Year

- a) **In General**. Except as provided in paragraphs (ii)-(iv) below, if for any reason the employment of an Eligible Employee with the Company and any subsidiary of the Company terminates during a PBRs Plan Year, the Eligible Employee will not receive a PBRs Award for that PBRs Plan Year.
- b) **Retirement**. If an Eligible Employee is at least age 55 and has a minimum of 10 years of service with CVS Health or a predecessor company/subsidiary **or** is at least age 60 and has a minimum of 5 years of service with CVS Health or a predecessor company/subsidiary **and** the Eligible Employee retires prior to the last day of the PBRs Plan Year, he or she may receive a PBRs Award. Such PBRs Award may be payable in cash at the same time PBRs Awards are made to other Eligible Employees and may be pro-rated for the number of full months (a partial month will be counted as a full month) during which the Eligible Employee was an active employee based on a full calendar year, provided he or she meets all other eligibility criteria for a PBRs Award.
- c) **Death or Disability**. If an Eligible Employee dies or commences a long-term disability (as defined in the Company's LTD plan or by the Social Security Administrator), the Eligible Employee may receive a PBRs Award for the year in which the death or commencement of long-term disability occurs at the same time PBRs Awards are made to other Participants. Such PBRs Award will be pro-rated for the number of full months (a partial month will be counted as a full month) during which the Eligible Employee was an active employee based on a full calendar year and will (unless otherwise determined by the CEO or the Committee) be paid in cash based on the Eligible Employee's base salary in effect at the time of death or commencement of long-term disability. PBRs Awards with respect to deceased Eligible Employees shall be paid to the Eligible Employee's Beneficiary.
- d) **Other Terminations**. In the sole discretion of the CEO or the Committee (as the case may be), an Eligible Employee who terminates employment with the Company and its subsidiaries prior to the last day of the PBRs Plan Year or prior to the Plan payout date for any reason other than retirement, death or long-term disability, as

defined above in this section, may receive a PBRS Award. Such PBRS Award may be payable in cash at the same time PBRS Awards are made to other Participants and may be pro-rated for the number of full months (a partial month will be counted as a full month) during which the Eligible Employee was an active employee based on a full calendar year.

V. **Plan Performance Measures**

A. Unless otherwise approved by the Committee, PBRS funding is based on consolidated Company performance, measured by Operating Profit, Pharmacy Benefit Management (“PBM”) Client Satisfaction, and Retail Customer Service as defined below. Achievement of the Company’s Operating Profit target will determine 80% of total funding; achievement of PBM Client Satisfaction targets will determine 10% of the total funding; and achievement of the Retail Customer Service target, as measured by ‘myCustomer Experience’ scores, will determine the remaining 10% of the total funding.

1. Operating Profit

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

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

2. PBM Client Satisfaction

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

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

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

3. Retail Customer Service

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

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

COMPANY PERFORMANCE - TARGET MEASUREMENTS

Measurement	Percent Weight	Measurement Tool	Achievement Measured Against	Modifier
Operating Profit	80%	Earnings Before Interest and Taxes (“EBIT”)	20XX EBIT Goal	CEO & Committee Discretion (1) Financial Adjustments
PBM Client Satisfaction	10%	Client Relationship and Loyalty, Customer Care, Mail Service and Specialty Surveys	20XX PBM Client Satisfaction Target	Operating Profit Funding
Retail Customer Service	10%	myCustomer Service Scorecard	20XX myCustomer Experience Target	Operating Profit Funding

B. Unless otherwise determined by the Committee, in its sole discretion, the maximum PBRS Award that may be payable to any Participant under the PBRS Plan is 50% of base salary.

VI. Plan Payout

A. Target PBRS Award

The target PBRS Award for each Participant is 25% of the base salary in effect as of the last day of the PBRS Plan Year.

B. PBRS Award Determination and Vesting

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

The PBRS Award is equal to the Award Payout Percentage multiplied by the Participant's base salary as of the last day of the PBRS Plan Year, generally payable in RSUs. The number of RSUs that the Participant will receive is equal to the PBRS Award divided by the closing price of Company common stock on the PBRS Award Date.

C. Vesting

The RSUs issued in respect of any PBRS Award will vest in accordance with and subject to the terms and conditions of the 2010 ICP and the applicable agreement for each PBRS Award. PBRS Awards unvested as of a Participant's termination of employment shall be governed by the terms and conditions of the applicable agreement for each PBRS Award and the PBRS Plan in effect at the time of grant of each award.

VII. Plan Administration

A. Employment Rights

The PBRS Plan does not create any express or implied contract of employment between the Company and an Eligible Employee. Both the Company and an Eligible Employee (whether or not a Participant) retain the right to terminate the employment relationship at any time and for any reason.

B. Rights are Non-Assignable

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

C. Change in Control

In the event of a Change in Control, the PBRS Plan shall remain in full force and effect. Any modifications to or dissolution of the PBRS Plan by the acquiring entity may only occur prospectively and will not affect entitlements, awards or eligibility before the date of the Change in Control.

D. Plan Amendment/Modification/Termination

The Company retains the right to amend, modify, or terminate the PBRS Plan for any reason and at any time on or before December 31 of the PBRS Plan Year, with or without notice to Eligible Employees. No representative of the Company or its subsidiaries has the authority to modify the terms of this PBRS Plan without written consent of the Chief Human Resources Officer or his or her designee.

E. Withholding

The Company may provide for the withholding from any benefits payable under the PBRS Plan all federal, state, city or other taxes as shall be required pursuant to any law or governmental regulation or ruling.

F. Section 409A of the Code

The Company intends that the PBRS Plan not violate any applicable provision of, or result in any additional tax or penalty under, Section 409A of the Internal Revenue Code of 1986 (the "Code"), as amended, and the regulations and guidance thereunder (collectively, "Section 409A") and that to the extent any provisions of the PBRS Plan do not comply with Section 409A the Company will make such changes as it deems reasonable in order to comply with Section 409A. In all events, the provisions of CVS Health Corporation's Universal 409A Definitions Document are hereby incorporated by reference and, notwithstanding any other provision of the Plan or any Award to the contrary, to the extent required to avoid a violation of the applicable rules under Section 409A by reason of Section 409A(a)(2)(B)(i) of the Code, payment of any amounts subject to

Section 409A shall be delayed until the first business day of the seventh month immediately following the date of termination of employment. For purposes of any provision of the PBRS Plan providing for the payment of any amounts or benefits in connection with a termination of employment, references to an Eligible Employee's "termination of employment" (and corollary terms) shall be construed to refer to the Eligible Employee's "separation from service" with the Company as determined under Section 409A.

G. Request for Plan Interpretation

Any dispute or request for interpretation of any provision in the PBRS Plan must be submitted to the appropriate Human Resources Business Partner by the Eligible Employee or his or her manager in writing.

H. Compliance with Applicable Regulations

In order to be eligible to receive a PBRS Award under the PBRS Plan, a Participant must comply with all applicable state and federal regulations and Company policies.

I. Governing Law

The validity, construction and effect of the PBRS Plan, and any rules and regulations under the Plan shall be determined in accordance with Delaware law, without giving effect to principles of conflicts of laws and applicable federal law.

J. Recoupment

Except as may be specifically provided in the PBRS Award, each PBRS Award under the PBRS Plan shall be subject to the terms of the Company's Recoupment Policy as it exists from time to time, which may require the Participant to immediately repay to the Company the value of any pre-tax economic benefit that he or she may derive under the PBRS Plan.



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

GRANT DATE: APRIL __, ____

1. GRANT OF OPTION. Pursuant to the provisions of the 2010 Incentive Compensation Plan, as amended (the "ICP") of CVS Health Corporation (the "Company"), on the date set forth above (the "Grant Date"), the Company has granted and hereby evidences the Grant to the person named below (the "Participant"), subject to the terms and conditions set forth or incorporated in this Nonqualified Stock Option Agreement ("Agreement"), the right, and option, to purchase from the Company the aggregate number of shares of Common Stock (\$0.01 par value) of the Company ("Shares") set forth below, at the purchase price indicated below (the "Option"), the Option to be exercised as hereinafter provided. The ICP is hereby made a part hereof and Participant agrees to be bound by all the provisions of the ICP. Capitalized terms not otherwise defined herein shall have the meaning assigned to such term(s) in the ICP. The provisions in this Agreement shall be read in concert with the Amended and Restated Employment Agreement dated as of December 22, 2008, as amended as of December 21, 2012 (the "Employment Agreement") and the ICP. In the event of any ambiguity concerning the coordination of the provisions of this Agreement and the Employment Agreement, the terms of the document which provide Participant with the most favorable treatment with respect to the Option shall govern. The Option is a nonqualified option as defined in the ICP. The Option purchase price per Share as stated below is equal to the Fair Market Value per Share as of the Grant Date.

Participant: Larry Merlo
Employee ID: XXXXXX
Shares: XXXXXX
Option Price: \$XXX.XX

2. TERM OF OPTION. The term of the Option shall be for a period of seven (7) years from the Grant Date, subject to the earlier termination of the Option, as set forth in the ICP and in this Agreement. No portion of the Option shall be exercisable after the term of the Option.

3. EXERCISE OF OPTION. (a) The Option, subject to the provisions of the ICP, shall be exercised by submitting a request to exercise to the Company's stock option administrator, in accordance with the Company's current exercise policies and procedures, specifying the number of Shares to be purchased, which number may not be less than one hundred (100) Shares (unless the number of Shares purchased is the total balance which is then exercisable). An exercise by Participant of all or part of this Option shall effected through the Company's "cashless exercise" procedures. Otherwise, at the time of exercise, Participant shall tender to the Company cash or cash equivalent for the aggregate option price of the Shares Participant has elected to purchase or certificates for Shares of Common Stock of the Company owned by Participant for at least six (6) months with a fair market value at least equal to the aggregate option price of the Shares Participant has elected to purchase, or a combination of the foregoing.

(b) Prior to its expiration or termination and except as otherwise provided herein, the Option will become vested in accordance with the vesting schedule set forth below, each date on which vesting occurs a "Vesting Date", and any vested Option will be exercisable by Participant prior to the expiration of its term so long as Participant has maintained continuous employment with the Company or a subsidiary of the Company from the Grant Date through the exercise date:

- (i) 25% of the Option shall vest on the 1st anniversary of the Grant Date;
(ii) 25% of the Option shall vest on the 2nd anniversary of the Grant Date;
(iii) 25% of the Option shall vest on the 3rd anniversary of the Grant Date;
(iv) 25% of the Option shall vest on the 4th anniversary of the Grant Date.

4. **TAXES.** Upon a cashless exercise of the Option the Company shall withhold from the proceeds of the exercise of the Option any required taxes. If the Options is exercised other than through a cashless exercise Company shall have the right to require Participant to pay the amount of any withholding taxes immediately, upon notification from the Company, before the proceeds from the exercise are delivered to Participant. Furthermore, the Company may elect to deduct such taxes from any other amounts then payable to Participant in cash or in Shares or from any other amounts payable any time thereafter to Participant to the extent allowed under applicable law.

5. **TRANSFERABILITY.** The Option may be transferred to and may thereafter be exercised by one or more members of Participant's immediate family, by a trust established by Participant for the benefit of one or more members of Participant's immediate family, or by a partnership of Company of which the only owners are members of Participant's immediate family (the "Transferee(s)"); provided, that no portion of the Option may be transferred until such time as it becomes vested and exercisable pursuant to Section 3(b) hereof, and further provided that no more than fifty percent (50%) of the exercisable Option may be transferred by Participant. An "immediate family member" shall mean Participant's spouse, parents, children, grandchildren and the spouses of such parents, children and grandchildren. Transferee will be subject to all terms and conditions applicable to the Option prior to its transfer. Transferee may not again transfer the Option. In order to transfer the Option, Participant must notify the Company in the form of a "Notice of Transfer of Nonqualified Stock Option" (which form may be obtained from the Company's Legal Department) of such transfer and include the name, address and social security number of Transferee, as well as the relationship of Transferee to Participant. With respect to any transfer of an Option, Participant will be subject to any tax liability due upon exercise of the transferred Option by Transferee.

6. **TERMINATION OF EMPLOYMENT.** Unless otherwise provided for in the ICP, this Agreement or the Employment Agreement as amended from time to time, the Option (whether vested or unvested), to the extent not yet exercised, shall be forfeited immediately upon Participant's termination of employment with the Company or any of its subsidiaries. With respect to terminations addressed in the Employment Agreement, the provisions of the Employment Agreement as amended from time to time shall apply and continue to apply, except as set forth in this Section 6, notwithstanding any termination of the Employment Agreement. Otherwise, the following shall apply:

(a) **Retirement.** In the event of an "Approved Early Retirement" or "Normal Retirement" as such terms are defined below, the Option shall continue to vest and be exercisable in accordance with Section 10(f) of the Employment Agreement as amended from time to time; provided that the Option, to the extent it becomes vested in connection with an Approved Early Retirement or Normal Retirement, shall remain exercisable for the later of (1) the three (3) year period immediately following the Approved Early Retirement or Normal Retirement, or (2) the one (1) year period following the date the Option is fully vested but, in each case, not beyond the original term of the Option. Solely for purposes of the Option, the term "Approved Early Retirement" shall mean the Participant's voluntary termination of employment with the Company at or after attaining age sixty (60) but prior to attaining age sixty-five (65), and the term "Normal Retirement" shall mean Participant's voluntary termination of employment with the Company at or after attaining age sixty-five (65), in each case so long as (i) Participant provides at least twelve (12) months' advance notice to the Committee of his intent to take Approved Early Retirement or Normal Retirement, (ii) Participant fully cooperates with the Company in transitioning his duties during the period between the disclosure to the Committee of his intent to take Approved Early Retirement or Normal Retirement and his retirement date, (iii) Participant continues to be employed by the Company through the Approved Early Retirement or Normal Retirement date, and (iv) in the case of an Approved Early Retirement, the Committee approves such retirement.

(b) **Disability.** Notwithstanding any contrary provisions of any agreement (including the Employment Agreement), in the event Participant's employment with the Company and any subsidiary of the Company terminates by reason of total and permanent disability (as defined in the Company's Long-Term Disability Plan, or, if not defined in such Plan, as defined by the Social Security Administration), the Option shall vest as of the employment termination date on a pro-rata basis as follows: the Option shall vest with respect to a total number of Shares as of the employment termination date (which is the last day that Participant is employed by the Company and any subsidiary of the Company), equal to (i) the number of Shares subject to the Option on the Grant Date *multiplied* by the following fraction: (A) the numerator shall be the whole number of months elapsed as of the employment termination date since the Grant Date and (B) the denominator shall be forty-eight (48), *minus* (ii) the number of Shares with respect to which the Option vested prior to the employment termination date (whether or not the Option was previously exercised). For purposes of this calculation, the number of months in the numerator in sub-section (A) above shall include any partial month in which Participant has worked. For example, if the time elapsed between the Grant Date and the employment termination date is eight months and five days, the numerator

in sub-section (A) above shall be nine . The Option may be exercised to the extent vested at any time within one (1) year of Participant's employment termination date but not beyond the original term of the Option.

7. **REQUIRED ACCEPTANCE OF AWARD.** The Option may not be exercised unless and until the Company has received formal acceptance by Participant of the terms and conditions set forth herein as required by the Company. Acceptance may be submitted either electronically, if available, or in writing.

8. **NOTICE.** Any notice required to be given hereunder to the Company shall be in writing addressed to the Company, attention Senior Vice President, Chief Human Resources Officer, One CVS Drive, Woonsocket, RI 02895, and any notice required to be given hereunder to Participant shall be addressed to Participant at his address as shown on the records of the Company, subject to the right of either party hereafter to designate in writing to the other some other address.

9. **RECOUPMENT OF OPTION AWARD.** The Option subject to this Agreement under the ICP shall be subject to the terms of the Company's Recoupment Policy as it exists *from* time to time, which may require the Participant to immediately repay to the Company the value of any pre-tax economic benefit that he may derive from the grant of the Option hereunder. By accepting this Option grant, Participant acknowledges that a copy of the Company's Recoupment Policy has been made available for the Participant's reference.

10. **COMMITTEE AUTHORITY.** The Committee shall have the authority, in its sole discretion, to make any interpretations, determinations, and/or take any administrative actions with respect to the ICP and this Agreement, including whether any post-termination payments to Participant shall be deemed severance pay, the duration of any severance period, and/or whether a termination was without cause.

11. **GOVERNING LAW.** This Nonqualified Stock Option Agreement and the Option evidenced hereby shall be governed by the laws of Delaware, without giving effect to principles of conflict of laws.

12. **ACKNOWLEDGEMENT.** This Agreement shall be fully effective only upon the Participant's formal acceptance of the terms and conditions set forth above as required by the Company.

BY: _____
Lisa G. Bisaccia
Executive Vice President, Chief Human Resources Officer
CVS Health Corporation

Accepted By: _____
Larry J. Merlo

Date



**CVS HEALTH CORPORATION
BUSINESS PLANNING COMMITTEE
RESTRICTED STOCK UNIT AGREEMENT – ANNUAL GRANT
GRANT DATE : APRIL __, ____**

1. Pursuant and subject to the provisions of the 2010 Incentive Compensation Plan, as amended (the “**ICP**”) of CVS Health Corporation (the “**Company**”), on the date set forth above (the “**Grant Date**”), the Company has awarded and hereby evidences the Restricted Stock Unit (“**RSU**”) Award to the person named below (the “**Participant**”), subject to the terms and conditions set forth and incorporated in this Restricted Stock Unit agreement (the “**Agreement**”). The ICP is hereby made a part hereof and Participant agrees to be bound by all the provisions of the ICP. Capitalized terms not otherwise defined herein shall have the meaning assigned to such term(s) in the ICP. Except as expressly provided below in Sections 4 and 7, upon termination of employment the treatment of RSUs granted pursuant to this Agreement shall be governed under and subject to the terms of the Amended and Restated Employment Agreement between the Company and the Participant dated December 22, 2008, as amended December 21, 2012 (the “**Employment Agreement**”). On the Grant Date specified above, the Fair Market Value (the “**FMV**”), which is the Closing Price of the Company’s common stock on the Grant Date, of each RSU equals \$**XXXX.XX**.

Participant:	Larry J. Merlo
Employee ID:	XXXXXX
RSUs (#):	XXXXX

2. Each RSU represents a right to a future payment of one share (“**Share**”) of Common Stock (\$0.01 par value) of the Company, subject to required tax withholding.
3. (a) To the extent dividends are paid on Shares while the RSUs remain outstanding and prior to the Settlement Date (as defined below), subject to Section 5(b), Participant shall be entitled to receive a cash payment in an amount equivalent to the cash dividends with respect to the number of Shares covered by the RSUs; provided, however, that no dividends shall be payable with respect to any RSUs forfeited on or prior to the dividend record date.
- (b) Participant hereby agrees that the Company may withhold from the dividend equivalent amounts referred to in Paragraph 3(a) above amounts sufficient to satisfy the applicable tax withholding in respect of such dividend equivalent payments.
4. Subject to the terms and conditions of the ICP and this Agreement and subject to Participant’s continued employment, Participant shall be entitled to receive (and the Company shall deliver to Participant) the Shares on the Vesting Date(s) set forth herein, or as soon as administratively practicable, but within 30 days thereafter, (or in the Employment Agreement, as the case may be), unless delivery of the Shares has been deferred in accordance with Section 5 below (the date of such delivery of the Shares being hereafter referred to as the “**Settlement Date**”). Each “**Vesting Date**”, except as otherwise provided in Section 7, shall be in accordance with the schedule set forth below:
- (a) 50% of the RSUs shall vest on the third anniversary of the Grant Date (“Tranche A”);
- (b) 50% of the RSUs shall vest on the fifth anniversary of the Grant Date (“Tranche B”);

Provided, however, that a fraction of the Shares in Tranche A and Tranche B shall vest earlier on the effective date of the Participant’s Approved Early Retirement or Normal Retirement (as such terms are defined in the Employment Agreement) so long as:

- (i) Participant provides at least 12 months' advance notice to the Committee of his intent to take Approved Early Retirement or Normal Retirement,
- (ii) Participant fully cooperates with the Company in transitioning his duties during the period between the disclosure to the Committee of his intent to take Approved Early Retirement or Normal Retirement and his retirement date,
- (iii) Participant continues to be employed by the Company through the Approved Early Retirement or Normal Retirement date, and
- (iv) the Committee approves such vesting terms (such approval not to be unreasonably withheld), and, in the case of an Approved Early Retirement, approves such retirement.

If the foregoing conditions are satisfied, the number of RSUs that vest on the Approved Early Retirement or Normal Retirement date shall be calculated as follows: (A) the number of Shares from Tranche A that vest shall be the total number of Shares in Tranche A multiplied by a fraction in which the numerator is the whole number of months worked from the Grant Date through the Approved Early Retirement or Normal Retirement date and the denominator is thirty-six (36); (B) the number of Shares from Tranche B that vest shall be the total number of Shares in Tranche B multiplied by a fraction in which the numerator is the whole number of months worked from the Grant Date through the Approved Early Retirement or Normal Retirement date and the denominator is sixty (60). For purposes of this calculation, the number of months in the numerator in sub-section (A) above shall include any partial month in which Participant has worked. The Vesting Date shall be the effective date of the Participant's termination of employment as a result of Approved Early Retirement or Normal Retirement. Any Shares represented by RSUs that vest under this Section 4 shall settle in accordance with the original schedule set forth above.

5. (a) In accordance with rules promulgated by the Management Planning and Development Committee of the Board of Directors (the "**Committee**"), Participant, to the extent eligible under the CVS Health Deferred Stock Compensation Plan, may elect to defer delivery of Shares in settlement of RSUs covered by this Agreement. Any such deferred delivery date elected by Participant shall become the Settlement Date for purposes of this RSU Agreement.

(b) Notwithstanding Section 3(a), to the extent dividends are paid on such deferred Shares following the Vesting Date and prior to the Settlement Date, Participant shall be entitled to receive a number of additional deferred Shares equal to: (x) the amount of dividend per Share as declared by the Company's Board of Directors on the Company's common stock multiplied by (y) the number of deferred Shares held by Participant on the record date of such dividend, divided by (z) the FMV of a Share on such dividend payment date.
6. On the Settlement Date the number of Shares to be delivered by the Company to Participant shall be reduced by the smallest number of Shares having a FMV at least equal to the dollar amount of Federal, state and local tax withholding required to be withheld by the Company with respect to such RSUs on such date.
7. (a) Except as provided in Paragraphs 7(b) – (e) below, if, for any reason other than Approved Early Retirement or Normal Retirement, Participant's employment with the Company and any subsidiary of the Company terminates, all RSUs not then vested in accordance with Section 4 above shall be treated in accordance with the Employment Agreement. In the event of a conflict between the Employment Agreement and the provisions in Sections 7(b) – (e) of this Agreement, this Agreement shall control.

(b) In the event Participant's employment with the Company and any subsidiary of the Company, terminates for Cause (as defined in the Employment Agreement) or as a result of voluntary termination (as described in Section 10(d) of the Employment Agreement), all RSUs not then vested shall be immediately forfeited.

(c) (i) In the event Participant's employment with the Company and any subsidiary of the Company terminates prior to the third anniversary of the Grant Date, by reason of total and permanent disability (as defined in the Company's Long-Term Disability Plan, or, if not defined in such Plan, as defined by the Social Security Administration), the RSUs shall vest on a pro rata basis as follows: the total number of RSUs vested as of the termination date, which is the last date that the Participant is employed by the Company and any subsidiary of the Company, shall be equal to the number of RSUs granted on the Grant Date multiplied by the following fraction: (A) the numerator shall be the whole number of months elapsed Participant's termination date and (B) the denominator shall be thirty-six (36). For purposes of

this calculation, the number of months in the numerator in sub-section (A) above shall include any partial month in which Participant has worked. For example, if the time elapsed between the Grant Date and the termination date is eight months and five days, the numerator in sub-section (A) above shall be nine. The Vesting Date shall be the effective date of the Participant's termination of employment. Any Shares represented by RSUs that vest under this section shall settle on the Settlement Date that would have applied under the original schedule set forth in Section 4 of this RSU Agreement.

(ii) In the event the Participant's employment with the Company and any subsidiary of the Company terminates on or after the third anniversary, but prior to the fifth anniversary, of the Grant Date, by reason of total and permanent disability (as defined in the Company's Long-Term Disability Plan, or, if not defined in such Plan, as defined by the Social Security Administration), the remaining unvested RSUs shall vest on a pro rata basis according to the following formula: 50% of the RSUs granted on the Grant Date multiplied by the following fraction: (C) the numerator shall be the whole number of months elapsed as of the termination date since the Grant Date as of Participant's termination date and (D) the denominator shall be sixty (60). For purposes of this calculation, the number of months in the numerator in sub-section (C) above shall include any partial month in which Participant has worked. For example, if the time elapsed between the Grant Date and the termination date is fifty-four months and five days, the numerator in sub-section (C) above shall be fifty-five. The Vesting Date shall be the effective date of the Participant's termination of employment. Any Shares represented by RSUs that vest under this section shall settle on the Settlement Date that would have applied under the original schedule set forth in Section 4 of this RSU Agreement.

(d) Notwithstanding the above, (i) the provisions of Section 10 of the ICP shall apply in the event of a Change in Control (as defined in such Section 10) and (ii) the provisions of Section 7(e)(iv) of the ICP shall apply.

(e) For purposes of this Section 7, transfer of Participant's employment from the Company to a subsidiary of the Company, transfer among or between subsidiaries of the Company, or transfer from a subsidiary of the Company to the Company shall not be treated as termination of employment.

8. An RSU does not represent an equity interest in the Company and carries no voting rights. Participant shall have no rights of a shareholder with respect to the RSUs until the Shares have been delivered to Participant.
9. Neither the execution and delivery hereof nor the granting of the award evidenced hereby shall constitute or be evidence of any agreement or understanding, express or implied, on the part of the Company or its subsidiaries to employ Participant for any specific period.
10. Any notice required to be given hereunder to the Company shall be in writing addressed to: CVS Health Corporation, Senior Vice President, Chief Human Resources Officer, One CVS Drive, Woonsocket, RI 02895. Any notice required to be given hereunder to Participant shall be addressed to such Participant at the address shown on the records of the Company, subject to the right of either party hereafter to designate, in writing, to the other, some other address.
11. All decisions and interpretations made by the Board of Directors or the Committee with regard to any question arising hereunder or under the ICP shall be binding and conclusive on all persons. In the event of any inconsistency between the terms hereof and the provisions of the ICP, the ICP shall govern.
12. By accepting this Award, Participant acknowledges that a copy of the ICP has been made available by the Company for Participant's reference and agrees to be bound by the terms and conditions set forth in this Agreement and the ICP as in effect from time to time.
13. By accepting this Award, Participant further acknowledges that the Federal securities laws and/or Company's policies regarding trading in its securities may limit or restrict Participant's right to trade Shares, including without limitation, sales of Shares acquired in connection with RSUs. Participant agrees to comply with such Federal securities law requirements and Company policies as such laws and policies may be amended from time to time.
14. The Company intends that this Agreement not violate any applicable provision of, or result in any additional tax or penalty under, Section 409A of the Internal Revenue Code of 1986 (the "Code"), as amended, and that to the extent any provisions of this Agreement do not comply with Code Section 409A the Company will make such

changes in order to comply with Code Section 409A to the extent it considers reasonable. In all events, the provisions of CVS Health Corporation's 409A Universal Definitions Document are hereby incorporated by reference and to the extent required to avoid a violation of the applicable rules under all Section 409A by reason of Section 409A(a)(2)(B)(i) of the Code, payment of any amounts subject to Section 409A of the Code shall be delayed until the first business day of the seventh month immediately following the employment termination date. For purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment, references to a "termination of employment" (and corollary terms) shall be construed to refer to a "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)). Notwithstanding the foregoing, the Company makes no representations as to the tax treatment or consequences of any payment made hereunder, and Participant, by accepting this Award, acknowledges that Participant shall be solely responsible for same.

15. The Award subject to this RSU Agreement under the ICP shall be subject to the terms of the Company's Recoupment Policy as it exists from time to time, which may require the Participant to immediately repay to the Company the value of any pre-tax economic benefit that he may derive from the Award. By accepting this Award Participant acknowledges that the Company's Recoupment Policy has been made available for the Participant's reference.
16. This Agreement shall be governed by the laws of Delaware, without giving effect to its choice of law provisions.
17. This Agreement shall be fully effective only upon the Participant's formal acceptance of the terms and conditions set forth above as required by the Company.

By: _____
Lisa G. Bisaccia
Executive Vice President, Chief Human Resources Officer
CVS Health Corporation

Accepted By: _____
Larry J. Merlo

Date



**CVS HEALTH CORPORATION
BUSINESS PLANNING COMMITTEE
RESTRICTED STOCK UNIT AGREEMENT – ANNUAL GRANT
GRANT DATE : APRIL 1, 2016**

1. Pursuant and subject to the provisions of the 2010 Incentive Compensation Plan, as amended (the “**ICP**”) of CVS Health Corporation (the “**Company**”), on the date set forth above (the “**Grant Date**”), the Company has awarded and hereby evidences the Restricted Stock Unit (“**RSU**”) Award to the person named below (the “**Participant**”), subject to the terms and conditions set forth and incorporated in this Restricted Stock Unit agreement (the “**Agreement**”). The ICP is hereby made a part hereof and Participant agrees to be bound by all the provisions of the ICP. Capitalized terms not otherwise defined herein shall have the meaning assigned to such term(s) in the ICP. On the Grant Date specified above, the Fair Market Value (the “**FMV**”), which is the Closing Price of the Company’s common stock on the Grant Date, of each RSU equals **\$104.82**.

Participant:	Jonathan C. Roberts
Employee ID:	XXXXX
RSUs (#):	21,465

2. Each RSU represents a right to a future payment of one share (“**Share**”) of Common Stock (\$0.01 par value) of the Company, subject to required tax withholding.
3. (a) To the extent dividends are paid on Shares while the RSUs remain outstanding and prior to the Settlement Date (as defined below), subject to Section 5(b), Participant shall be entitled to receive a cash payment in an amount equivalent to the cash dividends with respect to the number of Shares covered by the RSUs; provided, however, that no dividends shall be payable with respect to any RSUs forfeited on or prior to the dividend record date.
- (b) Participant hereby agrees that the Company may withhold from the dividend equivalent amounts referred to in Paragraph 3(a) above amounts sufficient to satisfy the applicable tax withholding in respect of such dividend equivalent payments.
4. Subject to the terms and conditions of the ICP and this Agreement and subject to Participant’s continued employment, Participant shall be entitled to receive (and the Company shall deliver to Participant) the Shares on the Vesting Date(s) set forth herein, or as soon as administratively practicable, but within 30 days thereafter, unless delivery of the Shares has been deferred in accordance with Section 5 below (the date of such delivery of the Shares being hereafter referred to as the “**Settlement Date**”). Each “**Vesting Date**,” except as otherwise provided in Section 7, shall be in accordance with the schedule set forth below:
- (a) 50% of the RSUs shall vest on the third anniversary of the Grant Date;
- (b) 50% of the RSUs shall vest on the fifth anniversary of the Grant Date.
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5. (a) In accordance with rules promulgated by the Management Planning and Development Committee of the Board of Directors (the “ **Committee** ”), Participant, to the extent eligible under the CVS Health Deferred Stock Compensation Plan, may elect to defer delivery of Shares in settlement of RSUs covered by this Agreement. Any such deferred delivery date elected by Participant shall become the Settlement Date for purposes of this RSU Agreement.
- (b) Notwithstanding Section 3(a), to the extent dividends are paid on such deferred Shares following the Vesting Date and prior to the Settlement Date, Participant shall be entitled to receive a number of additional deferred Shares equal to: (x) the amount of dividend per Share as declared by the Company’s Board of Directors on the Company’s common stock multiplied by (y) the number of deferred Shares held by Participant on the record date of such dividend, divided by (z) the FMV of a Share on such dividend payment date.
6. On the Settlement Date the number of Shares to be delivered by the Company to Participant shall be reduced by the smallest number of Shares having a FMV at least equal to the dollar amount of Federal, state and local tax withholding required to be withheld by the Company with respect to such RSUs on such date.
7. (a) Except as provided in Paragraphs 7 (b) – (f) below, if, for any reason, Participant’s employment with the Company and any subsidiary of the Company terminates, all RSUs not then vested in accordance with Section 4 above shall be immediately forfeited.
- (b) In the event Participant’s employment with the Company and any subsidiary of the Company terminates by reason of death, RSUs not then vested in accordance with Section 4 will become immediately vested and the Vesting Date shall be the date of death.
- (c) (i) In the event Participant’s employment with the Company and any subsidiary of the Company terminates prior to the third anniversary of the Grant Date by reason of a “ **Qualified Retirement** ”, the following shall apply:
- (1) RSUs that are unvested as of the Participant’s retirement date, which is the last day that the Participant is employed by the Company and any subsidiary of the Company, shall vest as of the Participant’s retirement date on a pro rata basis as follows: the total number of RSUs vesting as of the retirement date shall be equal to the number of RSUs granted on the Grant Date multiplied by the following fraction: (A) the numerator shall be the whole number of months elapsed as of the retirement date since the Grant Date and (B) the denominator shall be thirty-six (36). For purposes of this calculation, the number of months in the numerator in sub-section (A) above shall include any partial month in which Participant has worked. For example, if the time elapsed between the Grant Date and the retirement date is eight months and five days, the numerator in sub-section (A) above shall be nine, and any Shares represented by RSUs that so vest shall settle in accordance with the original schedule set forth in Section 4 of this Agreement; and
- (2) Provided that Participant has executed and complies in all respects with the “ **Restrictive Covenant Agreement** ”, upon his Qualified Retirement and his compliance with the Restrictive Covenant Agreement through the expiration of its term, Participant shall vest in any RSUs that are unvested as of his retirement date, as determined after the application of the provisions of subsection (1) above, on the last day of the three-year restrictive period, and the RSUs shall settle on that same day.
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(ii) In the event Participant's employment with the Company and any subsidiary of the Company terminates on or after the third anniversary, but prior to the fifth anniversary of the **Grant Date** by reason of a "**Qualified Retirement**", the following shall apply:

(1) RSUs that are unvested as of the Participant's retirement date, which is the last day that the Participant is employed by the Company and any subsidiary of the Company, shall vest as of the Participant's retirement date on a pro rata basis as follows: the total number of RSUs vesting as of the retirement date shall be equal to 50% of the RSUs granted on the Grant Date multiplied by the following fraction: (A) the numerator shall be the whole number of months elapsed as of the retirement date since the Grant Date and (B) the denominator shall be sixty (60). For purposes of this calculation, the number of months in the numerator in sub-section (A) above shall include any partial month in which Participant has worked. For example, if the time elapsed between the Grant Date and the retirement date is eight months and five days, the numerator in sub-section (A) above shall be nine, and any Shares represented by RSUs that so vest shall settle in accordance with the original schedule set forth in Section 4 of this Agreement; and

(2) Provided that Participant has executed and complies in all respects with the "**Restrictive Covenant Agreement**", upon his Qualified Retirement and his compliance with the Restrictive Covenant Agreement through the expiration of its term, Participant shall vest in any RSUs that are unvested as of his retirement date, as determined after the application of the provisions of subsection (1) above, on the last day of the three-year restrictive period, and the RSUs shall settle on that same day.

"**Restrictive Covenant Agreement**" shall mean the restrictive covenant agreement in the form required by the Company in connection with the grant hereunder, attached hereto as Exhibit A, that sets forth restrictive covenants, such as non-competition, non-disclosure, and/or non-solicitation obligations, for a three-year period immediately following Participant's employment termination, as well as any later restrictive covenant agreement that may be required by the Company.

"**Qualified Retirement**" shall mean termination of employment on or after attainment of age fifty-five (55) with at least ten (10) years of continuous service or attainment of age sixty (60) with at least five (5) years of continuous service, provided that: (i) if Participant elects to terminate his employment voluntarily, Participant has provided the Company with at least twelve (12) months advance written notice of his retirement and retirement date or (ii) if the Company elects to terminate Participant's employment, such termination is without cause; and (iii) in either case, such retirement and retirement date have been approved by the Committee. In the event Participant's termination of employment qualifies as a Qualified Retirement and Participant also enters into a severance agreement with the Company, the terms of this Section 7(c) shall apply.

(d) (i) In the event Participant's employment with the Company and any subsidiary of the Company terminates prior to the third anniversary of the Grant Date by reason of total and permanent disability (as defined in the Company's Long-Term Disability Plan, or, if not defined in such Plan, as defined by the Social Security Administration), the RSUs shall vest as of the employment termination date on a pro rata basis as follows: the total number of RSUs vested as of the termination date, which is the last date that the Participant is employed by the Company and any subsidiary of the Company, shall be equal to the number of RSUs granted on the Grant Date multiplied by the following fraction: (A) the numerator shall be the whole number of months elapsed as of Participant's termination date since the Grant Date and (B) the denominator shall be thirty-six (36). For purposes

of this calculation, the number of months in the numerator in sub-section (A) above shall include any partial month in which Participant has worked. For example, if the time elapsed between the Grant Date and the termination date is eight months and five days, the numerator in sub-section (A) above shall be nine. Any Shares represented by RSUs that vest under this section shall settle on the Settlement Date that would have applied under the original schedule set forth in Section 4 of this RSU Agreement.

(ii) In the event the Participant's employment with the Company and any subsidiary of the Company terminates after the third anniversary, but prior to the fifth anniversary, of the Grant Date, by reason of total and permanent disability (as defined in the Company's Long-Term Disability Plan, or, if not defined in such Plan, as defined by the Social Security Administration), the remaining unvested RSUs shall vest as of the employment termination date on a pro rata basis according to the following formula: 50% of the RSUs granted on the Grant Date multiplied by the following fraction: (C) the numerator shall be the whole number of months elapsed as of the termination date since the Grant Date as of Participant's termination date and (D) the denominator shall be sixty (60). For purposes of this calculation, the number of months in the numerator in sub-section (C) above shall include any partial month in which Participant has worked. For example, if the time elapsed between the Grant Date and the termination date is fifty-four months and five days, the numerator in sub-section (C) above shall be fifty-five. Any Shares represented by RSUs that vest under this section shall settle on the Settlement Date that would have applied under the original schedule set forth in Section 4 of this RSU Agreement.

(e) In the event Participant's employment with the Company and any subsidiary of the Company terminates and Participant receives severance pay, RSUs not vested at the time of Participant's employment termination date but scheduled to vest during the severance period specified in the agreement providing for severance pay shall vest as of the Participant's employment termination date and settle in accordance with the original schedule set forth in Section 4 of this RSU Agreement. All RSUs not scheduled to vest during the specified severance period shall be forfeited as of the last day of the Participant's severance period. In the event that Participant returns to employment with the Company or any subsidiary prior to the expiration of the severance period specified in a severance agreement with the Company, Participant shall be treated as if his employment with the Company or any subsidiary of the Company had continued through the severance period for purposes of determining eligibility for continued vesting. In the event Participant's termination of employment qualifies as a Qualified Retirement the terms of Section 7(c) shall apply.

(f) Notwithstanding the above, (i) the provisions of Section 10 of the ICP shall apply in the event of a Change in Control (as defined in such Section 10) and (ii) the provisions of Section 7(e)(iv) of the ICP shall apply.

(g) For purposes of this Section 7, transfer of Participant's employment from the Company to a subsidiary of the Company, transfer among or between subsidiaries of the Company, or transfer from a subsidiary of the Company to the Company shall not be treated as a termination of employment.

(h) Participant will be responsible for any applicable withholding or other taxes that may become due as a result of RSUs that vest as of Participant's employment termination date or thereafter.

8. An RSU does not represent an equity interest in the Company and carries no voting rights. Participant shall have no rights of a shareholder with respect to the RSUs until the Shares have been delivered to Participant.

9. Neither the execution and delivery hereof nor the granting of the award evidenced hereby shall constitute or be evidence of any agreement or understanding, express or implied, on the part of the Company or its subsidiaries to employ Participant for any specific period.
10. Any notice required to be given hereunder to the Company shall be addressed in writing to: CVS Health Corporation, Senior Vice President, Compensation & Benefits, One CVS Drive, Woonsocket, RI 02895. Any notice required to be given hereunder to Participant shall be addressed to such Participant at the address shown on the records of the Company, subject to the right of either party hereafter to designate, in writing, to the other, some other address.
11. All decisions and interpretations made by the Board of Directors or the Committee with regard to any question arising hereunder or under the ICP shall be binding and conclusive on all persons. In the event of any inconsistency between the terms hereof and the provisions of the ICP, the ICP shall govern.
12. The award of RSUs pursuant to this Agreement is expressly subject to and contingent upon the requirement that the Participant shall have fully executed and delivered to the Company the Restrictive Covenant Agreement attached as Exhibit A.

Participant agrees to execute and deliver such agreement by the deadline set forth by the Company, which shall be no less than ten days from the date it is provided to Participant.

Participant agrees that failure to execute and return the Restrictive Covenant Agreement by the deadline set forth by the Company shall result in the immediate and irrevocable forfeiture of the RSU Award hereunder and any right to receive dividend equivalents or Shares with respect thereto. Further, if Participant violates any provision of the Restrictive Covenant Agreement, any unvested RSUs will be immediately and irrevocably forfeited, and no payment of any kind, including dividend equivalents or Shares, shall be payable with respect thereto. This Section shall not constitute the Company's exclusive remedy for Participant's violation of the Restrictive Covenant Agreement, and the Company may seek all available legal or equitable remedies in the event of Participant's violation or threatened of the Restrictive Covenant Agreement, including injunctive relief.

13. By accepting this Award, Participant acknowledges that a copy of the ICP has been made available by the Company for Participant's reference and agrees to be bound by the terms and conditions set forth in this Agreement and the ICP as in effect from time to time, including the requirement that Participant sign and return the Restrictive Covenant Agreement, as required by the Company as set forth in Section 12.
 14. By accepting this Award, Participant further acknowledges that the Federal securities laws and/or Company's policies regarding trading in its securities may limit or restrict Participant's right to trade Shares, including without limitation, sales of Shares acquired in connection with RSUs. Participant agrees to comply with such Federal securities law requirements and Company policies as such laws and policies may be amended from time to time.
 15. The Company intends that this Agreement not violate any applicable provision of, or result in any additional tax or penalty under, Section 409A of the Internal Revenue Code of 1986 (the "Code"), as amended, and that to the extent any provisions of this Agreement do not comply with Code Section 409A the Company will make such changes in order to comply with Code Section 409A to the extent it considers reasonable. In all events, the provisions of CVS Health Corporation's 409A Universal Definitions Document are hereby incorporated by reference, and to the extent required to avoid a violation of the applicable rules under Section 409A by reason of Section 409A(a)(2)(B)(i) of the
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Code, payment of any amounts subject to Section 409A of the Code shall be delayed until the first business day of the seventh month immediately following the employment termination date. For purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment, references to a "termination of employment" (and corollary terms) shall be construed to refer to a "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)). Notwithstanding the foregoing, the Company makes no representations as to the tax treatment or consequences of any payment made hereunder, and Participant, by accepting this Award, acknowledges that Participant shall be solely responsible for same.

16. The Award subject to this RSU Agreement under the ICP shall be subject to the terms of the Company's Recoupment Policy as it exists from time to time, which may require the Participant to immediately repay to the Company the value of any pre-tax economic benefit that he or she may derive from the Award. By accepting this Award, Participant acknowledges that the Company's Recoupment Policy has been made available for the Participant's reference.
17. This Agreement shall be governed by the laws of Delaware, without giving effect to its choice of law provisions.
18. This Agreement shall be fully effective only upon the Participant's formal acceptance of the terms and conditions set forth above as required by the Company.

By: /s/ Lisa G. Bisaccia
Lisa G. Bisaccia
Executive Vice President, Chief Human Resources Officer
CVS Health Corporation

Accepted By: /s/ Jonathan C. Roberts
Participant Signature

May 20, 2016
Date

CVS Pharmacy, Inc.
Restrictive Covenant Agreement

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

1. Consideration for Agreement . I am entering into this Agreement in consideration of: (a) the Corporation’s award of restricted stock units as set forth in the “Restricted Stock Unit Agreement - Annual Grant dated April 1, 2016” (the “2016 RSU Agreement”) to which this Agreement is attached, contingent on my execution of this Agreement and compliance with its terms; and (b) in connection with my duties and responsibilities at CVS Health Corporation or one of its subsidiaries or affiliates (collectively, the “Corporation”), the Corporation will provide me with Confidential Information and/or access to the Corporation’s customers and clients and the opportunity to develop and maintain relationships and goodwill with them.

2. Non-Competition . During my employment by the Corporation and during the Non-Competition Period following the termination of my employment for any reason, I will not, directly or indirectly, engage in Competition or provide Consulting or Audit Services within the Restricted Area.

a. **Competition** . Engaging in “Competition” means providing services to a Competitor of the Corporation (whether as an employee, independent contractor, consultant, principal, agent, partner, officer, director, investor, or shareholder, except as a shareholder of less than one percent of a publicly traded company) that: (i) are the same or similar in function or purpose to the services I provided to the Corporation during the last two years of my employment by the Corporation, or (ii) will likely result in the disclosure of Confidential Information to a Competitor or the use of Confidential Information on behalf of a Competitor. If a representative of the Corporation, during my employment or the Non-Competition Period, requests that I identify the company or business to which I will be or am providing services, or with which I will be or am employed, and requests that I provide information about the services that I am or will be providing to such entity, I shall provide the Corporation with a written statement detailing the identity of the entity and the nature of the services that I am or will be providing to such entity with sufficient detail to allow the Corporation to independently assess whether I am or will be in violation of this Agreement. Such statement shall be delivered to the Corporation’s Chief Human Resources Officer or her authorized delegate via personal delivery or overnight delivery within five calendar days of my receipt of such request.

b. **Com petitor** . A “Competitor” for purposes of this Agreement shall mean any person, corporation or other entity that competes with one or more of the business offerings of the Corporation. As of the Effective Date, the Corporation’s business offerings include: (i) pharmacy benefits management (“PBM”), including: (a) the administration of pharmacy benefits for businesses, government agencies and health plans; (b) mail order pharmacy; (c) specialty pharmacy, including but not limited to infusion and related services; (d) Medicare Part D services; (ii) retail, which includes the sale of prescription drugs, over-the-counter medications, beauty products and cosmetics, photo finishing, seasonal merchandise, greeting cards, convenience foods and other product lines that are sold by the Corporation’s retail division; (iii) retail health care (“MinuteClinic”); and (iv) the provision of pharmaceutical products and ancillary services, including specialty pharmaceutical products and support services, and the provision of related pharmacy consulting, data management services and medical supplies to long-term care facilities, other healthcare service providers and recipients of services from such facilities (“Long-Term Care”). A person or entity shall not be considered a retail Competitor if such entity derives annual gross revenues from its business in an amount that is less than 5% of the Corporation’s gross revenues from its retail business during its most recently completed fiscal year. The Parties acknowledge that both the Corporation’s products and services and the entities that compete with the Corporation’s products and services evolve and that an entity will be considered a Competitor if it provides products or services competitive with the products and services provided by the Corporation within the last two years of my employment.

Given my role in the Corporation, I agree to this enterprise-wide definition of non-competition that will prevent me from providing services to the Corporation’s PBM, retail and MinuteClinic Competitors during the relevant time period.

c. **Consulting or Audit Services** . “Consulting or Audit Services” shall mean any activity that involves providing audit review or other consulting or advisory services with respect to any relationship or prospective relationship between the Corporation and any third party, including but not limited to PBM and Long Term Care clients, suppliers or vendors and that is likely to result in the use or disclosure of Confidential Information.

d. **Non-Competition Period** . The “Non-Competition Period” shall be the period of three (3) years following the termination of my employment with the Corporation for any reason.

e. **Restricted Area** . “Restricted Area” refers to those states within the United States in which the Corporation conducts its business, as well as the District of Columbia and Puerto Rico. To the extent I worked on international projects in Brazil and/or Ireland or other countries where the Corporation may conduct business, the Restricted Area includes those countries and prospective countries.

f. **Acknowledgment**. I acknowledge and agree that the geographic scope and duration of the restrictions set forth in this Section 2

are reasonable and necessary to protect the legitimate business interests of the Corporation, including the Corporation's Confidential Information and good will, in light of the very senior position I hold with the Corporation and the highly sensitive information with which I have been and will be entrusted. I further acknowledge that I have received adequate consideration for any loss of opportunity associated with the provisions herein, which is described in the 2016 RSU Agreement and to which I would not otherwise be entitled but for my execution of this Agreement.

3. Non-Solicitation . During the Non-Solicitation Period, which shall be three (3) years following the termination of my employment with the Corporation for any reason, I will not, unless a duly authorized officer of the Corporation gives me written authorization to do so:

a. interfere with the Corporation's relationship with its Business Partners by soliciting or communicating (regardless of who initiates the communication) with a Business Partner to: (i) induce or encourage the Business Partner to stop doing business or reduce its business with the Corporation, or (ii) buy a product or service that competes with a product or service offered by the Corporation's business. "Business Partner" means: a customer (person or entity), prospective customer (person or entity), supplier, manufacturer, broker, hospital, hospital system, and/or pharmaceutical company with whom the Corporation has a business relationship and with which I had business-related contact or dealings, or about which I received Confidential Information, in the two years prior to the termination of my employment with the Corporation. A Business Partner does not include a customer, supplier, manufacturer, broker, hospital, hospital system, pharmaceutical company that has fully and finally ceased doing any business with the Corporation independent of any conduct or communications by me or breach of this Agreement. Nothing in this Paragraph 3(a) shall prevent me from working as a staff pharmacist or in another retail position wherein I would be providing or selling prescriptions or other products directly to consumers.

b. work on a Corporation account on behalf of a Business Partner or serve as the representative of a Business Partner for the Corporation.

c. interfere with the Corporation's relationship with any employee or contractor of the Corporation by: (i) soliciting or communicating with the employee or contractor to induce or encourage him or her to leave the Corporation's employ or engagement (regardless of who first initiates the communication); (ii) helping another person or entity evaluate such employee or contractor as an employment or contractor candidate; or (iii) otherwise helping any person or entity hire an employee or contractor away from the Corporation.

d. **Acknowledgment.** I acknowledge and agree that the geographic scope and duration of the restrictions set forth in this Section 3 are reasonable and necessary to protect the legitimate business interests of the Corporation, including the Corporation's Confidential Information and good will, in light of the very senior position I hold with the Corporation and the highly sensitive information with which I have been and will be entrusted. I further acknowledge that I have received adequate consideration for any loss of opportunity associated with the provisions herein, which is described in the 2016 RSU Agreement and to which I would not otherwise be entitled but for my execution of this Agreement.

4. Non-Disclosure of Confidential Information .

a. Subject to Section 7 below, I will not at any time, whether during or after the termination of my employment, disclose to any person or entity any of the Corporation's Confidential Information, except as may be appropriately required in the ordinary course of performing my duties as an employee of the Corporation. The Corporation's Confidential Information includes but is not limited to the following non-public information: trade secrets; computer code generated or developed by the Corporation; software or programs and related documentation; strategic compilations and analysis; strategic processes; business or financial methods, practices and plans; non-public costs and prices; operating margins; marketing, merchandising and selling techniques and information; customer lists; details of customer agreements; pricing arrangements with drug manufacturers, including but not limited to any discounts and/or rebates; pharmacy reimbursement rates; expansion strategies; real estate strategies; operating strategies; sources of supply; patient records; and confidential information of third parties which is given to the Corporation pursuant to an obligation or agreement to keep such information confidential (collectively, "Confidential Information"). I shall not use or attempt to use any Confidential Information on behalf of any person or entity other than the Corporation, or in any manner which may injure or cause loss or may be calculated to injure or cause loss, whether directly or indirectly, to the Corporation. For employees residing in Connecticut, these restrictions on use or disclosure of Confidential Information will only apply for three (3) years after the end of my employment where information that does not qualify as a trade secret is concerned; however, the restrictions will continue to apply to trade secret information for as long as the information at issue remains qualified as a trade secret.

b. During my employment, I shall not make, use, or permit to be used, any materials of any nature relating to any matter within the scope of the business of the Corporation or concerning any of its dealings or affairs other than for the benefit of the Corporation. I shall not, after the termination of my employment, use or permit to be used any such materials and shall return same in accordance with Section 5 below.

5. Ownership and Return of the Corporation's Property . On or before my final date of employment with the Corporation, I shall return to the Corporation all property of the Corporation in my possession, custody or control, including but not limited to the originals and copies of any information provided to or acquired by me in connection with the performance of my duties for the Corporation, such as files, correspondence, communications, memoranda, e-mails, slides, records, and all other documents, no matter how produced or reproduced, all computer equipment, communication devices (including but not limited to any mobile phone, BlackBerry or other portable digital assistant or device), computer programs and/or files, and all office keys and access cards. I agree that all the items described in this Section are the sole property of the Corporation .

6. Rights to Inventions, Works .

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

b. **Inventions Retained and Licensed.** I have attached hereto as Exhibit A, a list describing all inventions, original works of authorship, developments, improvements, and trade secrets which were made by me prior to my employment with the Corporation ("Prior Inventions"), which belong to me and are not assigned to the Corporation hereunder. If no such list is attached, I represent that there are no such Prior Inventions. I will not incorporate, or permit to be incorporated, any Prior Invention owned by me or in which I have an interest into a Corporation product, process or machine without the Corporation's prior written consent. Notwithstanding the foregoing sentence, if, in the course of my employment with the Corporation, I incorporate into a Corporation product, process or machine a Prior Invention owned by me or in which I have an interest, the Corporation is hereby granted and shall have a nonexclusive, royalty-free, irrevocable, perpetual, worldwide license to make, have made, modify, use and sell such Prior Invention as part of or in connection with such product, process or machine.

c. **Patent and Copyright Registrations.** I will assist the Corporation, or its designee, at the Corporation's expense, in every proper way to secure the Corporation's rights in the Inventions and any copyrights, patents, mask work rights or other intellectual property rights relating thereto, including, but not limited to, the disclosure to the Corporation of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, assignments and all other instruments which the Corporation shall deem necessary in order to apply for and obtain such rights and in order to assign and convey to the Corporation, its successors, assigns, and nominees the sole and exclusive rights, title and interest in and to such Inventions, and any copyrights, patents, mask work rights or other intellectual property rights relating thereto. My obligation to execute or cause to be executed, when it is in my power to do so, any such instrument or papers shall continue after my employment ends for any reason and/or after the termination of this Agreement. If the Corporation is unable because of my mental or physical incapacity or for any other reason to secure my signature to apply for or to pursue any application for any United States or foreign patents or copyright registrations covering Inventions or original works of authorship assigned to the Corporation as above, then I hereby irrevocably designate and appoint the Corporation and its duly authorized officers and agents as my agent and attorney in fact, to act for and in my behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of letters patent or copyright registrations thereon with the same legal force and effect as if executed by me.

d. **Exception to Assignments .** I understand that if I am an employee in Illinois, Kansas, North Carolina, Utah or Minnesota, I should refer to Exhibit B (incorporated herein for all purposes) for important limitations on the scope of the provisions of this Agreement concerning assignment of Inventions. I will advise the Corporation promptly in writing of any inventions that I believe meet the criteria in Exhibit B and that are not otherwise disclosed on Exhibit A.

7. Cooperation .

a. In the event that I receive a subpoena, deposition notice, interview request, or other process or order to testify or produce Confidential Information or any other information or property of the Corporation, I shall promptly: (a) notify the Corporation of the item, document, or information sought by such subpoena, deposition notice, interview request, or other process or order; (b) furnish the Corporation with a copy of said subpoena, deposition notice, interview request, or other process or order; and (c) provide reasonable cooperation with respect to any procedure that the Corporation may initiate to protect Confidential Information or other interests. If the Corporation objects to the subpoena, deposition notice, interview request, process, or order, I shall cooperate to ensure that there shall be no disclosure until the court or other applicable entity has ruled upon the objection, and then only in accordance with the ruling so made. If no such objection is made despite a reasonable opportunity to do so, I shall be entitled to comply with the subpoena, deposition, notice, interview request, or other process or order provided that I have fulfilled the above obligations .

b. I will cooperate fully with the Corporation, its affiliates, and their legal counsel in connection with any action, proceeding, or dispute arising out of matters with which I was directly or indirectly involved while serving as an employee of the Corporation, its predecessors, subsidiaries or affiliates. This cooperation shall include, but shall not be limited to, meeting with, and providing information to, the Corporation and its legal counsel, maintaining the confidentiality of any past or future privileged communications with the Corporation's legal counsel (outside and in-house), and making myself available to testify truthfully by affidavit, in depositions, or in any other forum on behalf of the Corporation. The Corporation agrees to reimburse me for any reasonable and necessary out-of-pocket costs associated with my cooperation.

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

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

10. Injunctive Relief . Any breach of this Agreement by me will cause irreparable damage to the Corporation and, in the event of such breach, the Corporation shall have, in addition to any and all remedies of law, the right to an injunction, specific performance or other equitable relief to prevent the violation of my obligations hereunder, and without providing a bond to the extent permitted by the applicable rules of civil procedure.

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

12. No Conflicting Agreements . I represent that the performance of my job duties with the Corporation and my compliance with all of the terms of this Agreement does not and will not breach any agreement to keep in confidence proprietary information acquired by me in confidence or in trust prior to my employment by the Corporation.

13. Entire Agreement/No Reliance/No Modifications . This Agreement and any compensation, benefit or equity plan or agreement referred to herein including the CVS Health Corporation Change in Control Agreement ("CIC Agreement"), to the extent those other agreements apply to me, set forth the entire agreement between the parties hereto and fully supersede any and all prior and/or supplemental understandings, whether written or oral, between the parties concerning the subject matter of this Agreement. Notwithstanding the foregoing, if I am a party to the CIC Agreement, then I understand that in the event of a Change in Control, as that term is defined in the CIC, Paragraph 2 of this Agreement shall be null and void. I agree and acknowledge that I have not relied on any representations, promises or agreements of any kind in connection with my decision to accept the terms of this Agreement, except for the representations, promises and agreements herein. Any modification to this Agreement must be made in writing and signed by me and the Corporation's Chief Human Resources Officer or her authorized representative.

14. No Waiver . Any waiver by the Corporation of a breach of any provision of this Agreement, or of any other similar agreement with any other current or former employee of the Corporation, shall not operate or be construed as a waiver of any subsequent breach of such provision or any other provision hereof.

15. Severability . The parties hereby agree that each provision herein shall be treated as a separate and independent clause, and the unenforceability of any one clause shall in no way impair the enforceability of any of the other clauses herein. Moreover, if one or more of the provisions of this Agreement are for any reason held to be excessively broad as to scope, activity, duration, subject or otherwise so as to be unenforceable at law, the parties consent to such provision or provisions being modified or limited by the appropriate judicial body (where allowed by applicable law), so as to be enforceable to the maximum extent compatible with the applicable law.

16. Survival of Employee's Obligations . My obligations under this Agreement shall survive the termination of my employment regardless of the manner of such termination and shall be binding upon my heirs, personal representatives, executors, administrators and legal representatives.

17. Corporation's Right to Assign Agreement . The Corporation has the right to assign this Agreement to its successors and assigns without the need for further agreement or consent by me, and all covenants and agreements hereunder shall inure to the benefit of and be enforceable by said successors or assigns.

18. Non-Assignment . I shall not assign my rights and obligations under this Agreement, in whole or in part, whether by operation of law or otherwise, without the prior written consent of the Corporation, and any such assignment contrary to the terms hereof shall be null and void and of no force or effect.

19. Governing Law; Headings . This Agreement shall be governed by and construed in accordance with the laws of the state of Rhode Island. The headings of the sections contained in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this Agreement.

20. Tolling . In the event I violate one of the time-limited restrictions in this Agreement, I agree that the time period for such violated restriction shall be extended by one day for each day I have violated the restriction, up to a maximum extension equal to the length of the original period of the restricted covenant.

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

/s/ Jonathan C. Roberts

/s/ Lisa G. Bisaccia

Lisa Bisaccia
Chief Human Resources Officer

xxxxxxxxx
Employee ID

CVS Pharmacy, Inc.

Date: May 20, 2016

EXHIBIT A

List of Prior Inventions – See Section 6

EXHIBIT B

Notice Regarding Invention Assignment

1. For an employee residing in **Illinois, Kansas, or North Carolina** , you are hereby advised:

Notice. No provision in this Agreement requires you to assign any of your rights to an invention for which no equipment, supplies, facility, or trade secret information of the Corporation was used and which was developed entirely on your own time, unless (a) the invention relates (i) to the business of the Corporation or (ii) to the Corporation’s actual or demonstrably anticipated research or development, or (b) the invention results from any work performed by you for the Corporation. Illinois 765ILCS1060/1-3, “Employees Patent Act”; Kansas Statutes Section 44-130; North Carolina General Statutes Article 10A, Chapter 66, Commerce and Business, Section 66-57.1.

2. For an employee residing in **Utah** , you are hereby advised:

Notice. No provision in this Agreement requires you to assign any of your rights to an invention which was created entirely on your own time, and which is not (a) conceived, developed, reduced to practice, or created by you (i) within the scope of your employment with the Corporation, (ii) on the Corporation’s time, or (iii) with the aid, assistance, or use of any of the Corporation’s property, equipment, facilities, supplies, resources, or patents, trade secrets, know-how, technology, confidential information, ideas, copy rights, trademarks and service marks and any and all rights, applications and registrations relating to them, (b) the results of any work, services, or duties performed by you for the Corporation, (c) related to the industry or trade of the Corporation, or (d) related to the current or demonstrably anticipated business, research, or development of the Corporation. Utah Code Sections 34-39-1 through 34-39-3, “Employee Inventions Act.”

3. For an employee residing in **Minnesota** , you are hereby advised:

Notice. No provision in this Agreement requires you to assign any of your rights to an invention for which no equipment, supplies, facility, or trade secret information of the Corporation was used, and which was developed entirely on your own time, and (a) which does not relate (i) directly to the business of the Corporation, or (ii) to the Corporation’s actual or demonstrably anticipated research or development, or (b) which does not result from any work performed by you for the Corporation. Minnesota Statutes 13A Section 181.78.

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

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

Overview of Our Business

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

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

Through more than 9,700 retail locations, more than 1,100 walk-in health care clinics, a leading pharmacy benefits manager with nearly 90 million plan members, a dedicated senior pharmacy care business serving more than one million patients per year, expanding specialty pharmacy services and a leading stand-alone Medicare Part D prescription drug plan, we enable people, businesses, and communities to manage health in more affordable, effective ways. We are delivering break-through products and services, from advising patients on their medications at our CVS Pharmacy[®] locations, to introducing unique programs to help control costs for our clients at CVS Caremark[®], to innovating how care is delivered to our patients with complex conditions through CVS Specialty[™], to improving pharmacy care for the senior community through Omnicare[®], or by expanding access to high-quality, low-cost care at CVS MinuteClinic[®].

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

Overview of Our Pharmacy Services Segment

Our Pharmacy Services business generates revenue from a full range of pharmacy benefit management (“PBM”) solutions, including plan design offerings and administration, formulary management, Medicare Part D services, mail order pharmacy, specialty pharmacy and infusion services, retail pharmacy network management services, prescription management systems, clinical services, disease management services and medical spend management.

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

As a pharmacy benefits manager, we manage the dispensing of prescription drugs through our mail order pharmacies, specialty pharmacies, long-term care pharmacies and national network of more than 68,000 retail pharmacies, consisting of approximately 41,000 chain pharmacies (which includes our CVS Pharmacy[®] pharmacies) and 27,000 independent pharmacies, to eligible members in the benefit plans maintained by our clients and utilize our information systems to perform, among other things, safety checks, drug interaction screenings and brand-to-generic substitutions.

Our specialty pharmacies support individuals who require complex and expensive drug therapies. Our specialty pharmacy business includes mail order and retail specialty pharmacies that operate under the CVS Caremark[®], CarePlus CVS Pharmacy[™], Navarro[®] Health Services and Advanced Care Scripts (“ACS Pharmacy”) names. Substantially all of our mail service specialty pharmacies have been accredited by The Joint Commission, which is an independent, not-for-profit organization that accredits and certifies health care organizations and programs in the United States. We also offer specialty infusion services and enteral nutrition services through Coram LLC and its subsidiaries (collectively, “Coram”). With Specialty Connect[®], which integrates our specialty pharmacy mail and retail capabilities, we provide members with disease-state specific counseling from our experienced specialty pharmacists and the choice to bring their specialty prescriptions to any CVS Pharmacy location. Whether submitted through our mail order pharmacy or at a CVS Pharmacy, all prescriptions are filled through the Company’s specialty mail order pharmacies, so all revenue from this specialty prescription services program is recorded within the Pharmacy

Services Segment. Members then can choose to pick up their medication at their local CVS Pharmacy or have it sent to their home through the mail.

We also provide health management programs, which include integrated disease management for 18 conditions, through our Accordant[®] rare disease management offering. The majority of these integrated programs are accredited by the National Committee for Quality Assurance.

In addition, through our SilverScript Insurance Company (“SilverScript”) subsidiary, we are a national provider of drug benefits to eligible beneficiaries under the federal government’s Medicare Part D program. As of December 31, 2016, we provided Medicare Part D plan benefits to approximately 5.5 million beneficiaries through SilverScript, including our individual and employer group waiver plans.

The Pharmacy Services Segment operates under the CVS Caremark[®] Pharmacy Services, Caremark[®], CVS Caremark[™], CarePlus CVS Pharmacy[™], Accordant[®], SilverScript[®], Coram[®], CVS Specialty[™], NovoLogix[®], Navarro[®] Health Services and ACS Pharmacy names. As of December 31, 2016, the Pharmacy Services Segment operated 23 retail specialty pharmacy stores, 13 specialty mail order pharmacies, four mail order dispensing pharmacies, and 84 branches for infusion and enteral services, including approximately 73 ambulatory infusion suites and three centers of excellence, located in 41 states, Puerto Rico and the District of Columbia.

Overview of Our Retail/LTC Segment

Our Retail/LTC Segment sells prescription drugs and a wide assortment of general merchandise, including over-the-counter drugs, beauty products and cosmetics, personal care products, convenience foods, photo finishing, seasonal merchandise and greeting cards. With the acquisition of Omnicare's long-term care (“LTC”) operations, the Retail/LTC Segment now also includes the distribution of prescription drugs, related pharmacy consulting and other ancillary services to chronic care facilities and other care settings, as well as commercialization services which are provided under the name RxCrossroads[®]. Our Retail/LTC Segment derives the majority of its revenues through the sale of prescription drugs, which are dispensed by our more than 32,000 pharmacists. The role of our retail pharmacists is expanding from primarily dispensing prescriptions to also providing services, including flu vaccinations as well as face-to-face patient counseling with respect to adherence to drug therapies, closing gaps in care, and more cost-effective drug therapies. Our integrated pharmacy services model enables us to enhance access to care while helping to lower overall health care costs and improve health outcomes.

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

Our proprietary loyalty card program, ExtraCare[®], has about 65 million active cardholders, making it one of the largest and most successful retail loyalty card programs in the country.

As of December 31, 2016, our Retail/LTC Segment included 9,709 retail stores (of which 7,980 were our stores that operated a pharmacy and 1,674 were our pharmacies located within Target stores) located in 49 states, the District of Columbia, Puerto Rico and Brazil operating primarily under the CVS Pharmacy[®], CVS[®], CVS Pharmacy y más[®], Longs Drugs[®], Navarro Discount Pharmacy[®] and Drogeria Onofre[™] names, 38 onsite pharmacies primarily operating under the CarePlus CVS Pharmacy[™], CarePlus[®] and CVS Pharmacy[®] names, and 1,139 retail health care clinics operating under the MinuteClinic[®] name (of which 1,132 were located in our retail pharmacy stores or Target stores), and our online retail websites, CVS.com[®], Navarro.com and Onofre.com.br. LTC operations are comprised of 152 spoke pharmacies that primarily handle new prescription orders, of which 32 are also hub pharmacies that use proprietary automation to support spoke pharmacies with refill prescriptions. LTC operates primarily under the Omnicare[®] and NeighborCare[®] names.

Overview of Our Corporate Segment

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

Results of Operations

Summary of our Consolidated Financial Results

<u>In millions, except per share amounts</u>	Year Ended December 31,		
	2016	2015	2014
Net revenues	\$ 177,526	\$ 153,290	\$ 139,367
Cost of revenues	148,669	126,762	114,000
Gross profit	28,857	26,528	25,367
Operating expenses	18,519	17,074	16,568
Operating profit	10,338	9,454	8,799
Interest expense, net	1,058	838	600
Loss on early extinguishment of debt	643	—	521
Income before income tax provision	8,637	8,616	7,678
Income tax provision	3,317	3,386	3,033
Income from continuing operations	5,320	5,230	4,645
Income (loss) from discontinued operations, net of tax	(1)	9	(1)
Net income	5,319	5,239	4,644
Net income attributable to noncontrolling interest	(2)	(2)	—
Net income attributable to CVS Health	\$ 5,317	\$ 5,237	\$ 4,644
Diluted earnings per share:			
Income from continuing operations attributable to CVS Health	\$ 4.91	\$ 4.62	\$ 3.96
Income (loss) from discontinued operations attributable to CVS Health	\$ —	\$ 0.01	\$ —
Net income attributable to CVS Health	\$ 4.90	\$ 4.63	\$ 3.96

Net revenues increased \$24.2 billion in 2016 compared to 2015, and increased \$13.9 billion in 2015 compared to 2014. As you review our performance in this area, we believe you should consider the following important information:

- During 2016, net revenues in our Pharmacy Services Segment increased 19.5% and net revenues in our Retail/LTC Segment increased 12.6% compared to the prior year. The Retail/LTC Segment benefited from the 2015 acquisitions of Omnicare and the pharmacies and clinics of Target.
- During 2015, net revenues in our Pharmacy Services Segment increased by 13.5% and net revenues in our Retail/LTC Segment increased 6.2% compared to the prior year.
- In 2016 and 2015, the Pharmacy Services Segment continued to grow from net new business and specialty. The increase in our generic dispensing rates in both of our operating segments continued to have a negative effect on net revenue in 2016 as compared to 2015, as well as in 2015 as compared to 2014.

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

Gross profit increased \$2.3 billion, or 8.8% in 2016, to \$28.9 billion, as compared to \$26.5 billion in 2015. Gross profit increased \$1.2 billion, or 4.6% in 2015, to \$26.5 billion, as compared to \$25.4 billion in 2014. Gross profit as a percentage of net revenues declined to 16.3%, as compared to 17.3% in 2015 and 18.2% in 2014.

- During 2016, gross profit in our Pharmacy Services Segment and Retail/LTC Segment increased by 12.9% and 7.9%, respectively, compared to the prior year. For the year ended December 31, 2016, gross profit as a percentage of net revenues in our Pharmacy Services Segment and Retail/LTC Segment was 4.9% and 29.3%, respectively.
- During 2015, gross profit in our Pharmacy Services Segment and Retail/LTC Segment increased by 9.6% and 3.4%, respectively, compared to the prior year. For the year ended December 31, 2015, gross profit as a percentage of net revenues in our Pharmacy Services Segment and Retail/LTC Segment was 5.2% and 30.5%, respectively.

- The increased weighting toward the Pharmacy Services Segment, which has a lower gross profit than the Retail/LTC Segment, resulted in a decline in consolidated gross profit as a percent of net revenues in 2016 as compared to 2015. In addition, gross profit for 2016 and 2015 has been negatively impacted by price compression in the Pharmacy Services Segment and reimbursement pressure in the Retail/LTC Segment.
- Our gross profit continued to benefit from the increased utilization of generic drugs, which normally yield a higher gross profit rate than equivalent brand name drugs, in both the Pharmacy Services and Retail/LTC segments for 2016 and 2015, partially offsetting the negative impacts described above.

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

Operating expenses increased \$1.4 billion, or 8.5%, in the year ended December 31, 2016, as compared to the prior year. Operating expenses as a percent of net revenues declined to 10.4% in the year ended December 31, 2016 compared to 11.1% in the prior year. The increase in operating expense dollars in the year ended December 31, 2016 was primarily due to the acquisition of the Target pharmacy and clinic businesses in December 2015, the Omnicare acquisition in August 2015 and incremental store operating costs associated with a higher store count, partially offset by lower legal settlement costs in the year ended December 31, 2016. The improvement in operating expenses as a percentage of net revenues in 2016 is primarily due to expense leverage from net revenue growth.

Operating expenses increased \$506 million, or 3.0%, in the year ended December 31, 2015 as compared to the prior year. Operating expenses as a percent of net revenues declined to 11.1% in the year ended December 31, 2015 compared to 11.9% in the prior year. The increase in operating expense dollars in the year ended December 31, 2015 was primarily due to incremental store operating costs associated with a higher store count, the Omnicare acquisition in August 2015, the acquisition of the Target pharmacy and clinic businesses in December 2015 and a \$90 million legal charge in 2015 related to a disputed 1999 legal settlement. The improvement in operating expenses as a percentage of net revenues in 2015 is primarily due to expense leverage from net revenue growth.

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

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

<u>In millions</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Interest expense	\$ 1,078	\$ 859	\$ 615
Interest income	(20)	(21)	(15)
Interest expense, net	<u>\$ 1,058</u>	<u>\$ 838</u>	<u>\$ 600</u>

Net interest expense increased \$220 million during the year ended December 31, 2016, primarily due to the \$15 billion debt issuance in July 2015, the proceeds of which were used to fund the acquisitions of Omnicare and the pharmacies and clinics of Target, and the debt assumed from the Omnicare acquisition. See Note 5 “Borrowings and Credit Agreements” to the consolidated financial statements for additional information. During 2015, net interest expense increased by \$238 million, to \$838 million compared to 2014, primarily due to the amortization of bridge facility fees of \$52 million for the unsecured bridge facility that was entered into on May 2015 and was amortized to interest expense over the period the facility was outstanding, the \$15 billion debt issuance in July 2015, and the debt assumed in the Omnicare acquisition.

Loss on early extinguishment of debt - During the year ended December 31, 2016, the Company purchased approximately \$4.2 billion aggregate principal amount of certain of its senior notes pursuant to its tender offer for such senior notes and option to redeem the outstanding senior notes (see Note 5 “Borrowings and Credit Agreements” to the consolidated financial statements). The Company paid a premium of \$583 million in excess of the debt principal, wrote off \$54 million of unamortized deferred financing costs and incurred \$6 million in fees, for a total loss on the early extinguishment of debt of \$643 million.

During the year ended December 31, 2014, the Company completed a \$2.0 billion tender offer and repurchase of certain Senior Notes. The Company paid a premium of \$490 million in excess of the debt principal in connection with the repurchase of the Senior Notes, wrote off \$26 million of unamortized deferred financing costs and incurred \$5 million in fees, for a total loss on early extinguishment of debt of \$521 million. See Note 5, “Borrowings and Credit Agreements” to the consolidated financial statements for additional information.

Income tax provision - Our effective income tax rate was 38.4%, 39.3% and 39.5% in 2016, 2015 and 2014, respectively. The effective income tax rate was lower in 2016 compared to 2015 primarily due to the resolution of income tax matters in open tax years through 2012, as well as other permanent items. The effective income tax rate was lower in 2015 compared to 2014 primarily due to certain permanent items in 2014.

Income (loss) from discontinued operations - In connection with certain business dispositions completed between 1991 and 1997, the Company retained guarantees on store lease obligations for a number of former subsidiaries, including Linens ‘n Things, which filed for bankruptcy in 2008. The Company’s loss from discontinued operations includes lease-related costs required to satisfy its Linens ‘n Things lease guarantees. We incurred a loss from discontinued operations, net of tax, of \$1 million in both 2016 and 2014. The Company’s income from discontinued operations in 2015 of \$9 million, net of tax, was related to the release of certain store lease guarantees due to the settlement of a dispute with a landlord.

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

Segment Analysis

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

<i>In millions</i>	Pharmacy Services Segment ⁽¹⁾⁽²⁾	Retail/LTC Segment ⁽²⁾	Corporate Segment	Intersegment Eliminations ⁽²⁾	Consolidated Totals
2016:					
Net revenues	\$ 119,963	\$ 81,100	\$ —	\$ (23,537)	\$ 177,526
Gross profit ⁽³⁾	5,901	23,738	—	(782)	28,857
Operating profit (loss) ⁽⁴⁾⁽⁵⁾⁽⁶⁾	4,672	7,281	(894)	(721)	10,338
2015:					
Net revenues	\$ 100,363	\$ 72,007	\$ —	\$ (19,080)	\$ 153,290
Gross profit	5,227	21,992	—	(691)	26,528
Operating profit (loss) ⁽⁵⁾⁽⁶⁾	3,989	7,130	(1,037)	(628)	9,454
2014:					
Net revenues	\$ 88,440	\$ 67,798	\$ —	\$ (16,871)	\$ 139,367
Gross profit	4,771	21,277	—	(681)	25,367
Operating profit (loss)	3,514	6,762	(796)	(681)	8,799

- (1) Net revenues of the Pharmacy Services Segment include approximately \$10.5 billion, \$8.9 billion and \$8.1 billion of Retail/LTC Co-Payments for 2016, 2015 and 2014, respectively. See Note 1 “Significant Accounting Policies - Revenue Recognition” to the consolidated financial statements for additional information about Retail/LTC Co-Payments.
- (2) Intersegment eliminations relate to intersegment revenue generating activities that occur between the Pharmacy Services Segment and the Retail/LTC Segment. These occur in the following ways: when members of Pharmacy Services Segment clients (“members”) fill prescriptions at our retail pharmacies to purchase covered products, when members enrolled in programs such as Maintenance Choice[®] elect to pick up maintenance prescriptions at one of our retail pharmacies instead of receiving them through the mail, or when members have prescriptions filled at our long-term care pharmacies. When these occur, both the Pharmacy Services and Retail/LTC segments record the revenues, gross profit and operating profit on a standalone basis.
- (3) The Retail/LTC Segment gross profit for the year ended December 31, 2016 includes \$46 million of acquisition-related integration costs. The integration costs are related to the acquisitions of Omnicare and the pharmacies and clinics of Target.
- (4) The Pharmacy Services Segment operating profit for the year ended December 31, 2016 includes the reversal of an accrual of \$88 million in connection with a legal settlement.
- (5) The Retail/LTC Segment operating profit for the 2016 and 2015 include \$281 million and \$64 million, respectively, of acquisition-related integration costs. The integration costs are related to the acquisitions of Omnicare and the pharmacies and clinics of Target. Operating profit for the year ended December 31, 2016 also includes a \$34 million asset impairment charge in connection with planned store closures in 2017 related to our enterprise streamlining initiative.
- (6) The Corporate Segment operating loss for the year ended December 31, 2016 includes integration costs of \$10 million related to the acquisitions of Omnicare and the pharmacies and clinics of Target. For the year ended December 31, 2015, the Corporate Segment operating loss includes \$156 million of acquisition-related transaction and integration costs related to the acquisitions of Omnicare and the pharmacies and clinics of Target and a \$90 million charge related to a legacy lawsuit challenging the 1999 legal settlement by MedPartners of various securities class actions and a related derivative claim.

Pharmacy Services Segment

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

<i>In millions</i>	Year Ended December 31,		
	2016	2015	2014
Net revenues	\$ 119,963	\$ 100,363	\$ 88,440
Gross profit	\$ 5,901	\$ 5,227	\$ 4,771
Gross profit % of net revenues	4.9%	5.2%	5.4%
Operating expenses ⁽³⁾	\$ 1,229	\$ 1,238	\$ 1,257
Operating expenses % of net revenues	1.0%	1.2%	1.4%
Operating profit	\$ 4,672	\$ 3,989	\$ 3,514
Operating profit % of net revenues	3.9%	4.0%	4.0%
Net revenues:			
Mail choice ⁽¹⁾	\$ 42,783	\$ 37,828	\$ 31,081
Pharmacy network ⁽²⁾	\$ 76,848	\$ 62,240	\$ 57,122
Other	\$ 332	\$ 295	\$ 237
Pharmacy claims processed:			
Total	1,230.0	1,011.9	932.0
Mail choice ⁽¹⁾	89.5	85.7	82.4
Pharmacy network ⁽²⁾	1,140.5	926.2	849.6
Generic dispensing rate:			
Total	85.4%	83.7%	82.2%
Mail choice ⁽¹⁾	78.2%	76.4%	74.6%
Pharmacy network ⁽²⁾	85.9%	84.4%	83.0%
Mail choice penetration rate	18.0%	20.6%	21.4%

- (1) Mail choice is defined as claims filled at a Pharmacy Services mail facility, which includes specialty mail claims inclusive of Specialty Connect[®] claims filled at retail, as well as prescriptions filled at our retail pharmacies under the Maintenance Choice[®] program.
- (2) Pharmacy network net revenues, claims processed and generic dispensing rates do not include Maintenance Choice, which are included within the mail choice category. Pharmacy network is defined as claims filled at retail and specialty retail pharmacies, including our retail pharmacies and long-term care pharmacies, but excluding Maintenance Choice activity.
- (3) The Pharmacy Services Segment operating expenses for the year ended December 31, 2016 includes the reversal of an accrual of \$88 million in connection with a legal settlement.

Net revenues in our Pharmacy Services Segment increased \$19.6 billion, or 19.5%, to \$120.0 billion for the year ended December 31, 2016, as compared to the prior year. The increase is primarily due to increased pharmacy network claims, growth in specialty pharmacy, including the growth in Medicare Part D, addition of ACS Pharmacy through the acquisition of Omnicare, and inflation, partially offset by increased generic dispensing and price compression.

Net revenues increased \$11.9 billion, or 13.5%, to \$100.4 billion for the year ended December 31, 2015, as compared to the prior year. The increase is primarily due to growth in specialty pharmacy, driven by new clients, increased volume from new products and the addition of ACS Pharmacy through the acquisition of Omnicare, as well as inflation and increased pharmacy network claims. Conversely, the increase in our generic dispensing rate had a negative impact on our revenue in 2015, as it did in 2014.

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

- Our mail choice claims processed increased 4.4% to 89.5 million claims in the year ended December 31, 2016, compared to 85.7 million claims in the prior year. The increase in mail choice claims was driven by growth in specialty pharmacy claims, increase in net new business, and continuing adoption of our Maintenance Choice offerings. During 2015, our mail choice claims processed increased 4.0% to 85.7 million claims. The increase in mail choice claims was driven by net new business, specialty and continuing adoption of our Maintenance Choice offerings.

- During 2016 and 2015, our average revenue per mail choice claim increased by 8.3% and 17.0%, compared to 2015 and 2014, respectively. The increase in both years was primarily due to growth in specialty pharmacy and inflation.
- Our pharmacy network claims processed increased 23.1% to 1,140.5 million claims in the year ended December 31, 2016, compared to 926.2 million claims in the prior year. This increase was primarily due to volume from net new business. During 2015, our pharmacy network claims processed increased 9.0% to 926.2 million compared to 849.6 million pharmacy network claims processed in 2014. This increase was primarily due to net new business.
- During 2016 and 2015, our average revenue per pharmacy network claim processed remained flat.
- Our mail choice generic dispensing rate was 78.2% , 76.4% and 74.6% in the years ended December 31, 2016, 2015 and 2014, respectively. Our pharmacy network generic dispensing rate increased to 85.9% in the year ended December 31, 2016, compared to 84.4% in the prior year. During 2015, our pharmacy network generic dispensing rate increased to 84.4% compared to our pharmacy network generic dispensing rate of 83.0% in 2014. These continued increases in mail choice and pharmacy network generic dispensing rates were primarily due to the impact of new generic drug introductions, and our continuous efforts to encourage plan members to use generic drugs when they are available. We believe our generic dispensing rates will continue to increase in future periods, albeit at a slower pace. This increase will be affected by, among other things, the number of new brand and generic drug introductions and our success at encouraging plan members to utilize generic drugs when they are available and clinically appropriate.

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

Gross profit increased \$674 million, or 12.9% , to \$5.9 billion in the year ended December 31, 2016, as compared to the prior year. Gross profit as a percentage of net revenues decreased to 4.9% for the year ended December 31, 2016, compared to 5.2% in the prior year. The increase in gross profit dollars in the year ended December 31, 2016 was primarily due to growth in specialty pharmacy, growth in Medicare Part D lives, higher generic dispensing and favorable purchasing economics, partially offset by price compression. The decrease in gross profit as a percentage of net revenues was primarily due to changes in the mix of our business and continued price compression, partially offset by favorable generic dispensing and purchasing economics.

Gross profit increased \$456 million, or 9.6% to \$5.2 billion in the year ended December 31, 2015, as compared to the prior year. Gross profit as a percentage of net revenues decreased to 5.2% for the year ended December 31, 2015, compared to 5.4% in the prior year. The increase in gross profit dollars in the year ended December 31, 2015 was primarily due to volume increases and higher generic dispensing, as well as favorable purchasing and rebate economics, partially offset by price compression. The decrease in gross profit as a percentage of net revenues was primarily due to price compression, partially offset by favorable generic dispensing, as well as favorable purchasing and rebate economics.

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

- Our efforts to (i) retain existing clients, (ii) obtain new business and (iii) maintain or improve the rebates and/or discounts we received from manufacturers, wholesalers and retail pharmacies continue to have an impact on our gross profit dollars and gross profit as a percentage of net revenues. In particular, competitive pressures in the PBM industry have caused us and other PBMs to continue to share with clients a larger portion of rebates and/or discounts received from pharmaceutical manufacturers. In addition, market dynamics and regulatory changes have limited our ability to offer plan sponsors pricing that includes retail network “differential” or “spread,” and we expect these trends to continue. The “differential” or “spread” is any difference between the drug price charged to plan sponsors, including Medicare Part D plan sponsors, by a PBM and the price paid for the drug by the PBM to the dispensing provider.
- Our gross profit as a percentage of revenues benefited from the increase in our total generic dispensing rate, which increased to 85.4% and 83.7% in 2016 and 2015, respectively, compared to our generic dispensing rate of 82.2% in 2014. These increases were primarily due to new generic drug introductions and our continual efforts to encourage plan members to use clinically appropriate generic drugs when they are available. We expect these trends to continue, albeit at a slower pace. The increased use by patients of generic drugs has also resulted in third party payors augmenting their efforts to reduce reimbursement payments for prescriptions. This trend, which we expect to continue, reduces the benefit we realize from brand to generic product conversions.

Operating expenses in our Pharmacy Services Segment, which include selling, general and administrative expenses, depreciation and amortization related to selling, general and administrative activities and administrative payroll, employee benefits and occupancy costs, decreased to 1.0% of net revenues in 2016, compared to 1.2% in 2015 and 1.4% in 2014.

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

- Operating expenses decreased \$9 million or 0.7% in the year ended December 31, 2016, compared to the prior year. The decrease in operating expense dollars is primarily due to an \$88 million reversal of an accrual in connection with a legal settlement, partially offset by an increase in costs associated with the growth of our business.
- Operating expenses decreased \$19 million or 1.5%, to \$1.2 billion, in the year ended December 31, 2015, compared to the prior year. The decrease in operating expense dollars is primarily due to lower integration costs from the Coram acquisition which occurred in January 2014, partially offset by the addition of ACS Pharmacy from the Omnicare acquisition in August 2015. Operating expenses as a percentage of net revenues improved slightly from 1.4% in 2014 to 1.2% in 2015.

Retail/LTC Segment

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

<i>In millions</i>	Year Ended December 31,		
	2016	2015	2014
Net revenues	\$ 81,100	\$ 72,007	\$ 67,798
Gross profit ⁽¹⁾	\$ 23,738	\$ 21,992	\$ 21,277
Gross profit % of net revenues	29.3 %	30.5 %	31.4 %
Operating expenses ⁽²⁾	\$ 16,457	\$ 14,862	\$ 14,515
Operating expenses % of net revenues	20.3 %	20.6 %	21.4 %
Operating profit	\$ 7,281	\$ 7,130	\$ 6,762
Operating profit % of net revenues	9.0 %	9.9 %	10.0 %
Prescriptions filled (90 Day = 3 prescriptions) ⁽³⁾	1,223.5	1,031.6	935.9
Net revenue increase (decrease):			
Total	12.6 %	6.2 %	3.3 %
Pharmacy	15.9 %	9.5 %	5.1 %
Front Store	0.3 %	(2.5)%	(2.5)%
Total prescription volume (90 Day = 3 prescriptions) ⁽³⁾	18.6 %	10.2 %	5.2 %
Same store sales increase (decrease) ⁽⁴⁾ :			
Total	1.9 %	1.7 %	2.1 %
Pharmacy	3.2 %	4.5 %	4.8 %
Front Store ⁽⁵⁾	(1.5)%	(5.0)%	(4.0)%
Prescription volume (90 Day = 3 prescriptions) ⁽³⁾	3.6 %	4.8 %	4.1 %
Generic dispensing rates	85.7 %	84.5 %	83.1 %
Pharmacy % of net revenues	75.0 %	72.9 %	70.7 %

- (1) Gross profit for the year ended December 31, 2016 includes \$46 million of acquisition-related integration costs related to the acquisitions of Omnicare and the pharmacies and clinics of Target.
- (2) Operating expenses for the years ended December 31, 2016 and 2015 include \$235 million and \$64 million, respectively, of acquisition-related integration costs related to the acquisitions of Omnicare and the pharmacies and clinics of Target. Operating expenses for the year ended December 31, 2016 also includes a \$34 million asset impairment charge in connection with planned store closures in 2017 related to our enterprise streamlining initiative.
- (3) Includes the adjustment to convert 90-day, non-specialty prescriptions to the equivalent of three 30-day prescriptions. This adjustment reflects the fact that these prescriptions include approximately three times the amount of product days supplied compared to a normal prescription.
- (4) Same store sales and prescriptions exclude revenues from MinuteClinic, and revenue and prescriptions from stores in Brazil, from LTC operations and from commercialization services.
- (5) Front store same store sales would have been approximately 520 basis points higher for the year ended December 31, 2015 if tobacco and the estimated associated basket sales were excluded from the year ended December 31, 2014.

Net revenues increased approximately \$9.1 billion, or 12.6% , to \$81.1 billion for the year ended December 31, 2016, as compared to the prior year. This increase was primarily driven by the acquisitions of the pharmacies and clinics of Target and new stores, which accounted for approximately 640 basis points of our total net revenue percentage increase during the year, the acquisition of Omnicare's LTC operations and a same store sales increase of 1.9% . Net revenues increased approximately \$4.2 billion, or 6.2%, to \$72.0 billion for the year ended December 31, 2015, as compared to the prior year. This increase was primarily driven by the acquisition of LTC, a same store sales increase of 1.7%, and net revenues from new and acquired stores, which accounted for approximately 160 basis points of our total net revenue percentage increase during the year.

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

- Front store same store sales declined 1.5% in the year ended December 31, 2016, as compared to the prior year. The decrease is primarily driven by softer customer traffic and efforts to rationalize promotional strategies, partially offset by an increase in basket size.
- Pharmacy same store sales rose 3.2% in the year ended December 31, 2016, as compared to the prior year. Pharmacy same store sales were positively impacted by same store script growth of 3.6% , as well as approximately 20 basis points due to an additional day in 2016 related to leap year for the year ended December 31, 2016. Due to marketplace changes in the latter half of 2016, we expect script growth to be negatively impacted for the next several quarters by restricted network relationships that exclude CVS Pharmacy.
- Pharmacy revenues continue to be negatively impacted by the conversion of brand name drugs to equivalent generic drugs, which typically have a lower selling price. Pharmacy same store sales were negatively impacted by approximately 360 and 390 basis points for the years ended December 31, 2016 and 2015, respectively, due to recent generic introductions. The generic dispensing rate grew to 85.7% for the year ended December 31, 2016, compared to 84.5% in the prior year. In addition, our pharmacy revenue growth has also been negatively affected by the mix of drugs sold, continued reimbursement pressure and the lack of significant new brand name drug introductions.
- As of December 31, 2016 , we operated 9,709 retail stores, including the 1,674 locations in Target stores, compared to 9,655 retail stores as of December 31, 2015 and 7,822 retail stores as of December 31, 2014. Total net revenues from new and acquired stores contributed approximately 6.4%, 1.6% and 1.1% to our total net revenue percentage increase in 2016, 2015, and 2014, respectively. The majority of the increase in 2016 was primarily due to the addition of the pharmacies of Target in December 2015.
- Pharmacy revenue continued to benefit from the increased utilization by Medicare Part D beneficiaries, our ability to attract and retain managed care customers, the increased use of pharmaceuticals by an aging population and as the first line of defense for individual health care.

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

Gross profit increased \$1.7 billion, or 7.9% , to approximately \$23.7 billion in the year ended December 31, 2016, as compared to the prior year. Gross profit as a percentage of net revenues decreased to 29.3% in year ended December 31, 2016, from 30.5% in 2015. Gross profit increased \$715 million, or 3.4%, to approximately \$22.0 billion in the year ended December 31, 2015, as compared to the prior year. Gross profit as a percentage of net revenues decreased to 30.5% in year ended December 31, 2015, from 31.4% in 2014.

The increase in gross profit dollars in the year ended December 31, 2016, was primarily driven by the addition of the pharmacies and clinics of Target and LTC, as well as same store sales, partially offset by continued reimbursement pressure. The decrease in gross profit as a percentage of net revenues was primarily driven by a decline in pharmacy margins due to continued reimbursement pressure and the mix effect of lower margins from the acquisitions of the pharmacies and clinics of Target and LTC, partially offset by increased front store margins. Front store margins increased due to changes in the mix of products sold and efforts to rationalize promotional strategies. The increase in gross profit dollars in the year ended December 31, 2015, was primarily driven by the addition of LTC, same store sales and new store sales, increased generic dispensing, as well as favorable purchasing economics, partially offset by continued reimbursement pressure.

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

- Front store revenues as a percentage of total net revenues for the years ended December 31, 2016, 2015 and 2014 were 23.6%, 26.5% and 28.8%, respectively. On average, our gross profit on front store revenues is generally higher than our gross profit on pharmacy revenues. Pharmacy revenues as a percentage of total net revenues increased approximately 210, 220 and 120 basis points in the years ended December 31, 2016, 2015 and 2014, respectively. This was due to pharmacy revenues growing faster than front store revenues, largely driven by the acquisitions of the pharmacies and clinics of Target and LTC. The mix effect from a higher proportion of pharmacy sales had a negative effect on our overall gross profit as a percentage of net revenues for the years ended December 31, 2016, 2015 and 2014, respectively. This negative effect was partially offset by an increase in generic drugs dispensed, an improved front store gross margin rate, which includes efforts to rationalize promotional strategies.
- During 2016 and 2015, our front store gross profit as a percentage of net revenues increased compared to the prior year. In both years, the increase reflects a change in the mix of products sold, including store brand products, as a result of our efforts to rationalize promotional strategies. The increase in 2015 was also partially due to the removal of tobacco products from our stores in late 2014.
- Our pharmacy gross profit rates have been adversely affected by the efforts of managed care organizations, PBMs and governmental and other third-party payors to reduce their prescription drug costs, including the use of restrictive networks, as well as changes in the mix of our business within the pharmacy portion of the Retail/LTC Segment. In the event the reimbursement pressure accelerates, we may not be able to sustain our current rate of revenue growth and gross profit dollars could be adversely impacted. The increased use of generic drugs has positively impacted our gross profit but has resulted in third-party payors augmenting their efforts to reduce reimbursement payments to retail pharmacies for prescriptions. This trend, which we expect to continue, reduces the benefit we realize from brand to generic product conversions.

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

Operating expenses increased \$1.6 billion, or 10.7% to \$16 billion, or 20.3% as a percentage of net revenues, in the year ended December 31, 2016, as compared to \$14.9 billion, or 20.6% as a percentage of net revenues, in the prior year. Operating expenses increased \$347 million, or 2.4%, to \$14.9 billion, or 20.6% as a percentage of net revenues, in the year ended December 31, 2015, as compared to \$14.5 billion, or 21.4% as a percentage of net revenues, in the prior year. Operating expenses as a percentage of net revenues for the year ended December 31, 2016 improved primarily due to expense leverage from net revenue growth. The increase in operating expense dollars for the year ended December 31, 2016, was primarily due to the addition of the pharmacies and clinics within Target stores and LTC, including acquisition-related integration costs of \$235 million, and incremental store operating costs associated with operating more stores. Operating expenses for the year ended December 31, 2016, includes a gain from a legal settlement with certain credit card companies of \$32 million and an asset impairment charge of \$34 million in connection with planned store closures in 2017 related to our enterprise streamlining initiative. Additionally, in April 2016, the Retail/LTC Segment made a charitable contribution of \$32 million to the CVS Foundation to fund future charitable giving. The CVS Foundation is a non-profit entity that focuses on health, education and community involvement programs. The charitable contribution was recorded as an operating expense in the year ended December 31, 2016. Operating expenses as a percentage of net revenues for the year ended December 31, 2015 improved primarily due to higher legal costs in the prior year and leverage gained from the addition of LTC net revenues. The increase in operating expense dollars for the year ended December 31, 2015, was primarily due to the addition of LTC, including acquisition-related integration costs of \$64 million, and incremental store operating costs associated with operating more stores.

Corporate Segment

Operating expenses decreased \$143 million, or 13.8%, to \$894 million in the year ended December 31, 2016, as compared to the prior year. Operating expenses increased \$241 million, or 30.3%, to \$1.0 billion in the year ended December 31, 2015. Operating expenses within the Corporate Segment include executive management, corporate relations, legal, compliance, human resources, information technology and finance related costs. The decrease in operating expenses for the year ended December 31, 2016 was primarily due to acquisition-related transaction and integration costs associated with the acquisition of Omnicare that occurred in August 2015, and the acquisition of the pharmacies and clinics of Target that occurred in December 2015. Acquisition-related integration costs for the year ended December 31, 2016 were \$10 million. The increase in operating expenses in the year ended December 31, 2015 was primarily due to acquisition-related transaction and integration costs of \$156 million associated with the acquisitions of Omnicare and pharmacies and clinics of Target, as well as a \$90 million charge related to a legacy lawsuit challenging the 1999 settlement by MedPartners of various securities class actions and a related derivative claim.

Liquidity and Capital Resources

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

The change in cash and cash equivalents is as follows:

<u>In millions</u>	<u>Year Ended December 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Net cash provided by operating activities	\$ 10,069	\$ 8,412	\$ 8,137
Net cash used in investing activities	(2,470)	(13,420)	(4,045)
Net cash provided by (used in) financing activities	(6,689)	5,006	(5,694)
Effect of exchange rate changes on cash and cash equivalents	2	(20)	(6)
Net increase (decrease) in cash and cash equivalents	<u>\$ 912</u>	<u>\$ (22)</u>	<u>\$ (1,608)</u>

Net cash provided by operating activities increased by \$1.7 billion in 2016 and \$275 million in 2015. The increase in 2016 was primarily due to the timing of payments for our Medicare Part D operations. The increase in 2015 was primarily due to increased net income partially offset by various changes in working capital.

Net cash used in investing activities decreased by \$11.0 billion in 2016 and increased by \$9.4 billion in 2015. The decrease in 2016 and increase in 2015 were primarily due to the \$9.6 billion paid for the acquisition of Omnicare and the \$1.9 billion paid for the acquisition of the pharmacies and clinics of Target in 2015, compared to the \$2.1 billion paid for the Coram acquisition in 2014.

In 2016, gross capital expenditures totaled approximately \$2.2 billion, a decrease of approximately \$143 million compared to the prior year. During 2016, approximately 31% of our total capital expenditures were for new store construction, 20% were for store, fulfillment and support facilities expansion and improvements and 49% were for technology and other corporate initiatives. Gross capital expenditures totaled approximately \$2.4 billion and \$2.1 billion during 2015 and 2014, respectively. During 2015, approximately 36% of our total capital expenditures were for new store construction, 21% were for store, fulfillment and support facilities expansion and improvements and 43% were for technology and other corporate initiatives.

Proceeds from sale-leaseback transactions totaled \$230 million in 2016. This compares to \$411 million in 2015 and \$515 million in 2014. Under the sale-leaseback transactions, the properties are generally sold at net book value, which generally approximates fair value, and the resulting leases generally qualify and are accounted for as operating leases. The specific timing and amount of future sale-leaseback transactions will vary depending on future market conditions and other factors.

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

	<u>2016 ⁽²⁾</u>	<u>2015 ⁽²⁾</u>	<u>2014 ⁽²⁾</u>
Total stores (beginning of year)	9,665	7,866	7,702
New and acquired stores ⁽¹⁾	132	1,833	187
Closed stores ⁽¹⁾	(47)	(34)	(23)
Total stores (end of year)	<u>9,750</u>	<u>9,665</u>	<u>7,866</u>
Relocated stores	50	58	60

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

(2) Includes retail drugstores, certain onsite pharmacy stores, specialty pharmacy stores and pharmacies within Target stores.

Net cash used in financing activities was \$6.7 billion in 2016 versus net cash provided by financing activities of \$5.0 billion in 2015. The difference of \$11.7 billion is primarily due to lower long-term borrowings and higher net repayments of short and long-term debt in 2016. Net cash provided by financing activities was \$5.0 billion in 2015 versus net cash used in financing

activities of \$5.7 billion in 2014. The difference of \$10.7 billion was primarily due to higher net borrowings in 2015, including the \$14.8 billion in net proceeds received from the July 2015 debt issuance, partially offset by an increase in share repurchases in 2015 of \$1.0 billion.

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

In billions

<u>Authorization Date</u>		<u>Authorized</u>		<u>Remaining</u>
November 2, 2016 (“2016 Repurchase Program”)	\$	15.0	\$	15.0
December 15, 2014 (“2014 Repurchase Program”)	\$	10.0	\$	3.2
December 17, 2013 (“2013 Repurchase Program”)	\$	6.0	\$	—

The share Repurchase Programs, each of which was effective immediately, permit the Company to effect repurchases from time to time through a combination of open market repurchases, privately negotiated transactions, accelerated share repurchase (“ASR”) transactions, and/or other derivative transactions. The 2016 and 2014 Repurchase Programs may be modified or terminated by the Board of Directors at any time.

Pursuant to the authorization under the 2014 Repurchase Program, effective August 29, 2016, the Company entered into two fixed dollar ASRs with Barclays Bank PLC (“Barclays”) for a total of \$3.6 billion . Upon payment of the \$3.6 billion purchase price on January 6, 2017, the Company received a number of shares of its common stock equal to 80% of the \$3.6 billion notional amount of the ASRs or approximately 36.1 million shares at a price of \$80.34 per share, which were placed into treasury stock in January 2017. At the conclusion of the ASRs, the Company may receive additional shares equal to the remaining 20% of the \$3.6 billion notional amount. The ultimate number of shares the Company may receive will fluctuate based on changes in the daily volume-weighted average price of the Company’s stock over a period beginning on January 6, 2017 and ending on or before July 6, 2017. If the mean daily volume-weighted average price of the Company’s common stock, less a discount (the “forward price”), during the ASRs falls below \$80.34 per share, the Company will receive a higher number of shares from Barclays. If the forward price rises above \$80.34 per share, the Company will either receive fewer shares from Barclays or, potentially have an obligation to Barclays which, at the Company’s option, could be settled in additional cash or by issuing shares. Under the terms of the ASRs, the maximum number of shares that could be received or delivered is 90.1 million .

Pursuant to the authorization under the 2014 Repurchase Program, effective December 11, 2015, the Company entered into a \$725 million fixed dollar ASR with Barclays. Upon payment of the \$725 million purchase price on December 14, 2015, the Company received a number of shares of its common stock equal to 80% of the \$725 million notional amount of the ASR or approximately 6.2 million shares. The initial 6.2 million shares of common stock delivered to the Company by Barclays were placed into treasury stock in December 2015. The ASR was accounted for as an initial treasury stock transaction of \$580 million and a forward contract of \$145 million . The forward contract was classified as an equity instrument and was recorded within capital surplus on the consolidated balance sheet. On January 28, 2016, the Company received 1.4 million shares of common stock, representing the remaining 20% of the \$725 million notional amount of the ASR, thereby concluding the ASR. The remaining 1.4 million shares of common stock delivered to the Company by Barclays were placed into treasury stock in January 2016 and the forward contract was reclassified from capital surplus to treasury stock.

Pursuant to the authorization under the 2013 Repurchase Programs, effective January 2, 2015, the Company entered into a \$2.0 billion fixed dollar ASR agreement with J.P. Morgan Chase Bank (“JP Morgan”). Upon payment of the \$2.0 billion purchase price on January 5, 2015, the Company received a number of shares of its common stock equal to 80% of the \$2.0 billion notional amount of the ASR agreement or approximately 16.8 million shares, which were placed into treasury stock in January 2015. On May 1, 2015, the Company received approximately 3.1 million shares of common stock, representing the remaining 20% of the \$2.0 billion notional amount of the ASR, thereby concluding the ASR. The remaining 3.1 million shares of common stock delivered to the Company by JP Morgan were placed into treasury stock in May 2015. The ASR was accounted for as an initial treasury stock transaction of \$1.6 billion and a forward contract of \$0.4 billion . The forward contract was classified as an equity instrument and was initially recorded within capital surplus on the consolidated balance sheet and was reclassified to treasury stock upon the settlement of the ASR in May 2015.

In the ASR transactions described above, the initial repurchase of the shares and delivery of the remainder of the shares to conclude the ASR, resulted in an immediate reduction of the outstanding shares used to calculate the weighted average common shares outstanding for basic and diluted earnings per share.

During the year ended December 31, 2016, the Company repurchased an aggregate of 47.5 million shares of common stock for approximately \$4.5 billion under the 2014 Repurchase Program. As of December 31, 2016, there remained an aggregate of approximately \$18.2 billion available for future repurchases under the 2016 and 2014 Repurchase Programs, \$3.6 billion of which was used for the ASR effective January 6, 2017 described previously. As of December 31, 2015, the 2013 Repurchase Program was complete.

Short-term borrowings - The Company had approximately \$1.9 billion of commercial paper outstanding at a weighted average interest rate of 1.22% as of December 31, 2016. In connection with its commercial paper program, the Company maintains a \$1.0 billion, five-year unsecured back-up credit facility, which expires on May 23, 2018, a \$1.25 billion, five-year unsecured back-up credit facility, which expires on July 24, 2019, and a \$1.25 billion, five-year unsecured back-up credit facility, which expires on July 1, 2020. The credit facilities allow for borrowings at various rates that are dependent, in part, on the Company's public debt ratings and require the Company to pay a weighted average quarterly facility fee of approximately 0.03%, regardless of usage. As of December 31, 2016, there were no borrowings outstanding under the back-up credit facilities.

On January 3, 2017, the Company entered into a \$2.5 billion revolving credit facility. The credit facility allows for borrowings at various rates that are dependent, in part, on the Company's debt ratings and require the Company to pay a weighted average quarterly facility fee of approximately 0.03%, regardless of usage. The maximum available under the credit facility decreases by \$750 million on both March 31, 2017 and June 30, 2017 and by \$500 million on September 30, 2017. The credit facility expires on December 31, 2017.

On May 20, 2015, in connection with the acquisition of Omnicare, the Company entered into a \$13 billion unsecured bridge loan facility. The Company paid approximately \$52 million in fees in connection with the facility. The fees were capitalized and amortized as interest expense over the period the bridge facility was outstanding. The bridge loan facility expired on July 20, 2015 upon the Company's issuance of unsecured senior notes with an aggregate principal of \$15 billion as discussed below. The bridge loan facility fees became fully amortized in July 2015.

Long-term borrowings - On May 16, 2016, the Company issued \$1.75 billion aggregate principal amount of 2.125% unsecured senior notes due June 1, 2021 and \$1.75 billion aggregate principal amount of 2.875% unsecured senior notes due June 1, 2026 (collectively, the "2016 Notes") for total proceeds of approximately \$3.5 billion, net of discounts and underwriting fees. The 2016 Notes pay interest semi-annually and may be redeemed, in whole at any time, or in part from time to time, at the Company's option at a defined redemption price plus accrued and unpaid interest to the redemption date. The net proceeds of the 2016 Notes were used for general corporate purposes and to repay certain corporate debt.

On May 16, 2016, the Company announced tender offers for (1) any and all of its 5.75% Senior Notes due 2017, its 6.60% Senior Notes due 2019 and its 4.75% Senior Notes due 2020 (collectively, the "Any and All Notes") and (2) up to \$1.5 billion aggregate principal amount of its 6.25% Senior Notes due 2027, its 6.125% Senior Notes due 2039, its 5.75% Senior Notes due 2041, the 5.00% Senior Notes due 2024 issued by its wholly-owned subsidiary, Omnicare, Inc. ("Omnicare"), the 4.75% Senior Notes due 2022 issued by Omnicare, its 4.875% Senior Notes due 2035 and its 3.875% Senior Notes due 2025 (collectively, the "Maximum Tender Offer Notes" and together with the Any and All Notes, the "Notes"). On May 31, 2016, the Company increased the aggregate principal amount of the tender offers for the Maximum Tender Offer Notes to \$2.25 billion. The Company purchased approximately \$835 million aggregate principal amount of the Any and All Notes and \$2.25 billion aggregate principal amount of the Maximum Tender Offer Notes pursuant to the tender offers, which expired on June 13, 2016. The Company paid a premium of \$486 million in excess of the debt principal in connection with the purchase of the Notes, wrote off \$50 million of unamortized deferred financing costs and incurred \$6 million in fees, for a total loss on the early extinguishment of debt of \$542 million which was recorded in income from continuing operations in the consolidated statement of income for the year ended December 31, 2016.

On June 27, 2016, the Company notified the holders of the remaining Any and All Notes that the Company was exercising its option to redeem the outstanding Any and All Notes pursuant to the terms of the Any and All Notes and the Indenture dated as of August 15, 2006, between the Company and The Bank of New York Mellon Trust Company, N.A. Approximately \$1.1 billion aggregate principal amount of Any and All Notes was redeemed on July 27, 2016. The Company paid a premium of \$97 million in excess of the debt principal and wrote off \$4 million of unamortized deferred financing costs, for a total loss on early extinguishment of debt of \$101 million during the year ended December 31, 2016.

The Company recorded a total loss on the early extinguishment of debt of \$643 million which was recorded in the income from continuing operations in the consolidated statement of income for the year ended December 31, 2016.

On July 20, 2015, the Company issued an aggregate of \$2.25 billion of 1.9% unsecured senior notes due 2018 (“2018 Notes”), an aggregate of \$2.75 billion of 2.8% unsecured senior notes due 2020 (“2020 Notes”), an aggregate of \$1.5 billion of 3.5% unsecured senior notes due 2022 (“2022 Notes”), an aggregate of \$3 billion of 3.875% unsecured senior notes due 2025 (“2025 Notes”), an aggregate of \$2 billion of 4.875% unsecured senior notes due 2035 (“2035 Notes”), and an aggregate of \$3.5 billion of 5.125% unsecured senior notes due 2045 (“2045 Notes” and, together with the 2018 Notes, 2020 Notes, 2022 Notes, 2025 Notes and 2035 Notes, the “Notes”) for total proceeds of approximately \$14.8 billion, net of discounts and underwriting fees. The Notes pay interest semi-annually and contain redemption terms which allow or require the Company to redeem the Notes at a defined redemption price plus accrued and unpaid interest at the redemption date. The net proceeds of the Notes were used to fund the Omnicare acquisition and the acquisition of the pharmacies and clinics of Target. The remaining proceeds were used for general corporate purposes.

Upon the closing of the Omnicare acquisition in August 2015, the Company assumed the long-term debt of Omnicare that had a fair value of approximately \$3.1 billion, \$2.0 billion of which was previously convertible into Omnicare shares that holders were able to redeem subsequent to the acquisition. During the period from August 18, 2015 to December 31, 2015, all but \$5 million of the \$2.0 billion of previously convertible debt was redeemed and repaid and approximately \$0.4 billion in Omnicare term debt assumed was repaid for total repayments of Omnicare debt of approximately \$2.4 billion in 2015.

The remaining principal of the Omnicare debt assumed was comprised of senior unsecured notes with an aggregate principal amount of \$700 million (\$400 million of 4.75% senior notes due 2022 and \$300 million of 5% senior notes due 2024). In September 2015, the Company commenced exchange offers for the 4.75% senior notes due 2022 and the 5% senior notes due 2024 to exchange all validly tendered and accepted notes issued by Omnicare for notes to be issued by the Company. This offer expired on October 20, 2015 and the aggregate principal amounts of \$388 million of the 4.75% senior notes due 2022 and \$296 million of the 5% senior notes due 2024 were validly tendered and exchanged for notes issued by the Company. The Company recorded this exchange transaction as a modification of the original debt instruments. Consequently, no gain or loss on extinguishment was recognized in the Company's consolidated income statement as a result of this exchange transaction and the issuance costs of the new debt were expensed as incurred.

On August 7, 2014, the Company issued \$850 million of 2.25% unsecured senior notes due August 12, 2019 and \$650 million of 3.375% unsecured senior notes due August 12, 2024 (collectively, the “2014 Notes”) for total proceeds of approximately \$1.5 billion, net of discounts and underwriting fees. The 2014 Notes pay interest semi-annually and may be redeemed, in whole at any time, or in part from time to time, at the Company’s option at a defined redemption price plus accrued and unpaid interest to the redemption date. The net proceeds of the 2014 Notes were used for general corporate purposes and to repay certain corporate debt.

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

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

Our credit facilities and unsecured senior notes (see Note 5 “Borrowings and Credit Agreements” to the consolidated financial statements) contain customary restrictive financial and operating covenants.

These covenants do not include a requirement for the acceleration of our debt maturities in the event of a downgrade in our credit rating. We do not believe the restrictions contained in these covenants materially affect our financial or operating flexibility. As of December 31, 2016, the Company is in compliance with all debt covenants.

As of December 31, 2016 and 2015, we had no outstanding derivative financial instruments.

Debt Ratings - As of December 31, 2016, our long-term debt was rated “Baa1” by Moody’s with a stable outlook and “BBB+” by Standard & Poor’s with a stable outlook, and our commercial paper program was rated “P-2” by Moody’s and “A-2” by Standard & Poor’s. In assessing our credit strength, we believe that both Moody’s and Standard & Poor’s considered, among

other things, our capital structure and financial policies as well as our consolidated balance sheet, our historical acquisition activity and other financial information. Although we currently believe our long-term debt ratings will remain investment grade, we cannot guarantee the future actions of Moody's and/or Standard & Poor's. Our debt ratings have a direct impact on our future borrowing costs, access to capital markets and new store operating lease costs.

Quarterly Cash Dividend Increase - In December 2016, our Board of Directors authorized an 18% increase in our quarterly common stock cash dividend to \$0.50 per share effective in 2017. This increase equates to an annual dividend rate of \$2.00 per share. In December 2015, our Board of Directors authorized a 21% increase in our quarterly common stock cash dividend to \$0.425 per share. This increase equated to an annual dividend rate of \$1.70 per share. In December 2014, our Board of Directors authorized a 27% increase in our quarterly common stock cash dividend to \$0.35 per share. This increase equated to an annual dividend rate of \$1.40 per share.

Off-Balance Sheet Arrangements

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

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

As of December 31, 2016, we guaranteed approximately 87 such store leases (excluding the lease guarantees related to Linens 'n Things), with the maximum remaining lease term extending through 2047. Management believes the ultimate disposition of any of the remaining lease guarantees will not have a material adverse effect on the Company's consolidated financial condition or future cash flows. Please see "Income (loss) from discontinued operations" previously in this document for further information regarding our guarantee of certain Linens 'n Things' store lease obligations.

Below is a summary of our significant contractual obligations as of December 31, 2016:

<i>In millions</i>	Payments Due by Period				
	Total	2017	2018 to 2019	2020 to 2021	Thereafter
Operating leases	\$ 27,346	\$ 2,458	\$ 4,570	\$ 3,950	\$ 16,368
Lease obligations from discontinued operations	19	7	7	5	—
Capital lease obligations	1,314	74	143	141	956
Contractual lease obligations with Target ⁽¹⁾	1,737	—	—	—	1,737
Long-term debt	25,204	21	4,350	5,050	15,783
Interest payments on long-term debt ⁽²⁾	11,385	916	1,724	1,480	7,265
Other long-term liabilities reflected in our consolidated balance sheet	806	76	377	112	241
	<u>\$ 67,811</u>	<u>\$ 3,552</u>	<u>\$ 11,171</u>	<u>\$ 10,738</u>	<u>\$ 42,350</u>

(1) The Company leases pharmacy and clinic space from Target. See Note 6 "Leases" to the consolidated financial statements for additional information regarding the lease arrangements with Target. Amounts related to the operating and capital leases with Target are reflected within the operating leases and capital lease obligations above. Amounts due in excess of the remaining estimated economic lives of the buildings are reflected herein assuming equivalent stores continue to operate through the term of the arrangements.

(2) Interest payments on long-term debt are calculated on outstanding balances and interest rates in effect on December 31, 2016.

Critical Accounting Policies

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

Our significant accounting policies are discussed in Note 1 “Significant Accounting Policies” to our consolidated financial statements. We believe the following accounting policies include a higher degree of judgment and/or complexity and, thus, are considered to be critical accounting policies. We have discussed the development and selection of our critical accounting policies with the Audit Committee of our Board of Directors and the Audit Committee has reviewed our disclosures relating to them.

Revenue Recognition

Pharmacy Services Segment

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

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

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

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

We deduct from our revenues the manufacturers’ rebates that are earned by our clients based on their members’ utilization of brand-name formulary drugs. We estimate these rebates at period-end based on actual and estimated claims data and our estimates of the manufacturers’ rebates earned by our clients. We base our estimates on the best available data at period-end and

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

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

In addition to these premiums, our net revenues include co-payments, coverage gap benefits, deductibles and co-insurance (collectively, the "Member Co-Payments") related to PDP members' actual prescription claims. In certain cases, CMS subsidizes a portion of these Member Co-Payments and we are paid an estimated prospective Member Co-Payment subsidy, each month. The prospective Member Co-Payment subsidy amounts received from CMS are also included in our net revenues. We assume no risk for these amounts, which represented 5.9%, 6.3% and 6.4% of consolidated net revenues in 2016, 2015 and 2014, respectively. If the prospective Member Co-Payment subsidies received differ from the amounts based on actual prescription claims, the difference is recorded in either accounts receivable or accrued expenses. We account for fully insured CMS obligations and Member Co-Payments (including the amounts subsidized by CMS) using the gross method consistent with our revenue recognition policies for Mail Co-Payments and Retail Co-Payments. We have recorded estimates of various assets and liabilities arising from our participation in the Medicare Part D program based on information in our claims management and enrollment systems. Significant estimates arising from our participation in the Medicare Part D program include: (i) estimates of low-income cost subsidy, reinsurance amounts and coverage gap discount amounts ultimately payable to or receivable from CMS based on a detailed claims reconciliation, (ii) an estimate of amounts payable to CMS under a risk-sharing feature of the Medicare Part D program design, referred to as the risk corridor and (iii) estimates for claims that have been reported and are in the process of being paid or contested and for our estimate of claims that have been incurred but have not yet been reported. Actual amounts of Medicare Part D-related assets and liabilities could differ significantly from amounts recorded. Historically, the effect of these adjustments has not been material to our results of operations or financial position.

Retail/LTC Segment

Retail Pharmacy - We recognize revenue from the sale of front store merchandise at the time the merchandise is purchased by the retail customer and recognize revenue from the sale of prescription drugs when the prescription is picked up by the customer. Customer returns are not material. Sales taxes are not included in revenue.

Long-term Care - We recognize revenue when products are delivered or services are rendered or provided to our customers, prices are fixed and determinable, and collection is reasonably assured. A significant portion of our revenues from sales of pharmaceutical and medical products are reimbursed by the federal Medicare Part D program and, to a lesser extent, state Medicaid programs. Payments for services rendered to patients covered by these programs are generally less than billed charges. We monitor our revenues and receivables from these reimbursement sources, as well as other third party insurance payors, and record an estimated contractual allowance for sales and receivable balances at the revenue recognition date, to properly account for anticipated differences between billed and reimbursed amounts. Accordingly, the total net revenues and receivables reported in our consolidated financial statements are recorded at the amount expected to be ultimately received from these payors. Since billing functions for a portion of our revenue systems are largely computerized, enabling on-line adjudication at the time of sale to record net revenues, our exposure in connection with estimating contractual allowance adjustments is limited primarily to unbilled and initially rejected Medicare, Medicaid and third party claims (typically approved for reimbursement once additional information is provided to the payor). For the remaining portion of our revenue systems, the contractual allowance is estimated for all billed, unbilled and initially rejected Medicare, Medicaid and third party claims. We evaluate several criteria in developing the estimated contractual allowances on a monthly basis, including historical trends based on actual claims paid, current contract and reimbursement terms, and changes in customer base and payor/product mix. Contractual allowance estimates are adjusted to actual amounts as cash is received and claims are settled, and the aggregate impact of these resulting adjustments was not significant to our results of operations. Further, we do not expect the impact of

changes in estimates related to unsettled contractual allowance amounts from Medicare, Medicaid and third party payors as of December 31, 2016 to be significant to our future consolidated results of operations, financial position and cash flows.

Patient co-payments associated with Medicare Part D, certain state Medicaid programs, Medicare Part B and certain third party payors are typically not collected at the time products are delivered or services are rendered, but are billed to the individuals as part of our normal billing procedures and subject to our normal accounts receivable collections procedures.

Health Care Clinics - for services provided by our health care clinics, revenue recognition occurs for completed services provided to patients, with adjustments taken for third party payor contractual obligations and patient direct bill historical collection rates.

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

Allowances for Doubtful Accounts

Accounts receivable primarily includes amounts due from third party providers (e.g., pharmacy benefit managers, insurance companies, governmental agencies and long-term care facilities), clients, members and private pay customers, as well as vendors and manufacturers. We provide a reserve for accounts receivable considered to be at increased risk of becoming uncollectible by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. We establish this allowance for doubtful accounts and consider such factors as historical collection experience, (i.e., payment history and credit losses) and creditworthiness, specifically identified credit risks, aging of accounts receivable by payor category, current and expected economic conditions and other relevant factors. We regularly review our allowance for doubtful accounts for appropriateness. Judgment is used to assess the collectability of account balances and the economic ability of a customer to pay.

Our allowance for doubtful accounts as of December 31, 2016 was \$286 million, compared with \$161 million as of December 31, 2015. Our allowance for doubtful accounts represented 2.3% and 1.3% of gross receivables (net of contractual allowance adjustments) as of December 31, 2016 and 2015, respectively. Unforeseen future developments could lead to changes in our provision for doubtful accounts levels and future allowance for doubtful accounts percentages. For example, a one percentage point increase in the allowance for doubtful accounts as a percentage of gross receivables as of December 31, 2016 would result in an increase to the provision of doubtful accounts of approximately \$126 million.

Given our experience, we believe that our aggregate reserves for potential losses are adequate, but if any of our larger customers were to unexpectedly default on their obligations, our overall allowances for doubtful accounts may prove to be inadequate. In particular, if economic conditions worsen, the payor mix shifts significantly or reimbursement rates are adversely affected, we may adjust our allowance for doubtful accounts accordingly, and our accounts receivable collections, cash flows, financial position and results of operations could be adversely affected.

Vendor Allowances and Purchase Discounts

Pharmacy Services Segment

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

Retail/LTC Segment

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

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

Inventory

Inventories are valued at the lower of cost or market using the weighted average cost method.

We reduce the value of our ending inventory for estimated inventory losses that have occurred during the interim period between physical inventory counts. Physical inventory counts are taken on a regular basis in each store and a continuous cycle count process is the primary procedure used to validate the inventory balances on hand in each distribution center and mail facility to ensure that the amounts reflected in the accompanying consolidated financial statements are properly stated. The accounting for inventory contains uncertainty since we must use judgment to estimate the inventory losses that have occurred during the interim period between physical inventory counts. When estimating these losses, we consider a number of factors, which include, but are not limited to, historical physical inventory results on a location-by-location basis and current physical inventory loss trends.

Our total reserve for estimated inventory losses covered by this critical accounting policy was \$283 million as of December 31, 2016. Although we believe we have sufficient current and historical information available to us to record reasonable estimates for estimated inventory losses, it is possible that actual results could differ. In order to help you assess the aggregate risk, if any, associated with the uncertainties discussed above, a ten percent (10%) pre-tax change in our estimated inventory losses, which we believe is a reasonably likely change, would increase or decrease our total reserve for estimated inventory losses by about \$28 million as of December 31, 2016.

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

Goodwill and Intangible Assets

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

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

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

impairment loss is recorded for the portion of the asset group's carrying value that exceeds the asset group's estimated future cash flows (discounted and with interest charges). Our long-lived asset impairment loss calculation contains uncertainty since we must use judgment to estimate each asset group's future sales, profitability and cash flows. When preparing these estimates, we consider historical results and current operating trends and our consolidated sales, profitability and cash flow results and forecasts.

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

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

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

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

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

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

The carrying value of goodwill and other intangible assets covered by this critical accounting policy was \$38.2 billion and \$13.5 billion as of December 31, 2016, respectively. We did not record any impairment losses related to goodwill or other intangible assets during 2016, 2015 or 2014. During the third quarter of 2016, we performed our required annual impairment tests of goodwill and indefinitely-lived trademarks. The goodwill impairment tests resulted in the fair values of our Pharmacy Services and Retail Pharmacy reporting units exceeding their carrying values by significant margins. The fair values of our LTC and RxCrossroads reporting units exceeded their carrying values by 7% and 12%, respectively. The balance of goodwill for our LTC and RxCrossroads reporting units at December 31, 2016 was approximately \$6.4 billion and \$0.6 billion, respectively.

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

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

Closed Store Lease Liability

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

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

Our total closed store lease liability covered by this critical accounting policy was \$183 million as of December 31, 2016. This amount is net of \$98 million of estimated sublease income that is subject to the uncertainties discussed above. Although we believe we have sufficient current and historical information available to us to record reasonable estimates for sublease income, it is possible that actual results could differ.

In order to help you assess the risk, if any, associated with the uncertainties discussed above, a ten percent (10%) pre-tax change in our estimated sublease income, which we believe is a reasonably likely change, would increase or decrease our total closed store lease liability by about \$10 million as of December 31, 2016.

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

During the year ending December 31, 2017, we intend to close approximately 70 retail stores and expect to take a charge of approximately \$225 million associated with the remaining lease obligations of such stores.

Self-Insurance Liabilities

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

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

Our total self-insurance liability covered by this critical accounting policy was \$670 million as of December 31, 2016. Although we believe we have sufficient current and historical information available to us to record reasonable estimates for our self-insurance liability, it is possible that actual results could differ. In order to help you assess the risk, if any, associated with the uncertainties discussed above, a ten percent (10%) pre-tax change in our estimate for our self-insurance liability, which we believe is a reasonably likely change, would increase or decrease our self-insurance liability by about \$67 million as of December 31, 2016.

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

Income Taxes

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

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

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

New Accounting Pronouncements

See Note 1 “Significant Accounting Policies” to the consolidated financial statements for a description of New Accounting Pronouncements applicable to the Company.

Cautionary Statement Concerning Forward-Looking Statements

This annual report contains forward-looking statements within the meaning of the federal securities laws. In addition, the Company and its representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in the Company's filings with the U.S. Securities and Exchange Commission ("SEC") and in its reports to stockholders, press releases, webcasts, conference calls, meetings and other communications. Generally, the inclusion of the words "believe," "expect," "intend," "estimate," "project," "anticipate," "will," "should" and similar expressions identify statements that constitute forward-looking statements. All statements addressing operating performance of CVS Health Corporation or any subsidiary, events or developments that the Company expects or anticipates will occur in the future, including statements relating to corporate strategy; revenue growth; earnings or earnings per common share growth; adjusted earnings or adjusted earnings per common share growth; free cash flow; debt ratings; inventory levels; inventory turn and loss rates; store development; relocations and new market entries; retail pharmacy business, sales trends and operations; PBM business, sales trends and operations; specialty pharmacy business, sales trends and operations; LTC pharmacy business, sales trends and operations; the Company's ability to attract or retain customers and clients; Medicare Part D competitive bidding, enrollment and operations; new product development; and the impact of industry and regulatory developments, as well as statements expressing optimism or pessimism about future operating results or events, are forward-looking statements within the meaning of the federal securities laws.

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

By their nature, all forward-looking statements involve risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements for a number of reasons as described in our SEC filings, including those set forth in the Risk Factors section within the 2016 Annual Report on Form 10-K, and including, but not limited to:

- *Risks relating to the health of the economy in general and in the markets we serve, which could impact consumer purchasing power, preferences and/or spending patterns, drug utilization trends, the financial health of our PBM and LTC clients, retail and specialty pharmacy payors or other payors doing business with the Company and our ability to secure necessary financing, suitable store locations and sale-leaseback transactions on acceptable terms.*
- *Efforts to reduce reimbursement levels and alter health care financing practices, including pressure to reduce reimbursement levels for generic drugs.*
- *The possibility of PBM and LTC client loss and/or the failure to win new PBM and LTC business, including as a result of failure to win renewal of expiring contracts, contract termination rights that may permit clients to terminate a contract prior to expiration and early or periodic renegotiation of pricing by clients prior to expiration of a contract.*
- *The possibility of loss of Medicare Part D business and/or failure to obtain new Medicare Part D business, whether as a result of the annual Medicare Part D competitive bidding process or otherwise.*
- *Risks related to the frequency and rate of the introduction of generic drugs and brand name prescription products.*
- *Risks of declining gross margins attributable to increased competitive pressures, increased client demand for lower prices, enhanced service offerings and/or higher service levels and market dynamics and, with respect to the PBM industry, regulatory changes that impact our ability to offer plan sponsors pricing that includes the use of retail "differential" or "spread" or the use of maximum allowable cost pricing.*
- *Regulatory changes, business changes and compliance requirements and restrictions that may be imposed by Centers for Medicare and Medicaid Services ("CMS"), Office of Inspector General or other government agencies relating to the Company's participation in Medicare, Medicaid and other federal and state government-funded programs, including sanctions and remedial actions that may be imposed by CMS on our Medicare Part D business.*
- *Risks and uncertainties related to the timing and scope of reimbursement from Medicare, Medicaid and other government-funded programs, including the possible impact of sequestration, the impact of other federal budget, debt and deficit negotiations and legislation that could delay or reduce reimbursement from such programs and the impact of any closure, suspension or other changes affecting federal or state government funding or operations.*

- *Possible changes in industry pricing benchmarks used to establish pricing in many of our PBM and LTC client contracts, pharmaceutical purchasing arrangements, retail network contracts, specialty payor agreements and other third party payor contracts.*
- *Efforts to increase reimbursement rates in PBM pharmacy networks and to inhibit the ability of PBMs to audit network pharmacies for fraud, waste and abuse.*
- *Risks related to increasing oversight of PBM activities by state departments of insurance.*
- *A highly competitive business environment, including the uncertain impact of increased consolidation in the PBM industry, the possibility of combinations, joint ventures or other collaboration between PBMs and retailers, uncertainty concerning the ability of our retail pharmacy business to secure and maintain contractual relationships with PBMs and other payors on acceptable terms, uncertainty concerning the ability of our PBM business to secure and maintain competitive access, pricing and other contract terms from retail network pharmacies in an environment where some PBM clients are willing to consider adopting narrow or more restricted retail pharmacy networks, and the possibility of our retail stores or specialty pharmacies being excluded from narrow or restricted networks.*
- *The Company's ability to timely identify or effectively respond to changing consumer preferences and spending patterns, an inability to expand the products being purchased by our customers, or the failure or inability to obtain or offer particular categories of products.*
- *Risks relating to our ability to secure timely and sufficient access to the products we sell from our domestic and/or international suppliers, including limited distribution drugs.*
- *Reform of the U.S. health care system, including ongoing implementation of ACA and the possible repeal and replacement of all or parts of ACA, continuing legislative efforts, regulatory changes and judicial interpretations impacting our health care system and the possibility of shifting political and legislative priorities related to reform of the health care system in the future.*
- *Risks related to changes in legislation, regulation and government policy (including through the use of Executive Orders) that could significantly impact our business and the health care and retail industries, including the possibility of major developments in tax policy or trade relations, such as the disallowance of tax deductions for imported merchandise or the imposition of unilateral tariffs on imported products.*
- *Risks relating to any failure to properly maintain our information technology systems, our information security systems and our infrastructure to support our business and to protect the privacy and security of sensitive customer and business information.*
- *Risks related to compliance with a broad and complex regulatory framework, including compliance with new and existing federal, state and local laws and regulations relating to health care, network pharmacy reimbursement and auditing, accounting standards, corporate securities, tax, environmental and other laws and regulations affecting our business.*
- *Risks related to litigation, government investigations and other legal proceedings as they relate to our business, the pharmacy services, retail pharmacy, LTC pharmacy or retail clinic industries, or to the health care industry generally.*
- *The risk that any condition related to the closing of any proposed acquisition may not be satisfied on a timely basis or at all, including the inability to obtain required regulatory approvals of any proposed acquisition, or on the terms desired or anticipated; the risk that such approvals may result in the imposition of conditions that could adversely affect the resulting combined company or the expected benefits of any proposed transaction; and the risk that the proposed transactions fail to close for any other reason.*
- *The possibility that the anticipated synergies and other benefits from any acquisition by us will not be realized, or will not be realized within the expected time periods.*
- *The risks and uncertainties related to our ability to integrate the operations, products, services and employees of any entities acquired by us and the effect of the potential disruption of management's attention from ongoing business operations due to any pending acquisitions.*
- *The accessibility or availability of adequate financing on a timely basis and on reasonable terms.*

- *Risks related to the outcome of any legal proceedings related to, or involving any entity that is a part of, any proposed acquisition contemplated by us.*
- *Other risks and uncertainties detailed from time to time in our filings with the SEC.*

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

Management's Report on Internal Control Over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting. Our Company's internal control over financial reporting includes those policies and procedures that pertain to the Company's ability to record, process, summarize and report a system of internal accounting controls and procedures to provide reasonable assurance, at an appropriate cost/benefit relationship, that the unauthorized acquisition, use or disposition of assets are prevented or timely detected and that transactions are authorized, recorded and reported properly to permit the preparation of financial statements in accordance with generally accepted accounting principles (GAAP) and receipts and expenditures are duly authorized. In order to ensure the Company's internal control over financial reporting is effective, management regularly assesses such controls and did so most recently for its financial reporting as of December 31, 2016.

We conducted an assessment of the effectiveness of our internal controls over financial reporting based on the criteria set forth in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). This evaluation included review of the documentation, evaluation of the design effectiveness and testing of the operating effectiveness of controls. Our system of internal control over financial reporting is enhanced by periodic reviews by our internal auditors, written policies and procedures and a written Code of Conduct adopted by our Company's Board of Directors, applicable to all employees of our Company. In addition, we have an internal Disclosure Committee, comprised of management from each functional area within the Company, which performs a separate review of our disclosure controls and procedures. There are inherent limitations in the effectiveness of any system of internal controls over financial reporting.

Based on our assessment, we conclude our Company's internal control over financial reporting is effective and provides reasonable assurance that assets are safeguarded and that the financial records are reliable for preparing financial statements as of December 31, 2016.

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

February 9, 2017

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of CVS Health Corporation

We have audited CVS Health Corporation's internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). CVS Health Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, CVS Health Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of CVS Health Corporation as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2016 of CVS Health Corporation and our report dated February 9, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts

February 9, 2017

Consolidated Statements of Income

<u>In millions, except per share amounts</u>	Year Ended December 31,		
	2016	2015	2014
Net revenues	\$ 177,526	\$ 153,290	\$ 139,367
Cost of revenues	148,669	126,762	114,000
Gross profit	28,857	26,528	25,367
Operating expenses	18,519	17,074	16,568
Operating profit	10,338	9,454	8,799
Interest expense, net	1,058	838	600
Loss on early extinguishment of debt	643	—	521
Income before income tax provision	8,637	8,616	7,678
Income tax provision	3,317	3,386	3,033
Income from continuing operations	5,320	5,230	4,645
Income (loss) from discontinued operations, net of tax	(1)	9	(1)
Net income	5,319	5,239	4,644
Net income attributable to noncontrolling interest	(2)	(2)	—
Net income attributable to CVS Health	\$ 5,317	\$ 5,237	\$ 4,644
Basic earnings per share:			
Income from continuing operations attributable to CVS Health	\$ 4.93	\$ 4.65	\$ 3.98
Income (loss) from discontinued operations attributable to CVS Health	\$ —	\$ 0.01	\$ —
Net income attributable to CVS Health	\$ 4.93	\$ 4.66	\$ 3.98
Weighted average shares outstanding	1,073	1,118	1,161
Diluted earnings per share:			
Income from continuing operations attributable to CVS Health	\$ 4.91	\$ 4.62	\$ 3.96
Income (loss) from discontinued operations attributable to CVS Health	\$ —	\$ 0.01	\$ —
Net income attributable to CVS Health	\$ 4.90	\$ 4.63	\$ 3.96
Weighted average shares outstanding	1,079	1,126	1,169
Dividends declared per share	\$ 1.70	\$ 1.40	\$ 1.10

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

<u>In millions</u>	Year Ended December 31,		
	2016	2015	2014
Net income	\$ 5,319	\$ 5,239	\$ 4,644
Other comprehensive income (loss):			
Foreign currency translation adjustments, net of tax	38	(100)	(35)
Net cash flow hedges, net of tax	2	2	4
Pension and other postretirement benefits, net of tax	13	(43)	(37)
Total other comprehensive income (loss)	53	(141)	(68)
Comprehensive income	5,372	5,098	4,576
Comprehensive income attributable to noncontrolling interest	(2)	(2)	—
Comprehensive income attributable to CVS Health	\$ 5,370	\$ 5,096	\$ 4,576

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

<u>In millions, except per share amounts</u>	December 31,	
	2016	2015
Assets:		
Cash and cash equivalents	\$ 3,371	\$ 2,459
Short-term investments	87	88
Accounts receivable, net	12,164	11,888
Inventories	14,760	14,001
Other current assets	660	722
Total current assets	31,042	29,158
Property and equipment, net	10,175	9,855
Goodwill	38,249	38,106
Intangible assets, net	13,511	13,878
Other assets	1,485	1,440
Total assets	\$ 94,462	\$ 92,437
Liabilities:		
Accounts payable	\$ 7,946	\$ 7,490
Claims and discounts payable	9,451	7,653
Accrued expenses	6,937	6,829
Short-term debt	1,874	—
Current portion of long-term debt	42	1,197
Total current liabilities	26,250	23,169
Long-term debt	25,615	26,267
Deferred income taxes	4,214	4,217
Other long-term liabilities	1,549	1,542
Commitments and contingencies (Note 11)	—	—
Redeemable noncontrolling interest	—	39
Shareholders' equity:		
CVS Health shareholders' equity:		
Preferred stock, par value \$0.01: 0.1 shares authorized; none issued or outstanding	—	—
Common stock, par value \$0.01: 3,200 shares authorized; 1,705 shares issued and 1,061 shares outstanding at December 31, 2016 and 1,699 shares issued and 1,101 shares outstanding at December 31, 2015	17	17
Treasury stock, at cost: 643 shares at December 31, 2016 and 597 shares at December 31, 2015	(33,452)	(28,886)
Shares held in trust: 1 share at December 31, 2016 and 2015	(31)	(31)
Capital surplus	31,618	30,948
Retained earnings	38,983	35,506
Accumulated other comprehensive income (loss)	(305)	(358)
Total CVS Health shareholders' equity	36,830	37,196
Noncontrolling interest	4	7
Total shareholders' equity	36,834	37,203
Total liabilities and shareholders' equity	\$ 94,462	\$ 92,437

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

<u>In millions</u>	Year Ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Cash receipts from customers	\$ 172,310	\$ 148,954	\$ 132,406
Cash paid for inventory and prescriptions dispensed by retail network pharmacies	(142,511)	(122,498)	(105,362)
Cash paid to other suppliers and employees	(15,550)	(14,162)	(15,344)
Interest received	20	21	15
Interest paid	(1,140)	(629)	(647)
Income taxes paid	(3,060)	(3,274)	(2,931)
Net cash provided by operating activities	10,069	8,412	8,137
Cash flows from investing activities:			
Purchases of property and equipment	(2,224)	(2,367)	(2,136)
Proceeds from sale-leaseback transactions	230	411	515
Proceeds from sale of property and equipment and other assets	37	35	11
Acquisitions (net of cash acquired) and other investments	(539)	(11,475)	(2,439)
Purchase of available-for-sale investments	(65)	(267)	(157)
Maturity of available-for-sale investments	91	243	161
Net cash used in investing activities	(2,470)	(13,420)	(4,045)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	1,874	(685)	685
Proceeds from issuance of long-term debt	3,455	14,805	1,483
Repayments of long-term debt	(5,943)	(2,902)	(3,100)
Purchase of noncontrolling interest in subsidiary	(39)	—	—
Payment of contingent consideration	(26)	(58)	—
Dividends paid	(1,840)	(1,576)	(1,288)
Proceeds from exercise of stock options	224	299	421
Excess tax benefits from stock-based compensation	72	127	106
Repurchase of common stock	(4,461)	(5,001)	(4,001)
Other	(5)	(3)	—
Net cash (used in) provided by financing activities	(6,689)	5,006	(5,694)
Effect of exchange rate changes on cash and cash equivalents	2	(20)	(6)
Net increase (decrease) in cash and cash equivalents	912	(22)	(1,608)
Cash and cash equivalents at the beginning of the year	2,459	2,481	4,089
Cash and cash equivalents at the end of the year	\$ 3,371	\$ 2,459	\$ 2,481
Reconciliation of net income to net cash provided by operating activities:			
Net income	\$ 5,319	\$ 5,239	\$ 4,644
Adjustments required to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,475	2,092	1,931
Stock-based compensation	222	230	165
Loss on early extinguishment of debt	643	—	521
Deferred income taxes and other noncash items	153	(266)	(58)
Change in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable, net	(243)	(1,594)	(737)
Inventories	(742)	(1,141)	(770)
Other current assets	35	355	(383)
Other assets	(43)	2	9
Accounts payable and claims and discounts payable	2,189	2,834	1,742
Accrued expenses	59	765	1,060
Other long-term liabilities	2	(104)	13
Net cash provided by operating activities	\$ 10,069	\$ 8,412	\$ 8,137

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

In millions	Shares			Dollars		
	Year Ended December 31,			Year Ended December 31,		
	2016	2015	2014	2016	2015	2014
Common stock:						
Beginning of year	1,699	1,691	1,680	\$ 17	\$ 17	\$ 17
Stock options exercised and issuance of stock awards	6	8	11	—	—	—
End of year	1,705	1,699	1,691	\$ 17	\$ 17	\$ 17
Treasury stock:						
Beginning of year	(597)	(550)	(500)	\$ (28,886)	\$ (24,078)	\$ (20,169)
Purchase of treasury shares	(47)	(48)	(51)	(4,606)	(4,856)	(4,001)
Employee stock purchase plan issuances	1	1	1	40	48	92
End of year	(643)	(597)	(550)	\$ (33,452)	\$ (28,886)	\$ (24,078)
Shares held in trust:						
Balance at beginning and end of year	(1)	(1)	(1)	\$ (31)	\$ (31)	\$ (31)
Capital surplus:						
Beginning of year				\$ 30,948	\$ 30,418	\$ 29,777
Stock option activity, stock awards and other				449	533	535
Excess tax benefit on stock options and stock awards				76	142	106
2015 accelerated share repurchase not settled until 2016				145	(145)	—
End of year				\$ 31,618	\$ 30,948	\$ 30,418
Retained earnings:						
Beginning of year				\$ 35,506	\$ 31,849	\$ 28,493
Changes in inventory accounting principles				—	(4)	—
Net income attributable to CVS Health				5,317	5,237	4,644
Common stock dividends				(1,840)	(1,576)	(1,288)
End of year				\$ 38,983	\$ 35,506	\$ 31,849
Accumulated other comprehensive loss:						
Beginning of year				\$ (358)	\$ (217)	\$ (149)
Foreign currency translation adjustments, net of tax				38	(100)	(35)
Net cash flow hedges, net of tax				2	2	4
Pension and other postretirement benefits, net of tax				13	(43)	(37)
End of year				\$ (305)	\$ (358)	\$ (217)
Total CVS Health shareholders' equity				\$ 36,830	\$ 37,196	\$ 37,958
Noncontrolling interest:						
Beginning of year				\$ 7	\$ 5	\$ —
Business combinations				—	1	5
Capital contributions				1	2	—
Net income attributable to noncontrolling interest ⁽¹⁾				1	1	—
Distributions				(5)	(2)	—
End of year				\$ 4	\$ 7	\$ 5
Total shareholders' equity				\$ 36,834	\$ 37,203	\$ 37,963

(1) Excludes \$1 million attributable to redeemable noncontrolling interest in 2016 and 2015 (See Note 1 "Significant Accounting Policies").

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1 Significant Accounting Policies

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

Pharmacy Services Segment (the “PSS”) - The PSS provides a full range of pharmacy benefit management services including plan design offerings and administration, formulary management, Medicare Part D services, mail order, specialty pharmacy and infusion services, retail pharmacy network management services, prescription management systems, clinical services, disease management services and medical spend management. The Company’s clients are primarily employers, insurance companies, unions, government employee groups, health plans, Medicare Part D, Managed Medicaid plans, plans offered on the public and private exchanges, and other sponsors of health benefit plans and individuals throughout the United States.

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

The PSS’ specialty pharmacies support individuals that require complex and expensive drug therapies. The specialty pharmacy business includes mail order and retail specialty pharmacies that operate under the CVS Caremark[®], CarePlus CVS Pharmacy[™], Navarro[®] Health Services and Advanced Care Scripts (“ACS Pharmacy”) names. In January 2014, the Company enhanced its offerings of specialty infusion services and began offering enteral nutrition services through Coram LLC and its subsidiaries (collectively, “Coram”). In August 2015, the Company further expanded its specialty offerings with the acquisition of ACS Pharmacy which was part of the Omnicare, Inc. (“Omnicare”) acquisition. See Note 2 “Acquisitions.”

The PSS also provides health management programs, which include integrated disease management for 18 conditions, through the Company’s Accordant[®] rare disease management offering.

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

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

The PSS operates under the CVS Caremark[®] Pharmacy Services, Caremark[®], CVS Caremark[™], CarePlus CVS Pharmacy[™], Accordant[®], SilverScript[®], Coram[®], CVS Specialty[™], NovoLogix[®], Navarro[®] Health Services and ACS Pharmacy names. As of December 31, 2016, the PSS operated 23 retail specialty pharmacy stores, 13 specialty mail order pharmacies and four mail order dispensing pharmacies, and 84 branches for infusion and enteral services, including 73 ambulatory infusion suites and three centers of excellence, located in 41 states, Puerto Rico and the District of Columbia.

Retail/LTC Segment (the “RLS”) - The RLS sells prescription drugs and a wide assortment of general merchandise, including over-the-counter drugs, beauty products and cosmetics, personal care products, convenience foods, photo finishing services, seasonal merchandise, and greeting cards, through the Company’s CVS Pharmacy[®], CVS[®], CVS Pharmacy y más[®], Longs Drugs[®], Navarro Discount Pharmacy[®] and Drogeria Onofre[™] retail stores and online through CVS.com[®], Navarro.com and Onofre.com.br.

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

With the acquisition of Omnicare, the RLS now provides long-term care (“LTC”) operations, which is comprised of providing the distribution of pharmaceuticals, related pharmacy consulting and other ancillary services to chronic care facilities and other care settings, as well as commercialization services which are provided under the name RxCrossroads[®]. With the December

Notes to Consolidated Financial Statements (continued)

2015 acquisition of the pharmacies and clinics of Target Corporation (“Target”), the Company added 1,672 pharmacies and approximately 79 clinics.

As of December 31, 2016, the retail pharmacy business included 9,709 retail stores (of which 7,980 were our stores that operated a pharmacy and 1,674 were our pharmacies located within a Target store) located in 49 states, the District of Columbia, Puerto Rico and Brazil operating primarily under the CVS Pharmacy, CVS, CVS Pharmacy y más[®], Longs Drugs, Navarro Discount Pharmacy and Drogeria Onofre names, the online retail websites, CVS.com, Navarro.com and Onofre.com.br, and 1,139 retail health care clinics operating under the MinuteClinic name (of which 1,053 were located in our retail pharmacy stores, 79 were located in Target stores and seven were located in corporate campuses or other locations). LTC operations is comprised of 152 spoke pharmacies that primarily handle new prescription orders and 32 hub pharmacies that use proprietary automation to support spoke pharmacies with refill prescriptions. LTC operates primarily under the Omnicare[®] and NeighborCare[®] names.

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

Principles of consolidation - The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries and variable interest entities (“VIEs”) for which the Company is the primary beneficiary. All material intercompany balances and transactions have been eliminated.

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

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

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

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

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

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

Short-term investments - The Company’s short-term investments consist of certificates of deposit with initial maturities of greater than three months when purchased that mature in less than one year from the balance sheet date. These investments, which were classified as available-for-sale within Level 1 of the fair value hierarchy, were carried at fair value, which approximated their historical cost at December 31, 2016 and 2015.

Notes to Consolidated Financial Statements (continued)

Fair value of financial instruments - As of December 31, 2016, the Company's financial instruments include cash and cash equivalents, short-term and long-term investments, accounts receivable, accounts payable, contingent consideration liability and short-term debt. Due to the nature of these instruments, the Company's carrying value approximates fair value. The carrying amount and estimated fair value of total long-term debt was \$25.7 billion and \$26.5 billion, respectively, as of December 31, 2016. The fair value of the Company's long-term debt was estimated based on quoted rates currently offered in active markets for the Company's debt, which is considered Level 1 of the fair value hierarchy. There were no outstanding derivative financial instruments as of December 31, 2016 and 2015.

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

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

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

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

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

<i>In millions</i>	2016	2015	2014
Beginning balance	\$ 161	\$ 256	\$ 256
Additions charged to bad debt expense	221	216	185
Write-offs charged to allowance	(96)	(311)	(185)
Ending balance	<u>\$ 286</u>	<u>\$ 161</u>	<u>\$ 256</u>

Inventories - Inventories are stated at the lower of weighted average cost or market. Physical inventory counts are taken on a regular basis in each retail store and long-term care pharmacy and a continuous cycle count process is the primary procedure used to validate the inventory balances on hand in each distribution center and mail facility to ensure that the amounts reflected in the accompanying consolidated financial statements are properly stated. During the interim period between physical inventory counts, the Company accrues for anticipated physical inventory losses on a location-by-location basis based on historical results and current trends.

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

Notes to Consolidated Financial Statements (continued)

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

<i><u>In millions</u></i>	<u>2016</u>	<u>2015</u>
Land	\$ 1,734	\$ 1,635
Building and improvements	3,226	3,168
Fixtures and equipment	10,956	10,001
Leasehold improvements	4,494	4,015
Software	2,392	2,217
	<u>22,802</u>	<u>21,036</u>
Accumulated depreciation and amortization	(12,627)	(11,181)
Property and equipment, net	<u>\$ 10,175</u>	<u>\$ 9,855</u>

The gross amount of property and equipment under capital leases was \$547 million and \$528 million as of December 31, 2016 and 2015, respectively. Accumulated amortization of property and equipment under capital lease was \$119 million and \$97 million as of December 31, 2016 and 2015, respectively. Amortization of property and equipment under capital lease is included within depreciation expense. Depreciation expense totaled \$1.7 billion in 2016, \$1.5 billion in 2015 and \$1.4 billion in 2014.

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

Intangible assets - Purchased customer contracts and relationships are amortized on a straight-line basis over their estimated useful lives between 9 and 20 years. Purchased customer lists are amortized on a straight-line basis over their estimated useful lives of up to 10 years. Purchased leases are amortized on a straight-line basis over the remaining life of the lease. See Note 3 “Goodwill and Other Intangibles” for additional information about intangible assets.

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

Redeemable noncontrolling interest - As a result of the acquisition of Omnicare in August 2015, the Company obtained a 73% ownership interest in limited liability company (“LLC”). Due to the change in control in Omnicare, the noncontrolling member of the LLC had the contractual right to put its membership interest to the Company at fair value. Consequently, the noncontrolling interest in the LLC was recorded as a redeemable noncontrolling interest at fair value. During 2016, the noncontrolling shareholder of the LLC exercised its option to sell its ownership interest and the Company purchased the noncontrolling interest in the LLC for approximately \$39 million .

Below is a summary of the changes in redeemable noncontrolling interest for the years ended December 31:

<i><u>In millions</u></i>	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 39	\$ —
Acquisition of noncontrolling interest	—	39
Net income attributable to noncontrolling interest	1	1
Distributions	(2)	(1)
Purchase of noncontrolling interest	(39)	—
Reclassification to capital surplus in connection with purchase of noncontrolling interest	1	—
Ending balance	<u>\$ —</u>	<u>\$ 39</u>

Revenue Recognition

Pharmacy Services Segment

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

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

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

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

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

Medicare Part D - The PSS, through its SilverScript subsidiary, participates in the federal government’s Medicare Part D program as a Prescription Drug Plan (“PDP”). Net revenues include insurance premiums earned by the PDP, which are determined based on the PDP’s annual bid and related contractual arrangements with the Centers for Medicare and Medicaid Services (“CMS”). The insurance premiums include a direct premium paid by CMS and a beneficiary premium, which is the responsibility of the PDP member, but which is subsidized by CMS in the case of low-income members. Premiums collected in advance are initially deferred in accrued expenses and are then recognized in net revenues over the period in which members are entitled to receive benefits.

In addition to these premiums, net revenues include co-payments, coverage gap benefits, deductibles and co-insurance (collectively, the “Member Co-Payments”) related to PDP members’ actual prescription claims. In certain cases, CMS subsidizes a portion of these Member Co-Payments and pays the PSS an estimated prospective Member Co-Payment subsidy amount each month. The prospective Member Co-Payment subsidy amounts received from CMS are also included in net revenues. SilverScript assumes no risk for these amounts. If the prospective Member Co-Payment subsidies received differ

Notes to Consolidated Financial Statements (continued)

from the amounts based on actual prescription claims, the difference is recorded in either accounts receivable or accrued expenses.

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

Retail/LTC Segment

Retail Pharmacy - The retail drugstores recognize revenue at the time the customer takes possession of the merchandise. Customer returns are not material. Revenue generated from the performance of services in the RLS' health care clinics is recognized at the time the services are performed. Sales taxes are not included in revenue.

Long-term Care - Revenue is recognized when products are delivered or services are rendered or provided to the customer, prices are fixed and determinable, and collection is reasonably assured. A significant portion of the revenues from sales of pharmaceutical and medical products are reimbursed by the federal Medicare Part D program and, to a lesser extent, state Medicaid programs. Payments for services rendered to patients covered by these programs are generally less than billed charges. The Company monitors its revenues and receivables from these reimbursement sources, as well as other third party insurance payors, and record an estimated contractual allowance for sales and receivable balances at the revenue recognition date, to properly account for anticipated differences between billed and reimbursed amounts. Accordingly, the total net sales and receivables reported in the Company's consolidated financial statements are recorded at the amount expected to be ultimately received from these payors. Since billing functions for a portion of the Company's revenue systems are largely computerized, enabling on-line adjudication at the time of sale to record net revenues, the Company's exposure in connection with estimating contractual allowance adjustments is limited primarily to unbilled and initially rejected Medicare, Medicaid and third party claims (typically approved for reimbursement once additional information is provided to the payor). For the remaining portion of the Company's revenue systems, the contractual allowance is estimated for all billed, unbilled and initially rejected Medicare, Medicaid and third party claims. The Company evaluates several criteria in developing the estimated contractual allowances on a monthly basis, including historical trends based on actual claims paid, current contract and reimbursement terms, and changes in customer base and payor/product mix. Contractual allowance estimates are adjusted to actual amounts as cash is received and claims are settled, and the aggregate impact of these resulting adjustments was not significant to our results of operations for any of the periods presented.

Patient co-payments associated with Medicare Part D, certain state Medicaid programs, Medicare Part B and certain third party payors are typically not collected at the time products are delivered or services are rendered, but are billed to the individuals as part of our normal billing procedures and subject to our normal accounts receivable collections procedures.

Health Care Clinics - For services provided by our health care clinics, revenue recognition occurs for completed services provided to patients, with adjustments taken for third party payor contractual obligations and patient direct bill historical collection rates.

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

See Note 12 "Segment Reporting" for additional information about the revenues of the Company's business segments.

Cost of revenues

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

Notes to Consolidated Financial Statements (continued)

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

See Note 12 "Segment Reporting" for additional information about the cost of revenues of the Company's business segments.

Vendor allowances and purchase discounts

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

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

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

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

Facility opening and closing costs - New facility opening costs, other than capital expenditures, are charged directly to expense when incurred. When the Company closes a facility, the present value of estimated unrecoverable costs, including the remaining lease obligation less estimated sublease income and the book value of abandoned property and equipment, are charged to expense. The long-term portion of the lease obligations associated with facility closings was \$181 million and \$217 million in 2016 and 2015, respectively.

Advertising costs - Advertising costs are expensed when the related advertising takes place. Advertising costs, net of vendor funding (included in operating expenses), were \$216 million, \$221 million and \$212 million in 2016, 2015 and 2014, respectively.

Interest expense, net - The following are the components of net interest expense for the years ended December 31:

<u><i>In millions</i></u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Interest expense	\$ 1,078	\$ 859	\$ 615
Interest income	(20)	(21)	(15)
Interest expense, net	<u>\$ 1,058</u>	<u>\$ 838</u>	<u>\$ 600</u>

Notes to Consolidated Financial Statements (continued)

Capitalized interest totaled \$13 million, \$12 million and \$19 million in 2016, 2015 and 2014, respectively.

Shares held in trust - The Company maintains grantor trusts, which held approximately one million shares of its common stock at December 31, 2016 and 2015, respectively. These shares are designated for use under various employee compensation plans. Since the Company holds these shares, they are excluded from the computation of basic and diluted shares outstanding.

Accumulated other comprehensive income - Accumulated other comprehensive income (loss) consists of changes in the net actuarial gains and losses associated with pension and other postretirement benefit plans, losses on derivatives from cash flow hedges executed in previous years associated with the issuance of long-term debt, and foreign currency translation adjustments. The amount included in accumulated other comprehensive loss related to the Company's pension and postretirement plans was \$284 million pre-tax (\$173 million after-tax) as of December 31, 2016 and \$305 million pre-tax (\$186 million after-tax) as of December 31, 2015. The net impact on cash flow hedges totaled \$9 million pre-tax (\$5 million after-tax) and \$14 million pre-tax (\$7 million after-tax) as of December 31, 2016 and 2015, respectively. Cumulative foreign currency translation adjustments at December 31, 2016 and 2015 were \$127 million and \$165 million, respectively.

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

<i>In millions</i>	Year Ended December 31, 2016 ⁽¹⁾			
	Foreign Currency	Losses on Cash Flow Hedges	Pension and Other Postretirement Benefits	Total
Balance, December 31, 2015	\$ (165)	\$ (7)	\$ (186)	\$ (358)
Other comprehensive income before reclassifications	38	—	—	38
Amounts reclassified from accumulated other comprehensive income ⁽²⁾	—	2	13	15
Net other comprehensive income	38	2	13	53
Balance, December 31, 2016	\$ (127)	\$ (5)	\$ (173)	\$ (305)

	Year Ended December 31, 2015 ⁽¹⁾			
	Foreign Currency	Losses on Cash Flow Hedges	Pension and Other Postretirement Benefits	Total
Balance, December 31, 2014	\$ (65)	\$ (9)	\$ (143)	\$ (217)
Other comprehensive income (loss) before reclassifications	(100)	—	(56)	(156)
Amounts reclassified from accumulated other comprehensive income ⁽²⁾	—	2	13	15
Net other comprehensive income (loss)	(100)	2	(43)	(141)
Balance, December 31, 2015	\$ (165)	\$ (7)	\$ (186)	\$ (358)

(1) All amounts are net of tax.

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

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

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

Notes to Consolidated Financial Statements (continued)

The Company has determined that it is the primary beneficiary of this variable interest entity because it has the ability to direct the activities of Red Oak. Consequently, the Company consolidates Red Oak in its consolidated financial statements within the Retail/LTC Segment.

Cardinal is required to pay the Company 39 quarterly payments beginning in October 2014. As milestones are met, the quarterly payments increase. The Company received approximately \$163 million, \$122 million and \$26 million from Cardinal during the years ended December 31, 2016, 2015 and 2014, respectively. The payments reduce the Company's carrying value of inventory and are recognized in cost of revenues when the related inventory is sold. Revenues associated with Red Oak expenses reimbursed by Cardinal for the years ended December 31, 2016, 2015 and 2014, as well as amounts due to or due from Cardinal at December 31, 2016 and 2015 were immaterial.

Related party transactions - The Company has an equity method investment in SureScripts, LLC ("SureScripts"), which operates a clinical health information network. The Pharmacy Services and Retail/LTC segments utilize this clinical health information network in providing services to its client plan members and retail customers. The Company expensed fees of approximately \$39 million in the year ended December 31, 2016, and \$50 million in the years ended December 31, 2015 and 2014, for the use of this network. The Company's investment in and equity in earnings of SureScripts for all periods presented is immaterial.

The Company has an equity method investment in Heartland Healthcare Services ("Heartland"). Heartland operates several long-term care pharmacies in four states. Heartland paid the Company approximately \$140 million and \$25 million for pharmaceutical inventory purchases during the years ended December 31, 2016 and 2015, respectively. Additionally, the Company performs certain collection functions for Heartland and then passes those customer cash collections to Heartland. The Company's investment in and equity in earnings of Heartland as of and for the years ended December 31, 2016 and 2015 is immaterial.

In 2016 and 2014, the Company made charitable contributions of \$32 million and \$25 million, respectively, to the CVS Foundation (the "Foundation") to fund future giving. The Foundation is a non-profit entity managed by employees of the Company that focuses on health, education and community involvement programs. The charitable contributions were recorded as operating expenses in the Company's consolidated statements of income for the years ended December 31, 2016 and 2014.

Income taxes - The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the consolidated financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year or years in which the differences are expected to reverse. The effect of a change in the tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company recognizes net deferred tax assets to the extent that it believes these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies, and results of recent operations. To the extent that the Company does not consider it more likely than not that a deferred tax asset will be recovered, a valuation allowance is established.

The Company records uncertain tax positions on the basis of a two-step process whereby (1) the Company determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50% likely to be realized upon ultimate settlement with the related tax authority.

Interest and/or penalties related to uncertain tax positions are recognized in income tax expense.

Discontinued operations - In connection with certain business dispositions completed between 1991 and 1997, the Company retained guarantees on store lease obligations for a number of former subsidiaries, including Bob's Stores and Linens 'n Things which filed for bankruptcy in 2016 and 2008, respectively. The Company's loss from discontinued operations in 2016 and 2014 includes lease-related costs which the Company believes it will likely be required to satisfy pursuant to its lease guarantees. The Company's income from discontinued operations in 2015 of \$9 million, net of tax, was related to the release of certain store lease guarantees due to a settlement with a landlord.

Notes to Consolidated Financial Statements (continued)

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

<i>In millions</i>	2016	2015	2014
Income (loss) from discontinued operations	\$ (2)	\$ 15	\$ (1)
Income tax expense	1	(6)	—
Income (loss) from discontinued operations, net of tax	<u>\$ (1)</u>	<u>\$ 9</u>	<u>\$ (1)</u>

Earnings per common share - Earnings per share is computed using the two-class method. Options to purchase 6.7 million, 2.7 million and 2.1 million shares of common stock were outstanding as of December 31, 2016, 2015 and 2014, respectively, but were not included in the calculation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

New accounting pronouncements - In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. In March 2016, the FASB issued ASU 2016-08, "*Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)*," which amends the principal-versus-agent implementation guidance and in April 2016 the FASB issued ASU 2016-10, "*Identifying Performance Obligations and Licensing*," which amends the guidance in those areas in the new revenue recognition standard. Both ASU's were issued in response to feedback received from the FASB-International Accounting Standards Board joint revenue recognition transition resource group. This new standard could impact the timing and amounts of revenue recognized. The new revenue standard is effective for annual reporting periods (including interim reporting periods within those periods) beginning January 1, 2018. Early adoption of the standard in 2017 is permitted; however, the Company does not intend to early adopt the new standard. Companies have the option of using either a full retrospective or a modified retrospective approach to adopt the guidance. The Company formed a project team to assess and implement the new standard. While the Company is continuing to assess all of the potential impacts of the new standard including the potential impact from recent acquisitions, the Company does not expect the implementation of the standard will have a material effect on the Company's consolidated results of operations, cash flows or financial position. The Company intends to adopt the new standard on a modified retrospective basis.

In July 2015, the FASB issued ASU 2015-11, *Inventory*, which amends ASU Topic 330. This ASU simplifies current accounting treatments by requiring entities to measure most inventories at "the lower of cost and net realizable value" rather than using lower of cost or market. This guidance does not apply to inventories measured using the last-in, first-out method or the retail inventory method. This ASU is effective prospectively for annual periods beginning after December 15, 2016 and interim periods thereafter with early adoption permitted. Upon transition, entities must disclose the accounting change. The Company is evaluating the effect of adopting this new accounting guidance but does not expect the adoption will have a material impact on the Company's results of operations, financial position or cash flows.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes* (Topic 740). The new guidance simplifies the presentation of deferred income taxes by requiring that deferred tax assets and liabilities be classified as noncurrent in a classified statement of financial position. The updated standard is effective for the Company beginning on January 1, 2017 with early application permitted as of the beginning of any interim or annual reporting period. The Company elected to early adopt this standard as of January 1, 2016 and has, accordingly, reclassified the current deferred tax assets to noncurrent deferred tax liabilities for all periods presented. The following is a reconciliation of the effect of the reclassification on the Company's consolidated balance sheet as of December 31, 2015:

<i>In millions</i>	As Previously Reported	Adjustments	As Revised
Deferred tax assets - current	\$ 1,220	\$ (1,220)	\$ —
Total current assets	30,378	(1,220)	29,158
Total assets	93,657	(1,220)	92,437
Deferred tax liabilities - noncurrent	5,437	(1,220)	4,217
Total liabilities and shareholders' equity	93,657	(1,220)	92,437

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). Lessees will be required to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such

Notes to Consolidated Financial Statements (continued)

as for initial direct costs. For income statement purposes, a dual model was retained, requiring leases to be classified as either operating or finance leases. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Lessor accounting is similar to the current model, but updated to align with certain changes to the lessee model (e.g., certain definitions, such as initial direct costs, have been updated) and the new revenue recognition standard. The standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The Company believes that the new standard will have a material impact on its consolidated balance sheet. The Company is currently evaluating the effect that implementation of this standard will have on the Company's consolidated results of operations, cash flows, financial position and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which amends Accounting Standard Codification Topic 718, *Compensation - Stock Compensation*, in three areas. (1) The new guidance eliminates accounting for tax benefits and deficiencies through equity to the extent of previous windfalls, and then to the income statement. The new requirement is to record all tax benefits and deficiencies through the income statement. This amendment is required to be applied prospectively. The amendment also requires the presentation of excess tax benefits on the statements of cash flows as operating activities, a change which may be applied prospectively or retrospectively at the election of the Company. The amendment requires the presentation of employee taxes paid on the statement of cash flows when an employer withholds shares for tax withholding purposes as financing activities, a change which must be applied retrospectively. (2) The new guidance also permits companies to withhold an amount up to the employees' maximum individual tax rate in the relevant jurisdiction without resulting in liability classification of the award. (3) Finally, the new guidance provides companies with an accounting policy election for the impact of forfeitures on the recognition of expense for share-based payment awards. Forfeitures can be estimated, as required today, or recognized when they occur. If elected, the change to recognize forfeitures when they occur needs to be adopted using a modified retrospective approach, with a cumulative effect adjustment recorded to beginning retained earnings. The ASU is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that annual reporting period. The Company is currently evaluating the effect of adopting this new accounting guidance.

In August 2016, the FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 is intended to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows and to eliminate the diversity in practice related to such classifications. The guidance in ASU 2016-15 is required for annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company is currently evaluating the effect on its consolidated statement of cash flows of adopting this new accounting guidance.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows*, which amends ASU Topic 230. This ASU requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer be required to present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, the new guidance requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet. Entities will also have to disclose the nature of their restricted cash and restricted cash equivalent balances. The guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those years. Early adoption is permitted. Entities are required to apply the guidance retrospectively. The Company is currently evaluating the effect of adopting this new accounting guidance.

2 Acquisitions

Omnicare Acquisition

On August 18, 2015, the Company acquired 100% of the outstanding common shares and voting interests of Omnicare, for \$98 per share for a total of \$9.6 billion and assumed long-term debt with a fair value of approximately \$3.1 billion. Omnicare is a leading health care services company that specializes in the management of complex pharmaceutical care. Omnicare's long-term care ("LTC") business is the nation's largest provider of pharmaceuticals, related pharmacy consulting and other ancillary services to chronic care facilities and other care settings. In addition, Omnicare has a specialty pharmacy business operating primarily under the name of ACS Pharmacy, and provides commercialization services under the name of RxCrossroads[®]. The Company includes LTC and the commercialization services business in the Retail/LTC Segment, and includes the specialty pharmacy business in its Pharmacy Services Segment. The Company acquired Omnicare to expand its operations in dispensing prescription drugs to assisted-living and long-term care facilities, and to broaden its presence in the specialty pharmacy business as the Company seeks to serve a greater percentage of the growing senior patient population in the United States.

Notes to Consolidated Financial Statements (continued)

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition:

(In millions)

Current assets (including cash of \$298)	\$	1,657
Property and equipment		313
Goodwill		9,139
Intangible assets		3,962
Other noncurrent assets		63
Current liabilities		(773)
Long-term debt		(3,110)
Deferred income tax liabilities		(1,498)
Other noncurrent liabilities		(69)
Redeemable noncontrolling interest		(39)
Total consideration	\$	9,645

The goodwill represents future economic benefits expected to arise from the Company's expanded presence in the pharmaceutical care market, the assembled workforce acquired, expected purchasing and revenue synergies, as well as operating efficiencies and cost savings. Goodwill of \$8.7 billion was allocated to the Retail/LTC Segment and the remaining goodwill of \$0.4 billion was allocated to the Pharmacy Services Segment. Approximately \$0.4 billion of the goodwill is deductible for income tax purposes. Intangible assets acquired include customer relationships and trade names of \$3.9 billion and \$74 million, respectively, with estimated weighted average useful lives of 19.1 and 2.9 years, respectively, and 18.8 years in total.

During the year ended December 31, 2015, the Company incurred transaction costs of \$70 million associated with the acquisition of Omnicare that were recorded within operating expenses.

The Company's consolidated results of operations for the year ended December 31, 2015, include \$2.6 billion of net revenues and net income of \$61 million associated with the operating results of Omnicare from August 18, 2015 to December 31, 2015. These Omnicare operating results include severance costs and accelerated stock-based compensation.

The following unaudited pro forma information presents a summary of the Company's combined results of operations for the years ended December 31, 2015 and 2014 as if the Omnicare acquisition and the related financing transactions had occurred on January 1, 2014. The following pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transactions been effected on the assumed date, nor is it necessarily an indication of trends in future results for a number of reasons, including, but not limited to, differences between the assumptions used to prepare the pro forma information, basic shares outstanding and dilutive equivalents, cost savings from operating efficiencies, potential synergies, and the impact of incremental costs incurred in integrating the businesses.

<i>(In millions, except per share data)</i>	Year Ended December 31,	
	2015	2014
Total revenues	\$ 156,798	\$ 144,836
Income from continuing operations	5,277	4,522
Basic earnings per share from continuing operations	\$ 4.70	\$ 3.88
Diluted earnings per share from continuing operations	\$ 4.66	\$ 3.85

Pro forma income from continuing operations for the year ended December 31, 2015, excludes \$135 million related to severance costs, accelerated stock-based compensation and transaction costs incurred in connection with the Omnicare acquisition. Pro forma income from continuing operations for the year ended December 31, 2014, includes a \$521 million loss on the early extinguishment of debt recorded by CVS Health.

Notes to Consolidated Financial Statements (continued)

Target Pharmacy Acquisition

On December 16, 2015, the Company acquired the pharmacy and clinic businesses of Target for approximately \$1.9 billion, plus contingent consideration of up to \$60 million based on future prescription growth over a three year period. The Company acquired Target's 1,672 pharmacies which operate in 47 states and will operate them through a store-within-a-store format, branded as CVS Pharmacy. The Company also acquired 79 Target clinic locations which were rebranded as MinuteClinic. The Company acquired the Target pharmacy and clinic businesses primarily to expand the geographic reach of its retail pharmacy business.

The fair values of the assets acquired at the date of acquisition were approximately as follows:

<i>In millions</i>	
Accounts receivable	\$ 2
Inventories	467
Property and equipment	9
Intangible assets	490
Goodwill	900
Total cash consideration	<u>\$ 1,868</u>

Intangible assets acquired include customer relationships with an estimated useful life of 13 years. The goodwill represents future economic benefits expected to arise from the Company's expanded geographic presence in the retail pharmacy market, the assembled workforce acquired, expected purchasing and revenue synergies, as well as operating efficiencies and cost savings. The goodwill is deductible for income tax purposes. No liability for any potential contingent consideration has been recorded based on current projections for future prescription growth over the relevant period.

In connection with the closing of the transaction, the Company and Target entered into pharmacy and clinic operating and master lease agreements. See Note 6 "Leases" of the consolidated financial statements for disclosures of the Company's leasing arrangements.

During the year ended December 31, 2015, the Company incurred transaction costs of approximately \$26 million associated with the acquisition that were recorded within operating expenses. The results of the Target pharmacies and clinics are included in the Company's Retail/LTC Segment beginning on December 16, 2015. Pro forma financial information for this acquisition is not presented as such results are immaterial to the Company's consolidated financial statements.

3 Goodwill and Other Intangibles

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

When evaluating goodwill for potential impairment, the Company first compares the fair value of its reporting units to their respective carrying amounts. The Company estimates the fair value of its reporting units using a combination of a future discounted cash flow valuation model and a comparable market transaction model. If the estimated fair value of the reporting unit is less than its carrying amount, an impairment loss calculation is prepared. The impairment loss calculation compares the implied fair value of a reporting unit's goodwill with the carrying amount of its goodwill. If the carrying amount of the goodwill exceeds the implied fair value, an impairment loss is recognized in an amount equal to the excess. During the third quarter of 2016, the Company performed its required annual goodwill impairment tests. The Company concluded there were no goodwill impairments as of the testing date.

Notes to Consolidated Financial Statements (continued)

Below is a summary of the changes in the carrying amount of goodwill by segment for the years ended December 31, 2016 and 2015:

<i>In millions</i>	Pharmacy Services	Retail/LTC	Total
Balance, December 31, 2014	\$ 21,234	\$ 6,908	\$ 28,142
Acquisitions	452	9,554	10,006
Foreign currency translation adjustments	—	(40)	(40)
Other ⁽¹⁾	(1)	(1)	(2)
Balance, December 31, 2015	21,685	16,421	38,106
Acquisitions	—	126	126
Foreign currency translation adjustments	—	17	17
Other ⁽¹⁾	(48)	48	—
Balance, December 31, 2016	\$ 21,637	\$ 16,612	\$ 38,249

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

Indefinitely-lived intangible assets are tested for impairment by comparing the estimated fair value of the asset to its carrying value. The Company estimates the fair value of its indefinitely-lived trademark using the relief from royalty method under the income approach. If the carrying value of the asset exceeds its estimated fair value, an impairment loss is recognized and the asset is written down to its estimated fair value. During the third quarter of 2016, the Company performed its annual impairment test of the indefinitely-lived trademark and concluded there was no impairment as of the testing date. The carrying amount of its indefinitely-lived trademark was \$6.4 billion as of December 31, 2016 and 2015.

The Company amortizes intangible assets with finite lives over the estimated useful lives of the respective assets, which have a weighted average useful life of 15.5 years. The weighted average useful life of the Company's customer contracts and relationships and covenants not to compete is 15.5 years. The weighted average life of the Company's favorable leases and other intangible assets is 15.9 years. Amortization expense for intangible assets totaled \$795 million, \$611 million and \$518 million in 2016, 2015 and 2014, respectively. The anticipated annual amortization expense for these intangible assets for the next five years is as follows:

<i>In millions</i>	
2017	\$ 780
2018	748
2019	704
2020	534
2021	473

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

<i>In millions</i>	2016			2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademark (indefinitely-lived)	\$ 6,398	\$ —	\$ 6,398	\$ 6,398	\$ —	\$ 6,398
Customer contracts and relationships and covenants not to compete	11,485	(4,802)	6,683	10,594	(4,092)	6,502
Favorable leases and other	1,123	(693)	430	1,595	(617)	978
	\$ 19,006	\$ (5,495)	\$ 13,511	\$ 18,587	\$ (4,709)	\$ 13,878

Notes to Consolidated Financial Statements (continued)

4 Share Repurchase Programs

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

In billions

<u>Authorization Date</u>		<u>Authorized</u>		<u>Remaining</u>
November 2, 2016 ("2016 Repurchase Program")	\$	15.0	\$	15.0
December 15, 2014 ("2014 Repurchase Program")	\$	10.0	\$	3.2
December 17, 2013 ("2013 Repurchase Program")	\$	6.0	\$	—
September 19, 2012 ("2012 Repurchase Program")	\$	6.0	\$	—

The share Repurchase Programs, each of which was effective immediately, permit the Company to effect repurchases from time to time through a combination of open market repurchases, privately negotiated transactions, accelerated share repurchase ("ASR") transactions, and/or other derivative transactions. The 2016 and 2014 Repurchase Programs may be modified or terminated by the Board of Directors at any time.

Pursuant to the authorization under the 2014 Repurchase Program, effective August 29, 2016, the Company entered into two fixed dollar ASRs with Barclays Bank PLC ("Barclays") for a total of \$3.6 billion. Upon payment of the \$3.6 billion purchase price on January 6, 2017, the Company received a number of shares of its common stock equal to 80% of the \$3.6 billion notional amount of the ASRs or approximately 36.1 million shares at a price of \$80.34 per share, which were placed into treasury stock in January 2017. At the conclusion of the ASRs, the Company may receive additional shares equal to the remaining 20% of the \$3.6 billion notional amount. The ultimate number of shares the Company may receive will fluctuate based on changes in the daily volume-weighted average price of the Company's stock over a period beginning on January 6, 2017 and ending on or before July 6, 2017. If the mean daily volume-weighted average price of the Company's common stock, less a discount (the "forward price"), during the ASRs falls below \$80.34 per share, the Company will receive a higher number of shares from Barclays. If the forward price rises above \$80.34 per share, the Company will either receive fewer shares from Barclays or, potentially have an obligation to Barclays which, at the Company's option, could be settled in additional cash or by issuing shares. Under the terms of the ASRs, the maximum number of shares that could be received or delivered is 90.1 million.

Pursuant to the authorization under the 2014 Repurchase Program, effective December 11, 2015, the Company entered into a \$725 million fixed dollar ASR with Barclays. Upon payment of the \$725 million purchase price on December 14, 2015, the Company received a number of shares of its common stock equal to 80% of the \$725 million notional amount of the ASR or approximately 6.2 million shares. The initial 6.2 million shares of common stock delivered to the Company by Barclays were placed into treasury stock in December 2015. The ASR was accounted for as an initial treasury stock transaction of \$580 million and a forward contract of \$145 million. The forward contract was classified as an equity instrument and was recorded within capital surplus on the consolidated balance sheet. On January 28, 2016, the Company received 1.4 million shares of common stock, representing the remaining 20% of the \$725 million notional amount of the ASR, thereby concluding the ASR. The remaining 1.4 million shares of common stock delivered to the Company by Barclays were placed into treasury stock in January 2016 and the forward contract was reclassified from capital surplus to treasury stock.

Pursuant to the authorization under the 2013 Repurchase Programs, effective January 2, 2015, the Company entered into a \$2.0 billion fixed dollar ASR agreement with J.P. Morgan Chase Bank ("JP Morgan"). Upon payment of the \$2.0 billion purchase price on January 5, 2015, the Company received a number of shares of its common stock equal to 80% of the \$2.0 billion notional amount of the ASR agreement or approximately 16.8 million shares, which were placed into treasury stock in January 2015. On May 1, 2015, the Company received approximately 3.1 million shares of common stock, representing the remaining 20% of the \$2.0 billion notional amount of the ASR, thereby concluding the ASR. The remaining 3.1 million shares of common stock delivered to the Company by JP Morgan were placed into treasury stock in May 2015. The ASR was accounted for as an initial treasury stock transaction of \$1.6 billion and a forward contract of \$0.4 billion. The forward contract was classified as an equity instrument and was initially recorded within capital surplus on the consolidated balance sheet and was reclassified to treasury stock upon the settlement of the ASR in May 2015.

In the ASR transactions described above, the initial repurchase of the shares and delivery of the remainder of the shares to conclude the ASR, resulted in an immediate reduction of the outstanding shares used to calculate the weighted average common shares outstanding for basic and diluted earnings per share.

Notes to Consolidated Financial Statements (continued)

During the year ended December 31, 2016, the Company repurchased an aggregate of 47.5 million shares of common stock for approximately \$4.5 billion under the 2014 Repurchase Program. As of December 31, 2016, there remained an aggregate of approximately \$18.2 billion available for future repurchases under the 2016 and 2014 Repurchase Programs.

During the year ended December 31, 2015, the Company repurchased an aggregate of 48.0 million shares of common stock for approximately \$5.0 billion under the 2013 and 2014 Repurchase Programs. As of December 31, 2015, there remained an aggregate of approximately \$7.7 billion available for future repurchases under the 2014 Repurchase Program and the 2013 Repurchase Program was complete.

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

Notes to Consolidated Financial Statements (continued)

5 Borrowings and Credit Agreements

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

<u>In millions</u>	<u>2016</u>	<u>2015</u>
<u>Short-term debt</u>		
Commercial paper	\$ 1,874	\$ —
<u>Long-term debt</u>		
1.2% senior notes due 2016	—	750
6.125% senior notes due 2016	—	421
5.75% senior notes due 2017	—	1,080
1.9% senior notes due 2018	2,250	2,250
2.25% senior notes due 2018	1,250	1,250
2.25% senior notes due 2019	850	850
6.6% senior notes due 2019	—	394
2.8% senior notes due 2020	2,750	2,750
4.75% senior notes due 2020	—	450
2.125% senior notes due 2021	1,750	—
4.125% senior notes due 2021	550	550
2.75% senior notes due 2022	1,250	1,250
3.5% senior notes due 2022	1,500	1,500
4.75% senior notes due 2022	399	400
4% senior notes due 2023	1,250	1,250
3.375% senior notes due 2024	650	650
5% senior notes due 2024	299	300
3.875% senior notes due 2025	2,828	3,000
2.875% senior notes due 2026	1,750	—
6.25% senior notes due 2027	372	453
3.25% senior exchange debentures due 2035	1	5
4.875% senior notes due 2035	652	2,000
6.125% senior notes due 2039	447	734
5.75% senior notes due 2041	133	493
5.3% senior notes due 2043	750	750
5.125% senior notes due 2045	3,500	3,500
Capital lease obligations	648	644
Other	23	20
Total debt principal	27,726	27,694
Debt premiums	33	39
Debt discounts and deferred financing costs	(228)	(269)
	27,531	27,464
Less:		
Short-term debt (commercial paper)	(1,874)	—
Current portion of long-term debt	(42)	(1,197)
Long-term debt	\$ 25,615	\$ 26,267

The Company had approximately \$1.9 billion of commercial paper outstanding at a weighted average interest rate of 1.22% as of December 31, 2016. In connection with its commercial paper program, the Company maintains a \$1.0 billion, five-year unsecured back-up credit facility, which expires on May 23, 2018, a \$1.25 billion, five-year unsecured back-up credit facility, which expires on July 24, 2019, and a \$1.25 billion, five-year unsecured back-up credit facility, which expires on July 1, 2020. The credit facilities allow for borrowings at various rates that are dependent, in part, on the Company's public debt ratings and require the Company to pay a weighted average quarterly facility fee of approximately 0.03%, regardless of usage. As of December 31, 2016, there were no borrowings outstanding under the back-up credit facilities.

Notes to Consolidated Financial Statements (continued)

On January 3, 2017, the Company entered into a \$2.5 billion revolving credit facility. The credit facility allows for borrowings at various rates that are dependent, in part, on the Company's debt ratings and require the Company to pay a weighted average quarterly facility fee of approximately 0.03% , regardless of usage. The maximum available under the credit facility decreases by \$750 million on both March 31, 2017 and June 30, 2017 and by \$500 million on September 30, 2017. The credit facility expires on December 31, 2017.

On May 16, 2016, the Company issued \$1.75 billion aggregate principal amount of 2.125% unsecured senior notes due June 1, 2021 and \$1.75 billion aggregate principal amount of 2.875% unsecured senior notes due June 1, 2026 (collectively, the "2016 Notes") for total proceeds of approximately \$3.5 billion , net of discounts and underwriting fees. The 2016 Notes pay interest semi-annually and may be redeemed, in whole at any time, or in part from time to time, at the Company's option at a defined redemption price plus accrued and unpaid interest to the redemption date. The net proceeds of the 2016 Notes were used for general corporate purposes and to repay certain corporate debt.

On May 16, 2016, the Company announced tender offers for (1) any and all of its 5.75% Senior Notes due 2017, its 6.60% Senior Notes due 2019 and its 4.75% Senior Notes due 2020 (collectively, the "Any and All Notes") and (2) up to \$1.5 billion aggregate principal amount of its 6.25% Senior Notes due 2027, its 6.125% Senior Notes due 2039, its 5.75% Senior Notes due 2041, the 5.00% Senior Notes due 2024 issued by its wholly-owned subsidiary, Omnicare, Inc. ("Omnicare"), the 4.75% Senior Notes due 2022 issued by Omnicare, its 4.875% Senior Notes due 2035 and its 3.875% Senior Notes due 2025 (collectively, the "Maximum Tender Offer Notes" and together with the Any and All Notes, the "Notes"). On May 31, 2016, the Company increased the aggregate principal amount of the tender offers for the Maximum Tender Offer Notes to \$2.25 billion . The Company purchased approximately \$835 million aggregate principal amount of the Any and All Notes and \$2.25 billion aggregate principal amount of the Maximum Tender Offer Notes pursuant to the tender offers, which expired on June 13, 2016. The Company paid a premium of \$486 million in excess of the debt principal in connection with the purchase of the Notes, wrote off \$50 million of unamortized deferred financing costs and incurred \$6 million in fees, for a total loss on the early extinguishment of debt of \$542 million which was recorded in income from continuing operations in the consolidated statement of income for the year ended December 31, 2016.

On June 27, 2016, the Company notified the holders of the remaining Any and All Notes that the Company was exercising its option to redeem the outstanding Any and All Notes pursuant to the terms of the Any and All Notes and the Indenture dated as of August 15, 2006, between the Company and The Bank of New York Mellon Trust Company, N.A. Approximately \$1.1 billion aggregate principal amount of Any and All Notes was redeemed on July 27, 2016. The Company paid a premium of \$97 million in excess of the debt principal and wrote off \$4 million of unamortized deferred financing costs, for a total loss on early extinguishment of debt of \$101 million during the year ended December 31, 2016.

The Company recorded a total loss on the early extinguishment of debt of \$643 million which was recorded in the income from continuing operations in the consolidated statement of income for the year ended December 31, 2016.

On May 20, 2015, in connection with the acquisition of Omnicare, the Company entered into a \$13 billion unsecured bridge loan facility. The Company paid approximately \$52 million in fees in connection with the facility. The fees were capitalized and amortized as interest expense over the period the bridge facility was outstanding. The bridge loan facility expired on July 20, 2015 upon the Company's issuance of unsecured senior notes with an aggregate principal of \$15 billion as discussed below. The bridge loan facility fees became fully amortized in July 2015.

On July 20, 2015, the Company issued an aggregate of \$2.25 billion of 1.9% unsecured senior notes due 2018 ("2018 Notes"), an aggregate of \$2.75 billion of 2.8% unsecured senior notes due 2020 ("2020 Notes"), an aggregate of \$1.5 billion of 3.5% unsecured senior notes due 2022 ("2022 Notes"), an aggregate of \$3 billion of 3.875% unsecured senior notes due 2025 ("2025 Notes"), an aggregate of \$2 billion of 4.875% unsecured senior notes due 2035 ("2035 Notes"), and an aggregate of \$3.5 billion of 5.125% unsecured senior notes due 2045 ("2045 Notes" and, together with the 2018 Notes, 2020 Notes, 2022 Notes, 2025 Notes and 2035 Notes, the "Notes") for total proceeds of approximately \$14.8 billion , net of discounts and underwriting fees. The Notes pay interest semi-annually and contain redemption terms which allow or require the Company to redeem the Notes at a defined redemption price plus accrued and unpaid interest at the redemption date. The net proceeds of the Notes were used to fund the Omnicare acquisition and the acquisition of the pharmacies and clinics of Target. The remaining proceeds were used for general corporate purposes.

Upon the closing of the Omnicare acquisition in August 2015, the Company assumed the long-term debt of Omnicare that had a fair value of approximately \$3.1 billion , \$2.0 billion of which was previously convertible into Omnicare shares that holders were able to redeem subsequent to the acquisition. During the period from August 18, 2015 to December 31, 2015, all but \$5

Notes to Consolidated Financial Statements (continued)

million of the \$2.0 billion of previously convertible debt was redeemed and repaid and approximately \$0.4 billion in Omnicare term debt assumed was repaid for total repayments of Omnicare debt of approximately \$2.4 billion in 2015.

The remaining principal of the Omnicare debt assumed was comprised of senior unsecured notes with an aggregate principal amount of \$700 million (\$400 million of 4.75% senior notes due 2022 and \$300 million of 5% senior notes due 2024). In September 2015, the Company commenced exchange offers for the 4.75% senior notes due 2022 and the 5% senior notes due 2024 to exchange all validly tendered and accepted notes issued by Omnicare for notes to be issued by the Company. This offer expired on October 20, 2015 and the aggregate principal amounts of \$388 million of the 4.75% senior notes due 2022 and \$296 million of the 5% senior notes due 2024 were validly tendered and exchanged for notes issued by the Company. The Company recorded this exchange transaction as a modification of the original debt instruments. Consequently, no gain or loss on extinguishment was recognized in the Company's consolidated income statement as a result of this exchange transaction and the issuance costs of the new debt were expensed as incurred.

On August 7, 2014, the Company issued \$850 million of 2.25% unsecured senior notes due August 12, 2019 and \$650 million of 3.375% unsecured senior notes due August 12, 2024 (collectively, the "2014 Notes") for total proceeds of approximately \$1.5 billion , net of discounts and underwriting fees. The 2014 Notes pay interest semi-annually and may be redeemed, in whole at any time, or in part from time to time, at the Company's option at a defined redemption price plus accrued and unpaid interest to the redemption date. The net proceeds of the 2014 Notes were used for general corporate purposes and to repay certain corporate debt.

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

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

The credit facilities, back-up credit facilities and unsecured senior notes contain customary restrictive financial and operating covenants. The covenants do not materially affect the Company's financial or operating flexibility. As of December 31, 2016, the Company is in compliance with all debt covenants.

The following is a summary of the Company's required principal debt repayments, excluding unamortized debt discounts, deferred financing costs and debt premiums, due during each of the next five years and thereafter, as of December 31, 2016:

<i>In millions</i>		
2017	\$	1,916
2018		3,521
2019		872
2020		2,774
2021		2,326
Thereafter		16,317
Total	\$	<u>27,726</u>

6 Leases

The Company leases most of its retail and mail order locations, 11 of its distribution centers and certain corporate offices under noncancelable operating leases, typically with initial terms of 15 to 25 years and with options that permit renewals for additional periods. The Company also leases certain equipment and other assets under noncancelable operating leases, typically with initial terms of 3 to 10 years. In December 2015, in connection with the acquisition of the pharmacy and clinic businesses of Target, the Company entered into lease agreements with Target for the pharmacy and clinic space within Target stores. Given

Notes to Consolidated Financial Statements (continued)

that the noncancelable contractual term of the pharmacy lease arrangement exceeds the remaining estimated economic life of the buildings being leased, the Company concluded for accounting purposes that the lease term was the remaining economic life of the buildings. Consequently, most of the individual pharmacy leases are capital leases. Approximately \$0.3 billion of capital lease obligations were recorded in connection with this transaction.

Minimum rent on operating leases is expensed on a straight-line basis over the term of the lease. In addition to minimum rental payments, certain leases require additional payments based on sales volume, as well as reimbursement for real estate taxes, common area maintenance and insurance, which are expensed when incurred.

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

<i><u>In millions</u></i>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Minimum rentals	\$ 2,418	\$ 2,317	\$ 2,320
Contingent rentals	35	34	36
	<u>2,453</u>	<u>2,351</u>	<u>2,356</u>
Less: sublease income	(24)	(22)	(21)
	<u>\$ 2,429</u>	<u>\$ 2,329</u>	<u>\$ 2,335</u>

The following table is a summary of the future minimum lease payments under capital and operating leases as of December 31, 2016:

<i><u>In millions</u></i>	<u>Capital Leases</u>	<u>Operating Leases ⁽¹⁾</u>
2017	\$ 74	\$ 2,458
2018	72	2,361
2019	71	2,209
2020	71	2,040
2021	70	1,910
Thereafter	956	16,368
Total future lease payments ⁽²⁾	<u>1,314</u>	<u>\$ 27,346</u>
Less: imputed interest	(666)	
Present value of capital lease obligations	<u>\$ 648</u>	

(1) Future operating lease payments have not been reduced by minimum sublease rentals of \$176 million due in the future under noncancelable subleases.

(2) The Company leases pharmacy and clinic space from Target. Amounts related to such capital and operating leases are reflected above. Amounts due in excess of the remaining estimated economic life of the buildings of approximately \$1.7 billion are not reflected herein since the estimated economic life of the buildings is shorter than the contractual term of the lease arrangement.

The Company finances a portion of its store development program through sale-leaseback transactions. The properties are generally sold at net book value, which generally approximates fair value, and the resulting leases generally qualify and are accounted for as operating leases. The operating leases that resulted from these transactions are included in the above table. The Company does not have any retained or contingent interests in the stores and does not provide any guarantees, other than a guarantee of lease payments, in connection with the sale-leaseback transactions. Proceeds from sale-leaseback transactions totaled \$230 million in 2016, \$411 million in 2015 and \$515 million in 2014.

7 Medicare Part D

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

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

The Company has recorded estimates of various assets and liabilities arising from its participation in the Medicare Part D program based on information in its claims management and enrollment systems. Significant estimates arising from its participation in this program include: (i) estimates of low-income cost subsidy, reinsurance amounts, and coverage gap discount amounts ultimately payable to or receivable from CMS based on a detailed claims reconciliation that will occur in the following year; (ii) an estimate of amounts receivable from or payable to CMS under a risk-sharing feature of the Medicare Part D program design, referred to as the risk corridor and (iii) estimates for claims that have been reported and are in the process of being paid or contested and for our estimate of claims that have been incurred but have not yet been reported.

8 Pension Plans and Other Postretirement Benefits

Defined Contribution Plans

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

At the participant's option, account balances, including the Company's matching contribution, can be transferred without restriction among various investment options, including the Company's common stock fund under one of the defined contribution plans. The Company also maintains a nonqualified, unfunded deferred compensation plan for certain key employees. This plan provides participants the opportunity to defer portions of their eligible compensation and receive matching contributions equivalent to what they could have received under the CVS Health 401(k) Plan absent certain restrictions and limitations under the Internal Revenue Code. The Company's contributions under the above defined contribution plans were \$295 million, \$251 million and \$238 million in 2016, 2015 and 2014, respectively.

Defined Benefit Pension Plans

As of December 31, 2016 and 2015, the Company sponsored seven defined benefit pension plans. Two of the plans are tax-qualified plans that are funded based on actuarial calculations and applicable federal laws and regulations. The other five plans are unfunded nonqualified supplemental retirement plans. As of December 31, 2014, the Company sponsored nine defined benefit pension plans. Four of the plans were tax-qualified plans and the other five plans were unfunded nonqualified supplemental retirement plans. Most of the plans were frozen in prior periods.

On September 30, 2015, the Company's Board of Directors approved a resolution to merge the four tax-qualified defined benefit plans that existed in 2014 and terminate the resulting merged plan. The merger was effective September 30, 2015 and the merged plan termination was effective December 31, 2015. The settlement of the terminated plan is expected to occur around the third quarter of 2017. The pension liability for the terminated plan will be settled in either lump sum payments or purchased annuities. Since the amount of the settlement depends on a number of factors determined as of the liquidation date, including the annuity pricing interest rate environment, lump sum election rates, and asset experience, the Company is currently unable to determine the ultimate cost of the settlement. However, based on current market rates the one-time settlement charge at final liquidation is estimated to be in the range of approximately \$175 million to \$225 million.

The following tables outline the change in benefit obligations and plan assets over the comparable periods:

<i><u>In millions</u></i>	<u>2016</u>	<u>2015</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 844	\$ 796
Acquisition	—	8
Interest cost	27	31
Actuarial loss	13	45
Benefit payments	(37)	(36)
Settlements	(3)	—
Benefit obligation at end of year	<u>\$ 844</u>	<u>\$ 844</u>

Notes to Consolidated Financial Statements (continued)

<i>In millions</i>	2016	2015
Change in plan assets:		
Fair value of plan assets at the beginning of the year	\$ 613	\$ 635
Acquisitions	—	5
Actual return on plan assets	26	(13)
Employer contributions	25	22
Benefit payments	(37)	(36)
Settlements	(3)	—
Fair value of plan assets at the end of the year	<u>624</u>	<u>613</u>
Funded status	<u>\$ (220)</u>	<u>\$ (231)</u>

The components of net periodic benefit costs for the years ended December 31 are shown below:

<i>In millions</i>	2016	2015	2014
Components of net periodic benefit cost:			
Interest cost	\$ 27	\$ 31	\$ 32
Expected return on plan assets	(32)	(33)	(31)
Amortization of net loss	32	21	16
Settlement loss	—	—	3
Service cost	—	—	1
Net periodic pension cost	<u>\$ 27</u>	<u>\$ 19</u>	<u>\$ 21</u>

Pension Plan Assumptions

The Company uses a series of actuarial assumptions to determine the benefit obligations and the net benefit costs. The discount rate is determined by examining the current yields observed on the measurement date of fixed-interest, high quality investments expected to be available during the period to maturity of the related benefits on a plan by plan basis. The discount rate for the merged qualified plan that has been terminated is determined by examining the current assumed lump sum and annuity purchase rates. The expected long-term rate of return on plan assets is determined by using the plan's target allocation and historical returns for each asset class on a plan by plan basis. Certain of the Company's pension plans use assumptions on expected compensation increases of plan participants. These increases are determined by an actuarial analysis of the plan participants, their expected compensation increases, and the duration of their earnings period until retirement. Each of these assumptions is reviewed as plan characteristics change and on an annual basis with input from senior pension and financial executives and the Company's external actuarial consultants.

The discount rate for determining plan benefit obligations was 4.0% in 2016 and 4.25% in 2015 for all plans except the terminated qualified plan. The discount rate for the terminated qualified plan was 3.09% and 3.25% in 2016 and 2015, respectively. The expected long-term rate of return for the plans ranged from 4.0% to 5.5% in 2016 and ranged from 5.75% to 6.75% in 2015. The rate of compensation increases for certain of the plans with active participants ranged from 4.0% to 6.0% in 2016 and 2015.

Return on Plan Assets

The Company's investment strategy is liability management driven. The qualified pension plan asset allocations targets are to hold fixed income investments based upon this strategy. As of December 31, 2016, investment allocations for the two qualified defined benefit plans range from 80% to 100% in fixed income and 0% to 20% in equities. The following tables show the fair value allocation of plan assets by asset category as of December 31, 2016 and 2015.

Notes to Consolidated Financial Statements (continued)

In millions

	Fair value of plan assets at December 31, 2016			
	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 8	\$ —	\$ —	\$ 8
Fixed income funds	3	580	—	583
Equity mutual funds	33	—	—	33
Total assets at fair value	\$ 44	\$ 580	\$ —	\$ 624

	Fair value of plan assets at December 31, 2015			
	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 10	\$ —	\$ —	\$ 10
Fixed income funds	4	484	—	488
Equity mutual funds	115	—	—	115
Total assets at fair value	\$ 129	\$ 484	\$ —	\$ 613

As of December 31, 2016, the Company's qualified defined benefit pension plan assets consisted of 5% equity, 94% fixed income and 1% money market securities of which 7% were classified as Level 1 and 93% as Level 2 in the fair value hierarchy. The Company's qualified defined benefit pension plan assets as of December 31, 2015 consisted of 19% equity, 79% fixed income and 2% money market securities of which 21% were classified as Level 1 and 79% as Level 2 in the fair value hierarchy.

The Company continued to have no investments in Level 3 alternative investments during the years ended December 31, 2016 and 2015.

Cash Flows

The Company contributed \$25 million, \$22 million and \$42 million to the pension plans during 2016, 2015 and 2014, respectively. The Company plans to make approximately \$39 million in contributions to the pension plans during 2017. These contributions include contributions made to certain nonqualified benefit plans for which there is no funding requirement. The Company estimates the following future benefit payments which are calculated using the same actuarial assumptions used to measure the benefit obligation as of December 31, 2016:

<i>In millions</i>		
2017 ⁽¹⁾	\$	39
2018		52
2019		50
2020		49
2021		61
Thereafter		236

(1) Excludes any payments associated with the ultimate settlement of the terminated plan discussed above.

Multiemployer Pension Plans

The Company also contributes to a number of multiemployer pension plans under the terms of collective-bargaining agreements that cover its union-represented employees. The risks of participating in these multiemployer plans are different from single-employer pension plans in the following aspects: (i) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (ii) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers, and (iii) if the Company chooses to stop participating in some of its multiemployer plans, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

None of the multiemployer pension plans in which the Company participates are individually significant to the Company. Total Company contributions to multiemployer pension plans were \$15 million in 2016 and \$14 million in 2015 and 2014.

Notes to Consolidated Financial Statements (continued)

Other Postretirement Benefits

The Company provides postretirement health care and life insurance benefits to certain retirees who meet eligibility requirements. The Company's funding policy is generally to pay covered expenses as they are incurred. For retiree medical plan accounting, the Company reviews external data and its own historical trends for health care costs to determine the health care cost trend rates. As of December 31, 2016 and 2015, the Company's other postretirement benefits have an accumulated postretirement benefit obligation of \$24 million and \$33 million, respectively. Net periodic benefit costs related to these other postretirement benefits were \$1 million, \$2 million and \$1 million in 2016, 2015 and 2014, respectively.

Pursuant to various collective bargaining agreements, the Company also contributes to multiemployer health and welfare plans that cover certain union-represented employees. The plans provide postretirement health care and life insurance benefits to certain employees who meet eligibility requirements. Total Company contributions to multiemployer health and welfare plans were \$52 million, \$60 million and \$58 million in 2016, 2015 and 2014, respectively.

9 Stock Incentive Plans

Stock-based compensation is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period of the stock award (generally three to five years) using the straight-line method. The following table is a summary of stock-based compensation for each of the respective periods:

<i>In millions</i>	2016	2015	2014
Stock options ⁽¹⁾	\$ 79	\$ 90	\$ 103
Restricted stock awards ⁽²⁾	143	140	62
Total stock-based compensation	<u>\$ 222</u>	<u>\$ 230</u>	<u>\$ 165</u>

(1) Includes the Employee Stock Purchase Plan (the "ESPP")

(2) Stock-based compensation for the year ended December 31, 2015 includes \$38 million associated with accelerated vesting of restricted stock replacement awards issued to Omnicare executives who were terminated subsequent to the acquisition.

The recognized tax benefit was \$22 million, \$26 million and \$33 million for 2016, 2015 and 2014, respectively.

The ESPP provides for the purchase of up to 30 million shares of common stock. Under the ESPP in 2016, eligible employees could purchase common stock at the end of each six month offering period at a purchase price equal to 90% of the lower of the fair market value on the first day or the last day of the offering period. Prior to 2016, the purchase price was equal to 85% of the lower of the fair market value on the first day or the last day of the offering period. During 2016, approximately 1 million shares of common stock were purchased under the provisions of the ESPP at an average price of \$84.68 per share. As of December 31, 2016, approximately 12 million shares of common stock were available for issuance under the ESPP.

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

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

	2016	2015	2014
Dividend yield ⁽¹⁾	0.88%	0.71%	0.75%
Expected volatility ⁽²⁾	20.64%	13.92%	14.87%
Risk-free interest rate ⁽³⁾	0.45%	0.11%	0.08%
Expected life (<i>in years</i>) ⁽⁴⁾	0.5	0.5	0.5
Weighted-average grant date fair value	\$ 14.98	\$ 18.72	\$ 13.74

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

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

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

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

The terms of the Company's Incentive Compensation Plan ("ICP") provide for grants of annual incentive and long-term performance awards to executive officers and other officers and employees of the Company or any subsidiary of the Company. Payment of such annual incentive and long-term performance awards will be in cash, stock, other awards or other property, at

Notes to Consolidated Financial Statements (continued)

the discretion of the Management Planning and Development Committee of the Company's Board of Directors. The ICP allows for a maximum of 74 million shares to be reserved and available for grants. The ICP is the only compensation plan under which the Company grants stock options, restricted stock and other stock-based awards to its employees, with the exception of the Company's ESPP. As of December 31, 2016, there were approximately 18 million shares available for future grants under the ICP.

The Company's restricted awards are considered nonvested share awards and require no payment from the employee. Compensation cost is recorded based on the market price of the Company's common stock on the grant date and is recognized on a straight-line basis over the requisite service period. The Company granted 1,992,000, 2,695,000 and 2,708,000 restricted stock units with a weighted average fair value of \$103.26, \$100.81 and \$73.60 in 2016, 2015 and 2014, respectively. As of December 31, 2016, there was \$327 million of total unrecognized compensation cost related to the restricted stock units that are expected to vest. These costs are expected to be recognized over a weighted-average period of 2.29 years. The total fair value of restricted shares vested during 2016, 2015 and 2014 was \$218 million, \$164 million and \$57 million, respectively.

The following table is a summary of the restricted stock unit and restricted share award activity for the year ended December 31, 2016.

<u>Units in thousands</u>	Units	Weighted Average Grant Date Fair Value
Nonvested at beginning of year	5,418	\$ 59.22
Granted	1,992	\$ 103.26
Vested	(2,219)	\$ 102.47
Forfeited	(316)	\$ 89.71
Nonvested at end of year	4,875	\$ 55.56

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

Excess tax benefits of \$72 million, \$127 million and \$106 million were included in financing activities in the accompanying consolidated statements of cash flow during 2016, 2015 and 2014, respectively. Cash received from stock options exercised, which includes the ESPP, totaled \$224 million, \$299 million and \$421 million during 2016, 2015 and 2014, respectively. The total intrinsic value of stock options exercised was \$244 million, \$394 million and \$372 million in 2016, 2015 and 2014, respectively. The total fair value of stock options vested during 2016, 2015 and 2014 was \$298 million, \$334 million and \$292 million, respectively.

The fair value of each stock option is estimated using the Black-Scholes option pricing model based on the following assumptions at the time of grant:

	2016	2015	2014
Dividend yield ⁽¹⁾	1.62%	1.37%	1.47%
Expected volatility ⁽²⁾	17.22%	18.07%	19.92%
Risk-free interest rate ⁽³⁾	1.24%	1.24%	1.35%
Expected life (in years) ⁽⁴⁾	4.2	4.2	4.0
Weighted-average grant date fair value	\$ 13.00	\$ 14.01	\$ 11.04

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

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

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

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

As of December 31, 2016, unrecognized compensation expense related to unvested options totaled \$79 million, which the Company expects to be recognized over a weighted-average period of 1.79 years. After considering anticipated forfeitures, the Company expects approximately 11 million of the unvested stock options to vest over the requisite service period.

Notes to Consolidated Financial Statements (continued)

The following table is a summary of the Company's stock option activity for the year ended December 31, 2016:

<i>Shares in thousands</i>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at December 31, 2015	24,341	\$ 42.17		
Granted	4,343	\$ 104.62		
Exercised	(4,328)	\$ 42.07		
Forfeited	(768)	\$ 85.34		
Expired	(313)	\$ 39.73		
Outstanding at December 31, 2016	<u>23,275</u>	\$ 68.60	3.69	\$ 427,311,414
Exercisable at December 31, 2016	12,196	\$ 49.22	2.35	\$ 375,563,490
Vested at December 31, 2016 and expected to vest in the future	22,734	\$ 67.86	3.64	\$ 426,628,851

10 Income Taxes

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

<i>In millions</i>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current:			
Federal	\$ 2,803	\$ 3,065	\$ 2,581
State	511	555	495
	<u>3,314</u>	<u>3,620</u>	<u>3,076</u>
Deferred:			
Federal	5	(180)	(43)
State	(2)	(54)	—
	<u>3</u>	<u>(234)</u>	<u>(43)</u>
Total	<u>\$ 3,317</u>	<u>\$ 3,386</u>	<u>\$ 3,033</u>

The following table is a reconciliation of the statutory income tax rate to the Company's effective income tax rate for continuing operations for the years ended December 31:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutory income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	4.1	4.0	4.3
Other	(0.7)	0.3	0.2
Effective income tax rate	<u>38.4%</u>	<u>39.3%</u>	<u>39.5%</u>

Notes to Consolidated Financial Statements (continued)

The Company has \$4.2 billion of net deferred tax liabilities as of December 31, 2016 and 2015. The following table is a summary of the components of the Company's deferred tax assets and liabilities as of December 31:

<i><u>In millions</u></i>	<u>2016</u>	<u>2015</u>
Deferred tax assets:		
Lease and rents	\$ 375	\$ 378
Inventory	57	99
Employee benefits	400	359
Allowance for doubtful accounts	301	279
Retirement benefits	65	105
Net operating loss and capital loss carryforwards	125	115
Deferred income	144	83
Other	336	498
Valuation allowance	(135)	(115)
Total deferred tax assets	<u>1,668</u>	<u>1,801</u>
Deferred tax liabilities:		
Depreciation and amortization	(5,882)	(6,018)
Total deferred tax liabilities	<u>(5,882)</u>	<u>(6,018)</u>
Net deferred tax liabilities	<u>\$ (4,214)</u>	<u>\$ (4,217)</u>

The Company assesses positive and negative evidence to determine whether it is more likely than not some portion of a deferred tax asset would not be realized. When it would not, a valuation allowance is established for such portion of a deferred tax asset.

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

<i><u>In millions</u></i>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 338	\$ 188	\$ 117
Additions based on tax positions related to the current year	68	57	32
Additions based on tax positions related to prior years	70	122	70
Reductions for tax positions of prior years	(100)	(11)	(15)
Expiration of statutes of limitation	(22)	(13)	(15)
Settlements	(47)	(5)	(1)
Ending balance	<u>\$ 307</u>	<u>\$ 338</u>	<u>\$ 188</u>

The Company and most of its subsidiaries are subject to U.S. federal income tax as well as income tax of numerous state and local jurisdictions. The Company is a participant in the Compliance Assurance Process ("CAP"), which is a voluntary program offered by the Internal Revenue Service ("IRS") under which participating taxpayers work collaboratively with the IRS to identify and resolve potential tax issues through open, cooperative and transparent interaction prior to the filing of their federal income tax. The IRS is currently examining the Company's 2015 and 2016 consolidated U.S. federal income tax returns.

The Company and its subsidiaries are also currently under income tax examinations by a number of state and local tax authorities. As of December 31, 2016, no examination has resulted in any proposed adjustments that would result in a material change to the Company's results of operations, financial condition or liquidity.

Substantially all material state and local income tax matters have been concluded for fiscal years through 2010. Certain state exams will be concluded and certain state statutes will lapse in 2017, and the change in the balance of our uncertain tax positions will be immaterial. In addition, it is reasonably possible that the Company's unrecognized tax benefits could change within the next twelve months due to the anticipated conclusion of various examinations with the IRS for various years. An estimate of the range of the possible change cannot be made at this time.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties in income tax expense. The Company recognized interest of approximately \$10 million in 2016, \$5 million in 2015 and \$6 million in 2014. The Company

Notes to Consolidated Financial Statements (continued)

had approximately \$30 million and \$16 million accrued for interest and penalties as of December 31, 2016 and 2015, respectively.

There are no material uncertain tax positions as of December 31, 2016 the ultimate deductibility of which is highly certain but for which there is uncertainty about the timing. If there were, any such items would impact deferred tax accounting only, not the annual effective income tax rate, and would accelerate the payment of cash to the taxing authority to a period earlier than expected.

As of December 31, 2016, the total amount of unrecognized tax benefits that, if recognized, would affect the effective income tax rate is approximately \$276 million, after considering the federal benefit of state income taxes.

11 Commitments and Contingencies

Lease Guarantees

Between 1991 and 1997, the Company sold or spun off a number of subsidiaries, including Bob's Stores, Linens 'n Things, Marshalls, Kay-Bee Toys, Wilsons, This End Up and Footstar. In many cases, when a former subsidiary leased a store, the Company provided a guarantee of the store's lease obligations. When the subsidiaries were disposed of, the Company's guarantees remained in place, although each initial purchaser has agreed to indemnify the Company for any lease obligations the Company was required to satisfy. If any of the purchasers or any of the former subsidiaries were to become insolvent and failed to make the required payments under a store lease, the Company could be required to satisfy these obligations. As of December 31, 2016, the Company guaranteed approximately 87 such store leases (excluding the lease guarantees related to Linens 'n Things, which are discussed in Note 1 "Significant Accounting Policies"), with the maximum remaining lease term extending through 2047.

In April 2016, the parent entity of Bob's Stores filed for Chapter 11 bankruptcy protection. As described above, the Company, through one or more of its affiliates, is alleged to have guaranteed certain of the Bob's Stores' leases (the "Bob's Leases"). On June 20, 2016, the bankruptcy court approved the sale of substantially all of the assets of Bob's Stores and certain other assets to a new entity ("Buyer"), which designated Buyer's affiliate Bob's Stores, LLC, a Delaware limited liability company ("New Bob's"), to acquire substantially all of the assets of Bob's Stores.

The Company, through its subsidiary, CVS Pharmacy, Inc., and New Bob's entered into an agreement in October 2016, pursuant to which, in exchange for an immaterial payment to be made by CVS Pharmacy, Inc., New Bob's agreed to accept the assignment of the Bob's Leases and to be bound by certain restrictions regarding renewals, extensions and modifications to the Bob's Leases. The Company believed these restrictions would potentially reduce the Company's exposure to liability under guarantees of the Bob's Leases in the future. The bankruptcy court approved the assignment of the Bob's Leases to New Bob's on November 7, 2016, and all of the Bob's Leases were assigned to New Bob's.

On February 5, 2017, New Bob's and certain of its affiliates (collectively, the "Debtors") filed for Chapter 11 bankruptcy protection. Certain documents filed in connection with the Debtors' bankruptcy case suggest that the Debtors may enter into an asset purchase agreement with Sports Direct Retail Ltd. ("Sports Direct"), for Sports Direct to serve as an initial bidder in an asset sale process to be conducted pursuant to Section 363 of the Bankruptcy Code. The Company will monitor the Debtors' bankruptcy proceedings.

Legal Matters

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

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

Notes to Consolidated Financial Statements (continued)

qui tam lawsuit (“whistleblower” action) has been filed and whether the government agency makes a decision to intervene in the lawsuit following investigation.

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

- *In re Pharmacy Benefit Managers Antitrust Litigation* (U.S. District Court for the Eastern District of Pennsylvania) (consolidating *North Jackson Pharmacy, Inc. et al v. Caremark Rx Inc. et al.* (U.S. District Court for the Northern District of Alabama)). Beginning in August 2003, various lawsuits were filed by pharmacies alleging that various PBMs were violating certain antitrust laws. In October 2003, two independent pharmacies, North Jackson Pharmacy, Inc. and C&C, Inc. filed three putative class action complaints seeking treble damages and injunctive relief against Caremark (the term “Caremark” as used herein refers to one or more PBM subsidiaries of the Company, as applicable). In August 2006, the Judicial Panel on Multidistrict Litigation issued an order transferring all related PBM antitrust cases, including the North Jackson Pharmacy cases, to the United States District Court for the Eastern District of Pennsylvania for coordinated and consolidated proceedings with the cases originally filed in that court. The consolidated action is now known as *In re Pharmacy Benefit Managers Antitrust Litigation*. On January 18, 2017, the court denied the plaintiffs’ motion for class certification filed against Caremark, denied a similar motion filed against another PBM, and decertified classes that had been previously certified against other PBMs.
- *Indiana State District Council of Laborers and HOD Carriers Pension and Welfare Fund v. Omnicare, Inc. et al.* (U.S. District Court for the Eastern District of Kentucky). In February 2006, two substantially similar putative class action lawsuits were filed and subsequently consolidated. The consolidated complaint was filed against Omnicare, three of its officers and two of its directors and purported to be brought on behalf of all open-market purchasers of Omnicare common stock from August 3, 2005 through July 27, 2006, as well as all purchasers who bought shares of Omnicare common stock in Omnicare’s public offering in December 2005. The complaint alleged violations of the Securities Exchange Act of 1934 and Section 11 of the Securities Act of 1933 and sought, among other things, compensatory damages and injunctive relief. After dismissals and appeals to the United States Court of Appeals for the Sixth Circuit, the United States Supreme Court remanded the case to the district court. In October 2016, Omnicare filed an answer to plaintiffs’ third amended complaint, and discovery commenced.
- *Claims Processing Matter*. In December 2007, the Company received a document subpoena from the Office of Inspector General (“OIG”) within the U.S. Department of Health and Human Services, requesting information relating to the processing of Medicaid and certain other government agency claims on behalf of its clients (which allegedly resulted in underpayments from our pharmacy benefit management clients to the applicable government agencies) on one of the Company’s adjudication platforms. In September 2014, the Company settled the OIG’s claims, as well as related claims by the Department of Justice and private plaintiffs, without any admission of liability. The Company concluded its discussions with the OIG concerning other claim processing issues and resolved those additional matters on December 22, 2016 for the payment of an immaterial amount.
- *FTC and Multi-State Investigation*. In March 2010, the Company learned that various State Attorneys General offices and certain other government agencies were conducting a multi-state investigation of certain of the Company’s business practices similar to those being investigated at that time by the U.S. Federal Trade Commission (“FTC”). Twenty-eight states, the District of Columbia and the County of Los Angeles are known to be participating in this investigation. The prior FTC investigation, which commenced in August 2009, was officially concluded in May 2012 when the consent order entered into between the FTC and the Company became final. The Company has cooperated with the multi-state investigation.
- *United States ex rel. Jack Chin v. Walgreen Company et al.* (U.S. District Court for the Central District of California). In March 2010, the Company received a subpoena from the OIG requesting information about programs under which the Company has offered customers remuneration conditioned upon the transfer of prescriptions for drugs or medications to the Company’s pharmacies in the form of gift cards, cash, non-prescription merchandise or discounts or coupons for non-prescription merchandise. In October 2016, the U.S. District Court for the Central District of California unsealed a *qui tam* complaint, filed in April 2009 against CVS Pharmacy and other retail pharmacies, alleging that the Company violated the federal False Claims Act, and the false claims acts of several states, by offering such programs. The federal government has declined intervention in the case.
- *United States ex rel. James Banigan and Richard Templin v. Organon USA Inc. et al.* (U.S. District Court for the District of Massachusetts). On October 29, 2010, the court unsealed a *qui tam* complaint, which had been under seal

Notes to Consolidated Financial Statements (continued)

since 2007, against Organon, Omnicare, Inc. and PharMerica Corporation. The suit was brought by two former employees of Organon, as relators on behalf of the federal government and several state and local governments. The action alleges civil violations of the federal False Claims Act based on allegations that Organon and its affiliates paid Omnicare and several other long-term care pharmacies rebates, post-purchase discounts and other forms of remuneration in return for purchasing pharmaceuticals from Organon and taking steps to increase the purchase of Organon's drugs in violation of the Anti-Kickback Statute. The U.S. Department of Justice declined to intervene in this action. The Company has tentatively agreed with the Department of Justice to resolve this matter for \$23 million plus interest. These financial terms are contingent on approval by authorized officials at the Department of Justice, negotiation of terms of a settlement agreement, approval and releases from the OIG, the National Association of Medicaid Fraud Control Units, and the Department of Justice. While the Company believes that a final settlement will be reached, there can be no assurance that any final settlement agreement will be reached or as to the final terms of such settlement.

- *United States ex rel. Anthony R. Spay v. CVS Caremark Corporation et al.* (U.S. District Court for the Eastern District of Pennsylvania). In January 2012, the court unsealed a first amended *qui tam* complaint filed in August 2011 by an individual relator, Anthony Spay, who is described in the complaint as having once been employed by a firm providing pharmacy prescription benefit audit and recovery services. The complaint seeks monetary damages and alleges that Caremark's processing of Medicare claims on behalf of one of its clients violated the federal False Claims Act. The United States declined to intervene in the lawsuit. In September 2015, the Court granted Caremark's motion for summary judgment in its entirety, and entered judgment in favor of Caremark and against Spay. In October 2015, Spay filed a notice of appeal in the United States Court of Appeals for the Third Circuit; that court heard oral arguments on the appeal in November 2016.
- *State of Texas ex rel. Myron Winkelman and Stephani Martinson et al. v. CVS Health Corporation* (Travis County District Court). In February 2012, the Attorney General of the State of Texas issued Civil Investigative Demands and has issued a series of subsequent requests for documents and information in connection with its investigation concerning the Health Savings Pass program and other pricing practices with respect to claims for reimbursement from the Texas Medicaid program. In January 2017, the court unsealed a first amended petition. The amended petition alleges the Company violated the Texas Medicaid Fraud Prevention Act by submitting false claims for reimbursement to Texas Medicaid by, among other things, failing to use the price available to members of the CVS Health Savings Pass program as the usual and customary price. The amended petition was unsealed following the Company's filing of *CVS Pharmacy, Inc. v. Charles Smith et al.* (Travis County District Court), a declaratory judgment action against the State of Texas in December 2016 seeking a declaration that the prices charged to members of the Health Savings Pass program do not constitute usual and customary prices under the Medicaid regulation.
- *California ReadyFill Subpoena*. In November 2012, the Company received a subpoena for documents from the OIG requesting information concerning automatic refill programs used by pharmacies to refill prescriptions for customers. The subpoena was issued in connection with an investigation conducted out of the U.S. Attorney's Office for the Central District of California. The Company produced documents and data.
- *Pure Services Subpoena*. In 2013, Omnicare received a subpoena seeking information regarding Omnicare's May 2008 acquisition of Pure Service Pharmacy. In 2016, Omnicare reached an agreement regarding financial terms to resolve, for \$1.5 million plus interest, the subpoena regarding the acquisition of Pure Service Pharmacy. These financial terms are contingent on approval by authorized officials at the Department of Justice, negotiation of terms of a settlement agreement, approval and releases from the OIG, the National Association of Medicaid Fraud Control Units, and the Department of Justice. While the Company believes that a final settlement will be reached, there can be no assurance that any final settlement agreement will be reached or as to the final terms of such settlement.
- *Auto Label Subpoena*. In 2014, Omnicare received a subpoena seeking information regarding Omnicare's Auto Label Verification system. In 2016, Omnicare reached an agreement regarding financial terms to resolve, for \$8 million plus interest, the subpoena regarding Omnicare's Auto Label Verification system. These financial terms are contingent on approval by authorized officials at the Department of Justice, negotiation of terms of a settlement agreement, approval and releases from the OIG, the National Association of Medicaid Fraud Control Units, and the Department of Justice. While the Company believes that a final settlement will be reached, there can be no assurance that any final settlement agreement will be reached or as to the final terms of such settlement.
- *Subpoena Concerning PBM Administrative Fees*. In March 2014, the Company received a subpoena from the United States Attorney's Office for the District of Rhode Island, requesting documents and information concerning bona fide service fees and rebates received from pharmaceutical manufacturers in connection with certain drugs utilized under

Notes to Consolidated Financial Statements (continued)

Part D of the Medicare Program, as well as the reporting of those fees and rebates to Part D plan sponsors. The Company has been cooperating with the government and providing documents and information in response to the subpoena.

- *ReadyFill Subpoena (Minnesota)*. In May 2015, the Company received a subpoena from the OIG requesting information and documents concerning the Company's automatic refill programs, adherence outreach programs, and pharmacy customer incentives, particularly in connection with claims for reimbursement made to the Minnesota Medicaid program. The Company has been cooperating with the investigation and providing information in response to the subpoena.
- *Corcoran et al. v. CVS Health Corporation* (U.S. District Court for the Northern District of California) and *Podgorny et al. v. CVS Health Corporation* (U.S. District Court for the Northern District of Illinois). These putative class actions were filed against the Company in July and September 2015. The cases were consolidated in United States District Court in the Northern District of California. Plaintiffs seek damages and injunctive relief on behalf of a class of consumers who purchased certain prescription drugs under the consumer protection statutes and common laws of certain states. Several third-party payors filed similar putative class actions on behalf of payors captioned *Sheet Metal Workers Local No. 20 Welfare and Benefit Fund v. CVS Health Corp.* (U.S. District Court for the District of Rhode Island) and *Plumbers Welfare Fund, Local 130 v. CVS Health Corporation* (U.S. District Court for the District of Rhode Island) in February and August 2016. In all of these cases the plaintiffs allege the Company overcharged for certain prescription drugs by not submitting as the pharmacy's usual and customary price the price available to members of the CVS Health Savings Pass program. The Company is defending these actions.
- *Omnicare DEA Subpoena*. In September 2015, Omnicare was served with an administrative subpoena by the U.S. Drug Enforcement Agency ("DEA"). The subpoena seeks documents related to controlled substance policies, procedures, and practices at eight pharmacy locations from May 2012 to the present. The Company has been cooperating and providing documents in response to this administrative subpoena.
- *Omnicare Cycle Fill CID*. In October 2015, Omnicare received a Civil Investigative Demand from the United States Attorney's Office for the Southern District of New York requesting information and documents concerning Omnicare's cycle fill process for assisted living facilities. The Company has been cooperating with the government and providing documents and information in response to the Civil Investigative Demand.
- *PBM Pricing CID*. In October 2015, the Company received from the U.S. Department of Justice a Civil Investigative Demand requesting documents and information in connection with a False Claims Act investigation concerning allegations that the Company submitted, or caused to be submitted, to the Medicare Part D program prescription drug event data that misrepresented true prices paid by the Company's PBM to pharmacies for drugs dispensed to Part D beneficiaries with prescription benefits administered by the Company's PBM. The Company has been cooperating with the government and providing documents and information in response to the Civil Investigative Demand.
- *United States ex rel. Sally Schimelpfenig and John Segura v. Dr. Reddy's Laboratories Limited and Dr. Reddy's Laboratories, Inc.* (U.S. District Court for the Eastern District of Pennsylvania). In November 2015, the court unsealed a second amended *qui tam* complaint filed in September 2015. The U.S. Department of Justice declined to intervene in this action. The relators allege that the Company, Walgreens, Wal-Mart, and Dr. Reddy's Laboratories violated the federal and various state False Claims Acts by dispensing prescriptions in unit dose packaging supplied by Dr. Reddy's that was not compliant with the Consumer Product Safety Improvement Act and the Poison Preventive Packaging Act and thereby allegedly rendering the drugs misbranded under the Food, Drug & Cosmetic Act. The Company's motion to dismiss remains pending.
- *Barchock et al. v. CVS Health Corporation et al.* (U.S. District Court for the District of Rhode Island). In February 2016, an ERISA class action lawsuit was filed against the Company, the Benefit Plans Committee of the Company, and Galliard Capital Management, Inc., by Mary Barchock, Thomas Wasecko, and Stacy Weller, purportedly on behalf of the 401(k) Plan and the Employee Stock Ownership Plan of the Company (the "Plan"), and participants in the Plan. The complaint alleges that the defendants breached fiduciary duties owed to the plaintiffs and the Plan by investing too much of the Plan's Stable Value Fund in short-term money market funds and cash management accounts. The Company has moved to dismiss the plaintiffs' amended complaint.
- *State of California ex rel. Matthew Omlansky v. CVS Caremark Corporation* (Superior Court of the State of California, County of Sacramento). In April 2016, the court unsealed a first amended *qui tam* complaint filed in July 2013. The government has declined intervention in this case. The relator alleges that the Company submitted false

Notes to Consolidated Financial Statements (continued)

claims for payment to California Medicaid in connection with reimbursement for drugs available through the Health Savings Pass program as well as certain other generic drugs. The Company's motion to dismiss the complaint was denied.

- *DEA Matters.* In October 2016, the Company reached an agreement in principle with the U.S. Attorney's Office for the Eastern District of California to resolve alleged violations of the Controlled Substances Act ("CSA") for \$5 million. The settlement is contingent on the negotiation of terms of a settlement agreement. The Company is also undergoing several audits by the DEA Administrator and is in discussions with the DEA and the U.S. Attorney's Office in several locations concerning allegations that the Company has violated certain requirements of the CSA.
- *State of Mississippi v. CVS Health Corporation et al.* (Chancery Court of Desoto County, Mississippi, Third Judicial District). In July 2016, the Company was served with a complaint filed on behalf of the State of Mississippi alleging that CVS retail pharmacies in Mississippi submitted false claims for reimbursement to Mississippi Medicaid by not submitting as the pharmacy's usual and customary price the price available to members of the CVS Health Savings Pass program. The Company has responded to the complaint, filed a counterclaim, and moved to transfer the case to circuit court.

The Company is also a party to other legal proceedings, government investigations, inquiries and audits, and has received and is cooperating with subpoenas or similar process from various governmental agencies requesting information, all arising in the normal course of its business, none of which is expected to be material to the Company. The Company can give no assurance, however, that its business, financial condition and results of operations will not be materially adversely affected, or that the Company will not be required to materially change its business practices, based on: (i) future enactment of new health care or other laws or regulations; (ii) the interpretation or application of existing laws or regulations as they may relate to the Company's business, the pharmacy services, specialty pharmacy, retail pharmacy, long-term care pharmacy or retail clinic industries or to the health care industry generally; (iii) pending or future federal or state governmental investigations of the Company's business or the pharmacy services, specialty pharmacy, retail pharmacy, long-term care pharmacy or retail clinic industry or of the health care industry generally; (iv) pending or future government enforcement actions against the Company; (v) adverse developments in any pending *qui tam* lawsuit against the Company, whether sealed or unsealed, or in any future *qui tam* lawsuit that may be filed against the Company; or (vi) adverse developments in pending or future legal proceedings against the Company or affecting the pharmacy services, specialty pharmacy, retail pharmacy, long-term care pharmacy or retail clinic industry or the health care industry generally.

12 Segment Reporting

The Company currently has three reportable segments: Pharmacy Services, Retail/LTC and Corporate. The Retail/LTC Segment includes the operating results of the Company's Retail Pharmacy and LTC/RxCrossroads operating segments as the operations and economics characteristics are similar. The Company's segments maintain separate financial information for which operating results are evaluated on a regular basis by the Company's chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Company evaluates its Pharmacy Services and Retail/LTC segments' performance based on net revenue, gross profit and operating profit before the effect of nonrecurring charges and gains and certain intersegment activities. The Company evaluates the performance of its Corporate Segment based on operating expenses before the effect of nonrecurring charges and gains and certain intersegment activities. The chief operating decision maker does not use total assets by segment to make decisions regarding resources, therefore the total asset disclosure by segment has not been included. See Note 1 "Significant Accounting Policies" for a description of the Pharmacy Services, Retail/LTC and Corporate segments and related significant accounting policies.

In 2016, approximately 11.2% of the Company's consolidated net revenues were from Aetna, a Pharmacy Services Segment client. In 2015 and 2014, no single customer accounted for 10% or more of the Company's consolidated net revenues. More than 99% of the Company's consolidated net revenues are earned and long-lived assets are located in the United States.

Notes to Consolidated Financial Statements (continued)

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

<i>In millions</i>	Pharmacy Services Segment ⁽¹⁾⁽²⁾	Retail/LTC Segment ⁽²⁾	Corporate Segment	Intersegment Eliminations ⁽²⁾	Consolidated Totals
2016:					
Net revenues	\$ 119,963	\$ 81,100	\$ —	\$ (23,537)	\$ 177,526
Gross profit ⁽³⁾	5,901	23,738	—	(782)	28,857
Operating profit ⁽⁴⁾⁽⁵⁾⁽⁶⁾	4,672	7,281	(894)	(721)	10,338
Depreciation and amortization	714	1,642	119	—	2,475
Additions to property and equipment	295	1,732	252	—	2,279
2015:					
Net revenues	\$ 100,363	\$ 72,007	\$ —	\$ (19,080)	\$ 153,290
Gross profit	5,227	21,992	—	(691)	26,528
Operating profit ⁽⁵⁾⁽⁶⁾	3,989	7,130	(1,037)	(628)	9,454
Depreciation and amortization	654	1,336	102	—	2,092
Additions to property and equipment	359	1,883	125	—	2,367
2014:					
Net revenues	\$ 88,440	\$ 67,798	\$ —	\$ (16,871)	\$ 139,367
Gross profit	4,771	21,277	—	(681)	25,367
Operating profit	3,514	6,762	(796)	(681)	8,799
Depreciation and amortization	630	1,205	96	—	1,931
Additions to property and equipment	308	1,745	83	—	2,136

- (1) Net revenues of the Pharmacy Services Segment include approximately \$10.5 billion, \$8.9 billion and \$8.1 billion of Retail Co-Payments for 2016, 2015 and 2014, respectively. See Note 1 "Significant Accounting Policies" to the consolidated financial statements for additional information about Retail Co-Payments.
- (2) Intersegment eliminations relate to intersegment revenue generating activities that occur between the Pharmacy Services Segment and the Retail/LTC Segment. These occur in the following ways: when members of Pharmacy Services Segment clients ("members") fill prescriptions at the Company's retail pharmacies to purchase covered products, when members enrolled in programs such as Maintenance Choice[®] elect to pick up maintenance prescriptions at one of the Company's retail pharmacies instead of receiving them through the mail, or when members have prescriptions filled at the Company's long-term care pharmacies. When these occur, both the Pharmacy Services and Retail/LTC segments record the revenues, gross profit and operating profit on a standalone basis.
- (3) The Retail/LTC Segment gross profit for the year ended December 31, 2016 includes \$46 million of acquisition-related integration costs. The integration costs are related to the acquisitions of Omnicare and the pharmacies and clinics of Target.
- (4) The Pharmacy Services Segment operating profit for the year ended December 31, 2016 includes the reversal of an accrual of \$88 million in connection with a legal settlement.
- (5) The Retail/LTC Segment operating profit for the three months and year ended December 31, 2016 includes a \$34 million asset impairment charge in connection with planned store closures in 2017 related to the Company's enterprise streamlining initiative. The Retail/LTC Segment operating profit for the 2016 and 2015 include \$281 million and \$64 million, respectively, of acquisition-related integration costs. The integration costs are related to the acquisitions of Omnicare and the pharmacies and clinics of Target.
- (6) The Corporate Segment operating loss for the year ended December 31, 2016 includes \$10 million of integration costs. For the year ended December 31, 2015, the Corporate Segment operating loss includes \$156 million of acquisition-related transaction and integration costs and a \$90 million charge related to a legacy lawsuit challenging the 1999 legal settlement by MedPartners of various securities class actions and a related derivative claim.

Notes to Consolidated Financial Statements (continued)

13 Earnings Per Share

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

<i>In millions, except per share amounts</i>	2016	2015	2014
Numerator for earnings per share calculation:			
Income from continuing operations	\$ 5,320	\$ 5,230	\$ 4,645
Income allocated to participating securities	(27)	(26)	(19)
Net income attributable to noncontrolling interest	(2)	(2)	—
Income from continuing operations attributable to CVS Health	\$ 5,291	\$ 5,202	\$ 4,626
Denominator for earnings per share calculation:			
Weighted average shares, basic	1,073	1,118	1,161
Effect of dilutive securities	6	8	8
Weighted average shares, diluted	1,079	1,126	1,169
Earnings per share from continuing operations:			
Basic	\$ 4.93	\$ 4.65	\$ 3.98
Diluted	\$ 4.91	\$ 4.62	\$ 3.96

14 Quarterly Financial Information (Unaudited)

<i>In millions, except per share amounts</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2016:					
Net revenues	\$ 43,215	\$ 43,725	\$ 44,615	\$ 45,971	\$ 177,526
Gross profit	6,744	7,015	7,492	7,606	28,857
Operating profit	2,176	2,350	2,817	2,995	10,338
Income from continuing operations	1,147	924	1,542	1,707	5,320
Income (loss) from discontinued operations, net of tax	—	—	(1)	—	(1)
Net income attributable to CVS Health	1,146	924	1,540	1,707	5,317
Basic earnings per share:					
Income from continuing operations attributable to CVS Health	\$ 1.04	\$ 0.86	\$ 1.44	\$ 1.60	\$ 4.93
Income (loss) from discontinued operations attributable to CVS Health	\$ —	\$ —	\$ —	\$ —	\$ —
Net income attributable to CVS Health	\$ 1.04	\$ 0.86	\$ 1.44	\$ 1.60	\$ 4.93
Diluted earnings per share:					
Income from continuing operations attributable to CVS Health	\$ 1.04	\$ 0.86	\$ 1.43	\$ 1.59	\$ 4.91
Income (loss) from discontinued operations attributable to CVS Health	\$ —	\$ —	\$ —	\$ —	\$ —
Net income attributable to CVS Health	\$ 1.04	\$ 0.86	\$ 1.43	\$ 1.59	\$ 4.90
Dividends per share	\$ 0.425	\$ 0.425	\$ 0.425	\$ 0.425	\$ 1.70
Stock price: (New York Stock Exchange)					
High	\$ 104.05	\$ 106.10	\$ 98.06	\$ 88.80	\$ 106.10
Low	\$ 89.65	\$ 93.21	\$ 88.99	\$ 73.53	\$ 73.53

Notes to Consolidated Financial Statements (continued)

<i>In millions, except per share amounts</i>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Year</u>
2015:					
Net revenues	\$ 36,332	\$ 37,169	\$ 38,644	\$ 41,145	\$ 153,290
Gross profit	6,164	6,402	6,661	7,301	26,528
Operating profit	2,132	2,262	2,331	2,729	9,454
Income from continuing operations	1,221	1,272	1,237	1,500	5,230
Income (loss) from discontinued operations, net of tax	—	—	10	(1)	9
Net income attributable to CVS Health	1,221	1,272	1,246	1,498	5,237
Basic earnings per share:					
Income from continuing operations attributable to CVS Health	\$ 1.08	\$ 1.13	\$ 1.10	\$ 1.35	\$ 4.65
Income (loss) from discontinued operations attributable to CVS Health	\$ —	\$ —	\$ 0.01	\$ —	\$ 0.01
Net income attributable to CVS Health	\$ 1.08	\$ 1.13	\$ 1.11	\$ 1.35	\$ 4.66
Diluted earnings per share:					
Income from continuing operations attributable to CVS Health	\$ 1.07	\$ 1.12	\$ 1.10	\$ 1.34	\$ 4.62
Income (loss) from discontinued operations attributable to CVS Health	\$ —	\$ —	\$ 0.01	\$ —	\$ 0.01
Net income attributable to CVS Health	\$ 1.07	\$ 1.12	\$ 1.11	\$ 1.34	\$ 4.63
Dividends per share	\$ 0.35	\$ 0.35	\$ 0.35	\$ 0.35	\$ 1.40
Stock price: (New York Stock Exchange)					
High	\$ 104.56	\$ 106.47	\$ 113.45	\$ 105.29	\$ 113.45
Low	\$ 94.16	\$ 98.74	\$ 95.12	\$ 91.56	\$ 91.56

Five-Year Financial Summary

In millions, except per share amounts

	2016	2015	2014	2013	2012
Statement of operations data:					
Net revenues	\$ 177,526	\$ 153,290	\$ 139,367	\$ 126,761	\$ 123,120
Gross profit	28,857	26,528	25,367	23,783	22,488
Operating expenses	18,519	17,074	16,568	15,746	15,278
Operating profit	10,338	9,454	8,799	8,037	7,210
Interest expense, net	1,058	838	600	509	557
Loss on early extinguishment of debt	643	—	521	—	348
Income tax provision ⁽¹⁾	3,317	3,386	3,033	2,928	2,436
Income from continuing operations	5,320	5,230	4,645	4,600	3,869
Income (loss) from discontinued operations, net of tax	(1)	9	(1)	(8)	(7)
Net income	5,319	5,239	4,644	4,592	3,862
Net (income) loss attributable to noncontrolling interest	(2)	(2)	—	—	2
Net income attributable to CVS Health	\$ 5,317	\$ 5,237	\$ 4,644	\$ 4,592	\$ 3,864
Per share data:					
Basic earnings per share:					
Income from continuing operations attributable to CVS Health	\$ 4.93	\$ 4.65	\$ 3.98	\$ 3.78	\$ 3.05
Income (loss) from discontinued operations attributable to CVS Health	\$ —	\$ 0.01	\$ —	\$ (0.01)	\$ (0.01)
Net income attributable to CVS Health	\$ 4.93	\$ 4.66	\$ 3.98	\$ 3.77	\$ 3.04
Diluted earnings per share:					
Income from continuing operations attributable to CVS Health	\$ 4.91	\$ 4.62	\$ 3.96	\$ 3.75	\$ 3.02
Income (loss) from discontinued operations attributable to CVS Health	\$ —	\$ 0.01	\$ —	\$ (0.01)	\$ (0.01)
Net income attributable to CVS Health	\$ 4.90	\$ 4.63	\$ 3.96	\$ 3.74	\$ 3.02
Cash dividends per share	\$ 1.70	\$ 1.40	\$ 1.10	\$ 0.90	\$ 0.65
Balance sheet and other data:					
Total assets ⁽¹⁾	\$ 94,462	\$ 92,437	\$ 73,202	\$ 70,550	\$ 65,474
Long-term debt	\$ 25,615	\$ 26,267	\$ 11,630	\$ 12,767	\$ 9,079
Total shareholders' equity	\$ 36,834	\$ 37,203	\$ 37,963	\$ 37,938	\$ 37,653
Number of stores (at end of year)	9,750	9,681	7,866	7,702	7,508

(1) As of January 1, 2016, the Company early adopted Accounting Standard Update No. 2015-17, *Income Taxes* (Topic 740) issued by the Financial Accounting Standards Board in November 2015. The effect of the retrospective adoption on the Company's historical consolidated balance sheets is a reduction in current assets and deferred income taxes of \$1.2 billion, \$985 million, \$902 million and \$693 million as of December 31, 2015, 2014, 2013 and 2012, respectively.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of CVS Health Corporation

We have audited the accompanying consolidated balance sheets of CVS Health Corporation as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CVS Health Corporation at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CVS Health Corporation's internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 9, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts

February 9, 2017

SUBSIDIARIES OF THE REGISTRANT

As of December 31, 2016, CVS Health Corporation had the following significant subsidiaries:

Caremark, L.L.C. (a California limited liability company)
CaremarkPCS Health, L.L.C. (a Delaware limited liability company)
Caremark Rx, L.L.C. (a Delaware limited liability company) ⁽¹⁾
CVS Caremark Part D Services, L.L.C. (a Delaware limited liability company)
CVS Pharmacy, Inc. (a Rhode Island corporation) ⁽²⁾
Omnicare, Inc. (a Delaware corporation) ⁽³⁾
SilverScript Insurance Company (a Tennessee corporation)

- (1) Caremark Rx, L.L.C., the parent of the Registrant's pharmacy services subsidiaries, is the immediate or indirect parent of many mail order, pharmacy benefit management, infusion, Medicare Part D, insurance, specialty mail and retail specialty pharmacy subsidiaries, all of which operate in the United States and its territories.
- (2) CVS Pharmacy, Inc. is the immediate or indirect parent of approximately 57 entities that operate drugstores, all of which drugstores are in the United States and its territories except approximately 37 drugstores that are operated by Drogaria Onofre Ltda., a Brazil limited liability company that is an indirect subsidiary of CVS Pharmacy, Inc.
- (3) Omnicare, Inc., the parent of the Registrant's long-term care subsidiaries, is the immediate or indirect parent of many long-term care and specialty subsidiaries, all of which operate in the United States and its territories.

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statements (Form S-3ASR Nos. 333-187440 and 333-200217, and Form S-3 Nos. 333-205156 and 333-210872) of CVS Health Corporation,
- (2) Registration Statement (Form S-4 No. 333-210873) of CVS Health Corporation, and
- (3) Registration Statements (Form S-8 Nos. 333-49407, 333-34927, 333-28043, 333-91253, 333-63664, 333-139470, 333-141481, 333-167746 and 333-208805) of CVS Health Corporation;

of our reports dated February 9, 2017, with respect to the consolidated financial statements of CVS Health Corporation and the effectiveness of internal control over financial reporting of CVS Health Corporation, incorporated by reference in this Annual Report (Form 10-K) of CVS Health Corporation for the year ended December 31, 2016.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 9, 2017

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

I, Larry J. Merlo, President and Chief Executive Officer of CVS Health Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of CVS Health Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2017

By: _____ /s/ LARRY J. MERLO

Larry J. Merlo
President and
Chief Executive Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The certification set forth below is being submitted in connection with the Annual Report of CVS Health Corporation (the “Company”) on Form 10-K for the period ended December 31, 2016 (the “Report”), for the purpose of complying with Rule 13(a)-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, Larry J. Merlo, President and Chief Executive Officer of the Company, certify that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

February 9, 2017

/ s/ LARRY J. MERLO

Larry J. Merlo
President and
Chief Executive Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The certification set forth below is being submitted in connection with the Annual Report of CVS Health Corporation (the “Company”) on Form 10-K for the period ended December 31, 2016 (the “Report”), for the purpose of complying with Rule 13(a)-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, David M. Denton, Executive Vice President and Chief Financial Officer of the Company, certify that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

February 9, 2017

/ s/ D AVID M. D ENTON

David M. Denton
Executive Vice President and Chief Financial Officer

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2015**

OR

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission file number 001-01011**



CVS HEALTH CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

05-0494040

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

One CVS Drive, Woonsocket, Rhode Island

(Address of principal executive offices)

02895

(Zip Code)

(401) 765-1500

(Registrant's telephone number, including area code)

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

Common Stock, par value \$0.01 per share

Title of each class

New York Stock Exchange

Name of each exchange on which registered

Securities registered pursuant to Section 12(g) of the Exchange Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the registrant's common stock held by non-affiliates was approximately \$116,868,242,939 as of June 30, 2015, based on the closing price of the common stock on the New York Stock Exchange. For purposes of this calculation, only executive officers and directors are deemed to be the affiliates of the registrant.

As of February 3, 2016, the registrant had 1,098,490,835 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

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

- Portions of our Annual Report to Stockholders for the fiscal year ended December 31, 2015 are incorporated by reference in our response to Items 7, 8 and 9 of Part II.
- Information contained in our Proxy Statement for the 2016 Annual Meeting of Stockholders is incorporated by reference in our response to Items 10 through 14 of Part III.

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PART I

Item 1. Business

Overview

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

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

Through our approximately 9,600 retail pharmacies, more than 1,100 walk-in medical clinics, a leading pharmacy benefits manager with more than 75 million plan members, a dedicated senior pharmacy care business serving more than one million patients per year, and expanding specialty pharmacy services, we enable people, businesses, and communities to manage health in more affordable, effective ways. We are delivering break-through products and services, from advising patients on their medications at our CVS Pharmacy[®] locations, to introducing unique programs to help control costs for our clients at CVS Caremark[®], to innovating how care is delivered to our patients with complex conditions through CVS Specialty[™], to improving pharmacy care for the senior community through Omnicare[®], or by expanding access to high-quality, low-cost care at CVS MinuteClinic[™].

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

Pharmacy Services Segment

The Pharmacy Services Segment provides a full range of pharmacy benefit management (“PBM”) solutions, as described more fully below, to our clients consisting primarily of employers, insurance companies, unions, government employee groups, health plans, Managed Medicaid plans, plans offered on the public and private exchanges, other sponsors of health benefit plans and individuals throughout the United States. In addition, through our SilverScript Insurance Company (“SilverScript”) subsidiary, we are a national provider of drug benefits to eligible beneficiaries under the federal government’s Medicare Part D program. The Pharmacy Services Segment operates under the CVS Caremark[®] Pharmacy Services, Caremark[®], CVS Caremark[®], CarePlus CVS Pharmacy[™], CVS Specialty[™], Accordant[®], SilverScript[®], NovoLogix[®], Coram[®], Navarro[®] Health Services and Advanced Care Scripts names. As of December 31, 2015, the Pharmacy Services Segment operated 24 retail specialty pharmacy stores, 11 specialty mail order pharmacies and five mail order dispensing pharmacies, and 83 branches for infusion and enteral services, including approximately 73 ambulatory infusion suites and six centers of excellence, located in 40 states, Puerto Rico and the District of Columbia. During the year ended December 31, 2015, our PBM filled or managed approximately 1.0 billion prescriptions.

Pharmacy Services Business Strategy - Our business strategy centers on providing innovative tools and strategies, as well as quality client service in order to help improve clinical outcomes for our clients’ health benefit plan members while assisting our clients and their plan members in better managing overall health care costs. Our goal is to produce superior results for our clients and their plan members by leveraging our expertise in core PBM services, including: plan design offerings and administration, formulary management, Medicare Part D services, mail order, specialty pharmacy and infusion services, retail pharmacy network management services, prescription management systems, clinical services, disease management services and medical spend management.

In addition, as a fully integrated pharmacy services company, we are able to offer our clients and their plan members a variety of programs, tools and plan designs that benefit from our integrated systems and the ability of our more than 34,000 pharmacists, nurses, nurse practitioners and physician assistants to interact personally with the many plan members. Through our multiple member touch points (retail stores, mail order, infusion, long-term care and specialty pharmacies, retail medical clinics, call centers, prescription management services, proprietary websites and mobile devices), we seek to engage plan members in behaviors that help lower cost and improve health care outcomes. Examples of these programs and services include: Maintenance Choice[®], a program where eligible client plan members can elect to fill their maintenance prescriptions at our retail pharmacy stores for the same price as mail order; Pharmacy Advisor[®], a program that facilitates face-to-face and telephone counseling by our pharmacists to help participating plan members with certain chronic diseases, such as diabetes and cardiovascular conditions, to identify gaps in care, adhere to their prescribed medications and manage their health conditions;

compliance and persistency programs designed to help ensure that patients take their medications in the proper manner; enhanced disease management programs that are targeted at managing chronic disease states; Specialty Connect™, our integrated specialty pharmacy offering which integrates specialty mail and retail capabilities, providing members with disease-state specific counseling from our experienced specialty pharmacists and the choice to bring their specialty prescriptions to a CVS Pharmacy location or submit it through our specialty mail order pharmacies; and an ExtraCare® Health Card program which offers discounts to eligible plan members on certain over-the-counter health care products sold in our CVS Pharmacy stores. In addition, MinuteClinic® is an important and differentiated part of the enterprise that offers certain capabilities to PBM clients and their members. For example, we offer plan sponsored co-pay reductions to encourage use of MinuteClinic, thereby reducing emergency room visits and helping to lower overall health care costs. Other ways we are working with our clients include partnerships with health plan clients sponsoring patient centered medical homes, biometric screenings for plan members, closing gaps in care, and onsite clinics at client corporate headquarters.

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

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

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

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

Medicare Part D Services - We participate in the administration of the drug benefit added to the Medicare program under Part D of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 ("MMA") through the provision of PBM services to our health plan clients and other clients that have qualified as Medicare Part D prescription drug plans ("PDP") and by offering Medicare Part D pharmacy benefits through SilverScript, a PDP approved by the Centers for Medicare and Medicaid Services ("CMS"). We also assist employer, union and other health plan clients that qualify for the retiree drug subsidy made available under the MMA by collecting and submitting eligibility and/or drug cost data to CMS in order for them to obtain the subsidy.

Mail Order Pharmacy - As of December 31, 2015, we operated five mail order dispensing pharmacies in the United States. Plan members or their prescribers submit prescriptions or refill requests, primarily for maintenance medications, to these pharmacies via mail, telephone, fax, e-prescribing or the Internet. We also operate a network of smaller mail order specialty pharmacies described below. Our staff pharmacists review mail order prescriptions and refill requests with the assistance of our prescription management systems. This review may involve communications with the prescriber and, with the prescriber's approval when required, can result in generic substitution, therapeutic interchange or other actions designed to help reduce cost and/or improve quality of treatment. These pharmacies have been awarded Mail Order Pharmacy accreditation from Utilization Review Accreditation Commission ("URAC"), a Washington DC-based health care accrediting organization that establishes quality standards for the health care industry.

Specialty Pharmacy - Our specialty pharmacies support individuals who require complex and expensive drug therapies. As of December 31, 2015, our specialty pharmacy operations included 11 specialty mail order pharmacies located throughout the United States that are used for delivery of advanced medications to individuals with chronic or genetic diseases and disorders. Substantially all of these pharmacies have been accredited by the Joint Commission, which is an independent, not-for-profit organization that accredits and certifies nearly 21,000 health care organizations and programs in the United States. These pharmacies have also been awarded Specialty Pharmacy accreditation from URAC. As of December 31, 2015, the Company

operated a network of 24 retail specialty pharmacy stores, which operate under the CarePlus CVS Pharmacy™ and Navarro® Health Services names. These stores average 1,100 square feet in size and sell prescription drugs and a limited assortment of front store items such as alternative medications, homeopathic remedies and vitamins. In January 2014, we enhanced our offerings of specialty infusion services and began offering enteral nutrition services through Coram LLC and its subsidiaries (collectively, “Coram”), which we acquired on January 16, 2014. Coram is one of the nation’s largest providers of comprehensive infusion services, caring for approximately 140,000 patients annually. In May 2014, we implemented Specialty Connect™, which integrates our specialty pharmacy mail and retail capabilities, providing members with disease-state specific counseling from our experienced specialty pharmacists and the choice to bring their specialty prescriptions to a CVS Pharmacy location. Whether submitted through our mail order pharmacy or at a CVS Pharmacy, all prescriptions are filled through our specialty mail order pharmacies, so all revenue from this specialty prescription services program is recorded within the Pharmacy Services Segment. Members then can choose to pick up their medication at their local CVS Pharmacy or have it sent to their home through the mail. In August 2015, with the acquisition of Omnicare, Inc. (“Omnicare”), we expanded our specialty pharmacy to include the specialty pharmacy operations of Omnicare which operates under the name Advanced Care Scripts.

Retail Pharmacy Network Management - We maintain a national network of more than 68,000 retail pharmacies, consisting of approximately 41,000 chain pharmacies (which includes our CVS Pharmacy stores) and 27,000 independent pharmacies, in the United States, Puerto Rico, District of Columbia, Guam and the Virgin Islands. When a customer fills a prescription in a retail pharmacy, the pharmacy sends prescription data electronically to us from the point-of-sale. This data interfaces with our proprietary prescription management systems, which verify relevant plan member data and eligibility, while also performing a drug utilization review to help evaluate clinical appropriateness and safety and confirming that the pharmacy will receive payment for the prescription.

Prescription Management Systems - We dispense prescription drugs both directly, through one of our mail order or specialty pharmacies, or through a network of retail pharmacies, described above. All prescriptions processed through our systems, whether they are filled through one of our mail order or specialty dispensing pharmacies or through a pharmacy in our retail network, are analyzed, processed and documented by our proprietary prescription management systems. These systems provide essential features and functionality to allow a plan member to apply their prescription drug benefit. These systems also streamline the process by which prescriptions are processed by staff and network pharmacists, by automating review of various items, including, but not limited to, plan eligibility, early refills, duplicate dispensing, appropriateness of dosage, drug interactions or allergies, over-utilization and potential fraud.

Clinical Services - We offer multiple clinical programs and services to help clients manage overall pharmacy and health care costs in a clinically appropriate manner. Our programs are primarily designed to promote safety, and to help target inappropriate utilization and non-adherence to medication, each of which may result in adverse medical events that negatively impact member health and client pharmacy and medical spend. In this regard, we offer various utilization management, medication management, quality assurance, adherence and counseling programs to complement the client’s plan design and clinical strategies.

Disease Management Programs - Our clinical services utilize advanced protocols and offer clients convenience in working with health care providers and other third parties. Our Accordant® programs include integrated rare disease management programs, which cover diseases such as rheumatoid arthritis, Parkinson’s disease, seizure disorders and multiple sclerosis. The majority of these integrated programs are accredited by the National Committee for Quality Assurance (“NCQA”), a private, not-for-profit organization that evaluates, accredits and certifies a wide range of health care organizations. They have also been awarded Case Management Accreditation from URAC.

Medical Pharmacy Management - We offer a technology platform that helps identify and capture cost savings opportunities for specialty drugs billed under the medical benefit by identifying outliers to appropriate dosages and costs, and helps to ensure appropriate clinical use of these drugs.

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

Pharmacy Services Clients - Our clients are primarily employers, insurance companies, unions, government employee groups, health plans, Managed Medicaid plans and plans offered on public and private exchanges, other sponsors of health benefit plans and individuals located throughout the United States. We provide pharmaceuticals to eligible members in benefit plans maintained by our clients and utilize our information systems, among other things, to help perform safety checks, drug

interaction screening and identify opportunities for generic substitution. We generate substantially all of our Pharmacy Services Segment net revenue from dispensing and managing prescription drugs to eligible members in benefit plans maintained by our clients. No single PBM client accounts for 10% or more of our annual consolidated revenues.

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

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

Retail/LTC Segment

As of December 31, 2015, the Retail/LTC Segment included 9,655 retail stores (of which 7,897 were our stores that operated a pharmacy and 1,672 were our pharmacies located within Target Corporation ("Target") stores), our online retail pharmacy websites, CVS.com[®], Navarro.com[™] and Onofre.com.br[™], 32 onsite pharmacy stores, long-term care pharmacy operations and our retail health care clinics. The retail stores are located in 49 states, the District of Columbia, Puerto Rico and Brazil operating primarily under the CVS Pharmacy[®], CVS[®], Longs Drugs[®], Navarro Discount Pharmacy[®] and Drogaria Onofre[™] names. We currently operate in 98 of the top 100 United States drugstore markets and hold the number one or number two market share in 93 of these markets. The CVS Pharmacy retail drugstores sell prescription drugs and a wide assortment of over-the-counter and personal care products, beauty and cosmetic products, and general merchandise, which we refer to as "front store" products. The pharmacies within Target stores sell prescription drugs and over-the-counter drugs that are required to be held behind the counter. Existing retail stores range in size from approximately 5,000 to 30,000 square feet, although most new stores range in size from approximately 8,000 to 13,000 square feet and typically include a drive-thru pharmacy. The pharmacies within Target stores range in size from approximately 450 to 1,100 square feet. During 2015, we filled approximately 1.0 billion prescriptions (counting 90-day prescriptions as three prescriptions), and we held approximately 21.7% of the United States retail pharmacy market. In 2014, our CVS Pharmacy retail drugstores became the first pharmacies in the nation to receive Community Pharmacy Accreditation from URAC.

On August 18, 2015, we completed our acquisition of Omnicare, broadening our base of pharmacy care to a new dispensing channel, long-term care pharmacy. Omnicare's long-term care ("LTC") operations include the distribution of pharmaceuticals, related pharmacy consulting and other ancillary services to chronic care facilities and other care settings. Omnicare also provides commercialization services under the name RxCrossroads[®]. LTC is comprised of 143 spoke pharmacies that primarily handle new prescription orders, of which 32 are also hub pharmacies that use automation to support spoke pharmacies with refill prescriptions. LTC primarily operates under the Omnicare[®] and NeighborCare[®] names. With the addition of the LTC operations, we are enhancing our service offerings to address the needs of an aging population throughout the continuum of senior care.

On December 16, 2015, we completed our acquisition of the pharmacy and clinic businesses of Target. In connection with the transaction, we acquired Target's 1,672 pharmacies across 47 states and will operate them through a store-within-a-store format, branded as CVS Pharmacy[®]. In addition, a CVS Pharmacy will be included in all new Target stores that offer pharmacy services. These pharmacies sell prescription drugs and over-the-counter drugs that are required to be held behind the counter. The 79 Target clinic locations we acquired will be rebranded as MinuteClinic[®], and we expect to open up to 20 new clinics in Target stores within the next three years. This acquisition expands our pharmacy and clinic presence in existing and new markets and it allows us to increase patient access and is an investment in our core business to drive growth.

Retail Pharmacy Business Strategy - Our integrated pharmacy services model has enhanced the ability of our retail pharmacy stores to expand customer access to care while helping to lower overall health care costs and improve health outcomes. In that regard, the role of our retail pharmacist is shifting from primarily dispensing prescriptions to also providing services, including

flu vaccinations as well as face-to-face patient counseling with respect to adherence to drug therapies, closing gaps in care and recommending more cost effective drug therapies. In addition, personalization is central to our retail strategy. Our customer-driven personalization through ExtraCare[®], ExtraCare Beauty Club[®] and MyWeeklyAd[™] are designed to help us connect directly with individual consumers to deliver a personalized experience. We also provide a broad assortment of quality merchandise at competitive prices using a retail format that emphasizes service, innovation and convenience. One of the keys to our strategy is technology, which allows us to focus on constantly improving service and exploring ways to provide more personalized product offerings and services. We are leveraging digital to empower our customers and patients by making the full breadth of health care and pharmacy services available to them anytime, anywhere. We are introducing digital tools to make it easier for people to save time and money and to live healthier lives. We believe that continuing to be the first to market with new and unique products and services, using innovative marketing and adjusting our mix of merchandise to match our customers' needs and preferences is very important to our ability to continue to improve customer satisfaction.

Retail/LTC Products and Services - A typical retail store sells prescription drugs and a wide assortment of high-quality, nationally advertised brand name and proprietary brand merchandise. Front store categories include over-the-counter drugs, beauty products and cosmetics, personal care products, convenience foods, photo finishing services, seasonal merchandise and greeting cards. The stores within Target stores sell prescription drugs and over-the-counter drugs that are required to be held behind the counter. The LTC operations include distribution of pharmaceuticals and related consulting and ancillary services. We purchase our merchandise from numerous manufacturers and distributors. We believe that competitive sources are readily available for substantially all of the products we carry and the loss of any one supplier would not likely have a material effect on the business. Our clinics offer a variety of health care services by nurse practitioners and physician assistants.

Retail/LTC net revenues by major product group are as follows:

	Percentage of Net Revenues ⁽¹⁾		
	2015	2014	2013
Prescription drugs ⁽²⁾	72.9%	70.7%	69.5%
Over-the-counter and personal care	10.9	11.0	11.0
Beauty/cosmetics	4.5	4.7	4.9
General merchandise and other	11.7	13.6	14.6
	100.0%	100.0%	100.0%

(1) Percentages are estimates based on store point-of-sale data for the stores and revenue system data for sales outside the stores.

(2) In 2015, prescription drugs include LTC sales and sales in pharmacies within Target stores.

Pharmacy - Pharmacy revenues represented more than two-thirds of Retail Pharmacy revenues in each of 2015, 2014 and 2013. We believe that our pharmacy operations will continue to represent a critical part of our business due to favorable industry trends, e.g., an aging American population consuming a greater number of prescription drugs, pharmaceuticals being used more often as the first line of defense for managing illness, and the impact of expanded health insurance coverage through the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, "ACA"), the introduction of new pharmaceutical products, and Medicare Part D. We believe our pharmacy business benefits from our investment in both people and technology, as well as our innovative partnerships with health plans, PBMs and providers. Given the nature of prescriptions, people want their prescriptions filled accurately by professional pharmacists using the latest tools and technology, and ready when promised. Consumers need medication management programs and better information to help them get the most out of their health care dollars. To assist our customers with these needs, we have introduced integrated pharmacy health care services that provide an earlier, easier and more effective approach to engaging them in behaviors that can help lower costs, improve health, and save lives. Examples include: our Patient Care Initiative, an enhanced medication adherence program; Maintenance Choice[®], a program where eligible client plan members can elect to fill their maintenance prescriptions at our retail pharmacy stores for the same price as mail order; and Pharmacy Advisor[®], our program that facilitates pharmacist counseling, both face-to-face and over the telephone, to help participating plan members with certain chronic diseases, such as diabetes and cardiovascular conditions, to identify gaps in care, adhere to their prescribed medications and manage their health conditions; Specialty Connect[™], our integrated specialty pharmacy offering which integrates specialty mail and retail capabilities, providing members with disease-state specific counseling from our experienced specialty pharmacists and the choice to bring their specialty prescriptions to a CVS Pharmacy location or submit it through our specialty mail order pharmacies; as well as ScriptSync[™], a new pharmacy service introduced in 2015 that enables patients with multiple medications to pick up their eligible maintenance prescriptions in a single monthly CVS Pharmacy visit. Maintenance Choice, Pharmacy Advisor, Specialty Connect and ScriptSync are all programs that demonstrate our ability to enhance the customer experience through our integrated enterprise products and services. Further evidencing our belief in the importance of pharmacy service is our continuing investment in technology, such as our Drug Utilization Review system that helps check for harmful interactions between prescription drugs and patient identified over-the-counter products, vitamins and herbal remedies;

our proprietary pharmacy system that integrates our product delivery and clinical workflows as well as advanced patient safety functionality such as drug utilization review, RxConnect; our prescription refill program, ReadyFill[®]; and our online retail businesses, CVS.com, Navarro.com and Onofre.com.br. In December 2015, we expanded our pharmacy offering with the acquisition of the pharmacies within Target stores. Once the system integration is complete, we will offer all the same pharmacy services offered in our retail drugstores and online at our pharmacies within Target stores.

Front Store - Front store revenues benefited from our strategy to be the first to market with new and unique products and services, using innovative personalized marketing and adjusting our mix of merchandise to match our customers' needs and preferences. A key component of our front store strategy is our ExtraCare[®] card program, which is helping us continue to build our loyal customer base. The ExtraCare program is one of the largest and most successful retail loyalty programs in the United States. The ExtraCare program allows us to balance our marketing efforts so we can reward our best customers by providing them automatic sale prices, customized coupons, ExtraBucks[®] rewards and other benefits. Similar to ExtraCare is the Beauty Club, another program that rewards our loyal customers with sales prices and customized coupons. We continue to launch and enhance new and exclusive brands like Nuance Salma Hayek[™], MakeUp Academy[™] and NYX[®] to create unmatched offerings in beauty. Another component of our front store strategy is our unique product offerings, which include a full range of high-quality CVS Pharmacy[®] and proprietary brand products that are only available through CVS Pharmacy stores. We currently carry over 6,400 CVS Pharmacy and proprietary brand products, which accounted for approximately 21.3% of our front store revenues during 2015. These products include expanded offerings of healthy foods and vitamins. Furthermore, we are tailoring certain groups of stores, such as suburban area stores, to better meet the needs of our customers.

MinuteClinic - As of December 31, 2015, we operated 1,135 MinuteClinic[®] locations in 33 states and the District of Columbia, of which 1,049 were located in CVS Pharmacy stores and 79 were located in Target stores. We opened 85 new clinics during 2015 and acquired 79 clinics from Target in December 2015. Our clinics are staffed by nurse practitioners and physician assistants who utilize nationally established guidelines to diagnose and treat minor health conditions, perform health screenings, monitor chronic conditions, provide wellness services and deliver vaccinations. Insurers value our clinics because they provides convenient, high-quality, cost-effective care, in many cases offering an attractive alternative to more expensive sites of care. As a result, visits paid for by employers, health insurers or other third parties accounted for approximately 89% of MinuteClinic's total revenues in 2015. MinuteClinic is collaborating with our Pharmacy Services Segment to help meet the needs of CVS Caremark's client plan members by offering programs that can improve member health and lower costs. MinuteClinic is now affiliated with 63 major health systems and continues to build a platform that supports primary care.

Long-term Care - Through our Omnicare business, we provide the distribution of pharmaceuticals, related pharmacy consulting and other ancillary services to chronic care facilities and other care settings. LTC's customers consist of skilled nursing facilities, assisted living facilities, independent living communities, hospitals, correctional facilities, and other health care service providers. We provide pharmacy consulting, including monthly patient drug therapy evaluations, assist in compliance with state and federal regulations and provide proprietary clinical and health management programs. We also provide pharmaceutical case management services for retirees, employees and dependents who have drug benefits under corporate-sponsored health care programs.

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

Retail Pharmacy Drugstore Development - The addition of new stores has played, and will continue to play, a key role in our continued growth and success. Our store development program focuses on three areas: entering new markets, adding stores within existing markets and relocating stores to more convenient sites. During 2015, we opened 161 new retail pharmacy stores, acquired 1,672 pharmacies within Target stores and 14 other locations, relocated 58 stores and closed 31 stores. During the last five years, we opened more than 1,100 new and relocated stores, and acquired 1,832 stores including the pharmacies acquired from Target. We believe that continuing to grow our store base and locating stores in more accessible markets are essential components to compete effectively in the current health care environment. As a result, we believe that our store development program is an integral part of our ability to maintain our leadership position given the changing health care landscape and to meet the increasing needs of our customers.

Retail/LTC Information Systems - We have continued to invest in information systems to enable us to deliver exceptional customer service, enhance safety and quality, and expand our patient care services while lowering operating costs. Leveraging our retail pharmacy fulfillment system, RxConnect and our proprietary WeCARE Workflow, supports our pharmacy teams by prioritizing work to meet customer expectations, facilitating prescriber outreach, and seamlessly integrating our clinical programs. This solution delivers improved efficiency and enhances the customer experience, as well as providing a framework to accommodate the evolution of pharmacy practice and the expansion of our clinical programs. Our Health Engagement

Engine™ technology and proprietary clinical algorithms enable us to help identify opportunities for our pharmacists to deliver face-to-face counseling regarding patient health and safety matters, including adherence issues, gaps in care and management of certain chronic health conditions. Our digital strategy empowers the consumer to navigate their pharmacy experience and manage their condition through our on-line and mobile tools that offer utility and convenience. This will include the ability to schedule an appointment at MinuteClinic, get next-in line alerts or health reminders and appointment updates via text messages. Our integrated digital offerings help patients seamlessly manage retail, mail and specialty prescriptions dispensed by a CVS Pharmacy or long-term care location and enhance front store personalization to drive value for customers. We experienced strong adoption of our digital solutions with our mobile app receiving critical acclaim for ease of use and our text message program experiencing significant growth. LTC's Digital Technology suite, Omniview®, improves the efficiency of customers' operations with tools that include executive dashboards, pre-admission pricing, electronic ordering of prescription refills, proof-of-delivery tracking, access to patient profiles, receipt and management of facility bills, and real-time validation of Medicare Part D coverage, among others capabilities.

Retail/LTC Customers - Managed care organizations, government-funded health care programs, commercial employers and other third party plans accounted for 98.8% of our 2015 pharmacy revenues. The loss of any one payor would not have a material effect on our business. No single Retail/LTC payor accounts for 10% or more of our annual consolidated revenues. However, the success of our retail drugstore and long-term care businesses is dependent upon our ability to establish and maintain contractual relationships with PBMs and other payors on acceptable terms.

Retail/LTC Seasonality - The majority of our revenues, particularly pharmacy revenues, are generally not seasonal in nature. However, retail front store revenues tend to be higher during the December holiday season. In addition, both pharmacy and retail front store revenues are affected by the timing and severity of the cough, cold and flu season. For additional information, we refer you to "Risks related to the seasonality of our business" in Item 1A. Risk Factors.

Retail/LTC Competition - The retail drugstore business is highly competitive. We believe that we compete principally on the basis of: (i) store location and convenience, (ii) customer service and satisfaction, (iii) product selection and variety and (iv) price. In the markets we serve, we compete with other drugstore chains (e.g., Walgreens and Rite Aid), supermarkets, discount retailers (e.g., Wal-Mart), independent pharmacies, restrictive pharmacy networks, membership clubs, Internet companies, and retail health clinics, as well as other mail order pharmacies and PBMs. LTC pharmaceutical services are highly regional or local in nature and within a given geographic area of operation, highly competitive. Our largest competitor nationally is PharMerica. We also compete with numerous local and regional institutional pharmacies, pharmacies owned by long-term care facilities and local retail pharmacies. Some states have enacted "freedom of choice" or "any willing provider" requirements as part of their state medicaid programs or in separate legislation, which may increase the competition that we face in providing services to long-term care facility residents in these states.

Corporate Segment

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

Generic Sourcing Venture

In July 2014, the Company and Cardinal Health, Inc. ("Cardinal") established Red Oak Sourcing, LLC ("Red Oak"), a generic pharmaceutical sourcing entity in which the Company and Cardinal each own 50%. The Red Oak arrangement has an initial term of ten years. Under this arrangement, the Company and Cardinal contributed their sourcing and supply chain expertise to Red Oak and agreed to source and negotiate generic pharmaceutical supply contracts for both companies through Red Oak; however, Red Oak does not own or hold inventory on behalf of either company.

Working Capital Practices

We fund the growth of our business through a combination of cash flow from operations, commercial paper, proceeds from sale-leaseback transactions and long-term borrowings. For additional information on our working capital practices, we refer you to the caption "Management's Discussion and Analysis - Liquidity and Capital Resources" in our Annual Report to Stockholders for the year ended December 31, 2015, which section is incorporated by reference herein. The majority of our non-pharmacy revenues are paid in cash, or with debit or credit cards, while managed care and other third party insurance programs, which typically settle in less than 30 days, represented approximately 99.6% of our consolidated pharmacy revenues in 2015, including both Retail/LTC and Pharmacy Services. The remainder of consolidated pharmacy revenues are paid in cash, or with debit or credit cards. Our customer returns are not significant.

Colleague Development

As of December 31, 2015, we employed approximately 243,000 colleagues, which included more than 34,000 pharmacists, nurses, nurse practitioners and physician assistants. The total included approximately 88,000 part-time colleagues who work less than 30 hours per week. To deliver the highest levels of service to our customers, we devote considerable time and attention to our people and service standards. We emphasize attracting and training knowledgeable, friendly and helpful associates to work in our organization.

Intellectual Property

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

Government Regulation

Overview - Much of our business is subject to federal and state laws and regulations. In addition, many of our PBM clients and our payors in the Retail/LTC Segment, including insurers and managed care organizations (“MCOs”), are themselves subject to extensive regulations that affect the design and implementation of prescription drug benefit plans that they sponsor. Similarly, our LTC clients, such as skilled nursing facilities, are also subject to many of the same government regulations to which we are subject. The application of these complex legal and regulatory requirements to the detailed operation of our business creates areas of uncertainty. Further, there are numerous proposed health care laws and regulations at the federal and state levels, some of which could adversely affect our business if they are enacted. We are unable to predict what federal or state legislation or regulatory initiatives may be enacted in the future relating to our business or the health care industry in general, or what effect any such legislation or regulations might have on our business. Any failure or alleged failure to comply with applicable laws and regulations as summarized below, or any adverse applications of, or changes in, the laws and regulations affecting our business, could have a material adverse effect on our operating results and/or financial condition. See Item 3, “Legal Proceedings” for further information.

Although we believe that we are in material compliance with existing laws and regulations applicable to our various business lines, we cannot give any assurances that our business, financial condition and results of operations will not be materially adversely affected, or that we will not be required to materially change our business practices, based on: (i) future enactment of new health care or other laws or regulations; (ii) the interpretation or application of existing laws or regulations, including the laws and regulations described in this Government Regulation section, as they may relate to our business, the pharmacy services, retail pharmacy, long-term care or retail clinic industry or to the health care industry generally; (iii) pending or future federal or state governmental investigations of our business or the pharmacy services, retail pharmacy, long-term care or retail clinic industry or of the health care industry generally; (iv) institution of government enforcement actions against us; (v) adverse developments in any pending *qui tam* lawsuit against us, whether sealed or unsealed, or in any future *qui tam* lawsuit that may be filed against us; or (vi) adverse developments in other pending or future legal proceedings against us or affecting the pharmacy services, retail pharmacy, long-term care or retail clinic industry or the health care industry generally.

Laws and Regulations Related to Each Operating Segment of Our Business

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

reimbursement by Medicare or Medicaid for services furnished pursuant to the prohibited referral. Various states have enacted similar laws.

Anti-Remuneration Laws - Federal law prohibits, among other things, an entity from knowingly and willfully offering, paying, soliciting or receiving, subject to certain exceptions and “safe harbors,” any remuneration to induce the referral of individuals or the purchase, lease or order of items or services for which payment may be made under Medicare, Medicaid or certain other federal health care programs. A number of states have similar laws, some of which are not limited to services paid for with government funds. Sanctions for violating these federal and state anti-remuneration laws may include imprisonment, criminal and civil fines, and exclusion from participation in Medicare, Medicaid and other government-sponsored health care programs.

Antitrust and Unfair Competition - The Federal Trade Commission (“FTC”) has authority under Section 5 of the Federal Trade Commission Act (“FTCA”) to investigate and prosecute practices that are “unfair trade practices” or “unfair methods of competition.” Numerous lawsuits have been filed throughout the United States against pharmaceutical manufacturers, retail pharmacies and/or PBMs under various state and federal antitrust and unfair competition laws challenging, among other things: (i) brand drug pricing practices of pharmaceutical manufacturers, (ii) the maintenance of retail pharmacy networks by PBMs, and (iii) various other business practices of PBMs and retail pharmacies. To the extent that we appear to have actual or potential market power in a relevant market or CVS Pharmacy plays a unique or expanded role in a PBM product offering, our business arrangements and uses of confidential information may be subject to heightened scrutiny from an anti-competitive perspective and possible challenge by state or federal regulators or private parties.

Privacy and Confidentiality Requirements - Many of our activities involve the receipt, use and disclosure by us of personally identifiable information (“PII”) as permitted in accordance with applicable federal and state privacy and data security laws, which require organizations to provide appropriate privacy and security safeguards for such information. In addition to PII, we use and disclose de-identified data for analytical and other purposes when permitted. Additionally, there are industry standards for handling credit card data known as the Payment Card Industry Data Security Standard, which are a set of requirements designed to help ensure that entities that process, store or transmit credit card information maintain a secure environment. Certain states have recently incorporated these requirements into state laws.

The federal Health Insurance Portability and Accountability Act of 1996 and the regulations issued thereunder (collectively, “HIPAA”) impose extensive requirements on the way in which health plans, health care providers, health care clearinghouses (known as “covered entities”) and their business associates use, disclose and safeguard protected health information (“PHI”). Criminal penalties and civil sanctions may be imposed for failing to comply with HIPAA standards. The Health Information Technology for Economic and Clinical Health Act (the “HITECH Act”), enacted as part of the American Recovery and Reinvestment Act of 2009, amended HIPAA to impose additional restrictions on third-party funded communications using PHI and the receipt of remuneration in exchange for PHI. It also extended HIPAA privacy and security requirements and penalties directly to business associates. In addition to HIPAA, state health privacy laws apply to the extent they are more protective of individual privacy than is HIPAA.

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

Consumer Protection Laws - The federal government has many consumer protection laws, such as the FTCA, the Federal Postal Service Act and the FTC’s Telemarketing Sales Rule. Most states also have similar consumer protection laws. These laws have been the basis for investigations, lawsuits and multi-state settlements relating to, among other matters, the marketing of loyalty programs and health care services, pricing accuracy, expired front store products, financial incentives provided by drug manufacturers to pharmacies in connection with therapeutic interchange programs and disclosures related to how personal data is used and protected.

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

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

Health Reform Legislation - Passed in 2010, ACA affects virtually every aspect of health care in the country. In addition to establishing the framework for every individual to have health coverage, ACA enacted a number of significant health care reforms. Many of these reforms affect the coverage and plan designs that are provided by our health plan clients. As a result, these reforms impact a number of our services and business practices. Some significant ACA provisions are still being finalized (e.g., nondiscrimination in health programs and activities, excise tax on high-cost employer-sponsored health coverage), so the full impact of ACA on our Company is still uncertain.

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

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

Laws and Regulations Related to Our Pharmacy Services Segment

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

PBM Laws and Regulation - Legislation seeking to regulate PBM activities in a comprehensive manner has been introduced or enacted in a number of states. This legislation could adversely impact our ability to conduct business on commercially reasonable terms in states where the legislation is in effect.

In addition, certain quasi-regulatory organizations, including the National Association of Boards of Pharmacy and the National Association of Insurance Commissioners ("NAIC") have issued model regulations or may propose future regulations concerning PBMs and/or PBM activities. Similarly, credentialing organizations such as the NCQA and URAC may establish voluntary standards regarding PBM or specialty pharmacy activities. While the actions of these quasi-regulatory or standard-setting organizations do not have the force of law, they may influence states to adopt their requirements or recommendations and influence client requirements for PBM or specialty pharmacy services. Moreover, any standards established by these organizations could also impact our health plan clients and/or the services we provide to them.

Medicare Part D - The Medicare Part D program, which makes prescription drug coverage available to eligible Medicare beneficiaries through private insurers, regulates all aspects of the provision of Medicare drug coverage, including enrollment, formularies, pharmacy networks, marketing, and claims processing. The Medicare Part D program has undergone significant

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

Network Access Legislation - Medicare Part D and a majority of states now have some form of legislation affecting the ability to limit access to a pharmacy provider network or remove network providers. Certain “any willing provider” legislation may require us or our clients to admit a non-participating pharmacy if such pharmacy is willing and able to meet the plan’s price and other applicable terms and conditions for network participation. These laws could negatively impact the services and economic benefits achievable through a limited pharmacy provider network.

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

Contract Audits - We are subject to audits of many of our contracts, including our PBM client contracts, our PBM rebate contracts, our contracts relating to Medicare Part D and the agreements our pharmacies enter into with payors. Because some of our contracts are with state or federal governments or with entities contracted with state or federal agencies, audits of these agreements are often regulated by the federal or state agencies responsible for administering federal or state benefits programs, including those which operate Medicaid fee for service plans, Managed Medicaid plans, Medicare Part D plans or Medicare Advantage organizations.

Federal Employee Health Benefits Program - We have a contractual arrangement with carriers for the Federal Employee Health Benefits Program (FEHBP), such as the BlueCross BlueShield Association, to provide pharmacy services to federal employees, postal workers, annuitants, and their dependents under the Government-wide Service Benefit Plan, as authorized by the Federal Employees Health Benefits Act (“FEHBA”) and as part of the Federal Employees Health Benefits Program. These arrangements subjects us to certain aspects of FEHBA, and other federal regulations, such as the Federal Employees Health Benefits Acquisition Regulation, that otherwise are not applicable to us.

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

Some states have laws that prohibit submitting a false claim or making a false record or statement in order to secure reimbursement from an insurance company. These state laws vary, and violation of them may lead to the imposition of civil or criminal penalties. Additionally, several states have passed legislation governing the prompt payment of claims that requires, among other things, that health plans and payors pay claims within certain prescribed time periods or pay specified interest penalties. These laws vary from state to state in regard to scope, requirements and application.

ERISA Regulation - The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), provides for comprehensive federal regulation of certain employee pension and benefit plans, including private employer and union sponsored health plans and certain other plans that contract with us to provide PBM services. In general, we assist plan sponsors in the administration of the prescription drug portion of their health benefit plans in accordance with the plan designs adopted by the plan sponsors. We do not believe that the conduct of our business subjects us to the fiduciary obligations of ERISA, except when we have specifically contracted with a plan sponsor to accept limited fiduciary responsibility, such as for the adjudication of initial prescription drug benefit claims and/or the appeals of denied claims under a plan, and with respect to the Contraceptive Coverage Mandate, one of the health reforms included in ACA.

In addition to its fiduciary provisions, ERISA imposes civil and criminal liability on service providers to health plans and certain other persons if certain forms of illegal remuneration are made or received. These provisions of ERISA are broadly written and their application to specific business practices is often uncertain.

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

Managed Care Reform - In addition to health reforms enacted by ACA, proposed legislation has been considered at the state level, and legislation has been enacted in several states, aimed primarily at providing additional rights and access to drugs to individuals enrolled in managed care plans. This legislation may impact the design and implementation of prescription drug benefit plans sponsored by our PBM health plan clients and/or the services we provide to them. Both the scope of the managed care reform proposals considered by state legislatures and reforms enacted by states to date vary greatly, and the scope of future legislation that may be enacted is uncertain.

Disease Management Services Regulation - We provide disease management programs to PBM plan members for rare medical conditions and arrange for them to receive disease management programs for common medical conditions. State laws regulate the practice of medicine, the practice of pharmacy and the practice of nursing. Clinicians engaged in a professional practice in connection with the provision of disease management services must satisfy applicable state licensing requirements and must act within their scope of practice.

Third Party Administration and Other State Licensure Laws - Many states have licensure or registration laws governing certain types of administrative organizations, such as preferred provider organizations, third party administrators and companies that provide utilization review services. Several states also have licensure or registration laws governing the organizations that provide or administer consumer card programs (also known as cash card or discount card programs).

Laws and Regulations Related to Our Retail/LTC Segment

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

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

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

Available Information

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

regarding issuers, such as the Company, that file electronically with the SEC. The address of that Web site is <http://www.sec.gov>.

Item 1A. Risk Factors

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

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

The PBM industry has been experiencing margin pressure as a result of competitive pressures and increased client demands for lower prices, enhanced service offerings and/or higher service levels. In that regard, we maintain contractual relationships with generic pharmaceutical manufacturers and brand name pharmaceutical manufacturers that provide for purchase discounts and/or rebates on drugs dispensed by pharmacies in our retail network and by our mail order pharmacies (all or a portion of which may be passed on to clients). Manufacturer rebates often depend on a PBM's ability to meet contractual market share or other requirements, including in some cases the placement of a manufacturer's products on the PBM's formularies. If we lose our relationship with one or more pharmaceutical manufacturers, or if the discounts or rebates provided by pharmaceutical manufacturers decline, our business and financial results could be adversely affected. Further, competitive pressures in the PBM industry have resulted in our clients sharing in a larger portion of rebates and/or discounts received from pharmaceutical manufacturers. Market dynamics and regulatory changes have impacted our ability to offer plan sponsors pricing that includes the use of retail "differential" or "spread", which could negatively impact our future profitability. Further, changes in existing federal or state laws or regulations or the adoption of new laws or regulations relating to patent term extensions, purchase discount and rebate arrangements with pharmaceutical manufacturers, or to formulary management or other PBM services could also reduce the discounts or rebates we receive. In addition, changes in federal or state laws or regulations or the adoption of new laws or regulations relating to claims processing and billing, including our ability to collect transmission fees, could adversely impact our profitability.

Both our retail pharmacy and LTC pharmacy businesses have also been affected by the margin pressures described above, including client demands for lower prices, generic pricing and network reimbursement pressure. In addition, as competition increases in the markets in which we operate, a significant increase in general pricing pressures could occur, and this could require us to reevaluate our pricing structures to remain competitive. Finally, the margins of our LTC business are further affected by the increased efforts of health care payors to negotiate reduced or capitated pricing arrangements. These actions could also adversely affect the margins of our LTC business.

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

The continued efforts of health maintenance organizations, managed care organizations, PBMs, government entities, and other third party payors to reduce prescription drug costs and pharmacy reimbursement rates may impact our profitability. In particular, increased utilization of generic pharmaceuticals (which normally yield a higher gross profit rate than equivalent brand named drugs) has resulted in pressure to decrease reimbursement payments to retail, LTC and mail order pharmacies for generic drugs, causing a reduction in the generic profit rate. Historically, the effect of this trend on generic profitability has been mitigated by our efforts to negotiate reduced acquisition costs of generic pharmaceuticals with manufacturers. However, in recent years, there has been significant consolidation within the generic manufacturing industry, and it is possible that this and other external factors may enhance the ability of manufacturers to sustain or increase pricing of generic pharmaceuticals and diminish our ability to negotiate reduced acquisition costs. Any inability to offset increased costs or to modify our activities to lessen the impact could have a significant adverse effect on our results of operations.

In addition, during the past several years, the United States health care industry has been subject to an increase in governmental regulation and audits at both the federal and state levels. Efforts to control health care costs, including prescription drug costs, are continuing at the federal and state government levels. Changing political, economic and regulatory influences may significantly affect health care financing and reimbursement practices. For example, we anticipate that federal and state governments will continue to review and assess alternative health care delivery systems, payment methodologies and operational requirements for health care providers, including LTC facilities and pharmacies. A change in the composition of pharmacy prescription volume toward programs offering lower reimbursement rates could negatively impact our profitability.

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

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

A highly competitive business environment.

Each of our retail pharmacy business, LTC pharmacy business, retail health clinic business and pharmacy services business currently operates in a highly competitive and evolving health care environment.

The competitive success of our retail pharmacy business is impacted by its ability to establish and maintain contractual relationships with PBMs and other payors on acceptable terms. As a pharmacy retail business, we compete with other drugstore chains, supermarkets, on-line and other discount retailers, independent pharmacies, membership clubs, Internet companies, convenience stores and mass merchants, many of which are expanding into markets we serve. We also face competition from other retail health clinics, as well as other mail order pharmacies and PBMs. Competition may also come from other sources in the future.

The competitive success of our LTC pharmacy business is dependent upon our ability to compete in each geographic region where we have operations. In the geographic regions we serve, we compete with PharMerica Corporation, our largest competitor, as well as with numerous local and regional institutional pharmacies, pharmacies owned by LTC facilities and local retail pharmacies.

The competitive success of our pharmacy services business is impacted by its ability to establish and maintain contractual relationships with network pharmacies in an environment where some PBM clients are considering adopting narrow or restricted retail pharmacy networks. Competitors in the PBM industry (e.g., Express Scripts, OptumRx, Catamaran, Prime Therapeutics, MedImpact and Humana), include large, national PBM companies, PBMs owned by large national health plans and smaller standalone PBMs. Competition may also come from other sources in the future. In addition, changes in the overall composition of our pharmacy networks, or reduced pharmacy access under our networks, could adversely affect our claims volume and/or our competitiveness generally.

Competitors in each of our business areas may offer services and pricing terms that we may not be willing or able to offer. Unless we can demonstrate enhanced value to our clients through innovative product and service offerings, particularly in a rapidly changing health care industry, we may be unable to remain competitive.

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

Our business is subject to numerous federal, state and local laws and regulations. See “Business - Government Regulation.” In addition, during the past several years, the United States health care industry has been subject to an increase in governmental regulation and enforcement activity at both the federal and state levels. Changes in these regulations may require extensive system and operating changes that may be difficult to implement. Untimely compliance or noncompliance with applicable laws and regulations could adversely affect the continued operation of our business, including, but not limited to: imposition of civil or criminal penalties; suspension or disgorgement of payments from government programs; loss of required government certifications or approvals; loss of authorizations to participate in or exclusion from government reimbursement programs, such as the Medicare and Medicaid programs; or loss of registrations or licensure. The regulations to which we are subject include, but are not limited to: the laws and regulations described in the Government Regulation section; accounting standards; securities laws and regulations; tax laws and regulations; laws and regulations relating to the protection of the environment and health and safety matters, including those governing exposure to, and the management and disposal of, hazardous materials and wastes; and laws and regulations of the FTC, the FCC, and the Consumer Product Safety Commission, as well as state regulatory authorities, governing the sale, advertisement and promotion of products that we sell, such as Boards of Pharmacy. The FDA, DEA and various states regulate the distribution of pharmaceuticals and controlled substances. We are required to hold valid DEA and state-level registrations and licenses, meet various security and operating standards and comply with the Controlled Substances Act and its accompanying regulations governing the sale, marketing, packaging, holding and distribution of controlled substances. The DEA, FDA and state regulatory authorities have broad enforcement powers, including the ability to suspend our registrations and licenses, seize or recall products and impose significant criminal, civil and administrative sanctions for violations of these laws and regulations. In addition, our business interests outside of the United States are subject to the Foreign Corrupt Practices Act and other applicable domestic and international laws and regulations. We are also subject to the terms of various government agreements and mandates, including those described in the Government Regulation section. In that regard, our business, financial position and results of operations could be adversely affected by existing and new

government legislative, regulatory action and enforcement activity, including, without limitation, any one or more of the following:

- federal and state laws and regulations concerning the submission of claims for reimbursement by Medicare, Medicaid and other government programs, whether at retail, mail, specialty or LTC;
- federal and state laws and regulations governing the purchase, distribution, tracking, management, compounding, dispensing and reimbursement of prescription drugs and related services, whether at retail, mail, specialty or LTC, and applicable registration or licensing requirements;
- heightened enforcement of controlled substances regulations;
- the effect of the expiration of patents covering brand name drugs and the introduction of generic products;
- the frequency and rate of approvals by the FDA of new brand name and generic drugs, or of over-the-counter status for brand name drugs;
- rules and regulations issued pursuant to HIPAA and the HITECH Act; and other federal and state laws affecting the collection, use, disclosure and transmission of health or other personal information, such as federal laws on information privacy precipitated by concerns about information collection through the Internet, state security breach laws and state laws limiting the use and disclosure of prescriber information;
- consumer protection laws affecting our health care services, our loyalty programs, the products we sell, the informational calls we make and/or the marketing of our goods and services;
- federal, state and local environmental, health and safety laws and regulations applicable to our business, including the management of hazardous substances, storage and transportation of hazardous materials, and various recordkeeping disclosure and procedure requirements promulgated by the Occupational Safety and Health Administration that may apply to our operations;
- health care reform, managed care reform and plan design legislation;
- FDA regulation affecting the retail, LTC or PBM industry;
- government regulation of the development, administration, review and updating of formularies and drug lists including requirements and/or limitations around formulary tiering and patient cost sharing;
- federal and state laws and regulations establishing or changing prompt payment requirements for payments to retail pharmacies;
- impact of network access legislation or regulations, including “any willing provider” laws, on our ability to manage pharmacy networks;
- administration of Medicare Part D, including legislative changes and/or CMS rulemaking and interpretation;
- Medicare and Medicaid regulations applicable to our LTC pharmacies and those of our client’s facilities;
- insurance licensing and other insurance regulatory requirements applicable to offering Medicare Part D programs and services or other health care services;
- government regulation allowing the importation of prescription drugs from Canada and elsewhere into the United States; and
- direct regulation of pharmacies or PBMs by regulatory and quasi-regulatory bodies.

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

Our business is affected by the economy in general, including changes in consumer purchasing power, preferences and/or spending patterns. It is possible that a worsening of the economic environment will cause a decline in drug utilization, and dampen demand for pharmacy benefit management services as well as consumer demand for products sold in our retail stores. Further economic conditions including, interest rate fluctuations, changes in capital market conditions and regulatory changes may affect our ability to obtain necessary financing on acceptable terms, our ability to secure suitable store locations under acceptable terms and our ability to execute sale-leaseback transactions under acceptable terms. These changes in conditions could result in an adverse effect on our business and financial results.

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

Our PBM business generates net revenues primarily by contracting with clients to provide prescription drugs and related health care services to plan members. PBM client contracts often have terms of approximately three years in duration, so approximately one third of a PBM’s client base typically is subject to renewal each year. In some cases, however, PBM clients may negotiate a shorter or longer contract term or may require early or periodic renegotiation of pricing prior to expiration of a contract. In addition, the reputational impact of a service-related incident could negatively affect our ability to grow and retain our client base. Further, the PBM industry has been affected by consolidation activity that may continue in the future. In the event one or more of our PBM clients is acquired by an entity that is not also our client, we may be unable to retain all or a portion of the acquired business. These circumstances, either individually or in the aggregate, could result in an adverse effect on our business and financial results. Therefore, we continually face challenges in competing for new PBM business and

retaining or renewing our existing PBM business. There can be no assurance that we will be able to win new business or secure renewal business on terms as favorable to us as the present terms.

Additionally, with respect to our LTC pharmacy business, reimbursement under Medicare Part D, as well as reimbursement from certain private third-party payors, is determined pursuant to agreements that we negotiate with those payors or their pharmacy benefit manager representatives. Likewise, reimbursement from skilled nursing facilities for prescriptions we dispense is determined pursuant to our agreements with those skilled nursing facilities. The termination of these agreements generally causes our ability to provide services to any of the residents of that facility to cease, resulting in the loss of revenue from any source for those residents.

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

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

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

Many aspects of our operations are dependent on our information systems and the information collected, processed, stored, and handled by these systems. We rely heavily on our computer systems to manage our ordering, pricing, point-of-sale, pharmacy fulfillment, inventory replenishment, claims processing, ExtraCare customer loyalty program, finance, human resource and other processes. Throughout our operations, we receive, retain and transmit certain confidential information, including PII that our customers and clients provide to purchase products or services, enroll in programs or services, register on our websites, interact with our personnel, or otherwise communicate with us. In addition, for these operations, we depend in part on the secure transmission of confidential information over public networks. Our information systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches including credit card information breaches, vandalism, catastrophic events and human error. Although we deploy a layered approach to address information security threats and vulnerabilities, including ones from a cybersecurity standpoint, designed to protect confidential information against data security breaches, a compromise of our information security controls or of those businesses with whom we interact, which results in confidential information being accessed, obtained, damaged, or used by unauthorized or improper persons, could harm our reputation and expose us to regulatory actions and claims from customers and clients, financial institutions, payment card associations and other persons, any of which could adversely affect our business, financial position, and results of operations. Moreover, a data security breach could require that we expend significant resources related to our information systems and infrastructure, and could distract management and other key personnel from performing their primary operational duties.

If our information systems are damaged, fail to work properly or otherwise become unavailable, or if we are unable to successfully complete our planned consolidation of our PBM claims adjudication platforms, we may incur substantial costs to repair or replace them, and may experience reputational damage, loss of critical information, customer disruption and interruptions or delays in our ability to perform essential functions and implement new and innovative services. In addition, compliance with changes in privacy and information security laws and standards may result in considerable expense due to increased investment in technology and the development of new operational processes.

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

We dispense significant volumes of brand-name and generic drugs from our retail, LTC and mail-order pharmacies and through our PBM's network of retail pharmacies. When increased safety risk profiles or manufacturing or other supply issues of specific drugs or classes of drugs occur, or drugs become subject to greater restrictions as controlled substances, physicians may cease writing prescriptions for these drugs or the utilization of these drugs may be otherwise reduced.

Additionally, adverse publicity regarding drugs with higher safety risk profiles may result in reduced consumer demand for such drugs. On occasion, products are withdrawn by their manufacturers or transition to over-the-counter products, which can result in lower prescription utilization. In addition, future FDA rulings could restrict the supply or increase the cost of products sold to our customers. Our volumes, net revenues, profitability and cash flows may decline as a result of such regulatory rulings or market changes.

Further, we acquire a substantial amount of our mail and specialty pharmacies' prescription drug supply from a limited number of suppliers. Our agreements with these suppliers are often short-term and easily cancelable by either party without cause. In addition, these agreements may limit our ability to provide services for competing drugs during the term of the agreement and may allow the supplier to distribute through channels other than ours. Certain of these agreements also allow pricing and other terms to be adjusted periodically for changing market conditions or required service levels. A termination or modification to any of these relationships could have a material adverse effect on our business, financial condition and results of operations. Moreover, many products distributed by our specialty pharmacy business are manufactured with ingredients that are susceptible to supply shortages. In the event any products we distribute are in limited supply for significant periods of time, our financial condition and results of operations could be materially and adversely affected.

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

Medicare Part D has resulted in increased utilization and puts pressure on pharmacy gross margin rates due to regulatory and competitive pressures. Further, as a result of ACA and changes to the retiree drug subsidy rules, our PBM clients could decide to discontinue providing prescription drug benefits to their Medicare-eligible members. To the extent this occurs, the adverse effects of increasing customer migration into Medicare Part D may outweigh the benefits we realize from growth of our Medicare Part D business. In addition, if the cost and complexity of Medicare Part D exceed management's expectations or prevent effective program implementation or administration; if changes to the regulations regarding how drug costs are reported for Medicare Part D are implemented in a manner that impacts the profitability of our Medicare Part D business; if changes to the regulations impact our ability to retain fees from third parties including network pharmacies; if the government alters Medicare program requirements or reduces funding because of the higher-than-anticipated cost to taxpayers of Medicare Part D or for other reasons; if we fail to design and maintain programs that are attractive to Medicare participants; if CMS imposes restrictions on our Medicare Part D business as a result of audits or other regulatory actions; if we fail to successfully implement corrective action or other remedial measures sufficient to prevent or remove any applicable restrictions that may be imposed by CMS; or if we are not successful in retaining enrollees, or winning contract renewals or new contracts under Medicare Part D's competitive bidding process, our Medicare Part D services and the ability to expand our Medicare Part D services could be negatively impacted.

Reform of the United States health care system.

Congressional efforts to reform the United States health care system came to fruition in 2010 with the passage of ACA, which resulted in significant structural changes to the health insurance system. See "Business - Government Regulation".

Although many of the changes enacted by ACA have been implemented, some significant provisions have not yet been finalized (e.g., nondiscrimination in health programs and activities, excise tax on high-cost employer-sponsored health coverage). Therefore, uncertainty remains as to the full impact of ACA on our business. While these provisions may not affect our business directly, they affect the coverage and plan designs that are or will be provided by many of our health plan clients. As a result, they could indirectly impact our services and business practices. We cannot predict the effect, if any, the remaining ACA changes may have on our retail pharmacy, LTC pharmacy and pharmacy services businesses, and it is possible that other unanticipated legislative or market-driven changes in the health care system could also occur.

Possible changes in industry pricing benchmarks and drug pricing generally.

It is possible that the pharmaceutical industry or regulators may evaluate and/or develop an alternative pricing reference to replace Average Wholesale Price ("AWP") or Wholesale Acquisition Cost ("WAC"), which are the pricing references used for many of our PBM and LTC client contracts, pharmaceutical purchase agreements, retail network contracts, specialty payor agreements and other contracts with third party payors in connection with the reimbursement of drug payments. Future changes to the use of AWP, WAC or to other published pricing benchmarks used to establish pharmaceutical pricing, including changes in the basis for calculating reimbursement by federal and state health programs and/or other payors, could impact the reimbursement we receive from Medicare and Medicaid programs, the reimbursement we receive from PBM clients and other payors and/or our ability to negotiate rebates and/or discounts with pharmaceutical manufacturers, wholesalers, PBMs and retail pharmacies. Additionally, any future changes in drug prices could be significantly different than our projections. The effect of these possible changes on our business cannot be predicted at this time.

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

The products that we sell could become subject to contamination, product tampering, mislabeling, recall or other damage. In addition, errors in the dispensing and packaging of pharmaceuticals could lead to serious injury or death. Product liability or

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

Relationship with our retail and specialty pharmacy customers and the demand for our products and services, including proprietary brands.

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

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

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

Finally, our specialty pharmacy business focuses on complex and high-cost medications that serve a relatively limited universe of patients. As a result, the future growth of our specialty pharmacy business is dependent largely upon expanding our base of drugs or penetration in certain treatment categories. Any contraction of our base of patients or reduction in demand for the prescriptions we currently dispense could have an adverse effect on our business, financial condition and results of operations.

We are subject to payment-related risks that could increase our operating costs, expose us to fraud or theft, subject us to potential liability and disrupt our business operations.

We accept payments using a variety of methods, including cash, checks, credit cards, debit cards, gift cards and potentially other technologies in the future. Acceptance of these payment methods subjects us to rules, regulations, contractual obligations and compliance requirements, including payment network rules and operating guidelines, data security standards and certification requirements, and rules governing electronic funds transfers. These requirements may change in the future, which could make compliance more difficult or costly. For certain payment options, including credit and debit cards, we pay interchange and other fees, which could increase periodically thereby raising our operating costs. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards, and various other forms of electronic payment. If these companies are unable to provide these services to us, or if their systems are compromised, our operations could be disrupted. The payment methods that we offer also expose us to potential fraud and theft by persons seeking to obtain unauthorized access to, or exploit any weaknesses in, the payment systems. If we fail to abide by applicable rules or requirements, or if data relating to our payment systems is compromised due to a breach or misuse, we may be responsible for any costs incurred by payment card issuing banks and other third parties or subject to fines and higher transaction fees. In addition, our reputation and ability to accept certain types of payments could each be harmed resulting in reduced sales and adverse effects on our results of operations.

We may be unable to successfully integrate companies acquired by us.

Upon the closing of any acquisition we complete, we will need to successfully integrate the products, services and related assets into our business operations. If an acquisition is consummated, the integration of the acquired business, its products, services and related assets into our company may also be complex and time-consuming and, if the integration is not fully successful, we may not achieve the anticipated benefits, operating and cost synergies or growth opportunities of an acquisition. Potential difficulties that may be encountered in the integration process include the following:

- Integrating personnel, operations and systems, while maintaining focus on producing and delivering consistent, high quality products and services;
- Coordinating geographically dispersed organizations;
- Disruption of management's attention from our ongoing business operations;
- Retaining existing customers and attracting new customers; and
- Managing inefficiencies associated with integrating our operations.

An inability to realize the full extent of the anticipated benefits, operating and cost synergies or growth opportunities of an acquisition, as well as any delays encountered in the integration process, could have a material adverse effect on our business and results of operation, which may affect the value of the shares of our common stock after the completion of an acquisition. Furthermore, these acquisitions, even if successfully integrated, may fail to further our business strategy as anticipated, expose us to increased competition or challenges with respect to our products, services or geographic markets, and expose us to additional liabilities associated with an acquired business including risks and liabilities associated with litigation involving the acquired business. Any one of these challenges or risks could impair our ability to realize any benefit from our acquisitions after we have expended resources on them.

Our outstanding debt and associated payment obligations could, among other things, limit our ability to make incremental investments in our business.

Our current debt service costs associated with our increased debt levels may dampen incremental investments in our business and limit our flexibility to respond to industry changes and market conditions. In addition, our debt level and related debt service obligations could make it more difficult or expensive for us to obtain any required future financing for working capital, capital expenditures, acquisitions or other purposes. These circumstances could have a material adverse effect on our business operations and financial condition.

Risks related to the seasonality of our business.

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

Risks related to litigation and other legal proceedings.

Pharmacy services, retail pharmacy and LTC pharmacy are highly regulated and litigious industries. We are currently subject to various litigation matters, investigations, audits, inspections, government inquiries, and regulatory and legal proceedings. Litigation, and particularly securities and collective or class action litigation, is often expensive and disruptive. Further, under the *qui tam* or "whistleblower" provisions of the federal and various state false claims acts, private citizens may bring lawsuits alleging that a violation of the federal anti-kickback statute or similar laws has resulted in the submission of "false" claims to federal and/or state health care programs, including Medicare and Medicaid. We cannot predict the outcome of any of these matters, and the costs incurred may be substantial regardless of outcome. Our business, financial condition and results of operations may be adversely affected, or we may be required to materially change our business practices, as a result of such proceedings. We refer you to Item 3, "Legal Proceedings" for additional information.

The foregoing is not a comprehensive listing of all possible risks and there can be no assurance that we have correctly identified and appropriately assessed all factors affecting the business. As such, we refer you to "Management's Discussion and Analysis of Financial Condition and Results of Operations," which includes our "Cautionary Statement Concerning Forward-Looking Statements" at the end of such section, of our Annual Report to Stockholders for the year ended December 31, 2015, which section is incorporated by reference herein.

Item 1B. Unresolved Staff Comments

There are no unresolved SEC Staff Comments.

Item 2. Properties

We lease most of our stores under long-term leases that vary as to rental amounts, expiration dates, renewal options and other rental provisions. For additional information on the amount of our rental obligations for our leases, we refer you to Note 7 “Leases” in our Annual Report to Stockholders for the year ended December 31, 2015, which section is incorporated by reference herein.

As of December 31, 2015, we owned approximately 4.0% of our 9,623 retail stores. Net selling space for our retail stores was approximately 79.4 million square feet as of December 31, 2015. Approximately one fourth of our store base was opened or significantly remodeled within the last five years.

We lease 1,672 retail pharmacies and 79 clinics in 47 states from Target Corporation (“Target”).

We own ten distribution centers located in Alabama, California, Hawaii, Kentucky, New York, Rhode Island, South Carolina, Tennessee and Texas and lease 12 additional distribution facilities located in Arizona, Florida, Indiana, Michigan, New Jersey, Ohio, Pennsylvania, Texas, Virginia and Brazil. The 22 distribution centers total approximately 12.1 million square feet as of December 31, 2015.

As of December 31, 2015, we owned five and leased 138 long-term care pharmacies in 42 states and owned one production facility in Kentucky.

As of December 31, 2015, we owned one mail service dispensing pharmacy located in Texas and leased four additional mail order dispensing pharmacies located in Florida, Hawaii, Illinois and Pennsylvania; we leased call centers located in Missouri, Pennsylvania, Tennessee and Texas; we leased 32 onsite pharmacy stores and 24 specialty pharmacy stores, and leased 11 specialty mail order pharmacies; we leased 83 branches for infusion and enteral services, including approximately 73 ambulatory infusion suites and six centers of excellence.

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

In connection with certain business dispositions completed between 1991 and 1997, we continue to guarantee lease obligations for approximately 72 former stores. We are indemnified for these guarantee obligations by the respective purchasers. These guarantees generally remain in effect for the initial lease term and any extension thereof pursuant to a renewal option provided for in the lease prior to the time of the disposition. For additional information, we refer you to Note 12 “Commitments and Contingencies” in our Annual Report to Stockholders for the year ended December 31, 2015, which section is incorporated by reference herein.

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

The following is a breakdown by state, District of Columbia, Puerto Rico and Brazil of our retail stores, pharmacies and clinics in Target stores, LTC hub and spoke pharmacies, onsite pharmacy stores, specialty pharmacy stores, specialty mail order pharmacies, mail order dispensing pharmacies and branches and centers of excellence for infusion and enteral services as of December 31, 2015:

	Retail Stores	Pharmacies within Target	LTC Hub & Spoke Pharmacies	Onsite Pharmacy Stores	Specialty Pharmacy Stores	Specialty Mail Order Pharmacies	Mail Order Dispensing Pharmacies	Infusion & Enteral Services Locations	Total
United States:									
Alabama	158	22	2	—	1	—	—	1	184
Alaska	—	3	—	—	—	—	—	—	3
Arizona	147	45	3	—	1	—	—	2	198
Arkansas	10	8	2	—	—	—	—	1	21
California	867	251	10	—	3	1	—	10	1,142
Colorado	—	39	3	—	1	—	—	2	45
Connecticut	153	20	1	1	—	—	—	1	176
Delaware	17	3	—	—	—	—	—	—	20
District of Columbia	60	1	—	—	1	—	—	—	62
Florida	756	121	6	—	3	1	1	8	896
Georgia	313	43	2	3	1	—	—	1	363
Hawaii	63	6	—	—	1	—	1	—	71
Idaho	—	2	1	—	—	—	—	1	4
Illinois	277	86	6	1	—	1	1	3	375
Indiana	301	30	4	—	—	—	—	3	338
Iowa	20	18	2	—	—	—	—	1	41
Kansas	40	14	2	—	—	1	—	2	59
Kentucky	66	9	5	—	—	—	—	—	80
Louisiana	116	15	3	—	—	—	—	1	135
Maine	22	5	1	—	—	—	—	1	29
Maryland	177	39	2	5	—	—	—	1	224
Massachusetts	356	39	2	2	2	1	—	2	404
Michigan	249	51	4	1	—	1	—	2	308
Minnesota	61	74	1	1	—	—	—	3	140
Mississippi	52	5	1	1	—	—	—	1	60
Missouri	92	34	6	1	—	—	—	1	134
Montana	14	2	1	—	—	—	—	—	17
Nebraska	19	11	1	—	—	—	—	1	32
Nevada	86	15	1	—	—	—	—	2	104
New Hampshire	40	9	1	—	—	—	—	—	50
New Jersey	286	44	3	4	—	1	—	1	339
New Mexico	18	6	—	—	—	—	—	1	25
New York	486	70	7	—	1	—	—	7	571
North Carolina	313	49	4	—	1	1	—	3	371
North Dakota	6	—	—	—	—	—	—	—	6
Ohio	319	59	7	2	—	—	—	4	391
Oklahoma	62	16	2	—	—	—	—	1	81
Oregon	—	18	2	—	1	—	—	1	22
Pennsylvania	408	64	6	3	1	1	1	2	486
Puerto Rico	23	—	—	—	—	1	—	—	24
Rhode Island	63	4	1	—	1	—	—	1	70
South Carolina	191	19	3	—	1	—	—	2	216
South Dakota	—	3	1	—	—	—	—	—	4
Tennessee	136	27	3	1	—	1	—	3	171
Texas	659	133	11	2	2	—	1	5	813
Utah	11	13	2	—	—	—	—	1	27
Vermont	8	—	—	—	—	—	—	—	8
Virginia	281	58	7	3	1	—	—	2	352

Washington	4	30	4	—	1	—	—	3	42
West Virginia	52	6	2	—	—	—	—	—	60
Wisconsin	51	33	5	1	—	—	—	1	91
Total United States	7,909	1,672	143	32	24	11	5	89	9,885
Brazil	44	—	—	—	—	—	—	—	44
Total	7,953	1,672	143	32	24	11	5	89	9,929

Item 3. Legal Proceedings

I. Legal Proceedings

We refer you to the Note 12 - "Commitments and Contingencies - Legal Matters" contained in the "Notes to the Consolidated Financial Statements" of our Annual Report to Stockholders for the year ended December 31, 2015, which section is incorporated by reference herein.

II. Environmental Matters

Item 103 of SEC Regulation S-K requires disclosure of certain environmental legal proceedings if management reasonably believes that the proceedings involve potential monetary sanctions of \$100,000 or more. The Company is in the process of negotiating with United States Environmental Protection Agency, Region 6 to resolve claims of alleged historical noncompliance with hazardous waste regulations in connection with certain Omnicare pharmacies in Texas, Louisiana, Arkansas, New Mexico and Oklahoma. The Company is cooperating with regulators. These proceedings are not material to the Company's business or financial position.

Item 4. Mine Safety Disclosures

Not applicable.

Executive Officers of the Registrant

Executive Officers of the Registrant

The following sets forth the name, age and biographical information for each of our executive officers as of February 9, 2016. In each case the officer's term of office extends to the date of the board of directors meeting following the next annual meeting of stockholders of the Company. Previous positions and responsibilities held by each of the executive officers over the past five years are indicated below:

Lisa G. Bisaccia, age 59, Executive Vice President of CVS Health Corporation since March 2015 and Chief Human Resources Officer of CVS Health Corporation since January 2010; Senior Vice President of CVS Health Corporation from January 2010 through February 2015; Vice President, Human Resources of CVS Pharmacy, Inc. from September 2004 through December 2009. Ms. Bisaccia is also a member of the Board of Directors of Aramark, Inc., a leading global provider of food, facilities and uniform services.

Eva C. Boratto, age 49, Senior Vice President - Controller and Chief Accounting Officer of CVS Health Corporation since July 2013; Senior Vice President of PBM Finance from July 2010 through June 2013; Vice President, U.S. Market Finance Leader of Merck & Co., Inc. from June 2009 through June 2010.

Troyen A. Brennan, M.D., age 61, Executive Vice President and Chief Medical Officer of CVS Health Corporation since November 2008; Executive Vice President and Chief Medical Officer of Aetna, Inc. from February 2006 through November 2008.

David M. Denton, age 50, Executive Vice President and Chief Financial Officer of CVS Health Corporation since January 2010; Senior Vice President and Controller/Chief Accounting Officer of CVS Health Corporation from March 2008 until December 2009; Senior Vice President, Financial Administration of CVS Health Corporation and CVS Pharmacy, Inc. from April 2007 to March 2008. Mr. Denton is also a member of the Board of Directors of Coach, Inc., a leading retailer of premium bags and luxury accessories.

Helena B. Foulkes, age 51, Executive Vice President of CVS Health Corporation and President of CVS Pharmacy since January 2014; Executive Vice President and Chief Health Care Strategy and Marketing Officer of CVS Health Corporation from March 2011 through December 2013; Executive Vice President and Chief Marketing Officer of CVS Health Corporation from January 2009 through February 2011; Senior Vice President of Health Services of CVS Health Corporation from May 2008 through January 2009, and of CVS Pharmacy, Inc. from October 2007 through January 2009. Ms. Foulkes is also a member of the Board of Directors of The Home Depot, Inc., a leading home improvement retailer.

Stephen J. Gold, age 56, Executive Vice President of CVS Health Corporation since March 2015 and Chief Information Officer of CVS Health Corporation since July 2012; Senior Vice President of CVS Health Corporation from July 2012 through February 2015; Senior Vice President and Chief Information Officer of Avaya, Inc. from May 2010 through June 2012; Executive Vice President, Chief Information Officer and Chief Technology Officer of GSI Commerce, Inc. from February 2005 through April 2010.

J. David Joyner, age 51, Executive Vice President of CVS Health Corporation since March 2011 and Executive Vice President of Sales and Account Services, CVS Caremark since March 2004.

Robert O. Kraft, age 45, Executive Vice President of CVS Health Corporation and President - Omnicare since August 2015; Senior Vice President and Chief Financial Officer of Omnicare from September 2012 through August 2015; Senior Vice President - Finance of Omnicare from November 2010 through September 2012; PricewaterhouseCoopers LLP from September 1992 to November 2010, where he was a partner.

Per G.H. Lofberg, age 68, Executive Vice President of CVS Health Corporation; Executive Vice President of CVS Health Corporation and President of CVS Caremark from January 2010 through August 2012; President and Chief Executive Officer of Generation Health, Inc., a pharmacogenomics company, from November 2008 through December 2009.

Larry J. Merlo, age 60, President and Chief Executive Officer of CVS Health Corporation since March 2011; President and Chief Operating Officer of CVS Health Corporation from May 2010 through March 2011; President of CVS Pharmacy from January 2007 through August 2011; Executive Vice President of CVS Health Corporation from January 2007 through May 2010; also a director of CVS Health Corporation since May 2010.

Thomas M. Moriarty, age 52, Executive Vice President and General Counsel of CVS Health Corporation since October 2012 and Chief Health Strategy Officer since March 2014; General Counsel of Celgene Corporation, a global biopharmaceutical company, from May 2012 through September 2012; General Counsel and Corporate Secretary of Medco Health Solutions, Inc. (“Medco”), a pharmacy benefit management company, from March 2008 through April 2012; also President of Global Pharmaceutical Strategies of Medco from March 2011 through April 2012; Senior Vice President, Pharmaceutical Strategies and Solutions of Medco from September 2007 through March 2011.

Jonathan C. Roberts, age 60, Executive Vice President of CVS Health Corporation and President of CVS Caremark since September 2012; Executive Vice President of CVS Health Corporation and Chief Operating Officer of CVS Caremark from October 2010 through August 2011; Executive Vice President, Rx Purchasing, Pricing and Network Relations of CVS Health Corporation from January 2009 through October 2010; Senior Vice President and Chief Information Officer of CVS Health Corporation from May 2008 until January 2009, and of CVS Pharmacy, Inc. from January 2006 until January 2009.

Andrew J. Sussman, M.D., age 50, Executive Vice President of CVS Health Corporation since March 2015, Associate Chief Medical Officer of CVS Health Corporation since March 2011 and President of CVS MinuteClinic since September 2009; Senior Vice President of CVS Health Corporation from March 2011 through March 2015; Executive Vice President and Chief Operating Officer of the University of Massachusetts Memorial Medical Center, the major teaching affiliate of UMass Medical School, from May 2004 through August 2009.

PART II

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

Our common stock is listed on the New York Stock Exchange under the symbol “CVS.” The table below sets forth the high and low closing prices of our common stock on the New York Stock Exchange Composite Tape and the quarterly cash dividends declared per share of common stock during the periods indicated.

		First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Year
2015	High	\$ 104.56	\$	106.47	\$	113.45	\$	105.29	\$	113.45
	Low	\$ 94.16	\$	98.74	\$	95.12	\$	91.56	\$	91.56
	Cash dividends per common share	\$ 0.350	\$	0.350	\$	0.350	\$	0.350	\$	1.40
2014	High	\$ 76.36	\$	79.43	\$	82.57	\$	98.62	\$	98.62
	Low	\$ 64.95	\$	72.37	\$	74.69	\$	77.40	\$	64.95
	Cash dividends per common share	\$ 0.275	\$	0.275	\$	0.275	\$	0.275	\$	1.10

CVS Health has paid cash dividends every quarter since becoming a public company. Future dividend payments will depend on the Company’s earnings, capital requirements, financial condition and other factors considered relevant by the Company’s Board of Directors. As of February 3, 2016, there were 22,646 registered shareholders according to the records maintained by our transfer agent.

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

In billions

<u>Authorization Date</u>	<u>Authorized</u>	<u>Remaining</u>
December 15, 2014 (“2014 Repurchase Program”)	\$ 10.0	\$ 7.7
December 17, 2013 (“2013 Repurchase Program”)	\$ 6.0	—
September 19, 2012 (“2012 Repurchase Program”)	\$ 6.0	—

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

Pursuant to the authorization under the 2014 Repurchase Program, effective December 11, 2015, the Company entered into a \$725 million fixed dollar ASR with Barclays Bank PLC (“Barclays”). Upon payment of the \$725 million purchase price on December 14, 2015, the Company received a number of shares of its common stock equal to 80% of the \$725 million notional amount of the ASR or approximately 6.2 million shares. The initial 6.2 million shares of common stock delivered to the Company by Barclays were placed into treasury stock in December 2015. The ASR was accounted for as an initial treasury stock transaction for \$580 million and a forward contract for \$145 million. The forward contract was classified as an equity instrument and was recorded within capital surplus on the consolidated balance sheet. On January 28, 2016, the Company received 1.4 million shares of common stock, representing the remaining 20% of the \$725 million notional amount of the ASR, thereby concluding the ASR. The remaining 1.4 million shares of common stock delivered to the Company by Barclays were placed into treasury stock in January 2016 and the forward contract was reclassified from capital surplus to treasury stock.

Pursuant to the authorization under the 2013 Repurchase Programs, effective January 2, 2015, the Company entered into a \$2.0 billion fixed dollar ASR agreement with J.P. Morgan Chase Bank (“JP Morgan”). Upon payment of the \$2.0 billion purchase price on January 5, 2015, the Company received a number of shares of its common stock equal to 80% of the \$2.0 billion notional amount of the ASR agreement or approximately 16.8 million shares, which were placed into treasury stock in January 2015. On May 1, 2015, the Company received approximately 3.1 million shares of common stock, representing the remaining 20% of the \$2.0 billion notional amount of the ASR, thereby concluding the ASR. The remaining 3.1 million shares of common stock delivered to the Company by JP Morgan were placed into treasury stock in May 2015. The ASR was accounted for as an initial treasury stock transaction for \$1.6 billion and a forward contract for \$0.4 billion. The forward contract was classified as

an equity instrument and was initially recorded within capital surplus on the consolidated balance sheet and was reclassified to treasury stock upon the settlement of the ASR in May 2015.

Each of the ASR transactions described above, the initial repurchase of the shares and delivery of the remainder of the shares to conclude each ASR, resulted in an immediate reduction of the outstanding shares used to calculate the weighted average common shares outstanding for basic and diluted earnings per share.

During the year ended December 31, 2015, the Company repurchased an aggregate of 48.0 million shares of common stock for approximately \$5.0 billion under the 2013 and 2014 Repurchase Programs. As of December 31, 2015, there remained an aggregate of approximately \$7.7 billion available for future repurchases under the 2014 Repurchase Program and the 2013 Repurchase Program was complete.

Fiscal Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2015 through October 31, 2015	4,010,003	\$ 100.84	4,010,003	\$ 8,416,444,607
November 1, 2015 through November 30, 2015	—	\$ —	—	\$ 8,416,444,607
December 1, 2015 through December 31, 2015	6,218,039	\$ 93.28	6,218,039	\$ 7,690,617,031
	<u>10,228,042</u>		<u>10,228,042</u>	

Item 6. Selected Financial Data

The selected consolidated financial data of CVS Health Corporation as of and for the periods indicated in the five-year period ended December 31, 2015 have been derived from the consolidated financial statements of CVS Health Corporation. The selected consolidated financial data should be read in conjunction with the consolidated financial statements and the audit reports of Ernst & Young LLP, which are incorporated elsewhere herein.

In millions, except per share amounts	2015	2014	2013	2012	2011
Statement of operations data:					
Net revenues	\$ 153,290	\$ 139,367	\$ 126,761	\$ 123,120	\$ 107,080
Gross profit	26,528	25,367	23,783	22,488	20,562
Operating expenses	17,074	16,568	15,746	15,278	14,231
Operating profit	9,454	8,799	8,037	7,210	6,331
Interest expense, net	838	600	509	557	584
Loss on early extinguishment of debt	—	521	—	348	—
Income tax provision	3,386	3,033	2,928	2,436	2,258
Income from continuing operations	5,230	4,645	4,600	3,869	3,489
Income (loss) from discontinued operations, net of tax	9	(1)	(8)	(7)	(31)
Net income	5,239	4,644	4,592	3,862	3,458
Net (income) loss attributable to noncontrolling interest	(2)	—	—	2	4
Net income attributable to CVS Health	\$ 5,237	\$ 4,644	\$ 4,592	\$ 3,864	\$ 3,462
Per common share data:					
Basic earnings per common share:					
Income from continuing operations attributable to CVS Health	\$ 4.65	\$ 3.98	\$ 3.78	\$ 3.05	\$ 2.61
Income (loss) from discontinued operations attributable to CVS Health	\$ 0.01	\$ —	\$ (0.01)	\$ (0.01)	\$ (0.02)
Net income attributable to CVS Health	\$ 4.66	\$ 3.98	\$ 3.77	\$ 3.04	\$ 2.59
Diluted earnings per common share:					
Income from continuing operations attributable to CVS Health	\$ 4.62	\$ 3.96	\$ 3.75	\$ 3.02	\$ 2.59
Income (loss) from discontinued operations attributable to CVS Health	\$ 0.01	\$ —	\$ (0.01)	\$ (0.01)	\$ (0.02)
Net income attributable to CVS Health	\$ 4.63	\$ 3.96	\$ 3.74	\$ 3.02	\$ 2.57
Cash dividends per common share	\$ 1.40	\$ 1.10	\$ 0.90	\$ 0.65	\$ 0.50
Balance sheet and other data:					
Total assets ⁽¹⁾	\$ 93,657	\$ 74,187	\$ 71,452	\$ 66,167	\$ 64,794
Long-term debt ⁽¹⁾	\$ 26,267	\$ 11,630	\$ 12,767	\$ 9,079	\$ 9,150
Total shareholders' equity	\$ 37,203	\$ 37,963	\$ 37,938	\$ 37,653	\$ 38,014
Number of stores (at end of year)	9,681	7,866	7,702	7,508	7,388

(1) As of June 30, 2015, the Company early adopted Accounting Standard Update No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (Topic 835-30) issued by the Financial Accounting Standards Board in April 2015. The effect of the adoption on the Company's consolidated balance sheet is a reduction in noncurrent assets and long-term debt of \$65 million, \$74 million, \$54 million and \$58 million as of December 31, 2014, 2013, 2012 and 2011, respectively.

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

We refer you to “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” which includes our “Cautionary Statement Concerning Forward-Looking Statements” at the end of such section of our Annual Report to Stockholders for the year ended December 31, 2015, which section is incorporated by reference herein.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

As of December 31, 2015, the Company did not have any interest rate, foreign currency exchange rate or commodity derivative instruments in place and believes that as of December 31, 2015 its exposure to interest rate risk (inherent in the Company's debt portfolio), foreign currency exchange rate risk and commodity price risk is not material.

Item 8. Financial Statements and Supplementary Data

We refer you to the “Consolidated Statements of Income,” “Consolidated Statements of Comprehensive Income,” “Consolidated Balance Sheets,” “Consolidated Statements of Shareholders’ Equity,” “Consolidated Statements of Cash Flows,” “Notes to Consolidated Financial Statements,” and “Report of Independent Registered Public Accounting Firm” of our Annual Report to Stockholders for the fiscal year ended December 31, 2015, which sections are incorporated by reference herein.

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

None.

Item 9A. Controls and Procedures

Evaluation of disclosure controls and procedures: The Company’s Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rules 13a-15 (f) and 15d-15(f) under the Securities Exchange Act of 1934) as of December 31, 2015, have concluded that as of such date the Company’s disclosure controls and procedures were adequate and effective at a reasonable assurance level and designed to ensure that material information relating to the Company and its subsidiaries would be made known to such officers on a timely basis.

Internal control over financial reporting: We refer you to “Management’s Report on Internal Control Over Financial Reporting” and “Report of Independent Registered Public Accounting Firm” of our Annual Report to Stockholders for the fiscal year ended December 31, 2015, which are incorporated by reference herein, for management’s report on the Company’s internal control over financial reporting and the Independent Registered Public Accounting Firm’s report with respect to the effectiveness of internal control over financial reporting.

Changes in internal control over financial reporting: On August 18, 2015, the Company completed its acquisition of Omnicare. On December 16, 2015, the Company completed its acquisition of the pharmacies and clinics of Target. In conducting our evaluation of the effectiveness of our internal controls over financial reporting, we have currently elected to exclude Omnicare and the pharmacies and clinics of Target from our evaluation for fiscal year 2015, as permitted under SEC rules. We are in the process of integrating the historical internal controls over financial reporting of Omnicare and the Target pharmacy and clinic businesses with the rest of the Company. Omnicare and the Target pharmacy and clinic businesses are included in the Company's 2015 consolidated financial statements and represent 18% of total assets as of December 31, 2015 and 2% of net revenues for the year then ended.

Other than the foregoing, there have been no changes in our internal controls over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 that occurred during the fourth quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

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

PART III

Item 10. Directors, Executive Officers and Corporate Governance

We refer you to our Proxy Statement for the 2016 Annual Meeting of Stockholders under the captions “Committees of the Board,” “Code of Conduct,” “Director Nominations,” “Audit Committee Report,” “Biographies of our Board Nominees,” and “Section 16(a) Beneficial Ownership Reporting Compliance,” which sections are incorporated by reference herein. Biographical information on our executive officers is contained in Part I of this Annual Report on Form 10-K.

Item 11. Executive Compensation

We refer you to our Proxy Statement for the 2016 Annual Meeting of Stockholders under the captions “Executive Compensation and Related Matters,” including “Compensation Discussion & Analysis” and “Management Planning and Development Committee Report,” which sections are incorporated by reference herein.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

We refer you to our Proxy Statement for the 2016 Annual Meeting of Stockholders under the captions “Share Ownership of Directors and Certain Executive Officers,” and “Share Ownership of Principal Stockholders” which sections are incorporated by reference herein, for information concerning security ownership of certain beneficial owners and management and related stockholder matters.

The following table summarizes information about the Company’s common stock that may be issued upon the exercise of options, warrants and rights under all of our equity compensation plans as of December 31, 2015.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights ⁽¹⁾	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column) ⁽¹⁾
Equity compensation plans approved by stockholders	24,341	\$ 57.60	23,752
Equity compensation plans not approved by stockholders	—	—	—
Total	24,341	\$ 57.60	23,752

(1) Shares in thousands.

Item 13. Certain Relationships and Related Transactions and Director Independence

We refer you to our Proxy Statement for the 2016 Annual Meeting of Stockholders under the caption “Independence Determinations for Directors” and “Certain Transactions with Directors and Officers,” which sections are incorporated by reference herein.

Item 14. Principal Accountant Fees and Services

We refer you to our Proxy Statement for the 2016 Annual Meeting of Stockholders under the caption “Item 2: Ratification of Appointment of Independent Registered Public Accounting Firm,” which section is incorporated by reference herein.

PART IV

Item 15. Exhibits and Financial Statement Schedules

A. Documents filed as part of this report:

1. Financial Statements:

The following financial statements are incorporated by reference from our Annual Report to Stockholders for the fiscal year ended December 31, 2015, as provided in Item 8 hereof:

Consolidated Statements of Income for the Years Ended December 31, 2015, 2014 and 2013	29
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2015, 2014 and 2013	30
Consolidated Balance Sheets as of December 31, 2015 and 2014	31
Consolidated Statements of Cash Flows for the Years Ended December 31, 2015, 2014 and 2013	32
Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2015, 2014 and 2013	33
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2. Financial Statement Schedules

All financial statement schedules are omitted because they are not applicable, not required under the instructions, or the information is included in the consolidated financial statements or related notes.

B. Exhibits

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

<u>Exhibit</u>	<u>Description</u>
2.1*	Agreement and Plan of Merger dated as of November 1, 2006 among, the Registrant, Caremark Rx, Inc. and Twain MergerSub Corp. (incorporated by reference to Exhibit 2.1 to the Registrant's Registration Statement No. 333-139470 on Form S-4 filed December 19, 2006).
2.2*	Amendment No. 1 dated as of January 16, 2007 to the Agreement and Plan of Merger dated as of November 1, 2006 among the Registrant, Caremark Rx, Inc. and Twain Merger Sub Corp. (incorporated by reference to Exhibit 2.2 to the Registrant's Registration Statement No. 333-139470 on Form S-4/A filed January 16, 2007).
2.3*	Waiver Agreement dated as of January 16, 2007 between the Registrant and Caremark Rx, Inc. with respect to the Agreement and Plan Merger dated as of November 1, 2006 by and between Registrant and Caremark Rx, Inc (incorporated by reference to Exhibit 2.3 to the Registrant's Registration Statement No. 333-139470 on Form S-4/A filed January 16, 2007).
2.4*	Amendment to Waiver Agreement, dated as of February 12, 2007, between Registrant and Caremark Rx, Inc. (incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K dated February 13, 2007; Commission File No. 001-01011).
2.5*	Amendment to Waiver Agreement, dated as of March 8, 2007, between Registrant and Caremark Rx, Inc. (incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K dated March 8, 2007; Commission File No. 001-01011).
2.6*	Agreement and Plan of Merger dated as of August 12, 2008, among the Registrant, Longs Drug Stores Corporation and Blue MergerSub Corp. (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated August 13, 2008; Commission File No. 001-01011).
2.7*	Agreement and Plan of Merger, dated as of May 20, 2015, among CVS Pharmacy, Inc., Tree Merger Sub, Inc. and Omnicare, Inc. (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated May 21, 2015; Commission File No. 001-01011).

- 3.1* Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1996; Commission File No. 001-01011).
- 3.1A* Certificate of Amendment to the Amended and Restated Certificate of Incorporation, effective May 13, 1998 (incorporated by reference to Exhibit 4.1A to Registrant's Registration Statement No. 333-52055 on Form S-3/A dated May 18, 1998).
- 3.1B* Certificate of Amendment to the Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K dated March 22, 2007; Commission File No. 001-01011).
- 3.1C* Certificate of Merger dated May 9, 2007 (incorporated by reference to Exhibit 3.1C to Registrant's Quarterly Report on Form 10-Q dated November 1, 2007; Commission File No. 001-01011).
- 3.1D* Certificate of Amendment to the Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K dated May 13, 2010; Commission File No. 001-01011).
- 3.1E* Certificate of Amendment to the Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report On Form 8-K dated May 10, 2012; Commission File No. 001-01011).
- 3.1F* Certificate of Amendment to the Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated September 3, 2014 (Commission File No. 001-01011)).
- 3.2* By-laws of the Registrant, as amended and restated (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K dated January 26, 2016; Commission File No. 001-01011).
- 4 Pursuant to Regulation S-K, Item 601(b)(4)(iii)(A), no instrument which defines the rights of holders of long-term debt of the Registrant and its subsidiaries is filed with this report. The Registrant hereby agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.
- 4.1* Specimen common stock certificate (incorporated by reference to Exhibit 4.1 to the Registration Statement of the Registrant on Form 8-B dated November 4, 1996; Commission File No. 001-01011).
- 10.1* Stock Purchase Agreement dated as of October 14, 1995 between The TJX Companies, Inc. and Melville Corporation, as amended November 17, 1995 (incorporated by reference to Exhibits 2.1 and 2.2 to Melville's Current Report on Form 8-K dated December 4, 1995; Commission File No. 001-01011).
- 10.2* Stock Purchase Agreement dated as of March 25, 1996 between Melville Corporation and Consolidated Stores Corporation, as amended May 3, 1996 (incorporated by reference to Exhibits 2.1 and 2.2 to Melville's Current Report on Form 8-K dated May 5, 1996; Commission File No. 001-01011).
- 10.3* Distribution Agreement dated as of September 24, 1996 among Melville Corporation, Footstar, Inc. and Footstar Center, Inc. (incorporated by reference to Exhibit 99.1 to Melville's Current Report on Form 8-K dated October 28, 1996; Commission File No. 001-01011).
- 10.4* Tax Disaffiliation Agreement dated as of September 24, 1996 among Melville Corporation, Footstar, Inc. and certain subsidiaries named therein (incorporated by reference to Exhibit 99.2 to Melville's Current Report on Form 8-K dated October 28, 1996; Commission File No. 001-01011).
- 10.5* Stockholder Agreement dated as of December 2, 1996 between the Registrant, Nashua Hollis CVS, Inc. and Linens 'n Things, Inc. (incorporated by reference to Exhibit 10(i)(6) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997; Commission File No. 001-01011).
- 10.6* Tax Disaffiliation Agreement dated as of December 2, 1996 between the Registrant and Linens 'n Things, Inc. and certain of their respective affiliates (incorporated by reference to Exhibit 10(i)(7) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997; Commission File No. 001-01011).

- 10.7* Four Year Credit Agreement dated as of May 12, 2011 by and among the Registrant, the lenders party thereto, Barclays Capital and JP Morgan Chase Bank, N.A., as Co-Syndication Agents, Bank of America, N.A. and Wells Fargo Bank, N.A., as Co-Documentation Agents, and the Bank of New York Mellon, as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2011; Commission File No. 001-01011).
- 10.8* Amendment No. 1, dated as of November 22, 2011, to the Credit Agreement dated as of May 12, 2011 by and among the Registrant, the Lenders party thereto, the Co-Syndication Agents and Co-Documentation Agents named therein, and The Bank of New York Mellon, as Administrative Agent (incorporated by reference to Exhibit 10.45 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011; Commission File No. 001-01011).
- 10.9* Credit Agreement dated as of May 23, 2013, by and among the Registrant, the lenders party thereto, Barclays Bank PLC and JPMorgan Chase Bank, N.A., as Co-Syndication Agents, Bank of America, N.A. and Wells Fargo Bank, N.A., as Co-Documentation Agents, and The Bank of New York Mellon, as Administrative Agent. (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2013 (Commission File No. 001-01011).
- 10.10* Amendment No. 2, dated as of May 23, 2013, to the Credit Agreement dated as of May 12, 2011, by and among the Registrant, the lenders party thereto, Barclays Capital and JPMorgan Chase Bank, N.A., as Co-Syndication Agents, Bank of America, N.A. and Wells Fargo Bank, N.A., as Co-Documentation Agents, and The Bank of America, N.A. and Wells Fargo Bank, N.A., as Co-Documentation Agents, and The Bank of New York Mellon, as Administrative Agent, as previously amended by Amendment No. 1, dated as of November 22, 2011 (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2013 (Commission File No. 001-01011).
- 10.11* Second Amended and Restated Credit Agreement, dated as of July 24, 2014, by and among the Registrant, the lenders party thereto, Barclays Bank PLC and JPMorgan Chase Bank, N.A., as Co-Syndication Agents, Bank of America, N.A. and Wells Fargo Bank, N.A., as Co-Documentation Agents, and The Bank of New York Mellon, as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 (Commission File No. 001-01011).
- 10.12* Five Year Credit Agreement dated as of July 1, 2015, by and among the Registrant, the lenders party thereto, Barclays Bank PLC and JPMorgan Chase Bank, N.A., as Co-Syndication Agents, Bank of America, N.A. and Wells Fargo Bank, N.A., as Co-Documentation Agents, and The Bank of New York Mellon, as Administrative Agent (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2015 (Commission File No. 001-01011).
- 10.13* Supplemental Retirement Plan for Select Senior Management of CVS Health Corporation I as amended and restated in December 2008 (incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009; Commission File No. 001-01011).
- 10.14* CVS Health Corporation 1996 Directors Stock Plan, as amended and restated November 5, 2002 (incorporated by reference to Exhibit 10.18 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 28, 2002; Commission File No. 001-01011).
- 10.15* 1997 Incentive Compensation Plan as amended through December 2008 (incorporated by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009; Commission File No. 001-01011).
- 10.16* Caremark Rx, Inc. 2004 Incentive Stock Plan (incorporated by reference to Exhibit 99.2 of the Registrant's Registration Statement No. 333-141481 on Form S-8 filed March 22, 2007; Commission File No. 011-01011).
- 10.17 CVS Health Deferred Stock Compensation Plan, as amended.
- 10.18 CVS Health Deferred Compensation Plan, as amended.
- 10.19* 2010 Incentive Compensation Plan, as amended through January 15, 2013 (incorporated by reference to Exhibit A to the Registrant's Definitive Proxy Statement on Form 14A filed March 27, 2015; Commission File No. 001-01011).
- 10.20 2007 Employee Stock Purchase Plan, as amended.
- 10.21 The Registrant's 2015 Management Incentive Plan.

- 10.22 The Registrant's 2015 Executive Incentive Plan.
- 10.23* The Registrant's Long-Term Incentive Plan (incorporated by reference to Exhibit 10.21 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2013; Commission File No. 001-01011).
- 10.24* The Registrant's Partnership Equity Program amended as of December 2014 (incorporated by reference to Exhibit 10.24 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011).
- 10.25 The Registrant's Severance Plan for Non-Store Employees amended as of January 2015.
- 10.26* The Registrant's Performance-Based Restricted Stock Unit Plan amended as of December 2014 (incorporated by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011).
- 10.27* Form of Enterprise Non-Competition, Non-Disclosure and Developments Agreement between the Registrant and certain of the Registrant's executive officers (incorporated by reference to Exhibit 10.25 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013; Commission File No. 001-01011).
- 10.28 Universal 409A Definition Document, as amended.
- 10.29* Form of Non-Qualified Stock Option Agreement between the Registrant and selected employees of the Registrant (incorporated by reference to Exhibit 10.29 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011).
- 10.30* Form of Restricted Stock Unit Agreement - Annual Grant - between the Registrant and selected employees of the Registrant (incorporated by reference to Exhibit 10.30 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011).
- 10.31* Form of Performance-Based Restricted Stock Unit Agreement between the Registrant and selected employees of the Registrant (incorporated by reference to Exhibit 10.31 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011).
- 10.32* Form of Partnership Equity Program Participant Purchased RSUs, Company Matching RSUs and Company Matching Options Agreement (Pre-Tax) (incorporated by reference to Exhibit 10.32 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011).
- 10.33* Form of Partnership Equity Program Participant Purchased RSUs, Company Matching RSUs and Company Matching Options Agreement (Post-Tax) (incorporated by reference to Exhibit 10.33 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011).
- 10.34* Amended and Restated Employment Agreement dated as of December 22, 2008 between the Registrant and the Registrant's President and Chief Executive Officer (incorporated by reference to Exhibit 10.38 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008; Commission File No. 001-01011).
- 10.35* Amendment dated December 21, 2012 to the Amended and Restated Employment Agreement dated as of December 22, 2008 between the Registrant and the Registrant's President and Chief Executive Officer (incorporated by reference to Exhibit 10.31 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012; Commission File No. 001-01011).
- 10.36* Form of Non-Qualified Stock Option Agreement between the Registrant and the Registrant's President and Chief Executive Officer (incorporated by reference to Exhibit 10.36 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011).
- 10.37* Form of Restricted Stock Unit Agreement between the Registrant and the Registrant's President and Chief Executive Officer (incorporated by reference to Exhibit 10.37 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011).
- 10.38* Amendment dated January 22, 2015 to Nonqualified Stock Option Agreements between the Registrant and the Registrant's President and Chief Executive Officer (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated January 20, 2015; Commission File No. 001-01011).

- 10.39* Change in Control Agreement dated December 22, 2008 between the Registrant and the Registrant's Executive Vice President and Chief Financial Officer (incorporated by reference to Exhibit 10.39 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010; Commission File No. 001-01011).
- 10.40* Amendment dated as of December 31, 2012 to the Change in Control Agreement dated December 22, 2008 between the Registrant and the Registrant's Executive Vice President and Chief Financial Officer (incorporated by reference to Exhibit 10.32 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012; Commission File No. 001-01011).
- 10.41* Change in Control Agreement dated December 22, 2008 between the Registrant and the Registrant's Executive Vice President and President of CVS Caremark (incorporated by reference to Exhibit 10.33 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012; Commission File No. 001-01011).
- 10.42* Amendment dated as of December 31, 2012 to the Change in Control Agreement dated December 22, 2008 between the Registrant and the Registrant's Executive Vice President and President of CVS Caremark (incorporated by reference to Exhibit 10.34 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2012; Commission File No. 001-01011).
- 10.43* Change in Control Agreement dated December 22, 2008 between the Registrant and the Registrant's Executive Vice President and President of CVS Pharmacy (incorporated by reference to Exhibit 10.43 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011).
- 10.44* Amendment dated as of December 31, 2012 to the Change in Control Agreement between the Registrant and the Registrant's Executive Vice President and President of CVS Pharmacy (incorporated by reference to Exhibit 10.44 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014; Commission File No. 001-01011).
- 10.45* Change in Control Agreement dated October 1, 2012 between the Registrant and the Registrant's Executive Vice President, Chief Health Strategy Officer and General Counsel (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2015; Commission File No. 001-01011).
- 10.46* Restrictive Covenant Agreement dated June 1, 2014 between the Registrant and the Registrant's Executive Vice President, Chief Health Strategy Officer and General Counsel (incorporated by reference to Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2015; Commission File No. 001-01011).
- 13 Portions of the 2015 Annual Report to Stockholders of CVS Health Corporation, which are specifically designated in this Form 10-K as being incorporated by reference.
- 21 Subsidiaries of the Registrant.
- 23 Consent of Ernst & Young LLP.
- 31.1 Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification by the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following materials from the CVS Health Corporation Annual Report on Form 10-K for the year ended December 31, 2015 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Income, (ii) the Consolidated Balance Sheets, (iii) the Consolidated Statements of Cash Flows and (iv) related notes.

SIGNATURES

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

CVS HEALTH CORPORATION

Date: February 9, 2016

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

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

Signature	Title(s)	Date
<u>/s/ RICHARD M. BRACKEN</u> Richard M. Bracken	Director	February 9, 2016
<u>/s/ C. DAVID BROWN II</u> C. David Brown II	Director	February 9, 2016
<u>/s/ EVA C. BORATTO</u> Eva C. Boratto	Senior Vice President - Controller and Chief Accounting Officer (Principal Accounting Officer)	February 9, 2016
<u>/s/ ALECIA A. DECOUDREAUX</u> Alecia A. DeCoudreaux	Director	February 9, 2016
<u>/s/ DAVID M. DENTON</u> David M. Denton	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 9, 2016
<u>/s/ NANCY-ANN M. DEPARLE</u> Nancy-Ann M. DeParle	Director	February 9, 2016
<u>/s/ DAVID W. DORMAN</u> David W. Dorman	Chairman of the Board and Director	February 9, 2016
<u>/s/ ANNE M. FINUCANE</u> Anne M. Finucane	Director	February 9, 2016
<u>/s/ LARRY J. MERLO</u> Larry J. Merlo	President and Chief Executive Officer (Principal Executive Officer) and Director	February 9, 2016
<u>/s/ JEAN-PIERRE MILLON</u> Jean-Pierre Millon	Director	February 9, 2016
<u>/s/ RICHARD J. SWIFT</u> Richard J. Swift	Director	February 9, 2016
<u>/s/ WILLIAM C. WELDON</u> William C. Weldon	Director	February 9, 2016
<u>/s/ TONY L. WHITE</u> Tony L. White	Director	February 9, 2016

CVS HEALTH CORPORATION

DEFERRED STOCK COMPENSATION PLAN

Amended and Restated Effective October 1, 2015

CVS HEALTH CORPORATION

Deferred Stock Compensation Plan

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ARTICLE I – INTRODUCTION

1.1 Name of Plan.

CVS Health Corporation (the “Company”) hereby adopts the CVS Health Deferred Stock Compensation Plan as amended and restated as of October 1, 2015 (the “Plan”).

1.2 Purpose of Plan.

The purpose of the Plan is to provide certain eligible employees of the Company or an Affiliate authorized by the Committee to participate in the Plan with the opportunity to elect to defer receipt of shares of Stock under certain Stock-based compensation plans or arrangements.

1.3 “Top Hat” Pension Benefit Plan.

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

1.4 Funding.

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

1.5 Effective Date.

The Plan was originally effective as of September 10, 1997, and amended and restated in its entirety effective as of October 1, 2015 to reflect certain design and administrative changes desired by the Company.

1.6 Administration.

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

1.7 Number and Gender.

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

1.8 Headings.

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

ARTICLE II – DEFINITIONS

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

2.1 Account.

The Deferral Account and the Grandfathered Deferral Account maintained by the Company on behalf of each Participant pursuant to the Plan.

2.2 Affiliate.

A subsidiary of the Company, as defined in the Company's Universal 409A Definition Document.

2.3 Beneficiary.

The person or persons (which may include trusts) designated in writing (either by hand or electronic submission) by the Participant on the beneficiary designation form prescribed by the Plan Administrator to receive the amounts, if any, payable under the Plan upon the death of the Participant. In the absence of such written designation by the Participant, the Beneficiary shall mean, in the following order, the Participant's spouse, if any; the person named as the Participant's beneficiary under the Company's life insurance program; or the Participant's estate.

2.4 Board.

The Board of Directors of the Company.

2.5 Change in Control.

"Change in Control" as such term is defined in Section 10(e) of the CVS Health Corporation 2010 Incentive Compensation Plan (for deferrals prior to October 1, 2015, under Section 10(c) of the CVS Caremark Corporation 1997 Incentive Compensation Plan) which definition, for purposes of amounts subject to Section 409A of the Code, shall comply with Section 409A of the Code.

2.6 Code.

The Internal Revenue Code of 1986, as amended. References to any provision of the Code or regulation (including a proposed regulation) thereunder shall include any successor provisions or regulations.

2.7 Committee.

The Management Planning and Development Committee of the Board of Directors of the Company or any other directors of the Company designated as the Committee.

2.8 Deferral Account.

The bookkeeping account (or subaccount(s) thereof) maintained for each Participant to record any and all deferrals made under the Plan.

2.9 Deferred Stock.

A right to receive Stock at the end of a specified deferral period (including upon the occurrence of specified events).

2.10 Deferred Stock Compensation Election.

The written election (either by hand or electronic submission) including any amendments, attachments and appendices thereto as prescribed by the Plan Administrator, regardless of how it may be titled, under which the Participant agrees to defer receipt of Stock under an award in the form of units denominated in Stock to be received from the Company or an Affiliate. This election as to deferral and the related form and timing of distribution is made by the Participant and constitutes

the agreement entered into between the Company and a Participant for participation in the Plan. The Participant elects the terms of his or her deferral pursuant to the provisions of this Plan and the administrative procedures established by the Plan Administrator.

2.11 Disability.

“Disability” as defined in the Company’s Long-Term Disability Plan.

2.12 Distribution Date.

The date on which a Participant’s distribution is scheduled to be paid with respect to his or her Account under the Plan pursuant to his or her Deferred Stock Compensation Election, which date shall take into account any processing period.

2.13 Effective Date.

September 10, 1997.

2.14 Eligible Executive.

An Executive who is eligible to participate in the Plan as provided in Section 3.1(a).

2.15 Employee.

Any common-law full-time salaried exempt employee of the Company or an Affiliate who has been authorized by the Committee to participate in the Plan.

2.16 ERISA.

The Employee Retirement Income Security Act of 1974, as amended.

2.17 Exchange Act.

The Securities Exchange Act of 1934, as amended. References to any provision of the Exchange Act or rule thereunder shall include any successor provisions or rules.

2.18 Executive.

An Employee whose Base Salary (determined on the basis of a maximum forty (40) hour work week) equals or exceeds \$150,000 (as adjusted from time to time by the Committee).

2.19 Grandfathered Deferral Account.

The bookkeeping account (or subaccount(s)) maintained for each Participant to record the part of a Participant’s Deferral Account that was earned and vested as of December 31, 2004 and not subject to Section 409A of the Code.

2.20 Participant.

Each Eligible Executive participating in the Plan as set forth in Section 3.2.

2.21 Plan Administrator.

The Deferred Compensation Plans Committee appointed pursuant to Section 7.1 to administer the Plan.

2.22 Plan Year.

A calendar year ending on December 31.

2.23 Retirement.

Termination of Employment with the Company and all Affiliates on or after (i) age fifty-five (55) and the completion of ten (10) or more Years of Service or, if earlier, (ii) age sixty (60) and the completion of five (5) or more Years of Service. For the Grandfathered Deferral Account, "Retirement" shall mean the Participant's termination of employment (i) at or after attaining age sixty (60) or (ii) at or after attaining age fifty-five (55) but prior to attaining age sixty (60), if such termination is approved in advance by the Plan Administrator.

2.24 Specified Employee.

"Specified Employee" as such term is defined in the Universal 409A Definition Document.

2.25 Specific Future Year.

A calendar year in the future elected by a Participant with respect to the distribution of his or her Account(s) (or subaccount(s) thereof) pursuant to the Plan.

2.26 Stock.

CVS Health Corporation Common Stock or any other equity securities of the Company designated by the Committee.

2.27 Termination of Employment.

"Termination of Employment" as such term is defined in the Universal 409A Definition Document.

2.28 Trust.

Any trust or trusts established or designated by the Company to hold Stock or other assets in connection with the Plan; provided, however, that the assets of such trusts shall remain subject to the claims of the general creditors of the Company.

2.29 Trustee.

The trustee of a Trust established under the Plan.

2.30 Trust Agreement.

The agreement entered into between the Company and the Trustee to carry out the purposes of the Plan, as amended or restated from time to time.

2.31 Universal 409A Definition Document.

The document developed by the Company for the purpose of defining terms relating to benefits or amounts in all plans covered by Section 409A of the Code and sponsored by the Company or any Affiliate.

2.32 Year of Service.

Twelve (12) months of continuous service with the Company and any of its Affiliates.

ARTICLE III – ELIGIBILITY AND PARTICIPATION

3.1 Eligibility.

- (a) An Employee who is an Executive on October 1st of a calendar year (or such other date in the calendar year as designated by the Committee) shall be eligible to participate in the Plan. The Committee may, in its sole discretion, designate other key employees of the Company or an Affiliate who are members of a select group of management or highly compensated employees as eligible to participate in the Plan.
- (b) Notwithstanding any Plan provision to the contrary, Employees must also be subject to the income tax laws of the United States in order to be eligible for participation in the Plan.
- (c) Subject to the provisions of Sections 3.3 and Section 4.1, an Eligible Executive shall remain eligible to continue participation in the Plan for each Plan Year following his or her initial year of participation in the Plan.

3.2 Commencement of Participation.

An Eligible Executive shall become a Participant effective as of the date that the Eligible Executive's first Deferred Stock Compensation Election becomes effective, provided that the Eligible Executive has provided such information as the Plan Administrator deems necessary to properly administer the Plan.

3.3 Termination of Participation.

- (a) Participation shall cease when the benefits that have been credited to a Participant's Deferral Account have been distributed to him or her.
- (b) Subject to the provisions of Section 4.3, a Participant shall only be eligible to make Deferred Stock Compensation Elections under the Plan for as long as he or she remains an Eligible Executive.
- (c) If a former Participant who has incurred a Termination of Employment with the Company and all Affiliates and whose participation in the Plan ceased under Section 3.3(a) is reemployed as an Executive, the former Participant may again become eligible to participate in accordance with the provisions of Section 3.1.

ARTICLE IV – DEFERRALS

4.1 Deferrals.

To the extent authorized by the Committee, a Participant may elect to defer any award or other compensation that is denominated in Stock to be received from the Company or an Affiliate, including shares issuable in connection with annual incentive awards or long term awards. In addition to any terms and conditions of deferral set forth under plans, programs or arrangements from which receipt of the Stock-denominated award is deferred, the Committee may impose limitations on the amounts permitted to be deferred and other terms and conditions of deferrals under the Plan. Any such limitations, and other terms and conditions of deferral, shall be set forth in the rules relating to the Plan or election forms, other forms, or instructions published by the Committee and/or the Plan Administrator.

4.2 Filing Requirements of Deferred Stock Compensation Elections.

Subject to the following provisions of this Section, during an annual enrollment period established by the Plan Administrator in any Plan Year, an Eligible Executive described in Section 3.1 may elect, subject to Section 4.1 above, to defer Stock-denominated awards by submitting a Deferred Stock Compensation Election during such annual enrollment period. Under no circumstances may a Participant defer Stock-denominated awards to which the Participant has attained, at the time of deferral, a legally enforceable right to current receipt of such Stock-denominated awards.

A Participant shall submit a Deferred Stock Compensation Election in the manner specified by the Plan Administrator and a Deferred Stock Compensation Election that is not timely filed shall be considered void and have no effect. If a Participant does not file a Deferred Stock Compensation Election applicable to his or her stock-denominated awards on or before the close of the applicable annual enrollment period (or such later date prescribed by the Plan Administrator), the Participant shall be deemed to have elected not to make a Deferred Stock Compensation Election for such awards.

Subject to the provisions of this Article, an Eligible Executive must file a new Deferred Stock Compensation Election for each award he or she elects to defer.

4.3 Modification or Revocation of Election by Participant.

- (a) Once a properly completed Deferred Stock Compensation Election form is received by the Company, the elections of the Participant shall be irrevocable: provided however, that subject to the requirements of Section 409A of the Code, the Committee and/or Plan Administrator may, in its discretion, permit a Participant to elect a further deferral of amounts credited to a Deferral Account by filing a later election form in accordance with Section 6.7, below.
- (b) If a Participant ceases to be an Executive after the date a Deferred Stock Compensation Election becomes effective but continues to be employed by the Company or an Affiliate, he or she shall continue to be a Participant and his or her Deferred Stock Compensation Election currently in effect shall remain in force, but such Participant shall not be eligible to make any further Deferred Stock Compensation Elections until such time as he or she shall once again become an Eligible Executive.

ARTICLE V – DEFERRAL ACCOUNTS

5.1 Establishment; Crediting of Amounts Deferred.

One or more Deferral Accounts will be established for each Participant, as determined by the Plan Administrator. The amount of Stock-denominated awards deferred with respect to each Deferral Account will be credited to such Account as of the date on which such amounts would have been paid to the Participant but for the Participant's election to defer receipt hereunder. Unless otherwise determined by the Plan Administrator, shares will be credited to the Participant's Deferral Account as units of Deferred Stock (as opposed to cash amounts valued by reference to the market price of Stock). With respect to any fractional shares of Stock-denominated awards, the Plan Administrator shall either pay such fractional shares to the Participant in cash, credit the Deferral Account with cash in lieu of depositing fractional shares into the Deferral Account, or credit the Deferral Account with a fraction of a share calculated to at least three decimal places, as determined by the Plan Administrator.

5.2 Deferred Stock As Sole Investment Vehicle.

Amounts credited as Deferred Stock to a Participant's Deferral Account may not be reallocated or deemed reinvested in any other investment vehicle, but shall remain as Deferred Stock until such time as the Deferral Account is settled in accordance with Article VI.

5.3 Dividend Equivalents.

Except as provided in Section 5.4, dividend equivalents will be credited on Deferred Stock credited to a Participant's Deferral Account as follows:

- (a) *Cash and Non-Stock Dividends* . If the Company declares and pays a dividend on Stock in the form of cash or property other than shares of Stock, then a number of additional shares of Deferred Stock shall be credited to a Participant's Deferral Account as of the payment date for such dividend equal to (A) the number of shares of Deferred Stock credited to the Deferral Account as of the record date for such dividend, multiplied by (B) the amount of cash plus the fair market value of any property other than shares actually paid as a dividend on each share at such payment date, divided by (C) the fair market value of a share of Stock at such payment date.
- (b) *Stock Dividends and Splits* . If the Company declares and pays a dividend on Stock in the form of additional shares of Stock, or there occurs a forward split of Stock, then a number of additional shares of Deferred Stock shall be credited to the Participant's Deferral Account as of the payment date for such dividend or forward Stock split equal to (A) the number of shares of Deferred Stock credited to the Deferral Account as of the record date for such dividend or split, multiplied by (B) the number of additional shares actually paid as a dividend or issued in such split in respect of each share of Stock.

5.4 Trusts.

The Committee may, in its discretion, establish one or more Trusts (including sub-accounts under such Trusts) and deposit therein shares of Stock equal in number to the number of shares of Deferred Stock then credited to a Participant's Deferral Account (or a specified subaccount). In such case, the provisions of Section 5.3 notwithstanding, the dividend equivalents payable on the Participant's Deferred Stock shall be equal to the actual dividends paid on the shares deposited in such Trust (which dividends shall be reinvested by the Trustee in additional shares of Stock), and shares may be delivered in settlement of the Participant's Deferred Stock from the assets in such Trusts. The Participant's rights with respect to directing the voting of shares held in such Trust or otherwise relating to such shares shall be determined by the Plan Administrator in its sole discretion.

ARTICLE VI – DISTRIBUTION OF ACCOUNT

6.1 Distribution Elections – Timing of Payment.

- (a) Subject to the limitations set forth in this Article VI, each time a Participant makes a Deferred Stock Compensation Election, the Participant shall designate on that applicable Deferred Compensation Election, that the distribution of such deferrals shall be made or commence as the case may be pursuant to Section 6.6 as of (i) the Participant's Retirement; or (ii) a Specific Future Year not later than the Plan Year in which the Participant attains age seventy-one (71)

A Participant may choose different options with respect to each Deferred Stock Compensation Election. A Participant may not change the election made pursuant to the provisions of this Section 6.1, except as otherwise provided in Section 6.7 below.

- i. *Retirement* . The distribution of the portion of a Participant's Deferral Account (or subaccount(s)) that is deferred to Retirement under this Section shall commence on the first business day in the January next following his or her Retirement, pursuant to the provisions of Section 6.6, provided, however, that with respect to a Participant who is a Specified Employee as of the date of his or her Retirement, payment of any portion of his or her Deferral Account (or any subaccount(s) thereof) that is subject to Section 409A of the Code will be delayed until the first business day of the seventh (7th) month following the date such Retirement occurs.
- ii. *Specific Future Year* . In the event a Participant elects to have the distribution of such deferrals made or commence as of a Specific Future Year, subject to rules established by the Plan Administrator, the deferral period must be at least five (5) Plan Years. The distribution of the portion of a Participant's Deferral Account (or subaccount(s)) that is deferred to a Specific Future Year shall commence on the first business day of January in that specific year pursuant to the provisions of Section 6.6.

6.2 Disability Distributions.

Notwithstanding the foregoing, if a Participant has a Termination of Employment because he or she has become Disabled, as determined by the Plan Administrator, such Participant will receive his or her entire Deferral Account in a single lump sum payment (including a Deferral Account with respect to which one or more installment payments have previously been made) which shall be made within seventy-five (75) days from the date of the Participant's Termination of Employment.

6.3 Distributions in the Event of Death.

Notwithstanding the foregoing, in the event of a Participant's death, the Participant's Beneficiary will receive a single lump sum payment in settlement of any Deferral Account (including a Deferral Account with respect to which one or more installment payments have previously been made) which shall be made within seventy-five (75) days following death.

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

Notwithstanding the foregoing, in the event a Participant incurs a Termination of Employment from the Company and all Affiliates for any reason other than Retirement, death or Disability, said Participant will receive his or her entire Deferral Account in a single lump sum payment (including a Deferral Account with respect to which one or more installment payments have previously been made). Such payment shall be made within seventy-five (75) days of the date the Participant's Termination of Employment occurs; provided, however, that with respect to a Participant who is a Specified Employee as of the date of his or her Termination of Employment for reasons other than death, payment of any portion of his or her Deferral Account (or any subaccount(s) thereof) pursuant to the provisions of this Section 6.4 will be delayed until the first business day of the seventh (7th) month following the date such Termination of Employment occurs.

6.5 Change in Control.

Payments in settlement of any Deferral Account (including a Deferral Account with respect to which one or more installment payments have previously been made) shall be made in a single lump sum within forty-five (45) business days following a Change in Control.

6.6 Form of Payment.

(a) *Installments* . Substantially equal annual installments, as elected by the Participant, from two (2) to ten (10) years. The initial installment of an annual payment stream will begin as of the first business day of the January (a) next following the Participant's date of Retirement

or (b) of the Specific Future Year, as the case may be. Subsequent annual payments will be as of the first business day of each subsequent calendar year of the installment period. Each installment will be equal to a fraction of the Account balance (or subaccount(s) thereof) as of the date the installment is paid, with the numerator of the fraction being "1" and the denominator being the number of payments remaining in the payment schedule.

Notwithstanding the foregoing provisions of this paragraph (a), if a Participant dies before receiving payment of the entire balance of his or her Deferral Account under the provisions of this Section, the remaining value of such Accounts shall be payable to his or her Beneficiary in accordance with the provisions of Section 6.8.

- (b) *Lump sum* . A Participant may elect distribution in the form of a single lump sum payment. Except for Specified Employees, distribution shall be made as of the first business day of the January (a) next following the Participant's date of Retirement or (b) of the Specific Future Year, as the case may be, in accordance with the provisions of set forth in Section 6.1.
- (c) Distributions to a Participant made pursuant to Section 6.1 will occur pursuant to the Participant's payment elections at the time he or she submits the applicable Deferred Stock Compensation Election. A Participant may choose different forms of payment with respect to each Deferred Stock Compensation Election. In the absence of an election of the form of payment by a Participant on a Deferred Stock Compensation Election, the portion of the Participant's Account deferred pursuant to that Deferred Stock Compensation Election, adjusted pursuant to the provisions of Article V, shall be paid in a single lump sum.
- (d) A Participant shall not change his or her form of payment election, except as otherwise provided in Section 6.7 below.

6.7 Change of Distribution Election.

- (a) In accordance with such procedures as the Plan Administrator may prescribe, a Participant may elect to change his or her Specific Future Year election under Section 6.1(a)(ii) with respect to a portion of his or her Deferral Account to a later Specific Future Year by duly completing, executing and filing with the Plan Administrator a new Specific Future Year election applicable to such Deferrals, subject to the following limitations:
 - i. such election must be made at least twelve (12) months prior to the Specific Future Year then in effect with respect to that portion of his or her Deferral or Account (or subaccount(s) thereof), and such election will not become effective until at least twelve (12) months after the date on which the election is made; and
 - ii. the new Specific Future Year shall be a calendar year that is not less than five (5) years from the Specific Future Year then in effect.

Notwithstanding the foregoing, a Participant may elect to delay his or her distribution from an elected Specific Future Year to the later of Retirement or a new Specific Future Year that is at least five (5) years from the Specific Future Year then in effect, provided the election is made in accordance with the foregoing provisions of this Section 6.7(a). A Participant may elect to delay his or her distribution from an elected Specific Future Year pursuant to this Section 6.7(a) more than once, provided that all such elections comply with the provisions of this Section 6.7(a).

- (b) In accordance with such procedures as the Plan Administrator may prescribe, a Participant may elect to delay the payment of a portion of his or her Deferral Account (or any subaccount(s) thereof) scheduled to be paid at his or her Retirement to his or her Retirement plus five

(5) calendar years by duly completing, executing and filing with the Plan Administrator a new Retirement election applicable to such deferrals; provided, however such election must be made at least twelve (12) months prior to Retirement and shall not become effective until at least twelve (12) months after the date on which the election is made.

(c) In accordance with such procedures as the Plan Administrator may prescribe, a Participant may elect to change the form of payment election under Section 6.6 applicable to his or her distribution under Section 6.1(a)(i) or (ii) by duly completing, executing and filing with the Plan Administrator a new form of payment election applicable to such deferrals, subject to the following limitations:

- i. such election must be made at least twelve (12) months prior to the Specific Future Year then in effect with respect to that portion of his or her Deferral Account (or subaccount(s) thereof), and such election will not become effective until at least twelve (12) months after the date on which the election is made; and
- ii. the distribution of that portion of his or her Deferral Account (or subaccount(s) thereof) shall be deferred for five (5) years from the date such amount would otherwise have been paid absent this election.

(d) It is the Company's intent that the provisions of Sections 6.7(a), (b) and (c) comply with the subsequent election provisions in Section 409A(a)(4)(C) of the Code, related regulations and other applicable guidance, and this Section 6.7 shall be interpreted accordingly. The Plan Administrator may impose additional restrictions or conditions on a Participant's ability to make an election pursuant to this Section 6.7. For avoidance of doubt, a Participant may not elect to alter the distribution of any portion of his or her Deferral Account (or any subaccount(s) thereof) from Retirement to a Specific Future Year or, except as provided in paragraph (a) above, from a Specific Future Year to Retirement.

6.8 Designation of Beneficiary.

Each Participant shall have the right to designate a Beneficiary to receive payment of his or her Account in the event of death. Any such designation may be changed at any time by executing and submitting (either by hand or electronic submission) a new designation on a form prescribed by the Plan Administrator.

6.9 Unclaimed Account.

If the Plan Administrator is unable to locate a Participant or Beneficiary to whom an Account is payable, such Account may be forfeited to the Company upon the Plan Administrator's determination. Notwithstanding the foregoing, if subsequent to any such forfeiture, the Participant or Beneficiary to whom such Account is payable makes a valid claim, such forfeited Account shall be restored to the Plan and paid by the Company.

6.10 Forfeited Stock.

To the extent that Stock (i) is deposited in a Trust pursuant to Section 5.4 in connection with a deferral of a Stock-denominated award under any plan, program, employment agreement or other arrangement and (ii) is forfeited pursuant to the terms of such plan, program, agreement or arrangement, the Participant shall not be entitled to the value of such Stock and other property related thereto (including without limitation, dividends thereon) or other award or amount, or proceeds thereof. Any Stock forfeited shall be returned to the Company.

6.11 Hardship Withdrawals.

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

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

6.12 Distribution of Grandfathered Deferral Account.

Notwithstanding the foregoing provisions of this Article VI, the distribution from a Participant's Grandfathered Deferral Account (or subaccount(s)) shall be made pursuant to the provisions of the Plan as set forth on October 3, 2004, without regard to any amendments after October 3, 2004 which would constitute a material modification for Section 409A of the Code, as modified in Appendix A attached hereto.

6.13 Form of Settlement.

The Company shall settle a Participant's Deferral Account, and discharge all of its obligations to pay deferred compensation under the Plan with respect to such Deferral Account, by delivery of shares of Stock, including shares of Stock delivered out of the assets of any Trust.

6.14 Adjustments.

In the event that any dividend or other distribution (whether in the form of cash, Stock, or other property), recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, share exchange, liquidation, dissolution or other similar corporate transaction or event affects the Stock such that an adjustment is determined by the Administrator or the Committee to be appropriate in order to prevent dilution or enlargement of a Participant's rights under the Plan, then the Plan Administrator or the Committee shall, in such manner as it may deem equitable, adjust any or all of the number and kind of shares of Stock to be issued upon settlement of Deferred Stock then credited to a Deferral Account under the Plan.

ARTICLE VII – ADMINISTRATION

7.1 Plan Administrator.

The Plan shall be administered by the Deferred Compensation Plans Committee, appointed by the Committee as Plan Administrator. The Plan Administrator shall be responsible for the general operation and administration of the Plan and for carrying out the provisions thereof. The Plan Administrator may delegate to others certain aspects of the management and operations of the Plan including the employment of advisors and the delegation of ministerial duties to qualified individuals, provided that such delegation is in writing.

7.2 General Powers of Administration.

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

7.3 Costs of Administration.

The costs of administering the Plan shall be borne by the Company unless and until the Participant receives written notice of the imposition of such administrative costs; with such costs to begin with the next Plan Year and none may be assessed retroactively for prior Plan Years.

Such costs shall be charged against the Participant's Account and shall be uniform or proportional for all Participants. Such costs shall not exceed the standard rates for similarly designed nonqualified plans under administration by high quality third party administrators at the time such costs are initially imposed and thereafter.

7.4 Indemnification.

The Company shall indemnify each director, officer or employee of the Company or any Affiliate and each member of the Committee and Deferred Compensation Plans Committee, including any subcommittee or delegates thereof, against any and all claims, losses, damages, expenses, including attorney's fees, incurred by them, and any liability, including any amounts paid in settlement with their approval, arising from their action or failure to act, except when the same is judicially determined to be attributable to their gross negligence or willful misconduct, as a result of the fact that he or she is or was serving the Plan in any capacity at the request of the Company.

7.5 409A Compliance.

With respect to the accounts subject to Section 409A of the Code, the Plan is intended to comply with the requirements of Section 409A of the Code and the provisions hereof shall be interpreted in a manner that satisfies the requirements of Section 409A of the Code and the regulations thereunder, and the Plan shall be operated accordingly. Regardless of, and superseding any other provision of the Plan to the contrary, if any provision of the Plan would otherwise frustrate or conflict with this intent, the provision will be interpreted and deemed amended so as to avoid this conflict. With respect to a Participant who is a Specified Employee as of the date of his or her Termination of Employment for reasons other than death, payment of any amounts subject to Section 409A of the Code on account of his or her Termination of Employment will be delayed until the first day of the seventh (7th) month following the date such Termination of Employment occurs.

7.6 Sources of Stock: Limitation on Amount of Stock-Denominated Deferrals.

If shares of Stock are deposited under the Plan in a Trust pursuant to Section 5.4 in connection with a deferral of a Stock-denominated award under another plan, program, employment agreement or other arrangement that provides for the issuance of shares, the shares so deposited shall be deemed to have originated, and shall be counted against the number of shares reserved, under such other plan, program or arrangement. Shares of Stock actually delivered in settlement of Deferral Accounts shall be originally issued shares or treasury shares, in the discretion of the Plan Administrator.

ARTICLE VIII – CLAIMS PROCEDURE

8.1 Claims.

A person who believes that he or she is being denied a benefit to which he or she is entitled under the Plan (hereinafter referred to as a “Claimant”) may file a written request for such benefit with the Plan Administrator, setting forth his or her claim. The request must be addressed to the Senior Vice President, Compensation and Benefits, at the Company’s then principal place of business.

8.2 Claim Decision.

Upon receipt of a claim, the Plan Administrator or its delegate shall review and determine the claim within ninety (90) days. If the Plan Administrator determines that additional time is needed to review the claim, the Plan Administrator will provide the Claimant with a notice of the extension before the end of the initial ninety (90)-day period. The notice of extension will provide the date by which the Plan Administrator expects to make a decision.

If the claim is denied in whole or in part, the Plan Administrator shall notify the Claimant in writing of the following:

- (a) The reason or reasons for such denial;
- (b) The pertinent provisions of the Plan;
- (c) Appropriate information as to the steps to be taken if the Claimant wishes to submit the claim for review; and
- (d) The time limits for requesting a review under this Section.

8.3 Request for Review/Appeal.

Within sixty (60) days after the receipt by the Claimant of the initial written notice of a denial, the Claimant may request in writing that the initial determination be reviewed. Such request must be addressed to the Senior Vice President, Compensation and Benefits, at the Company’s then principal place of business. The Claimant or his or her duly authorized representative may, but need not, submit issues and comments in writing for consideration by the Appeals Committee, a subcommittee of the Deferred Compensation Plans Committee. If the Claimant does not request a review of the initial determination within such sixty (60)-day period, he or she shall be barred and stopped from challenging the Plan Administrator’s initial determination.

8.4 Review of Decision.

Within sixty (60) days after the Plan Administrator’s receipt of a request for review, the Appeals Committee of the Plan Administrator will review the Plan Administrator’s initial determination. After considering all materials presented by the Claimant, the Appeals Committee will render a written decision, setting forth the reasons for the decision and containing references to the pertinent

provisions of the Plan. If the Appeals Committee requires an extension of the sixty (60)-day time period, the Appeals Committee will so notify the Claimant and will render the decision as soon as possible, but no later than one hundred twenty (120) days after receipt of the request for review.

8.5 Time Limit for Bringing Legal Action.

Any legal action by the Claimant must be brought within ninety (90) days following the date of the decision on the final review under Section 8.4 above.

ARTICLE IX – MISCELLANEOUS

9.1 Not Contract of Employment.

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

9.2 Non-Assignability of Benefits.

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

9.3 Receipt and Release.

Payments (in any form) to any Participant or Beneficiary in accordance with the provisions of the Plan shall, to the extent thereof, be in full satisfaction of all claims for any compensation deferred, or otherwise relating to any Deferral Account, under the Plan against the Company or any subsidiary thereof, the Committee, or the Plan Administrator. In the case of any payment under the Plan of less than all amounts then credited to a Deferral Account in the form of Stock, the amounts paid shall be deemed to relate to the Stock credited to the account at the earliest time.

9.4 Withholding and Deduction and Taxes.

All deferrals and payments provided for hereunder shall be subject to applicable withholding and other deductions as shall be required of the Company under any applicable local, state or federal law. The Company may require that the Participant or Beneficiary making a deferral or receiving payments pay to the Company the amount of any federal, state or local taxes, if any, that the Company or any Affiliate is required to withhold with respect to such deferrals or payments or the Company or any Affiliate may deduct from other wages paid by the Company or any Affiliate the amount of any withholding taxes due with respect to such deferrals or payments. A Participant or Beneficiary shall be solely responsible for any tax consequences related to deferrals or payments made under the Plan. The Company shall have no obligation to make any payment under the Plan until the Company's or any Affiliate's tax withholding obligations have been satisfied by the Participant or Beneficiary.

9.5 Amendment and Termination.

The Committee or its delegate may from time to time, in its discretion, amend, in whole or in part, any or all of the provisions of the Plan; provided, however, that no amendment may be made that would impair the rights of a Participant with respect to amounts already allocated to his or her Account without the Participant's consent. To the extent consistent with the rules relating to plan terminations and liquidations in Treas. Reg. Section 1.409A-3(j)(4)(ix) or otherwise consistent with Section 409A of the Code, the Committee, in its sole discretion, may terminate the Plan and any related Deferred Stock Compensation Election at any time and in that event the Committee may provide that, without the prior written consent of Participants, the Participants' Accounts shall be distributed in a single lump sum in shares. In the event of a Plan termination, the distribution of a Participant's Grandfathered Deferral Account shall be made pursuant to the provisions of the Plan as set forth on October 3, 2004, without regard to any amendments after October 3, 2004 which would constitute a material modification for Section 409A of the Code, as modified in Appendix A attached hereto.

9.6 Compliance with Securities and Other Laws.

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

The Company shall impose such restrictions on Stock delivered to a Participant hereunder and any other interest constituting a security as it may deem advisable in order to comply with the Securities Act of 1933, as amended, the requirements of the New York Stock Exchange or any other stock exchange or automated quotation system upon which the Stock is then listed or quoted, any applicable state securities laws, any provision of the Company's Certificate of Incorporation or Bylaws, or any other law, regulation, or binding contract to which the Company is a party.

9.7 Provisions Relating to Section 16 of the Exchange Act.

With respect to a Participant who is then subject to the reporting requirements of Section 16(a) of the Exchange Act, the Committee and Plan Administrator shall implement transactions under the Plan and administer the Plan in a manner that will ensure that each transaction by such a Participant is exempt from or otherwise not subject to liability under Rule 16b-3, except that such a Participant may be permitted to engage in a non-exempt transaction under the Plan if written notice is given to the Participant regarding the non-exempt nature of such transaction.

9.8 No Trust Created.

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

9.9 Unsecured General Creditor Status of Employee.

The Plan is intended to constitute an "unfunded" plan for deferred compensation and Participants shall rely solely on the unsecured promise of the Company for payment hereunder. With respect to any payment not yet made to a Participant under the Plan, nothing contained in the Plan shall give a Participant any rights that are greater than those of a general unsecured creditor of the Company; provided, however, that the Committee may authorize the creation of Trusts, including but not limited to the Trusts referred to in Section 5.4 hereof, or make other arrangements to meet the Company's obligations under the Plan, which Trusts or other arrangements shall be consistent with the "unfunded" status of the Plan unless the Committee otherwise determines with the consent of each affected Participant.

No Participant shall have any of the rights or privileges of a stockholder of the Company under the Plan, including as a result of the crediting of Stock-denominated units or other amounts to a Deferral

Account, or the creation of any Trust and deposit of such Stock therein, except at such time as Stock may be actually delivered to the Participant in settlement of a Deferral Account.

9.10 Limitation.

A Participant and his or her Beneficiary shall assume all risk in connection with any decrease in value of the Deferral Account, and neither the Company nor the Committee or the Plan Administrator shall be liable or responsible therefor.

9.11 Payment to Minors and Incompetents.

If any Participant, spouse, or Beneficiary entitled to receive any benefits hereunder is a minor or is deemed by the Plan Administrator or is adjudicated to be legally incapable of giving a valid receipt and discharge for such benefits, the benefits will be paid to the person or entity as the Plan Administrator determines has been appointed or established to receive such payment on behalf of such person. Such payment shall, to the extent made, be deemed a complete discharge of any payment obligation under the Plan.

9.12 Acceleration of or Delay in Payments.

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

9.13 Severability.

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

9.14 Governing Laws.

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

9.15 Binding Effect.

The terms of the Plan shall be binding on each Participant and his or her heirs and legal representatives and on the Company and its successors and assigns.

CVS HEALTH CORPORATION

DEFERRED COMPENSATION PLAN

Amended and Restated Effective October 1, 2015

CVS HEALTH CORPORATION

Deferred Compensation Plan

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APPENDIX A – PROVISIONS APPLICABLE TO A PARTICIPANT’S GRANDFATHERED DEFERRAL ACCOUNT AND GRANDFATHERED COMPANY ACCOUNT 25

1.1 Name of Plan.

CVS Health Corporation (the “Company”) hereby adopts the CVS Health Deferred Compensation Plan as amended and restated as of October 1, 2015 (the “Plan”).

1.2 Purpose of Plan.

The purpose of the Plan is to provide certain eligible employees of the Company or an Affiliate authorized by the Committee to participate in the Plan the opportunity to defer elements of his or her compensation which might not otherwise be deferrable under other plans maintained by the Company or an Affiliate and to make deferrals and receive contributions that would be obtainable under the 401(k) and Employee Stock Ownership Plan of CVS Health Corporation and Affiliated Companies (“Future Fund”) in the absence of certain restrictions and limitations in the Internal Revenue Code.

1.3 “Top Hat” Pension Benefit Plan.

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

1.4 Funding.

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

1.5 Effective Date.

The Plan was originally effective as of January 1, 1997, and amended and restated in its entirety effective as of December 31, 2008, to comply with the provisions of Section 409A of the Internal Revenue Code and regulations promulgated thereunder and as of December 17, 2014 and October 1, 2015 to reflect certain design and administrative changes desired by the Company.

1.6 Administration.

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

1.7 Number and Gender.

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

1.8 Headings.

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

ARTICLE II – DEFINITIONS

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

2.1 Account.

The Company Account, Deferral Account, Grandfathered Company Account, and the Grandfathered Deferral Account maintained by the Company on behalf of each Participant pursuant to the Plan.

2.2 Affiliate.

A subsidiary of the Company, as defined in the Company's Universal 409A Definition Document.

2.3 Annual Cash Incentive.

The amount awarded to a Participant in cash for a Plan Year under a regular (annual) incentive plan (other than an exceptional performance award program or a one-time incentive plan or program) maintained by the Company or an Affiliate, and any other amount otherwise included in Annual Cash Incentive for purposes of the Plan under rules as are adopted by the Committee.

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

2.4 Annual Cash Incentive Deferral.

The amount of a Participant's Annual Cash Incentive which a Participant elects to have withheld on a pre-tax basis from his or her Annual Cash Incentive and credited to his or her Deferral Account pursuant to the Plan.

2.5 Base Salary.

The base rate of cash compensation paid by the Company or an Affiliate to or for the benefit of a Participant for services rendered or labor performed while a Participant, including deferrals pursuant to the Plan and any pre-tax contribution to be made on the Participant's behalf to any qualified plan maintained by the Company or an Affiliate pursuant to a cash or deferred arrangement maintained by the Company or an Affiliate (as defined under Section 401(k) of the Code) or under any cafeteria plan (as defined under Section 125 of the Code) or under a qualified transportation fringe (as defined under Section 132(f) of the Code). Base Salary shall exclude any overtime, premium pay, shift differentials, bonuses, commissions or any other form of supplemental cash compensation, except to the extent otherwise deemed "Base Salary" for purposes of the Plan under rules as are adopted by the Committee.

2.6 Base Salary Deferral.

The amount of a Participant's Base Salary which the Participant elects to have withheld on a pre-tax basis from his or her Base Salary and credited to his or her Deferral Account pursuant to the Plan.

2.7 Beneficiary.

The person or persons (which may include trusts) designated in writing (either by hand or electronic submission) by the Participant on the beneficiary designation form prescribed by the Plan Administrator to receive the amounts, if any, payable under the Plan upon the death of the Participant. In the absence of such written designation by the Participant, the Beneficiary shall mean, in the

following order, the Participant's spouse, if any; the person named as the Participant's beneficiary under the Company's life insurance program; or the Participant's estate.

2.8 Board.

The Board of Directors of the Company.

2.9 Change in Control.

"Change in Control" as such term is defined in the Universal 409A Definition Document.

2.10 Code.

The Internal Revenue Code of 1986, as amended. References to any provision of the Code or regulation (including a proposed regulation) thereunder shall include any successor provisions or regulations.

2.11 Commissions.

The amount of a Participant's sales commissions or other commissions payable under a sales commissions or other commissions plan maintained by the Company or an Affiliate. (Sales commissions for purposes of the Plan shall mean sales commissions as defined in Treas. Reg. Section 1.409A-2(a)(12)(i) and any subsequent guidance and such sales commissions are considered to be earned in the taxable year of the Participant in which the sale is completed.)

2.12 Commissions Deferral.

The amount of a Participant's Commissions that a Participant elects to have withheld on a pre-tax basis from his or her Commissions and credited to his or her Deferral Account pursuant to the Plan.

2.13 Committee.

The Management Planning and Development Committee of the Board of Directors of the Company or any other directors of the Company designated as the Committee.

2.14 Company Account.

The bookkeeping account (or subaccount(s) thereof) maintained for each Participant to record the amount of Company Contributions that are either (i) credited on his or her behalf under Section 4.4 on or after January 1, 2005 or (ii) were credited on his or her behalf under Section 4.4 prior to January 1, 2005, but became vested on or after January 1, 2005, as adjusted pursuant to Section 5.6.

2.15 Company Contribution.

The amount, as determined by the Company on an annual basis based on the provisions of the Plan, which is credited on the Participant's behalf by the Company to his or her Company Account pursuant to the provisions of Section 4.4(a) of the Plan.

2.16 CVS Caremark Retention Payment.

The amount granted to an Eligible Executive, as defined in and provided for under the provisions of the employment term sheet agreement entered into between the Company or an Affiliate and said Eligible Executive, as a former employee of Caremark Rx, Inc., in connection with the merger involving Caremark, Rx, Inc. and the Company.

2.17 Deferrals.

The amount of deferrals credited to a Participant pursuant to Section 4.1.

2.18 Deferral Account.

The bookkeeping account (or subaccount(s) thereof) maintained for each Participant to record any and all deferrals made under the Plan.

2.19 Deferred Compensation Election.

The written election (either by hand or electronic submission) including any amendments, attachments and appendices thereto as prescribed by the Plan Administrator, regardless of how it may be titled, under which the Participant agrees to defer a portion of his or her Base Salary and/or Annual Cash Incentive or Commissions under the Plan (or any other cash remuneration payable to a Participant that he or she may elect to defer under the provisions of the Plan, including but not limited to awards under the Company's Long Term Incentive Plan (LTIP). This election as to deferral and the related form and timing of distribution is made by the Participant and constitutes the agreement entered into between the Company and a Participant for participation in the Plan. The Participant elects the terms of his or her deferral pursuant to the provisions of this Plan and the administrative procedures established by the Plan Administrator.

2.20 Disability.

"Disability" as defined in the Company's Long-Term Disability Plan.

2.21 Distribution Date.

The date on which a Participant's distribution is scheduled to be paid with respect to his or her Account under the Plan pursuant to his or her Deferred Compensation Election, which date shall take into account any processing period.

2.22 Effective Date.

January 1, 1997.

2.23 Elective Deferrals.

Elective Deferrals as defined in Section 3.02 of Future Fund.

2.24 Eligible Executive.

An Executive who is eligible to participate in the Plan as provided in Section 3.1(a).

2.25 Employee.

Any common-law full-time salaried exempt employee of the Company or an Affiliate who has been authorized by the Committee to participate in the Plan.

2.26 ERISA.

The Employee Retirement Income Security Act of 1974, as amended.

2.27 Executive.

An Employee whose Base Salary (determined on the basis of a maximum forty (40) hour work week) equals or exceeds \$150,000 (as adjusted from time to time by the Committee).

2.28 Future Fund.

The 401(k) Plan and the Employee Stock Ownership Plan of CVS Health Corporation and Affiliated Companies.

2.29 Grandfathered Company Account.

The bookkeeping account (or subaccount(s)) maintained for each Participant to record the amount of Company Contributions credited on a Participant's behalf under Section 4.4, which were vested as of December 31, 2004, adjusted as provided in Section 5.6.

2.30 Grandfathered Deferral Account.

The bookkeeping account (or subaccount(s)) maintained for each Participant to record (i) the amount of Base Salary and/or Annual Cash Incentive or Commissions deferred in accordance with Section 4.1, (ii) the amount of LTIP deferrals deferred in accordance with Section 4.4, and/or (iii) the amount of cash retention award deferrals deferred in accordance with Section 4.4, as of December 31, 2004, adjusted pursuant to Section 5.6.

2.31 Lost Matching Contributions.

The amounts credited on a Participant's behalf to his or her Company Account pursuant to the provisions of Section 4.4(a).

2.32 Participant.

Each Eligible Executive participating in the Plan as set forth in Section 3.2.

2.33 Plan Administrator.

The Deferred Compensation Plans Committee appointed pursuant to Section 7.1 to administer the Plan.

2.34 Plan Year.

A calendar year ending on December 31.

2.35 Qualified Future Fund Matching Contribution.

The total of all matching contributions made (or that would have been made) by the Company or an Affiliate with respect to a Plan Year for the benefit of a Participant under and in accordance with the terms of Future Fund.

2.36 Retirement.

Termination of Employment with the Company and all Affiliates on or after (i) age fifty-five (55) and the completion of ten (10) or more Years of Service or, if earlier, (ii) age sixty (60) and the completion of five (5) or more Years of Service.

2.37 Specified Employee.

"Specified Employee" as such term is defined in the Universal 409A Definition Document.

2.38 Specific Future Year.

A calendar year in the future elected by a Participant with respect to the distribution of his or her Account(s) (or subaccount(s) thereof) pursuant to the Plan.

2.39 Termination of Employment.

“Termination of employment” as such term is defined in the Universal 409A Definition Document.

2.40 Universal 409A Definition Document.

The document developed by the Company for the purpose of defining terms relating to benefits or amounts in all plans covered by Section 409A of the Code and sponsored by the Company or any Affiliate.

2.41 Valuation Date.

The date on which an Account is valued under the Plan, as determined by the Committee, by reference to the New York Stock Exchange.

2.42 Year of Service.

Vesting Service as defined in Future Fund.

ARTICLE III – ELIGIBILITY AND PARTICIPATION

3.1 Eligibility.

- (a) An Employee who is an Executive on October 1st of a calendar year (or such other date in the calendar year as designated by the Committee) shall be eligible to participate in the Plan. The Committee may, in its sole discretion, designate other key employees of the Company or an Affiliate who are members of a select group of management or highly compensated employees as eligible to participate in the Plan.
- (b) Notwithstanding any Plan provision to the contrary, Employees must also be subject to the income tax laws of the United States in order to be eligible for participation in the Plan.
- (c) Subject to the provisions of Sections 3.3 and Section 4.1, an Eligible Executive shall remain eligible to continue participation in the Plan for each Plan Year following his or her initial year of participation in the Plan.

3.2 Commencement of Participation.

An Eligible Executive shall become a Participant effective as of the date that the Eligible Executive’s first Deferred Compensation Election becomes effective, provided that the Eligible Executive has provided such information as the Plan Administrator deems necessary to properly administer the Plan.

3.3 Termination of Participation.

- (a) Participation shall cease when the benefits that have been credited to a Participant’s Deferral Account have been distributed to him or her.
- (b) Subject to the provisions of Section 4.3(c), a Participant shall only be eligible to make Deferrals under the Plan for as long as he or she remains an Eligible Executive.
- (c) If a former Participant who has incurred a Termination of Employment with the Company and all Affiliates and whose participation in the Plan ceased under Section 3.3(a) is reemployed as an Executive, the former Participant may again become eligible to participate in accordance with the provisions of Section 3.1(a).

ARTICLE IV – DEFERRALS & COMPANY CONTRIBUTIONS

4.1 Deferrals.

- (a) Subject to the following provisions of this Article IV, an Eligible Executive may defer for any Plan Year, (i) up to fifty percent (50%) of Base Salary otherwise earned and payable in that Plan Year, and/or (ii) up to one hundred percent (100%) of Annual Cash Incentive otherwise earned in that Plan Year and payable in that Plan Year or in the first calendar quarter of the following Plan Year, and/or (iii) up to one hundred percent (100%) of Commissions otherwise earned in that Plan Year and payable in that Plan Year or in the first calendar quarter of the following Plan Year. The Plan Administrator may, as it deems appropriate, establish maximum or minimum limits on the amounts which may be deferred for a Plan Year and/or the times of such Deferred Compensation Elections. An Eligible Executive shall be given advance notice of any such limits.
- (b) Deferrals under the Plan shall be calculated with respect to the gross cash compensation payable to the Participant prior to any deductions (e.g., 401(k) deferrals) or withholdings. However, the Deferrals shall be reduced by the Plan Administrator as necessary if it is later determined, after Deferrals are made under the Plan and after additional deduction of all required income and employment taxes, 401(k) and other employee benefit deductions, and other deductions required by law, that all such total deferrals will exceed one hundred percent (100%) of the cash compensation of the Participant available under Section 4.1(a). Changes to payroll withholdings that affect the amount of compensation being deferred to the Plan shall be allowed only to the extent permissible under Section 409A of the Code.

4.2 Filing Requirements of Deferred Compensation Elections.

Subject to the following provisions of this Section, during an annual enrollment period established by the Plan Administrator in any Plan Year, an Eligible Executive described in Section 3.1 may elect, subject to Section 4.1 above, to defer a portion of his or her Base Salary that is otherwise earned and payable in the next Plan Year and/or all or a portion of his or her Annual Cash Incentive or Commissions otherwise earned in the next Plan Year and payable in that Plan Year or in the first calendar quarter of the subsequent Plan Year by submitting a Deferred Compensation Election during such annual enrollment period. If an Executive becomes an Eligible Executive after October 1 (or such later date as prescribed by the Plan Administrator) in any calendar year, he or she may not make a Deferred Compensation Election for Base Salary, Annual Cash Incentive or Commissions earned in the next Plan Year.

A Participant shall submit a Deferred Compensation Election in the manner specified by the Plan Administrator and a Deferred Compensation Election that is not timely filed shall be considered void and have no effect. If a Participant does not file a Deferred Compensation Election applicable to his or her Base Salary, Annual Cash Incentive or Commissions earned in a Plan Year on or before the close of the applicable annual enrollment period (or such later date prescribed by the Plan Administrator), the Participant shall be deemed to have elected not to make a Deferred Compensation Election for such Plan Year. The Plan Administrator shall establish procedures that govern deferral elections under the Plan, including the ability to make separate elections for Base Salary, Annual Cash Incentive or Commissions, and any other cash remuneration payable to the Participant that the Committee or Plan Administrator permits a Participant to defer under the Plan.

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

4.3 Modification or Revocation of Election by Participant.

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

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

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

- (b) If a Participant's Deferred Compensation Election applicable to his or her Base Salary and/or Annual Cash Incentive or Commissions is cancelled for a Plan Year, he or she will not be permitted to elect to make Deferrals again until the next Plan Year.
- (c) If a Participant ceases to be an Executive after the date a Deferred Compensation Election becomes effective but continues to be employed by the Company or an Affiliate, he or she shall continue to be a Participant and his or her Deferred Compensation Election currently in effect shall remain in force, but such Participant shall not be eligible to make any further Deferred Compensation Elections until such time as he or she shall once again become an Eligible Executive.
- (d) Notwithstanding anything in the Plan to the contrary, if an Eligible Executive:
- i. receives a withdrawal of deferred cash contributions on account of hardship from any plan which is maintained by the Company or an Affiliate and which meets the requirements of Section 401(k) of the Code (or any successor thereto); and
 - ii. is precluded from making contributions to such 401(k) plan for at least six (6) months after receipt of the hardship withdrawal,

the Eligible Executive's Deferred Compensation Election with respect to Base Salary, Annual Cash Incentive or Commissions in effect at that time shall be cancelled. Any Base Salary, Annual Cash Incentive or Commissions payment which would have been deferred pursuant to that Deferred Compensation Election but for the application of this Section 4.3(d) shall be paid to the Eligible Executive as if he or she had not made that election.

4.4 Company Contributions and Other Deferrals.

- (a) *Company Contributions - Restoration of Lost Matching Contribution* . The amount of Lost Matching Contributions credited under the Plan on a Participant's behalf each calendar year shall be equal to (i) minus (ii) where:
- i. is the total Qualified Future Fund Matching Contribution that would have been allocated on the Participant's behalf under Future Fund, without giving effect to any reductions or limitations required by Sections 401(a)(17), 401(k), 402(g) and/or 415 of the Code, for the Plan Year based on the aggregate of the Participant's Elective Deferrals to Future Fund, his or her deferrals to any other qualified defined contribution plan maintained by the Company or an Affiliate, and his or her Deferral under Section 4.1 for the Plan Year, disregarding, in all cases, any deferrals made with respect to Base Salary, Annual Cash Incentives and Commissions otherwise payable prior to the first payroll period commencing in the month following date the Participant's completion of one (1) Year of Service; and
 - ii. If the Participant is eligible to contribute to Future Fund (whether pre-tax or after-tax) during the Plan Year, the actual matching contributions made on the Participant's behalf to Future Fund or any other qualified defined contribution plan maintained by the Company or any Affiliate for that Plan Year.

In addition, if the Participant is not eligible to contribute to Future Fund during the Plan Year but is eligible to contribute to another qualified defined contribution plan (whether pre-tax or after-tax) maintained by the Company or an Affiliate during that Plan Year, the amount under this clause (ii) shall equal, unless otherwise provided by the Committee, the maximum amount of matching contributions the Participant would have received under the provisions of Future Fund for that Plan Year had he or she been eligible to contribute to Future Fund during that Plan Year, based on his or her Base Salary and/or Annual Cash Incentive or Commissions otherwise earned and payable in that Plan Year, and his or her contributions to such other qualified defined contribution plan for that Plan Year had been made to Future Fund.

Notwithstanding the foregoing, for purposes of determining the Lost Matching Contributions to be credited under this Section 4.4(a), Years of Service with respect to a Participant employed by Red Oak Sourcing, LLC, the limited liability corporation formed pursuant to the Framework Agreement between CVS Pharmacy, Inc. and Cardinal Health 110 Inc., dated December 10, 2013 ("Cardinal"), who immediately prior to becoming employed by Red Oak Sourcing, LLC was employed by Cardinal, shall include the period of such Participant's employment rendered with Cardinal.

- (b) *LTIP Deferrals* .

At the sole discretion of the Committee, all or a portion of a Participant's cash award under the LTIP may be deferred under the Plan. Such election shall be made in accordance with the procedures established by the Plan Administrator. The deferral election applicable to an LTIP cash award shall be made prior to the close of the calendar year preceding the first day of the performance period applicable to that award. Notwithstanding the foregoing, such election shall become irrevocable as of the close of business of the last day of the calendar year preceding the first day of the performance period applicable to that award. However, if such award meets the definition of performance-based compensation (as defined under Treas. Reg. Section 1.409A-1(e) and any subsequent guidance), the Plan Administrator may permit such election to be made in accordance with the provisions under Treas. Reg. Section 1.409A-2(a)(8) and subsequent guidance.

(c) *Cash Retention Award Deferrals.*

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

4.5 Deferral and Contribution Timing.

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

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

Company Contributions for the Restoration of Lost Matching Contribution pursuant to Section 4.4(a) above will generally be credited to the Participant's Company Account as of the day on which said Lost Matching Contribution would otherwise have been credited to the Participant's account under Future Fund (generally following one Year of Participation Service).

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

Cash retention awards Deferrals will be credited to the Account of the Participant as of the day on which such cash retention award otherwise would have been paid to the Participant in cash.

ARTICLE V – ACCOUNTS

5.1 Establishment of Bookkeeping Accounts.

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

5.2 Subaccounts.

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

5.3 Hypothetical Nature of Accounts.

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

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

5.4 Vesting.

Deferral Account . A Participant shall be one hundred percent (100%) vested in his or her Deferral Account and Grandfathered Deferral Account at all times. A Participant shall be one hundred percent (100%) vested in the LTIP deferrals credited on his or her behalf pursuant to Section 4.4(b) and any cash retention award deferrals credited on his or her behalf pursuant to Section 4.4(c).

Company Account . A Participant shall be one hundred percent (100%) vested in his or her Company Account and Grandfathered Company Account at all times.

5.5 Deferral Crediting Options.

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

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

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

A Participant may change his or her election of a Deferral Crediting Option used to measure the hypothetical investment performance of his or her Account balance within such time periods and in such manner prescribed by the Plan Administrator. The election shall be effective as soon as administratively practicable after the date on which the election is submitted in the manner specified by the Plan Administrator.

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

5.6 Hypothetical Gains or Losses.

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

The gain or loss on Participant Accounts will be calculated each Valuation Date. The Unit Price shall determine each Deferral Crediting Option's hypothetical value, based on the number of units within the Account for any given Deferral Crediting Option. Account balances on a given day will be based on the previous day's New York Stock Exchange closing price.

ARTICLE VI – DISTRIBUTION OF ACCOUNT

6.1 Distribution Elections – Timing of Payment.

- (a) Subject to the limitations set forth in this Article VI, each time a Participant makes a Deferred Compensation Election with respect to a Plan Year beginning on or after January 1, 2016, the Participant shall designate on that applicable Deferred Compensation Election, separately for Participant deferrals and Company Contributions, as adjusted pursuant to Article V, that the distribution of such deferrals shall be made or commence, as the case may be, pursuant to Section 6.6, as of (i) the Participant's Retirement; or (ii) a Specific Future Year not later than the Plan Year in which the Participant attains age seventy-one (71)

A Participant may choose different options with respect to each Deferred Compensation Election. A Participant may not change the election made pursuant to the provisions of this Section 6.1, except as otherwise provided in Section 6.7 below.

- i. *Retirement* . The distribution of the portion of a Participant's Deferral or Company Account (or subaccount(s)) that is deferred to Retirement under this Section shall commence on the first business day in the January next following his or her Retirement, pursuant to the provisions of Section 6.6, provided, however, that with respect to a Participant who is a Specified Employee as of the date of his or her Retirement, payment of any portion of his or her Deferral or Company Account (or any subaccount(s) thereof) that is subject to Section 409A of the Code will be delayed until the first business day of the seventh (7th) month following the date such Retirement occurs.
- ii. *Specific Future Year* . In the event a Participant elects to have the distribution of such deferrals made or commence as of a Specific Future Year, subject to rules established by the Plan Administrator, the deferral period must be at least five (5) Plan Years. The distribution of the portion of a Participant's Deferral or Company Account (or subaccount(s)) that is deferred to a Specific Future Year shall commence on the first business day of January in that specific year pursuant to the provisions of Section 6.6.
- (b) Company Contributions shall be distributed pursuant to the Participant's distribution election. In the event a Participant has not made a distribution election for the Company Contributions for that Plan Year, such distribution shall mirror his or her distribution election made with respect to his or her Base Salary Deferral or Annual Cash Incentive or Commissions Deferral for that Plan Year, if any, in such order; otherwise, such distribution shall be made at the Participant's Retirement.

6.2 Disability Distributions.

Notwithstanding the foregoing, if a Participant has a Termination of Employment because he or she has become Disabled, as determined by the Plan Administrator, such Participant will receive the balance of his or her Deferral Account and Company Account paid out in five (5) annual substantially equal installments with the first payment to be made within seventy-five (75) days from the date of the Participant's Termination of Employment. Subsequent annual payments will be paid as of the first business day in January of each subsequent year of the installment period.

6.3 Distributions in the Event of Death.

Notwithstanding the foregoing, in the event of a Participant's death, the Participant's Beneficiary will receive the remaining balance of the Participant's Deferral Account and Company Account paid in two (2) annual installments with the first payment to be made within seventy-five (75) days of the Participant's date of death. The second annual payment will be paid as of the first business day in January of the subsequent calendar year.

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

Notwithstanding the foregoing, in the event a Participant incurs a Termination of Employment from the Company and all Affiliates for any reason other than Retirement, death or Disability, said Participant will receive his or her entire Deferral Account and Company Account balance in a single lump sum payment. Such payment shall be made within seventy-five (75) days of the date the Participant's Termination of Employment occurs; provided, however, that with respect to a Participant who is a Specified Employee as of the date of his or her Termination of Employment for reasons other than death, payment of any portion of his or her Deferral or Company Account (or any subaccount(s) thereof) pursuant to the provisions of this Section 6.4 will be delayed until the first business day of the seventh (7th) month following the date such Termination of Employment occurs.

6.5 Change in Control.

Notwithstanding the foregoing provisions of this Article VI, upon the occurrence of a Change in Control, a Participant who has a valid change in control election(s) in effect shall automatically receive the balance of his or her Deferral Account and Company Account related to that election, in cash, in a single lump sum payment. Such lump sum payment shall be paid within forty-five (45) business days after the Change in Control occurs. If such Participant dies after such Change in Control event occurs, but before receiving such payment, it shall be made to his or her Beneficiary.

6.6 Form of Payment.

(a) *Installments* . Subject to the limitations set forth in Article VI, distributions will be made in annual (or quarterly, if the election was made prior to October 1, 2008) installments, as elected by the Participant, for up to, and including, ten (10) years (fifteen (15) years for an election made prior to October 1, 2008). The initial installment of an annual or quarterly payment stream will begin as of the first business day of the January (a) next following the Participant's date of Retirement or (b) of the Specific Future Year, as the case may be, in accordance with the provisions of set forth in Section 6.1. Subsequent annual or quarterly payments will be as of the first business day of each subsequent calendar year or quarter of the installment period.

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

Notwithstanding the foregoing provisions of this paragraph (a), if a Participant dies before receiving payment of the entire balance of his or her Deferral and Company Accounts under the provisions of this Section, the remaining value of such Accounts shall be payable to his or her Beneficiary in accordance with the provisions of Section 6.9.

(b) *Lump sum* . A Participant may elect distribution in the form of a single lump sum payment. Except for Specified Employees, distribution shall be made as of the first business day of the January (a) next following the Participant's date of Retirement or (b) of the Specific Future Year, as the case may be, in accordance with the provisions of set forth in Section 6.1.

(c) Distributions to a Participant made pursuant to Section 6.1 will occur pursuant to the Participant's payment elections at the time he or she submits the applicable Deferred Compensation Election. A Participant may choose different forms of payment with respect to each Deferred Compensation Election. Company Contributions, adjusted pursuant to Article V, shall be distributed pursuant to the Participant's form of payment election made with respect to his or her Company Contributions for that year. If the Participant has not made an election with respect to his or her Company Contributions, the portion of his or her Company Account attributable to such Company contributions will be distributed in accordance with his or her form of payment election with respect to his or her Base Salary Deferral, Annual Cash Incentive or Commissions Deferrals for that year, if any, in that order; otherwise payment will be made in a lump sum payment. In the absence of an election of the form of payment by a Participant on a Deferred Compensation Election, the portion of the Participant's Account deferred pursuant to that Deferred Compensation Election, adjusted pursuant to the provisions of Article V, shall be paid in a single lump sum.

(d) A Participant shall not change his or her form of payment election, except as otherwise provided in Section 6.7 below.

6.7 Change of Distribution Election.

(a) In accordance with such procedures as the Plan Administrator may prescribe, a Participant may elect to change his or her Specific Future Year election under Section 6.1(a)(ii) with respect to a portion of his or her Deferral Account (or an Interim Distribution date election applicable to a portion of his or her Deferral Account or Company Account made pursuant to the provisions of the Plan as in

effect prior to December 31, 2008) to a later Specific Future Year (or, if applicable, a later Interim Distribution date) by duly completing, executing and filing with the Plan Administrator a new Specific Future Year election (or Interim Distribution date election) applicable to such Deferrals, subject to the following limitations:

- i. such election must be made at least twelve (12) months prior to the Specific Future Year (or Interim Distribution date) then in effect with respect to that portion of his or her Deferral or Company Account (or subaccount(s) thereof), and such election will not become effective until at least twelve (12) months after the date on which the election is made; and
- ii. the new Specific Future Year (or Interim Distribution date) shall be a calendar year that is not less than five (5) years from the Specific Future Year (or Interim Distribution date) then in effect.

Notwithstanding the foregoing, a Participant may elect to delay his or her distribution from an elected Specific Future Year to the later of Retirement or a new Specific Future Year that is at least five (5) years from the Specific Future Year then in effect, provided the election is made in accordance with the foregoing provisions of this Section 6.7(a). A Participant may elect to delay his or her distribution from an elected Specific Future Year (or Interim Distribution date) pursuant to this Section 6.7(a) more than once, provided that all such elections comply with the provisions of this Section 6.7(a).

- (b) In accordance with such procedures as the Plan Administrator may prescribe, a Participant may elect to delay the payment of a portion of his or her Deferral or Company Account (or any subaccount(s) thereof) scheduled to be paid at his or her Retirement to his or her Retirement plus five (5) calendar years by duly completing, executing and filing with the Plan Administrator a new Retirement election applicable to such deferrals; provided, however such election must be made at least twelve (12) months prior to Retirement and shall not become effective until at least twelve (12) months after the date on which the election is made.
- (c) In accordance with such procedures as the Plan Administrator may prescribe, a Participant may elect to change the form of payment election under Section 6.6 applicable to his or her distribution under Section 6.1(a)(i) or (ii) by duly completing, executing and filing with the Plan Administrator a new form of payment election applicable to such deferrals, subject to the following limitations:
 - i. such election must be made at least twelve (12) months prior to the Specific Future Year then in effect with respect to that portion of his or her Deferral or Company Account (or subaccount(s) thereof), and such election will not become effective until at least twelve (12) months after the date on which the election is made; and
 - ii. the distribution of that portion of his or her Deferral or Company Account (or subaccount(s) thereof) shall be deferred for five (5) years from the date such amount would otherwise have been paid absent this election.
- (d) It is the Company's intent that the provisions of Sections 6.7(a), (b) and (c) comply with the subsequent election provisions in Section 409A(a)(4)(C) of the Code, related regulations

and other applicable guidance, and this Section 6.7 shall be interpreted accordingly. The Plan Administrator may impose additional restrictions or conditions on a Participant's ability to make an election pursuant to this Section 6.7. For avoidance of doubt, a Participant may not elect to alter the distribution of any portion of his or her Deferral or Company Accounts (or any subaccount(s) thereof) from Retirement to a Specific Future Year or, except as provided in paragraph (a) above, from a Specific Future Year to Retirement.

6.8 Account Valuation upon a Distribution.

With respect to a distribution made pursuant to this Article, the Valuation Date of a Participant's Account shall be the day immediately preceding the Distribution Date.

6.9 Designation of Beneficiary.

Each Participant shall have the right to designate a Beneficiary to receive payment of his or her Account in the event of death. Any such designation may be changed at any time by executing and submitting (either by hand or electronic submission) a new designation on a form prescribed by the Plan Administrator.

6.10 Unclaimed Account.

If the Plan Administrator is unable to locate a Participant or Beneficiary to whom an Account is payable, such Account may be forfeited to the Company upon the Plan Administrator's determination. Notwithstanding the foregoing, if subsequent to any such forfeiture, the Participant or Beneficiary to whom such Account is payable makes a valid claim, such forfeited Account shall be restored to the Plan and paid by the Company.

6.11 Hardship Withdrawals.

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

The Plan Administrator shall determine whether an event qualifies as a hardship within this Section, in its sole and absolute discretion. Such request shall be made in a time and manner determined by the Plan Administrator. The payment made from a Participant's Deferral or Company Account (or any subaccount(s) thereof) pursuant to the provisions of this Section 6.11 shall not be in excess of the amount necessary to meet such financial hardship of the Participant, including amounts necessary to pay any federal, state or local income taxes with respect to the payment and shall not be available unless all other financial resources of the Participant have been exhausted. Payment shall be made in the month following the date the Plan Administrator determines that the Participant has incurred an unforeseeable severe financial hardship and grants the right to a withdrawal pursuant to this Section 6.11.

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

Notwithstanding the foregoing provisions of this Article VI, the distribution from a Participant's Grandfathered Deferral Account and Grandfathered Company Account (or subaccount(s)) shall be made pursuant to the provisions of the Plan as set forth on October 3, 2004, without regard to any amendments after October 3, 2004 which would constitute a material modification for Section 409A of the Code, as modified in Appendix A attached hereto.

ARTICLE VII – ADMINISTRATION

7.1 Plan Administrator.

The Plan shall be administered by the Deferred Compensation Plans Committee, appointed by the Committee as Plan Administrator. The Plan Administrator shall be responsible for the general operation and administration of the Plan and for carrying out the provisions thereof. The Plan Administrator may delegate to others certain aspects of the management and operations of the Plan including the employment of advisors and the delegation of ministerial duties to qualified individuals, provided that such delegation is in writing.

7.2 General Powers of Administration.

The Plan Administrator shall have the exclusive responsibility and complete discretionary authority to control the operation, management and administration of the Plan, with all powers necessary to enable it properly to carry out such responsibilities, including, but not limited to, the power to interpret the Plan and any related documents, to establish procedures for making any elections called for under the Plan, to make factual determinations regarding any and all matters arising hereunder, including, but not limited to, the right to determine eligibility for benefits, the right to construe the terms of the Plan, the right to remedy possible ambiguities, inequities, inconsistencies or omissions, and the right to resolve all interpretive, equitable or other questions arising under the Plan. The decisions of the Plan Administrator or such other party as is authorized under the terms of any grantor trust on all matters shall be final, binding and conclusive on all persons to the extent permitted by law. The Plan Administrator shall have all powers necessary or appropriate to enable it to carry out its administrative duties. Not in limitation, but in application of the foregoing, the Plan Administrator shall have the duty and power to interpret the Plan and determine all questions that may raise hereunder as to the status and rights of Employees, Participants, Beneficiaries, and any other person. The Plan Administrator may exercise the powers hereby granted in its sole and absolute discretion.

No member of the Deferred Compensation Plans Committee shall be personally liable for any actions taken by the Plan Administrator unless the member's action involves gross negligence or willful misconduct.

7.3 Costs of Administration.

The costs of administering the Plan shall be borne by the Company unless and until the Participant receives written notice of the imposition of such administrative costs; with such costs to begin with the next Plan Year and none may be assessed retroactively for prior Plan Years.

Such costs shall be charged against the Participant's Account and shall be uniform or proportional for all Participants. Such costs shall not exceed the standard rates for similarly designed nonqualified plans under administration by high quality third party administrators at the time such costs are initially imposed and thereafter.

7.4 Indemnification.

The Company shall indemnify each director, officer or employee of the Company or any Affiliate and each member of the Committee and Deferred Compensation Plans Committee, including any subcommittee or delegates thereof, against any and all claims, losses, damages, expenses, including attorney's fees, incurred by them, and any liability, including any amounts paid in settlement with their approval, arising from their action or failure to act, except when the same is judicially determined to be attributable to their gross negligence or willful misconduct, as a result of the fact that he or she is or was serving the Plan in any capacity at the request of the Company.

7.5 409A Compliance.

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

ARTICLE VIII – CLAIMS PROCEDURE

8.1 Claims.

A person who believes that he or she is being denied a benefit to which he or she is entitled under the Plan (hereinafter referred to as a "Claimant") may file a written request for such benefit with the Plan Administrator, setting forth his or her claim. The request must be addressed to the Senior Vice President, Compensation and Benefits, at the Company's then principal place of business.

8.2 Claim Decision.

Upon receipt of a claim, the Plan Administrator or its delegate shall review and determine the claim within ninety (90) days. If the Plan Administrator determines that additional time is needed to review the claim, the Plan Administrator will provide the Claimant with a notice of the extension before the end of the initial ninety (90)-day period. The notice of extension will provide the date by which the Plan Administrator expects to make a decision.

If the claim is denied in whole or in part, the Plan Administrator shall notify the Claimant in writing of the following:

- (a) The reason or reasons for such denial;
- (b) The pertinent provisions of the Plan;
- (c) Appropriate information as to the steps to be taken if the Claimant wishes to submit the claim for review; and
- (d) The time limits for requesting a review under this Section.

8.3 Request for Review/Appeal.

Within sixty (60) days after the receipt by the Claimant of the initial written notice of a denial, the Claimant may request in writing that the initial determination be reviewed. Such request must be addressed to the Senior Vice President, Compensation and Benefits, at the Company's then principal place of business. The Claimant or his or her duly authorized representative may, but need not, submit issues and comments in writing for consideration by the Appeals Committee, a subcommittee of the Deferred Compensation Plans Committee. If the Claimant does not request a review of the initial determination within such sixty (60)-day period, he or she shall be barred and stopped from challenging the Plan Administrator's initial determination.

8.4 Review of Decision.

Within sixty (60) days after the Plan Administrator's receipt of a request for review, the Appeals Committee of the Plan Administrator will review the Plan Administrator's initial determination. After considering all materials presented by the Claimant, the Appeals Committee will render a written decision, setting forth the reasons for the decision and containing references to the pertinent provisions of the Plan. If the Appeals Committee requires an extension of the sixty (60)-day time period, the Appeals Committee will so notify the Claimant and will render the decision as soon as possible, but no later than one hundred twenty (120) days after receipt of the request for review.

8.5 Time Limit for Bringing Legal Action.

Any legal action by the Claimant must be brought within ninety (90) days following the date of the decision on the final review under Section 8.4 above.

ARTICLE IX – MISCELLANEOUS

9.1 Not Contract of Employment.

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

9.2 Non-Assignability of Benefits.

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

9.3 Withholding and Deduction and Taxes.

All deferrals and payments provided for hereunder shall be subject to applicable withholding and other deductions as shall be required of the Company under any applicable local, state or federal law. The Company may require that the Participant or Beneficiary making a deferral or receiving payments pay to the Company the amount of any federal, state or local taxes, if any, that the Company or any Affiliate is required to withhold with respect to such deferrals or payments or the Company or any Affiliate may deduct from other wages paid by the Company or any Affiliate the amount of any withholding taxes due with respect to such deferrals or payments. A Participant or Beneficiary shall be solely responsible for any tax consequences related to deferrals or payments made under the Plan. The Company shall have no obligation to make any payment under the Plan until the Company's or any Affiliate's tax withholding obligations have been satisfied by the Participant or Beneficiary.

9.4 Amendment and Termination.

The Committee or its delegate may from time to time, in its discretion, amend, in whole or in part, any or all of the provisions of the Plan; provided, however, that no amendment may be made that would impair the rights of a Participant with respect to amounts already allocated to his or her Account without the Participant's consent. To the extent consistent with the rules relating to plan terminations and liquidations in Treas. Reg. Section 1.409A-3(j)(4)(ix) or otherwise consistent with Section 409A of the Code, the Committee, in its sole discretion, may terminate the Plan and any related Deferred Compensation Election at any time and in that event the Committee may provide that, without the prior written consent of Participants, the Participants' Accounts shall be distributed in a single cash lump sum upon termination of the Plan. Unless so distributed in accordance with the preceding sentence, in the event of a Plan termination, the Plan Administrator shall continue to maintain the Participants' Accounts until distributed pursuant to the terms of the Plan and Participants shall remain one hundred

percent (100%) vested in all amounts credited to their Accounts. In the event of a Plan termination, the distribution of a Participant's Grandfathered Deferral Account and Grandfathered Company Account shall be made pursuant to the provisions of the Plan as set forth on October 3,

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

9.5 Compliance with Securities and Other Laws.

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

9.6 No Trust Created.

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

9.7 Unsecured General Creditor Status of Employee.

The payments to the Participant, Beneficiary or any other distributees hereunder shall be made from assets which shall continue, for all purposes, to be a part of the general, unrestricted assets of the Company. No person shall have or acquire any interest in any such assets by virtue of the provisions of the Plan. The Company's obligation hereunder shall be an unfunded and unsecured promise to pay money in the future. To the extent that the Participant, Beneficiary or other distributees acquire a right to receive payments from the Company under the provisions hereof, such right shall be no greater than the right of any unsecured general creditor of the Company. No such person shall have or acquire any legal or equitable right, interest or claim in or to any property or assets of the Company.

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

9.8 Limitation.

A Participant and his or her Beneficiary shall assume all risk in connection with any decrease in value of his or her Account, and neither the Company nor the Committee or the Plan Administrator shall be liable or responsible therefor.

9.9 Payment to Minors and Incompetents.

If any Participant, spouse, or Beneficiary entitled to receive any benefits hereunder is a minor or is deemed by the Plan Administrator or is adjudicated to be legally incapable of giving a valid receipt and discharge for such benefits, the benefits will be paid to the person or entity as the Plan Administrator determines has been appointed or established to receive such payment on behalf of such person. Such payment shall, to the extent made, be deemed a complete discharge of any payment obligation under the Plan.

9.10 Acceleration of or Delay in Payments.

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

9.11 Severability.

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

9.12 Governing Laws.

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

9.13 Binding Effect.

The terms of the Plan shall be binding on each Participant and his or her heirs and legal representatives and on the Company and its successors and assigns.

APPENDIX A – PROVISIONS APPLICABLE TO A PARTICIPANT’S GRANDFATHERED DEFERRAL ACCOUNT AND GRANDFATHERED COMPANY ACCOUNT

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

ARTICLE I – DEFINITIONS

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

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

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

ARTICLE IV – DEFERRALS AND COMPANY CONTRIBUTIONS

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

ARTICLE V – MAINTENANCE OF ACCOUNTS

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

ARTICLE VI – PAYMENT OF BENEFIT

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

6.2. *Form of Payment*

Effective on or after October 1, 2008, a Participant shall not elect installments in excess of ten (10) years or quarterly installments.

6.3. *Disability Distributions*

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

6.6. *Change of Distribution Election*

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

CVS HEALTH CORPORATION
2007 Employee Stock Purchase Plan
as amended through January 1, 2016

1. Purpose. The purpose of this 2007 Employee Stock Purchase Plan (the “**Plan**”) is to provide employees of CVS Health Corporation (the “**Company**”) and its Designated Subsidiaries with an opportunity to purchase Stock of the Company through accumulated payroll deductions, enabling such persons to acquire or increase a proprietary interest in the Company in order to strengthen the mutuality of interests between such persons and the Company’s stockholders, and to provide a benefit that will assist the Company in competing to attract and retain employees of high quality. It is the intention of the Company that the Plan qualify as an “employee stock purchase plan” under Section 423 of the Code. Accordingly, the provisions of the Plan shall be construed in a manner consistent with the requirements of that Section of the Code.

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

- (a) “**Account**” means the account maintained on behalf of the participant by the Custodian for the purpose of investing in Stock and engaging in other transactions permitted under the Plan.
- (b) “**Administrator**” means the person or persons designated to administer the Plan under Section 13(a).
- (c) “**Board**” means the Company’s Board of Directors.
- (d) “**Code**” means the Internal Revenue Code of 1986, as amended from time to time, including regulations thereunder and successor provisions and regulations thereto.
- (e) “**Committee**” means a committee of two or more directors designated by the Board to administer the Plan.
- (f) “**Compensation**” base salary, overtime, shift premiums, and commissions (all as determined before any applicable deductions from pay are made) but does not include short or long term disability pay, incentive payments or severance pay.
- (g) “**Custodian**” means a custodian or any successor thereto as appointed by the Board from time to time.
- (h) “**Designated Subsidiaries**” means the Subsidiaries which have been designated by the Board from time to time in its sole discretion as eligible to have their Employees participate in the Plan.
- (i) “**Employee**” means any individual who has been employed by the Company or a Designated Subsidiary for at least six months (and is actively employed during the two month period prior to the beginning of the Offering Period). To determine whether an employee has achieved six months of service, the following shall apply: (i) if an individual is terminated or takes an unauthorized leave of absence and is subsequently reemployed with the Company or a Designated Subsidiary within one year of the date of such termination or unauthorized leave, such individual shall be credited with all service time accrued through the last day the individual was employed prior to such termination or unauthorized leave of

absence; and (ii) service with an incorporated or unincorporated entity that is controlled, directly or indirectly, by the Company shall be treated as service with the Company.

(j) “ **Enrollment Date** ” means the first day of the next Offering Period.

(k) “ **Exercise Date** ” means the last day of each Offering Period.

(l) “ **Fair Market Value** ” means the fair market value of a share of Stock as determined by the Committee or under procedures established by the Committee. Unless otherwise determined by the Committee, the Fair Market Value of Stock as of any given date shall be the closing price of a share of Stock reported on a consolidated basis for securities listed on the New York Stock Exchange for trades on the date as of which such value is being determined or, if that day is not a Trading Day, then on the latest previous Trading Day.

(m) “ **Offering Period** ” means the approximately six month period commencing on the first Trading Day on or after January 1 and July 1, respectively, and terminating on the last Trading Day in the following June and December, respectively. The beginning and ending dates and duration of Offering Periods may be changed pursuant to Section 4 of the Plan.

(n) “ **Purchase Price** ” means an amount equal to 90% of the Fair Market Value of a share of Stock on the Enrollment Date or 90% of the Fair Market Value of a share of Stock on the Exercise Date, whichever is lower.”

(o) “ **Reserves** ” means the number of shares of Stock covered by all options under the Plan which have not yet been exercised and the number of shares of Stock which have been authorized for issuance under the Plan but which have not yet become subject to options.

(p) “ **Stock** ” means the Company’s Common Stock, and such other securities as may be substituted (or resubstituted) for Stock pursuant to Section 18 hereof.

(q) “ **Subsidiary** ” means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations (other than the last corporation in the unbroken chain) owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

(r) “ **Trading Day** ” means a day on which the New York Stock Exchange is open for trading.

3. Eligibility .

(a) All Employees (as determined in accordance with Section 2(i) hereof) of the Company or a Designated Subsidiary on a given Enrollment Date shall be eligible to participate in the Plan.

(b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan (i) to the extent that, immediately after the grant, such Employee (or any other person whose Stock would be attributed to such Employee pursuant to Section 424(d) of the Code) would own capital stock and/or hold outstanding options to purchase such stock possessing 5% or more of the total combined voting power or value of all classes of the capital stock of the Company or of any Subsidiary, or (ii) to the extent that his or her rights to purchase stock under all employee stock purchase plans of the Company and its Subsidiaries accrue at a rate which exceeds \$25,000 worth of stock (determined at the fair market value of the shares at the time such option is granted) for each calendar year in which such option is outstanding at any time.

(c) All participants in the Plan shall have equal rights and privileges (subject to the terms of the Plan) with respect to options outstanding during any given Offering Period.

4. Offering Periods . The Plan shall be implemented by consecutive Offering Periods with a new Offering Period commencing on the first Trading Day on or after January 1 and July 1 of each year following the initial Offering Period, or on such other date as the Committee shall determine, and continuing thereafter until terminated in accordance with Section 19 hereof. The Committee shall have the power to change the beginning date, ending date, and duration of Offering Periods with respect to future offerings without stockholder approval if such change is announced at least five days prior to the scheduled beginning of the first Offering Period to be affected thereafter, provided that Offering Periods will in all cases comply with applicable limitations under Section 423(b)(7) of the Code.

5. Participation.

(a) Any person who will be an eligible Employee on a given Enrollment Date may become a participant in the Plan by completing a subscription agreement authorizing payroll deductions and filing it with the Administrator prior to such deadline as the Administrator may prescribe for such Enrollment Period.

(b) Payroll deductions for a participant shall commence on the first payroll following the Enrollment Date and shall end on the last payroll in the Offering Period to which such authorization is applicable, unless sooner terminated by the participant as provided in Section 10 hereof.

6. Payroll Deductions.

(a) At the time a participant files his or her subscription agreement, he or she shall elect to have payroll deductions made on each pay day during the Offering Period in an amount from 1% to 15% of the Compensation which he or she receives for each pay period during the Offering Period.

(b) All payroll deductions made for a participant shall be credited to his or her Account under the Plan. Payroll deductions shall be withheld in whole percentages only, unless otherwise determined by the Committee. A participant may not make any additional payments into such Account.

(c) A participant may discontinue his or her participation in the Plan as provided in Section 10 hereof, or may decrease the rate of his or her payroll deductions during the Offering Period, by completing and filing with the Administrator a new subscription agreement authorizing a change in payroll deduction rate. Unless otherwise authorized by the Committee, a participant may not change or discontinue his or her payroll deduction rate more than once during any Offering Period. The change in rate shall be effective with the first payroll period following the first of the month after the Administrator's receipt of the new subscription agreement provided the change in rate election is received by the last business day prior to the fifteenth (15th) of the preceding month, unless the Company elects to process a given change in participation more quickly. A participant's subscription agreement shall remain in effect for successive Offering Periods unless terminated as provided in Section 10 hereof.

(d) The foregoing notwithstanding, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(b) hereof, a participant's payroll deductions may be terminated at such time during any Offering Period which is scheduled to end during the current calendar year (the "**Current Offering Period**") that the aggregate of all payroll deductions accumulated with respect to the Current Offering Period and any other Offering Period

ending in the same calendar year do not exceed \$21,250 (or such other limit as may apply under Code Section 423(b)(8)). Payroll deductions shall recommence at the rate provided in such participant's subscription agreement (as previously on file or as changed prior to the recommencement date in accordance with Section 6(c)) at the beginning of the next Offering Period which is scheduled to end in the following calendar year, unless terminated by the participant as provided in Section 10 hereof.

(e) The Company or any Designated Subsidiary is authorized to withhold from any payment to be made to a participant, including any payroll and other payments not related to the Plan, amounts of withholding and other taxes due in connection with any transaction under the Plan, including any disposition of shares acquired under the Plan, and a participant's enrollment in the Plan will be deemed to constitute his or her consent to such withholding. At the time of a participant's exercise of an option or disposition of shares acquired under the Plan, the Company may require the participant to make other arrangements to meet tax withholding obligations as a condition to exercise of rights or distribution of shares or cash from the participant's Account. In addition, a Participant may be required to advise the Company of sales and other dispositions of Stock acquired under the Plan in order to permit the Company to comply with tax laws and to claim any tax deductions to which the Company may be entitled with respect to the Plan.

7. Grant of Option . On the Enrollment Date of each Offering Period, each eligible Employee participating in such Offering Period shall be granted an option to purchase on the Exercise Date of such Offering Period, at the applicable Purchase Price, up to a number of shares of Stock determined by dividing such Employee's payroll deductions accumulated prior to such Exercise Date and retained in the Participant's Account as of the Exercise Date by the applicable Purchase Price; provided that such purchase shall be subject to the limitations set forth in Sections 3(b) and 12 hereof. Exercise of the option shall occur as provided in Section 8 hereof, unless the participant has withdrawn pursuant to Section 10 hereof. To the extent not exercised, the option shall expire on the last day of the Offering Period.

8. Exercise of Option. Participant's option for the purchase of shares shall be exercised automatically on the Exercise Date, and the maximum number of shares subject to option shall be purchased for such participant at the applicable Purchase Price with the accumulated payroll deductions in his or her account. Shares purchased shall include fractional shares calculated to at least three decimal places, unless otherwise determined by the Committee. If fractional shares are not to be purchased for a participant's Account, any payroll deductions accumulated in a participant's account not sufficient to purchase a full share shall be retained in the participant's account for the subsequent Offering Period, subject to earlier withdrawal by the participant as provided in Section 10 hereof. During a participant's lifetime, a participant's option to purchase shares hereunder is exercisable only by him or her.

9. Delivery of Shares; Participant Accounts.

(a) At or as promptly as practicable after the Exercise Date for an Offering Period, the Company will deliver the shares of Stock purchased to the Custodian for deposit into the participant's Account.

(b) Cash dividends on any Stock credited to a participant's Account will be automatically reinvested in additional shares of Stock; such amounts will not be available in the form of cash to participants. All cash dividends paid on Stock credited to participants' Accounts will

be paid over by the Company to the Custodian at the dividend payment date. The Custodian will aggregate all purchases of Stock in connection with the Plan for a given dividend payment date. Purchases of Stock for purposes of dividend reinvestment will be made as promptly as practicable (but not more than 30 days) after a dividend payment date. The Custodian will make such purchases, as directed by the Committee, either (i) in transactions on any securities exchange upon which Stock is traded, otherwise in the over-the-counter market, or in negotiated transactions, or (ii) directly from the Company at 100% of the Fair Market Value of a share of Stock on the dividend payment date. Any shares of Stock distributed as a dividend or distribution in respect of shares of Stock or in connection with a split of the Stock credited to a participant's Account will be credited to such Account. In the event of any other non-cash dividend or distribution in respect of Stock credited to a participant's Account, the Custodian will, if reasonably practicable and at the direction of the Committee, sell any property received in such dividend or distribution as promptly as practicable and use the proceeds to purchase additional shares of Common Stock in the same manner as cash paid over to the Custodian for purposes of dividend reinvestment.

(c) Each participant will be entitled to vote the number of shares of Stock credited to his or her Account (including any fractional shares credited to such Account) on any matter as to which the approval of the Company's stockholders is sought. If a participant does not vote or grant a valid proxy with respect to shares credited to his or her Account, such shares will be voted by the Custodian in accordance with any stock exchange or other rules governing the Custodian in the voting of shares held for customer accounts. Similar procedures will apply in the case of any consent solicitation of Company stockholders.

10. *Withdrawal of Payroll Deductions or Shares; Termination of Employment.*

(a) If a participant decreases his or her payroll deduction rate to zero during an Offering Period, payroll deductions shall not resume at the beginning of the succeeding Offering Period unless the participant delivers to the Administrator a new subscription agreement.

(b) Upon a participant's ceasing to be an Employee for any reason (including upon the participant's death), he or she shall be deemed to have elected to withdraw from the Plan and the payroll deductions credited to such participant's Account during the Offering Period but not yet used to exercise the option shall be returned to such participant or, in the case of his or her death, to the person or persons entitled thereto under Section 14 hereof, and such participant's option shall be automatically terminated.

(c) During the eighteen (18) month period from the first day of each Offering Period a participant (whether or not still an Employee) may not withdraw, sell or transfer shares of stock acquired during such Offering Period except: (i) on account of the participant's death, or such other reason as the Committee may promulgate in its discretion from time to time, or (ii) if a participant who is an Employee incurs a financial hardship which the Administrator determines, in accordance with rules established by the Committee, cannot be met from other sources. The amount withdrawn, sold or transferred on account of a hardship shall not be in excess of the amounts necessary to meet such financial hardship of the participant, including amounts necessary to pay any federal, state or local taxes with respect to such amount. Unless otherwise determined by the Committee, a participant may make only one withdrawal, sale or transfer due to hardship in any Offering Period, and the minimum amount of such withdrawal, sale or transfer is \$500. After the end of such eighteen (18) month period, the participant may elect to withdraw, transfer or sell such shares or receive a

certificate for such shares. If a participant elects to withdraw shares in certificated form, one or more certificates for whole shares shall be issued in the name of, and delivered to, the participant, with such participant receiving cash in lieu of fractional shares based on the Fair Market Value of a share of Stock on the date of withdrawal. If shares of Stock are transferred from a participant's Account to a broker-dealer or financial institution that maintains an account for the participant, only whole shares shall be transferred and cash in lieu of any fractional share shall be paid to such participant based on the Fair Market Value of a share of Stock on the date of transfer. A Participant seeking to withdraw, sell or transfer shares of Stock must give instructions to the Custodian in such manner and form as may be prescribed by the Committee and the Custodian, which instructions will be acted upon as promptly as practicable. Withdrawals and transfers will be subject to any fees imposed in accordance with Section 10(d) hereof. Notwithstanding the foregoing, as a condition for a hardship withdrawal, sale or transfer, the participant must furnish proof of a "financial hardship" satisfactory to the Administrator and demonstrate that said distribution is necessary to satisfy said financial need. For purposes of this Section 10, a "financial hardship" means one or more of the events defined as a deemed immediate and heavy financial need under the IRS Regulation 1.401(k)-1(d)(3)(iii)(B), which causes an unforeseeable financial hardship to the participant or his or her family.

(d) Costs and expenses incurred in the administration of the Plan and maintenance of Accounts will be paid by the Company, including annual fees of the Custodian and any brokerage fees and commissions for the purchase of Stock upon reinvestment of dividends and distributions. The foregoing notwithstanding, the Custodian may impose or pass through a reasonable fee for the withdrawal of Stock in the form of stock certificates (as permitted under Section 10(c)), and reasonable fees for other services unrelated to the purchase of Stock under the Plan, to the extent approved in writing by the Company and communicated to participants. In no circumstance shall the Company pay any brokerage fees and commissions for the sale of Stock acquired under the Plan by a participant.

11. Interest. No interest shall accrue on the payroll deductions of a participant in the Plan.

12. Stock.

(a) The maximum number of shares of Stock which shall be made available for sale under the Plan shall be thirty (30) million shares, subject to adjustment as provided in Section 18 hereof. If, on a given Exercise Date, the number of shares with respect to which options are to be exercised exceeds the number of shares then available under the Plan, the Company shall make a pro rata allocation of the shares remaining available for purchase in as uniform a manner as shall be practicable and as it shall determine to be equitable. Any shares of Stock delivered by the Company under the Plan may consist, in whole or in part, of authorized and unissued shares or shares acquired by the Company in the open market. Shares acquired in the open market through dividend reinvestment will not count against the Reserves.

(b) The participant shall have no interest or voting right in shares purchasable upon exercise of his or her option until such option has been exercised.

13. Administration.

(a) The Plan shall be administered by the Committee except to the extent the Board elects to administer the Plan, in which case references herein to the "Committee" shall be deemed to include references to the "Board". The Committee shall have full and final authority to

construe, interpret and apply the terms of the Plan, to determine eligibility and to adjudicate all disputed claims filed under the Plan. The Committee may, in its discretion, delegate authority to the Administrator. Every finding, decision and determination made by the Committee or Administrator shall, to the full extent permitted by law, be final and binding upon all parties (except for any reserved right of the Committee to review a finding, decision or determination of the Administrator). The Committee, Administrator, and each member thereof shall be entitled to, in good faith, rely or act upon any report or other information furnished to him or her by any executive officer, other officer or employee of the Company or any Designated Subsidiary, the Company's independent auditors, consultants or any other agents assisting in the administration of the Plan. Members of the Committee or Administrator and any officer or employee of the Company or any Designated Subsidiary acting at the direction or on behalf of the Committee shall not be personally liable for any action or determination taken or made in good faith with respect to the Plan, and shall, to the extent permitted by law, be fully indemnified and protected by the Company with respect to any such action or determination.

(b) The Custodian will act as custodian under the Plan, and will perform such duties as are set forth in the Plan and in any agreement between the Company and the Custodian. The Custodian will establish and maintain, as agent for each Participant, an Account and any subaccounts as may be necessary or desirable for the administration of the Plan.

14. Designation of Beneficiary.

(a) A participant may file a written designation of a beneficiary who is to receive any shares and cash, if any, from the participant's Account under the Plan in the event of (i) such participant's death subsequent to an Exercise Date on which the option is exercised but prior to a distribution to such participant of shares or cash then held in the participant's Account or (ii) such participant's death prior to exercise of the option. If a participant is married and the designated beneficiary is not the spouse, spousal consent shall be required for such designation to be effective.

(b) Such designation of beneficiary may be changed by the participant at any time by written notice. In the event of the death of a participant without a valid designated beneficiary who is living at the time of such participant's death, any shares or cash otherwise deliverable under Section 14(a) shall be deliverable to the participant's surviving spouse or, if there is no surviving spouse, to such participant's estate.

15. Transferability. Neither payroll deductions credited to a participant's account nor any rights with regard to the exercise of an option or to receive shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in Section 14 hereof) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect.

16. Use of Funds. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

17. Reports. An individual Account shall be maintained by the Custodian for each participant in the Plan. Statements of Account shall be given to each participant at least annually, which statements shall set forth the amounts of payroll deductions, the Purchase Price, the number of

shares purchased, any remaining cash balance, and other information deemed relevant by the Committee.

18. Adjustments Upon Changes in Capitalization, Dissolution, Liquidation, Merger or Asset Sale.

(a) *Changes in Capitalization* . The Committee shall proportionately adjust the Reserves and the price per share and the number of shares of Stock covered by each option under the Plan which has not yet been exercised for any increase or decrease in the number of issued shares of Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Stock, or other extraordinary corporate event which affects the Stock in order to prevent dilution or enlargement of the rights of participants. The determination of the Committee with respect to any such adjustment shall be final, binding and conclusive.

(b) *Dissolution or Liquidation* . In the event of the proposed dissolution or liquidation of the Company, the Offering Period shall terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Committee.

(c) *Asset Sale or Merger* . In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, the Committee shall shorten the Offering Period then in progress by setting a new Exercise Date (the “ **New Exercise Date** ”). The New Exercise Date shall be before the date of the Company’s proposed asset sale or merger. The Committee shall notify each participant in writing, at least ten business days prior to the New Exercise Date, that the Exercise Date for the participant’s option has been changed to the New Exercise Date and that the participant’s option shall be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10 hereof.

19. Amendment or Termination.

(a) The Board (and the Committee or the Administrator except with respect to the number of shares of Stock available under the Plan under Section 12) may at any time and for any reason terminate or amend the Plan. Except as provided in Section 18 hereof, no such termination can affect options previously granted, provided that an Offering Period may be terminated by the Board of Directors by shortening the Offering Period and accelerating the Exercise Date to a date not prior to the date of such Board action if the Board determines that termination of the Plan is in the best interests of the Company and its stockholders. Except as provided in Section 18 and this Section 19, no amendment may make any change in any option theretofore granted which materially adversely affects the rights of any participant, and any amendment will be subject to the approval of the Company’s stockholders not later than one year after Board approval of such amendment if such stockholder approval is required by any federal or state law or regulation or the rules of any stock exchange or automated quotation system on which the Stock may then be listed or quoted, or if such stockholder approval is necessary in order for the Plan to continue to meet the requirements of Section 423 of the Code, and the Board may otherwise, in its discretion, determine to submit any amendment to stockholders for approval.

(b) Without stockholder consent and without regard to whether any participant rights may be considered to have been “adversely affected,” the Committee shall be entitled to change the Offering Periods, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a

currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Stock for each participant properly correspond with amounts withheld from the participant's Compensation, and establish such other limitations or procedures as the Committee determines in its sole discretion are advisable and consistent with the Plan.

20. Notices. All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

21. Conditions Upon Issuance of Shares . The Company shall not be obligated to issue shares with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, and the requirements of any stock exchange or automated quotation system upon which the shares may then be listed or quoted, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

22. Plan Effective Date and Stockholder Approval . The Plan was adopted by the Board on March 7, 2007, and became effective upon approval by the Company's stockholders on May 9, 2007 by a vote sufficient to meet the requirements of Section 423(b)(2) of the Code. The Plan as amended was adopted by the Board on March 6, 2013, and became effective upon approval by the Company's stockholders on May 9, 2013 by a vote sufficient to meet the requirements of Section 423(b)(2) of the Code. Additional amendments not requiring approval by the Company's stockholders were adopted by the Board on November 4, 2015 and became effective on January 1, 2016.



2015 Management Incentive Plan

I. Objectives and Summary

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

The MIP shall be administered by the Management Planning and Development Committee (the "Committee") of the Board of Directors (the "Board") under the provisions herein and of the 2010 Incentive Compensation Plan (the "ICP"), and the Committee may delegate to officers of CVS Health the authority to perform administrative functions of the MIP as the Committee may determine and may appoint officers and others to assist it in administering the MIP.

II. Plan Year

The MIP is a calendar year plan, which runs from January 1 to December 31, 2015 ("Plan Year"). All dates in this document occur during the Plan Year unless otherwise stated.

III. Eligibility

A. Eligibility for Participation

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

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

B. Section 162(m) Eligible Participants

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

C. Newly-Eligible Employees

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

D. Position Change

An employee who becomes an Eligible Participant on or before November 1 of the Plan Year as a result of a position change may be eligible for a prorated MIP award. If a position change results in an employee becoming an Eligible Participant for part of the Plan Year and other incentives during other parts of the Plan Year, the employee may be

eligible to receive a prorated award for the amount of time in each incentive eligible position, subject to the terms of each applicable incentive plan. A position change from one MIP-eligible position to another MIP-eligible position during the Plan Year does not result in a prorata award but rather an award funded on the base salary of the Eligible Participant on December 31 of the Plan Year and the individual award opportunity as of that date.

E. Demotions

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

F. Terminations

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

G. Rehires

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

IV. Target Measurements and Total Pool

A. Consolidated Company Funding

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

1. Operating Profit

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

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

2. PBM Client Satisfaction

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

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

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

3. Retail Customer Service

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

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

COMPANY PERFORMANCE - TARGET MEASUREMENTS

Measurement	Percent Weight	Measurement Tool	Achievement Measured Against	Modifier
Operating Profit	80%	Earnings Before Interest and Taxes (“EBIT”)	2015 EBIT Goal	CEO & Committee Discretion ⁽¹⁾ Financial Adjustments
PBM Client Satisfaction	10%	Client Relationship and Loyalty, Customer Care, Mail Service and Specialty Surveys	2015 PBM Client Satisfaction Target	Operating Profit Funding
Retail Customer Service	10%	myCustomer Service Scorecard	2015 myCustomer Experience Target	Operating Profit Funding

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

B. Total Pool Funding

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

The CEO or, in the case of Section 162(m) Eligible Participants, the Committee may adjust the funding of the Total Pool at his or her or its discretion based on (a) input from the PBM and Retail Presidents and Finance regarding their assessment of the overall performance of the Company; and (b) assessment of the achievement of Plan Year performance goals. In no case, however, can the CEO or the Committee increase Total Pool funding due to PBM Client Satisfaction or Retail Customer Service results.

C. Individual Performance

The Total Pool will be available for award to Eligible Participants under the MIP, taking into account the individual contribution of each Eligible Participant. The amount, if any, of the incentive award for an Eligible Participant shall be determined in the sole discretion of the Company, which shall be final, binding and conclusive as to all parties having an interest therein. The amount, if any, of the incentive award for a Section 162(m) Eligible Participant shall be determined in the sole discretion of the Committee, which shall be final, binding and conclusive as to all parties having an interest therein.

V. Earnings and Payout

A. Timing

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

B. Calculations

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

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

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

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

Examples:

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

C. Award Opportunity

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

D. Obligation to Pay Out Percentage of Total Pool

Eligible Participants, as a group, have a right to receive an amount at least equal to the Total Pool, but no individual Eligible Participant shall be entitled to receive an award or any specific amount of the Total Pool. In no event will the aggregate of the total awards paid from the MIP be less than 92.5% of the Total Pool. To discourage unmerited litigation, any party or class asserting a challenge or claim against the Company under any provision of the MIP, including this Section V, shall bear their own costs relating to such challenge or claim, and if the challenge or claim is unsuccessful, such party or class shall reimburse the Company for all reasonable costs incurred by the Company in responding to such challenge or claim.

VI. Corrections to Incentive Awards

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

VII. Eligible Participant Status

A. Performance

Subject to the requirements of Section 162(m), the Company has full discretion in determining the amount, if any, of a MIP award to an Eligible Participant, including Eligible Participants whose awards may be based on SGIs, and the Participant's individual performance throughout the Plan Year will be considered by the Company in the final determination of the Eligible Participant's incentive award.

B. Leaves of Absence

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

C. Reduction in Force, Retirement and Death

1. Reduction in Force

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

2. Retirement

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

3. Death

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

VIII. Miscellaneous

A. No Promise of Continued Employment

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

B. Rights are Non-Assignable

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

C. Compliance with Applicable Law

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

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

D. Change in Control

In the event of a change in control of CVS Health, as defined in the ICP, the MIP shall remain in full force and effect. Any amendments, modifications, termination or dissolution of the MIP by the acquiring entity may only occur prospectively and will not affect incentive targets or awards or eligibility in place immediately before the date of the change in control or such later date as it may be modified or dissolved by the acquiring entity.

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

E. Withholding

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

F. MIP Amendment/Modification/Termination

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

G. MIP Interpretation

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

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

H. Recoupment of Incentive Awards

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

I. Section 409A of the Internal Revenue Code

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



2015 Executive Incentive Plan

I. Objectives and Summary

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

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

II. Plan Year

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

III. Eligible Participants

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

IV. Bonus Pool

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

B. Within 90 days of the start of each Plan Year, the Committee will designate a percentage of the Bonus Pool to be allocated to each Participant and a percentage to be reserved in the event the Committee wishes to allocate a percentage to a new Participant, if any, after the first 90 days of the applicable Plan Year. The allocations will be set forth in the Exhibit A for the Plan Year. The maximum allocation that may

be made to any Participant for a Plan Year will be 40%, and in no event shall the allocations, in the aggregate, exceed 100% of the Bonus Pool. Regardless of the foregoing, in no event shall any Participant be entitled to receive more than his or her individual cap as set forth in Exhibit A for the Plan Year.

V. Awards

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

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

VI. Payment of Awards

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

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

C. Calculations for full and partial awards will be based on each Participant's annual base salary and individual target opportunity as of December 31st of the Plan Year. For purposes of proration, the 15th of the month will be used to determine if the month is included or excluded from the incentive calculation, as follows:

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

VII. Retirement and Death

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

B. In the case of the death of a Participant before the end of the Plan Year, a prorated Award may be paid to the Participant's spouse, if living; otherwise, a prorated Award may be paid in equal shares to surviving children of the Participant. If there are no surviving children, a prorated Award may be paid to

the Participant's estate. If an Award is paid, the Award will be prorated based on the number of months the Participant worked during the Plan Year.

VIII. Miscellaneous

A. No Promise of Continued Employment

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

B. Rights are Non-Assignable

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

C. Compliance with Applicable Law

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

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

D. Change in Control

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

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

E. Withholding

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

F. Amendment/Modification/Termination

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

G. Interpretation

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

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

H. Recoupment of Incentive Awards

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

I. Section 409A of the Internal Revenue Code

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

**CVS HEALTH CORPORATION
SEVERANCE PLAN
FOR NON-STORE EMPLOYEES
(Amended as of January 1, 2015)**

**CVS HEALTH CORPORATION SEVERANCE PLAN
FOR NON-STORE EMPLOYEES
(Amended as of January 1, 2015)**

WHEREAS, CVS Health Corporation (the “Company”) has established the CVS Caremark Severance Plan for Non-Store Employees (the “Plan”) to provide financial assistance to employees in non-store positions who are involuntarily terminated and are eligible within the terms and conditions of the Plan;

WHEREAS, it is intended that the Plan constitute an employee welfare benefit plan within the scope of Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), that the Plan constitute a separation pay plan within the scope of Department of Labor (“DOL”) Regulation Section 2510.3-2(b), and that all payments made under the Plan be deductible by the Company under Section 162(a) of the Internal Revenue Code of 1986, as amended (the “Code”);

WHEREAS, the benefits provided under the Plan are intended to constitute separation pay within the meaning of Treasury Regulation Section 1.409A-1(b)(9)(iii);

WHEREAS, this document is the official plan document;

WHEREAS, the Company wishes to change the Plan name to reflect the change in the Company’s name; and

WHEREAS, the Company wishes to make certain amendments to the Plan, effective as of January 1, 2015 (the “Effective Date”);

NOW, THEREFORE, as of the Effective Date, the Company does hereby amend the Plan to provide as follows:

**ARTICLE 1
DEFINITIONS**

For purposes of the Plan, the following terms, when used with an initial capital letter, shall have the meaning set forth below unless a different meaning is plainly required by the context.

1.1 “Affiliate” shall mean (a) any corporation which is required to be aggregated with the Company under Code Section 414(b), (c), (m), or (o) and (b) any other entity in which the Company has an ownership interest and which the Company designates as an Affiliate for purposes of the Plan.

1.2 “Cause” shall refer to a termination of an Eligible Employee’s employment because of the Eligible Employee’s (a) poor performance; (b) acts of unethical business activity, including but not limited to fraud, misappropriation, embezzlement, dishonesty, harassment, discrimination in violation of Employer policies, or willful or negligent destruction of property of an Employer or an Affiliate; (c) misconduct that is reasonably likely to cause material damage (monetary or otherwise) to the Employer, an Affiliate, or any personnel thereof; (d) conviction of or a plea of guilty or nolo contendere to any felony, whether or not any right to appeal has been or may be exercised; (e) negligence of duty; (f) insubordination; or (g) a violation of the Employer’s policy, procedure, or practice.

1.3 “Code” shall mean the Internal Revenue Code of 1986, as amended.

1.4 “Eligible Employee” shall mean an individual who is employed by the Employer on a regular basis in a non-store position and has been employed by the Employer in any position for a minimum of twelve (12) months prior to the individual’s separation of employment. For purposes of the Plan, distribution warehouse employees, field managers and employees employed by CVS ProCare, Inc. working at Company headquarters, shall be treated as working in a non-store location and therefore not subject to exclusion from eligibility. For purposes of the Plan, individuals in the following categories will not be considered Eligible Employees:

- (a) individuals who are covered by a collective bargaining agreement, provided welfare benefits were the subject of good faith bargaining, unless the terms of the collective bargaining agreement provide for participation in the Plan;
- (b) individuals who are seasonal employees, leased employees, independent contractors, temporary employees, or consultants;
- (c) individuals who work for the Employer or an Affiliate in a store location of the Company or an Affiliate, or whose compensation is paid through or according to a store payroll, including but not limited to: pharmacists, store managers, assistant store managers, crew, and pharmacy staff;
- (d) individuals employed by MinuteClinic, L.L.C. or by any practitioner-owned entity managed by MinuteClinic, L.L.C.;
- (e) the President and CEO of CVS Health Corporation;
- (f) individuals employed in Puerto Rico; and
- (g) individuals employed outside the United States of America.

The decision of whether an individual falls into one of these categories and whether an individual is employed by an Employer on a regular basis in a non-store position for a minimum of 12 months shall be made by the Employer in its sole discretion. Any individual who is excluded from being considered an Eligible Employee under the Plan shall be excluded from the Plan regardless of the individual’s reclassification by a government agency, including a reclassification by the Internal Revenue Service for tax withholding purposes.

1.5 “Employer” shall mean CVS Pharmacy, Inc. and Caremark Rx, L.L.C. and any current or future Affiliate thereof.

1.6 “ERISA” shall mean the Employee Retirement Income Security Act of 1974, as amended.

1.7 “Exempt Employee” shall mean an Eligible Employee who is paid on a salaried basis for payroll purposes and classified in the sole discretion of the Employer under its normal classification procedures as an exempt employee under the Fair Labor Standards Act.

1.8 “Involuntary Termination” shall mean an Eligible Employee’s termination of employment with the Employer due to the unilateral action of the Employer, including but not limited to a termination as a result of the elimination of an Eligible Employee’s position due to a reorganization or changes in responsibilities, a reduction in force, or a closing of the business unit in which the Eligible Employee works; provided, however, that such Involuntary Termination constitutes a separation from service under Treasury

Regulation Section 1.409A-1(h). Notwithstanding the foregoing, an Eligible Employee will not have an Involuntary Termination if the Eligible Employee: (a) is terminated for Cause, as determined by the Employer in its sole discretion; (b) voluntarily terminates employment or resigns prior to an Involuntary Termination; (c) takes a leave of absence; (d) is administratively terminated for failure to return from a leave of absence upon expiration of his or her leave; (e) terminates employment due to his or her death; (f) transfers to an Affiliate; (g) transfers to a new employer in connection with the sale of an Employer facility; or (h) fails to accept an offer for a job with the Employer that is comparable to the job that he or she is performing for the Employer at the time of the offer. For purposes of Subsection (h) of this Section 1.8, whether a job is considered “comparable” shall be determined in the sole discretion of the Employer, taking into account whether the new job is located 50 or fewer miles from the Eligible Employee’s job at the time of the offer, whether the compensation offered is materially less than the Eligible Employee’s compensation at the time of the offer, and whether the new job will result in a substantial change of duties from the Eligible Employee’s job at the time of the offer. The determination of whether an Eligible Employee’s termination of employment is an Involuntary Termination shall be made in the sole discretion of the Employer. If an Employer deems an Eligible Employee’s termination of employment to be an Involuntary Termination but later learns of facts and circumstances that, had the Employer known such facts and circumstances at the time of termination, could have resulted in a termination of employment for Cause, the Eligible Employee’s termination shall be deemed as of the date of termination not to have been an Involuntary Termination.

1.9 “Non-exempt Employee” shall mean an Eligible Employee who is paid on an hourly basis for time worked and classified in the sole discretion of the Employer under its normal classification procedures as a non-exempt employee under the Fair Labor Standards Act.

1.10 “Plan Administrator” shall mean the Vice President of Human Resources of CVS Pharmacy, Inc., or such other person designated to act as the Plan Administrator.

1.11 “Rehire Date” shall mean the date an Eligible Employee accepts reemployment with any Employer.

1.12 “RxAmerica Legacy Employee” shall mean an Eligible Employee who (a) was employed by RxAmerica, L.L.C. on the date of the acquisition of Longs Drugs Stores Corporation by CVS Caremark Corporation, and (b) since the acquisition has been continuously employed by RxAmerica, L.L.C. through the date of his or her Involuntary Termination under the Plan.

1.13 “Severance Pay” shall mean the pay an Eligible Employee is eligible to receive under Subsection (b) of Section 2.1 of the Plan upon his or her Involuntary Termination.

1.14 “Severance Period” shall mean the period of time during which an Eligible Employee is eligible to receive Severance Pay; provided, for RxAmerica Legacy Employees, the Severance Period shall be the period of time on which the calculation of Severance Pay is based under Paragraphs (1) through (6) of Subsection (b) of Section 2.1 of the Plan.

1.15 “Weekly Rate” shall mean, (a) with respect to an Eligible Employee paid on a salaried basis, an Eligible Employee’s annual base salary (as determined by the Employer), as of the date of the Eligible Employee’s Involuntary Termination, expressed on a weekly basis (as determined in the sole discretion of the Employer), and (b) with respect to an Eligible Employee paid on an hourly basis, the hourly wage rate of the Eligible Employee as of the date of the Eligible Employee’s Involuntary Termination multiplied by the Eligible Employee’s regularly scheduled number of hours of service per week (as determined by the

Employer), not in excess of 40 hours. Weekly Rate shall exclude any overtime, incentive, and bonus payments, unless otherwise required by law.

1.16 “Year of Service” shall mean each full year of service performed by the Eligible Employee for an Employer as reflected in the records of the Employer and as determined based on the Employer’s policies and procedures for determining periods of service, and the applicable law.

ARTICLE 2
SEVERANCE PAY AND ELIGIBLE EMPLOYEE BENEFITS

2.1 (a) Eligibility. Upon his or her Involuntary Termination, an Eligible Employee may, in the discretion of the Plan Administrator, be granted Severance Pay and benefits provided under Subsections (b), (c), and (d) of this Section 2.1, provided the conditions of Section 2.2 are satisfied. The determination of whether Severance Pay is payable under the Plan, and the form and amount of such pay, shall be made in the sole discretion of the Plan Administrator.

(b) Severance Pay. The Severance Pay payable to an Eligible Employee in the event of Involuntary Termination shall be determined by the Plan Administrator in its sole discretion, using the following guidelines for the applicable Eligible Employee classification:

(i) For Eligible Employees who are Non-exempt Employees:

(A) the Eligible Employee’s Weekly Rate multiplied by two (2), plus

(B) an amount equal to the Eligible Employee’s Weekly Rate multiplied by the number of Years of Service completed by the Eligible Employee multiplied by two (2),

provided Severance Pay for Non-exempt employees should not exceed the Eligible Employee’s Weekly Rate multiplied by thirteen (13);

(ii) For Eligible Exempt Employees in grades
105-108, 201-203, 302, 407, 408:

(A) the Eligible Employee’s Weekly Rate multiplied by four (4), plus,

(B) an amount equal to the Eligible Employee’s Weekly Rate multiplied by the number of Years of Service completed by the Eligible Employee multiplied by two (2),

provided Severance Pay for Exempt Employees should not exceed the Eligible Employee’s Weekly Rate multiplied by twenty (20);

(iii) For Eligible Exempt Employees in grades 109-111, 204, 205, 303, 304, 409-411, , the greater of (A) the Eligible Employee’s Weekly Rate multiplied by thirteen (13) or, (B) the amount determined under the formula set forth in Paragraph (ii) of this

Subsection (b), provided Severance Pay should not exceed the Eligible Employee's Weekly Rate multiplied by twenty (20);

- (iv) For Eligible Exempt Employees in grades 112, 206, 305, 412, the Eligible Employee's Weekly Rate multiplied by twenty-six (26);
- (v) For Eligible Exempt Employees in grades 36A-Z, the Eligible Employee's Weekly Rate multiplied by fifty-two (52); and
- (vi) For Eligible Exempt Employees in grades 38A-Z and 39 A-Z, the Eligible Employee's Weekly Rate multiplied by fifty-two (52).

Notwithstanding the above guidelines, in the event of an Involuntary Termination of an Eligible Employee who is an RxAmerica Legacy Employee, Severance Pay shall be determined by the Plan Administrator in its sole discretion, using the following guidelines for the applicable Rx America Legacy Employee classification:

(1) For Rx America Legacy Employees who are Non-exempt Employees, the greater of (A) the RxAmerica Legacy Employee's Weekly Rate multiplied by the number of Years of Service, or (B) the RxAmerica Legacy Employee's Weekly Rate multiplied by eight (8);

(2) For RxAmerica Legacy Employees who are Exempt Employees, the greater of (A) the RxAmerica Legacy Employee's Weekly Rate multiplied by the number of Years of Service, or (B) the RxAmerica Legacy Employee's Weekly Rate multiplied by twelve (12);

(3) For RxAmerica Legacy Employees who are classified by the Employer (in its sole discretion) as a Manager or in an equivalent position, the greater of (A) the RxAmerica Legacy Employee's Weekly Rate multiplied by the number of Years of Service, or (B) the RxAmerica Legacy Employee's Weekly Rate multiplied by twenty-six (26);

(4) For RxAmerica Legacy Employees who are classified by the Employer (in its sole discretion) as a Director or in an equivalent position, the greater of (A) the Eligible Legacy Employee's Weekly Rate multiplied by the number of Years of Service, or (B) the RxAmerica Legacy Employee's Weekly Rate multiplied by thirty-nine (39);

(5) For RxAmerica Legacy Employees who are classified by the Employer (in its sole discretion) as a Vice President or Group Vice President or in an equivalent position, the greater of (A) the RxAmerica Legacy Employee's Weekly Rate multiplied by the number of Years of Service, or (B) the RxAmerica Legacy Employee's Weekly Rate multiplied by fifty-two (52); and

(6) For RxAmerica Legacy Employees who are classified by the Employer (in its sole discretion) in a position that is higher than Vice President or Group Vice President, such other amount determined in the sole discretion of the Plan Administrator.

Notwithstanding the above guidelines, the Plan Administrator may increase or decrease (including, to zero) the amount of Severance Pay with respect to any Eligible Employee for reasons it deems appropriate in its sole discretion (including, but not limited to, an increase to provide consideration for Eligible Employees who have outstanding employment agreements with an Employer or a decrease to take into account any debts owed to an Employer), and the Plan Administrator may make any such increase or decrease at any time, whether before or after payments of Severance Pay have commenced.

(c) COBRA Assistance. In the event an Eligible Employee who has an Involuntary Termination (i) is eligible to elect continuation coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 as amended (“COBRA”) in accordance with the terms of the medical and prescription drug plan and/or dental plan of the Employer and (ii) properly and timely elects such continuation coverage, the Employer may pay for a portion of the cost of COBRA coverage equivalent to the contribution which the Employer makes on behalf of similarly situated active employees under such plan for the appropriate tier of coverage selected and in place immediately prior to the date of the Eligible Employee’s Involuntary Termination (e.g. , employee-only, family coverage), for a period determined in the sole discretion of the Plan Administrator, which generally shall be the Severance Period. Any COBRA assistance provided under this Subsection (c) shall be paid by the Employer directly to the insurance carrier, if applicable. The portion of the COBRA premium not covered by the COBRA assistance specified in this Subsection (c) must be paid by the Eligible Employee directly to the insurance carrier or service provider that administers COBRA, as applicable, based on the standard rules under the respective plan for payment of COBRA premiums. This Subsection (c) does not provide COBRA assistance in the event the Eligible Employee fails to properly and timely elect COBRA continuation coverage, regardless of whether his or her covered dependents elect COBRA continuation coverage. Notwithstanding the foregoing, for an Eligible Employee who is an RxAmerica Legacy Employee eligible to elect COBRA continuation coverage in accordance with the terms of the medical and prescription drug plan and/or dental plan, the Employer may, in the sole discretion of the Plan Administrator, pay for COBRA assistance, generally in the form of a single lump sum payment equal to the weekly COBRA premium (102 percent of the applicable premium, as defined in Code Section 4980B(f)(4)) for the Severance Period, based on the tier of coverage in which the RxAmerica Legacy Employee is enrolled as of the date of his or her Involuntary Termination.

(d) Outplacement Services. Upon an Involuntary Termination, the outplacement services provided to an Eligible Employee shall be provided in the sole discretion of the Plan Administrator based on the guidelines contained in this Subsection (d).

(i) If an Eligible Employee so desires, he or she may be eligible for outplacement services for assistance in obtaining new employment, provided through a vendor selected by the Employer, with the Employer directly providing payment to such vendor. The provision of outplacement services is contingent upon the Eligible Employee’s cooperation with the outplacement service vendor, upon the active efforts of the Eligible Employee to locate a new position, and upon the Eligible Employee initiating outplacement services during the Severance Period.

(ii) Subject to the requirements of Paragraph (i) of this Subsection (d), outplacement services shall be offered for a period of time determined in the sole discretion of the Plan Administrator, based on guidelines that include:

(A) a virtual or group training session for Eligible Non-exempt Employees and Exempt Employees in grades 105-108, 201-203, 302, 407, 408 ;

(B) three (3) months of outplacement services for Eligible Exempt Employees in grades 109-112, 204-206, 303-305, 409-412 ; and

(C) six (6) months of outplacement services for Eligible Exempt Employees in grades 36A-Z, 38A-Z, and 39 A-Z;

provided, in no event shall such services extend beyond twelve (12) months following the Involuntary Termination of the Eligible Employee.

(e) Form and Timing of Payment. In the event an Eligible Employee is awarded Severance Pay under the terms of Subsection (a) of this Section 2.1, such Severance Pay shall be paid following an Eligible Employee's Involuntary Termination (except as provided in Section 2.3, below), as follows: No Severance Pay shall commence (with respect to salary continuation payments) or be paid (with respect to a lump sum) (i) prior to the expiration of the later of a period that is identified in a separate agreement with the Eligible Employee during which he or she may consider the execution of the release of claims form (the "Consideration Period") or a period ending at least seven (7) days following the execution of the release of claims form (the "Revocation Period"), or (ii) later than sixty (60) days following the date of Eligible Employee's Involuntary Termination. Severance Pay that is paid in the form of salary continuation shall commence as soon as feasible following expiration of the later of the Consideration Period or the Revocation Period, which generally shall be the first regularly scheduled payroll date following the expiration of the Consideration Period or the Revocation Period, as the case may be, and shall thereafter be paid in substantially equal installments in accordance with the Employer's regular payroll practice, except as provided in Section 2.3 of the Plan; provided, with respect to RxAmerica Legacy Employees, Severance Pay shall be paid in a single lump sum. Further, in the Plan Administrator's sole discretion, Severance Pay may be paid to any Eligible Employees in a single lump sum, in which event Severance Pay shall be paid within the period that satisfies the 409A requirements for short-term deferrals under Section 409A of the Code.

(f) Withholding. Any payment of Severance Pay to an Eligible Employee shall be subject to normal withholding for state and federal income taxes and Social Security taxes.

(g) Death. Upon the death of the Eligible Employee who had an Involuntary Termination and who has not received all Severance Pay payable under the Plan, the Severance Pay otherwise payable under Section 2.1(b) of the Plan shall be paid in the form of a lump sum to the Eligible Employee's estate or beneficiary as soon as practicable, but in no event later than 60 days following death. Any other severance benefits provided under this Section 2.1 (COBRA assistance and outplacement services) shall cease upon the Eligible Employee's death.

2.2 Conditions on Payment of Severance Pay and Benefits. Payment of the Severance Pay and benefits provided in Section 2.1 of the Plan shall be subject to and conditioned upon the following:

(a) to the extent an Eligible Employee receives notice of a date selected by the Employer (in its sole discretion) on which the Eligible Employee's Involuntary Termination shall occur (a "Designated Termination Date"), the Eligible Employee must continue to work in a satisfactory manner until his or her Designated Termination Date;

(b) the Eligible Employee must cooperate in transitioning all of the Eligible Employee's work in consultation with the Eligible Employee's supervisor or other designated employee;

(c) the Eligible Employee must execute and deliver a release of claims form (in the form specified by the Employer from time to time which may include restrictive covenants and, if applicable, a waiver as described in Subsection (d) of this Section 2.2) within the time period specified under the terms of the applicable severance offer. Further, in no event will Severance Pay be paid with respect to an Eligible Employee in the event the release of claim form is revoked during the Revocation Period (described in Section 2.1(e) of the Plan); and

(d) the Eligible Employee must waive the right to receive any other severance payment relating to salary continuation or salary replacement the Eligible Employee may otherwise be eligible to receive upon termination of employment under any employment agreement, severance plan, practice, policy or program of the Employer or an Affiliate.

2.3 Maximum Severance Pay. Notwithstanding any other provisions to the contrary, benefits paid hereunder (a) shall not exceed two times the lesser of (i) the Eligible Employee's Compensation (as defined in this Section 2.3) during the calendar year immediately preceding the Eligible Employee's Involuntary Termination or (ii) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Code for the calendar year in which the Eligible Employee's Involuntary Termination occurs and (b) shall be paid in full within twenty-four (24) months after the date the Eligible Employee's Involuntary Termination occurs. In the event that any Severance Pay payable to an Eligible Employee would exceed the twenty-four (24) month period provided in the foregoing sentence if the Severance Pay continued to be paid in accordance with the Employer's regular payroll practice, any Severance Pay that would otherwise exceed the twenty-four (24) month time period will be paid to the Eligible Employee in a lump sum on the last regular payroll date within the twenty-four (24) month period. For purposes of this Section 2.3, "Compensation" shall mean the Eligible Employee's total annualized compensation, based upon the annual rate of pay for services provided to the Employer for the calendar year preceding the calendar year in which the Eligible Employee's Involuntary Termination occurs, adjusted for any increase in such preceding calendar year that was expected to continue indefinitely if the Eligible Employee had not had an Involuntary Termination.

2.4 Cessation of Severance Pay Upon Reemployment. If an Eligible Employee who had an Involuntary Termination and who is receiving Severance Pay thereafter accepts reemployment with any Employer during the Severance Period, such Employee's Severance Pay shall cease on the Rehire Date and any remaining Severance Pay shall be forfeited.

2.5 Cessation of Severance Pay After Commencement of Payments. If an Eligible Employee is deemed to have an Involuntary Termination and begins to receive Severance Pay under the Plan and the Employer or the Plan Administrator becomes aware of facts and circumstances that, had the Employer known same at the time of the Eligible Employee's termination of employment, would have affected the Employer's determination as to whether such Employee's termination was an Involuntary Termination, the Plan Administrator may suspend any future Severance Pay payments to the Eligible Employee while the Employer investigates the facts and circumstances and finalizes such investigation, and, if the Employer determines that the Eligible Employee should have been terminated for Cause, such Eligible Employee's Severance Pay shall cease as of the suspension date, any remaining Severance Pay shall be forfeited and any Severance Pay that has been paid shall be subject to repayment by the Eligible Employee.

2.6 Impact of Debt on Severance Pay . In the event an Eligible Employee is indebted to the Company or Employer (determined in the sole discretion of the Company or Employer, as applicable), the Plan Administrator reserves the right to reduce, offset, withhold, and/or forfeit the Severance Pay otherwise payable under the Plan.

2.7 Employee Benefits . As of the date of an Eligible Employee's Involuntary Termination, the Eligible Employee's active participation in any benefit plan, program, or policy sponsored or subsidized by the Employer shall cease, unless otherwise continued pursuant to the terms of such plan, program or policy.

2.8 Awards . Any award or grant made to the Eligible Employee under any stock option, stock purchase, or stock appreciation rights plan of the Company or Employer shall be administered and interpreted in accordance with the terms of the applicable plan documents.

2.9 Paid Time Off . Any pay for accrued paid time off shall be determined under the terms of the Employer's applicable policies.

2.10 Benefits Not Vested . No one under any circumstance is automatically entitled to Severance Pay and benefits described in Section 2.1 of the Plan. Notwithstanding anything in the Plan to the contrary, the Plan Administrator reserves the right, at its sole discretion, to increase, decrease, or eliminate Severance Pay and benefits under the Plan.

2.11 Bonuses . Whether any bonuses are payable to an Eligible Employee shall be determined based on the terms of any applicable bonus program, plan, or policy.

ARTICLE 3 ADMINISTRATION OF THE PLAN

3.1 Control and Administration . Notwithstanding any other provision in the Plan, and to the full extent permitted under ERISA and the Internal Revenue Code, the Plan Administrator shall have the exclusive right, power and final authority, in its sole and absolute discretion, to administer, apply, construe and interpret the terms of the Plan and all related plan documents and all facts surrounding claims for benefits under the Plan and shall determine all questions arising in the administration, interpretation and application of the Plan, including, but not limited to, those concerning eligibility for benefits. Accordingly, benefits under the Plan shall be paid only if the Plan Administrator decides in its discretion that an Eligible Employee is entitled to benefits, and the Plan Administrator shall decide all questions regarding the form, amount and duration of benefits. The Plan Administrator may consult with attorneys, consultants and other persons for advice, counsel and reports to make determinations under the Plan, and the Plan Administrator may delegate its administrative duties and responsibilities to persons or entities of its choice, in all cases who may be employees of the Company. All determinations of the Plan Administrator shall be conclusive and binding on all parties. The Plan Administrator shall be the named fiduciary of the Plan for purposes of ERISA.

3.2 Claim Procedures .

(a) Procedure for Granting or Denying Claims . An Eligible Employee, or his or her duly authorized representative, may file a claim for payment of benefits under the Plan within 30 days after termination of employment. Such a claim must be made in writing and be delivered to

the Plan Administrator, in person or by mail, postage paid. Within 90 days after receipt of such claim, the Plan Administrator shall notify the claimant of the granting or denying, in whole or in part, of such claim, unless special circumstances require an extension of time for processing the claim. In no event may the extension exceed 90 days from the end of the initial 90-day period. If such extension is necessary, the claimant will be given a written notice to this effect prior to the expiration of the initial 90-day period. The Plan Administrator shall have full discretion to deny or grant a claim in whole or in part.

(b) Requirement for Notice of Claim Denial. The Plan Administrator shall provide to every claimant who is denied a claim for benefits a written or electronic notice setting forth in a manner calculated to be understood by the claimant:

(i) The specific reason or reasons for the denial;

(ii) Specific reference to pertinent Plan provisions on which the denial is based;

(iii) A description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material is necessary; and

(iv) An explanation of the Plan's claim review procedures and the time limits applicable to such procedures, including a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse determination on review.

(c) Right to Appeal and Request Hearing on Claim Denial. Within 60 days after receipt by the claimant of written or electronic notification of the denial (in whole or in part) of his or her claim, the claimant or his or her duly authorized representative (including, but not limited to, his or her counsel) may make a written application to the Plan Administrator, in person or by certified mail, postage prepaid, to be afforded a full and fair review of such denial. The claimant or his or her duly authorized representative may submit written comments, documents, records, and other information relating to the claim for benefits. Moreover, the claimant or his or her duly authorized representative shall be provided, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits. The request for a review may include a request for a hearing; provided only the claimant and the Plan Administrator may be present at any hearing granted by the Plan Administrator.

(d) Disposition of Disputed Claims. Upon receipt of a request for review, the Plan Administrator shall make a decision on the claim. The review shall take into account all comments, documents, records, and other information submitted by the claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The decision on review shall be made not later than 60 days after the Plan Administrator's receipt of a request for a review, unless special circumstances require an extension of time for processing, in which case a decision shall be rendered not later than 120 days after receipt of the request for review. If an extension is necessary, the claimant shall be given written notice of the extension prior to the expiration of the initial 60-day period.

The Plan Administrator shall provide the claimant with written or electronic notification of the Plan's determination on review. In the case of an adverse determination, the notification shall set forth, in a manner calculated to be understood by the claimant, the specific reason or reasons for

the decision as well as specific references to the Plan provisions on which the decision was based. The decision shall also include a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits. Moreover, the decision shall contain a statement of the claimant's right to bring an action under Section 502(a) of ERISA.

3.3 Bar to Legal Action. No legal action may be commenced or maintained against the Plan, the Company or any Employer prior to the claimant's exhaustion of the claims procedures set forth in Section 3.2 of the Plan. In addition, no legal action may be commenced against the Plan more than ninety (90) days after the Plan Administrator's final claim determination on review pursuant to Section 3.2(d) of the Plan. Any legal action must be conducted in the United States District Court for Rhode Island.

3.4 Named Fiduciary. The Plan Administrator of the Plan shall be the Named Fiduciary of the Plan for purposes of ERISA Section 402(a)(1).

ARTICLE 4 MISCELLANEOUS

4.1 Amendment or Termination. The Plan may be amended, terminated, withdrawn or suspended at any time in writing by the Management Planning and Development Committee of the Company or any individual designated by such Committee to take such actions.

4.2 Choice of Law. The validity, interpretation, construction and performance of the obligations created under the Plan shall be governed by ERISA, and to the extent not preempted by federal law, the laws of the State of Rhode Island without regard to its conflicts of law principles.

4.3 Validity. The invalidity or unenforceability of any provision of the Plan shall not affect the validity or enforceability of any other provision of the Plan, which shall remain in full force and effect.

4.4 Plan Exclusive Source of Rights. The Plan contains all of the terms and conditions with respect to the benefits provided hereunder, and no Eligible Employee or former Eligible Employee may rely on any other communication or representation, whether oral or written, of the Employer or any of its subsidiaries, or any officer or Eligible Employee thereof, as creating any right or obligation not expressly provided by the Plan.

4.5 Nonassignability. No benefit which shall be payable under the Plan to any Eligible Employee shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, or charge (except as required by law), and any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, or charge a benefit shall be null and void. No benefit shall in any manner be liable for, or subject to, the debts, contracts, liabilities, engagements, or torts of any Eligible Employee. No benefit shall be subject to legal attachment or legal process for, or against, the Eligible Employee and the same shall not be recognized under the Plan. Notwithstanding the preceding sentence, the Employer retains the discretion, in accordance with federal and/or state laws, to reduce the amount of benefits payable under the Plan to any Eligible Employee to recover any amounts that the Eligible Employee owes to the Employer.

4.6 No Employment Rights. The Plan shall not give any Eligible Employee any right or claim except to the extent that the right is specifically provided under the terms of the Plan. The establishment of the Plan shall not be construed (a) to give any Eligible Employee a right to continue in the employ of the

Employer or (b) to interfere with the right of the Employer to terminate the employment of any Eligible Employee at any time.

4.7 Headings. Article and section headings are for convenience only and the language of the Plan itself will be controlling.

4.8 Gender and Numbers. Masculine pronouns include the feminine as well as the neuter genders, and the singular shall include the plural, unless indicated otherwise by the context.

4.9 Code Section 409A. The benefits provided under the terms of the Plan are intended to fall within the short-term deferral exception, the separation pay exception or another exception to the application of Section 409A of the Code and the applicable guidance issued thereunder. In furtherance of this intent, the Plan shall be interpreted, operated and administered in a manner consistent with this intention. To the extent the benefits provided under the Plan become subject to Code Section 409A and applicable guidance issued thereunder, the Plan shall be construed, and benefits paid hereunder, as necessary to comply with Section 409A of the Code and such guidance. Further, to the extent that an Eligible Employee becomes entitled to receive Severance Pay under the terms of the Plan, and, at the time of the Eligible Employee's Involuntary Termination, he or she is a "specified employee" within the meaning of Treasury Regulation Section 1.409A-1(i), any portion of Severance Pay payable to such Eligible Employee that is subject to Code Section 409A and applicable guidance thereunder shall be delayed until the date that is the earlier of (i) the Eligible Employee's death or (ii) six months following the date of the Eligible Employee's Involuntary Termination, at which time the payments that were delayed for such six month period shall be paid in a lump sum on the date of the next occurring regular payroll date of the Employer, and any remaining payments shall be paid according to the original schedule provided herein. In addition, each payment of a salary continuation stream of installment payments hereunder shall be a separate payment for purposes of Section 409A of the Code.

4.10 Funding. The Plan is not funded, and Severance Pay and benefits under the Plan are paid from the general assets of the Employer.

4.11 Plan Year. The Plan's records shall be maintained on the basis of the calendar year.

Universal 409A Definition Document

Except as may be specifically agreed to in writing by the CVS Health Corporation (the “**Company**”) after December 31, 2008 or as may otherwise be specifically provided in an applicable plan document, for purposes of benefits or amounts covered by Section 409A of the Internal Revenue Code (the “**Code**”):

1. “Specified Employee” shall have the meaning ascribed thereto by Section 409A of the Code and the regulations promulgated thereunder and in determining whether an employee is a Specified Employee, the following rules shall apply:

- (a) The compensation of the Employee shall be determined in accordance with the definition of compensation provided under Treas. Reg. Section 1.415(c)-2(d)(3) (wages within the meaning of Section 3401(a) of the Code for purposes of income tax withholding at the source, plus amounts excludible from gross income under Sections 125(a) and 402(e) (3) of the Code).
- (b) Notwithstanding anything herein to the contrary, (i) if a different definition of compensation has been designated by the Company with respect to another nonqualified deferred compensation plan in which a key employee participates, the definition of compensation shall be the definition provided in Treas. Reg. Section 1.409A-1(i)(2), and (ii) the Company may, through action that is legally binding with respect to all nonqualified deferred compensation plans maintained by the Company, elect to use a different definition of compensation.
- (c) In the event of corporate transactions described in Treas. Reg. Section 1.409A-1(i)(6), the identification of Specified Employees shall be determined in accordance with the default rules described therein, unless the Company elects to utilize the available alternative methodology through designations made within the timeframes specified therein.
- (d) Specified Employee Identification Date means December 31, unless the Company has elected a different date through compensation plans maintained by the Employer.
- (e) Specified Employee Effective Date means the first day of the fourth month following the Specified Employee Identification

Date, unless a different date is selected in writing by the Company for this purpose.

2. Except as provided in an employment agreement with the Company the term “retirement” when used in a plan, arrangement or agreement shall mean with respect to an employee a termination of employment after the earlier of age 55 and 10 years of service and age 60 and 5 years of service; provided, however, that the definition shall not apply for purposes of any Company plan that is qualified under Section 401 of the Internal Revenue Code.

3. Change in Control shall have the meaning described in Section 10(c) of the 1997 Incentive Compensation Plan.

4. “termination of employment”, “employment is terminated” and other similar words shall mean with respect to an employee

- (a) “Separation from Service” as such term is defined in the Income Tax Regulations under Section 409A of the Code as modified by the rules described below:
 - (i) except in the case where the employee is on a bona fide leave of absence pursuant to the Company’s policies as provided below, the employee is deemed to have incurred a Separation from Service on a date if the Company and the employee reasonably anticipate that the level of services to be performed by the employee after such date would be permanently reduced to 20% or less of the average services rendered by the employee during the immediately preceding 36-month period (or the total period of employment, if less than 36 months), disregarding periods during which the employee was on a bona fide leave of absence;
 - (ii) if the employee is absent from work due to military leave, sick leave, or other bona fide leave of absence pursuant to the Company’s policies, the employee shall incur a Separation from Service on the first date that the rules of (a)(i), above, are satisfied following the later of (i) the 6 month (12 month for a disability leave of absence) anniversary of the commencement of the leave or (ii) the expiration of the employee’s right, if any, to reemployment under statute, contract or to Company policy. For this purpose, a “disability leave of absence” is an absence due to any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 6 months, where such

impairment causes the employee to be unable to perform the duties of his job or a substantially similar job;

- (iii) for purposes of determining whether another organization is an Affiliate of the Company, common ownership of at least 50% shall be determinative;
 - (iv) the Company specifically reserves the right to determine whether a sale or other disposition of substantial assets to an unrelated party constitutes a Separation from Service with respect to an employee providing services to the seller immediately prior to the transaction and providing services to the buyer after the transaction. Such determination shall be made in accordance with the requirements of Section 409A of the Code; or
- (b) for any plan or arrangement that is not subject to the rules of Section 409A of the Code, the complete cessation of providing service to the Company or any Affiliate as an employee.

5. “unforeseeable emergency”, “hardship” and similar words shall mean with respect to an employee or former employee a severe financial hardship to the employee resulting from an illness or accident of the employee, the employee’s spouse, the employee’s beneficiary, or the employee’s dependent (as defined in Code Section 152, without regard to Sections 152(b)(1), (b)(2), and (d)(1)(B)); loss of the employee’s property due to casualty (including the need to rebuild a home following damage to a home not otherwise covered by insurance); or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the employee including, for example, the imminent foreclosure of or eviction from the employee’s primary residence, the need to pay for medical expenses, including non-refundable deductibles, as well as for the costs of prescription drug medication, or other circumstances, all as permitted by Income Tax Regulations Section 1.409A-3(i)(3).

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

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

Overview of Our Business

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

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

Through our approximately 9,600 retail pharmacies, more than 1,100 walk-in health care clinics, a leading pharmacy benefits manager with more than 75 million plan members, a dedicated senior pharmacy care business serving more than one million patients per year, and expanding specialty pharmacy services, we enable people, businesses, and communities to manage health in more affordable, effective ways. We are delivering break-through products and services, from advising patients on their medications at our CVS Pharmacy[®] locations, to introducing unique programs to help control costs for our clients at CVS Caremark[®], to innovating how care is delivered to our patients with complex conditions through CVS Specialty[™], to improving pharmacy care for the senior community through Omnicare[®], or by expanding access to high-quality, low-cost care at CVS MinuteClinic[™].

On August 18, 2015, the Company acquired 100% of the outstanding common shares and voting interests of Omnicare, Inc. (“Omnicare”), for \$98 per share for a total of \$9.6 billion and assumed long-term debt with a fair value of approximately \$3.1 billion. Omnicare is a leading pharmaceutical care company that specializes in the management of long-term care pharmacy services. As a result of the acquisition of Omnicare, the Company’s segments have been expanded. The Company’s Pharmacy Services Segment now also includes the specialty pharmacy operations of Omnicare. The Company’s Retail Pharmacy Segment has been renamed the “Retail/LTC Segment” and now also includes the long-term care (“LTC”) operations, as well as the commercialization services of Omnicare. The LTC operations include the distribution of pharmaceuticals, related pharmacy consulting and other ancillary services to chronic care facilities and other care settings.

On December 16, 2015, we completed our acquisition of the pharmacy and clinic businesses of Target Corporation (“Target”). This acquisition expands our pharmacy and clinic presence in existing and new markets. It allows us to increase patient access and is an investment in our core business to drive growth. The results of the Target pharmacies and clinics are included in our Retail/LTC Segment.

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

Overview of Our Pharmacy Services Segment

Our Pharmacy Services business generates revenue from a full range of pharmacy benefit management (“PBM”) solutions, including plan design and administration, formulary management, Medicare Part D services, mail order, specialty pharmacy and infusion services, retail pharmacy network management services, prescription management systems, clinical services, disease management services and medical spend management.

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

As a pharmacy benefits manager, we manage the dispensing of prescription drugs through our mail order pharmacies, specialty pharmacies, long-term care pharmacies and national network of more than 68,000 retail pharmacies, consisting of approximately 41,000 chain pharmacies (which includes our CVS Pharmacy[®] stores) and 27,000 independent pharmacies, to

eligible members in the benefit plans maintained by our clients and utilize our information systems to perform, among other things, safety checks, drug interaction screenings and brand to generic substitutions.

Our specialty pharmacies support individuals who require complex and expensive drug therapies. Our specialty pharmacy business includes mail order and retail specialty pharmacies that operate under the CVS Caremark[®], CarePlus CVS Pharmacy[™], Navarro[®] Health Services and Advanced Care Scripts names. Substantially all of our mail service specialty pharmacies have been accredited by The Joint Commission, which is an independent, not-for-profit organization that accredits and certifies health care organizations and programs in the United States. We also offer specialty infusion services and enteral nutrition services through Coram LLC and its subsidiaries (collectively, "Coram"). With Specialty Connect[™], which integrates our specialty pharmacy mail and retail capabilities, we provide members with disease-state specific counseling from our experienced specialty pharmacists and the choice to bring their specialty prescriptions to any CVS Pharmacy location. Whether submitted through our mail order pharmacy or at a CVS Pharmacy, all prescriptions are filled through the Company's specialty mail order pharmacies, so all revenue from this specialty prescription services program is recorded within the Pharmacy Services Segment. Members then can choose to pick up their medication at their local CVS Pharmacy or have it sent to their home through the mail. In August 2015, we expanded our offerings with the acquisition of Omnicare which included its specialty pharmacy operating under the Advanced Care Scripts name.

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

In addition, through our SilverScript Insurance Company ("SilverScript") subsidiary, we are a national provider of drug benefits to eligible beneficiaries under the federal government's Medicare Part D program. We currently provide Medicare Part D plan benefits to approximately 5.0 million beneficiaries through SilverScript, including our individual and employer group waiver plans.

The Pharmacy Services Segment operates under the CVS Caremark[®] Pharmacy Services, Caremark[®], CVS Caremark[™], CarePlus CVS Pharmacy[™], Accordant[®], SilverScript[®], Coram[®], CVS Specialty[™], NovoLogix[®], Navarro[®] Health Services and Advanced Care Scripts names. As of December 31, 2015, the Pharmacy Services Segment operated 24 retail specialty pharmacy stores, 11 specialty mail order pharmacies, five mail order dispensing pharmacies, and 83 branches for infusion and enteral services, including approximately 73 ambulatory infusion suites and six centers of excellence, located in 40 states, Puerto Rico and the District of Columbia.

Overview of Our Retail/LTC Segment

Our Retail/LTC Segment sells prescription drugs and a wide assortment of general merchandise, including over-the-counter drugs, beauty products and cosmetics, personal care products, convenience foods, photo finishing, seasonal merchandise and greeting cards. With the acquisition of Omnicare, the Retail/LTC Segment now also includes the distribution of prescription drugs, related pharmacy consulting and other ancillary services to chronic care facilities and other care settings, as well as commercialization services which are provided under the name RxCrossroads[®]. We added approximately 1,672 pharmacies through the acquisition of Target's pharmacies, thereby, expanding our presence in new and existing markets. The stores within Target will only sell prescription drugs and over-the-counter drugs that are required to be behind the counter. Our Retail/LTC Segment derives the majority of its revenues through the sale of prescription drugs, which are dispensed by our more than 30,000 pharmacists. The role of our retail pharmacists is shifting from primarily dispensing prescriptions to also providing services, including flu vaccinations as well as face-to-face patient counseling with respect to adherence to drug therapies, closing gaps in care, and more cost-effective drug therapies. Our integrated pharmacy services model enables us to enhance access to care while helping to lower overall health care costs and improve health outcomes.

Our Retail/LTC Segment also provides health care services through our MinuteClinic[®] health care clinics. MinuteClinics are staffed by nurse practitioners and physician assistants who utilize nationally recognized protocols to diagnose and treat minor health conditions, perform health screenings, monitor chronic conditions, and deliver vaccinations. We believe our clinics provide high quality services that are affordable and convenient. Through the acquisition of Target's clinics, we added 79 clinics in December 2015.

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

As of December 31, 2015, our Retail/LTC Segment included 9,655 retail stores (of which 7,897 were our stores that operated a pharmacy and 1,672 were our pharmacies located within Target store) located in 49 states, the District of Columbia, Puerto

Rico and Brazil operating primarily under the CVS Pharmacy[®], CVS[®], Longs Drugs[®], Navarro Discount Pharmacy[®] and Drogeria Onofre[™] names, 32 onsite pharmacies primarily operating under the CarePlus CVS Pharmacy[™], CarePlus[®] and CVS Pharmacy[®] names, and 1,135 retail health care clinics operating under the MinuteClinic[®] name (of which 1,049 were located in CVS Pharmacy stores), and our online retail websites, CVS.com[®], Navarro.com[™] and Onofre.com.br[™]. LTC operations are comprised of 143 spoke pharmacies that primarily handle new prescription orders, of which 32 are also hub pharmacies that use proprietary automation to support spoke pharmacies with refill prescriptions. LTC operates primarily under the Omnicare[®] and NeighborCare[®] names.

Overview of Our Corporate Segment

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

Results of Operations

Summary of our Consolidated Financial Results

<i><u>In millions, except per share amounts</u></i>	Year Ended December 31,		
	2015	2014	2013
Net revenues	\$ 153,290	\$ 139,367	\$ 126,761
Cost of revenues	126,762	114,000	102,978
Gross profit	26,528	25,367	23,783
Operating expenses	17,074	16,568	15,746
Operating profit	9,454	8,799	8,037
Interest expense, net	838	600	509
Loss on early extinguishment of debt	—	521	—
Income before income tax provision	8,616	7,678	7,528
Income tax provision	3,386	3,033	2,928
Income from continuing operations	5,230	4,645	4,600
Income (loss) from discontinued operations, net of tax	9	(1)	(8)
Net income	5,239	4,644	4,592
Net income attributable to noncontrolling interest	(2)	—	—
Net income attributable to CVS Health	\$ 5,237	\$ 4,644	\$ 4,592
Diluted earnings per share:			
Income from continuing operations attributable to CVS Health	\$ 4.62	\$ 3.96	\$ 3.75
Income (loss) from discontinued operations attributable to CVS Health	\$ 0.01	\$ —	\$ (0.01)
Net income attributable to CVS Health	\$ 4.63	\$ 3.96	\$ 3.74

Net revenues increased \$13.9 billion in 2015 compared to 2014, and increased \$12.6 billion in 2014 compared to 2013. As you review our performance in this area, we believe you should consider the following important information:

- During 2015, net revenues in our Pharmacy Services Segment increased 13.5% and net revenues in our Retail/LTC Segment increased 6.2% compared to the prior year.
- During 2014, net revenues in our Pharmacy Services Segment increased by 16.1% and net revenues in our Retail/LTC Segment increased 3.3% compared to the prior year.
- In 2015 and 2014, the impact from net new business grew for the Pharmacy Services Segment. The increase in our generic dispensing rates in both of our operating segments continued to have a negative effect on net revenue in 2015 as compared to 2014, as well as in 2014 as compared to 2013.
- Both segments benefited from the Omnicare acquisition that occurred in August 2015.

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

Gross profit increased \$1.2 billion, or 4.6% in 2015, to \$26.5 billion, as compared to \$25.4 billion in 2014. Gross profit increased \$1.6 billion, or 6.7% in 2014, to \$25.4 billion, as compared to \$23.8 billion in 2013. Gross profit as a percentage of net revenues declined to 17.3%, as compared to 18.2% in 2014 and 18.8% in 2013.

- During 2015, gross profit in our Pharmacy Services Segment and Retail/LTC Segment increased by 9.6% and 3.4%, respectively, compared to the prior year. For the year ended December 31, 2015, gross profit as a percent of net revenues in our Pharmacy Services Segment and Retail/LTC Segment was 5.2% and 30.5%, respectively.
- During 2014, gross profit in our Pharmacy Services Segment and Retail/LTC Segment increased by 12.6% and 5.8%, respectively, compared to the prior year. For the year ended December 31, 2014, gross profit as a percent of net revenues in our Pharmacy Services Segment and Retail/LTC Segment was 5.4% and 31.4%, respectively.
- The increased weighting toward the Pharmacy Services Segment, which has a lower gross profit than the Retail/LTC Segment, resulted in a decline in consolidated gross profit as a percent of net revenues in 2015 as compared to 2014. In addition, gross profit for 2015, 2014 and 2013 has been negatively impacted by price compression in the Pharmacy Services Segment and reimbursement pressure in the Retail/LTC Segment.
- Our gross profit continued to benefit from the increased utilization of generic drugs (which normally yield a higher gross profit rate than equivalent brand name drugs) in both the Pharmacy Services and Retail/LTC segments for 2013 through 2015, partially offsetting the negative impacts described above.

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

Operating expenses increased \$506 million, or 3.0%, in the year ended December 31, 2015, as compared to the prior year. Operating expenses as a percent of net revenues declined to 11.1% in the year ended December 31, 2015 compared to 11.9% in the prior year. The increase in operating expense dollars in the year ended December 31, 2015 was primarily due to incremental store operating costs associated with a higher store count, the Omnicare acquisition in August 2015 and the acquisition of the Target pharmacy and clinic businesses in December 2015. The decrease in operating expenses as a percent of net revenues in 2015 is primarily due to expense leverage from net revenue growth.

Operating expenses increased \$882 million, or 5.2%, in the year ended December 31, 2014 as compared to the prior year. Operating expenses as a percent of net revenues declined to 11.9% in the year ended December 31, 2014 compared to 12.4% in the prior year. The increase in operating expense dollars in the year ended December 31, 2014 was primarily due to incremental store operating costs associated with a higher store count, as well as legal costs and strategic initiatives as compared to the prior year. Additionally, the year ended December 31, 2013 included a \$72 million gain on a legal settlement. The improvement in operating expenses as a percent of net revenues in 2014 is primarily due to expense leverage from net revenue growth and disciplined expense control.

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

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

<u>In millions</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Interest expense	\$ 859	\$ 615	\$ 517
Interest income	(21)	(15)	(8)
Interest expense, net	<u>\$ 838</u>	<u>\$ 600</u>	<u>\$ 509</u>

Net interest expense increased \$238 million during the year ended December 31, 2015, primarily due to the amortization of bridge facility fees of \$52 million for the unsecured bridge facility that was entered into on May 20, 2015 and was amortized to interest expense over the period it was outstanding, the \$15 billion debt issuance in July 2015, and the debt assumed from the Omnicare acquisition. See Note 6, "Borrowings and Credit Agreements" to the consolidated financial statements for additional information. During 2014, net interest expense increased by \$91 million, to \$600 million compared to 2013, primarily due to the issuance of \$4 billion of debt in December 2013 and \$1.5 billion of debt in August 2014.

Loss on early extinguishment of debt - During the year ended December 31, 2014, the Company completed a \$2.0 billion tender offer and repurchase of certain Senior Notes. The Company paid a premium of \$490 million in excess of the debt principal in connection with the repurchase of the Senior Notes, wrote off \$26 million of unamortized deferred financing costs and incurred \$5 million in fees, for a total loss on early extinguishment of debt of \$521 million. See Note 6, "Borrowings and Credit Agreements" to the consolidated financial statements for additional information.

Income tax provision - Our effective income tax rate was 39.3%, 39.5% and 38.9% in 2015, 2014 and 2013, respectively. The effective income tax rate was lower in 2015 compared to 2014 primarily due to certain permanent items in 2014. The effective income tax rate was higher in 2014 than in 2013 primarily due to certain permanent items in 2014.

Income from continuing operations increased \$585 million or 12.6% to \$5.2 billion in 2015. Income from continuing operations increased \$45 million or 1.0% to \$4.6 billion in 2014 as compared to 2013. The 2015 and 2014 increases in income from continuing operations were primarily related to increases in generic dispensing rates and increased prescription volume for both operating segments. The increase in 2015 was negatively affected by \$272 million of acquisition-related bridge financing, transaction and integration costs associated with the acquisition of Omnicare and the acquisition of the pharmacies and clinics of Target. In addition, as discussed above, income from continuing operations included a \$521 million loss on early extinguishment of debt in 2014, which positively impacted the growth rate in 2015 and negatively impacted the growth rate in 2014.

Income (loss) from discontinued operations - In connection with certain business dispositions completed between 1991 and 1997, the Company retained guarantees on store lease obligations for a number of former subsidiaries, including Linens 'n Things, which filed for bankruptcy in 2008. The Company's income from discontinued operations in 2015 of \$9 million, net of tax, was related to the release of certain store lease guarantees due to the settlement of a dispute with a landlord. The Company's loss from discontinued operations includes lease-related costs required to satisfy its Linens 'n Things lease guarantees. We incurred a loss from discontinued operations, net of tax, of \$1 million and \$8 million in 2014 and 2013, respectively.

See Note 1 "Significant Accounting Policies - Discontinued Operations" to the consolidated financial statements for additional information about discontinued operations and Note 12 "Commitments and Contingencies" for additional information about our lease guarantees.

Net income attributable to noncontrolling interest of \$2 million for the year ended December 31, 2015 represents the noncontrolling shareholders' portion of the net income from several less than wholly owned entities. For the year ended December 31, 2014, the Company had two consolidated entities with immaterial noncontrolling interests. For the year ended December 31, 2013, the Company did not consolidate any entities that were not wholly owned by the Company.

Net income attributable to CVS Health increased \$593 million or 12.8% to \$5.2 billion (or \$4.63 per diluted share) in 2015. This compares to \$4.6 billion (or \$3.96 per diluted share) in 2014 and \$4.6 billion (or \$3.74 per diluted share) in 2013. As discussed previously, the 2015 increase in net income attributable to CVS Health was primarily related to increased generic drug dispensing and increased prescription volume in both operating segments, as well as the loss on early extinguishment of debt in 2014. The increase in 2015 was negatively affected by \$272 million of acquisition-related bridge financing, transaction and integration costs associated with the acquisition of Omnicare and the acquisition of the pharmacies and clinics of Target. The increase in net income attributable to CVS Health per diluted share was also driven by increased share repurchase activity in 2015, 2014 and 2013. The net income attributable to CVS Health and per diluted share in 2014 includes a \$521 million loss on early extinguishment of debt, which negatively impacted the net income growth rate in 2014.

Segment Analysis

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

<i>In millions</i>	Pharmacy Services Segment ⁽¹⁾⁽²⁾	Retail/LTC Segment ⁽²⁾	Corporate Segment	Intersegment Eliminations ⁽²⁾	Consolidated Totals
2015:					
Net revenues	\$ 100,363	\$ 72,007	\$ —	\$ (19,080)	\$ 153,290
Gross profit	5,227	21,992	—	(691)	26,528
Operating profit (loss) ⁽³⁾	3,989	7,130	(1,037)	(628)	9,454
2014:					
Net revenues	\$ 88,440	\$ 67,798	\$ —	\$ (16,871)	\$ 139,367
Gross profit	4,771	21,277	—	(681)	25,367
Operating profit (loss)	3,514	6,762	(796)	(681)	8,799
2013:					
Net revenues	\$ 76,208	\$ 65,618	\$ —	\$ (15,065)	\$ 126,761
Gross profit	4,237	20,112	—	(566)	23,783
Operating profit (loss) ⁽⁴⁾	3,086	6,268	(751)	(566)	8,037

- (1) Net revenues of the Pharmacy Services Segment include approximately \$8.9 billion, \$8.1 billion and \$7.9 billion of Retail Co-Payments for 2015, 2014 and 2013, respectively. See Note 1 to the consolidated financial statements for additional information about Retail Co-Payments.
- (2) Intersegment eliminations relate to intersegment revenue generating activities that occur between the Pharmacy Services Segment and the Retail/LTC Segment. These occur in the following ways: when members of Pharmacy Services Segment clients ("members") fill prescriptions at retail stores to purchase covered products, when members enrolled in programs such as Maintenance Choice[®] elect to pick up maintenance prescriptions at a retail drugstore instead of receiving them through the mail, or when members have prescriptions filled at long-term care facilities. When these occur, both the Pharmacy Services and Retail/LTC segments record the revenues, gross profit and operating profit on a standalone basis.
- (3) For the year ended December 31, 2015, the Corporate Segment operating loss includes \$156 million of acquisition-related transaction and integration costs and a \$90 million charge related to a legacy lawsuit challenging the 1999 legal settlement by MedPartners of various securities class actions and a related derivative claim.
- (4) Consolidated operating profit for the year ended December 31, 2013 includes a \$72 million gain on a legal settlement, of which, \$11 million is included in the Pharmacy Services Segment and \$61 million is included in the Retail/LTC Segment.

Pharmacy Services Segment

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

<i>In millions</i>	Year Ended December 31,		
	2015	2014	2013
Net revenues	\$ 100,363	\$ 88,440	\$ 76,208
Gross profit	\$ 5,227	\$ 4,771	\$ 4,237
Gross profit % of net revenues	5.2%	5.4%	5.6%
Operating expenses	\$ 1,238	\$ 1,257	\$ 1,151
Operating expenses % of net revenues	1.2%	1.4%	1.5%
Operating profit	\$ 3,989	\$ 3,514	\$ 3,086
Operating profit % of net revenues	4.0%	4.0%	4.1%
Net revenues:			
Mail choice ⁽¹⁾	\$ 37,828	\$ 31,081	\$ 24,791
Pharmacy network ⁽²⁾	\$ 62,240	\$ 57,122	\$ 51,211
Other	\$ 295	\$ 237	\$ 206
Pharmacy claims processed:			
Total	1,011.9	932.0	902.1
Mail choice ⁽¹⁾	85.7	82.4	83.3
Pharmacy network ⁽²⁾	926.2	849.6	818.8
Generic dispensing rate:			
Total	83.7%	82.2%	80.5%
Mail choice ⁽¹⁾	76.4%	74.6%	72.6%
Pharmacy network ⁽²⁾	84.4%	83.0%	81.3%
Mail choice penetration rate	20.6%	21.4%	22.6%

(1) Mail choice is defined as claims filled at a Pharmacy Services mail facility, which includes specialty mail claims inclusive of Specialty Connect claims filled at retail, as well as prescriptions filled at retail under the Maintenance Choice program.

(2) Pharmacy network net revenues, claims processed and generic dispensing rates do not include Maintenance Choice, which are included within the mail choice category. Pharmacy network is defined as claims filled at retail and specialty pharmacies, including our retail drugstores and long-term care pharmacies, but excluding Maintenance Choice activity.

Net revenues in our Pharmacy Services Segment increased \$11.9 billion, or 13.5%, to \$100.4 billion for the year ended December 31, 2015, as compared to the prior year. The increase is primarily due to growth in specialty pharmacy, driven by new clients, increased volume from new products and the addition of the specialty pharmacy operations of Omnicare, as well as inflation and increased pharmacy network claims. Conversely, the increase in our generic dispensing rate had a negative impact on our revenue in 2015, as it did in 2014.

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

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

- Our mail choice claims processed increased 4.0% to 85.7 million claims in the year ended December 31, 2015, compared to 82.4 million claims in the prior year. The increase in mail choice claims was driven by net new business, specialty and continuing adoption of our Maintenance Choice offerings. During 2014, our mail choice claims processed decreased 1.1% to 82.4 million claims. The decrease in mail choice claims was driven by a decline in traditional mail volumes, which was mostly offset by growth in our Maintenance Choice program and specialty pharmacy.
- During 2015 and 2014, our average revenue per mail choice claim increased by 17.0% and 26.8%, compared to 2014 and 2013, respectively. The increase in 2015 was primarily due to growth in specialty pharmacy. The increase in 2014 was

primarily due to the acquisition of Coram and drug inflation particularly in specialty pharmacy, partially offset by increases in the percentage of generic prescription drugs dispensed and changes in client pricing.

- Our pharmacy network claims processed increased 9.0% to 926.2 million claims in the year ended December 31, 2015, compared to 849.6 million claims in the prior year. This increase was primarily due to net new business. During 2014, our pharmacy network claims processed increased 3.8% to 849.6 million compared to 818.8 million pharmacy network claims processed in 2013. This increase was primarily due to net new business and growth in Managed Medicaid, partially offset by a decrease in Medicare Part D claims. Medicare Part D claims were negatively affected by the CMS sanctions that were in place during 2013.
- Our average revenue per pharmacy network claim processed remained flat for the year ended December 31, 2015 as compared to the prior year. During 2014, our average revenue per pharmacy network claim processed increased by 7.5%, compared to 2013. This increase was primarily due to drug inflation and changes in the drug mix, partially offset by increases in the generic dispensing rate.
- Our mail choice generic dispensing rate was 76.4%, 74.6% and 72.6% in the years ended December 31, 2015, 2014 and 2013, respectively. Our pharmacy network generic dispensing rate increased to 84.4% in the year ended December 31, 2015, compared to 83.0% in the prior year. During 2014, our pharmacy network generic dispensing rate increased to 83.0% compared to our pharmacy network generic dispensing rate of 81.3% in 2013. These continued increases in mail choice and pharmacy network generic dispensing rates were primarily due to the impact of new generic drug introductions, and our continuous efforts to encourage plan members to use generic drugs when they are available. We believe our generic dispensing rates will continue to increase in future periods, albeit at a slower pace. This increase will be affected by, among other things, the number of new generic drug introductions and our success at encouraging plan members to utilize generic drugs when they are available and clinically appropriate.
- We completed the rollout of Specialty Connect™ in May 2014, which integrates the Company's specialty pharmacy mail and retail capabilities, providing members with the choice to bring their specialty prescriptions to any CVS Pharmacy® location. Whether submitted through our mail order pharmacy or at CVS Pharmacy, all prescriptions are filled through the Company's specialty mail order pharmacies, so all revenue from this specialty prescription services program is recorded within the Pharmacy Services Segment.
- The Pharmacy Services Segment recognizes revenues from its pharmacy network transactions based on individual contract terms. Our Pharmacy Services Segment contracts are predominantly accounted for using the gross method. See the "Revenue Recognition" description under "Critical Accounting Policies" later in this section for further information on our revenue recognition policy.

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

Gross profit increased \$456 million, or 9.6% to \$5.2 billion in the year ended December 31, 2015, as compared to the prior year. Gross profit as a percentage of net revenues decreased to 5.2% for the year ended December 31, 2015, compared to 5.4% in the prior year. The increase in gross profit dollars in the year ended December 31, 2015 was primarily due to volume increases and higher generic dispensing, as well as favorable purchasing and rebate economics, partially offset by price compression. The decrease in gross profit as a percentage of net revenues was primarily due to price compression, partially offset by favorable generic dispensing, as well as favorable purchasing and rebate economics.

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

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

- Our gross profit dollars and gross profit as a percentage of net revenues continued to be impacted by our efforts to (i) retain existing clients, (ii) obtain new business and (iii) maintain or improve the rebates and/or discounts we received from manufacturers, wholesalers and retail pharmacies. In particular, competitive pressures in the PBM industry have caused us and other PBMs to continue to share a larger portion of rebates and/or discounts received from pharmaceutical manufacturers with clients. In addition, market dynamics and regulatory changes have impacted our ability to offer plan sponsors pricing that includes retail network "differential" or "spread". We expect these trends to continue. The "differential" or "spread" is any difference between the drug price charged to plan sponsors, including Medicare Part D plan sponsors, by a PBM and the price paid for the drug by the PBM to the dispensing provider. The increased use by patients of generic drugs has positively impacted our gross profit margins but has resulted in third party payors augmenting their efforts to reduce reimbursement payments for prescriptions. This trend, which we expect to continue, reduces the benefit we realize from brand to generic product conversions.
- We review our network contracts on an individual basis to determine if the related revenues should be accounted for using the gross method or net method under the applicable accounting rules. Our Pharmacy Services Segment network contracts are predominantly accounted for using the gross method, which results in higher revenues, higher cost of revenues and lower gross profit rates.
- Our gross profit as a percentage of revenues benefited from the increase in our total generic dispensing rate, which increased to 83.7% and 82.2% in 2015 and 2014, respectively, compared to our generic dispensing rate of 80.5% in 2013. These increases were primarily due to new generic drug introductions and our continued efforts to encourage plan members to use clinically appropriate generic drugs when they are available. We expect these trends to continue, albeit at a slower pace.

Operating expenses in our Pharmacy Services Segment, which include selling, general and administrative expenses, depreciation and amortization related to selling, general and administrative activities and retail specialty pharmacy store and administrative payroll, employee benefits and occupancy costs, decreased to 1.2% of net revenues in 2015, compared to 1.4% in 2014 and 1.5% in 2013.

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

- Operating expenses decreased \$19 million or 1.5%, to \$1.2 billion, in the year ended December 31, 2015, compared to the prior year. The decrease in operating expense dollars is primarily due to lower integration costs from the Coram acquisition which occurred in January 2014, partially offset by the addition of the specialty pharmacy operations of Omnicare from the acquisition in August 2015. Operating expenses as a percentage of net revenues improved slightly from 1.4% in 2014 to 1.2% in 2015.
- During 2014, the increase in operating expenses of \$106 million or 9.2%, to \$1.3 billion compared to 2013, is primarily related to increased costs associated with infusion services due to the 2014 acquisition of Coram, as well as an \$11 million gain from a legal settlement during the year ended December 31, 2013. The slight decrease in operating expenses as a percentage of net revenues was primarily due to expense leverage from net revenue growth.

Retail/LTC Segment

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

<i>In millions</i>	Year Ended December 31,		
	2015	2014	2013
Net revenues	\$ 72,007	\$ 67,798	\$ 65,618
Gross profit	\$ 21,992	\$ 21,277	\$ 20,112
Gross profit % of net revenues	30.5 %	31.4 %	30.6 %
Operating expenses ⁽¹⁾	\$ 14,862	\$ 14,515	\$ 13,844
Operating expenses % of net revenues	20.6 %	21.4 %	21.1 %
Operating profit	\$ 7,130	\$ 6,762	\$ 6,268
Operating profit % of net revenues	9.9 %	10.0 %	9.6 %
Prescriptions filled (90 Day = 3 prescriptions) ⁽²⁾	1,031.6	935.9	890.1
Net revenue increase (decrease):			
Total	6.2 %	3.3 %	3.1 %
Pharmacy	9.5 %	5.1 %	4.1 %
Front Store	(2.5)%	(2.5)%	1.0 %
Total prescription volume (90 Day = 3 prescriptions) ⁽²⁾	10.2 %	5.2 %	5.2 %
Same store sales increase (decrease) ⁽³⁾ :			
Total	1.7 %	2.1 %	1.7 %
Pharmacy	4.5 %	4.8 %	2.6 %
Front Store ⁽⁴⁾	(5.0)%	(4.0)%	(0.5)%
Prescription volume (90 Day = 3 prescriptions) ⁽²⁾	4.8 %	4.1 %	4.4 %
Generic dispensing rates	84.5 %	83.1 %	81.4 %
Pharmacy % of net revenues	72.9 %	70.7 %	69.5 %

(1) Operating expenses for the three months and year ended December 31, 2015 include \$52 million and \$64 million, respectively, of acquisition-related integration costs related to the acquisition of Omnicare and the pharmacies and clinics of Target.

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

(3) Same store sales and prescriptions exclude revenues from MinuteClinic, and revenue and prescriptions from stores in Brazil, LTC operations and from commercialization services.

(4) Front store same store sales would have been approximately 520 basis points higher for the year ended December 31, 2015 if tobacco and the estimated associated basket sales were excluded from the year ended December 31, 2014.

Net revenues increased approximately \$4.2 billion, or 6.2%, to \$72.0 billion for the year ended December 31, 2015, as compared to the prior year. This increase was primarily driven by the acquisition of Omnicare, a same store sales increase of 1.7%, and net revenues from new and acquired stores, which accounted for approximately 160 basis points of our total net revenue percentage increase during the year. Net revenues increased \$2.2 billion, or 3.3% to \$67.8 billion for the year ended December 31, 2014, as compared to the prior year. This increase was primarily driven by a same store sales increase of 2.1% and net revenues from new stores, which accounted for approximately 140 basis points of our total net revenue percentage increase during the year. Additionally, in 2015, 2014 and 2013 we continued to see a positive impact on our net revenues due to the growth of our Maintenance Choice program.

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

- Front store same store sales declined 5.0% in the year ended December 31, 2015, as compared to the prior year. The decrease is primarily due to the Company's decision to stop selling tobacco products and softer customer traffic. The decrease was partially offset by an increase in basket size. On a comparable basis, front store same store sales would have been approximately 520 basis points higher for the year ended December 31, 2015 if tobacco and the estimated associated basket sales were excluded from the year ended December 31, 2014.

- Pharmacy same store sales rose 4.5% in the year ended December 31, 2015, as compared to the prior year. Pharmacy same store sales were positively impacted by same store script growth of 4.8%, partially offset by the impact of the increase in generic dispensing and reimbursement pressure.
- Pharmacy revenues continue to be negatively impacted by the conversion of brand name drugs to equivalent generic drugs, which typically have a lower selling price. Pharmacy same store sales were negatively impacted by approximately 390 and 160 basis points for the years ended December 31, 2015 and 2014, respectively, due to recent generic introductions. The increase in the impact from 2014 to 2015 was primarily due to a larger impact from new generic drug introductions. In addition, our pharmacy revenue growth has also been affected by continued reimbursement pressure, the lack of significant new brand name drug introductions, as well as an increase in the number of over-the-counter remedies that were historically only available by prescription.
- As of December 31, 2015, we operated 9,655 retail stores, including the 1,672 locations in Target stores, compared to 7,822 retail stores as of December 31, 2014 and 7,660 retail stores as of December 31, 2013. Total net revenues from new and acquired stores contributed approximately 1.6%, 1.1% and 1.0% to our total net revenue percentage increase in 2015, 2014, and 2013, respectively.
- Pharmacy revenue growth continued to benefit from increased utilization by Medicare Part D beneficiaries, our ability to attract and retain managed care customers and favorable industry trends. These trends include an aging American population; many “baby boomers” are now in their fifties and sixties and are consuming a greater number of prescription drugs, as well as expanded coverage from the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, “ACA”). In addition, the increased use of pharmaceuticals as the first line of defense for individual health care also contributed to the growing demand for pharmacy services. We believe these favorable industry trends will continue.

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

Gross profit increased \$715 million, or 3.4%, to approximately \$22.0 billion in the year ended December 31, 2015, as compared to the prior year. Gross profit as a percentage of net revenues decreased to 30.5% in year ended December 31, 2015, from 31.4% in 2014. Gross profit increased \$1.2 billion, or 5.8%, to \$21.3 billion for the year ended December 31, 2014, as compared to the prior year. Gross profit as a percentage of net revenues increased to 31.4% for the year ended December 31, 2014, compared to 30.6% for the prior year.

The increase in gross profit dollars in the year ended December 31, 2015, was primarily driven by the addition of LTC, same store sales and new store sales, increased generic dispensing, as well as favorable purchasing economics, partially offset by continued reimbursement pressure. The increase in gross profit dollars for the year ended December 31, 2014, was primarily driven by increases in the generic dispensing rate, same store sales and new store sales, as well as favorable purchasing economics. The decrease in gross profit as a percentage of net revenues in 2015 was primarily driven by a decline in pharmacy margins due to continued reimbursement pressure, partially offset by favorable pharmacy purchasing economics, as well as increased front store margins due to changes in the mix of products sold. The increase in gross profit as a percentage of net revenues in 2014 was primarily driven by increased pharmacy margins due to the positive impact of increased generic dispensing rates and increased front store margins, partially offset by continued reimbursement pressure. The increase in gross profit as a percentage of net revenues in 2014 was also driven by the removal of tobacco products from our stores.

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

- Front store revenues as a percentage of total net revenues for the years ended December 31, 2015, 2014 and 2013 were 26.5%, 28.8% and 30.5%, respectively. The decline in front store revenues as a percentage of total net revenues in 2015 and 2014 was largely due to the removal of tobacco products and the associated basket sales. On average, our gross profit on front store revenues is generally higher than our gross profit on pharmacy revenues. Pharmacy revenues as a percentage of total net revenues increased approximately 220, 120 and 60 basis points in the years ended December 31, 2015, 2014 and 2013, respectively. This was due to pharmacy revenues growing faster than front store revenues, as well as the acquisition of Omnicare. The mix effect from a higher proportion of pharmacy sales had a negative effect on our overall gross profit for the years ended December 31, 2015, 2014 and 2013, respectively. This negative effect was partially offset by increased generic drug dispensing rates, the removal of tobacco products from our stores, favorable purchasing economics and increased store brand penetration.

- During the year ended December 31, 2014, our front store gross profit as a percentage of net revenues increased compared to the prior year. The increase is primarily related to a change in the mix of products sold, including the removal of tobacco products from our stores, and higher store brand sales.
- Gross profit dollars and margin for the year ended December 31, 2014 were positively impacted by \$53 million related to the favorable resolution of previously proposed retroactive reimbursement rate changes in the State of California's Medicaid program.
- Our pharmacy gross profit rates have been adversely affected by the efforts of managed care organizations, PBMs and governmental and other third party payors to reduce their prescription drug costs, as well as changes in the mix of our business within pharmacy. In the event this trend accelerates, we may not be able to sustain our current rate of revenue growth and gross profit dollars could be adversely impacted. The increased use of generic drugs has positively impacted our gross profit but has resulted in third party payors augmenting their efforts to reduce reimbursement payments to retail pharmacies for prescriptions. This trend, which we expect to continue, reduces the benefit we realize from brand to generic product conversions.
- ACA made several significant changes to Medicaid rebates and to reimbursement. One of these changes was the revision of the definition of Average Manufacturer Price ("AMP") and the reimbursement formula for multi-source drugs. Changes in reporting of AMP or other adjustments that may be made regarding the reimbursement of drug payments by Medicaid and Medicare could impact our pricing to customers and other payors and/or could impact our ability to negotiate discounts or rebates with manufacturers, wholesalers, PBMs or retail and mail pharmacies. See "Efforts to reduce reimbursement levels and alter health care financing practices" in Part I, Item 1A, Risk Factors within our 2015 Form 10-K, for additional information.

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

Operating expenses increased \$347 million, or 2.4% to \$14.9 billion, or 20.6% as a percentage of net revenues, in the year ended December 31, 2015, as compared to \$14.5 billion, or 21.4% as a percentage of net revenues, in the prior year. Operating expenses increased \$671 million, or 4.8%, to \$14.5 billion, or 21.4% as a percentage of net revenues, in the year ended December 31, 2014, as compared to \$13.8 billion, or 21.1% as a percentage of net revenues, in the prior year. Operating expenses as a percentage of net revenues for the year ended December 31, 2015 improved primarily due to higher legal costs in the prior year and leverage gained from the addition of LTC net revenues. The increase in operating expense dollars for the year ended December 31, 2015, was primarily due to the addition of LTC, including acquisition-related integration costs of \$64 million, and incremental store operating costs associated with operating more stores. Operating expenses as a percentage of net revenues increased in 2014 primarily due to reimbursement rate pressure, the implementation of Specialty Connect, which reduced net revenues, and higher legal costs. The increase in operating expense dollars in 2014 and 2013 was the result of higher store operating costs associated with our increased store count, as well as higher legal costs. The results for the years ended December 31, 2014 and 2013 include gains from legal settlements of \$21 million and \$61 million, respectively. Additionally, in September 2014, the Retail/LTC Segment made a charitable contribution of \$25 million to the CVS Foundation to fund future charitable giving. The foundation is a non-profit entity that focuses on health, education and community involvement programs.

Corporate Segment

Operating expenses increased \$241 million, or 30.3%, to \$1.0 billion in the year ended December 31, 2015, as compared to the prior year. Operating expenses increased \$45 million, or 6.0%, to \$796 million in the year ended December 31, 2014. Operating expenses within the Corporate Segment include executive management, corporate relations, legal, compliance, human resources, corporate information technology and finance related costs. The increase in operating expenses in 2015 was primarily due to acquisition-related transaction and integration costs associated with the acquisition of Omnicare and Target's pharmacy and clinic business, as well as a \$90 million charge related to a legacy lawsuit challenging the 1999 settlement by MedPartners of various securities class actions and a related derivative claim. Total acquisition-related transaction and integration costs recorded in the Corporate Segment for both acquisitions were \$156 million and the charge for the lawsuit was \$90 million for the year ended December 31, 2015. The increase in operating expenses in 2014 was primarily due to increased strategic initiatives, benefits costs, facilities management and information technology costs.

Liquidity and Capital Resources

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

The change in cash and cash equivalents is as follows:

<u>In millions</u>	<u>Year Ended December 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Net cash provided by operating activities	\$ 8,412	\$ 8,137	\$ 5,783
Net cash used in investing activities	(13,420)	(4,045)	(1,835)
Net cash provided by (used in) financing activities	5,006	(5,694)	(1,237)
Effect of exchange rate changes on cash and cash equivalents	(20)	(6)	3
Net increase (decrease) in cash and cash equivalents	<u>\$ (22)</u>	<u>\$ (1,608)</u>	<u>\$ 2,714</u>

Net cash provided by operating activities increased by \$275 million in 2015 and \$2.4 billion in 2014. The increase in 2015 was primarily due to increased net income partially offset by various changes in working capital. The increase in 2014 was primarily due to increased net income and increased accounts payable due to payables management and timing.

Net cash used in investing activities increased by \$9.4 billion in 2015 and increased by \$2.2 billion in 2014. The increase in 2015 was primarily due to the \$9.6 billion paid for the acquisition of Omnicare and the \$1.9 billion paid for the acquisition of the Target pharmacy and clinic businesses in 2015, compared to the \$2.1 billion paid for the Coram acquisition in 2014. The increase in 2014 was primarily due to the \$2.1 billion paid for the acquisition of Coram and an increase in capital expenditures.

In 2015, gross capital expenditures totaled approximately \$2.4 billion, an increase of \$231 million compared to the prior year. During 2015, approximately 36% of our total capital expenditures were for new store construction, 21% were for store, fulfillment and support facilities expansion and improvements and 43% were for technology and other corporate initiatives. Gross capital expenditures totaled approximately \$2.1 billion and \$2.0 billion during 2014 and 2013, respectively. During 2014, approximately 42% of our total capital expenditures were for new store construction, 21% were for store, fulfillment and support facilities expansion and improvements and 37% were for technology and other corporate initiatives.

Proceeds from sale-leaseback transactions totaled \$411 million in 2015. This compares to \$515 million in 2014 and \$600 million in 2013. Under the sale-leaseback transactions, the properties are generally sold at net book value, which generally approximates fair value, and the resulting leases generally qualify and are accounted for as operating leases. The specific timing and amount of future sale-leaseback transactions will vary depending on future market conditions and other factors.

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

	<u>2015⁽²⁾</u>	<u>2014⁽²⁾</u>	<u>2013⁽²⁾</u>
Total stores (beginning of year)	7,866	7,702	7,508
New and acquired stores ⁽¹⁾	1,833	187	213
Closed stores ⁽¹⁾	(34)	(23)	(19)
Total stores (end of year)	<u>9,665</u>	<u>7,866</u>	<u>7,702</u>
Relocated stores	58	60	78

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

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

Net cash provided by financing activities increased by \$10.7 billion in 2015 and cash used in financing activities increased by \$4.5 billion in 2014. The increase cash received in 2015 was primarily due to higher net borrowings in 2015 including the \$14.8 billion in net proceeds received from the July 2015 debt issuance, partially offset by an increase in share repurchases of

\$1.0 billion. The increase in cash used in 2014 was primarily due to the repayments of long-term debt and lower borrowings than in 2013.

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

In billions

<u>Authorization Date</u>		<u>Authorized</u>		<u>Remaining</u>
December 15, 2014 (“2014 Repurchase Program”)	\$	10.0	\$	7.7
December 17, 2013 (“2013 Repurchase Program”)	\$	6.0	\$	—
September 19, 2012 (“2012 Repurchase Program”)	\$	6.0	\$	—

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

Pursuant to the authorization under the 2014 Repurchase Program, effective December 11, 2015, the Company entered into a \$725 million fixed dollar ASR with Barclays Bank PLC (“Barclays”). Upon payment of the \$725 million purchase price on December 14, 2015, the Company received a number of shares of its common stock equal to 80% of the \$725 million notional amount of the ASR or approximately 6.2 million shares. At the conclusion of the ASR program, the Company may receive additional shares equal to the remaining 20% of the \$725 million notional amount. The initial 6.2 million shares of common stock delivered to the Company by Barclays were placed into treasury stock in December 2015. The ASR was accounted for as an initial treasury stock transaction for \$580 million and a forward contract for \$145 million. The forward contract was classified as an equity instrument and was recorded within capital surplus on the consolidated balance sheet. On January 28, 2016, the Company received 1.4 million shares of common stock, representing the remaining 20% of the \$725 million notional amount of the ASR, thereby concluding the ASR. The remaining 1.4 million shares of common stock delivered to the Company by Barclays were placed into treasury stock in January 2016 and the forward contract was reclassified from capital surplus to treasury stock.

Pursuant to the authorization under the 2013 Repurchase Programs, effective January 2, 2015, the Company entered into a \$2.0 billion fixed dollar ASR agreement with J.P. Morgan Chase Bank (“JP Morgan”). Upon payment of the \$2.0 billion purchase price on January 5, 2015, the Company received a number of shares of its common stock equal to 80% of the \$2.0 billion notional amount of the ASR agreement or approximately 16.8 million shares, which were placed into treasury stock in January 2015. On May 1, 2015, the Company received approximately 3.1 million shares of common stock, representing the remaining 20% of the \$2.0 billion notional amount of the ASR, thereby concluding the ASR. The remaining 3.1 million shares of common stock delivered to the Company by JP Morgan were placed into treasury stock in May 2015. The ASR was accounted for as an initial treasury stock transaction for \$1.6 billion and a forward contract for \$0.4 billion. The forward contract was classified as an equity instrument and was initially recorded within capital surplus on the consolidated balance sheet and was reclassified to treasury stock upon the settlement of the ASR in May 2015.

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

Each of the ASR transactions described above, the initial repurchase of the shares and delivery of the remainder of the shares to conclude each ASR, resulted in an immediate reduction of the outstanding shares used to calculate the weighted average common shares outstanding for basic and diluted earnings per share.

During the year ended December 31, 2015, the Company repurchased an aggregate of 48.0 million shares of common stock for approximately \$5.0 billion under the 2013 and 2014 Repurchase Programs. As of December 31, 2015, there remained an

aggregate of approximately \$7.7 billion available for future repurchases under the 2014 Repurchase Program and the 2013 Repurchase Program was complete.

Short-term borrowings - We did not have any commercial paper outstanding as of December 31, 2015. In connection with our commercial paper program, we maintain a \$1.00 billion, five-year unsecured back-up credit facility, which expires on May 23, 2018, a \$1.25 billion, five-year unsecured back-up credit facility, which expires on July 24, 2019, and a \$1.25 billion, five-year unsecured back-up credit facility, which expires on July 1, 2020. The credit facilities allow for borrowings at various rates that are dependent, in part, on the Company's public debt ratings and require the Company to pay a weighted average quarterly facility fee of approximately 0.03% , regardless of usage. As of December 31, 2015, there were no borrowings outstanding under the back-up credit facilities.

On May 20, 2015, in connection with the acquisition of Omnicare, the Company entered into a \$13 billion unsecured bridge loan facility. The Company paid approximately \$52 million in fees in connection with the facility. The fees were capitalized and amortized as interest expense over the period the bridge facility was outstanding. The bridge loan facility expired on July 20, 2015 upon the Company's issuance of unsecured senior notes with an aggregate principal of \$15 billion as discussed below. The bridge loan facility fees were fully amortized during the year ended December 31, 2015.

Long-term borrowings - On July 20, 2015, the Company issued an aggregate of \$2.25 billion of 1.9% unsecured senior notes due 2018 ("2018 Notes"), an aggregate of \$2.75 billion of 2.8% unsecured senior notes due 2020 ("2020 Notes"), an aggregate of \$1.5 billion of 3.5% unsecured senior notes due 2022 ("2022 Notes"), an aggregate of \$3 billion of 3.875% unsecured senior notes due 2025 ("2025 Notes"), an aggregate of \$2 billion of 4.875% unsecured senior notes due 2035 ("2035 Notes"), and an aggregate of \$3.5 billion of 5.125% unsecured senior notes due 2045 ("2045 Notes" and, together with the 2018 Notes, 2020 Notes, 2022 Notes, 2025 Notes and 2035 Notes, the "Notes") for total proceeds of approximately \$14.8 billion , net of discounts and underwriting fees. The Notes pay interest semi-annually and contain redemption terms which allow or require the Company to redeem the Notes at a defined redemption price plus accrued and unpaid interest at the redemption date. The net proceeds of the Notes were used to fund the Omnicare acquisition and the acquisition of the pharmacies and clinics of Target. The remaining proceeds were used for general corporate purposes.

Upon the closing of the Omnicare acquisition in August 2015, the Company assumed the long-term debt of Omnicare that had a fair value of approximately \$3.1 billion , \$2.0 billion of which was previously convertible into Omnicare shares that holders were able to redeem subsequent to the acquisition. During the period from August 18, 2015 to December 31, 2015, all but \$5 million of the \$2.0 billion of previously convertible debt was redeemed and repaid and approximately \$0.4 billion in Omnicare term debt assumed was repaid for total repayments of Omnicare debt of approximately \$2.4 billion in 2015.

The remaining principal of the Omnicare debt assumed was comprised of senior unsecured notes with an aggregate principal amount of \$700 million (\$400 million of 4.75% senior notes due 2022 and \$300 million of 5% senior notes due 2024). In September 2015, the Company commenced exchange offers for the 4.75% senior notes due 2022 and the 5% senior notes due 2024 to exchange all validly tendered and accepted notes issued by Omnicare for notes to be issued by the Company. This offer expired on October 20, 2015 and the aggregate principal amounts below of each of the Omnicare notes were validly tendered and exchanged for notes issued by the Company.

Interest Rate and Maturity	Aggregate Principal Amount (In Millions)	Percentage of Total Outstanding Principal Amount Exchanged
4.75% senior notes due 2022	\$ 388	96.8%
5% senior notes due 2024	296	98.8%
Total senior notes issued under exchange transaction	\$ 684	

The Company recorded this exchange transaction as a modification of the original debt instruments. As such, no gain or loss on extinguishment was recognized in the Company's consolidated income statement as a result of this exchange transaction and issuance costs were expensed as incurred.

On August 7, 2014, the Company issued \$850 million of 2.25% unsecured senior notes due August 12, 2019 and \$650 million of 3.375% unsecured senior notes due August 12, 2024 (collectively, the "2014 Notes") for total proceeds of approximately \$1.5 billion , net of discounts and underwriting fees. The 2014 Notes pay interest semi-annually and may be redeemed, in whole

at any time, or in part from time to time, at the Company's option at a defined redemption price plus accrued and unpaid interest to the redemption date. The net proceeds of the 2014 Notes were used for general corporate purposes and to repay certain corporate debt.

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

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

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

Our backup credit facilities and unsecured senior notes (see Note 6, "Borrowings and Credit Agreements" to the consolidated financial statements) contain customary restrictive financial and operating covenants.

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

As of December 31, 2015 and 2014, we had no outstanding derivative financial instruments.

Debt Ratings - As of December 31, 2015, our long-term debt was rated "Baa1" by Moody's with a stable outlook and "BBB+" by Standard & Poor's with a stable outlook, and our commercial paper program was rated "P-2" by Moody's and "A-2" by Standard & Poor's. In assessing our credit strength, we believe that both Moody's and Standard & Poor's considered, among other things, our capital structure and financial policies as well as our consolidated balance sheet, our historical acquisition activity and other financial information. Although we currently believe our long-term debt ratings will remain investment grade, we cannot guarantee the future actions of Moody's and/or Standard & Poor's. Our debt ratings have a direct impact on our future borrowing costs, access to capital markets and new store operating lease costs.

Quarterly Dividend Increase - In December 2015, our Board of Directors authorized a 21% increase in our quarterly common stock dividend to \$0.425 per share effective in 2016. This increase equates to an annual dividend rate of \$1.70 per share. In December 2014, our Board of Directors authorized a 27% increase in our quarterly common stock dividend to \$0.35 per share. This increase equated to an annual dividend rate of \$1.40 per share. In December 2013, our Board of directors authorized a 22% increase in our quarterly common stock dividend to \$0.275 per share. This increase equated to an annual dividend rate of \$1.10 per share.

Off-Balance Sheet Arrangements

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

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

As of December 31, 2015, we guaranteed approximately 72 such store leases (excluding the lease guarantees related to Linens 'n Things), with the maximum remaining lease term extending through 2026. Management believes the ultimate disposition of any of the remaining lease guarantees will not have a material adverse effect on the Company's consolidated financial condition or future cash flows. Please see "Income (loss) from discontinued operations" previously in this document for further information regarding our guarantee of certain Linens 'n Things' store lease obligations.

Below is a summary of our significant contractual obligations as of December 31, 2015:

<i>In millions</i>	Payments Due by Period				
	Total	2016	2017 to 2018	2019 to 2020	Thereafter
Operating leases	\$ 27,681	\$ 2,405	\$ 4,518	\$ 3,921	\$ 16,837
Lease obligations from discontinued operations	35	14	13	5	3
Capital lease obligations	1,324	52	164	138	970
Contractual lease obligations with Target ⁽¹⁾	1,697	—	—	—	1,697
Long-term debt	26,819	1,179	4,588	4,444	16,608
Interest payments on long-term debt ⁽²⁾	14,201	1,079	1,982	1,698	9,442
Other long-term liabilities reflected in our consolidated balance sheet	829	42	432	102	253
	<u>\$ 72,586</u>	<u>\$ 4,771</u>	<u>\$ 11,697</u>	<u>\$ 10,308</u>	<u>\$ 45,810</u>

(1) The Company leases pharmacy and clinic space from Target. See Note 7, "Leases" to the consolidated financial statements for additional information regarding the lease arrangements with Target. Amounts related to the operating and capital leases with Target are reflected within the operating leases and capital lease obligations above. Amounts due in excess of the remaining estimated economic lives of the buildings are reflected herein assuming equivalent stores continue to operate through the term of the arrangements.

(2) Interest payments on long-term debt are calculated on outstanding balances and interest rates in effect on December 31, 2015

Critical Accounting Policies

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

Our significant accounting policies are discussed in Note 1 to our consolidated financial statements. We believe the following accounting policies include a higher degree of judgment and/or complexity and, thus, are considered to be critical accounting policies. We have discussed the development and selection of our critical accounting policies with the Audit Committee of our Board of Directors and the Audit Committee has reviewed our disclosures relating to them.

Revenue Recognition

Pharmacy Services Segment

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

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

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

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

We deduct from our revenues the manufacturers' rebates that are earned by our clients based on their members' utilization of brand-name formulary drugs. We estimate these rebates at period-end based on actual and estimated claims data and our estimates of the manufacturers' rebates earned by our clients. We base our estimates on the best available data at period-end and recent history for the various factors that can affect the amount of rebates due to the client. We adjust our rebates payable to

clients to the actual amounts paid when these rebates are paid or as significant events occur. We record any cumulative effect of these adjustments against revenues as identified, and adjust our estimates prospectively to consider recurring matters. Adjustments generally result from contract changes with our clients or manufacturers, differences between the estimated and actual product mix subject to rebates or whether the product was included in the applicable formulary. We also deduct from our revenues pricing guarantees and guarantees regarding the level of service we will provide to the client or member as well as other payments made to our clients. Because the inputs to most of these estimates are not subject to a high degree of subjectivity or volatility, the effect of adjustments between estimated and actual amounts have not been material to our results of operations or financial position.

We participate in the federal government's Medicare Part D program as a PDP through our SilverScript Insurance Company subsidiary. Our net revenues include insurance premiums earned by the PDP, which are determined based on the PDP's annual bid and related contractual arrangements with CMS. The insurance premiums include a beneficiary premium, which is the responsibility of the PDP member, but which is subsidized by CMS in the case of low-income members, and a direct premium paid by CMS. Premiums collected in advance are initially deferred as accrued expenses and are then recognized ratably as revenue over the period in which members are entitled to receive benefits.

In addition to these premiums, our net revenues include co-payments, coverage gap benefits, deductibles and co-insurance (collectively, the "Member Co-Payments") related to PDP members' actual prescription claims. In certain cases, CMS subsidizes a portion of these Member Co-Payments and we are paid an estimated prospective Member Co-Payment subsidy, each month. The prospective Member Co-Payment subsidy amounts received from CMS are also included in our net revenues. We assume no risk for these amounts, which represented 6.3%, 6.4% and 7.0% of consolidated net revenues in 2015, 2014 and 2013, respectively. If the prospective Member Co-Payment subsidies received differ from the amounts based on actual prescription claims, the difference is recorded in either accounts receivable or accrued expenses. We account for fully insured CMS obligations and Member Co-Payments (including the amounts subsidized by CMS) using the gross method consistent with our revenue recognition policies for Mail Co-Payments and Retail Co-Payments. We have recorded estimates of various assets and liabilities arising from our participation in the Medicare Part D program based on information in our claims management and enrollment systems. Significant estimates arising from our participation in the Medicare Part D program include: (i) estimates of low-income cost subsidy, reinsurance amounts and coverage gap discount amounts ultimately payable to or receivable from CMS based on a detailed claims reconciliation, (ii) an estimate of amounts payable to CMS under a risk-sharing feature of the Medicare Part D program design, referred to as the risk corridor and (iii) estimates for claims that have been reported and are in the process of being paid or contested and for our estimate of claims that have been incurred but have not yet been reported. Actual amounts of Medicare Part D-related assets and liabilities could differ significantly from amounts recorded. Historically, the effect of these adjustments has not been material to our results of operations or financial position.

Retail/LTC Segment

Retail Pharmacy - We recognize revenue from the sale of front store merchandise at the time the merchandise is purchased by the retail customer and recognize revenue from the sale of prescription drugs when the prescription is picked up by the customer. Customer returns are not material. Sales taxes are not included in revenue.

Long-term Care - We recognize revenue when products are delivered or services are rendered or provided to our customers, prices are fixed and determinable, and collection is reasonably assured. A significant portion of our revenues from sales of pharmaceutical and medical products are reimbursed by the federal Medicare Part D program and, to a lesser extent, state Medicaid programs. Payments for services rendered to patients covered by these programs are generally less than billed charges. We monitor our revenues and receivables from these reimbursement sources, as well as other third party insurance payors, and record an estimated contractual allowances for sales and receivable balances at the revenue recognition date, to properly account for anticipated differences between billed and reimbursed amounts. Accordingly, the total net sales and receivables reported in our consolidated financial statements are recorded at the amount expected to be ultimately received from these payors. Since billing functions for a portion of our revenue systems are largely computerized, enabling on-line adjudication at the time of sale to record net revenues, our exposure in connection with estimating contractual allowance adjustments is limited primarily to unbilled and initially rejected Medicare, Medicaid and third party claims (typically approved for reimbursement once additional information is provided to the payor). For the remaining portion of our revenue systems, the contractual allowance is estimated for all billed, unbilled and initially rejected Medicare, Medicaid and third party claims. We evaluate several criteria in developing the estimated contractual allowances on a monthly basis, including historical trends based on actual claims paid, current contract and reimbursement terms, and changes in customer base and payor/product mix. Contractual allowance estimates are adjusted to actual amounts as cash is received and claims are settled, and the aggregate impact of these resulting adjustments was not significant to our results of operations. Further, we do not expect the impact of changes in estimates related to unsettled contractual allowance amounts from Medicare, Medicaid and third party payors as of December 31, 2015 to be significant to our future consolidated results of operation, financial position and cash flows.

Patient co-payments associated with Medicare Part D, certain state Medicaid programs, Medicare Part B and certain third party payors are typically not collected at the time products are delivered or services are rendered, but are billed to the individuals as part of our normal billing procedures and subject to our normal accounts receivable collections procedures.

Health Care Clinics - for services provided by our health care clinics, revenue recognition occurs for completed services provided to patients, with adjustments taken for third party payor contractual obligations and patient direct bill historical collection rates.

Loyalty Program - our customer loyalty program, ExtraCare[®], is comprised of two components, ExtraSavings[™] and ExtraBucks[®] Rewards. ExtraSavings coupons redeemed by customers are recorded as a reduction of revenues when redeemed. ExtraBucks Rewards are accrued as a charge to cost of revenues when earned, net of estimated breakage. We determine breakage based on our historical redemption patterns.

Allowances for Doubtful Accounts

Accounts receivable primarily includes amounts due from third party providers (e.g., pharmacy benefit managers, insurance companies, governmental agencies and long-term care facilities), clients, members and private pay customers, as well as vendors and manufacturers. We provide a reserve for accounts receivable considered to be at increased risk of becoming uncollectible by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. We establish this allowance for doubtful accounts and consider such factors as historical collection experience, (i.e., payment history and credit losses) and creditworthiness, specifically identified credit risks, aging of accounts receivable by payor category, current and expected economic conditions and other relevant factors. We regularly review our allowance for doubtful accounts for appropriateness. Judgment is used to assess the collectability of account balances and the economic ability of a customer to pay.

Our allowance for doubtful accounts as of December 31, 2015 was \$161 million, compared with \$256 million as of December 31, 2014. Our allowance for doubtful accounts represented 1.3% and 2.6% of gross receivables (net of contractual allowance adjustments) as of December 31, 2015 and 2014, respectively. Unforeseen future developments could lead to changes in our provision for doubtful accounts levels and future allowance for doubtful accounts percentages. For example, a one percentage point increase in the allowance for doubtful accounts as a percentage of gross receivables as of December 31, 2015 would result in an increase to the provision of doubtful accounts of approximately \$120 million.

Given our experience, we believe that our aggregate reserves for potential losses are adequate, but if any of our larger customers were to unexpectedly default on their obligations, our overall allowances for doubtful accounts may prove to be inadequate. In particular, if economic conditions worsen, the payor mix shifts significantly or reimbursement rates are adversely affected, we may adjust our allowance for doubtful accounts accordingly, and our accounts receivable collections, cash flows, financial position and results of operations could be adversely affected.

Vendor Allowances and Purchase Discounts

Pharmacy Services Segment

Our Pharmacy Services Segment receives purchase discounts on products purchased. Contractual arrangements with vendors, including manufacturers, wholesalers and retail pharmacies, normally provide for the Pharmacy Services Segment to receive purchase discounts from established list prices in one, or a combination, of the following forms: (i) a direct discount at the time of purchase, (ii) a discount for the prompt payment of invoices or (iii) when products are purchased indirectly from a manufacturer (e.g., through a wholesaler or retail pharmacy), a discount (or rebate) paid subsequent to dispensing. These rebates are recognized when prescriptions are dispensed and are generally calculated and billed to manufacturers within 30 days of the end of each completed quarter. Historically, the effect of adjustments resulting from the reconciliation of rebates recognized to the amounts billed and collected has not been material to the results of operations. We account for the effect of any such differences as a change in accounting estimate in the period the reconciliation is completed. The Pharmacy Services Segment also receives additional discounts under its wholesaler contracts if it exceeds contractually defined annual purchase volumes. In addition, the Pharmacy Services Segment receives fees from pharmaceutical manufacturers for administrative services. Purchase discounts and administrative service fees are recorded as a reduction of "Cost of revenues".

Retail/LTC Segment

Vendor allowances received by the Retail/LTC Segment reduce the carrying cost of inventory and are recognized in cost of revenues when the related inventory is sold, unless they are specifically identified as a reimbursement of incremental costs for promotional programs and/or other services provided. Amounts that are directly linked to advertising commitments are recognized as a reduction of advertising expense (included in operating expenses) when the related advertising commitment is satisfied. Any such allowances received in excess of the actual cost incurred also reduce the carrying cost of inventory. The total value of any upfront payments received from vendors that are linked to purchase commitments is initially deferred. The deferred amounts are then amortized to reduce cost of revenues over the life of the contract based upon purchase volume. The total value of any upfront payments received from vendors that are not linked to purchase commitments is also initially deferred. The deferred amounts are then amortized to reduce cost of revenues on a straight-line basis over the life of the related contract.

We have not made any material changes in the way we account for vendor allowances and purchase discounts during the past three years.

Inventory

Effective January 1, 2015, the Company changed its methods of accounting for “front store” inventories in the Retail/LTC Segment. Prior to 2015, the Company valued front store inventories at the lower of cost or market on a first-in, first-out (“FIFO”) basis in retail stores using the retail inventory method and in distribution centers using the FIFO cost method. Effective January 1, 2015, all front store inventories in the Retail/LTC Segment have been valued at the lower of cost or market using the weighted average cost method. These changes affected approximately 36% of consolidated inventories.

These changes were made primarily to provide the Company with better information to manage its retail front store operations and to bring all of the Company’s inventories to a common inventory valuation methodology. The Company believes the weighted average cost method is preferable to the retail inventory method and the FIFO cost method because it results in greater precision in the determination of cost of revenues and inventories at the stock keeping unit (“SKU”) level and results in a consistent inventory valuation method for all of the Company’s inventories as all of the Company’s remaining inventories, which consist of prescription drugs, were already being valued using the weighted average cost method.

The Company recorded the cumulative effect of these changes in accounting principle as of January 1, 2015. The Company determined that retrospective application for periods prior to 2015 is impracticable, as the period-specific information necessary to value front store inventories in the Retail/LTC Segment under the weighted average cost method is unavailable. The Company implemented a new perpetual inventory system to manage front store inventory at the SKU level and valued front store inventory as of January 1, 2015 and calculated the cumulative impact. The effect of these changes in accounting principle as of January 1, 2015, was a decrease in inventories of \$7 million, an increase in current deferred income tax assets of \$3 million and a decrease in retained earnings of \$4 million.

All prescription drug inventories in the Retail/LTC Segment have been valued at the lower of cost or market using the weighted average cost method. The weighted average cost method is used to determine cost of sales and inventory in our mail service and specialty pharmacies in our Pharmacy Services Segment.

We reduce the value of our ending inventory for estimated inventory losses that have occurred during the interim period between physical inventory counts. Physical inventory counts are taken on a regular basis in each store and a continuous cycle count process is the primary procedure used to validate the inventory balances on hand in each distribution center and mail facility to ensure that the amounts reflected in the accompanying consolidated financial statements are properly stated. The accounting for inventory contains uncertainty since we must use judgment to estimate the inventory losses that have occurred during the interim period between physical inventory counts. When estimating these losses, we consider a number of factors, which include, but are not limited to, historical physical inventory results on a location-by-location basis and current physical inventory loss trends.

Our total reserve for estimated inventory losses covered by this critical accounting policy was \$225 million as of December 31, 2015. Although we believe we have sufficient current and historical information available to us to record reasonable estimates for estimated inventory losses, it is possible that actual results could differ. In order to help you assess the aggregate risk, if any, associated with the uncertainties discussed above, a ten percent (10%) pre-tax change in our estimated inventory losses, which we believe is a reasonably likely change, would increase or decrease our total reserve for estimated inventory losses by about \$23 million as of December 31, 2015.

Although we believe that the estimates discussed above are reasonable and the related calculations conform to generally accepted accounting principles, actual results could differ from our estimates, and such differences could be material.

Goodwill and Intangible Assets

Identifiable intangible assets consist primarily of trademarks, client contracts and relationships, favorable leases and covenants not to compete. These intangible assets arise primarily from the determination of their respective fair market values at the date of acquisition.

Amounts assigned to identifiable intangible assets, and their related useful lives, are derived from established valuation techniques and management estimates. Goodwill represents the excess of amounts paid for acquisitions over the fair value of the net identifiable assets acquired.

We evaluate the recoverability of certain long-lived assets, including intangible assets with finite lives, but excluding goodwill and intangible assets with indefinite lives which are tested for impairment using separate tests, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. We group and evaluate these long-lived assets for impairment at the lowest level at which individual cash flows can be identified. When evaluating these long-lived assets for potential impairment, we first compare the carrying amount of the asset group to the asset group's estimated future cash flows (undiscounted and without interest charges). If the estimated future cash flows are less than the carrying amount of the asset group, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the asset group to the asset group's estimated future cash flows (discounted and with interest charges). If required, an impairment loss is recorded for the portion of the asset group's carrying value that exceeds the asset group's estimated future cash flows (discounted and with interest charges). Our long-lived asset impairment loss calculation contains uncertainty since we must use judgment to estimate each asset group's future sales, profitability and cash flows. When preparing these estimates, we consider historical results and current operating trends and our consolidated sales, profitability and cash flow results and forecasts.

These estimates can be affected by a number of factors including, but not limited to, general economic and regulatory conditions, efforts of third party organizations to reduce their prescription drug costs and/or increased member co-payments, the continued efforts of competitors to gain market share and consumer spending patterns.

Goodwill and indefinitely-lived intangible assets are subject to annual impairment reviews, or more frequent reviews if events or circumstances indicate that the carrying value may not be recoverable.

Indefinitely-lived intangible assets are tested by comparing the estimated fair value of the asset to its carrying value. If the carrying value of the asset exceeds its estimated fair value, an impairment loss is recognized and the asset is written down to its estimated fair value.

Our indefinitely-lived intangible asset impairment loss calculation contains uncertainty since we must use judgment to estimate the fair value based on the assumption that in lieu of ownership of an intangible asset, the Company would be willing to pay a royalty in order to utilize the benefits of the asset. Value is estimated by discounting the hypothetical royalty payments to their present value over the estimated economic life of the asset. These estimates can be affected by a number of factors including, but not limited to, general economic conditions, availability of market information as well as the profitability of the Company.

Goodwill is tested for impairment on a reporting unit basis using a two-step process. The first step of the impairment test is to identify potential impairment by comparing the reporting unit's fair value with its net book value (or carrying amount), including goodwill. The fair value of our reporting units is estimated using a combination of the discounted cash flow valuation model and comparable market transaction models. If the fair value of the reporting unit exceeds its carrying amount, the reporting unit's goodwill is not considered to be impaired and the second step of the impairment test is not performed. If the carrying amount of the reporting unit exceeds its fair value, the second step of the impairment test is performed to measure the amount of impairment loss, if any. The second step of the impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of the goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to that excess.

The determination of the fair value of our reporting units requires the Company to make significant assumptions and estimates. These assumptions and estimates primarily include, but are not limited to, the selection of appropriate peer group companies; control premiums and valuation multiples appropriate for acquisitions in the industries in which the Company competes; discount rates, terminal growth rates; and forecasts of revenue, operating profit, depreciation and amortization, capital expenditures and future working capital requirements. When determining these assumptions and preparing these estimates, we

consider each reporting unit's historical results and current operating trends and our consolidated revenues, profitability and cash flow results, forecasts and industry trends. Our estimates can be affected by a number of factors including, but not limited to, general economic and regulatory conditions, our market capitalization, efforts of third party organizations to reduce their prescription drug costs and/or increase member co-payments, the continued efforts of competitors to gain market share and consumer spending patterns.

The carrying value of goodwill and other intangible assets covered by this critical accounting policy was \$38.1 billion and \$13.9 billion as of December 31, 2015, respectively. We did not record any impairment losses related to goodwill or other intangible assets during 2015, 2014 or 2013. During the third quarter of 2015, we performed our required annual impairment tests of goodwill and indefinitely-lived trademarks. The results of the impairment tests concluded that there was no impairment of goodwill or trademarks. The goodwill impairment test resulted in the fair value of our reporting units exceeding their carrying values by a significant margin.

Although we believe we have sufficient current and historical information available to us to test for impairment, it is possible that actual results could differ from the estimates used in our impairment tests.

We have not made any material changes in the methodologies utilized to test the carrying values of goodwill and intangible assets for impairment during the past three years.

Closed Store Lease Liability

We account for closed store lease termination costs when a leased store is closed. When a leased store is closed, we record a liability for the estimated present value of the remaining obligation under the noncancelable lease, which includes future real estate taxes, common area maintenance and other charges, if applicable. The liability is reduced by estimated future sublease income.

The initial calculation and subsequent evaluations of our closed store lease liability contain uncertainty since we must use judgment to estimate the timing and duration of future vacancy periods, the amount and timing of future lump sum settlement payments and the amount and timing of potential future sublease income. When estimating these potential termination costs and their related timing, we consider a number of factors, which include, but are not limited to, historical settlement experience, the owner of the property, the location and condition of the property, the terms of the underlying lease, the specific marketplace demand and general economic conditions.

Our total closed store lease liability covered by this critical accounting policy was \$221 million as of December 31, 2015. This amount is net of \$115 million of estimated sublease income that is subject to the uncertainties discussed above. Although we believe we have sufficient current and historical information available to us to record reasonable estimates for sublease income, it is possible that actual results could differ.

In order to help you assess the risk, if any, associated with the uncertainties discussed above, a ten percent (10%) pre-tax change in our estimated sublease income, which we believe is a reasonably likely change, would increase or decrease our total closed store lease liability by about \$12 million as of December 31, 2015.

We have not made any material changes in the reserve methodology used to record closed store lease reserves during the past three years.

Self-Insurance Liabilities

We are self-insured for certain losses related to general liability, workers' compensation and auto liability, although we maintain stop loss coverage with third party insurers to limit our total liability exposure. We are also self-insured for certain losses related to health and medical liabilities.

The estimate of our self-insurance liability contains uncertainty since we must use judgment to estimate the ultimate cost that will be incurred to settle reported claims and unreported claims for incidents incurred but not reported as of the balance sheet date. When estimating our self-insurance liability, we consider a number of factors, which include, but are not limited to, historical claim experience, demographic factors, severity factors and other standard insurance industry actuarial assumptions. On a quarterly basis, we review our self-insurance liability to determine if it is adequate as it relates to our general liability, workers' compensation and auto liability. Similar reviews are conducted semi-annually to determine if our self-insurance liability is adequate for our health and medical liability.

Our total self-insurance liability covered by this critical accounting policy was \$660 million as of December 31, 2015. Although we believe we have sufficient current and historical information available to us to record reasonable estimates for our self-insurance liability, it is possible that actual results could differ. In order to help you assess the risk, if any, associated with the uncertainties discussed above, a ten percent (10%) pre-tax change in our estimate for our self-insurance liability, which we believe is a reasonably likely change, would increase or decrease our self-insurance liability by about \$66 million as of December 31, 2015.

We have not made any material changes in the accounting methodology used to establish our self-insurance liability during the past three years.

Income Taxes

Income taxes are accounted for using the asset and liability method. Deferred tax liabilities or assets are established for temporary differences between financial and tax reporting bases and are subsequently adjusted to reflect changes in enacted tax rates expected to be in effect when the temporary differences reverse. The deferred tax assets are reduced, if necessary, by a valuation allowance to the extent future realization of those tax benefits is uncertain.

Significant judgment is required in determining the provision for income taxes and the related taxes payable and deferred tax assets and liabilities since, in the ordinary course of business, there are transactions and calculations where the ultimate tax outcome is uncertain. Additionally, our tax returns are subject to audit by various domestic and foreign tax authorities that could result in material adjustments or differing interpretations of the tax laws. Although we believe that our estimates are reasonable and are based on the best available information at the time we prepare the provision, actual results could differ from these estimates resulting in a final tax outcome that may be materially different from that which is reflected in our consolidated financial statements.

The tax benefit from an uncertain tax position is recognized only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. Interest and/or penalties related to uncertain tax positions are recognized in income tax expense. Significant judgment is required in determining our uncertain tax positions. We have established accruals for uncertain tax positions using our best judgment and adjust these accruals, as warranted, due to changing facts and circumstances.

Proposed Lease Accounting Standard Update

In May 2013, the Financial Accounting Standards Board issued a revised proposed accounting standard update on lease accounting that will require entities to recognize assets and liabilities arising from lease contracts on the balance sheet. The proposed accounting standard update states that lessees and lessors should apply a "right-of-use model" in accounting for all leases. Under the proposed model, lessees would recognize an asset for the right to use the leased asset, and a liability for the obligation to make rental payments over the lease term. The Company cannot presently determine the potential impact the proposed standard would have on its results of operations. While the Company believes that the proposed standard, as currently drafted, will likely have a material impact on its financial position, it will not have a material impact on its liquidity; however, until the proposed standard is finalized, such evaluation cannot be completed.

See Note 1, "Significant Accounting Policies" to the consolidated financial statements for a description of New Accounting Pronouncements applicable to the Company.

Cautionary Statement Concerning Forward-Looking Statements

This annual report contains forward-looking statements within the meaning of the federal securities laws. In addition, the Company and its representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in the Company's filings with the U.S. Securities and Exchange Commission ("SEC") and in its reports to stockholders, press releases, webcasts, conference calls, meetings and other communications. Generally, the inclusion of the words "believe," "expect," "intend," "estimate," "project," "anticipate," "will," "should" and similar expressions identify statements that constitute forward-looking statements. All statements addressing operating performance of CVS Health Corporation or any subsidiary, events or developments that the Company expects or anticipates will occur in the future, including statements relating to corporate strategy; revenue growth; earnings or earnings per common share growth; adjusted earnings or adjusted earnings per common share growth; free cash flow; debt ratings; inventory levels; inventory turn and loss rates; store development; relocations and new market entries; retail pharmacy business, sales trends and operations; PBM business, sales trends and operations; LTC pharmacy business, sales trends and operations; the Company's ability to attract or retain customers and clients; Medicare Part D competitive bidding, enrollment and operations; new product development; and the impact of industry developments, as well as statements expressing optimism or pessimism about future operating results or events, are forward-looking statements within the meaning of the federal securities laws.

The forward-looking statements are and will be based upon management's then-current views and assumptions regarding future events and operating performance, and are applicable only as of the dates of such statements. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

By their nature, all forward-looking statements involve risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements for a number of reasons as described in our SEC filings, including those set forth in the Risk Factors section within the 2015 Annual Report on Form 10-K, and including, but not limited to:

- *Risks relating to the health of the economy in general and in the markets we serve, which could impact consumer purchasing power, preferences and/or spending patterns, drug utilization trends, the financial health of our PBM and LTC clients or other payors doing business with the Company and our ability to secure necessary financing, suitable store locations and sale-leaseback transactions on acceptable terms.*
- *Efforts to reduce reimbursement levels and alter health care financing practices, including pressure to reduce reimbursement levels for generic drugs.*
- *The possibility of PBM and LTC client loss and/or the failure to win new PBM and LTC business, including as a result of failure to win renewal of expiring contracts, contract termination rights that may permit clients to terminate a contract prior to expiration and early or periodic renegotiation of pricing by clients prior to expiration of a contract.*
- *The possibility of loss of Medicare Part D business and/or failure to obtain new Medicare Part D business, whether as a result of the annual Medicare Part D competitive bidding process or otherwise.*
- *Risks related to the frequency and rate of the introduction of generic drugs and brand name prescription products.*
- *Risks of declining gross margins in the PBM and LTC pharmacy industries attributable to increased competitive pressures, increased client demand for lower prices, enhanced service offerings and/or higher service levels and market dynamics and, with respect to the PBM industry, regulatory changes that impact our ability to offer plan sponsors pricing that includes the use of retail "differential" or "spread."*
- *Regulatory changes, business changes and compliance requirements and restrictions that may be imposed by Centers for Medicare and Medicaid Services ("CMS"), Office of Inspector General or other government agencies relating to the Company's participation in Medicare, Medicaid and other federal and state government-funded programs, including sanctions and remedial actions that may be imposed by CMS on its Medicare Part D business.*
- *Risks and uncertainties related to the timing and scope of reimbursement from Medicare, Medicaid and other government-funded programs, including the possible impact of sequestration, the impact of other federal budget, debt and deficit negotiations and legislation that could delay or reduce reimbursement from such programs and the impact of any closure, suspension or other changes affecting federal or state government funding or operations.*

- *Possible changes in industry pricing benchmarks used to establish pricing in many of our PBM and LTC client contracts, pharmaceutical purchasing arrangements, retail network contracts, specialty payor agreements and other third party payor contracts.*
- *A highly competitive business environment, including the uncertain impact of increased consolidation in the PBM industry, uncertainty concerning the ability of our retail pharmacy business to secure and maintain contractual relationships with PBMs and other payors on acceptable terms, uncertainty concerning the ability of our PBM business to secure and maintain competitive access, pricing and other contract terms from retail network pharmacies in an environment where some PBM clients are willing to consider adopting narrow or more restricted retail pharmacy networks.*
- *The Company's ability to timely identify or effectively respond to changing consumer preferences and spending patterns, an inability to expand the products being purchased by our customers, or the failure or inability to obtain or offer particular categories of products.*
- *Risks relating to our ability to secure timely and sufficient access to the products we sell from our domestic and/or international suppliers.*
- *Reform of the U.S. health care system, including ongoing implementation of ACA, continuing legislative efforts, regulatory changes and judicial interpretations impacting our health care system and the possibility of shifting political and legislative priorities related to reform of the health care system in the future.*
- *Risks relating to any failure to properly maintain our information technology systems, our information security systems and our infrastructure to support our business and to protect the privacy and security of sensitive customer and business information.*
- *Risks related to compliance with a broad and complex regulatory framework, including compliance with new and existing federal, state and local laws and regulations relating to health care, accounting standards, corporate securities, tax, environmental and other laws and regulations affecting our business.*
- *Risks related to litigation, government investigations and other legal proceedings as they relate to our business, the pharmacy services, retail pharmacy, LTC pharmacy or retail clinic industries or to the health care industry generally.*
- *The risk that any condition related to the closing of any proposed acquisition may not be satisfied on a timely basis or at all, including the inability to obtain required regulatory approvals of any proposed acquisition, or on the terms desired or anticipated; the risk that such approvals may result in the imposition of conditions that could adversely affect the resulting combined company or the expected benefits of any proposed transaction; and the risk that the proposed transactions fail to close for any other reason.*
- *The possibility that the anticipated synergies and other benefits from any acquisition by us will not be realized, or will not be realized within the expected time periods.*
- *The risks and uncertainties related to our ability to integrate the operations, products, services and employees of any entities acquired by us and the effect of the potential disruption of management's attention from ongoing business operations due to any pending acquisitions.*
- *The accessibility or availability of adequate financing on a timely basis and on reasonable terms in connection with any proposed acquisition.*
- *Risks related to the outcome of any legal proceedings related to, or involving any entity that is a part of, any proposed acquisition contemplated by us.*
- *Other risks and uncertainties detailed from time to time in our filings with the SEC.*

The foregoing list is not exhaustive. There can be no assurance that the Company has correctly identified and appropriately assessed all factors affecting its business. Additional risks and uncertainties not presently known to the Company or that it currently believes to be immaterial also may adversely impact the Company. Should any risks and uncertainties develop into actual events, these developments could have a material adverse effect on the Company's business, financial condition and results of operations. For these reasons, you are cautioned not to place undue reliance on the Company's forward-looking statements.

Management's Report on Internal Control Over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting. Our Company's internal control over financial reporting includes those policies and procedures that pertain to the Company's ability to record, process, summarize and report a system of internal accounting controls and procedures to provide reasonable assurance, at an appropriate cost/benefit relationship, that the unauthorized acquisition, use or disposition of assets are prevented or timely detected and that transactions are authorized, recorded and reported properly to permit the preparation of financial statements in accordance with generally accepted accounting principles (GAAP) and receipts and expenditures are duly authorized. In order to ensure the Company's internal control over financial reporting is effective, management regularly assesses such controls and did so most recently for its financial reporting as of December 31, 2015.

We conducted an assessment of the effectiveness of our internal controls over financial reporting based on the criteria set forth in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). This evaluation included review of the documentation, evaluation of the design effectiveness and testing of the operating effectiveness of controls. Our system of internal control over financial reporting is enhanced by periodic reviews by our internal auditors, written policies and procedures and a written Code of Conduct adopted by our Company's Board of Directors, applicable to all employees of our Company. In addition, we have an internal Disclosure Committee, comprised of management from each functional area within the Company, which performs a separate review of our disclosure controls and procedures. There are inherent limitations in the effectiveness of any system of internal controls over financial reporting.

Management's assessment of the effectiveness of our internal control over financial reporting did not include two acquisitions, Omnicare, Inc. and the pharmacies and clinics of Target Corporation, consummated during fiscal year 2015. Omnicare, Inc. and the Target Corporation pharmacy and clinic businesses are included in the Company's 2015 consolidated financial statements and represent 18% of total assets as of December 31, 2015 and 2% of net revenues for the year then ended.

Based on our assessment, we conclude our Company's internal control over financial reporting is effective and provides reasonable assurance that assets are safeguarded and that the financial records are reliable for preparing financial statements as of December 31, 2015.

Ernst & Young LLP, independent registered public accounting firm, is appointed by the Board of Directors and ratified by our Company's shareholders. They were engaged to render an opinion regarding the fair presentation of our consolidated financial statements as well as conducting an audit of internal control over financial reporting. Their accompanying reports are based upon audits conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States).

February 9, 2016

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of CVS Health Corporation

We have audited CVS Health Corporation's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). CVS Health Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Omnicare, Inc. and the pharmacies and clinics of Target Corporation, which are included in the 2015 consolidated financial statements of CVS Health Corporation and constituted 18% of total assets as of December 31, 2015 and 2% of net revenues for the year then ended. Our audit of internal control over financial reporting of CVS Health Corporation also did not include an evaluation of the internal control over financial reporting of Omnicare, Inc. and the pharmacies and clinics of Target Corporation.

In our opinion, CVS Health Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of CVS Health Corporation as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2015 of CVS Health Corporation and our report dated February 9, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 9, 2016

Consolidated Statements of Income

<u>In millions, except per share amounts</u>	Year Ended December 31,		
	2015	2014	2013
Net revenues	\$ 153,290	\$ 139,367	\$ 126,761
Cost of revenues	126,762	114,000	102,978
Gross profit	26,528	25,367	23,783
Operating expenses	17,074	16,568	15,746
Operating profit	9,454	8,799	8,037
Interest expense, net	838	600	509
Loss on early extinguishment of debt	—	521	—
Income before income tax provision	8,616	7,678	7,528
Income tax provision	3,386	3,033	2,928
Income from continuing operations	5,230	4,645	4,600
Income (loss) from discontinued operations, net of tax	9	(1)	(8)
Net income	5,239	4,644	4,592
Net income attributable to noncontrolling interest	(2)	—	—
Net income attributable to CVS Health	\$ 5,237	\$ 4,644	\$ 4,592
Basic earnings per share:			
Income from continuing operations attributable to CVS Health	\$ 4.65	\$ 3.98	\$ 3.78
Income (loss) from discontinued operations attributable to CVS Health	\$ 0.01	\$ —	\$ (0.01)
Net income attributable to CVS Health	\$ 4.66	\$ 3.98	\$ 3.77
Weighted average shares outstanding	1,118	1,161	1,217
Diluted earnings per share:			
Income from continuing operations attributable to CVS Health	\$ 4.62	\$ 3.96	\$ 3.75
Income (loss) from discontinued operations attributable to CVS Health	\$ 0.01	\$ —	\$ (0.01)
Net income attributable to CVS Health	\$ 4.63	\$ 3.96	\$ 3.74
Weighted average shares outstanding	1,126	1,169	1,226
Dividends declared per share	\$ 1.40	\$ 1.10	\$ 0.90

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

<u>In millions</u>	Year Ended December 31,		
	2015	2014	2013
Net income	\$ 5,239	\$ 4,644	\$ 4,592
Other comprehensive income (loss):			
Foreign currency translation adjustments, net of tax	(100)	(35)	(30)
Net cash flow hedges, net of tax	2	4	3
Pension and other postretirement benefits, net of tax	(43)	(37)	59
Total other comprehensive income (loss)	(141)	(68)	32
Comprehensive income	5,098	4,576	4,624
Comprehensive income attributable to noncontrolling interest	(2)	—	—
Comprehensive income attributable to CVS Health	\$ 5,096	\$ 4,576	\$ 4,624

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

<u>In millions, except per share amounts</u>	December 31,	
	2015	2014
Assets:		
Cash and cash equivalents	\$ 2,459	\$ 2,481
Short-term investments	88	34
Accounts receivable, net	11,888	9,687
Inventories	14,001	11,930
Deferred income taxes	1,220	985
Other current assets	722	866
Total current assets	30,378	25,983
Property and equipment, net	9,855	8,843
Goodwill	38,106	28,142
Intangible assets, net	13,878	9,774
Other assets	1,440	1,445
Total assets	\$ 93,657	\$ 74,187
Liabilities:		
Accounts payable	\$ 7,490	\$ 6,547
Claims and discounts payable	7,653	5,404
Accrued expenses	6,829	5,816
Short-term debt	—	685
Current portion of long-term debt	1,197	575
Total current liabilities	23,169	19,027
Long-term debt	26,267	11,630
Deferred income taxes	5,437	4,036
Other long-term liabilities	1,542	1,531
Commitments and contingencies (Note 12)	—	—
Redeemable noncontrolling interest	39	—
Shareholders' equity:		
CVS Health shareholders' equity:		
Preferred stock, par value \$0.01: 0.1 shares authorized; none issued or outstanding	—	—
Common stock, par value \$0.01: 3,200 shares authorized; 1,699 shares issued and 1,101 shares outstanding at December 31, 2015 and 1,691 shares issued and 1,140 shares outstanding at December 31, 2014	17	17
Treasury stock, at cost: 597 shares at December 31, 2015 and 550 shares at December 31, 2014	(28,886)	(24,078)
Shares held in trust: 1 share at December 31, 2015 and 2014	(31)	(31)
Capital surplus	30,948	30,418
Retained earnings	35,506	31,849
Accumulated other comprehensive income (loss)	(358)	(217)
Total CVS Health shareholders' equity	37,196	37,958
Noncontrolling interest	7	5
Total shareholders' equity	37,203	37,963
Total liabilities and shareholders' equity	\$ 93,657	\$ 74,187

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

<u>In millions</u>	Year Ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Cash receipts from customers	\$ 148,954	\$ 132,406	\$ 114,993
Cash paid for inventory and prescriptions dispensed by retail network pharmacies	(122,498)	(105,362)	(91,178)
Cash paid to other suppliers and employees	(14,162)	(15,344)	(14,295)
Interest received	21	15	8
Interest paid	(629)	(647)	(534)
Income taxes paid	(3,274)	(2,931)	(3,211)
Net cash provided by operating activities	8,412	8,137	5,783
Cash flows from investing activities:			
Purchases of property and equipment	(2,367)	(2,136)	(1,984)
Proceeds from sale-leaseback transactions	411	515	600
Proceeds from sale of property and equipment and other assets	35	11	54
Acquisitions (net of cash acquired) and other investments	(11,475)	(2,439)	(415)
Purchase of available-for-sale investments	(267)	(157)	(226)
Maturity of available-for-sale investments	243	161	136
Net cash used in investing activities	(13,420)	(4,045)	(1,835)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	(685)	685	(690)
Proceeds from issuance of long-term debt	14,805	1,483	3,964
Repayments of long-term debt	(2,902)	(3,100)	—
Payment of contingent consideration	(58)	—	—
Dividends paid	(1,576)	(1,288)	(1,097)
Proceeds from exercise of stock options	299	421	500
Excess tax benefits from stock-based compensation	127	106	62
Repurchase of common stock	(5,001)	(4,001)	(3,976)
Other	(3)	—	—
Net cash provided by (used in) financing activities	5,006	(5,694)	(1,237)
Effect of exchange rate changes on cash and cash equivalents	(20)	(6)	3
Net increase (decrease) in cash and cash equivalents	(22)	(1,608)	2,714
Cash and cash equivalents at the beginning of the year	2,481	4,089	1,375
Cash and cash equivalents at the end of the year	\$ 2,459	\$ 2,481	\$ 4,089
Reconciliation of net income to net cash provided by operating activities:			
Net income	\$ 5,239	\$ 4,644	\$ 4,592
Adjustments required to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,092	1,931	1,870
Stock-based compensation	230	165	141
Loss on early extinguishment of debt	—	521	—
Deferred income taxes and other noncash items	(266)	(58)	(86)
Change in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable, net	(1,594)	(737)	(2,210)
Inventories	(1,141)	(770)	12
Other current assets	355	(383)	105
Other assets	2	9	(135)
Accounts payable and claims and discounts payable	2,834	1,742	1,024
Accrued expenses	765	1,060	471
Other long-term liabilities	(104)	13	(1)
Net cash provided by operating activities	\$ 8,412	\$ 8,137	\$ 5,783

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

In millions	Shares			Dollars		
	Year Ended December 31,			Year Ended December 31,		
	2015	2014	2013	2015	2014	2013
Common stock:						
Beginning of year	1,691	1,680	1,667	\$ 17	\$ 17	\$ 17
Stock options exercised and issuance of stock awards	8	11	13	—	—	—
End of year	1,699	1,691	1,680	\$ 17	\$ 17	\$ 17
Treasury stock:						
Beginning of year	(550)	(500)	(435)	\$ (24,078)	\$ (20,169)	\$ (16,270)
Purchase of treasury shares	(48)	(51)	(66)	(4,856)	(4,001)	(3,976)
Employee stock purchase plan issuances	1	1	1	48	92	77
End of year	(597)	(550)	(500)	\$ (28,886)	\$ (24,078)	\$ (20,169)
Shares held in trust:						
Balance at beginning and end of year	(1)	(1)	(1)	\$ (31)	\$ (31)	\$ (31)
Capital surplus:						
Beginning of year				\$ 30,418	\$ 29,777	\$ 29,120
Stock option activity and stock awards				533	535	588
Excess tax benefit on stock options and stock awards				142	106	69
Portion of accelerated share repurchase not settled				(145)	—	—
End of year				\$ 30,948	\$ 30,418	\$ 29,777
Retained earnings:						
Beginning of year				\$ 31,849	\$ 28,493	\$ 24,998
Changes in inventory accounting principles (Note 2)				(4)	—	—
Net income attributable to CVS Health				5,237	4,644	4,592
Common stock dividends				(1,576)	(1,288)	(1,097)
End of year				\$ 35,506	\$ 31,849	\$ 28,493
Accumulated other comprehensive loss:						
Beginning of year				\$ (217)	\$ (149)	\$ (181)
Foreign currency translation adjustments, net of tax				(100)	(35)	(30)
Net cash flow hedges, net of tax				2	4	3
Pension and other postretirement benefits, net of tax				(43)	(37)	59
End of year				\$ (358)	\$ (217)	\$ (149)
Total CVS Health shareholders' equity				\$ 37,196	\$ 37,958	\$ 37,938
Noncontrolling interest:						
Beginning of year				\$ 5	\$ —	\$ —
Business combinations				1	5	—
Capital contributions				2	—	—
Net income attributable to noncontrolling interest ⁽¹⁾				1	—	—
Distributions				(2)	—	—
End of year				\$ 7	\$ 5	\$ —
Total shareholders' equity				\$ 37,203	\$ 37,963	\$ 37,938

(1) Excludes \$1 million attributable to redeemable noncontrolling interest (See Note 1 - "Significant Accounting Policies").

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1 Significant Accounting Policies

Description of business - CVS Health Corporation and its subsidiaries (the "Company") is the largest integrated pharmacy health care provider in the United States based upon revenues and prescriptions filled. The Company currently has three reportable business segments, Pharmacy Services, Retail/LTC and Corporate, which are described below.

Changes in Segment Definition - As a result of the acquisition of Omnicare, Inc. ("Omnicare") on August 18, 2015, the Company's segments have been expanded. The Company's Pharmacy Services Segment now also includes the specialty pharmacy operations of Omnicare. The Company's former Retail Pharmacy Segment now also includes the long-term care ("LTC") operations, as well as the commercialization services of Omnicare, and has been renamed the "Retail/LTC Segment." The LTC operations include the distribution of pharmaceuticals, related pharmacy consulting and other ancillary services to chronic care facilities and other care settings. The Company's Corporate Segment now also includes certain aspects of Omnicare's corporate expenses.

On December 16, 2015, the Company completed its acquisition of the pharmacy and clinic businesses of Target Corporation ("Target"). See Note 3, "Acquisitions." The results of the Target pharmacies and clinics are included in the Retail/LTC Segment.

Pharmacy Services Segment (the "PSS") - The PSS provides a full range of pharmacy benefit management services including mail order pharmacy services, specialty pharmacy and infusion services, plan design and administration, formulary management and claims processing. The Company's clients are primarily employers, insurance companies, unions, government employee groups, health plans, Managed Medicaid plans and other sponsors of health benefit plans and individuals throughout the United States.

As a pharmacy benefits manager, the PSS manages the dispensing of pharmaceuticals through the Company's mail order pharmacies and national network of more than 68,000 retail pharmacies, consisting of approximately 41,000 chain pharmacies and 27,000 independent pharmacies, to eligible members in the benefits plans maintained by the Company's clients and utilizes its information systems to perform, among other things, safety checks, drug interaction screenings and brand to generic substitutions.

The PSS' specialty pharmacies support individuals that require complex and expensive drug therapies. The specialty pharmacy business includes mail order and retail specialty pharmacies that operate under the CVS Caremark[®], CarePlus CVS Pharmacy[™], Navarro[®] Health Services and Advanced Care Scripts names. In January 2014, the Company enhanced its offerings of specialty infusion services and began offering enteral nutrition services through Coram LLC and its subsidiaries. In August 2015, the Company further expanded its specialty offerings with the acquisition of Advanced Care Scripts which was part of the Omnicare acquisition. See Note 3, "Acquisitions".

The PSS also provides health management programs, which include integrated disease management for 17 conditions, through the Company's Accordant[®] rare disease management offering.

In addition, through the Company's SilverScript Insurance Company ("SilverScript") subsidiary, the PSS is a national provider of drug benefits to eligible beneficiaries under the federal government's Medicare Part D program.

The PSS generates net revenues primarily by contracting with clients to provide prescription drugs to plan members. Prescription drugs are dispensed by the mail order pharmacies, specialty pharmacies and national network of retail pharmacies. Net revenues are also generated by providing additional services to clients, including administrative services such as claims processing and formulary management, as well as health care related services such as disease management.

The pharmacy services business operates under the CVS Caremark[®] Pharmacy Services, Caremark[®], CVS Caremark[™], CarePlus CVS Pharmacy[™], Accordant[®], SilverScript[®], Coram[®], CVS Specialty[™], NovoLogix[®], Navarro[®] Health Services and Advanced Care Scripts names. As of December 31, 2015, the PSS operated 24 retail specialty pharmacy stores, 11 specialty mail order pharmacies and five mail order dispensing pharmacies, and 83 branches for infusion and enteral services, including 73 ambulatory infusion suites and six centers of excellence, located in 40 states, Puerto Rico and the District of Columbia.

Retail/LTC Segment (the "RLS") - The RLS sells prescription drugs and a wide assortment of general merchandise, including over-the-counter drugs, beauty products and cosmetics, photo finishing, seasonal merchandise, greeting cards and convenience

Notes to Consolidated Financial Statements (continued)

foods, through the Company's CVS Pharmacy[®], CVS[®], Longs Drugs[®], Navarro Discount Pharmacy[®] and Drogeria Onofre[™] retail stores and online through CVS.com[®], Navarro.com[™] and Onofre.com.br[™].

The RLS also provides health care services through its MinuteClinic[®] health care clinics. MinuteClinics are staffed by nurse practitioners and physician assistants who utilize nationally recognized protocols to diagnose and treat minor health conditions, perform health screenings, monitor chronic conditions and deliver vaccinations.

With the acquisition of Omnicare, the RLS now includes LTC operations, which is comprised of providing the distribution of pharmaceuticals, related pharmacy consulting and other ancillary services to chronic care facilities and other care settings, as well as commercialization services which are provided under the name RxCrossroads[®]. With the acquisition of the pharmacies and clinics of Target, the Company added 1,672 pharmacies and approximately 79 clinics.

As of December 31, 2015, the retail pharmacy business included 9,655 retail stores (of which 7,897 were our stores that operated a pharmacy and 1,672 were our pharmacies located within a Target store) located in 49 states, the District of Columbia, Puerto Rico and Brazil operating primarily under the CVS Pharmacy, CVS, Longs Drugs, Navarro Discount Pharmacy and Drogeria Onofre names, the online retail websites, CVS.com, Navarro.com and Onofre.com.br, and 1,135 retail health care clinics operating under the MinuteClinic name (of which 1,049 were located in CVS Pharmacy stores). LTC operations is comprised of 143 spoke pharmacies that primarily handle new prescription orders and 32 hub pharmacies that use proprietary automation to support spoke pharmacies with refill prescriptions. LTC operates primarily under the Omnicare[®] and NeighborCare[®] names.

Corporate Segment - The Corporate Segment provides management and administrative services to support the Company. The Corporate Segment consists of certain aspects of the Company's executive management, corporate relations, legal, compliance, human resources, corporate information technology and finance departments.

Principles of consolidation - The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries and variable interest entities ("VIEs") for which the Company is the primary beneficiary. All intercompany balances and transactions have been eliminated.

The Company continually evaluates its investments to determine if they represent variable interests in a VIE. If the Company determines that it has a variable interest in a VIE, the Company then evaluates if it is the primary beneficiary of the VIE. The evaluation is a qualitative assessment as to whether the Company has the ability to direct the activities of a VIE that most significantly impact the entity's economic performance. The Company consolidates a VIE if it is considered to be the primary beneficiary.

Assets and liabilities of VIEs for which the Company is the primary beneficiary were not significant to the Company's consolidated financial statements. VIE creditors do not have recourse against the general credit of the Company.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Fair value hierarchy - The Company utilizes the three-level valuation hierarchy for the recognition and disclosure of fair value measurements. The categorization of assets and liabilities within this hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The three levels of the hierarchy consist of the following:

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 - Inputs to the valuation methodology are quoted prices for similar assets and liabilities in active markets, quoted prices in markets that are not active or inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the instrument.
- Level 3 - Inputs to the valuation methodology are unobservable inputs based upon management's best estimate of inputs market participants could use in pricing the asset or liability at the measurement date, including assumptions about risk.

Cash and cash equivalents - Cash and cash equivalents consist of cash and temporary investments with maturities of three months or less when purchased. The Company invests in short-term money market funds, commercial paper and time deposits, as well as other debt securities that are classified as cash equivalents within the accompanying consolidated balance sheets, as

Notes to Consolidated Financial Statements (continued)

these funds are highly liquid and readily convertible to known amounts of cash. These investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

Short-term investments - The Company's short-term investments consist of certificates of deposit with initial maturities of greater than three months when purchased that mature in less than one year from the balance sheet date. These investments, which were classified as available-for-sale within Level 1 of the fair value hierarchy, were carried at fair value, which approximated their historical cost at December 31, 2015 and 2014.

Fair value of financial instruments - As of December 31, 2015, the Company's financial instruments include cash and cash equivalents, short-term and long-term investments, accounts receivable, accounts payable, contingent consideration liability and short-term debt. Due to the nature of these instruments, the Company's carrying value approximates fair value. The carrying amount and estimated fair value of total long-term debt was \$27.5 billion and \$28.4 billion, respectively, as of December 31, 2015. The fair value of the Company's long-term debt was estimated based on quoted rates currently offered in active markets for the Company's debt, which is considered Level 1 of the fair value hierarchy. The Company had outstanding letters of credit, which guaranteed foreign trade purchases, with a fair value of \$4 million as of December 31, 2015. There were no outstanding derivative financial instruments as of December 31, 2015 and 2014.

Foreign currency translation and transactions - For local currency functional currency, assets and liabilities are translated at end-of-period rates while revenues and expenses are translated at average rates in effect during the period. Equity is translated at historical rates and the resulting cumulative translation adjustments are included as a component of accumulated other comprehensive income (loss).

For U.S. dollar functional currency locations, foreign currency assets and liabilities are remeasured into U.S. dollars at end-of-period exchange rates, except for non-monetary balance sheet accounts, which are remeasured at historical exchange rates. Revenue and expense are remeasured at average exchange rates in effect during each period, except for those expenses related to the nonmonetary balance sheet amounts, which are remeasured at historical exchange rates. Gains or losses from foreign currency remeasurement are included in income.

Gains and losses arising from foreign currency transactions and the effects of remeasurements were not material for all periods presented.

Accounts receivable - Accounts receivable are stated net of an allowance for doubtful accounts. The accounts receivable balance primarily includes amounts due from third party providers (e.g., pharmacy benefit managers, insurance companies, governmental agencies and long-term care facilities), clients, members and private pay customers, as well as vendors and manufacturers. Charges to bad debt are based on both historical write-offs and specifically identified receivables.

The activity in the allowance for doubtful accounts receivable for the years ended December 31 is as follows:

<i><u>In millions</u></i>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 256	\$ 256	\$ 243
Additions charged to bad debt expense	216	185	195
Write-offs charged to allowance	(311)	(185)	(182)
Ending balance	<u>\$ 161</u>	<u>\$ 256</u>	<u>\$ 256</u>

Inventories - All inventories are stated at the lower of cost or market. Prescription drug inventories in the RLS and PSS, as well as front store inventories in the RLS stores are accounted for using the weighted average cost method. See Note 2, "Changes in Accounting Principle." Physical inventory counts are taken on a regular basis in each retail store and long-term care pharmacy and a continuous cycle count process is the primary procedure used to validate the inventory balances on hand in each distribution center and mail facility to ensure that the amounts reflected in the accompanying consolidated financial statements are properly stated. During the interim period between physical inventory counts, the Company accrues for anticipated physical inventory losses on a location-by-location basis based on historical results and current trends.

Property and equipment - Property, equipment and improvements to leased premises are depreciated using the straight-line method over the estimated useful lives of the assets, or when applicable, the term of the lease, whichever is shorter. Estimated useful lives generally range from 10 to 40 years for buildings, building improvements and leasehold improvements and 3 to 10 years for fixtures, equipment and internally developed software. Repair and maintenance costs are charged directly to expense.

Notes to Consolidated Financial Statements (continued)

as incurred. Major renewals or replacements that substantially extend the useful life of an asset are capitalized and depreciated. Application development stage costs for significant internally developed software projects are capitalized and depreciated.

The following are the components of property and equipment at December 31:

<u><i>In millions</i></u>	2015	2014
Land	\$ 1,635	\$ 1,506
Building and improvements	3,168	2,828
Fixtures and equipment	10,001	8,958
Leasehold improvements	4,015	3,626
Software	2,217	1,868
	21,036	18,786
Accumulated depreciation and amortization	(11,181)	(9,943)
Property and equipment, net	\$ 9,855	\$ 8,843

The gross amount of property and equipment under capital leases was \$528 million and \$268 million as of December 31, 2015 and 2014, respectively. Accumulated amortization of property and equipment under capital lease was \$97 million and \$86 million as of December 31, 2015 and 2014, respectively. Amortization of property and equipment under capital lease is included within depreciation expense. Depreciation expense totaled \$1.5 billion in 2015 and \$1.4 billion in both 2014 and 2013.

Goodwill and other indefinitely-lived assets - Goodwill and other indefinitely-lived assets are not amortized, but are subject to impairment reviews annually, or more frequently if necessary. See Note 4 for additional information on goodwill and other indefinitely-lived assets.

Intangible assets - Purchased customer contracts and relationships are amortized on a straight-line basis over their estimated useful lives between 9 and 20 years. Purchased customer lists are amortized on a straight-line basis over their estimated useful lives of up to 10 years. Purchased leases are amortized on a straight-line basis over the remaining life of the lease. See Note 4 for additional information about intangible assets.

Impairment of long-lived assets - The Company groups and evaluates fixed and finite-lived intangible assets for impairment at the lowest level at which individual cash flows can be identified, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If indicators of impairment are present, the Company first compares the carrying amount of the asset group to the estimated future cash flows associated with the asset group (undiscounted and without interest charges). If the estimated future cash flows used in this analysis are less than the carrying amount of the asset group, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the asset group to the asset group's estimated future cash flows (discounted and with interest charges). If required, an impairment loss is recorded for the portion of the asset group's carrying value that exceeds the asset group's estimated future cash flows (discounted and with interest charges).

Redeemable noncontrolling interest - As a result of the acquisition of Omnicare in August 2015, the Company obtained a 73% ownership interest in limited liability company ("LLC"). Due to the change in control in Omnicare, the noncontrolling member of the LLC had the contractual right to put its membership interest to the Company at fair value. Consequently, the noncontrolling interest in the LLC is recorded as a redeemable noncontrolling interest at fair value. In January 2016, as provided for in the LLC operating agreement, the noncontrolling shareholder of the LLC exercised its option to sell its ownership interest in the LLC to the Company. On February 8, 2016, in accordance with the terms of the LLC operating agreement, the Company purchased the noncontrolling interest in the LLC at an amount determined pursuant to the operating agreement that approximated its carrying value at December 31, 2015.

Below is a summary of the changes in redeemable noncontrolling interest for the year ended December 31, 2015:

<u><i>In millions</i></u>	
Acquisition of noncontrolling interest	\$ 39
Net income attributable to noncontrolling interest	1
Distributions	(1)
Balance, December 31, 2015	\$ 39

Revenue Recognition

Pharmacy Services Segment - The PSS sells prescription drugs directly through its mail service dispensing pharmacies and indirectly through its retail pharmacy network. The PSS recognizes revenue from prescription drugs sold by its mail service dispensing pharmacies and under retail pharmacy network contracts where it is the principal using the gross method at the contract prices negotiated with its clients. Net revenues include: (i) the portion of the price the client pays directly to the PSS, net of any volume-related or other discounts paid back to the client (see “Drug Discounts” below), (ii) the price paid to the PSS by client plan members for mail order prescriptions (“Mail Co-Payments”) and the price paid to retail network pharmacies by client plan members for retail prescriptions (“Retail Co-Payments”), and (iii) administrative fees for retail pharmacy network contracts where the PSS is not the principal as discussed below. Sales taxes are not included in revenue.

Revenue is recognized when: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the seller’s price to the buyer is fixed or determinable, and (iv) collectability is reasonably assured. The following revenue recognition policies have been established for the PSS:

- Revenues generated from prescription drugs sold by mail service dispensing pharmacies are recognized when the prescription is delivered. At the time of delivery, the PSS has performed substantially all of its obligations under its client contracts and does not experience a significant level of returns or reshippments.
- Revenues generated from prescription drugs sold by third party pharmacies in the PSS’ retail pharmacy network and associated administrative fees are recognized at the PSS’ point-of-sale, which is when the claim is adjudicated by the PSS online claims processing system.

The PSS determines whether it is the principal or agent for its retail pharmacy network transactions on a contract by contract basis. In the majority of its contracts, the PSS has determined it is the principal due to it: (i) being the primary obligor in the arrangement, (ii) having latitude in establishing the price, changing the product or performing part of the service, (iii) having discretion in supplier selection, (iv) having involvement in the determination of product or service specifications, and (v) having credit risk. The PSS’ obligations under its client contracts for which revenues are reported using the gross method are separate and distinct from its obligations to the third party pharmacies included in its retail pharmacy network contracts. Pursuant to these contracts, the PSS is contractually required to pay the third party pharmacies in its retail pharmacy network for products sold, regardless of whether the PSS is paid by its clients. The PSS’ responsibilities under its client contracts typically include validating eligibility and coverage levels, communicating the prescription price and the co-payments due to the third party retail pharmacy, identifying possible adverse drug interactions for the pharmacist to address with the prescriber prior to dispensing, suggesting generic alternatives where clinically appropriate and approving the prescription for dispensing. Although the PSS does not have credit risk with respect to Retail Co-Payments or inventory risk related to retail network claims, management believes that all of the other applicable indicators of gross revenue reporting are present. For contracts under which the PSS acts as an agent, revenue is recognized using the net method.

Drug Discounts - The PSS deducts from its revenues any rebates, inclusive of discounts and fees, earned by its clients. Rebates are paid to clients in accordance with the terms of client contracts, which are normally based on fixed rebates per prescription for specific products dispensed or a percentage of manufacturer discounts received for specific products dispensed. The liability for rebates due to clients is included in “Claims and discounts payable” in the accompanying consolidated balance sheets.

Medicare Part D - The PSS, through its SilverScript subsidiary, participates in the federal government’s Medicare Part D program as a Prescription Drug Plan (“PDP”). Net revenues include insurance premiums earned by the PDP, which are determined based on the PDP’s annual bid and related contractual arrangements with the Centers for Medicare and Medicaid Services (“CMS”). The insurance premiums include a direct premium paid by CMS and a beneficiary premium, which is the responsibility of the PDP member, but which is subsidized by CMS in the case of low-income members. Premiums collected in advance are initially deferred in accrued expenses and are then recognized in net revenues over the period in which members are entitled to receive benefits.

In addition to these premiums, net revenues include co-payments, coverage gap benefits, deductibles and co-insurance (collectively, the “Member Co-Payments”) related to PDP members’ actual prescription claims. In certain cases, CMS subsidizes a portion of these Member Co-Payments and pays the PSS an estimated prospective Member Co-Payment subsidy amount each month. The prospective Member Co-Payment subsidy amounts received from CMS are also included in net revenues. SilverScript assumes no risk for these amounts. If the prospective Member Co-Payment subsidies received differ from the amounts based on actual prescription claims, the difference is recorded in either accounts receivable or accrued expenses.

Notes to Consolidated Financial Statements (continued)

The PSS accounts for CMS obligations and Member Co-Payments (including the amounts subsidized by CMS) using the gross method consistent with its revenue recognition policies for Mail Co-Payments and Retail Co-Payments (discussed previously in this document).

Retail/LTC Segment

Retail Pharmacy - The retail drugstores recognize revenue at the time the customer takes possession of the merchandise. Customer returns are not material. Revenue generated from the performance of services in the RLS' health care clinics is recognized at the time the services are performed. Sales taxes are not included in revenue.

Long-term Care - Revenue is recognized when products are delivered or services are rendered or provided to the customer, prices are fixed and determinable, and collection is reasonably assured. A significant portion of our revenues from sales of pharmaceutical and medical products are reimbursed by the federal Medicare Part D program and, to a lesser extent, state Medicaid programs. Payments for services rendered to patients covered by these programs are generally less than billed charges. The Company monitors its revenues and receivables from these reimbursement sources, as well as other third party insurance payors, and record an estimated contractual allowance for sales and receivable balances at the revenue recognition date, to properly account for anticipated differences between billed and reimbursed amounts. Accordingly, the total net sales and receivables reported in the Company's consolidated financial statements are recorded at the amount expected to be ultimately received from these payors. Since billing functions for a portion of the Company's revenue systems are largely computerized, enabling on-line adjudication at the time of sale to record net revenues, the Company's exposure in connection with estimating contractual allowance adjustments is limited primarily to unbilled and initially rejected Medicare, Medicaid and third party claims (typically approved for reimbursement once additional information is provided to the payor). For the remaining portion of the Company's revenue systems, the contractual allowance is estimated for all billed, unbilled and initially rejected Medicare, Medicaid and third party claims. The Company evaluates several criteria in developing the estimated contractual allowances on a monthly basis, including historical trends based on actual claims paid, current contract and reimbursement terms, and changes in customer base and payor/product mix. Contractual allowance estimates are adjusted to actual amounts as cash is received and claims are settled, and the aggregate impact of these resulting adjustments was not significant to our results of operations for any of the periods presented.

Patient co-payments associated with Medicare Part D, certain state Medicaid programs, Medicare Part B and certain third party payors are typically not collected at the time products are delivered or services are rendered, but are billed to the individuals as part of our normal billing procedures and subject to our normal accounts receivable collections procedures.

Health Care Clinics - For services provided by our health care clinics, revenue recognition occurs for completed services provided to patients, with adjustments taken for third party payor contractual obligations and patient direct bill historical collection rates.

Loyalty Program - The Company's customer loyalty program, ExtraCare[®], is comprised of two components, ExtraSavings[™] and ExtraBucks[®] Rewards. ExtraSavings coupons redeemed by customers are recorded as a reduction of revenues when redeemed. ExtraBucks Rewards are accrued as a charge to cost of revenues when earned, net of estimated breakage. The Company determines breakage based on historical redemption patterns.

See Note 13 for additional information about the revenues of the Company's business segments.

Cost of revenues

Pharmacy Services Segment - The PSS' cost of revenues includes: (i) the cost of prescription drugs sold during the reporting period directly through its mail service dispensing pharmacies and indirectly through its retail pharmacy network, (ii) shipping and handling costs, and (iii) the operating costs of its mail service dispensing pharmacies and client service operations and related information technology support costs including depreciation and amortization. The cost of prescription drugs sold component of cost of revenues includes: (i) the cost of the prescription drugs purchased from manufacturers or distributors and shipped to members in clients' benefit plans from the PSS' mail service dispensing pharmacies, net of any volume-related or other discounts (see "Vendor allowances and purchase discounts" below) and (ii) the cost of prescription drugs sold (including Retail Co-Payments) through the PSS' retail pharmacy network under contracts where it is the principal, net of any volume-related or other discounts.

Retail/LTC Segment - The RLS' cost of revenues includes: the cost of merchandise sold during the reporting period and the related purchasing costs, warehousing and delivery costs (including depreciation and amortization) and actual and estimated inventory losses.

Notes to Consolidated Financial Statements (continued)

See Note 13 for additional information about the cost of revenues of the Company's business segments.

Vendor allowances and purchase discounts

The Company accounts for vendor allowances and purchase discounts as follows:

Pharmacy Services Segment - The PSS receives purchase discounts on products purchased. The PSS' contractual arrangements with vendors, including manufacturers, wholesalers and retail pharmacies, normally provide for the PSS to receive purchase discounts from established list prices in one, or a combination, of the following forms: (i) a direct discount at the time of purchase, (ii) a discount for the prompt payment of invoices, or (iii) when products are purchased indirectly from a manufacturer (e.g., through a wholesaler or retail pharmacy), a discount (or rebate) paid subsequent to dispensing. These rebates are recognized when prescriptions are dispensed and are generally calculated and billed to manufacturers within 30 days of the end of each completed quarter. Historically, the effect of adjustments resulting from the reconciliation of rebates recognized to the amounts billed and collected has not been material to the PSS' results of operations. The PSS accounts for the effect of any such differences as a change in accounting estimate in the period the reconciliation is completed. The PSS also receives additional discounts under its wholesaler contracts if it exceeds contractually defined annual purchase volumes. In addition, the PSS receives fees from pharmaceutical manufacturers for administrative services. Purchase discounts and administrative service fees are recorded as a reduction of "Cost of revenues".

Retail/LTC Segment - Vendor allowances received by the RLS reduce the carrying cost of inventory and are recognized in cost of revenues when the related inventory is sold, unless they are specifically identified as a reimbursement of incremental costs for promotional programs and/or other services provided. Amounts that are directly linked to advertising commitments are recognized as a reduction of advertising expense (included in operating expenses) when the related advertising commitment is satisfied. Any such allowances received in excess of the actual cost incurred also reduce the carrying cost of inventory. The total value of any upfront payments received from vendors that are linked to purchase commitments is initially deferred. The deferred amounts are then amortized to reduce cost of revenues over the life of the contract based upon purchase volume. The total value of any upfront payments received from vendors that are not linked to purchase commitments is also initially deferred. The deferred amounts are then amortized to reduce cost of revenues on a straight-line basis over the life of the related contract. The total amortization of these upfront payments was not material to the accompanying consolidated financial statements.

Insurance - The Company is self-insured for certain losses related to general liability, workers' compensation and auto liability. The Company obtains third party insurance coverage to limit exposure from these claims. The Company is also self-insured for certain losses related to health and medical liabilities. The Company's self-insurance accruals, which include reported claims and claims incurred but not reported, are calculated using standard insurance industry actuarial assumptions and the Company's historical claims experience.

Facility opening and closing costs - New facility opening costs, other than capital expenditures, are charged directly to expense when incurred. When the Company closes a facility, the present value of estimated unrecoverable costs, including the remaining lease obligation less estimated sublease income and the book value of abandoned property and equipment, are charged to expense. The long-term portion of the lease obligations associated with facility closings was \$217 million and \$207 million in 2015 and 2014, respectively.

Advertising costs - Advertising costs are expensed when the related advertising takes place. Advertising costs, net of vendor funding (included in operating expenses), were \$221 million, \$212 million and \$177 million in 2015, 2014 and 2013, respectively.

Interest expense, net - Interest expense, net of capitalized interest, was \$859 million, \$615 million and \$517 million, and interest income was \$21 million, \$15 million and \$8 million in 2015, 2014 and 2013, respectively. Capitalized interest totaled \$12 million, \$19 million and \$25 million in 2015, 2014 and 2013, respectively.

Shares held in trust - The Company maintains grantor trusts, which held approximately 1 million shares of its common stock at December 31, 2015 and 2014, respectively. These shares are designated for use under various employee compensation plans. Since the Company holds these shares, they are excluded from the computation of basic and diluted shares outstanding.

Accumulated other comprehensive income - Accumulated other comprehensive income (loss) consists of changes in the net actuarial gains and losses associated with pension and other postretirement benefit plans, losses on derivatives from cash flow hedges executed in previous years associated with the issuance of long-term debt, and foreign currency translation adjustments.

Notes to Consolidated Financial Statements (continued)

The amount included in accumulated other comprehensive loss related to the Company's pension and postretirement plans was \$305 million pre-tax (\$186 million after-tax) as of December 31, 2015 and \$234 million pre-tax (\$143 million after-tax) as of December 31, 2014. The net impact on cash flow hedges totaled \$14 million pre-tax (\$7 million after-tax) and \$16 million pre-tax (\$9 million after-tax) as of December 31, 2015 and 2014, respectively. Cumulative foreign currency translation adjustments at December 31, 2015 and 2014 were \$165 million and \$65 million , respectively.

Changes in accumulated other comprehensive income (loss) by component are shown below:

<i>In millions</i>	Year Ended December 31, 2015 ⁽¹⁾			
	Foreign Currency	Losses on Cash Flow Hedges	Pension and Other Postretirement Benefits	Total
Balance, December 31, 2014	\$ (65)	\$ (9)	\$ (143)	\$ (217)
Other comprehensive income (loss) before reclassifications	(100)	—	(56)	(156)
Amounts reclassified from accumulated other comprehensive income ⁽²⁾	—	2	13	15
Net other comprehensive income (loss)	(100)	2	(43)	(141)
Balance, December 31, 2015	\$ (165)	\$ (7)	\$ (186)	\$ (358)

	Year Ended December 31, 2014 ⁽¹⁾			
	Foreign Currency	Losses on Cash Flow Hedges	Pension and Other Postretirement Benefits	Total
Balance, December 31, 2013	\$ (30)	\$ (13)	\$ (106)	\$ (149)
Other comprehensive income (loss) before reclassifications	(35)	—	—	(35)
Amounts reclassified from accumulated other comprehensive income ⁽²⁾	—	4	(37)	(33)
Net other comprehensive income (loss)	(35)	4	(37)	(68)
Balance, December 31, 2014	\$ (65)	\$ (9)	\$ (143)	\$ (217)

(1) All amounts are net of tax.

(2) The amounts reclassified from accumulated other comprehensive income for cash flow hedges are recorded within interest expense, net on the consolidated statement of income. The amounts reclassified from accumulated other comprehensive income for pension and other postretirement benefits are included in operating expenses on the consolidated statement of income.

Stock-based compensation - Stock-based compensation is measured at the grant date based on the fair value of the award and is recognized as expense over the applicable requisite service period of the stock award (generally 3 to 5 years) using the straight-line method.

Variable Interest Entity - In July 2014, the Company and Cardinal Health, Inc. ("Cardinal") established Red Oak Sourcing, LLC ("Red Oak"), a generic pharmaceutical sourcing entity in which the Company and Cardinal each own 50% . The Red Oak arrangement has an initial term of ten years . Under this arrangement, the Company and Cardinal contributed their sourcing and supply chain expertise to Red Oak and agreed to source and negotiate generic pharmaceutical supply contracts for both companies through Red Oak; however, Red Oak does not own or hold inventory on behalf of either company. No physical assets (e.g., property and equipment) were contributed to Red Oak by either company and minimal funding was provided to capitalize Red Oak.

The Company has determined that it is the primary beneficiary of this variable interest entity because it has the ability to direct the activities of Red Oak. Consequently, the Company consolidates Red Oak in its consolidated financial statements within the Retail/LTC Segment.

Cardinal is required to pay the Company 39 quarterly payments beginning in October 2014. As milestones are met, the quarterly payments increase. The Company received approximately \$122 million and \$26 million from Cardinal during the years ended December 31, 2015 and 2014, respectively. The payments reduce the Company's carrying value of inventory and are recognized in cost of revenues when the related inventory is sold. Revenues associated with Red Oak expenses reimbursed

Notes to Consolidated Financial Statements (continued)

by Cardinal for the years ended December 31, 2015 and 2014, as well as amounts due to or due from Cardinal at December 31, 2015 and 2014 were immaterial.

Related party transactions - The Company has an equity method investment in SureScripts, LLC (“SureScripts”), which operates a clinical health information network. The Pharmacy Services and Retail/LTC segments utilize this clinical health information network in providing services to its client plan members and retail customers. The Company expensed fees of approximately \$50 million in the years ended December 2015 and 2014, and \$48 million in the year ended December 31, 2013, for the use of this network. The Company’s investment in and equity in earnings of SureScripts for all periods presented is immaterial.

In connection with the acquisition of Omnicare in August 2015, the Company obtained an equity method investment in Heartland Healthcare Services (“Heartland”). Heartland operates several long-term care pharmacies in four states. Heartland paid the Company approximately \$25 million for pharmaceutical inventory purchases during the period from August 18, 2015 to December 31, 2015. Additionally, the Company performs certain collection functions for Heartland and then passes those customer cash collections to Heartland. The Company’s investment in and equity in earnings of Heartland as of and for the year ended December 31, 2015 is immaterial.

In September 2014, the Company made a charitable contribution of \$25 million to the CVS Foundation (formerly CVS Caremark Charitable Trust, Inc.) (the “Foundation”) to fund future giving. The Foundation is a non-profit entity that focuses on health, education and community involvement programs. The charitable contribution was recorded as an operating expense in the consolidated statement of income for the year ended December 31, 2014.

Income taxes - The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the consolidated financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in the tax rates on deferred tax asset and liabilities is recognized in income in the period that includes the enactment date.

The Company recognizes net deferred tax assets to the extent that it believes these assets are more likely than not to be realized in making such a determination. The Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies, and results of recent operations. To the extent that the Company does not consider it more likely than not that a deferred tax asset will be recovered, a valuation allowance is established.

The Company records uncertain tax positions on the basis of a two-step process whereby (1) the Company determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50% likely to be realized upon ultimate settlement with the related tax authority.

Interest and/or penalties related to uncertain tax positions are recognized in income tax expense.

Discontinued Operations - In connection with certain business dispositions completed between 1991 and 1997, the Company retained guarantees on store lease obligations for a number of former subsidiaries, including Linens ‘n Things which filed for bankruptcy in 2008. The Company's income from discontinued operations in 2015 of \$9 million, net of tax, was related to the release of certain store lease guarantees due to a settlement with a landlord. The Company's loss from discontinued operations includes lease-related costs which the Company believes it will likely be required to satisfy pursuant to its Linens ‘n Things lease guarantees.

Below is a summary of the results of discontinued operations for the years ended December 31:

<i>In millions</i>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Income from discontinued operations	\$ 15	\$ (1)	\$ (12)
Income tax expense	(6)	—	4
Income from discontinued operations, net of tax	<u>\$ 9</u>	<u>\$ (1)</u>	<u>\$ (8)</u>

Notes to Consolidated Financial Statements (continued)

Earnings per common share - Earnings per share is computed using the two-class method. Options to purchase 2.7 million, 2.1 million and 6.2 million shares of common stock were outstanding as of December 31, 2015, 2014 and 2013, respectively, but were not included in the calculation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

New Accounting Pronouncement - In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU No. 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new guidance is expected to be effective for annual reporting periods (including interim reporting periods within those periods) beginning January 1, 2018; early adoption in 2017 is permitted. Companies have the option of using either a full retrospective or a modified retrospective approach to adopt the guidance. This update could impact the timing and amounts of revenue recognized. The Company is currently evaluating the effect that implementation of this update will have on its consolidated financial position and results of operations upon adoption, as well as the method of transition and required disclosures.

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (Topic 835-30). ASU No. 2015-03 requires the presentation of debt issuance costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of such costs are required to be reported as interest expense, which is consistent with the Company's current policy. This change conforms the presentation of debt issuance costs with that of debt discounts. The ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2015; early adoption is permitted. The guidance is required to be applied retrospectively to all prior periods. The Company has early adopted this standard as of June 30, 2015. The effect of the adoption of ASU 2015-03 on the Company's consolidated balance sheet is a reduction of noncurrent assets and long-term debt of \$65 million as of December 31, 2014. The following is a reconciliation of the effect of this reclassification on the Company's consolidated balance sheet as of December 31, 2014:

<i>In millions</i>	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>As Revised</u>
Other assets	\$ 1,510	\$ (65)	\$ 1,445
Total assets	74,252	(65)	74,187
Long-term debt	11,695	(65)	11,630
Total liabilities and shareholders' equity	74,252	(65)	74,187

In September 2015, the FASB issued ASU No. 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*. ASU No. 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period after an acquisition within the reporting period they are determined. This is a change from the previous requirement that the adjustments be recorded retrospectively. The ASU also requires disclosure of the effect on earnings of changes in depreciation, amortization or other income effects, if any, as a result of the adjustment to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2015; early adoption is permitted. The Company has early adopted the ASU as of September 30, 2015. The adoption did not have a material effect on the Company's consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740)*. ASU No. 2015-17 simplifies the presentation of deferred income taxes by requiring that deferred tax assets and liabilities be classified as non-current in the statement of financial position. This ASU may be applied either prospectively to all deferred tax assets and liabilities, or retrospectively to all periods presented for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. The change will require additional disclosure based on the method of adoption. Had the Company adopted this ASU, current deferred income taxes, total current assets, total assets and total liabilities would have been approximately \$1.2 billion and \$1.0 billion lower as of December 31, 2015 and 2014, respectively.

2 Changes in Accounting Principle

Effective January 1, 2015, the Company changed its methods of accounting for "front store" inventories in the Retail/LTC Segment. Prior to 2015, the Company valued front store inventories at the lower of cost or market on a first-in, first-out ("FIFO") basis in retail stores using the retail inventory method and in distribution centers using the FIFO cost method. Effective January 1, 2015, all front store inventories in the Retail/LTC Segment have been valued at the lower of cost or market using the weighted average cost method. These changes affected approximately 36% of consolidated inventories.

Notes to Consolidated Financial Statements (continued)

These changes were made primarily to provide the Company with better information to manage its retail front store operations and to bring all of the Company's inventories to a common inventory valuation methodology. The Company believes the weighted average cost method is preferable to the retail inventory method and the FIFO cost method because it results in greater precision in the determination of cost of revenues and inventories at the stock keeping unit ("SKU") level and results in a consistent inventory valuation method for all of the Company's inventories as all of the Company's remaining inventories, which consist of prescription drugs, were already being valued using the weighted average cost method.

The Company recorded the cumulative effect of these changes in accounting principle as of January 1, 2015. The Company determined that retrospective application for periods prior to 2015 is impracticable, as the period-specific information necessary to value front store inventories in the Retail/LTC Segment under the weighted average cost method is unavailable. The Company implemented a new perpetual inventory system to manage front store inventory at the SKU level and valued front store inventory as of January 1, 2015 and calculated the cumulative impact. The effect of these changes in accounting principle as of January 1, 2015, was a decrease in inventories of \$7 million, an increase in current deferred income tax assets of \$3 million and a decrease in retained earnings of \$4 million.

Had the Company not made these changes in accounting principle, for the year ended December 31, 2015, income from continuing operations would have been lower by \$27 million. Basic and diluted earnings per share from continuing operations attributable to CVS Health would have been approximately \$0.02 per share lower for the year ended December 31, 2015.

3 Acquisitions

Omnicare Acquisition

On August 18, 2015, the Company acquired 100% of the outstanding common shares and voting interests of Omnicare, for \$98 per share for a total of \$9.6 billion and assumed long-term debt with a fair value of approximately \$3.1 billion. Additionally, holders of Omnicare restricted stock units and performance based restricted stock units received 738,765 CVS Health Corporation restricted stock awards with a fair value of approximately \$80 million as replacement awards. Omnicare is a leading health care services company that specializes in the management of complex pharmaceutical care. Omnicare's long-term care ("LTC") business is the nation's largest provider of pharmaceuticals, related pharmacy consulting and other ancillary services to chronic care facilities and other care settings. In addition, Omnicare has a specialty pharmacy business operating primarily under the name of Advanced Care Scripts, and provides commercialization services under the name of RxCrossroads[®]. The Company is including LTC and the commercialization services in its former Retail Pharmacy Segment, which has been renamed the "Retail/LTC Segment," and will include the specialty pharmacy business in its Pharmacy Services Segment. The Company acquired Omnicare to expand its operations in dispensing prescription drugs to assisted-living and long-term care facilities, and to broaden its presence in the specialty pharmacy business as the Company seeks to serve a greater percentage of the growing senior patient population in the United States.

The fair value of the consideration transferred on the date of acquisition consisted of the following:

(in millions)

Cash paid to Omnicare shareholders	\$ 9,636
Fair value of replacement equity awards issued to Omnicare employees for precombination services	9
Total consideration	<u>\$ 9,645</u>

Notes to Consolidated Financial Statements (continued)

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

(in millions)

Current assets (including cash of \$298)	\$	1,657
Property and equipment		313
Goodwill		9,090
Intangible assets		3,962
Other noncurrent assets		64
Current liabilities		(705)
Long-term debt		(3,110)
Deferred income tax liabilities		(1,518)
Other noncurrent liabilities		(69)
Redeemable noncontrolling interest	\$	(39)
Total consideration	\$	<u>9,645</u>

The assessment of fair value is preliminary and is based on information that was available to management at the time the condensed consolidated financial statements were prepared. Accordingly, such amounts may change. The most significant open items included the accounting for deferred income taxes and contingencies as management is awaiting additional information to complete its assessment of these matters. The goodwill represents future economic benefits expected to arise from the Company's expanded presence in the pharmaceutical care market, the assembled workforce acquired, expected purchasing and revenue synergies, as well as operating efficiencies and cost savings. Goodwill of \$8.6 billion was allocated to the Retail/LTC Segment and the remaining goodwill of \$0.5 billion was allocated to the Pharmacy Services Segment. Approximately \$0.4 billion of the goodwill is deductible for income tax purposes. Intangible assets acquired include customer relationships and trade names of \$3.9 billion and \$74 million, respectively, with estimated weighted average useful lives of 19.1 and 2.9 years, respectively, and 18.8 years in total.

The fair value of trade accounts receivable acquired is \$600 million, with the gross contractual amount being \$857 million. The Company expects \$257 million of trade accounts receivable to be uncollectible. The fair value of other receivables acquired is \$147 million, with the gross contractual amount being \$161 million. The Company expects \$14 million of other receivables to be uncollectible.

During the year ended December 31, 2015, the Company incurred transaction costs of \$70 million associated with the acquisition of Omnicare that were recorded within operating expenses.

The Company's consolidated results of operations for the year ended December 31, 2015, include \$2.6 billion of net revenues and net income of \$61 million associated with the operating results of Omnicare from August 18, 2015 to December 31, 2015. These Omnicare operating results include severance costs and accelerated stock-based compensation.

The following unaudited pro forma information presents a summary of the Company's combined results of operations for the year ended December 31, 2015 and 2014 as if the Omnicare acquisition and the related financing transactions had occurred on January 1, 2014. The following pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transactions been effected on the assumed date, nor is it necessarily an indication of trends in future results for a number of reasons, including, but not limited to, differences between the assumptions used to prepare the pro forma information, basic shares outstanding and dilutive equivalents, cost savings from operating efficiencies, potential synergies, and the impact of incremental costs incurred in integrating the businesses.

<i>(in millions, except per share data)</i>	Year Ended December 31,	
	2015	2014
Total revenues	\$ 156,798	\$ 144,836
Income from continuing operations	5,277	4,522
Basic earnings per share from continuing operations	\$ 4.70	\$ 3.88
Diluted earnings per share from continuing operations	\$ 4.66	\$ 3.85

Notes to Consolidated Financial Statements (continued)

Pro forma income from continuing operations for the year ended December 31, 2015, excludes \$135 million related to severance costs, accelerated stock-based compensation and transaction costs incurred in connection with the Omnicare acquisition. Pro forma income from continuing operations for the year ended December 31, 2014, includes a \$521 million loss on the early extinguishment of debt recorded by CVS Health.

Target Pharmacy Acquisition

On December 16, 2015, the Company acquired the pharmacy and clinic businesses of Target for approximately \$1.9 billion, plus contingent consideration of up to \$50 million based on future prescription growth over a three year period. The purchase price is also subject to adjustment based on the value of inventory at the closing date. The Company acquired Target's 1,672 pharmacies which operate in 47 states and will operate them through a store-within-a-store format, branded as CVS Pharmacy. The Company also acquired 79 Target clinic locations which will be rebranded as MinuteClinic. The Company acquired the Target pharmacy and clinic businesses primarily to expand the geographic reach of its retail pharmacy business.

The estimated fair values of the assets acquired at the date of acquisition were approximately as follows:

<i>In millions</i>	
Accounts receivable	\$ 2
Inventories	472
Property and equipment	9
Intangible assets	490
Goodwill	916
Total cash consideration	<u>\$ 1,889</u>

The assessment of fair value is preliminary and is based on information that was available to management at the time the consolidated financial statements were prepared. Accordingly, such amounts may change. As of December 31, 2015, the most significant open item was the inventory related purchase price adjustment. Intangible assets acquired include customer relationships with an estimated useful life of 13 years. The goodwill represents future economic benefits expected to arise from the Company's expanded geographic presence in the retail pharmacy market, the assembled workforce acquired, expected purchasing and revenue synergies, as well as operating efficiencies and cost savings. The goodwill is deductible for income tax purposes. No liability for any potential contingent consideration has been recorded based on current projections for future prescription growth over the relevant period.

In January 2016, the Company received approximately \$21 million from Target as final settlement of the inventory valuation. This amount will be recorded as a reduction of the purchase price in the first quarter of 2016.

In connection with the closing of the transaction, the Company and Target entered into pharmacy and clinic operating and master lease agreements. See Note 7 of the consolidated financial statements for disclosures of the Company's leasing arrangements.

During the year ended December 31, 2015, the Company incurred transaction costs of approximately \$26 million associated with the acquisition that were recorded within operating expenses. The results of the Target pharmacies and clinics are included in the Company's Retail/LTC Segment beginning on December 16, 2015. Pro forma financial information for this acquisition is not presented as such results are immaterial to the Company's consolidated financial statements.

Coram Acquisition

On January 16, 2014, the Company acquired 100% of the voting interests of Coram LLC and its subsidiaries (collectively, "Coram"), the specialty infusion services and enteral nutrition business unit of Apria Healthcare Group Inc. ("Apria"), for cash consideration of approximately \$2.1 billion, plus contingent consideration of approximately \$0.1 billion. The purchase price was also subject to a working capital adjustment, which resulted in the Company receiving \$9 million from Apria. Coram is one of the nation's largest providers of comprehensive infusion services, caring for approximately 240,000 patients annually. Coram has approximately 4,600 employees, including approximately 600 nurses and 250 dietitians, operating primarily through 83 branch locations and six centers of excellence for patient intake.

Notes to Consolidated Financial Statements (continued)

The contingent consideration is based on the Company's future realization of Coram's tax net operating loss carryforwards ("NOLs") as of the date of the acquisition. The Company will pay the seller the first \$60 million in tax savings realized from the future utilization of the Coram NOLs, plus 50% of any additional future tax savings from the remaining NOLs. The fair value of the contingent consideration liability associated with the future realization of the Coram NOLs was determined using Level 3 inputs based on the present value of contingent payments expected to be made based on the Company's estimate of the amount and timing of Coram NOLs that will ultimately be realized. The change in fair value of the contingent consideration liability recognized in earnings for the year ended December 31, 2014 was immaterial and for the year ended December 31, 2015 was approximately \$4 million. During the year ended December 31, 2015, the Company made contingent consideration payments to Apria of approximately \$58 million.

The Company recognized approximately \$1.6 billion of goodwill in connection with the acquisition. The goodwill represents future economic benefits expected to arise from the Company's expanded presence in the specialty pharmaceuticals market, the assembled workforce acquired, and the expected synergies from combining operations with Coram. The goodwill is nondeductible for income tax purposes.

Coram's results of operations are included in the Company's PSS beginning on January 16, 2014. Pro forma information for this acquisition is not presented as Coram's results are immaterial to the Company's consolidated financial statements. During the year ended December 31, 2014, acquisition costs of \$15 million were expensed as incurred within operating expenses.

4 Goodwill and Other Intangibles

Goodwill and other indefinitely-lived assets are not amortized, but are subject to annual impairment reviews, or more frequent reviews if events or circumstances indicate an impairment may exist.

When evaluating goodwill for potential impairment, the Company first compares the fair value of its reporting units to their respective carrying amounts. The Company estimates the fair value of its reporting units using a combination of a future discounted cash flow valuation model and a comparable market transaction model. If the estimated fair value of the reporting unit is less than its carrying amount, an impairment loss calculation is prepared. The impairment loss calculation compares the implied fair value of a reporting unit's goodwill with the carrying amount of its goodwill. If the carrying amount of the goodwill exceeds the implied fair value, an impairment loss is recognized in an amount equal to the excess. During the third quarter of 2015, the Company performed its required annual goodwill impairment tests. The Company concluded there were no goodwill impairments as of the testing date.

Below is a summary of the changes in the carrying amount of goodwill by segment for the years ended December 31, 2015 and 2014:

<i>In millions</i>	Pharmacy Services	Retail/LTC	Total
Balance, December 31, 2013	\$ 19,658	\$ 6,884	\$ 26,542
Acquisitions	1,578	38	1,616
Foreign currency translation adjustments	—	(14)	(14)
Other ⁽¹⁾	(2)	—	(2)
Balance, December 31, 2014	21,234	6,908	28,142
Acquisitions	452	9,554	10,006
Foreign currency translation adjustments	—	(40)	(40)
Other ⁽¹⁾	(1)	(1)	(2)
Balance, December 31, 2015	<u>\$ 21,685</u>	<u>\$ 16,421</u>	<u>\$ 38,106</u>

(1) "Other" represents immaterial purchase accounting adjustments for acquisitions.

Indefinitely-lived intangible assets are tested for impairment by comparing the estimated fair value of the asset to its carrying value. The Company estimates the fair value of its indefinitely-lived trademark using the relief from royalty method under the income approach. If the carrying value of the asset exceeds its estimated fair value, an impairment loss is recognized and the asset is written down to its estimated fair value. During the third quarter of 2015, the Company performed its annual impairment test of the indefinitely-lived trademark and concluded there was no impairment as of the testing date. The carrying amount of its indefinitely-lived trademark was \$6.4 billion as of December 31, 2015 and 2014.

Notes to Consolidated Financial Statements (continued)

The Company amortizes intangible assets with finite lives over the estimated useful lives of the respective assets, which have a weighted average useful life of 15.5 years. The weighted average useful lives of the Company's customer contracts and relationships and covenants not to compete are 15.5 years. The weighted average lives of the Company's favorable leases and other intangible assets are 15.6 years. Amortization expense for intangible assets totaled \$611 million, \$518 million and \$494 million in 2015, 2014 and 2013, respectively. The anticipated annual amortization expense for these intangible assets for the next five years is as follows:

<u>In millions</u>		
2016	\$	760
2017		735
2018		705
2019		662
2020		490

The following table is a summary of the Company's intangible assets as of December 31:

<u>In millions</u>	2015			2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademark (indefinitely-lived)	\$ 6,398	\$ —	\$ 6,398	\$ 6,398	\$ —	\$ 6,398
Customer contracts and relationships and covenants not to compete	10,594	(4,092)	6,502	6,521	(3,549)	2,972
Favorable leases and other	1,595	(617)	978	880	(476)	404
	\$ 18,587	\$ (4,709)	\$ 13,878	\$ 13,799	\$ (4,025)	\$ 9,774

5 Share Repurchase Programs

The following share repurchase programs were authorized by the Company's Board of Directors:

<u>In billions</u>		<u>Authorized</u>	<u>Remaining</u>
<u>Authorization Date</u>			
December 15, 2014 ("2014 Repurchase Program")	\$	10.0	\$ 7.7
December 17, 2013 ("2013 Repurchase Program")	\$	6.0	\$ —
September 19, 2012 ("2012 Repurchase Program")	\$	6.0	\$ —

The share Repurchase Programs, each of which was effective immediately, permit the Company to effect repurchases from time to time through a combination of open market repurchases, privately negotiated transactions, accelerated share repurchase ("ASR") transactions, and/or other derivative transactions. The 2014 Repurchase Program may be modified or terminated by the Board of Directors at any time. The 2013 and 2012 Repurchase Programs have been completed, as described below.

Pursuant to the authorization under the 2014 Repurchase Program, effective December 11, 2015, the Company entered into a \$725 million fixed dollar ASR with Barclays Bank PLC ("Barclays"). Upon payment of the \$725 million purchase price on December 14, 2015, the Company received a number of shares of its common stock equal to 80% of the \$725 million notional amount of the ASR or approximately 6.2 million shares. At the conclusion of the ASR program, the Company may receive additional shares equal to the remaining 20% of the \$725 million notional amount. The initial 6.2 million shares of common stock delivered to the Company by Barclays were placed into treasury stock in December 2015. The ASR was accounted for as an initial treasury stock transaction for \$580 million and a forward contract for \$145 million. The forward contract was classified as an equity instrument and was recorded within capital surplus on the consolidated balance sheet. On January 28, 2016, the Company received 1.4 million shares of common stock, representing the remaining 20% of the \$725 million notional amount of the ASR, thereby concluding the ASR. The remaining 1.4 million shares of common stock delivered to the Company by Barclays were placed into treasury stock in January 2016 and the forward contract was reclassified from capital surplus to treasury stock.

Pursuant to the authorization under the 2013 Repurchase Programs, effective January 2, 2015, the Company entered into a \$2.0 billion fixed dollar ASR agreement with J.P. Morgan Chase Bank ("JP Morgan"). Upon payment of the \$2.0 billion purchase

Notes to Consolidated Financial Statements (continued)

price on January 5, 2015, the Company received a number of shares of its common stock equal to 80% of the \$2.0 billion notional amount of the ASR agreement or approximately 16.8 million shares, which were placed into treasury stock in January 2015. On May 1, 2015, the Company received approximately 3.1 million shares of common stock, representing the remaining 20% of the \$2.0 billion notional amount of the ASR, thereby concluding the ASR. The remaining 3.1 million shares of common stock delivered to the Company by JP Morgan were placed into treasury stock in May 2015. The ASR was accounted for as an initial treasury stock transaction for \$1.6 billion and a forward contract for \$0.4 billion. The forward contract was classified as an equity instrument and was initially recorded within capital surplus on the consolidated balance sheet and was reclassified to treasury stock upon the settlement of the ASR in May 2015.

Pursuant to the authorization under the 2012 Repurchase Program, effective October 1, 2013, the Company entered into a \$1.7 billion fixed dollar ASR agreement with Barclays. Upon payment of the \$1.7 billion purchase price on October 1, 2013, the Company received a number of shares of its common stock equal to 50% of the \$1.7 billion notional amount of the ASR agreement or approximately 14.9 million shares at a price of \$56.88 per share. The Company received approximately 11.7 million shares of common stock on December 30, 2013 at an average price of \$63.83 per share, representing the remaining 50% of the \$1.7 billion notional amount of the ASR agreement and thereby concluding the agreement. The total of 26.6 million shares of common stock delivered to the Company by Barclays over the term of the October 2013 ASR agreement were placed into treasury stock. The ASR was accounted for as an initial treasury stock transaction and a forward contract. The forward contract was classified as an equity instrument.

Each of the ASR transactions described above, the initial repurchase of the shares and delivery of the remainder of the shares to conclude each ASR, resulted in an immediate reduction of the outstanding shares used to calculate the weighted average common shares outstanding for basic and diluted earnings per share.

During the year ended December 31, 2015, the Company repurchased an aggregate of 48.0 million shares of common stock for approximately \$5.0 billion under the 2013 and 2014 Repurchase Programs. As of December 31, 2015, there remained an aggregate of approximately \$7.7 billion available for future repurchases under the 2014 Repurchase Program and the 2013 Repurchase Program was complete.

During the year ended December 31, 2014, the Company repurchased an aggregate of 51.4 million shares of common stock for approximately \$4.0 billion under the 2013 and 2012 Repurchase Programs. As of December 31, 2014, there remained an aggregate of approximately \$12.7 billion available for future repurchases under the 2014 and 2013 Repurchase Programs. As of December 31, 2014, the 2012 Repurchase Program was complete.

During the year ended December 31, 2013, the Company repurchased an aggregate of 66.2 million shares of common stock for approximately \$4.0 billion under the 2012 Repurchase Program, which includes shares received from the October 2013 ASR agreement described above. As of December 31, 2013, there remained an aggregate of approximately \$6.7 billion available for future repurchases under the 2013 and 2012 Repurchase Programs.

Notes to Consolidated Financial Statements (continued)

6 Borrowings and Credit Agreements

The following table is a summary of the Company's borrowings as of December 31:

<i><u>In millions</u></i>	<u>2015</u>	<u>2014</u>
Commercial paper	\$ —	\$ 685
3.25% senior notes due 2015	—	550
1.2% senior notes due 2016	750	750
6.125% senior notes due 2016	421	421
5.75% senior notes due 2017	1,080	1,080
1.9% senior notes due 2018	2,250	—
2.25% senior notes due 2018	1,250	1,250
2.25% senior notes due 2019	850	850
6.6% senior notes due 2019	394	394
2.8% senior notes due 2020	2,750	—
4.75% senior notes due 2020	450	450
4.125% senior notes due 2021	550	550
2.75% senior notes due 2022	1,250	1,250
3.5% senior notes due 2022	1,500	—
4.75% senior notes due 2022	400	—
4% senior notes due 2023	1,250	1,250
3.375% senior notes due 2024	650	650
5% senior notes due 2024	300	—
3.875% senior notes due 2025	3,000	—
6.25% senior notes due 2027	453	453
3.25% senior exchange debentures due 2035	5	—
4.875% senior notes due 2035	2,000	—
6.125% senior notes due 2039	734	734
5.75% senior notes due 2041	493	493
5.3% senior notes due 2043	750	750
5.125% senior notes due 2045	3,500	—
Capital lease obligations	644	391
Other	20	41
Total debt principal	<u>27,694</u>	<u>12,992</u>
Debt premiums	39	—
Debt discounts and deferred financing costs	(269)	(102)
	<u>27,464</u>	<u>12,890</u>
Less:		
Short-term debt (commercial paper)	—	(685)
Current portion of long-term debt	(1,197)	(575)
Long-term debt	<u>\$ 26,267</u>	<u>\$ 11,630</u>

The Company did not have any commercial paper outstanding as of December 31, 2015. In connection with its commercial paper program, the Company maintains a \$1.0 billion, five-year unsecured back-up credit facility, which expires on May 23, 2018, a \$1.25 billion, five-year unsecured back-up credit facility, which expires on July 24, 2019, and a \$1.25 billion, five-year unsecured back-up credit facility, which expires on July 1, 2020. The credit facilities allow for borrowings at various rates that are dependent, in part, on the Company's public debt ratings and require the Company to pay a weighted average quarterly facility fee of approximately 0.03%, regardless of usage. As of December 31, 2015, there were no borrowings outstanding under the back-up credit facilities. The weighted average interest rate for short-term debt outstanding as of December 31, 2014 was 0.36%.

Notes to Consolidated Financial Statements (continued)

On May 20, 2015, in connection with the acquisition of Omnicare, the Company entered into a \$13 billion unsecured bridge loan facility. The Company paid approximately \$52 million in fees in connection with the facility. The fees were capitalized and amortized as interest expense over the period the bridge facility was outstanding. The bridge loan facility expired on July 20, 2015 upon the Company's issuance of unsecured senior notes with an aggregate principal of \$15 billion as discussed below. The bridge loan facility fees became fully amortized in July 2015.

On July 20, 2015, the Company issued an aggregate of \$2.25 billion of 1.9% unsecured senior notes due 2018 ("2018 Notes"), an aggregate of \$2.75 billion of 2.8% unsecured senior notes due 2020 ("2020 Notes"), an aggregate of \$1.5 billion of 3.5% unsecured senior notes due 2022 ("2022 Notes"), an aggregate of \$3 billion of 3.875% unsecured senior notes due 2025 ("2025 Notes"), an aggregate of \$2 billion of 4.875% unsecured senior notes due 2035 ("2035 Notes"), and an aggregate of \$3.5 billion of 5.125% unsecured senior notes due 2045 ("2045 Notes" and, together with the 2018 Notes, 2020 Notes, 2022 Notes, 2025 Notes and 2035 Notes, the "Notes") for total proceeds of approximately \$14.8 billion, net of discounts and underwriting fees. The Notes pay interest semi-annually and contain redemption terms which allow or require the Company to redeem the Notes at a defined redemption price plus accrued and unpaid interest at the redemption date. The net proceeds of the Notes were used to fund the Omnicare acquisition and the acquisition of the pharmacies and clinics of Target. The remaining proceeds were used for general corporate purposes.

Upon the closing of the Omnicare acquisition in August 2015, the Company assumed the long-term debt of Omnicare that had a fair value of approximately \$3.1 billion, \$2.0 billion of which was previously convertible into Omnicare shares that holders were able to redeem subsequent to the acquisition. During the period from August 18, 2015 to December 31, 2015, all but \$5 million of the \$2.0 billion of previously convertible debt was redeemed and repaid and approximately \$0.4 billion in Omnicare term debt assumed was repaid for total repayments of Omnicare debt of approximately \$2.4 billion in 2015.

The remaining principal of the Omnicare debt assumed was comprised of senior unsecured notes with an aggregate principal amount of \$700 million (\$400 million of 4.75% senior notes due 2022 and \$300 million of 5% senior notes due 2024). In September 2015, the Company commenced exchange offers for the 4.75% senior notes due 2022 and the 5% senior notes due 2024 to exchange all validly tendered and accepted notes issued by Omnicare for notes to be issued by the Company. This offer expired on October 20, 2015 and the aggregate principal amounts below of each of the Omnicare notes were validly tendered and exchanged for notes issued by the Company.

Interest Rate and Maturity	Aggregate Principal Amount (In Millions)	Percentage of Total Outstanding Principal Amount Exchanged
4.75% senior notes due 2022	\$ 388	96.8%
5% senior notes due 2024	296	98.8%
Total senior notes issued under exchange transaction	\$ 684	

The Company recorded this exchange transaction as a modification of the original debt instruments. As such, no gain or loss on extinguishment was recognized in the Company's consolidated income statement as a result of this exchange transaction and issuance costs were expensed as incurred.

On August 7, 2014, the Company issued \$850 million of 2.25% unsecured senior notes due August 12, 2019 and \$650 million of 3.375% unsecured senior notes due August 12, 2024 (collectively, the "2014 Notes") for total proceeds of approximately \$1.5 billion, net of discounts and underwriting fees. The 2014 Notes pay interest semi-annually and may be redeemed, in whole at any time, or in part from time to time, at the Company's option at a defined redemption price plus accrued and unpaid interest to the redemption date. The net proceeds of the 2014 Notes were used for general corporate purposes and to repay certain corporate debt.

On August 7, 2014, the Company announced tender offers for any and all of the 6.25% Senior Notes due 2027, and up to a maximum amount of the 6.125% Senior Notes due 2039, the 5.75% Senior Notes due 2041 and the 5.75% Senior Notes due 2017, for up to an aggregate principal amount of \$1.5 billion. On August 21, 2014, the Company increased the aggregate principal amount of the tender offers to \$2.0 billion and completed the repurchase for the maximum amount on September 4, 2014. The Company paid a premium of \$490 million in excess of the debt principal in connection with the tender offers, wrote off \$26 million of unamortized deferred financing costs and incurred \$5 million in fees, for a total loss on the early

Notes to Consolidated Financial Statements (continued)

extinguishment of debt of \$521 million. The loss was recorded in income from continuing operations on the consolidated statement of income for the year ended December 31, 2014.

During the year ended December 31, 2014, the Company repurchased the remaining \$41 million of outstanding Enhanced Capital Advantage Preferred Securities ("ECAPS") at par. The fees and write-off of deferred issuance costs associated with the early extinguishment of the ECAPS were immaterial.

On December 2, 2013, the Company issued \$750 million of 1.2% unsecured senior notes due December 5, 2016; \$1.25 billion of 2.25% unsecured senior notes due December 5, 2018; \$1.25 billion of 4.0% unsecured senior notes due December 5, 2023; and \$750 million of 5.3% unsecured senior notes due December 5, 2043 (the "2013 Notes") for total proceeds of approximately \$4.0 billion, net of discounts and underwriting fees. The 2013 Notes pay interest semi-annually and may be redeemed, in whole at any time, or in part from time to time, at the Company's option at a defined redemption price plus accrued and unpaid interest to the redemption date. The net proceeds of the 2013 Notes were used to repay commercial paper outstanding at the time of issuance and to fund the acquisition of Coram in January 2014. The remainder was used for general corporate purposes.

The credit facilities, back-up credit facilities and unsecured senior notes contain customary restrictive financial and operating covenants. The covenants do not materially affect the Company's financial or operating flexibility.

The following is a summary of the Company's required principal debt repayments, excluding unamortized debt discounts, deferred financing costs and debt premiums, due during each of the next five years and thereafter, as of December 31, 2015:

Year Ending December 31:

In millions

2016	\$	1,197
2017		1,113
2018		3,521
2019		1,266
2020		3,224
Thereafter		17,373
Total	\$	<u>27,694</u>

7 Leases

The Company leases most of its retail and mail order locations, ten of its distribution centers and certain corporate offices under noncancelable operating leases, typically with initial terms of 15 to 25 years and with options that permit renewals for additional periods. The Company also leases certain equipment and other assets under noncancelable operating leases, typically with initial terms of 3 to 10 years. In December 2015, in connection with the acquisition of the pharmacy and clinic businesses of Target, the Company entered into lease agreements with Target for the pharmacy and clinic space within Target stores. Given that the noncancelable contractual term of the pharmacy lease arrangement exceeds the remaining estimated economic life of the buildings being leased, the Company concluded for accounting purposes that the lease term was the remaining economic life of the buildings. Consequently, most of the individual pharmacy leases are capital leases. Approximately \$0.3 billion of capital lease obligations were recorded in connection with this transaction.

Minimum rent on operating leases is expensed on a straight-line basis over the term of the lease. In addition to minimum rental payments, certain leases require additional payments based on sales volume, as well as reimbursement for real estate taxes, common area maintenance and insurance, which are expensed when incurred.

The following table is a summary of the Company's net rental expense for operating leases for the years ended December 31:

In millions

	2015	2014	2013
Minimum rentals	\$ 2,317	\$ 2,320	\$ 2,210
Contingent rentals	34	36	41
	<u>2,351</u>	<u>2,356</u>	<u>2,251</u>
Less: sublease income	(22)	(21)	(21)
	<u>\$ 2,329</u>	<u>\$ 2,335</u>	<u>\$ 2,230</u>

Notes to Consolidated Financial Statements (continued)

The following table is a summary of the future minimum lease payments under capital and operating leases as of December 31, 2015:

<u><i>In millions</i></u>	<u>Capital Leases</u>	<u>Operating Leases ⁽¹⁾</u>
2016	\$ 52	\$ 2,405
2017	94	2,321
2018	70	2,197
2019	69	2,044
2020	69	1,877
Thereafter	970	16,837
Total future lease payments ⁽²⁾	<u>1,324</u>	<u>\$ 27,681</u>
Less: imputed interest	(679)	
Present value of capital lease obligations	<u>\$ 645</u>	

(1) Future operating lease payments have not been reduced by minimum sublease rentals of \$180 million due in the future under noncancelable subleases.

(2) The Company leases pharmacy and clinic space from Target. Amounts related to such capital and operating leases are reflected above. Amounts due in excess of the remaining estimated economic life of the buildings of approximately \$1.7 billion are not reflected herein since the estimated economic life of the buildings is shorter than the contractual term of the lease arrangement.

The Company finances a portion of its store development program through sale-leaseback transactions. The properties are generally sold at net book value, which generally approximates fair value, and the resulting leases generally qualify and are accounted for as operating leases. The operating leases that resulted from these transactions are included in the above table. The Company does not have any retained or contingent interests in the stores and does not provide any guarantees, other than a guarantee of lease payments, in connection with the sale-leaseback transactions. Proceeds from sale-leaseback transactions totaled \$411 million in 2015, \$515 million in 2014 and \$600 million in 2013.

8 Medicare Part D

The Company offers Medicare Part D benefits through SilverScript, which has contracted with CMS to be a PDP and, pursuant to the Medicare Prescription Drug, Improvement and Modernization Act of 2003, must be a risk-bearing entity regulated under state insurance laws or similar statutes.

SilverScript is a licensed domestic insurance company under the applicable laws and regulations. Pursuant to these laws and regulations, SilverScript must file quarterly and annual reports with the National Association of Insurance Commissioners (“NAIC”) and certain state regulators, must maintain certain minimum amounts of capital and surplus under a formula established by the NAIC and must, in certain circumstances, request and receive the approval of certain state regulators before making dividend payments or other capital distributions to the Company. The Company does not believe these limitations on dividends and distributions materially impact its financial position.

The Company has recorded estimates of various assets and liabilities arising from its participation in the Medicare Part D program based on information in its claims management and enrollment systems. Significant estimates arising from its participation in this program include: (i) estimates of low-income cost subsidy, reinsurance amounts, and coverage gap discount amounts ultimately payable to or receivable from CMS based on a detailed claims reconciliation that will occur in the following year; (ii) an estimate of amounts receivable from or payable to CMS under a risk-sharing feature of the Medicare Part D program design, referred to as the risk corridor and (iii) estimates for claims that have been reported and are in the process of being paid or contested and for our estimate of claims that have been incurred but have not yet been reported.

As of December 31, 2015 and 2014, amounts due from CMS included in accounts receivable were \$1.6 billion and \$1.8 billion, respectively.

9 Pension Plans and Other Postretirement Benefits

Defined Contribution Plans

The Company sponsors voluntary 401(k) savings plans that cover all employees who meet plan eligibility requirements. The Company makes matching contributions consistent with the provisions of the plans.

Notes to Consolidated Financial Statements (continued)

At the participant's option, account balances, including the Company's matching contribution, can be transferred without restriction among various investment options, including the Company's common stock fund under one of the defined contribution plans. The Company also maintains a nonqualified, unfunded Deferred Compensation Plan for certain key employees. This plan provides participants the opportunity to defer portions of their eligible compensation and receive matching contributions equivalent to what they could have received under the CVS Health 401(k) Plan absent certain restrictions and limitations under the Internal Revenue Code. The Company's contributions under the above defined contribution plans were \$251 million, \$238 million and \$235 million in 2015, 2014 and 2013, respectively.

Defined Benefit Pension Plans

As of December 31, 2015, the Company sponsored seven defined benefit pension plans. Two of the plans are tax-qualified plans that are funded based on actuarial calculations and applicable federal laws and regulations. The other five plans are unfunded nonqualified supplemental retirement plans. As of December 31, 2014 and 2013, the Company sponsored nine defined benefit pension plans. Four of the plans were tax-qualified plans and the other five plans were unfunded nonqualified supplemental retirement plans. Most of the plans were frozen in prior periods.

On September 30, 2015, the Company's Board of Directors approved a resolution to merge the four tax-qualified defined benefit plans that existed in 2014 and terminate the resulting merged plan. The merger was effective September 30, 2015 and the merged plan termination was effective December 31, 2015. It is expected to take approximately 18 to 24 months to complete the settlement of the terminated plan from the date of the approved resolution. The assumptions used to calculate the pension liability as of December 31, 2015 reflect the resolution to terminate the merged plan. This resulted in the pension liability and pre-tax accumulated other comprehensive income both increasing by \$67 million during the three months ended December 31, 2015. The pension liability will be settled in either lump sum payments or purchased annuities. Currently, there is not enough information available to determine the ultimate cost of the termination; however, based on current market rates the one-time settlement charge at final liquidation is estimated to be in the range of approximately \$175 million to \$250 million.

The following tables outline the change in benefit obligations and plan assets over the comparable periods:

<i>In millions</i>	2015	2014
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 796	\$ 694
Acquisition	8	—
Service cost	—	1
Interest cost	31	32
Actuarial loss	45	119
Benefit payments	(36)	(41)
Settlements	—	(9)
Benefit obligation at end of year	<u>\$ 844</u>	<u>\$ 796</u>

<i>In millions</i>	2015	2014
Change in plan assets:		
Fair value of plan assets at the beginning of the year	\$ 635	\$ 568
Acquisitions	5	—
Actual return on plan assets	(13)	75
Employer contributions	22	42
Benefit payments	(36)	(41)
Settlements	—	(9)
Fair value of plan assets at the end of the year	<u>613</u>	<u>635</u>
Funded status	<u>\$ (231)</u>	<u>\$ (161)</u>

Notes to Consolidated Financial Statements (continued)

The components of net periodic benefit costs for the years ended December 31, 2015, 2014 and 2013 are shown below:

<u><i>In millions</i></u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Components of net periodic benefit cost:			
Interest cost	\$ 31	\$ 32	\$ 30
Expected return on plan assets	(33)	(31)	(34)
Amortization of net loss	21	16	22
Settlement loss	—	3	—
Service cost	—	1	1
Net periodic pension cost	<u>\$ 19</u>	<u>\$ 21</u>	<u>\$ 19</u>

Pension Plan Assumptions

The Company uses a series of actuarial assumptions to determine the benefit obligations and the net benefit costs. The discount rate is determined by examining the current yields observed on the measurement date of fixed-interest, high quality investments expected to be available during the period to maturity of the related benefits on a plan by plan basis. The discount rate for the merged qualified plan that has been terminated is determined by examining the current assumed lump sum and annuity purchase rates. The expected long-term rate of return on plan assets is determined by using the plan's target allocation and historical returns for each asset class on a plan by plan basis. Certain of the Company's pension plans use assumptions on expected compensation increases of plan participants. These increases are determined by an actuarial analysis of the plan participants, their expected compensation increases, and the duration of their earnings period until retirement. Each of these assumptions are reviewed as plan characteristics change and on an annual basis with input from senior pension and financial executives and the Company's external actuarial consultants.

The discount rate for determining plan benefit obligations was 4.25% for all plans except the merged qualified plan in 2015 and 4% for all plans in 2014. The discount rate for the merged qualified plan was 3.25% in 2015. The expected long-term rate of return for the plans ranged from 5.75% to 6.75% in 2015 and ranged from 5.75% to 7.25% in 2014. The rate of compensation increases for certain of the plans with active participants ranged from 4% to 6% in 2015 and 2014.

Return on Plan Assets

Historically, the Company used an investment strategy which emphasized equities in order to produce higher expected returns, and in the long run, lower expected expense and cash contribution requirements. Beginning in 2013, the Company changed its investment strategy to be liability management driven. The qualified pension plan asset allocation targets in 2014 and 2013 were revised to hold more fixed income investments based on the change in the investment strategy. As of December 31, 2015, investment allocations for the two qualified defined benefit plans range from 80% to 100% in fixed income and 0% to 20% in equities. The following tables show the fair value allocation of plan assets by asset category as of December 31, 2015 and 2014.

<u><i>In millions</i></u>	Fair value of plan assets at December 31, 2015			
	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 10	\$ —	\$ —	\$ 10
Fixed income funds	4	484	—	488
Equity mutual funds	115	—	—	115
Total assets at fair value	<u>\$ 129</u>	<u>\$ 484</u>	<u>\$ —</u>	<u>\$ 613</u>

	Fair value of plan assets at December 31, 2014			
	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 7	\$ —	\$ —	\$ 7
Fixed income funds	—	514	—	514
Equity mutual funds	84	30	—	114
Total assets at fair value	<u>\$ 91</u>	<u>\$ 544</u>	<u>\$ —</u>	<u>\$ 635</u>

Notes to Consolidated Financial Statements (continued)

As of December 31, 2015, the Company's qualified defined benefit pension plan assets consisted of 19% equity, 80% fixed income and 2% money market securities of which 21% were classified as Level 1 and 79% as Level 2 in the fair value hierarchy. The Company's qualified defined benefit pension plan assets as of December 31, 2014 consisted of 18% equity, 81% fixed income and 1% money market securities of which 14% were classified as Level 1 and 86% as Level 2 in the fair value hierarchy.

The Company continued to have no investments in Level 3 alternative investments during the years ended December 31, 2015 and 2014.

Cash Flows

The Company contributed \$22 million, \$42 million and \$33 million to the pension plans during 2015, 2014 and 2013, respectively. The Company plans to make approximately \$37 million in contributions to the pension plans during 2016. These contributions include contributions made to certain nonqualified benefit plans for which there is no funding requirement. The Company estimates the following future benefit payments which are calculated using the same actuarial assumptions used to measure the benefit obligation as of December 31, 2015:

In millions

2016	\$	37
2017 ⁽¹⁾		39
2018		51
2019		50
2020		49
Thereafter		250

(1) Excludes any payments associated with the ultimate settlement of the terminated plan discussed above.

Multiemployer Pension Plans

The Company also contributes to a number of multiemployer pension plans under the terms of collective-bargaining agreements that cover its union-represented employees. The risks of participating in these multiemployer plans are different from single-employer pension plans in the following aspects: (i) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (ii) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers, and (iii) if the Company chooses to stop participating in some of its multiemployer plans, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

None of the multiemployer pension plans in which the Company participates are individually significant to the Company. Total Company contributions to multiemployer pension plans were \$14 million in 2015 and 2014 and \$13 million in 2013.

Other Postretirement Benefits

The Company provides postretirement health care and life insurance benefits to certain retirees who meet eligibility requirements. The Company's funding policy is generally to pay covered expenses as they are incurred. For retiree medical plan accounting, the Company reviews external data and its own historical trends for health care costs to determine the health care cost trend rates. As of December 31, 2015 and 2014, the Company's other postretirement benefits have an accumulated postretirement benefit obligation of \$33 million and \$31 million, respectively. Net periodic benefit costs related to these other postretirement benefits were \$2 million in 2015, \$1 million in 2014, and \$11 million in 2013. The net periodic benefit costs for 2013 include a settlement loss of \$8 million.

Pursuant to various collective bargaining agreements, the Company also contributes to multiemployer health and welfare plans that cover certain union-represented employees. The plans provide postretirement health care and life insurance benefits to certain employees who meet eligibility requirements. Total Company contributions to multiemployer health and welfare plans were \$60 million, \$58 million and \$55 million in 2015, 2014 and 2013, respectively.

Notes to Consolidated Financial Statements (continued)

10 Stock Incentive Plans

Stock-based compensation expense is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period of the stock award (generally three to five years) using the straight-line method.

Compensation expense related to stock options, which includes the Employee Stock Purchase Plan (the "ESPP") totaled \$90 million, \$103 million and \$100 million for 2015, 2014 and 2013, respectively. The recognized tax benefit was \$26 million, \$33 million and \$32 million for 2015, 2014 and 2013, respectively. Compensation expense related to restricted stock awards totaled \$140 million, \$62 million and \$41 million for 2015, 2014 and 2013, respectively. Stock-based compensation for the year ended December 31, 2015 includes \$38 million associated with accelerated vesting of restricted stock replacement awards issued to Omnicare executives who were terminated subsequent to the acquisition.

The ESPP provides for the purchase of up to 15 million shares of common stock. In March 2013, the Board of Directors approved an amendment to the ESPP to provide an additional 15 million shares of common stock for issuance. Under the ESPP, eligible employees may purchase common stock at the end of each six month offering period at a purchase price equal to 85% of the lower of the fair market value on the first day or the last day of the offering period. During 2015, approximately 1 million shares of common stock were purchased under the provisions of the ESPP at an average price of \$72.21 per share. As of December 31, 2015, approximately 14 million shares of common stock were available for issuance under the ESPP.

The fair value of stock-based compensation associated with the ESPP is estimated on the date of grant (the first day of the six month offering period) using the Black-Scholes Option Pricing Model.

The following table is a summary of the assumptions used to value the ESPP awards for each of the respective periods:

	2015	2014	2013
Dividend yield ⁽¹⁾	0.71%	0.75%	0.86%
Expected volatility ⁽²⁾	13.92%	14.87%	16.94%
Risk-free interest rate ⁽³⁾	0.11%	0.08%	0.10%
Expected life (in years) ⁽⁴⁾	0.5	0.5	0.5
Weighted-average grant date fair value	\$ 18.72	\$ 13.74	\$ 10.08

(1) The dividend yield is calculated based on semi-annual dividends paid and the fair market value of the Company's stock at the grant date.

(2) The expected volatility is based on the historical volatility of the Company's daily stock market prices over the previous six month period.

(3) The risk-free interest rate is based on the Treasury constant maturity interest rate whose term is consistent with the expected term of ESPP options (i.e., 6 months).

(4) The expected life is based on the semi-annual purchase period.

The terms of the Company's Incentive Compensation Plan ("ICP") provide for grants of annual incentive and long-term performance awards to executive officers and other officers and employees of the Company or any subsidiary of the Company. Payment of such annual incentive and long-term performance awards will be in cash, stock, other awards or other property, at the discretion of the Management Planning and Development Committee of the Company's Board of Directors. The ICP allows for a maximum of 74 million shares to be reserved and available for grants. The ICP is the only compensation plan under which the Company grants stock options, restricted stock and other stock-based awards to its employees, with the exception of the Company's ESPP. In November 2012, the Company's Board of Directors approved an amendment to the ICP to eliminate the share recycling provision of the ICP. As of December 31, 2015, there were approximately 24 million shares available for future grants under the ICP.

The Company's restricted awards are considered nonvested share awards and require no payment from the employee. Compensation cost is recorded based on the market price of the Company's common stock on the grant date and is recognized on a straight-line basis over the requisite service period. The Company granted 2,695,000, 2,708,000 and 1,715,000 restricted stock units with a weighted average fair value of \$100.81, \$73.60 and \$54.30 in 2015, 2014 and 2013, respectively. As of December 31, 2015, there was \$268 million of total unrecognized compensation cost related to the restricted stock units that are expected to vest. These costs are expected to be recognized over a weighted-average period of 2.61 years. The total fair value of restricted shares vested during 2015, 2014 and 2013 was \$164 million, \$57 million and \$41 million, respectively.

Notes to Consolidated Financial Statements (continued)

The following table is a summary of the restricted stock unit and restricted share award activity for the year ended December 31, 2015.

<u>Units in thousands</u>	<u>Units</u>	<u>Weighted Average Grant Date Fair Value</u>
Nonvested at beginning of year	4,677	\$ 51.90
Granted	2,695	\$ 100.81
Vested	(1,646)	\$ 103.82
Forfeited	(308)	\$ 73.61
Nonvested at end of year	<u>5,418</u>	<u>\$ 59.22</u>

All grants under the ICP are awarded at fair value on the date of grant. The fair value of stock options is estimated using the Black-Scholes Option Pricing Model and stock-based compensation is recognized on a straight-line basis over the requisite service period. Stock options granted generally become exercisable over a four -year period from the grant date. Stock options generally expire seven years after the grant date.

Excess tax benefits of \$127 million , \$106 million and \$62 million were included in financing activities in the accompanying consolidated statements of cash flow during 2015, 2014 and 2013, respectively. Cash received from stock options exercised, which includes the ESPP, totaled \$299 million , \$421 million and \$500 million during 2015, 2014 and 2013, respectively. The total intrinsic value of stock options exercised was \$394 million , \$372 million and \$282 million in 2015, 2014 and 2013, respectively. The total fair value of stock options vested during 2015, 2014 and 2013 was \$334 million , \$292 million and \$329 million , respectively.

The fair value of each stock option is estimated using the Black-Scholes option pricing model based on the following assumptions at the time of grant:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Dividend yield ⁽¹⁾	1.37%	1.47%	1.65%
Expected volatility ⁽²⁾	18.07%	19.92%	30.96%
Risk-free interest rate ⁽³⁾	1.24%	1.35%	0.73%
Expected life <i>(in years)</i> ⁽⁴⁾	4.2	4.0	4.7
Weighted-average grant date fair value	\$ 14.01	\$ 11.04	\$ 12.50

(1) The dividend yield is based on annual dividends paid and the fair market value of the Company's stock at the grant date.

(2) The expected volatility is estimated using the Company's historical volatility over a period equal to the expected life of each option grant after adjustments for infrequent events such as stock splits.

(3) The risk-free interest rate is selected based on yields from U.S. Treasury zero-coupon issues with a remaining term equal to the expected term of the options being valued.

(4) The expected life represents the number of years the options are expected to be outstanding from grant date based on historical option holder exercise experience.

As of December 31, 2015, unrecognized compensation expense related to unvested options totaled \$91 million , which the Company expects to be recognized over a weighted-average period of 1.72 years. After considering anticipated forfeitures, the Company expects approximately 12 million of the unvested stock options to vest over the requisite service period.

Notes to Consolidated Financial Statements (continued)

The following table is a summary of the Company's stock option activity for the year ended December 31, 2015:

<i>Shares in thousands</i>	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2014	28,166	\$ 47.87		
Granted	3,772	\$ 102.25		
Exercised	(6,425)	\$ 40.68		
Forfeited	(902)	\$ 66.81		
Expired	(270)	\$ 38.03		
Outstanding at December 31, 2015	<u>24,341</u>	\$ 57.60	3.88	\$ 993,965,110
Exercisable at December 31, 2015	<u>11,847</u>	\$ 42.17	2.66	\$ 658,732,653
Vested at December 31, 2015 and expected to vest in the future	23,765	\$ 56.96	3.84	\$ 984,746,487

11 Income Taxes

The income tax provision for continuing operations consisted of the following for the years ended December 31:

<i>In millions</i>	2015	2014	2013
Current:			
Federal	\$ 3,065	\$ 2,581	\$ 2,623
State	555	495	437
	<u>3,620</u>	<u>3,076</u>	<u>3,060</u>
Deferred:			
Federal	(180)	(43)	(115)
State	(54)	—	(17)
	<u>(234)</u>	<u>(43)</u>	<u>(132)</u>
Total	<u>\$ 3,386</u>	<u>\$ 3,033</u>	<u>\$ 2,928</u>

The following table is a reconciliation of the statutory income tax rate to the Company's effective income tax rate for continuing operations for the years ended December 31:

	2015	2014	2013
Statutory income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	4.0	4.3	4.0
Other	0.3	0.2	(0.1)
Effective income tax rate	<u>39.3%</u>	<u>39.5%</u>	<u>38.9%</u>

Notes to Consolidated Financial Statements (continued)

The following table is a summary of the significant components of the Company's deferred tax assets and liabilities as of December 31:

<i>In millions</i>	2015	2014
Deferred tax assets:		
Lease and rents	\$ 378	\$ 396
Inventory	99	—
Employee benefits	359	311
Allowance for doubtful accounts	279	164
Retirement benefits	105	80
Net operating loss and capital loss carryforwards	115	74
Deferred income	83	261
Other	498	297
Valuation allowance	(115)	(5)
Total deferred tax assets	<u>1,801</u>	<u>1,578</u>
Deferred tax liabilities:		
Inventories	—	(18)
Depreciation and amortization	(6,018)	(4,572)
Total deferred tax liabilities	<u>(6,018)</u>	<u>(4,590)</u>
Net deferred tax liabilities	<u>\$ (4,217)</u>	<u>\$ (3,012)</u>

Net deferred tax assets (liabilities) are presented on the consolidated balance sheets as follows:

<i>In millions</i>	2015	2014
Deferred tax assets—current	\$ 1,220	\$ 985
Deferred tax assets—noncurrent (included in other assets)	—	39
Deferred tax liabilities—noncurrent	(5,437)	(4,036)
Net deferred tax liabilities	<u>\$ (4,217)</u>	<u>\$ (3,012)</u>

The Company assesses positive and negative evidence to determine whether it is more likely than not some portion of a deferred tax asset would not be realized. When it would not, a valuation allowance is established for such portion of a deferred tax asset. The Company's valuation allowance increased by \$110 million in the current year, a majority of which relates to capital losses assumed in the Omnicare acquisition.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

<i>In millions</i>	2015	2014	2013
Beginning balance	\$ 188	\$ 117	\$ 80
Additions based on tax positions related to the current year	57	32	19
Additions based on tax positions related to prior years	122	70	37
Reductions for tax positions of prior years	(11)	(15)	(1)
Expiration of statutes of limitation	(13)	(15)	(17)
Settlements	(5)	(1)	(1)
Ending balance	<u>\$ 338</u>	<u>\$ 188</u>	<u>\$ 117</u>

The Company and most of its subsidiaries are subject to U.S. federal income tax as well as income tax of numerous state and local jurisdictions. The Company is a participant in the Compliance Assurance Process ("CAP"), which is a voluntary program offered by the Internal Revenue Service ("IRS") under which participating taxpayers work collaboratively with the IRS to identify and resolve potential tax issues through open, cooperative and transparent interaction prior to the filing of their federal income tax. The IRS is currently examining the Company's 2014 and 2015 consolidated U.S. federal income tax returns.

Notes to Consolidated Financial Statements (continued)

The Company and its subsidiaries are also currently under income tax examinations by a number of state and local tax authorities. As of December 31, 2015, no examination has resulted in any proposed adjustments that would result in a material change to the Company's results of operations, financial condition or liquidity.

Substantially all material state and local income tax matters have been concluded for fiscal years through 2010. Although certain state exams will be concluded and certain state statutes will lapse in 2016, the change in the balance of our uncertain tax positions will be immaterial. In addition, it is reasonably possible that the Company's unrecognized tax benefits could significantly change within the next twelve months due to the anticipated conclusion of various examinations with the IRS for various years. An estimate of the range of the possible change cannot be made at this time.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties in income tax expense. The Company recognized interest of approximately \$5 million during the year ended December 31, 2015, \$6 million during the year ended December 31, 2014, and \$4 million during the year ended December 31, 2013. The Company had approximately \$16 million and \$11 million accrued for interest and penalties as of December 31, 2015 and 2014, respectively.

There are no material uncertain tax positions as of December 31, 2015 the ultimate deductibility of which is highly certain but for which there is uncertainty about the timing. If there were, any such items would impact deferred tax accounting only, not the annual effective income tax rate, and would accelerate the payment of cash to the taxing authority to a period earlier than expected.

As of December 31, 2015, the total amount of unrecognized tax benefits that, if recognized, would affect the effective income tax rate is approximately \$292 million, after considering the federal benefit of state income taxes.

12 Commitments and Contingencies

Lease Guarantees

Between 1991 and 1997, the Company sold or spun off a number of subsidiaries, including Bob's Stores, Linens 'n Things, Marshalls, Kay-Bee Toys, Wilsons, This End Up and Footstar. In many cases, when a former subsidiary leased a store, the Company provided a guarantee of the store's lease obligations. When the subsidiaries were disposed of, the Company's guarantees remained in place, although each initial purchaser has agreed to indemnify the Company for any lease obligations the Company was required to satisfy. If any of the purchasers or any of the former subsidiaries were to become insolvent and failed to make the required payments under a store lease, the Company could be required to satisfy these obligations.

As of December 31, 2015, the Company guaranteed approximately 72 such store leases (excluding the lease guarantees related to Linens 'n Things, which are discussed in Note 1), with the maximum remaining lease term extending through 2026. Management believes the ultimate disposition of any of the remaining guarantees will not have a material adverse effect on the Company's consolidated financial condition, results of operations or future cash flows.

Legal Matters

The Company is a party to legal proceedings, investigations and claims in the ordinary course of its business, including the matters described below. The Company records accruals for outstanding legal matters when it believes it is probable that a loss will be incurred and the amount can be reasonably estimated. The Company evaluates, on a quarterly basis, developments in legal matters that could affect the amount of any accrual and developments that would make a loss contingency both probable and reasonably estimable. If a loss contingency is not both probable and estimable, the Company does not establish an accrued liability. None of the Company's accruals for outstanding legal matters are material individually or in the aggregate to the Company's financial position.

The Company's contingencies are subject to significant uncertainties, including, among other factors: (i) the procedural status of pending matters; (ii) whether class action status is sought and certified; (iii) whether asserted claims or allegations will survive dispositive motion practice; (iv) the extent of potential damages, fines or penalties, which are often unspecified or indeterminate; (v) the impact of discovery on the legal process; (vi) whether novel or unsettled legal theories are at issue; (vii) the settlement posture of the parties, and/or (viii) in the case of certain government agency investigations, whether a sealed *qui tam* lawsuit ("whistleblower" action) has been filed and whether the government agency makes a decision to intervene in the lawsuit following investigation.

Notes to Consolidated Financial Statements (continued)

Except as otherwise noted, the Company cannot predict with certainty the timing or outcome of the legal matters described below, and is unable to reasonably estimate a possible loss or range of possible loss in excess of amounts already accrued for these matters.

- Caremark (the term “Caremark” being used herein to generally refer to any one or more PBM subsidiaries of the Company, as applicable) was named in a putative class action lawsuit filed in October 2003 in Alabama state court by John Lauriello, purportedly on behalf of participants in the 1999 settlement of various securities class action and derivative lawsuits against Caremark and others. Other defendants include insurance companies that provided coverage to Caremark with respect to the settled lawsuits. The Lauriello lawsuit seeks approximately \$3.2 billion in compensatory damages plus other non-specified damages based on allegations that the amount of insurance coverage available for the settled lawsuits was misrepresented and suppressed. A similar lawsuit was filed in November 2003 by Frank McArthur, also in Alabama state court, naming as defendants, among others, Caremark and several insurance companies involved in the 1999 settlement. This lawsuit was stayed as a later-filed class action, but McArthur was subsequently allowed to intervene in the Lauriello action. Following the close of class discovery, the trial court entered an Order on August 15, 2012 that granted the plaintiffs’ motion to certify a class pursuant to Alabama Rule of Civil Procedures 23(b)(3) but denied their request that the class also be certified pursuant to Rule 23(b)(1). In addition, the August 15, 2012 Order appointed class representatives and class counsel. On September 12, 2014, the Alabama Supreme Court affirmed the trial court’s August 15, 2012 Order. In November 2015, the trial court ruled on the parties’ motions for summary judgment. The Court granted in part and denied in part plaintiffs’ motion for summary judgment and the Court denied Caremark’s motion for summary judgment. The parties engaged in mediation in January 2016. The case is proceeding and trial is currently scheduled to begin on February 19, 2016.
- Beginning in August 2003, various lawsuits were filed by pharmacies alleging that Caremark and other PBMs were violating certain antitrust laws. In August 2003, Bellevue Drug Co., Robert Schreiber, Inc. d/b/a Burns Pharmacy and Rehn-Huerbinger Drug Co. d/b/a Parkway Drugs #4, together with Pharmacy Freedom Fund and the National Community Pharmacists Association filed a putative class action against Caremark in the United States District Court for the Eastern District of Pennsylvania, seeking treble damages and injunctive relief. This case was initially sent to arbitration based on the contract terms between the pharmacies and Caremark, but later returned to federal court, where it currently remains. In addition, in October 2003, two independent pharmacies, North Jackson Pharmacy, Inc. and C&C, Inc. d/b/a Big C Discount Drugs, Inc., filed three separate putative class action complaints in the United States District Court for the Northern District of Alabama, all seeking treble damages and injunctive relief. One complaint named three Caremark entities as defendants, and the other two complaints named PBM competitors. The North Jackson Pharmacy case against two of the Caremark entities was transferred to the United States District Court for the Northern District of Illinois; the case against the third Caremark entity was sent to arbitration based on contract terms between the pharmacies and that entity. The arbitration was stayed at the parties’ request and later closed by the American Arbitration Association.

In August 2006, the Judicial Panel on Multidistrict Litigation issued an order transferring all related PBM antitrust cases, including the North Jackson Pharmacy cases, to the United States District Court for the Eastern District of Pennsylvania for coordinated and consolidated proceedings with the cases originally filed in that court, including the Bellevue matter. The consolidated action is now known as *In re Pharmacy Benefit Managers Antitrust Litigation*. A motion for class certification filed by the North Jackson Pharmacy plaintiffs against the Caremark defendants in August 2015 is currently pending. In the Bellevue matter, the parties are in the early stages of discovery.

- In February 2006, two substantially similar putative class action lawsuits were filed in the U.S. District Court for the Eastern District of Kentucky, and were consolidated and entitled *Indiana State Dist. Council of Laborers & HOD Carriers Pension & Welfare Fund v. Omnicare, Inc., et al.*, No. 2:06cv26. The consolidated complaint was filed against Omnicare, three of its officers and two of its directors and purported to be brought on behalf of all open-market purchasers of Omnicare common stock from August 3, 2005 through July 27, 2006, as well as all purchasers who bought shares of Omnicare common stock in Omnicare’s public offering in December 2005. The complaint alleged violations of the Securities Exchange Act of 1934 and Section 11 of the Securities Act of 1933 and sought, among other things, compensatory damages and injunctive relief. After dismissals and appeals to the United States Court of Appeals for the Sixth Circuit, the United States Supreme Court remanded the case to the district court. In October 2015, the court granted plaintiffs’ motion to file a third amended complaint. In December 2015, Omnicare filed a motion to dismiss plaintiffs’ third amended complaint.
- In December 2007, the Company received a document subpoena from the Office of Inspector General (“OIG”) within the U.S. Department of Health and Human Services, requesting information relating to the processing of Medicaid and certain other government agency claims on behalf of its clients (which allegedly resulted in underpayments from our

Notes to Consolidated Financial Statements (continued)

pharmacy benefit management clients to the applicable government agencies) on one of the Company's adjudication platforms. In September 2014, the Company settled the OIG's claims, as well as related claims by the Department of Justice and private plaintiffs, without any admission of liability. The Company is in discussions with the OIG concerning other claim processing issues.

- In November 2009, a securities class action lawsuit was filed in the United States District Court for the District of Rhode Island by Richard Medoff, purportedly on behalf of purchasers of CVS Health Corporation stock between May 5, 2009 and November 4, 2009. An amended complaint extended that time period back to October 30, 2008. The lawsuit names the Company and certain officers as defendants and includes allegations of securities fraud relating to public disclosures made by the Company concerning the PBM business and allegations of insider trading. In addition, a shareholder derivative lawsuit was filed by Mark Wuotila in December 2009 in the same court against the directors and certain officers of the Company. This lawsuit, which has remained stayed pending developments in the related securities class action, includes allegations of, among other things, securities fraud, insider trading and breach of fiduciary duties and further alleges that the Company was damaged by the purchase of stock at allegedly inflated prices under its share repurchase program. In January 2011, both lawsuits were transferred to the United States District Court for the District of New Hampshire. In August 2015, the Parties reached an agreement in principle to settle the Medoff action for \$48 million. In September 2015, the Parties filed a joint stipulation seeking preliminary approval for this settlement. Preliminary approval was granted in November 2015 and the final approval hearing occurred in January 2016. The Company denies any wrongdoing, and agreed to a settlement to avoid the burden, uncertainty and distraction of litigation. The settlement will be funded by insurance proceeds. The Wuotila derivative matter remains pending.
- As part of a previously disclosed civil settlement agreement entered into by Omnicare with the U.S. Attorney's Office, for the District of Massachusetts in November 2009, Omnicare also entered into an amended and restated corporate integrity agreement ("CIA") with the OIG with a term of five years from November 2, 2009 with certain provisions continuing for a period after the term. In October 2015, Omnicare received a closure letter from the OIG. The Company is continuing discussions with the OIG around the CIA and its compliance program.
- In March 2010, the Company learned that various State Attorneys General offices and certain other government agencies were conducting a multi-state investigation of certain of the Company's business practices similar to those being investigated at that time by the U.S. Federal Trade Commission ("FTC"). Twenty-eight states, the District of Columbia and the County of Los Angeles are known to be participating in this investigation. The prior FTC investigation, which commenced in August 2009, was officially concluded in May 2012 when the consent order entered into between the FTC and the Company became final. The Company has cooperated with the multi-state investigation.
- In March 2010, the Company received a subpoena from the OIG requesting information about programs under which the Company has offered customers remuneration conditioned upon the transfer of prescriptions for drugs or medications to the Company's pharmacies in the form of gift cards, cash, non-prescription merchandise or discounts or coupons for non-prescription merchandise. The subpoena relates to an investigation of possible false or otherwise improper claims for payment under the Medicare and Medicaid programs. The Company has provided documents and other information in response to this request for information.
- On October 29, 2010, a *qui tam* complaint entitled *United States et al., ex rel. Banigan and Templin v. Organon USA, Inc., Omnicare, Inc. and PharMerica Corporation*, Civil No. 07-12153-RWZ, that had been filed under seal with the U.S. District Court in Boston, Massachusetts, was ordered unsealed by the court. The complaint was brought by James Banigan and Richard Templin, former employees of Organon, as private party *qui tam* relators on behalf of the federal government and several state and local governments. The action alleges civil violations of the False Claims Act based on allegations that Organon and its affiliates paid Omnicare and several other long-term care pharmacies rebates, post-purchase discounts and other forms of remuneration in return for purchasing pharmaceuticals from Organon and taking steps to increase the purchase of Organon's drugs in violation of the Anti-Kickback Statute. The U.S. Department of Justice declined to intervene in this action. The court denied Omnicare's motion to dismiss in June 2012. Discovery is closed in this matter. The Company believes that the allegations are without merit.
- In January 2012, the United States District Court for the Eastern District of Pennsylvania unsealed a first amended *qui tam* complaint filed in August 2011 by an individual relator, Anthony Spay, who is described in the complaint as having once been employed by a firm providing pharmacy prescription benefit audit and recovery services. The complaint seeks monetary damages and alleges that Caremark's processing of Medicare claims on behalf of one of its clients violated the federal False Claims Act. The United States declined to intervene in the lawsuit. In September

Notes to Consolidated Financial Statements (continued)

2015, the Court granted Caremark's motion for summary judgment in its entirety, and entered judgment in favor of Caremark and against Spay. In October 2015, Spay filed a notice of appeal in the United States Court of Appeals for the Third Circuit.

- In November 2012, the Company received a subpoena from the OIG requesting information concerning automatic refill programs used by pharmacies to refill prescriptions for customers. The Company has been cooperating and providing documents and other information in response to this request for information.
- In 2013, Omnicare received subpoenas seeking information regarding Omnicare's nationwide billing practices with regard to National Drug Code overrides and Omnicare's May 2008 acquisition of Pure Service Pharmacy. In 2014, Omnicare received subpoenas seeking information regarding Omnicare's Auto Label Verification system and Omnicare's per diem arrangements. Omnicare has produced documents and provided information in response to these subpoenas and continues to cooperate in the investigations.
- On March 22, 2013, a *qui tam* complaint entitled *United States et al. ex rel. Susan Ruscher v. Omnicare, Inc. et al.*, Civil No. 08-cv-3396, which had been filed under seal in the U.S. District Court for the Southern District of Texas, was unsealed by the court. The complaint was brought by Susan Ruscher as a private party *qui tam* relator on behalf of the federal government and several state governments alleging violations of the federal False Claims Act and analogous state laws based upon allegations that Omnicare's practices relating to customer collections violated the Anti-Kickback Statute. In September 2015, the court granted summary judgment dismissing all claims against Omnicare and denied relator's motion for summary judgment related to Omnicare's counterclaims and thereafter, in October 2015, the court entered a final judgment for Omnicare and stayed trial on the counterclaims pending an appeal from the relator. In October 2015, plaintiffs filed a notice of appeal in the United States Court of Appeals for the Fifth Circuit.
- In March 2014, the Company received a subpoena from the United States Attorney's Office for the District of Rhode Island, requesting documents and information concerning bona fide service fees and rebates received from pharmaceutical manufacturers in connection with certain drugs utilized under Part D of the Medicare Program, as well as the reporting of those fees and rebates to Part D plan sponsors. The Company has been cooperating with the government and providing documents and information in response to the subpoena.
- The U.S. Department of Justice, through the U.S. Attorney's Office for the Western District of Virginia, investigated whether Omnicare's activities in connection with the agreements it had with the manufacturer of the pharmaceutical Depakote violated the False Claims Act or the Anti-Kickback Statute. Omnicare cooperated with this investigation and believes that it has complied with applicable laws and regulations with respect to this matter. In connection with this matter, on December 22, 2014, the U.S. Department of Justice filed a civil complaint-in-intervention in two *qui tam* complaints, entitled *United States, et al., ex rel. Spetter v. Abbott Laboratories, Inc., Omnicare, Inc., and PharMerica Corp.*, No. 1:07-cv-00006 and *United States, et al., ex rel. McCoy v. Abbott Laboratories, Omnicare, Inc., PharMerica Corp., and Miles White*, No. 1:07-cv-00081, alleging civil violations of the False Claims Act in connection with the manufacturer agreements described above. In July 2015, the parties filed a Joint Motion to Stay the Litigation stating that the parties have reached a proposed resolution of the monetary terms of a potential settlement agreement. These financial terms are contingent on approval by authorized officials at the Department of Justice, negotiation of terms of a settlement agreement, approval and releases from the OIG, the National Association of Medicaid Fraud Control Units, and the Department of Justice, and coordination with discussions with the United States regarding other ongoing matters. While the Company believes that a final settlement will be reached, there can be no assurance that any final settlement agreement will be reached or as to the final terms of such settlement.
- In May 2015, the Company entered into a settlement agreement with the U.S. Attorney's Office for the Middle District of Florida, resolving alleged violations of the Controlled Substances Act ("CSA"). The Company paid a fine of \$22 million in connection with the settlement. The Company is also undergoing several audits by the Drug Enforcement Agency ("DEA") Administrator and is in discussions with the DEA and the U.S. Attorney's Office in several locations concerning allegations that the Company has violated certain requirements of the CSA. Whether agreements can be reached and on what terms is uncertain.
- In May 2015, the Company received a subpoena from the OIG requesting information and documents concerning the Company's automatic refill programs, adherence outreach programs, and pharmacy customer incentives, particularly in connection with claims for reimbursement made to the Minnesota Medicaid program. The Company has been cooperating with the investigation and providing information in response to the subpoena.

Notes to Consolidated Financial Statements (continued)

- In July 2015, the U.S. District Court in the District of Massachusetts dismissed all claims alleged in a *qui tam* lawsuit that had been brought against the Company by a pharmacy auditor and a former CVS pharmacist. The lawsuit, which was initially filed under seal in 2011, alleged that the Company violated the federal False Claims Act, as well as the false claims acts of several states, by overcharging state and federal governments in connection with prescription drugs available through the Company's Health Savings Pass program, a membership-based program that allows enrolled customers special pricing for typical 90 -day supplies of various generic prescription drugs. The federal government had declined to intervene in the case. The plaintiffs are appealing the dismissal to the U.S. Court of Appeals for First Circuit.
- On July 27, 2015, a consolidated class action complaint was filed by plaintiffs naming Omnicare, the members of the Omnicare Board of Directors, CVS Health, CVS Pharmacy, Inc. and its merger subsidiary as defendants. The complaint alleged that the members of the Omnicare Board of Directors breached their fiduciary duties to Omnicare's stockholders during merger negotiations by entering into the merger agreement and approving the merger, and the CVS parties aided and abetted such breaches of fiduciary duties. In September 2015, the court granted plaintiffs' voluntary notice of dismissal of all allegations against the defendants.
- The Attorney General of the State of Texas issued civil investigative demands and other requests in February 2012, May 2014, and May 2015, and has continued its investigation concerning the Health Savings Pass program and other pricing practices with respect to claims for reimbursement from the Texas Medicaid program.
- In July and September 2015, two related putative class actions, *Corcoran et al. v. CVS Health Corp.*, and *Podgorny et al. v. CVS Health Corp.*, were filed against the Company in the United States District Court in the Northern District of California and the Northern District of Illinois, respectively. The two cases have been consolidated in United States District Court in the Northern District of California. The consolidated second amended complaint alleges that plaintiffs overpaid for prescriptions for generic drugs filled at CVS pharmacies. The plaintiffs seek damages and injunctive relief under the consumer protection statutes and common laws of certain states. The Company has moved to dismiss the second amended complaint.
- In September 2015, Omnicare was served with an administrative subpoena by the DEA. The subpoena seeks documents related to controlled substance policies, procedures, and practices at eight pharmacy locations from May 2012 to present. The Company has been cooperating and providing documents in response to this administrative subpoena.
- In October 2015, Omnicare received a Civil Investigative Demand from the United States Attorney's Office for the Southern District of New York requesting information and documents concerning Omnicare's cycle fill process for assisted living facilities. The Company has been cooperating with the government and providing documents and information in response to the Civil Investigative Demand.
- In October 2015, the Company received from the U.S. Department of Justice a Civil Investigative Demand requesting documents and information in connection with a False Claims Act investigation concerning allegations that the Company submitted, or caused to be submitted, to the Medicare Part D program prescription drug event data that misrepresented true prices paid by the Company's PBM to pharmacies for drugs dispensed to Part D beneficiaries with prescription benefits administered by the Company's PBM. The Company has been cooperating with the government and providing documents and information in response to the Civil Investigative Demand.
- In November 2015, the United States District Court for the Eastern District of Pennsylvania unsealed a second amended *qui tam* complaint filed in September 2015, in an action captioned *The United States of America et al. ex rel. Sally Schimelpfeinig and John Segura v. Dr. Reddy's Laboratories Limited et al.* The U.S. Department of Justice declined to intervene in this action. The relators allege that the Company, Walgreens, Wal-Mart, and Dr. Reddy's Laboratories violated the federal and various state False Claims Acts by dispensing prescriptions in unit dose packaging supplied by Dr. Reddy's that was not compliant with the Consumer Product Safety Improvement Act and the Poison Preventive Packaging Act and thereby allegedly rendering the drugs misbranded under the Food, Drug & Cosmetic Act.

The Company is also a party to other legal proceedings, government investigations, inquiries and audits arising in the normal course of its business, none of which is expected to be material to the Company. The Company can give no assurance, however, that its business, financial condition and results of operations will not be materially adversely affected, or that the Company will not be required to materially change its business practices, based on: (i) future enactment of new health care or other laws or regulations; (ii) the interpretation or application of existing laws or regulations as they may relate to the Company's

Notes to Consolidated Financial Statements (continued)

business, the pharmacy services, retail pharmacy, long-term care pharmacy or retail clinic industries or to the health care industry generally; (iii) pending or future federal or state governmental investigations of the Company's business or the pharmacy services, retail pharmacy, long-term care pharmacy or retail clinic industry or of the health care industry generally; (iv) pending or future government enforcement actions against the Company; (v) adverse developments in any pending *qui tam* lawsuit against the Company, whether sealed or unsealed, or in any future *qui tam* lawsuit that may be filed against the Company; or (vi) adverse developments in pending or future legal proceedings against the Company or affecting the pharmacy services, retail pharmacy, long-term care pharmacy or retail clinic industry or the health care industry generally.

13 Segment Reporting

The Company currently has three reportable segments: Pharmacy Services, Retail/LTC and Corporate. The Retail/LTC Segment includes the operating results of the Company's Retail Pharmacy and LTC operating segments as the operations and economics characteristics are similar. The Company's segments maintain separate financial information for which operating results are evaluated on a regular basis by the Company's chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Company evaluates its Pharmacy Services and Retail/LTC segment performance based on net revenue, gross profit and operating profit before the effect of nonrecurring charges and certain intersegment activities. The Company evaluates the performance of its Corporate Segment based on operating expenses before the effect of discontinued operations, nonrecurring charges, and certain intersegment activities. See Note 1 for a description of the Pharmacy Services, Retail/LTC and Corporate segments and related significant accounting policies.

The following table is a reconciliation of the Company's business segments to the consolidated financial statements:

<u>In millions</u>	Pharmacy Services Segment ⁽¹⁾⁽²⁾	Retail/LTC Segment ⁽²⁾	Corporate Segment	Intersegment Eliminations ⁽²⁾	Consolidated Totals
2015:					
Net revenues	\$ 100,363	\$ 72,007	\$ —	\$ (19,080)	\$ 153,290
Gross profit	5,227	21,992	—	(691)	26,528
Operating profit ⁽³⁾	3,989	7,130	(1,037)	(628)	9,454
Depreciation and amortization	654	1,336	102	—	2,092
Additions to property and equipment	359	1,883	125	—	2,367
2014:					
Net revenues	\$ 88,440	\$ 67,798	\$ —	\$ (16,871)	\$ 139,367
Gross profit	4,771	21,277	—	(681)	25,367
Operating profit	3,514	6,762	(796)	(681)	8,799
Depreciation and amortization	630	1,205	96	—	1,931
Additions to property and equipment	308	1,745	83	—	2,136
2013:					
Net revenues	\$ 76,208	\$ 65,618	\$ —	\$ (15,065)	\$ 126,761
Gross profit	4,237	20,112	—	(566)	23,783
Operating profit ⁽⁴⁾	3,086	6,268	(751)	(566)	8,037
Depreciation and amortization	560	1,217	93	—	1,870
Additions to property and equipment	313	1,610	61	—	1,984

- (1) Net revenues of the Pharmacy Services Segment include approximately \$8.9 billion, \$8.1 billion and \$7.9 billion of Retail Co-Payments for 2015, 2014 and 2013, respectively. See Note 1 to the consolidated financial statements for additional information about Retail Co-Payments.
- (2) Intersegment eliminations relate to intersegment revenue generating activities that occur between the Pharmacy Services Segment and the Retail/LTC Segment. These occur in the following ways: when members of Pharmacy Services Segment clients ("members") fill prescriptions at retail stores to purchase covered products, when members enrolled in programs such as Maintenance Choice[®] elect to pick up maintenance prescriptions at a retail drugstore instead of receiving them through the mail, or when members have prescriptions filled at long-term care facilities. When these occur, both the Pharmacy Services and Retail/LTC segments record the revenues, gross profit and operating profit on a standalone basis.
- (3) For the year ended December 31, 2015, the Corporate Segment operating loss includes \$156 million of acquisition-related transaction and integration costs and a \$90 million charge related to a legacy lawsuit challenging the 1999 legal settlement by MedPartners of various securities class actions and a related derivative claim.
- (4) Consolidated operating profit for the year ended December 31, 2013 includes a \$72 million gain on a legal settlement, of which, \$11 million is included in the Pharmacy Services Segment and \$61 million is included in the Retail/LTC Segment.

Notes to Consolidated Financial Statements (continued)

14 Earnings Per Share

The following is a reconciliation of basic and diluted earnings per share from continuing operations for the respective years:

<i>In millions, except per share amounts</i>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Numerator for earnings per share calculation:			
Income from continuing operations attributable to common stockholders ⁽¹⁾	\$ 5,202	\$ 4,626	\$ 4,600
Denominator for earnings per share calculation:			
Weighted average shares, basic	1,118	1,161	1,217
Effect of dilutive securities	8	8	9
Weighted average shares, diluted	<u>1,126</u>	<u>1,169</u>	<u>1,226</u>
Earnings per share from continuing operations:			
Basic	\$ 4.65	\$ 3.98	\$ 3.78
Diluted	\$ 4.62	\$ 3.96	\$ 3.75

(1) Comprised of income from continuing operations less amounts allocable to participating securities of \$27 million and \$19 million for the years ended December 31, 2015 and 2014, respectively.

15 Quarterly Financial Information (Unaudited)

<i>In millions, except per share amounts</i>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Year</u>
2015:					
Net revenues	\$ 36,332	\$ 37,169	\$ 38,644	\$ 41,145	\$ 153,290
Gross profit	6,164	6,402	6,661	7,301	26,528
Operating profit	2,132	2,262	2,331	2,729	9,454
Income from continuing operations	1,221	1,272	1,237	1,500	5,230
Income (loss) from discontinued operations, net of tax	—	—	10	(1)	9
Net income attributable to CVS Health	1,221	1,272	1,246	1,498	5,237
Basic earnings per share:					
Income from continuing operations attributable to CVS Health	\$ 1.08	\$ 1.13	\$ 1.10	\$ 1.35	\$ 4.65
Income (loss) from discontinued operations attributable to CVS Health	\$ —	\$ —	\$ 0.01	\$ —	\$ 0.01
Net income attributable to CVS Health	\$ 1.08	\$ 1.13	\$ 1.11	\$ 1.35	\$ 4.66
Diluted earnings per share:					
Income from continuing operations attributable to CVS Health	\$ 1.07	\$ 1.12	\$ 1.10	\$ 1.34	\$ 4.62
Income (loss) from discontinued operations attributable to CVS Health	\$ —	\$ —	\$ 0.01	\$ —	\$ 0.01
Net income attributable to CVS Health	\$ 1.07	\$ 1.12	\$ 1.11	\$ 1.34	\$ 4.63
Dividends per share	\$ 0.350	\$ 0.350	\$ 0.350	\$ 0.350	\$ 1.40
Stock price: (New York Stock Exchange)					
High	\$ 104.56	\$ 106.47	\$ 113.45	\$ 105.29	\$ 113.45
Low	\$ 94.16	\$ 98.74	\$ 95.12	\$ 91.56	\$ 91.56

Notes to Consolidated Financial Statements (continued)

<i><u>In millions, except per share amounts</u></i>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Year</u>
2014:					
Net revenues	\$ 32,689	\$ 34,602	\$ 35,021	\$ 37,055	\$ 139,367
Gross profit	5,942	6,324	6,468	6,633	25,367
Operating profit	2,024	2,208	2,246	2,321	8,799
Income from continuing operations	1,129	1,246	948	1,322	4,645
Loss from discontinued operations, net of tax	—	—	—	(1)	(1)
Net income attributable to CVS Health	1,129	1,246	948	1,321	4,644
Basic earnings per share:					
Income from continuing operations attributable to CVS Health	\$ 0.96	\$ 1.07	\$ 0.82	\$ 1.15	\$ 3.98
Loss from discontinued operations attributable to CVS Health	\$ —	\$ —	\$ —	\$ —	\$ —
Net income attributable to CVS Health	\$ 0.96	\$ 1.07	\$ 0.82	\$ 1.15	\$ 3.98
Diluted earnings per share:					
Income from continuing operations attributable to CVS Health	\$ 0.95	\$ 1.06	\$ 0.81	\$ 1.14	\$ 3.96
Loss from discontinued operations attributable to CVS Health	\$ —	\$ —	\$ —	\$ —	\$ —
Net income attributable to CVS Health	\$ 0.95	\$ 1.06	\$ 0.81	\$ 1.14	\$ 3.96
Dividends per share	\$ 0.275	\$ 0.275	\$ 0.275	\$ 0.275	\$ 1.10
Stock price: (New York Stock Exchange)					
High	\$ 76.36	\$ 79.43	\$ 82.57	\$ 98.62	\$ 98.62
Low	\$ 64.95	\$ 72.37	\$ 74.69	\$ 77.40	\$ 64.95

Five-Year Financial Summary

In millions, except per share amounts

	2015	2014	2013	2012	2011
Statement of operations data:					
Net revenues	\$ 153,290	\$ 139,367	\$ 126,761	\$ 123,120	\$ 107,080
Gross profit	26,528	25,367	23,783	22,488	20,562
Operating expenses	17,074	16,568	15,746	15,278	14,231
Operating profit	9,454	8,799	8,037	7,210	6,331
Interest expense, net	838	600	509	557	584
Loss on early extinguishment of debt	—	521	—	348	—
Income tax provision ⁽¹⁾	3,386	3,033	2,928	2,436	2,258
Income from continuing operations	5,230	4,645	4,600	3,869	3,489
Income (loss) from discontinued operations, net of tax	9	(1)	(8)	(7)	(31)
Net income	5,239	4,644	4,592	3,862	3,458
Net (income) loss attributable to noncontrolling interest	(2)	—	—	2	4
Net income attributable to CVS Health	\$ 5,237	\$ 4,644	\$ 4,592	\$ 3,864	\$ 3,462
Per share data:					
Basic earnings per share:					
Income from continuing operations attributable to CVS Health	\$ 4.65	\$ 3.98	\$ 3.78	\$ 3.05	\$ 2.61
Income (loss) from discontinued operations attributable to CVS Health	\$ 0.01	\$ —	\$ (0.01)	\$ (0.01)	\$ (0.02)
Net income attributable to CVS Health	\$ 4.66	\$ 3.98	\$ 3.77	\$ 3.04	\$ 2.59
Diluted earnings per share:					
Income from continuing operations attributable to CVS Health	\$ 4.62	\$ 3.96	\$ 3.75	\$ 3.02	\$ 2.59
Income (loss) from discontinued operations attributable to CVS Health	\$ 0.01	\$ —	\$ (0.01)	\$ (0.01)	\$ (0.02)
Net income attributable to CVS Health	\$ 4.63	\$ 3.96	\$ 3.74	\$ 3.02	\$ 2.57
Cash dividends per share	\$ 1.40	\$ 1.10	\$ 0.90	\$ 0.65	\$ 0.50
Balance sheet and other data:					
Total assets ⁽¹⁾	\$ 93,657	\$ 74,187	\$ 71,452	\$ 66,167	\$ 64,794
Long-term debt ⁽¹⁾	\$ 26,267	\$ 11,630	\$ 12,767	\$ 9,079	\$ 9,150
Total shareholders' equity	\$ 37,203	\$ 37,963	\$ 37,938	\$ 37,653	\$ 38,014
Number of stores (at end of year)	9,681	7,866	7,702	7,508	7,388

(1) As of June 30, 2015, the Company early adopted Accounting Standard Update No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (Topic 835-30) issued by the Financial Accounting Standards Board in April 2015. The effect of the adoption on the Company's consolidated balance sheet is a reduction in noncurrent assets and long-term debt of \$65 million, \$74 million, \$54 million and \$58 million as of December 31, 2014, 2013, 2012 and 2011, respectively.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of CVS Health Corporation

We have audited the accompanying consolidated balance sheets of CVS Health Corporation as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CVS Health Corporation at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company has elected changes its methods of accounting for front store inventories in the Retail/LTC Segment effective January 1, 2015.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CVS Health Corporation's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 9, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts

February 9, 2016

SUBSIDIARIES OF THE REGISTRANT

As of December 31, 2015, CVS Health Corporation had the following significant subsidiaries:

Caremark, L.L.C. (a California limited liability company)
CaremarkPCS Health, L.L.C. (a Delaware limited liability company)
Caremark Rx, L.L.C. (a Delaware limited liability company) ⁽¹⁾
CVS Caremark Part D Services, L.L.C. (a Delaware limited liability company)
CVS Pharmacy, Inc. (a Rhode Island corporation) ⁽²⁾
Omnicare, Inc. (a Delaware corporation) ⁽³⁾
SilverScript Insurance Company (a Tennessee corporation)

- (1) Caremark Rx, L.L.C., the parent of the Registrant's pharmacy services subsidiaries, is the immediate or indirect parent of many mail order, pharmacy benefit management, infusion, Medicare Part D, insurance, specialty mail and retail specialty pharmacy subsidiaries, all of which operate in the United States and its territories.
- (2) CVS Pharmacy, Inc. is the immediate or indirect parent of approximately 48 entities that operate drugstores, all of which drugstores are in the United States and its territories except approximately 44 drugstores that are operated by Drogaria Onofre Ltda., a Brazil limited liability company that is an indirect subsidiary of CVS Pharmacy, Inc.
- (3) Omnicare, Inc., the parent of the Registrant's long-term care subsidiaries, is the immediate or indirect parent of many long-term care subsidiaries, all of which operate in the United States and its territories.

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statements (Form S-3ASR Nos. 333-187440 and 333-200217, and Form S-3 No. 333-205156) of CVS Health Corporation, and
- (2) Registration Statements (Form S-8 Nos. 333-49407, 333-34927, 333-28043, 333-91253, 333-63664, 333-139470, 333-141481, 333-167746 and 333-208805) of CVS Health Corporation;

of our reports dated February 9, 2016, with respect to the consolidated financial statements of CVS Health Corporation and the effectiveness of internal control over financial reporting of CVS Health Corporation, incorporated by reference in this Annual Report (Form 10-K) of CVS Health Corporation for the year ended December 31, 2015.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 9, 2016

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Larry J. Merlo, President and Chief Executive Officer of CVS Health Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of CVS Health Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: February 9, 2016

By: _____ /s/ LARRY J. MERLO

Larry J. Merlo
President and
Chief Executive Officer

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, David M. Denton, Executive Vice President and Chief Financial Officer of CVS Health Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of CVS Health Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2016

By: _____

/ s/ D AVID M. D ENTON

David M. Denton

Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The certification set forth below is being submitted in connection with the Annual Report of CVS Health Corporation (the “Company”) on Form 10-K for the period ended December 31, 2015 (the “Report”), for the purpose of complying with Rule 13(a)-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, Larry J. Merlo, President and Chief Executive Officer of the Company, certify that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

February 9, 2016

/ s/ LARRY J. MERLO

Larry J. Merlo
President and
Chief Executive Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The certification set forth below is being submitted in connection with the Annual Report of CVS Health Corporation (the “Company”) on Form 10-K for the period ended December 31, 2015 (the “Report”), for the purpose of complying with Rule 13(a)-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code.

I, David M. Denton, Executive Vice President and Chief Financial Officer of the Company, certify that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

February 9, 2016

/ s/ D AVID M. D ENTON

David M. Denton

Executive Vice President and Chief Financial Officer