CAREMARK RX INC
Form 425
February 13, 2007

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of report (Date of earliest event reported): February 12, 2007

CVS CORPORATION
(Exact Name of Registrant
as Specified in Charter)

Delaware
(State or Other Jurisdiction of Incorporation)

001-01011	**050494040**
(Commission File Number)	(IRS Employer Identification No.)

One CVS Drive **Woonsocket, Rhode Island**	**02895**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: **(401) 765-1500**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

x Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425) o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Section 8 - Other Events

Item 8.01 Other Events

The purpose of this Form 8-K is to update the joint proxy statement/prospectus included in the Registration Statement on Form S-4, file No. 333-139470, filed by CVS Corporation (“CVS”) with the Securities and Exchange Commission (the “SEC”) and declared effective by the SEC on January 19, 2007, and mailed by CVS and Caremark Rx, Inc. (“Caremark”) to their respective stockholders commencing on January 19, 2007. The information contained in this Form 8-K is incorporated by reference into the above-mentioned joint proxy statement/prospectus.

Amendment to Waiver Agreement to Increase Caremark Special Cash Dividend from $2.00 per share to $6.00 per share

CVS, Caremark and Twain MergerSub L.L.C., a Delaware limited liability company and wholly owned subsidiary of CVS (formerly known as Twain MergerSub Corp.) originally entered into an Agreement and Plan of Merger (the “Merger Agreement”) dated as of November 1, 2006.

On January 16, 2007, pursuant to a Waiver Agreement between CVS and Caremark (the “Waiver Agreement”), CVS granted Caremark a waiver under the Merger Agreement to permit Caremark to declare and pay, and Caremark agreed that it would declare and pay, a one-time special cash dividend in the amount of $2.00 per outstanding share of Caremark common stock. The Waiver Agreement provided that such dividend would be declared prior to the Caremark stockholder meeting to vote on the merger (to holders of record of Caremark common stock prior to the effective time of the merger), but would only become payable, and such payment would be conditioned, upon the occurrence of the effective time of the merger.

On February 12, 2007, CVS and Caremark entered into an amendment to the Waiver Agreement (the “Waiver Amendment”) to change the one-time special cash dividend to Caremark stockholders described in the previous paragraph from $2.00 per share to $6.00 per share. Prior to execution of the Waiver Amendment, the CVS board of directors met telephonically to consider the increase to the special cash dividend in consultation with outside legal and financial advisors and in connection therewith received updated financial advisor presentations and opinions as described below. A copy of the press release announcing this change and a copy of the Waiver Amendment are attached hereto as Exhibits 99.1 and 99.2, respectively, and incorporated by reference herein.

Other than the increase in the size of the one-time special cash dividend to $6.00, the other terms of the Waiver Agreement were not changed. On February 12, 2007, the Caremark board of directors declared the special dividend, the payment of which is conditioned on the completion of the merger. References in the joint proxy statement/prospectus to a $2.00 special cash dividend (or to any adjustments relating to a $2.00 special cash dividend) should now be read by reference to the $6.00 special cash dividend. The Waiver Amendment does not affect the previously announced accelerated share repurchase transaction, which will commence promptly after consummation of the merger.

Opinions of Financial Advisors to the CVS Board of Directors

As disclosed in the joint proxy statement/prospectus, CVS retained Evercore Group L.L.C. (“Evercore”) and Lehman Brothers Inc. (“Lehman Brothers”) as financial advisors to the CVS board of directors in connection with the merger. On February 12, 2007, at a meeting of the CVS board of directors held to consider the matters described above, Evercore and Lehman Brothers delivered to the CVS board of directors separate oral opinions, which opinions were confirmed by delivery of separate written opinions dated February 12, 2007, to the effect that, as of that date and based on and subject to various assumptions made, procedures followed, matters considered and qualifications and limitations on the review undertaken described in each such opinion, the exchange ratio provided for in the merger was fair, from a financial point of view, to CVS.

Evercore’s and Lehman Brothers’ opinions dated February 12, 2007, the full texts of which describe the assumptions made, procedures followed, matters considered and qualifications and limitations on the review undertaken by Evercore and Lehman Brothers, are attached as Exhibits

99.3 and 99.4, respectively, and are incorporated into this document by reference. Evercore□s and Lehman Brothers□ opinions were directed only to the fairness to CVS, from a financial point of view, of the exchange ratio provided for in the merger and do not address any other aspect of the merger. The opinions do not address the relative merits of the merger as compared to other business strategies or transactions that might be available with respect to CVS or CVS□ underlying business decision to effect the merger. The opinions do not constitute a recommendation to any stockholder as to how such stockholder should vote or act with respect to any matters relating to the merger. Holders of CVS common stock are encouraged to read the opinions carefully in their entirety. The summaries of Evercore□s and Lehman Brothers□ opinions described below are qualified in their entirety by reference to the full texts of the opinions.

Opinion of Evercore Group L.L.C.

Evercore has acted as one of CVS□ financial advisors in connection with the merger. Evercore was requested to act as a financial advisor to CVS in late October 2005 to explore a potential transaction with Caremark and was formally engaged pursuant to a letter agreement dated April 21, 2006. In connection with Evercore□s engagement, the CVS board of directors requested that Evercore render an opinion to the CVS board of directors as to the fairness, from a financial point of view, of the exchange ratio to CVS. At the meeting of the CVS board of directors on February 12, 2007, Evercore rendered its oral opinion, which was subsequently confirmed in writing dated as of the same date, that, as of such date and based upon and subject to the assumptions made, procedures followed, matters considered, and qualifications and limitations set forth in its written opinion, which are described below, the exchange ratio was fair, from a financial point of view, to CVS.

The full text of Evercore□s written opinion, dated February 12, 2007, which sets forth, among other things, the assumptions made, procedures followed, matters considered, and qualifications and limitations on the review undertaken in connection with its opinion, is attached as Exhibit 99.3 to this document and is incorporated by reference into this document. The summary of Evercore□s fairness opinion set forth in this document is qualified in its entirety by reference to the full text of the opinion. Stockholders should read the opinion carefully and in its entirety.

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

Summary of Evercore□s February 12, 2007 Fairness Opinion

The following is a summary of Evercore□s February 12, 2007 opinion and the methodology that Evercore used to render its opinion. This summary is qualified in its entirety by reference to the full text of the opinion.

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

- analyzed certain publicly available financial statements and other publicly available business information including Wall Street research analyst reports relating to CVS and Caremark that Evercore deemed relevant to its analysis;
- analyzed certain internal non-public financial and operating data concerning CVS and Caremark prepared and furnished to Evercore by the management of each of CVS and Caremark, respectively;

- analyzed certain financial projections concerning Caremark for 2006 and 2007 furnished to Evercore by the management of Caremark and certain financial projections concerning CVS for 2006 and 2007 furnished to Evercore by the management of CVS;
- reviewed the amount and timing of the synergies expected to result from the merger as well as the transaction expenses and one-time cash costs arising from the proposed transaction (which Evercore refers to as “integration costs”), both as estimated by the management of CVS and furnished to Evercore by CVS;
- discussed the past and current operations and financial condition and the prospects of CVS and Caremark with the management of each of CVS and Caremark, respectively;
- reviewed the reported prices and trading activity of the Caremark common stock and the CVS common stock;
- compared the financial performance of Caremark and the prices and trading activity of the Caremark common stock with that of selected publicly traded companies and their securities;
- compared the financial performance of CVS and the prices and trading activity of CVS common stock with that of selected publicly traded companies and their securities;
- compared the proposed financial terms of the merger with publicly available financial terms of certain transactions that Evercore deemed reasonably comparable to the merger;
- considered the potential financial impact of CVS’ contemplated accelerated share repurchase program expected to be effected as promptly as practicable after the effective time of the merger as described in the Waiver Agreement;
- considered the potential pro forma impact of the merger on CVS, based on inputs and analysis provided by CVS management;
- reviewed the merger agreement, as amended by Amendment No. 1, dated as of January 16, 2007;
- reviewed the Waiver Agreement and Waiver Amendment; and
- performed such other analyses and examinations and considered such other factors as Evercore in its sole judgment deemed appropriate for purposes of its opinion.

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

With respect to the CVS projections provided to Evercore by CVS management and the Caremark projections provided to Evercore by Caremark management, Evercore assumed that such projections were reasonably prepared on a basis reflecting the best currently available estimates and judgments of each of the management of

CVS and Caremark, respectively, as to

4

future financial performance. With the consent of the management of CVS, Evercore relied on certain publicly available Wall Street research analyst projections for forecasted financial results for CVS and Caremark in both 2008 and 2009. With respect to the synergies expected to result from the merger and integration costs estimated by the management of CVS to result from the merger, Evercore assumed that the timing and amounts of such synergies and integration costs were reasonable. Evercore expressed no view as to such financial analyses and forecasts, the synergies and the integration costs or the assumptions on which they were based. Evercore also assumed that the merger would qualify as a tax-free reorganization for United States federal income tax purposes, and that the merger and the other transactions contemplated by the merger agreement would be consummated as described in the merger agreement and without any waiver, amendment or modification of any terms or conditions that would have been material to Evercore's opinion. Evercore further assumed that all required governmental, regulatory or other consents and approvals necessary for the consummation of the merger have been and would be obtained without any of the changes described in Section 8.01(a) of the merger agreement. Evercore also assumed that the Caremark special cash dividend would be paid upon the occurrence of the effective time of the merger.

Evercore's opinion was necessarily based on economic, market and other conditions as in effect on, and the information made available to Evercore as of, February 12, 2007. It should be understood that subsequent developments may affect Evercore's opinion and that Evercore does not have any obligation to update, revise, or reaffirm its opinion. Evercore's opinion was limited to the fairness, from a financial point of view, to CVS of the exchange ratio. Evercore expressed no opinion as to the price at which CVS common stock would trade at any future time.

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

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

Financial Analysis

The following is a summary of the material financial analyses performed by Evercore in connection with the preparation of its opinion delivered to the CVS board of directors on February 12, 2007. The financial analyses summarized below include information presented in tabular format. In order to fully understand the financial analyses used by Evercore, the tables must be read together with the text of each summary. Considering any portion of such analyses and of the factors considered, without considering all analyses and factors, could create a misleading or incomplete view of the process underlying Evercore's opinion.

Historical Share Price Analysis

Evercore considered historical data with regard to the trading prices of CVS and Caremark common stock for the one-year period prior to and including October 31, 2006, the last trading

day prior to announcement of the transaction. During this period, the closing stock price of CVS common stock ranged from a low of $23.89 to a high of $36.14 per share, and the closing price of Caremark ranged from a low of $42.40 to a high of $59.89 per share. The foregoing historical share price analysis was presented to the CVS board of directors to provide it with background information and perspective with respect to the relative historical share prices of CVS and Caremark common stock.

Historical Exchange Ratio Analysis

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

	Implied Exchange Ratio
February 9, 2007	1.681x
Unaffected Period	
October 31, 2006	1.378x
1 Month average	1.467x
2 Month average	1.494x
3 Month average	1.490x
6 Month average	1.459x
1 Year average	1.512x
2 Year average	1.444x
3 Year average	1.376x

Equity Research Analysis

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

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

Peer Group Trading Analysis

In order to assess how the public market values shares of similar publicly traded companies, Evercore reviewed and compared specific financial and operating data relating to each of CVS and Caremark with selected companies that Evercore deemed to have certain characteristics that are similar to those of CVS and Caremark, respectively. As part of its peer group trading analysis, Evercore calculated and analyzed the ratio of current stock price to estimated 2007 earnings per share (commonly referred to as a price earnings ratio, or P/E) for CVS and Caremark, respectively, and each member of its respective peer group. Evercore also calculated and analyzed the ratio of enterprise value to estimated 2007 earnings before interest, taxes, depreciation and amortization (or, EBITDA) for CVS and Caremark, respectively, and each member of its respective peer group. The enterprise value of each company was obtained by adding its short and long term debt, to the sum of the market value of its common equity, and the book value of any minority interest, and subtracting its cash and cash equivalents and market value of unconsolidated investments. All of these calculations were performed based on closing prices as of October 31, 2006, (the last trading day prior to announcement of the transaction) and as of February 9, 2007 (the last trading date prior to the delivery of Evercore's opinion).

CVS

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

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

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

The analysis of current stock price to earnings as of February 9, 2007 indicated that, for the selected peer group, the ratio of current stock price to estimated 2007 earnings per share ranged from 20.7x to 23.1x. This compared to a current stock price as a multiple of estimated 2007 earnings per share ratio of 17.4x for CVS, based on publicly available research estimates as of February 9, 2007.

The analysis of financial multiples as of February 9, 2007 indicated that, for the selected peer group, enterprise value as a multiple of estimated 2007 EBITDA ranged from 8.1x to 13.1x. This compared to enterprise value as a multiple of estimated 2007 EBITDA of 8.8x for CVS, based on publicly available research estimates as of February 9, 2007.

Using a selected multiple range of 17.0x to 20.0x estimated 2007 earnings per share, the peer group trading analysis of CVS yielded an implied valuation range for the CVS common stock of $32.22 to $37.90 per share. Using selected multiples of 8.5x to 9.5x estimated 2007 EBITDA, the peer group trading analysis yielded an implied valuation range for CVS common stock of $31.72 to $36.06 per share.

Caremark

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

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

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

The analysis of current stock price to earnings as of February 9, 2007 indicated that, for the selected peer group, the ratio of current stock price to estimated 2007 earnings per share ranged from 18.4x to 18.9x. This compared to a current stock price as a multiple of estimated

2007 earnings per share ratio of 21.6x for Caremark, based on publicly available IBES research estimates as of February 9, 2007.

The analysis of financial multiples as of February 9, 2007 indicated that, for the selected peer group, enterprise value as a multiple of estimated 2007 EBITDA ranged from 10.4x to 11.0x. This compared to enterprise value as a multiple of estimated 2007 EBITDA of 12.2x for Caremark, based on publicly available research estimates as of February 9, 2007.

Using a selected multiple range of 17.0x to 20.0x estimated 2007 earnings per share, based on peer group trading multiples as of October 31, 2006, the peer group trading analysis of Caremark yielded an implied valuation range for the Caremark common stock of $48.18 to $56.68 per share. Using a selected multiple range of 19.0x to 22.2x estimated 2007 earnings per share, based on peer group trading multiples as of February 9, 2007, the peer group trading analysis of Caremark yielded an implied valuation range for the Caremark common stock of $53.85 to $62.35 per share. Using selected multiples of 9.5x to 10.5x estimated 2007 EBITDA, based on peer group trading multiples as of October 31, 2006, the peer group trading analysis of Caremark yielded an implied valuation range for Caremark common stock of $48.12 to $52.97 per share. Using a selected multiple range of 10.5x to 11.5x estimated 2007 EBITDA, based on peer group trading multiples as of February 9, 2007, the peer group trading analysis of Caremark yielded an implied valuation range for Caremark common stock of $52.97 to $57.83 per share.

Evercore calculated implied exchange ratios by taking the minimum Caremark implied share price over the average CVS implied share price, and the maximum Caremark implied share price over the average CVS implied share price. Based on the peer group trading analysis for both CVS and Caremark, Evercore calculated implied exchange ratios after giving effect to the payment of the Caremark special cash dividend ranging from 1.223x to 1.416x based on peer group trading multiples as of October 31, 2006 and excluding synergies and 1.652x to 1.846x based on peer group trading multiples as of February 9, 2007 and including synergies.

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

Contribution Analysis

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

	Contribution		
Metric	**10/31/06**	**2007E**	**2008E**
EBITDA			
CVS		63.5%	63.6%
Caremark		36.5%	36.4%
Implied exchange ratio		1.198x	1.192x
Net Income			
CVS		56.6%	57.1%
Caremark		43.4%	42.9%
Implied exchange ratio		1.330x	1.306x
Market Capitalization			
Unaffected Market Value – as of 10/31/06			
CVS	55.9%		
Caremark	44.1%		
Implied exchange ratio	1.378x		

Precedent Transaction Analysis

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

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

Date Announced	Target	Acquirer
08/24/06	Brooks and Eckerd	Rite Aid
01/23/06	Albertson's Stand-alone Drug Business	CVS
04/05/04	Eckerd	CVS
04/05/04	Eckerd	Jean Coutu Group
12/23/03	Duane Reade	Oak Hill Capital Partners
11/18/99	Shoppers Drug Mart	Kohlberg Kravis Roberts
11/24/98	Genovese Drug Stores	JC Penney
08/03/98	American Stores	Albertson's
02/09/98	Arbor Drugs	CVS
06/18/97	Duane Reade	DLJ Merchant Bkg Partners II
02/07/97	Revco	CVS

11/04/96	Eckerd	JC Penney
10/28/96	Big B	Revco
10/14/96	Thrifty Payless Holdings	Rite Aid
08/06/96	Fay□s	JC Penney
10/23/95	Big V Pharmacies	Shoppers Drug Mart (Imasco)
08/28/95	Medicine Shoppe International	Cardinal Health

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

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

Using a selected multiple range of 8.0x to 11.0x estimated 2006 EBITDA, the precedent transaction analysis of CVS yielded an implied valuation range for the CVS common stock of $23.60 to $34.43 per share. CVS estimated 2006 EBITDA does not reflect the full year pro forma results for the Albertson s purchase. Therefore, Evercore also performed precedent transaction analysis for CVS using estimated 2007 EBITDA (which includes a full year impact of the Albertson s transaction) and discounted the resulting share price for one year at an assumed cost of equity of 11% resulting in an implied valuation range for the CVS common stock of $29.21 to $42.13 per share.

Using a selected multiple range of 10.0x to 14.0x estimated 2006 EBITDA, the precedent transaction analysis of Caremark yielded an implied valuation range for Caremark common stock of $44.75 to $61.84 per share. Evercore calculated implied exchange ratios by taking the minimum Caremark implied share price over the average CVS implied share price, and the maximum Caremark implied share price over the average CVS implied share price.

Evercore calculated implied exchange ratios after giving effect to the payment of the Caremark special cash dividend based on the precedent transaction analysis ranging from 1.198x to 1.727x.

Premia Paid Analysis

Evercore reviewed the premia paid in all all-stock transactions valued at greater than $10 billion during the period from October 31, 2001 to February 9, 2007. Evercore calculated the premium per share paid by the acquirer compared to the share price of the target company prevailing one day, one week and four weeks prior to the announcement of the transaction, producing mean premia of 12.7%, 13.7% and 16.6%, respectively, and median premia of 11.0%, 14.2% and 17.2%, respectively.

Evercore also reviewed the premia paid in all all-stock transactions valued at greater than $1 billion with pro forma acquirer ownership between 40% and 60% since January 1, 2000. Evercore calculated the premium per share paid by the acquirer compared to the share price of the target company prevailing one day, one week and four weeks prior to the announcement of the transaction. All transactions since January 1, 2000 result in mean premia of 19.5%, 20.5% and 20.4% respectively, and median premia of 13.4%, 11.8% and 10.7%, respectively. To evaluate a more recent trend of transaction premia paid, a separate analysis of transactions since January 1, 2001 was considered. All transactions since January 1, 2001 produce mean premia of 5.8%, 4.0% and 7.5%, respectively, and median premia of 5.8%, 5.6% and 8.5%, respectively.

10

Based on the assumptions set forth above, the premia paid analysis using a premia paid range of 0% to 20% yielded implied exchange ratios after giving effect to the payment of the Caremark special cash dividend ranging from 1.378x to 1.653x.

Discounted Cash Flow Analysis

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

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

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

Based on the projections and assumptions set forth above, the discounted cash flow analysis of CVS yielded an implied valuation range for CVS common stock of $37.31 to $43.73 per share, and the discounted cash flow analysis of Caremark yielded an implied valuation range for Caremark common stock of $62.46 to $70.50 per share.

Evercore calculated implied exchange ratios by taking the minimum Caremark implied share price over the average CVS implied share price, and the maximum Caremark implied share price over the average CVS implied share price. Based on the discounted cash flow analysis for both CVS and Caremark Evercore calculated implied exchange ratios (after giving effect to the payment of the Caremark special cash dividend) ranging from 1.393x to 1.592x, assuming no synergies and ranging from 1.629x to 1.827x including synergies.

Pro Forma Analysis

In order to evaluate the estimated ongoing impact of the merger, Evercore analyzed the pro forma earnings impact of the merger from the perspective of CVS stockholders assuming the

merger closes March 31, 2007. For the purposes of this analysis, Evercore assumed (1) a $60.96 per share price for Caremark common stock acquired pursuant to the 1.670 exchange ratio (after giving effect to the payment of the Caremark special cash dividend) and the merger, (2) a $32.91 per share price for CVS common stock (the closing market price per share on February 9, 2007), (3) a transaction structure with 100% stock consideration, (4) financial forecasts for each company from each management for 2007 and certain publicly available Wall Street research estimates for 2008, and (5) synergy, integration costs and purchase accounting adjustments in accordance with CVS management estimates, and (6) accelerated share repurchase of 150 million shares effected by the pro forma combined company after closing. Evercore estimated that, based on the assumptions described above, the pro forma impact of the transaction on the earnings per share of CVS would be dilutive to 2007 earnings per share, and accretive to 2008 earnings per share. The financial forecasts that underlie this analysis are subject to substantial uncertainty and, therefore, actual results may be substantially different.

General

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

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

Opinion of Lehman Brothers Inc.

At the request of the CVS board of directors, in connection with the board of directors' review of the terms of the transaction on February 12, 2007, Lehman Brothers rendered its oral opinion (subsequently confirmed in writing) to the CVS board of directors that as of such date and, based upon and subject to the matters stated in its opinion, from a financial point of view, the exchange ratio to be paid in the merger was fair to CVS, after giving effect to the payment of the Caremark special cash dividend, as increased to $6.00 pursuant to the Waiver Amendment dated February 12, 2007.

The full text of Lehman Brothers' written opinion, dated February 12, 2007, is attached as Exhibit 99.4 to this Form 8-K. Stockholders are encouraged to read Lehman Brothers' opinion carefully in its entirety for a description of the assumptions made, procedures followed, factors considered and limitations upon the review undertaken by Lehman Brothers in rendering its opinion.

Lehman Brothers' advisory services and opinion were provided for the information and assistance of the CVS board of directors in connection with its consideration of the merger. Lehman Brothers' opinion is not intended to be and does not constitute a recommendation to any stockholder of CVS as to how such stockholder should vote in connection with the merger.

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

The following is a summary of Lehman Brothers' February 12, 2007 opinion and the methodology that Lehman Brothers used to render its opinion. This summary is qualified in its entirety by reference to the full text of the opinion.

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

- the merger agreement, as amended, and the specific terms of the merger;
- the Waiver Agreement and Waiver Amendment;
- publicly available information concerning CVS that Lehman Brothers believed to be relevant to its analysis, including CVS' Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and CVS' Quarterly Report on Form 10-Q for the quarters ended April 1, 2006, July 1, 2006 and September 30, 2006, and the Company's Form 8-K dated February 1, 2007;
- publicly available information concerning Caremark that Lehman Brothers believed to be relevant to its analysis, including Caremark's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and Caremark's Quarterly Report on Form 10-Q for the quarters ended March 31, 2006, June 30, 2006 and September 30, 2006;
- financial and operating information with respect to the business, operations and prospects of CVS furnished to Lehman Brothers by CVS, including (i) financial projections for CVS prepared by CVS' management through December 31, 2007 and (ii) estimates of the amounts and timing of the cost savings, operating synergies (the "Estimated Synergies") and other strategic benefits expected by the management of CVS to result from a combination of the businesses of CVS and Caremark, including to reflect the Caremark special cash divided and accelerated share repurchase;
- financial and operating information with respect to the business, operations and prospects of Caremark furnished to Lehman Brothers by Caremark, including financial projections for Caremark prepared by Caremark's management through December 31, 2007;
- the trading histories of CVS Common Stock and Caremark Common Stock from February 9, 2006 to February 9, 2007, and a comparison of those trading histories with each other and with those of other companies that Lehman Brothers deemed relevant;
- a comparison of the historical financial results and present financial condition of CVS and Caremark with each other and with those of other companies that Lehman Brothers deemed relevant;
- published estimates of independent equity research analysts with respect to the future financial performance of CVS and Caremark, adjusted to reflect the payment of the Caremark special cash dividend;
- the relative contributions of CVS and Caremark to the historical and future financial performance of the combined company on a pro forma basis, reflecting the payment of the Caremark special cash dividend;

- a comparison of the financial terms of the proposed transaction with the financial terms of certain other transactions that Lehman Brothers deemed relevant; and
- the potential pro forma impact of the proposed transaction on the future financial condition and performance of CVS, including the Estimated Synergies and the

13

accelerated share repurchase transaction and the effect on CVS pro forma earnings per share.

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

In arriving at its opinion, Lehman Brothers assumed and relied upon the accuracy and completeness of the financial and other information used by Lehman Brothers without assuming any responsibility for independent verification of such information. Lehman Brothers further relied upon the assurances of the managements of CVS and Caremark that they were not aware of any facts or circumstances that would make such information inaccurate or misleading. With respect to the financial projections of CVS and Caremark, upon advice of CVS and Caremark, Lehman Brothers assumed that such projections were reasonably prepared on a basis reflecting the best currently available estimates and judgments of the managements of CVS and Caremark as to their respective future financial performance and that they would perform substantially in accordance with such projections. With respect to the Estimated Synergies, Lehman has assumed that the amount and timing of Estimated Synergies are reasonable and, upon the advice of CVS, Lehman also has assumed that the Estimated Synergies will be realized substantially in accordance with such estimates. In arriving at its opinion, Lehman Brothers did not conduct or obtain any evaluations or appraisals of the assets or liabilities of CVS or Caremark, nor did it conduct a physical inspection of the properties and facilities of CVS and Caremark. Lehman Brothers opinion was necessarily based upon market, economic and other conditions as they existed on, and could be evaluated as of, February 9, 2007.

The following is a summary of the material financial analyses used by Lehman Brothers in connection with providing its February 12, 2007 opinion to the CVS board of directors. The financial analyses summarized below include information presented in tabular format. In order to fully understand the financial analyses used by Lehman Brothers, the tables must be read together with the text of each summary. Considering any portion of such analyses and of the factors considered, without considering all analyses and factors, could create a misleading or incomplete view of the process underlying Lehman Brothers opinion.

Historical Share Price Analysis

Lehman Brothers considered the relative stock price performances during the period from February 9, 2006 to February 9, 2007 of (1) CVS, (2) Caremark, (3) an index of drugstore equities (Drugstore Index) comprised of the common stocks of Longs Drugs, Rite Aid, Shoppers Drug Mart and Walgreens and (4) an index of pharmacy benefit managers equities (PBM Index) comprised of the common stocks of Express Scripts and Medco.

Lehman Brothers noted that during this one-year period, the share price of CVS common stock increased 18.1%, which outperformed the Drugstore Index, and the common stock of Caremark increased 23.8%, which outperformed the PBM Index.

Historical Exchange Ratio Analysis

Lehman Brothers also compared the historical per share prices of CVS and Caremark during different calendar periods between February 9, 2006 and February 9, 2007 in order to determine the implied average exchange ratio that existed for those calendar periods (excluding the Caremark special cash dividend). The following table indicates the average exchange ratio of CVS common stock for Caremark common stock for the calendar periods indicated:

Calendar Period	**Average Exchange Ratio**
February 9, 2007	1.681x
10-day period	1.657x
20-day period	1.644x
30-day period	1.633x
60-day period	1.616x
90-day period	1.558x
180-day period	1.523x
One-year period	1.481x

Research Analyst Stock Price Targets

Lehman Brothers reviewed publicly availably research reports published by various firms with respect to CVS and Caremark and observed that the range of analyst share price targets, which represent future share price targets over the next 12 months, was $38.00 to $41.00 for CVS, and $52.00 to $60.00 for Caremark, which reflects the payment of the Caremark special cash dividend. Lehman Brothers further observed that (1) CVS per share price as of February 9, 2007, represented a discount of (A) 13.4% to the analyst low price target of CVS and (B) 19.7% to the analyst high price target of CVS and (2) Caremarks per share price, which reflects the payment of the Caremark special cash dividend, as of February 9, 2007, represented a (A) premium of 6.4% to the analyst low price target of Caremark and (B) a discount of 7.8% to the analyst high price target of Caremark.

Comparable Company Analysis

CVS

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

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

As part of its comparable company analysis, Lehman Brothers calculated and analyzed CVS and each comparable companys ratio of current stock price to its projected earnings per share (commonly referred to as a price earnings ratio, or P/E). Lehman Brothers also calculated and analyzed various financial multiples, including CVS and each comparable companys enterprise value to certain projected financial criteria (such as EBITDA).

The enterprise value of each company was obtained by adding its short- and long-term debt to the sum of the market value of its common equity and subtracting its cash and cash equivalents. All of these calculations were performed, and based on publicly available financial data (including First Call and Wall Street research estimates) and closing prices, as of February 9, 2007, the last trading date prior to the delivery of Lehman Brothers February 12, 2007 opinion. Using a selected multiple range of 18.0x to 20.0x 2007 estimated earnings per share and selected multiples of 10.0x to 12.0x 2006 EBITDA, the peer group trading analysis of CVS yielded an implied valuation range for CVS common stock of $31.45 to $38.66 per share. The following presents the results of this analysis:

	2006E	2007E
Enterprise Value/EBITDA (excluding CVS, unless where noted)		
High	15.6x	14.4x
Low	8.8x	7.9x
Mean	12.9x	11.2x
CVS	10.4x	8.7x
P/E (excluding CVS, unless where noted)		
High	26.4x	23.0x
Low	NM	NM
Mean	24.9x	21.7x
CVS	20.9x	17.2x

Caremark

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

- Express Scripts; and
- Medco

As part of its comparable company analysis, Lehman Brothers calculated and analyzed Caremarks and each comparable companys P/E ratio. Lehman Brothers also calculated and analyzed various financial multiples, including Caremarks and each comparable companys enterprise value to certain projected financial criteria such as EBITDA. All of these calculations were performed, and based on publicly available financial data (including First Call and Wall Street research estimates) and closing prices, as of February 9, 2007, the last trading date prior to the delivery of Lehman Brothers February 12, 2007 opinion. Using a selected multiple range of 18.0x to 21.0x 2007 estimated earnings per share and selected multiples of 11.0x to 12.0x 2006 estimated EBITDA, and after taking into account the payment of the Caremark special cash dividend, the peer group trading analysis of Caremark yielded an implied valuation range for Caremark common stock of $44.16 to $55.06. The following presents the results of this analysis:

	2006E	2007E
Enterprise Value/EBITDA (excluding Caremark, unless where noted)		
High	12.4x	10.3x
Low	11.5x	9.7x
Mean	12.0x	10.0x
Caremark	12.4x	10.9x
P/E (excluding Caremark, unless where noted)		
High	25.8x	21.5x

Low	22.3x	18.0x
Mean	24.0x	19.7x
Caremark	22.9x	19.6x

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

Comparable Transaction Analysis

Selected Drugstore Transactions

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

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

Based on publicly available information, Lehman Brothers considered, among other things, the enterprise value of each target company; the enterprise value of each target company as a multiple of the EBITDA of the target company in each case for the latest 12 months, which is referred to as LTM, prior to the date that the transaction was announced, and the premium to the one-day stock price offered in the transaction. Using the drugstore transactions selected, the indicative range of 9.0x to 13.0x LTM EBITDA yielded an implied valuation range for CVS common stock of $27.83 to $42.26 per share. The following table sets forth the results of this analysis:

Enterprise Value (in millions)	
(excluding CVS, unless where noted)	
High	$ 11,833
Low	$ 491
Enterprise Value/EBITDA	
(excluding CVS, unless where noted)	
High	18.9x
Low	7.4x

Indicative Range	9.0x to 13.0x
CVS	9.8x

One Day Premium% **(excluding CVS, unless where noted)**	
High	30.5%
Low	NA
Indicative Range	10.0% to 30.0%
CVS	NA

Selected Pharmacy Benefit Manager Transactions

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

Announcement Date	Acquiror	Target
7/21/05	Express Scripts	Priority Healthcare
2/23/05	Medco Health Solutions	Accredo Health
9/02/03	Caremark Rx	AdvancePCS
2/06/02	Express Scripts	National Prescriptions Administrators
7/12/00	Advance Paradigm	PCS Health Systems
5/04/00	Merck & Co.	Pro Vantage Health Services
2/09/99	Express Scripts	Diversified Pharmaceutical Services
11/17/98	Rite Aid	PCS Health Systems
2/20/98	Express Scripts	ValueRx

Based on publicly available information, Lehman Brothers considered, among other things, the enterprise value of each target company; the enterprise value of each target company as a multiple of the EBITDA of the target company in each case for the latest 12 months, prior to the date that the transaction was announced, and the premium to the one-day stock price offered in the transaction. Using the pharmacy benefit manager transactions selected and after taking into account the payment of Caremark special cash dividend, the indicative range of 12.0x to 15.0x LTM EBITDA yielded an implied valuation range for Caremark common stock of $48.46 to $61.36 per share. The following table sets forth the results of this analysis:

Enterprise Value (in millions)		
<u>(excluding Caremark, unless where noted)</u>		
High	$	5,836
Low	$	158
Enterprise Value/EBITDA		
<u>(excluding Caremark, unless where noted)</u>		
High		20.7x
Low		5.8x
Indicative Range		12.0x to 15.0x
Caremark		12.8x
One Day Premium%		
<u>(excluding Caremark, unless where noted)</u>		
High		60.7%
Low		NA
Indicative Range		10.0 % to 40.0%
Caremark		27.1%

Discounted Cash Flow Analysis

As part of its analysis, and in order to estimate the present value of CVS and Caremark common stock, Lehman Brothers prepared a five-year discounted cash flow analysis for CVS and Caremark, calculated as of December 31, 2006, of after-tax unlevered free cash flows for fiscal years 2007 through 2011.